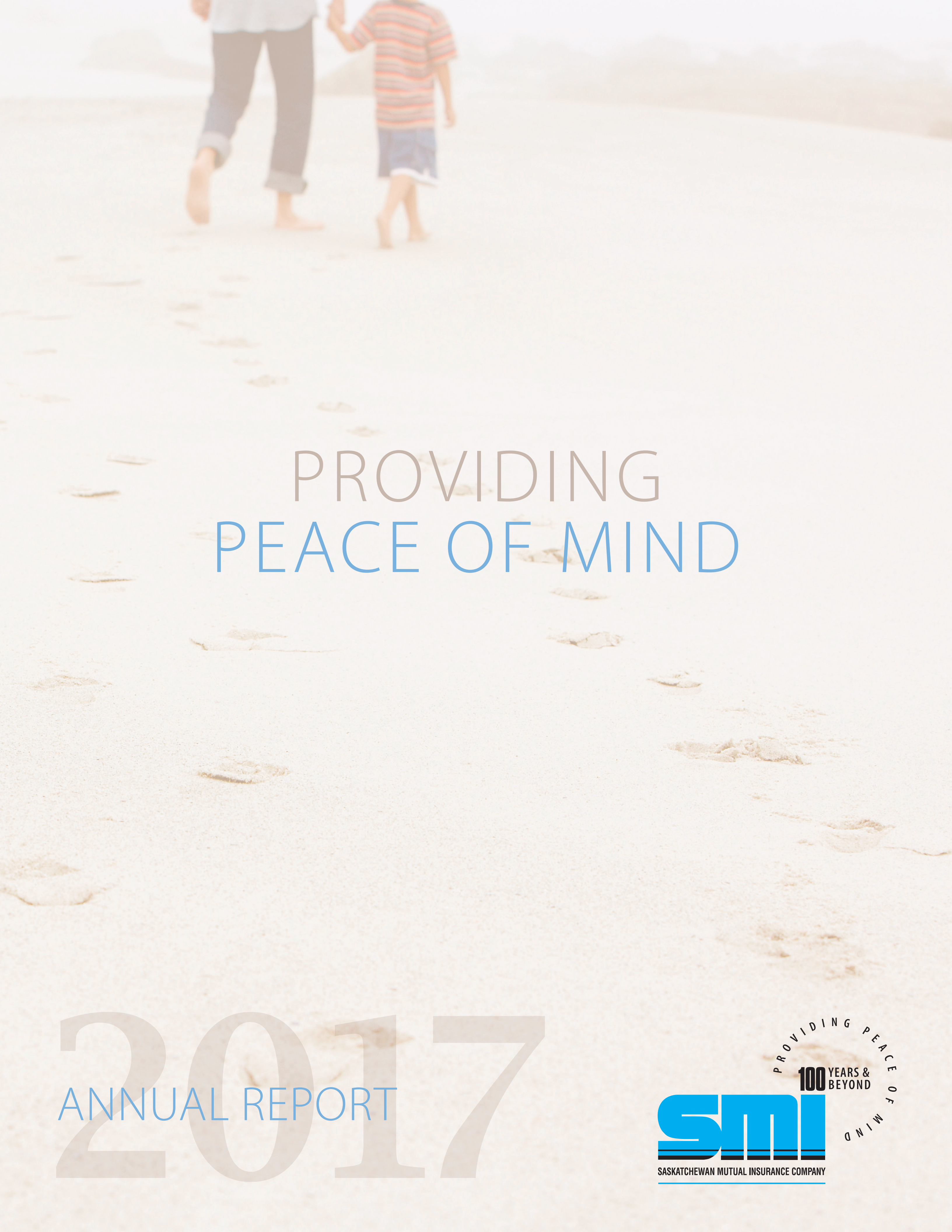

PROVIDING
PEACE OF MIND

2017
ANNUAL REPORT

PROVIDING PEACE OF MIND
100 YEARS & BEYOND
SMI
SASKATCHEWAN MUTUAL INSURANCE COMPANY

2017

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For our Code of Consumer Rights and Responsibilities and for our Privacy Policy visit our website at: **www. saskmutual.com** under Consumer Information.

MISSION STATEMENT

Saskatchewan Mutual Insurance Company is dedicated to providing security for its policyholders and employees. Building on a historical foundation of integrity, commitment and superior service, SMI will successfully meet the challenges of the future through strategic planning and innovation.

2017

LETTER TO POLICYHOLDERS

Laura Wiebe, CPA, CA, FCIP
President & CEO

D. Roger Arnold, LLB
Chair of the Board

The Board of Directors is pleased to present the 2017 Annual Report to the policyholders of Saskatchewan Mutual Insurance Company (SMI). Reflecting upon the challenges of the year, we are pleased to report that 2017 was a good year. Overall direct written premiums increased to $74.5 million (4% year over year growth), there were underwriting profits of $2.3 million (2016 - $995,000), comprehensive income of $4.4 million (2016 - $3.2 million) and a healthy return on policyholder surplus based on comprehensive income of 9.4% (2016 - 7.5%). Our financial strength continued to grow as evidenced by the increase in policyholder surplus to $47.3 million (2016 - $42.8 million), growth in financial assets to $133.7 million (2016 - $125.6 million), a healthy net risk ratio (net written premiums to surplus) of 1.4 (2016 – 1.3) and a strong minimum capital test (MCT) position of 326% (2016 – 336%). The current A.M. Best financial strength rating, which evaluates the Company's balance sheet strength, operating performance and business profile, remains A- (Excellent). (Further information on the rating can be found at http://www.ambest.com.)

They say "the best laid plans often go awry" and this would summarize the start of the year. Unexpected changes to the senior management team gave the Company the opportunity to re-evaluate its organizational structure. To support key projects and strategic priorities, the decision was made to create a Senior Vice President of Operations, create a new operational department devoted to business intelligence, split the areas of underwriting and marketing, reallocate compliance and risk management responsibilities and create new supervisor positions in the areas of Accounting, Claims and IT. A significant restructuring, that with the exception of the new AVP of Business Intelligence and Accounting Supervisor hired from outside the organization, all other positions were filled by internal candidates. With significant learning curves in some areas, professional development plans were created and a management retreat in September held to help solidify the team. Without question the transition has gone very well, with significant progress seen in many areas. Delivery of the new comprehensive water product on its target date is but one example of the concerted and successful efforts of the new team. The next significant projects relate to a core business review and an 'ease of doing business' initiative that are underway.

In addition to significant management restructuring, the Board itself has undergone a significant governance review process. New Board and Committee terms of reference and work plans have been developed, with a stronger focus on strategic and risk oversight responsibilities. Refinement of the Board recruitment process and development of a formal Board evaluation process, are but two areas being further developed following the completion of a comprehensive Board survey. As time passes, and Board succession becomes necessary over the next few years, having a good process in place is critically important.

Considerable work lies ahead. Establishing a long-term sustainable, competitive advantage in the highly competitive and ever evolving P&C industry in which we operate, is essential. While the strength of the new management team combined with the Board's focus on strategic direction and strong oversight helps the organization to move forward, without question, the success of the organization can be attributed to the commitment and hard work of all its employees. In 2018, the Company achieved another important milestone …110 years in operation. The Company recognizes and acknowledges its broker partners for their ongoing support and most importantly reflects on the purpose SMI was established … to exist for the benefit of its policyholders and provide long-term security and peace of mind.

OPERATIONS REPORT

Shelley Willick, CPA, CA
Senior Vice President, Operations

The Company reorganized its management team in 2017 with the goal of advancing key projects and priorities. A Senior Vice President of Operations position was created to enhance collaboration and communication in the operational areas of the business: underwriting, claims, marketing and business intelligence. All new leadership positions created within these operational areas were filled internally with the exception of the new Associate Vice President of Business Intelligence.

The largest undertaking in 2017 was the development of a new comprehensive water coverage product for homeowners business, and in conjunction therewith, a review of the Company's current sewer backup coverage. The 'Elements' tool (Impact Forecasting's proprietary loss calculation software for catastrophe modeling) along with SMI's own data and other data sources from municipalities were utilized to determine rating zones and limits of coverage within the zones. The transition to six digit postal code rating for both sewer backup and the new comprehensive water coverage enabled the organization to rate the products with more precision. Coverage is being provided on homeowner products effective April 1, 2018 for new business and May 1, 2018 for renewals. Consideration will be given to expanding the comprehensive water coverage availability to other Habitational products at a later date. Other initiatives undertaken in 2017 included re-writing the Farm and Habitational wordings and updating the SMI Auto extension product in Saskatchewan to provide four year replacement cost coverage on new vehicles.

To assist the operational areas of the business and provide better data for corporate level decision making, a new business intelligence (BI) department was created in 2017. The mandate of the department is to create an environment where all data analytics needs and issues are identified, discussed and resolved across all departments while also promoting the value and benefits of data analytics to all staff. In addition to providing essential support in the development of the comprehensive water product in 2017, progress has been made on the development of the BI and data analytics framework.

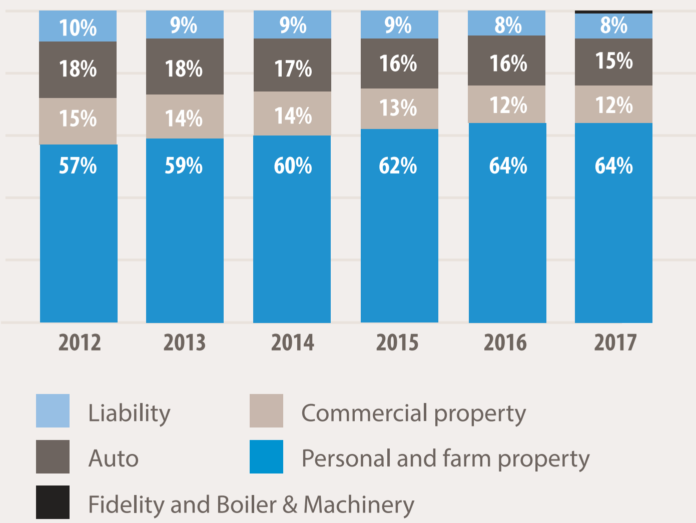
From a results perspective, the Company ended the year with direct written premiums of $74.6M, a 4% increase over the prior year; by province, direct premiums written in Saskatchewan and Alberta increased by 4% and in Manitoba by 7%. The mix of business by class remains consistent with the prior year with 64% of the direct premiums written resulting from the personal and farm property class of business. Sewer backup rate increases effective January 1, 2017 and a delay in rolling out the comprehensive water product contributed to a slight decline in the Company's habitational and farm policy count. On the positive side, a concerted effort to improve turnaround time on commercial quotes resulted in a 4% increase in premiums written and policy count growth for the Commercial line of business.

Technological advances in the industry are improving service to meet consumer expectations. In the claims area, enhancing established vendor relationships to provide superior service to SMI policyholders remains a priority. The Xactanalysis review program, is a good example of a tool that continues to provide claims processing efficiencies. In 2017, a Claims Supervisor position was created to provide management support and succession planning and, with the volume of business in the southern half of Saskatchewan, another staff adjuster was also added in the Regina office.

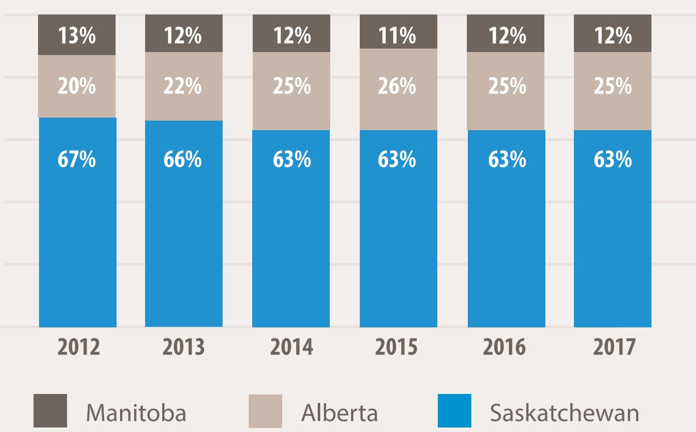
Compared to the prior year, storm activity in 2017 was much less severe. On a gross basis, the Company's loss ratio was 55.0% compared to 66.8% in 2016. Seven major events exceeding $100,000 were tracked during the year, with the first storm being May 24, 2017 and the last and largest event, being an October 16, 2017 windstorm that affected all three Prairie Provinces. Gross incurred losses from these events were $4.6M compared to $14.8M in the prior year. By province the Company's direct loss ratios were as follows: Saskatchewan 60% (73% - 2016), Alberta 38% (58% -2016) and Manitoba 63% (48% - 2016).

While there were fewer per risk losses exceeding $100,000 in 2017, 41 compared with 46 in the prior year, the total incurred for these losses increased to $12.8M compared to $8.4M in 2016. Unfortunately during 2017 a Saskatchewan policyholder was involved in a severe multi-vehicle accident in the United States which contributed significantly to the increase in the amount of the large losses. In addition, there was a notable increase in the number and value of large farm equipment losses resulting in higher farm equipment rates in 2018.

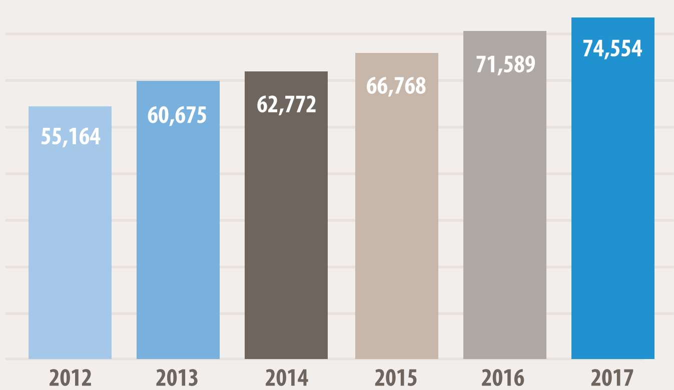
Direct premiums written by class of business



Direct premiums written by province



Direct premiums written *(in thousands)*



From a reinsurance perspective, reinsurance recoveries declined significantly in 2017 due to the reduced frequency and severity of storm activity. Reinsurance recoveries in 2017 amounted to $5.9M compared to $16.6M in the prior year. The Company's overall net loss ratio for 2017 was 56% compared to 55% in 2016.

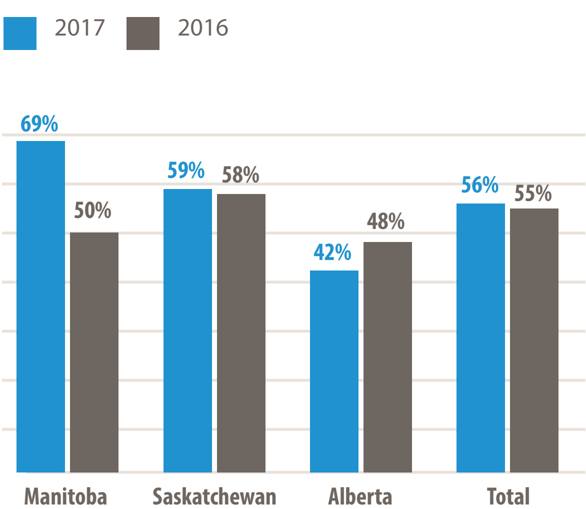
A relatively quiet year from a loss perspective resulted in a profitable year for both SMI and its broker force, with 102 brokers receiving contingent profit cheques. The Company's Platinum brokers (who have over $1M direct written premium) continued to grow with SMI and several other brokers are close to achieving Platinum status. Sincere appreciation is extended to all SMI brokers for continuing to sell SMI products.

SMI recognizes the importance of being a responsible corporate citizen and giving back to the communities in which it does business. With the goal of promoting its business partnerships with brokers in Alberta, Saskatchewan and Manitoba, SMI continued its Centennial Charitable Donation Program in 2017. The top ten qualifying brokers, as per established criteria, were able to choose a charity of their choice to direct a donation of $5,000. The 2017 qualifying brokers reside throughout Alberta (Edmonton, Calgary, Lethbridge and Medicine Hat), Saskatchewan (Regina, Nipawin, Shellbrook and Wadena) and Manitoba (Winnipeg and Lundar). The Company established the Centennial Charitable Donation Program in celebration of its 100th anniversary in 2008; 2017 was its final year. Over the past 10 years the Company donated through the Centennial Program $500,000 to worthy charities benefiting communities across the Prairie Provinces. Through the development of a new SMI Charitable Donation policy, the Company will continue to provide much needed support for registered charities in 2018.

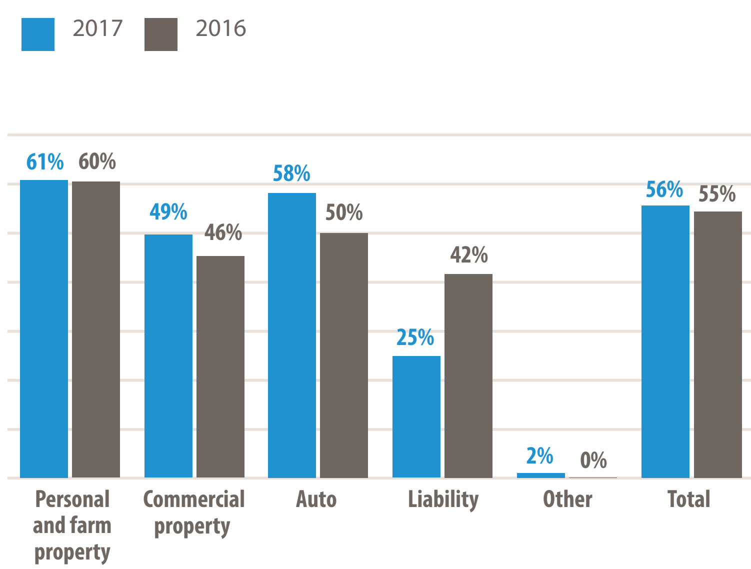
All in all, 2017 was a very busy year. Milestones achieved and projects completed could not have been accomplished without the dedication and commitment of all SMI staff. Sincere appreciation is extended to everyone for their hard work.

Looking forward to 2018 and beyond, the industry continues to evolve and in order to remain relevant to its many stakeholders, SMI must also continue to evolve and innovate. Increasing use of data analytics, reports, and ease of doing business will play an important role going forward. SMI is committed to offering exceptional customer service, competitive products and investing in new technology in order to continue to provide peace of mind to its policyholders.

Net loss ratio by province



Net loss ratio by class of business



TECHNOLOGY REPORT

Kerri Heuchert, MCSE, MCP
Vice President, Technology

Information Technology Services (ITS) has concluded a year full of challenges and obstacles overcome, and goals and objectives achieved. We successfully completed or made critical progress on key projects that increase access to technology resources and provide improved services and benefits for all of our stakeholders.

This past year ITS has been actively engaged in major corporate and information technology initiatives, but was also marked by challenges in staff turnover. With the departure of a senior ITS member, the promotion of a current ITS member, and the addition of several new ITS staff resources, training was the primary focus in 2017.

The IT environment at SMI is rich and diverse, with many active projects happening on a daily basis. In today's world, it's important that technology is available, protected and secure. Enhancements to network hardening and security were completed in 2017 as well as the implementation and utilization of an off-site data center for disaster recovery services.

Hardware upgrades were completed throughout the organization. In SMI's continuing effort to contribute to the communities we serve, all replaced hardware was donated to Computers for Schools. One hundred and twenty personal computers, seventeen laptops, and numerous accessories were donated in an effort to help extend limited school budgets and speed up the process of bringing educational technology into the classroom.

With the support of our staff, there was no shortage of accomplishments this year. Sincere appreciation is extended to the entire ITS team for its efforts and dedication. The ITS group plays a key role in evaluating technology opportunities and implementing technologies needed by the Company and its various departments to improve service offerings. As we look back at recent successes, we are encouraged by what the next year will bring.

Kerri L Heuchert

PROVIDING 100 YEARS
PEACE OF MIND & BEYOND

FINANCE REPORT

Jennifer Woloschuk, CPA, CMA
Vice President, Finance

Marked by global catastrophes including severe hurricanes, earthquakes and devastating forest fires, 2017 will go down as the third most costly year for insured losses behind 2011 and 2015. Although the Prairie Provinces experienced a relatively high frequency of storm activity, the storms were less severe than in previous years. Overall SMI had a successful 2017, ending the year with a combined ratio of 97.1%.

Direct written premium growth slowed in 2017, largely in the habitational line of business, and therefore the premium increase was lower than anticipated at 4%. Direct premiums reached $74.5 million over $71.6 million in 2016. Premiums ceded to reinsurers decreased to $10 million from $15.7 million in the prior year due to changes to the Quota Share reinsurance program as the ceded amounts reduced from 15% to 10% in 2017 as well as reinstatement premiums incurred in 2016 due to the active and severe weather events not experienced in 2017. Impacted by the direct premium growth and the reduction of premiums ceded, SMI had net premium written growth of 16% and net premium earned growth of 14%.

There was a slight increase in the net loss ratio from 54.8% in 2016 to 55.8% in 2017. Less severe storm activity in 2017 combined with the reduction in the quota share program, resulted in SMI retaining more losses and accordingly accessing its reinsurance programs less. Reinsurance recoveries in 2016 were $16.6 million compared to $5.9 million in 2017. Net incurred claims and adjusting expenses were $34.3 million in 2017 compared to $29.6 million in the prior year.

The expense ratio decrease in 2017 from 44.3% in the prior year to 41.3% was impacted significantly by the increase in net premiums earned and by a 2% reduction in general expenses. As technology continues to play a major role in the Company, whether it is hardware and software upgrades, investments in data analytic tools or broker services support, this expense experienced an increase of 7.7%. SMI continues to realize efficiencies with the operating system by processing business with greater accuracy and speed. The effects of efficiencies are reflected in the decrease of bad debts expense and the stability of salary and benefit costs despite increasing premiums written. Other general expenses have decreased, such as professional fees, as initiatives surrounding corporate strategy and risk management were worked on internally in 2017.

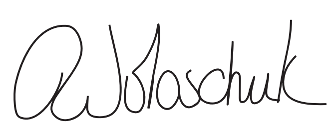
Investment earnings decreased to $599,000 in 2017 due to a loss realized on investments along with a reduction in investment income. On January 17, 2017, a change in investment managers triggered a loss of $1.5 million as the assets were sold and reinvested in new funds. This loss represented the realization of unrealized losses from prior years reflected in the $1.4 million gain in other comprehensive income, which compares to a loss of $0.2 million in 2016. Capital gains distributed from the pooled funds were $0.3 million compared with $0.6 million in 2016.

On the Statement of Financial Position, the net accrued pension benefit asset increased from $826,000 in the prior to $3.5 million. The defined benefit pension plan discount rate decreased to 3.4% from 3.9% in 2016, the inflation rate remained the same at 2.25% and the general salary increase assumption remained consistent at 3.25%. This resulted in an actuarial loss of $2.6 million on the pension obligation. In addition, based on the valuation filed as of December 31, 2016, there was an experience gain of $1.5 million, which resulted in an overall actuarial loss on the pension obligation of $1.1 million. As the actual return on plan assets was 13.6% compared with the discount rate of 3.9%, an actuarial gain of $2.9 million on plan assets was generated. The net result for all employee future benefits was an actuarial gain of $1.7 million, before tax, and $1.2 million after tax in 2017 (2016 - $1.7 million gain before tax and $1.2 million after tax).

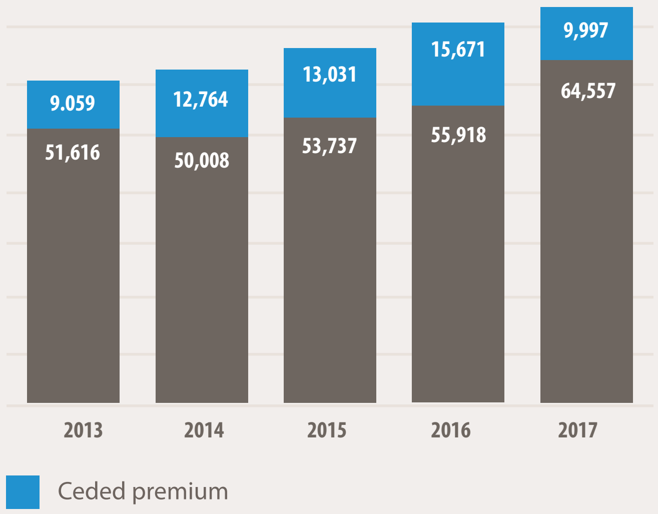
Total comprehensive income for the year was $4.4 million compared with $3.2 million in the prior year and return on equity was 9.4% (comprehensive income over total surplus) compared with 7.5% in the prior year.

The minimum capital test (MCT) is one measurement used by regulators and SMI to assess the financial strength of the Company. The regulators set a minimum MCT of 150% while the Board of Directors set an internal target of 230%. The MCT at December 31, 2017 was a very healthy 326% positively impacted by the increase in Policyholders' Surplus to $47.3 million.

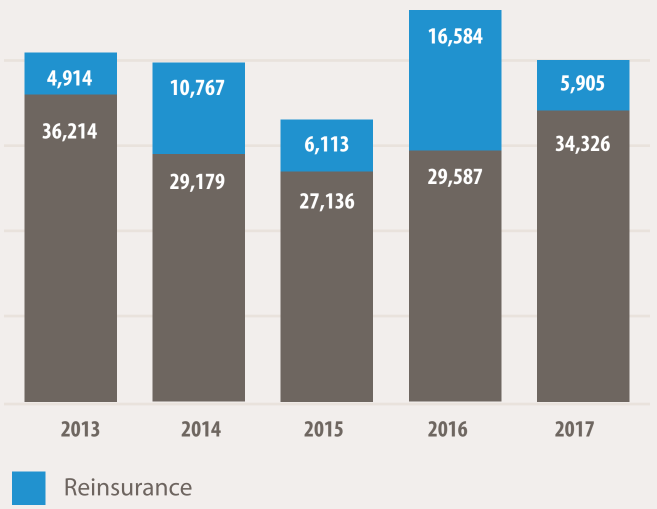
As we look forward to the year ahead, we would like to thank our brokers and dedicated employees for their support and commitment in the past year.



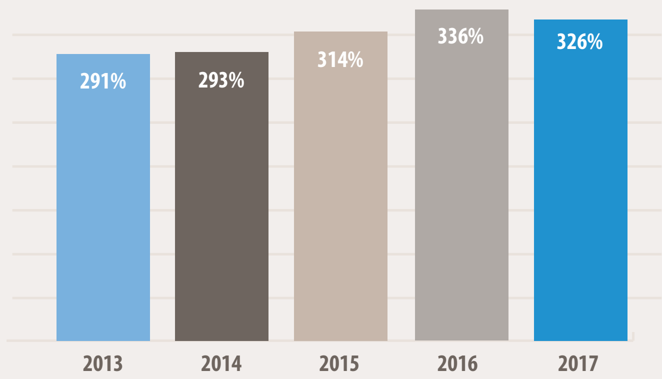
Premiums written *(in thousands)*



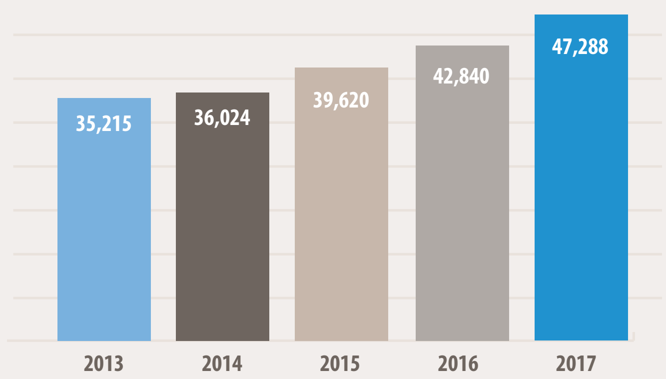
Incurred losses and adjusting expenses *(in thousands)*



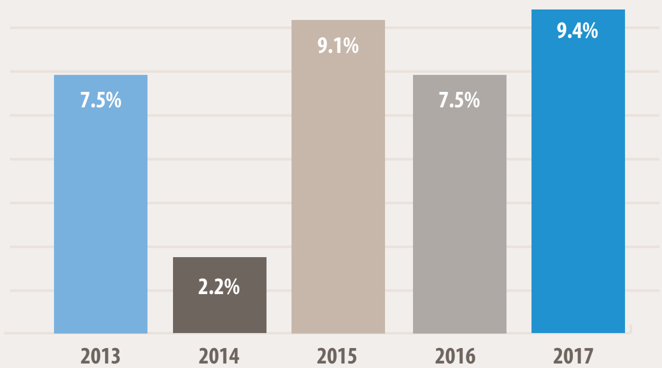
Minimum captital test



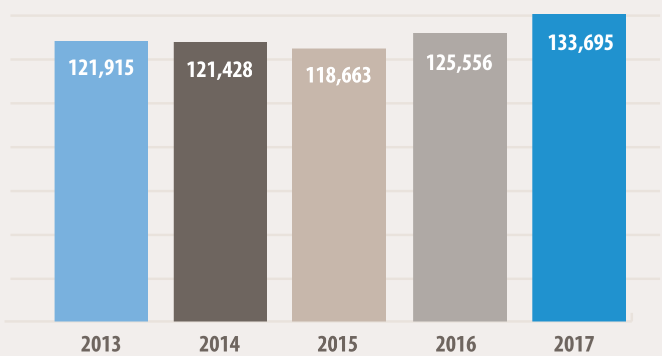
Policyholders' surplus *(in thousands)*



Return on equity *(comprehensive income over total surplus)*



Total assets *(in thousands)*



BOARD OF DIRECTORS

D. Roger Arnold
Chair

Roger Arnold graduated from the University of Saskatchewan with a B.Comm. in 1982 majoring in finance and economics and with an LLB in 1985. Roger entered into the practice of law with the firm of Cuelenaere & Company in 1986. He is currently a partner with the firm practicing in the areas of corporate commercial law, real estate and wills & estates.

Roger was elected to the SMI Board of Directors on May 1, 2003 and is currently SMI's Board Chair, a role he has held since May 10, 2007. Roger is also currently the Chair of the board of directors of Ronald McDonald House. Roger has had a long time involvement with the Kinsmen Club of Saskatoon which included serving as past President and serving as Chairman of Telemiracle 27. He is also a past board member of the Saskatoon Community Foundation.

Phyllis Salisbury
Vice-Chair

A graduate of the University of Saskatchewan (B. Comm., Accounting 1983) and Western University's Ivey Business School (MBA 1988), Phyllis has made her life in Saskatchewan, raising a family and working in diverse industries: Information Technology (Business Analyst, ISM Canada), Legal Services (Chief Administrative Officer, Robertson Stromberg LLP), Mining (Director Finance & Administration, Mine Supply Company of Saskatchewan), Private Equity (Portfolio Manager, PIC Investment Group) and currently Chemical Distribution (Vice President, Customer Experience, ClearTech Industries).

Phyllis is also a graduate of the Directors Education Program, jointly presented by the Institute of Corporate Directors and the University of Toronto's Rotman School of Business Management and holds the ICD.D designation. She is a past board member of the Saskatoon Community Foundation and current board member (Chair) of a wholly-owned PIC Investment Group company. Phyllis joined the board of SMI in 2004.

Laura Wiebe
President & CEO

Laura was appointed to the position of President & CEO with SMI on January 4, 2008. Early in her career she held various underwriting positions with the Company, achieving her CIP and FCIP designations with the Insurance Institute of Canada. Laura holds a Bachelor of Commerce degree from the University of Saskatchewan and a CPA, CA designation from the Institute of Chartered Professional Accountants of Saskatchewan. Laura joined the SaskPower Board of Directors in 2016 and recently completed the ICD-Rotman Director Education Program.

G. N. (Arnie) Arnott

Arnie joined the SMI Board of Directors in May of 2008. He is currently the President and CEO of Saskatchewan Blue Cross.

Arnie is a Fellow Chartered Professional Accountant (FCPA, FCA) and has been very active in the profession serving on provincial and national governing boards and holding the position of President and Chairman of the Saskatchewan Institute of Chartered Accountants. Arnie is currently a director of the Saskatchewan Roughrider Football Club.

Arnie is a strong supporter of the community and is a Past Chair of the Royal University Hospital Foundation.

Brian Heagy

Brian Heagy is the Director of Finance and Administration for the Buckwold Group of Companies, a wholesale distributor of flooring products in western Canada and the northwestern United States. Brian is part of the senior management team and has overall responsibility for accounting, finance, treasury, taxation and administrative areas of the business. He is also a minority partner and actively involved in the management of Pinnacle Developments Inc., a commercial real estate developer.

Brian is also past chairman of the Board of Directors of the Saskatoon Family YMCA. He holds a Bachelor of Commerce from the University of Saskatchewan and is a Chartered Professional Accountant (CPA, CA). Brian was elected to the SMI Board of Directors on May 10, 2007.

Ray Simmer

Ray Simmer joined the Board of Directors of SMI on May 11, 2006. He brought with him 37 years of experience in the P & C industry, 26 of which were with SMI. His insurance career began in 1969 with SGI Canada and later with Co-operators. Ray accepted the position of Underwriting Manager with SMI in 1979 and continued his career at SMI as Vice President until his retirement in April of 2006.

Ray has served on many boards and committees over the years including the Canadian Association of Mutual Insurance Companies (CAMIC), Saskatoon Crime Stoppers, Insurance Managers Association of Saskatchewan and the Insurance Institute of Saskatchewan Northern Chapter.

Ray has a Business Administration Certificate from the University of Saskatchewan and an FCIP from the Insurance Institute of Canada.

Lorne Timmerman

Lorne is currently retired. He was most recently employed as Vice President, Housing for Dundee Realty Corporation where he was responsible for development and construction of thousands of single-family homes, multi-family townhouses, apartment projects, high-rise condominium, retail, commercial and office projects. Prior to joining the housing industry, Lorne was employed at CIBC with his last appointment as manager of the 42nd Street Saskatoon Branch.

Lorne has served on the Board of Directors for Saskatchewan Home Builders Association, Saskatoon & Region Home Builders Association, Chairman of the Saskatchewan New Home Warranty Program and President of the Nipawin & District Chamber of Commerce.

Lorne was appointed to the SMI Board of Directors in September 2008.

Marion van Impe

Marion was elected to the SMI Board of Directors on May 12, 2005. She is a Chartered Professional Accountant, (CPA, CGA, non-practicing) and has a Bachelor of Arts from the University of Saskatchewan.

Marion is currently retired. She was formerly the Director, Student Accounts & Treasury at the University of Saskatchewan where she was responsible for all investment, treasury and student accounts receivable functions. Prior to joining the University, she was employed as Treasury Manager at an international gold and uranium exploration and mining company headquartered in Saskatoon. Marion has served on the Saskatoon Opera Association board, Treasury Management Association of Canada board and the Canadian Association of University Business Officers Treasury Committee.

Board committee membership

Executive committee

D. Roger Arnold, *Chair*
Phyllis Salisbury
Marion van Impe
Laura Wiebe

Audit committee

Brian Heagy, *Chair*
D. Roger Arnold
Arnie Arnott
Phyllis Salisbury

Conduct review committee

Ray Simmer, *Chair*
D. Roger Arnold
Phyllis Salisbury
Lorne Timmerman

Pension/Investment committee

Marion van Impe, *Chair*
Arnie Arnott
Brian Heagy
Ray Simmer
Lorne Timmerman

COMPANY PROFILE

Head office

279 3rd Avenue North
Saskatoon, SK S7K 2H8

Phone: (306) 653-4232
Or 1-800-667-3067

Email: headoffice@saskmutual.com
Website: www.saskmutual.com

Laura Wiebe, *CPA, CA, FCIP*
President & CEO

Shelley Willick, *CPA, CA*
Senior Vice President, Operations

Kerri Heuchert, *MCSE, MCP*
Vice President, Technology
Corporate Secretary

Wes Moroziuk, *B. Comm., CRM, FCIP, BAC, HCI-R*
Vice President, Claims

Jennifer Woloschuk, *CPA, CMA*
Vice President, Finance

Steve Asemota, *B. Csh, M-AEA, TOGAF*
Associate Vice President, Business Intelligence

Valorie Penner, *BAC, FCIP*
Associate Vice President, Underwriting

Cindy Anweiler, *B. Comm., FCIP*
Associate Vice President, Marketing

Pam Gaddess, *B. Comm., CIP*
Associate Vice President, Human Resources
Compliance Officer

Regina office

311 - 2505 11th Avenue
Regina, SK S4P 0K6

Phone: (306) 545-2855

Don Cook
David Chapman-Collier
Claims Adjusters

Winnipeg office

2151 Portage Avenue, Unit J
Winnipeg, MB R3J 0L4

Phone: (204) 256-2078

Treena Piasta, *FCIP, CRM, ACS, CIM*
Marketing Representative

Calgary office

Suite 340, 600 Crowfoot Crescent NW
Calgary, AB T3G 0B4

Phone: (587) 390-7370

Fawn Mah, *CIP*
Marketing Representative

Auditors

KPMG LLP
475 - 2nd Avenue South, Suite 500
Saskatoon, SK S7K 1P4

Actuary

Carol Desbiens, *FCAS, FCIA*
PricewaterhouseCoopers LLP

1250 René-Lévesque Boulevard West,
Suite 2500, Montréal, Quebec H3B 4Y1

REPORT OF MANAGEMENT'S ACCOUNTABILITY

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

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

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

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

The accompanying financial statements have been audited by KPMG LLP. The auditors have access to the Audit Committee, without management present, to discuss the results of their work. Their report dated February 26, 2018, appearing on the following page, expresses their unqualified opinion on the Company's 2017 financial statements.

Laura Wiebe, CPA, CA, FCIP
President & CEO

Jennifer Woloschuk, CPA, CMA
Vice President, Finance

February 26, 2018

INDEPENDENT AUDITORS' REPORT
TO THE POLICYHOLDERS

of Saskatchewan Mutual Insurance Company

We have audited the accompanying financial statements of Saskatchewan Mutual Insurance Company, which comprise the statement of financial position as at December 31, 2017, the statements of comprehensive income, changes in policyholders' surplus and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Saskatchewan Mutual Insurance Company as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants
February 26, 2018
Saskatoon, Canada

APPOINTED ACTUARY'S REPORT
TO THE POLICYHOLDERS

I have valued the policy liabilities of Saskatchewan Mutual Insurance Company for its statement of financial position at 31 December, 2017 and their changes in the statement of income for the year then ended in accordance with accepted actuarial practice in Canada including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities net of reinsurance recoverables makes appropriate provision for all policyholder obligations and the financial statements fairly present the results of the valuation.

Carol Desbiens, FCAS, FCIA
February 23, 2018

Statement of financial position

(in thousands of Canadian dollars)

December 31, 2017, with comparative figures for 2016

	2017	2016
Assets		
Cash and cash equivalents	$ 3,788	$ 1,840
Investments (note 6)	83,559	74,372
Premiums due from policyholders	12,554	11,389
Amounts due from brokers	1,010	1,183
Other receivables	1,571	1,142
Income tax receivable (note 12)	–	52
Recoverable from reinsurers:		
Unpaid claims and adjusting expenses (note 8)	8,713	13,987
Unearned premiums (note 9)	4,095	5,615
Deferred policy acquisition costs (note 10)	8,847	8,514
Property, plant and equipment (note 11)	894	1,019
Net pension benefit asset (note 13)	3,528	826
Intangible assets (note 14)	5,136	5,617
	$ 133,695	$ 125,556
Liabilities and Policyholders' Surplus		
Due to other insurance companies	$ 784	$ 245
Premium taxes payable	3,222	3,058
Accounts payable	1,428	1,300
Income taxes payable	445	–
Unearned reinsurance commissions	1,445	2,004
Unearned premiums (note 9)	37,695	36,227
Unpaid claims and adjusting expenses (note 8)	39,294	38,962
Deferred tax liability (note 12)	1,552	417
Other liabilities (note 13)	542	503
	86,407	82,716
Policyholders' surplus:		
Surplus and resources for protection of policyholders	47,469	44,056
Accumulated other comprehensive loss	(181)	(1,216)
	47,288	42,840
	$ 133,695	$ 125,556

See accompanying notes to financial statements.

Approved by the Board:

Director

Director

Statement of comprehensive income

(in thousands of Canadian dollars)

Year ended December 31, 2017, with comparative figures for 2016

	2017	2016
Direct premiums written (note 9)	$ 74,554	$ 71,589
Reinsurance ceded (note 9)	(9,997)	(15,671)
Net premiums written	64,557	55,918
Change in net unearned premium	(2,988)	(1,926)
Net premiums earned (note 9)	61,569	53,992
Service charge revenue	502	486
Net underwriting revenue	62,071	54,478
Gross claims and adjusting expenses (note 8)	40,231	46,171
Reinsurers' share of claims and adjusting expenses (note 8)	(5,905)	(16,584)
Net claims and adjusting expenses	34,326	29,587
Commissions	12,422	10,876
Premium taxes and licenses	3,347	3,133
General expenses	9,674	9,887
Total insurance related claims and expenses	59,769	53,483
Net underwriting income	2,302	995
Investment operations:		
Investment income	806	2,396
Investment expenses	207	219
Net investment income	599	2,177
Earnings before income taxes	2,901	3,172
Income taxes (note 12)	736	743
Net earnings	2,165	2,429
Other comprehensive income (loss)		
Items that may be subsequently reclassified to net income:		
Net gain (loss) arising on revaluation of available-for-sale financial assets during the year	55	(785)
Reclassification of adjustments relating to available-for-sale financial assets disposed of in the year	1,362	199
Income tax (expense) benefit (note 12)	(382)	163
Items that may be subsequently reclassified to net income	1,035	(423)
Items that will not be reclassified subsequently to net income:		
Net actuarial gains on employee future benefits (note 13)	1,710	1,663
Income tax expense (note 12)	(462)	(449)
Items that will not be reclassified subsequently to net income	1,248	1,214
Total other comprehensive income	2,283	791
Comprehensive income	$ 4,448	$ 3,220

See accompanying notes to financial statements.

Statement of changes in policyholders' surplus

(in thousands of Canadian dollars)

Year ended December 31, 2017, with comparative figures for 2016

	Accumulated other comprehensive income (loss)	Surplus and resources for protection of policyholders	Total policyholders' surplus
Balance, January 1, 2016	$ (793)	$ 40,413	$ 39,620
Net earnings		2,429	2,429
Other comprehensive income (loss)	(423)	1,214	791
Comprehensive income (loss)	(423)	3,643	3,220
Balance, December 31, 2016	$ (1,216)	$ 44,056	$ 42,840
Net earnings		2,165	2,165
Other comprehensive income (loss)	1,035	1,248	2,283
Comprehensive income (loss)	1,035	3,413	4,448
Balance, December 31, 2017	$ (181)	$ 47,469	$ 47,288

Accumulated other comprehensive income is comprised solely of unrealized gains/(losses) on available for sale securities, net of tax recovery of $68,000 (2016 - $450,000 recovery).

Statement of cash flows

(in thousands of Canadian dollars)

Year ended December 31, 2017, with comparative figures for 2016

	2017	2016
Cash flows from operating activities:		
Net earnings	$ 2,165	$ 2,429
Items not affecting cash:		
Income taxes	736	743
Depreciation of property, plant and equipment	217	233
Amortization of intangible assets	752	718
Losses (gains) realized on investments	1,070	(415)
Income taxes received	52	290
Change in non-cash balances related to operations:		
Unearned premiums	1,468	2,420
Unpaid claims and adjusting expenses	332	2,836
Unearned reinsurance commissions	(559)	166
Reinsurers' share of unearned premiums	1,520	(494)
Reinsurers' share of unpaid claims and adjusting expenses	5,274	(6,775)
Deferred policy acquisition costs	(333)	(589)
Employee future benefits	(953)	(1,717)
Receivables	(1,421)	1,433
Payables	831	388
	11,151	1,666
Cash flows from investment activities:		
Purchase of investments	(85,628)	(11,262)
Proceeds from sale of investments	76,788	9,294
Purchase of intangible assets	(271)	(645)
Purchase of property, plant and equipment	(92)	(359)
	(9,203)	(2,972)
Increase (decrease) in cash and cash equivalents	1,948	(1,306)
Cash and cash equivalents, beginning of year	1,840	3,146
Cash and cash equivalents, end of year	$ 3,788	$ 1,840
Cash and cash equivalents are comprised of:		
Cash in bank less outstanding cheques	$ 2,290	$ 1,840
Short-term investments	1,498	–
	$ 3,788	$ 1,840

See accompanying notes to financial statements.

1. Company information:

Saskatchewan Mutual Insurance Company (the "Company") is a Canadian federally registered mutual corporation licensed to write property, automobile, liability, fidelity and boiler and machinery insurance, in the provinces of Saskatchewan, Manitoba and Alberta. The Company is subject to the *Insurance Companies Act* (the "Act") and to regulation by the Office of the Superintendent of Financial Institutions Canada ("OSFI") and the Provincial Superintendents of Financial Institutions/ Insurance for the provinces in which the Company is licensed. The Company's head office is located at 279 3rd Avenue North, Saskatoon, Saskatchewan, Canada.

These financial statements have been presented by management to the Audit Committee. Management and the Audit Committee report to the Board of Directors, which approved the financial statements on February 26, 2018. The financial statements will be presented for approval by the policyholders at the Annual General Meeting which will take place on May 17, 2018.

2. Basis of presentation:

a. Statement of compliance

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

b. Basis of measurement

These financial statements have been prepared on a going concern basis under the historical cost convention, except for available for sale financial assets and pension and other benefit liabilities which are measured at fair value.

c. Use of estimates and judgments

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

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimation uncertainties have a significant risk of resulting in a material adjustment with the next financial year are disclosed in the following notes:

- Note 6 – Investments
- Note 8 – Unpaid claims and adjusting expenses
- Note 12 – Income taxes
- Note 13 – Employee future benefits

d. Functional and presentation currency

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

3. Significant accounting policies:

The principal accounting policies used in the preparation of these financial statements are set out below. These policies have been consistently applied to the years presented.

3. Significant accounting policies (continued):

a. Financial assets:

The Company classifies its financial assets into the following categories: at fair value through income, loans and receivables, held to maturity and available for sale. The classification is determined by management at initial recognition and depends on the purpose for which the assets were acquired. Currently the Company does not have any assets classified as at fair value through income or held to maturity. The Company's significant financial assets include receivables arising from insurance contracts, investments and cash and cash equivalents.

i. Classification

Receivables arising from insurance contracts
Receivables arising from insurance contracts are classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Investments
All of the assets in the Company's investment portfolio are designated as available for sale assets. Available for sale assets are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates or equity prices or that are not classified as loans and receivables, held to maturity investments or financial assets at fair value through income.

Cash and cash equivalents
Cash and cash equivalents are designated as available for sale financial assets. They consist of balances with financial institutions and short-term investments that have an initial term to maturity of three months or less, net of cheques and other items in transit.

ii. Recognition and measurement

Financial assets are initially recognized at fair value.

Available for sale financial assets are subsequently carried at fair value. Loans and receivables and assets held to maturity are subsequently carried at amortized cost.

Gains and losses arising from changes in the fair value of available for sale financial assets are included in other comprehensive income in the period in which they arise.

When investments classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in accumulated other comprehensive income are included in net earnings as gains (losses) realized on investments. Capital gains distributions from the pooled funds are also recorded in gains (losses) realized on investments.

iii. Determination of fair value

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

iv. Impairment of financial assets

The write-down of the carrying value of all financial assets not carried at fair value through income is charged against net earnings when the asset is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred and the loss event had a negative effect on the estimated future cash flows of that asset. For an equity investment, objective evidence includes the length of time and extent to which fair value has been below cost along with management's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

3. Significant accounting policies (continued):

b. Property, plant and equipment:

Property, plant and equipment are measured at historical cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the asset.

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

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

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

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

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount. These are included and recognized with gain (loss) realized on investments in net earnings.

c. Intangible assets:

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

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

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

3. Significant accounting policies (continued):

d. Insurance contracts:

i. Recognition and measurement

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

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

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

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

For these contracts, premiums are recognized (earned premiums) evenly over the term of the insurance policy using the pro-rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums. Premiums are shown before deduction of commission and are gross of any taxes.

Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. The provision for unpaid claims represents the amounts needed to provide for the estimated ultimate expected cost of settling claims related to insured events (both reported and unreported) that have occurred on or before each statement of financial position date. The provision for adjusting expenses represents the estimated ultimate expected costs of investigating, resolving and processing these claims. Estimated recoveries of these costs from reinsurance ceded are included in assets. The computation of these provisions takes into account the time value of money using discount rates based on projected investment income from assets supporting the provisions. The process of determining the provision for unpaid claims and adjusting expenses necessarily involves risks that the actual results will deviate from the best estimates made. These risks vary in proportion to the length of the estimation period and the volatility of each component comprising the liabilities. To recognize the uncertainty in establishing these best estimates and to allow for possible deterioration in experience, actuaries are required to include explicit margins for adverse deviation in assumptions for asset defaults, reinvestment risk, claims development and recoverability of reinsurance balances.

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 losses in the current period.

ii. Deferred policy acquisition costs

Acquisition expenses related to the unearned premium, including commissions and premium taxes, are deferred and amortized to income over the periods in which the premiums are earned. The recoverability of the deferred acquisition costs is tested through the liability adequacy test performed at the end of each reporting period. The portion of the deferred acquisition costs that appears not to be covered by estimated future benefits is written off.

3. Significant accounting policies (continued):

iii. Liability adequacy test

At the end of each reporting period, the Company performs a liability adequacy test, in accordance with IFRS, to validate the adequacy of unearned premiums and deferred acquisition costs. A premium deficiency would exist if unearned premiums were deemed insufficient to cover the estimated future costs associated with the unexpired portion of written premiums. A premium deficiency would be recognized immediately as a reduction of deferred policy acquisition costs to the extent that unearned premiums plus anticipated investment income are not considered adequate to cover all deferred acquisition costs and related claims and expenses. If the premium deficiency is greater than the unamortized deferred policy acquisition costs, a liability is accrued for the excess deficiency.

iv. Reinsurance

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company are classified as reinsurance contracts.

The benefits to which the Company is entitled under its reinsurance contracts are recognized as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured contract and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as an expense when due.

Unearned reinsurance commissions are recognized as liabilities using principles consistent with the Company's method for determining deferred policy acquisition expenses.

The Company assesses its reinsurance assets for impairment on an annual basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes that impairment loss in net earnings.

v. Salvage and subrogation reimbursements

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

Estimates of salvage recoveries are included as an allowance in the measurement of insurance liability for claims, and salvage property is recognized in other receivables when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognized in other receivables when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

e. Income taxes:

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

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

Deferred income tax is recognized, using the liability method of tax allocation. Under this method, deferred income tax assets and liabilities are determined based on temporary differences between the financial reporting and tax basis of

3. Significant accounting policies (continued):

assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to be recovered or settled.

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

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

f. Employee benefits:

i. Pension obligations

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

For the defined contribution provisions, the Company's obligations are limited to contributions made for current service. Contributions are included in general expenses in net earnings.

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

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

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

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

ii. Other post-employment obligations

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

3. Significant accounting policies (continued):

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

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

g. Statement of financial position classification:

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

4. New accounting standards:

In 2017, the Company did not early adopt any new, revised or amended standards.

The following standards and amendments to existing standards have been published and are mandatory for the Company's future accounting periods:

- IFRS 7, *Financial Instruments: Disclosures.* In December 2011 this standard was amended to require disclosures upon transition from IAS 39, *Financial Instruments: Recognition and Measurement*, to IFRS 9, *Financial Instruments.* The amendments are effective on adoption of IFRS 9. Early adoption of these amendments is permitted where IRFS 9 is also early adopted. OSFI has indicated that it will not allow early adoption of IFRS 9 for federally regulated insurance companies. The Company has not yet assessed the impact this amended standard will have on its financial statements.

- IFRS 9, *Financial Instruments*. In July 2014, the IASB issued the complete version of IFRS 9, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. It requires financial assets to be recorded at amortized cost or fair value depending on the Company's business model for managing the assets and their associated cash flow characteristics. All financial assets are to be measured at fair value on the balance sheet if they are not measured at amortized cost. The new standard requires companies to account for expected credit losses from when financial instruments are first recognized and it lowers the threshold for recognition of full lifetime expected losses. Finally the standard introduces a substantially-reformed model for hedge accounting with enhanced disclosures about risk management activity. IFRS 9 will be effective for annual periods beginning on or after January 1, 2018. However, the Company meets the eligibility criteria of the temporary exemption from IFRS 9 as provided by IFRS 4 – Insurance Contracts ("IFRS 4") and has elected to defer the application of IFRS 9 until the effective date of the new insurance contracts standard IFRS 17 - Insurance Contracts ("IFRS 17"), on January 1, 2021. The Company has not yet assessed the impact that this standard will have on its financial statements.

- IFRS 17, *Insurance Contracts.* In May 2017, the IASB published IFRS 17 a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces IFRS 4 and introduces consistent accounting for all insurance contracts.

  IFRS 17 fundamentally changes how entities account for insurance contracts, introducing a default "building block approach", which disaggregates the cash flows in an insurance contract and provides a different measurement basis for each component, and a simplified "premium allocation approach" for certain short-term contracts. The premium allocation approach will be applicable to most property and casualty insurance contracts. Assumptions used in measuring insurance assets and liabilities such as cash flows, discount rates and risk adjustment will be updated at each reporting period. The discount rate will reflect the characteristics of the insurance liabilities and the estimated future cash flows to settle claims incurred will be discounted unless the period of time between claim occurrence and settlement is less than one year. Presentation changes include 'insurance revenue' replacing the current reporting of 'written premiums' and 'earned premiums' and insurance contract assets and liabilities will not be netted. In addition, insurance results will be presented without the impact of discounting. Amounts relating to financing and changes in discount rates will be shown separately. Under this standard, premiums receivable, unearned premiums and claims payable may no longer be presented separately from other insurance assets and liabilities. The standard will require extensive dislosures to provide information on the recognized amounts from insurance contracts and the nature and extent of risks arising from these contracts.

(in thousands of Canadian dollars)

The effective date for IFRS 17 is January 1, 2021 with mandatory restatement of comparative periods. The Company has not yet assessed the impact that this standard will have on its financial statements.

5. Role of the actuary and auditor:

The actuary is appointed by the Board of Directors pursuant to the *Insurance Companies Act*. The actuary's responsibility is to carry out an annual valuation of the Company's 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 costs. 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. The actuary's report outlines the scope of his work and opinion.

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

6. Investments:

The allocation of investments by pooled fund at December 31 is as follows:

	2017		2016	
	Market value	**Unrealized gain/(loss)**	**Market value**	**Unrealized gain/(loss)**
Money market	$ –	$ –	$ 149	$ –
Short-term fixed income	49,849	(189)	43,659	(877)
Universe fixed income	24,106	(830)	22,778	(704)
	73,955	(1,019)	66,586	(1,581)
Equities:				
Canadian	4,934	77	3,918	26
Global	4,670	693	3,868	(111)
	9,604	770	7,786	(85)
	$ 83,559	$ (249)	$ 74,372	$ (1,666)

(in thousands of Canadian dollars)

6. Investments (continued):

No impairment losses were recognized in 2017 or 2016.

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

	2017	2016
Bonds issued by:		
Federal	44.9%	21.6%
Provincial	15.9%	31.2%
Corporate		
A rated or higher	23.2%	26.2%
BBB rated or lower	8.1%	12.4%
Short-term investments (A rated or higher)	1.7%	8.6%
Mortgages		
Federal	0.4%	–
Other	5.8%	–
Total	100.0%	100.0%

Liquidity and interest rate risk:

	Effective yield	Duration
Short-term fixed income pooled fund	2.2%	2.7 years
Universe fixed income pooled fund	2.5%	7.4 years

The Company categorizes its investments that are carried at fair value on a recurring basis, based on the priority of the inputs to the valuation techniques used to measure fair value, into a three level fair value hierarchy. Investments measured at fair value are categorized as follows:

Level 1: Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market.

Level 2: Fair value is based on quoted market prices for similar assets or liabilities in active markets, valuation that is based on significant observable inputs or inputs that are derived principally for or corroborated with observable market data through correlation or other means.

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

At December 31, 2017 and December 31, 2016 all of the Company's investments were categorized as level 2 investments.

7. Insurance risk:

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

Insurance risk is composed of underwriting, product pricing, claims, catastrophe, and reinsurance risk. The majority of the underwriting risk that the Company is exposed to is of a short-tail nature as the average duration of unpaid claims and adjusting expense liabilities is 1.7 years as at December 31, 2017 (1.8 years at December 31, 2016). Policies generally cover a twelve month period.

7. Insurance risk (continued):

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

Product pricing risk is the risk that products may be inappropriately priced due to actual experience not matching the assumptions made at the time pricing is determined. The Company's underwriting objective is to market products within a target market to achieve profitable underwriting results. Products are priced taking into account numerous factors including claims frequency and severity trends and expense ratios. Market share will decrease if an appropriate price cannot be obtained. Product pricing risk is mitigated by regular underwriting reviews of product rate adequacy.

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

In the normal course of business, the Company seeks to reduce the loss that may arise from catastrophic or other events that cause unfavourable underwriting results by reinsuring certain levels of risk, in various areas of exposure, with other insurers. Reinsurance ceded does not relieve the Company of primary liability as the originating insurer and failure of reinsurers to honour their obligations could result in losses to the Company. Reinsurance risk is the exposure to financial loss due to a reinsurer being unable to meet its obligations to pay claims reinsured by the Company.

The Company follows the policy of underwriting and reinsuring through quota share and excess contracts of insurance which limit the liability of the Company. Quota share contracts limit the Company's exposure to 90% of the loss for losses occurring in 2017 and 85% of the loss for losses occurring from 2014 - 2016. The Company's retention after quota share is $630,000 (2016 - $595,000) in the event of a single loss.

Catastrophe events caused by such actions as wind, hail and sewer backup are events that result in multiple property claims arising from a single occurrence with net incurred claims and adjusting expenses greater than $100,000 (2016 - $100,000). These are an inherent risk of property and casualty insurance and contribute to material year-to-year fluctuations in the Company's results of operations and financial condition when they occur. The level of catastrophe loss experienced in any year cannot be predicted and could be material to the results of operations and financial position. The Company has catastrophe reinsurance that has an upper limit of $50,000,000 (2016 - $26,000,000) and which limits the Company's liability, after quota share, to $1,350,000 (2016 - $1,275,000) in the event of multiple property claims arising from a single catastrophic event. A $1,000,000 annual aggregate deductible was introduced to the Company's excess of loss reinsurance program in 2017 adding to the Company's overall exposure to losses from catastrophic events. The Company also has an aggregate catastrophe cover that protected the Company against an accumulation of smaller catastrophe losses in the year.

Catastrophe losses exceeding $250,000 (2016 - $250,000) contribute towards the aggregate retention limit from the first dollar, subject to a maximum amount contributed from any one loss occurrence of $1,500,000. The limit is $2,000,000 in excess of $5,000,000 (2016 - $2,000,000 in excess of $4,000,000).

While there is no guarantee that a catastrophe would not result in claims in excess of the maximum reinsurance coverage, management considers the level of protection prudent. Net incurred claims and adjusting expenses from catastrophe events in 2017 amounted to $4,142,000 (2016 - $3,989,000).

(in thousands of Canadian dollars)

8. Unpaid claims and adjusting expenses:

Scope:

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. Uncertainty exists on reported claims since all information may not be available at the reporting date. In addition, claims may not be reported to the Company immediately, therefore estimates are made of the value of claims incurred but not yet reported. Factors that are considered include the Company's experience with similar cases and historical trends involving claims payment patterns, loss payments, pending levels of unpaid claims, product mix or concentration, claims severity and claim frequency patterns, such as those caused by natural disasters or accidents.

Other factors include the continually evolving and changing regulatory and legal environment, actuarial studies, professional experience and expertise of the Company's claim department's personnel and independent adjusters retained to handle individual claims, the quality of data used for projection purposes, existing claims management practices, including claims handling are a critical part of the provision determination, since the longer the span between the incidence of loss and the payment or settlement of the claims, the more variable the ultimate settlement can be. Accordingly, short-tailed claims, such as property claims, tend to be more reasonably predictable than long-tailed claims, such as general 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 provision for unpaid claims and adjusting expenses and related reinsurers' share involves risk that actual amounts could vary materially from estimates in the near term.

The following table presents the movement of the Company's unpaid claims and adjusting expenses during the year:

	Direct unpaid claims and adjusting expenses	Reinsurers' share of unpaid claims and adjusting expenses	Net unpaid claims and adjusting expenses
December 31, 2017			
Balance, beginning of year	$ 38,962	$ 13,987	$ 24,975
Current year claims	44,644	7,383	37,262
Prior year development - (favorable)/unfavorable	(4,413)	(1,478)	(2,936)
Total claims incurred	40,231	5,905	34,326
Claims paid	39,899	11,179	28,720
Balance, end of year	$ 39,294	$ 8,713	$ 30,581
December 31, 2016			
Balance, beginning of year	$ 36,126	$ 7,212	$ 28,914
Current year claims	49,500	17,030	32,470
Prior year development – (favorable)/unfavorable	(3,329)	(446)	(2,883)
Total claims incurred	46,171	16,584	29,587
Claims paid	43,335	9,809	33,526
Balance, end of year	$ 38,962	$ 13,987	$ 24,975

(in thousands of Canadian dollars)

8. Unpaid claims and adjusting expenses (continued):

The table below details the provision for unpaid claims and adjusting expenses by risk categories.

	Direct unpaid claims and adjusting expenses	Reinsurers' share of unpaid claims and adjusting expenses	Net unpaid claims and adjusting expenses
December 31, 2017			
Long settlement term:			
Automobile (excluding physical damage)	$ 6,148	$ 2,654	$ 3,494
General liability	9,659	1,587	8,072
Short settlement term	23,487	4,472	19,015
Balance, end of year	$ 39,294	$ 8,713	$ 30,581
December 31, 2016			
Long settlement term:			
Automobile (excluding physical damage)	$ 3,058	$ 275	$ 2,783
General liability	9,671	1,752	7,919
Short settlement term	26,233	11,960	14,273
Balance, end of year	$ 38,962	$ 13,987	$ 24,975

Claim development:

The tables that follow present the development of claim payments and the estimated ultimate cost of claims for the claim years 2008 to 2017. The upper half of the table shows the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased, as more information becomes known about the original claims and overall claim frequency and severity.

(in thousands of Canadian dollars)

8. Unpaid claims and adjusting expenses (continued):

Gross claim development	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Gross ultimate loss											
At end of accident year	$ 18,888	$ 19,918	$ 30,029	$ 32,002	$ 32,428	$ 42,548	$ 43,460	$ 38,467	$ 48,192	$ 43,543	
One year later	18,700	19,789	29,434	30,974	32,864	41,443	41,194	37,715	46,060		
Two years later	18,278	19,090	28,881	30,166	31,176	39,624	40,183	37,052			
Three years later	17,960	18,400	28,462	29,848	30,500	38,915	40,233				
Four years later	18,085	18,223	27,956	29,752	30,119	38,771					
Five years later	17,982	18,093	27,661	29,617	29,976						
Six years later	17,907	17,991	28,439	29,547							
Seven years later	18,091	18,139	28,468								
Eight years later	18,001	18,165									
Nine years later	17,971										
Current estimate of gross ultimate loss	$ 17,971	$ 18,165	$ 28,468	$ 29,547	$ 29,976	$ 38,771	$ 40,233	$ 37,052	$ 46,060	$ 43,543	$ 329,786
Cumulative paid	17,425	17,329	27,540	29,192	29,416	37,439	38,470	35,241	40,608	20,046	292,706
Gross provision for unpaid claims for the ten most recent accident years	546	836	928	355	560	1,332	1,763	1,811	5,452	23,497	37,080

Net undiscounted claims outstanding for accident year 2007 and prior	230
Loss adjusting expense reserve	856
Provision for adverse deviation and discounting	1,128
Gross provision for unpaid claims	$ 39,294

(in thousands of Canadian dollars)

8. Unpaid claims and adjusting expenses (continued):

Net claim development	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Net ultimate loss											
At end of accident year	$ 18,585	$ 19,751	$ 26,795	$ 27,933	$ 29,432	$ 38,070	$ 32,175	$ 31,269	$ 31,419	$ 36,190	
One year later	18,517	19,684	25,613	26,969	29,613	37,995	30,674	30,626	30,388		
Two years later	18,132	19,018	25,157	25,813	28,082	36,711	30,112	30,126			
Three years later	17,830	18,325	24,739	24,922	27,409	36,036	30,198				
Four years later	17,951	18,154	24,283	24,760	27,061	35,988					
Five years later	17,871	18,043	24,042	24,544	26,964						
Six years later	17,801	17,972	24,533	24,470							
Seven years later	17,907	18,126	24,507								
Eight years later	17,920	18,143									
Nine years later	17,887										
Current estimate of net ultimate loss	$ 17,887	$ 18,143	$ 24,507	$ 24,470	$ 26,964	$ 35,988	$ 30,198	$ 30,126	$ 30,388	$ 36,190	$ 274,861
Cumulative paid	17,346	17,320	23,935	24,152	26,424	34,680	28,722	28,828	26,991	17,923	246,321
Net provision for unpaid claims for the ten most recent accident years	541	823	572	318	540	1,308	1,476	1,298	3,397	18,267	28,540

Net undiscounted claims outstanding for accident year 2007 and prior	175
Loss adjusting expense reserve	832
Provision for adverse deviation and discounting	1,034
Net provision for unpaid claims	$ 30,581

(in thousands of Canadian dollars)

8. Unpaid claims and adjusting expenses (continued):

Discounting of the provision for unpaid claims and adjusting expenses:

The provision for unpaid claims and adjusting expenses is discounted using a discount rate of 2.19% (2016 – 1.86%).

To recognize the uncertainty in establishing these best estimates, to allow for possible deterioration in experience, and to provide greater comfort that the actuarial liabilities are adequate to pay future benefits, the Company includes provisions for adverse deviations ("PFADs") in some assumptions relating to asset defaults, reinvestment risk, claims development and recoverability of reinsurance balances. The PFADs selected are in the mid-range of those recommended by the Canadian Institute of Actuaries.

The following table shows the effects of discounting on unpaid claims and adjusting expenses:

	Undiscounted	Impact of discounting	PFADs	Discounted
December 31, 2017				
Gross provision	$ 38,166	$ (1,568)	$ 2,696	$ 39,294
Reinsurance ceded	8,619	(509)	603	8,713
Net provision	$ 29,547	$ (1,059)	$ 2,093	$ 30,581

	Undiscounted	Impact of discounting	PFADs	Discounted
December 31, 2016				
Gross provision	$ 37,489	$ (1,022)	$ 2,495	$ 38,962
Reinsurance ceded	13,656	(270)	601	13,987
Net provision	$ 23,833	$ (752)	$ 1,894	$ 24,975

The impact on net unpaid claims at the statement of financial position date could be an increase of up to $525,000 if the discount rate were to decrease by 100 basis points (1%).

(in thousands of Canadian dollars)

9. Unearned premium:

The following table presents the movement of the Company's unearned premium during the year:

	Unearned premiums	Reinsurers' share of unearned premiums	Net unearned premiums
December 31, 2017			
Balance, beginning of year	$ 36,227	$ 5,615	$ 30,612
Premium written	74,554	9,997	64,557
Premium earned	(73,086)	(11,517)	(61,569)
Balance, end of year	$ 37,695	$ 4,095	$ 33,600
December 31, 2016			
Balance, beginning of year	$ 33,807	$ 5,121	$ 28,686
Premium written	71,589	15,671	55,918
Premium earned	(69,169)	(15,177)	(53,992)
Balance, end of year	$ 36,227	$ 5,615	$ 30,612

(in thousands of Canadian dollars)

9. Unearned premium (continued):

The table below details the breakdown of unearned premiums by risk categories.

	Unearned premiums	Reinsurers' share of unearned premiums	Net unearned premiums
December 31, 2017			
Long settlement term:			
Automobile (excluding physical damage)	$ 1,324	$ 132	$ 1,192
General liability	3,118	312	2,806
Short settlement term	33,253	3,651	29,602
Balance, end of year	$ 37,695	$ 4,095	$ 33,600
December 31, 2016			
Long settlement term:			
Automobile (excluding physical damage)	$ 1,307	$ 195	$ 1,112
General liability	2,961	444	2,517
Short settlement term	31,959	4,976	26,983
Balance, end of year	$ 36,227	$ 5,615	$ 30,612

(in thousands of Canadian dollars)

10. Deferred policy acquisition costs:

The following table presents the movement of the Company's deferred policy acquisition costs during the year:

	2017	2016
Balance, January 1	$ 8,514	$ 7,925
Acquisition costs deferred	18,744	17,874
Amortization of deferred costs	(18,411)	(17,285)
Balance, December 31	$ 8,847	$ 8,514

11. Property, plant and equipment:

	Cost	Accumulated depreciation	Net book value
December 31, 2017			
Land	$ 129	$ –	$ 129
Buildings and building components	1,277	788	489
Furniture and equipment	648	527	121
Computer hardware	1,320	1,165	155
	$ 3,374	$ 2,480	$ 894
December 31, 2016			
Land	$ 129	$ –	$ 129
Buildings and building components	1,276	756	520
Furniture and equipment	646	529	117
Computer hardware	1,256	1,003	253
	$ 3,307	$ 2,288	$ 1,019

Depreciation charged to general expenses amounted to $217,000 (2016 - $233,000).

(in thousands of Canadian dollars)

12. Income taxes:

Income tax expense, including both the current and deferred portions, varies from the amounts that would be computed by applying the statutory federal and provincial tax rates aggregating 26.84% (2016 – 27.0%) to earnings before taxes. A reconciliation is summarized in the following table:

	2017	2016
Tax at basic rates	$ 779	$ 857
Increase (decrease) in taxes resulting from:		
Permanent differences	(45)	(118)
Change in deferred statutory rates	2	4
Income tax expense	$ 736	$ 743
Effective rate	25.4%	23.4%

Income tax expense is comprised of:

	2017	2016
Current tax expense (benefit)	$ 445	$ (74)
Deferred tax expense (benefit)	291	817
	$ 736	$ 743
Income tax recorded in other comprehensive income		
Net changes in unrealized gains (losses)	$ 14	$ (217)
Reclassification to income of net gains	368	54
Net actuarial gains on employee future benefits	462	449
Total income tax expense (benefit) recorded in other comprehensive income	$ 844	$ 286

(in thousands of Canadian dollars)

12. **Income taxes** (continued):

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

	2017	2016
Deferred tax assets:		
Property, plant and equipment	$ 37	$ 33
Unpaid claims and adjusting expenses	413	904
Employee future benefits	–	–
Intangible assets	148	159
	598	1,096
Deferred tax liabilities:		
Investments	(7)	(8)
Employee future benefits	(806)	(87)
Intangible assets	(1,337)	(1,418)
	(2,150)	(1,513)
Net deferred tax asset (liability)	$ (1,552)	$ (417)

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

	2017	2016
Balance, January 1	$ 52	$ 268
Amounts recorded in net earnings	(445)	74
Payments made during the period	(52)	(290)
Balance, December 31	$ (445)	$ 52

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

	2017	2016
Balance, January 1	$ (417)	$ 686
Amounts recorded in net earnings	(291)	(817)
Amount recorded in other comprehensive income	(844)	(286)
Balance, December 31	$ (1,552)	$ (417)

(in thousands of Canadian dollars)

13. Employee future benefits:

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

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

The defined benefit pension provisions define an amount of pension benefit that a member will receive on retirement, dependent upon age, years of pensionable service and final average pensionable earnings. As at the date of the latest actuarial valuation, the breakdown of the defined benefit obligation is 69% in respect of active members and 31% in respect of pensioners, beneficiaries and deferred members.

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

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

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plan for funding purposes was as of December 31, 2016, and although the next required valuation would be as of December 31, 2019, the Company plans to perform a valuation as of December 31, 2017.

Information about the Company's defined benefit pension plan movements is as follows:

	2017	2016
Accrued benefit obligation		
Balance, January 1	$ 30,003	$ 29,946
Interest cost on benefit obligation	1,137	1,213
Benefit payments	(1,685)	(741)
Re-measurement recognized in other comprehensive income arising from actuarial (gain) loss from changes in:		
financial assumptions	2,593	(8)
experience (gain) loss	(1,469)	(407)
Balance, December 31	$ 30,579	$ 30,003

(in thousands of Canadian dollars)

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

	2017	2016
Fair value of plan assets		
Balance, January 1	$ 30,829	$ 27,366
Interest income on plan assets	1,184	1,142
Re-measurement recognized in other comprehensive income - return on plan assets	2,860	1,271
Employer contributions	982	1,870
Benefits paid	(1,685)	(745)
Other	(63)	(75)
Balance, December 31	$ 34,107	$ 30,829

The actual return on pension plan assets for the year ended December 31, 2017 was $4,044,000 (2016 - $2,413,000).

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

	2017	2016
Accrued benefit obligation	$ (30,579)	$ (30,003)
Fair value of plan assets	34,107	30,829
Net pension benefit asset/(liability)	$ 3,528	$ 826

The Company has determined that, in accordance with the terms and conditions of the pension plan and in accordance with statutory requirements, including minimum funding requirements for the defined benefit pension provisions, the present value of reductions in future contributions is higher than the balance of the total fair value of the defined benefit provision plan assets less the total present value of the defined benefit pension obligations. As such, no decrease in the defined benefit asset was necessary at December 31, 2017.

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

Based on the latest actuarial valuation of its pension plan as of December 31, 2016, a solvency deficit of $3.2 million existed. Total solvency contributions by the Company under the defined benefit pension provisions are expected to approximate $709,000 in 2018. All of the Company's contributions are expected to be in the form of cash.

At December 31, 2017, the weighted-average duration of the defined benefit pension obligation was 18.9 years (2016 – 18.3 years).

(in thousands of Canadian dollars)

13. Employee future benefits (continued):

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

	2017	2016
Actuarial assumptions:		
Discount rate	**3.4%**	**3.9%**
Rate on general salary increase	**3.25%**	**3.25%**
Inflation	**2.25%**	**2.25%**
Mortality	2014 Canadian Pensioner Mortality Table (Private sector) unadjusted	2014 Canadian Pensioner Mortality Table (Private sector) unadjusted
Average remaining service life of employees (in years)	**13.1**	**13.4**

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

To reduce the risk of experience losses, the investment policy incorporates a dynamic asset allocation process. Under the dynamic asset allocation process, the investment asset mix shifted in 2017 as the adjusted solvency ratio exceeded 90%. The ultimate target allocation is 85% fixed income and 15% equities.

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

	2017	2016
Cash and cash equivalents	**0.0%**	**0.0%**
Fixed income	**65.3%**	**37.2%**
Canadian equities	**17.3%**	**31.4%**
Global equities	**17.4%**	**31.4%**
	100.0%	**100.0%**

(in thousands of Canadian dollars)

13. Employee future benefits (continued):

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

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

Assumptions which may vary significantly include:

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

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

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

	Increase	Decrease
Discount rate (1% movement)	$ (4,984)	$ 6,574
Inflation rate (1% movement)	4,831	(3,914)
Salary (1% movement)	1,101	(948)
Mortality (each member lives 1 year longer)	826	

The other non-pension future benefits are unfunded with an obligation of $542,000 (2016 - $503,000) and have been actuarially determined using the following assumptions:

	2017	2016
Discount rate	3.3% - 3.4%	3.5% - 3.8%
Rate of general salary increase	3.25%	3.25%
Inflation	2.25%	2.25%
Average remaining service life of employees (in years)	8.4 – 14.3	15.5 – 16.2

(in thousands of Canadian dollars)

13. Employee future benefits (continued):

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

	Defined benefit pension provisions		Other benefit plans	
	2017	2016	2017	2016
Cost of benefits earned in the year	$ –	$ –	$ 31	$ 29
Interest cost on benefit in the year	(47)	71	18	17
Other	63	79	–	–
Total benefit expense recognized in the general expenses	$ 16	$ 150	$ 49	$ 46

Contributions under the defined contribution provisions charged to general expenses amounted to $289,000 (2016 - $301,000).

	Defined benefit pension provisions		Other benefit plans	
	2017	2016	2017	2016
Balance, January 1	$ (5,182)	$ (6,868)	$ (103)	$ (80)
Re-measurements related to:				
Actuarial gain (loss) from changes in:				
financial assumptions	(2,593)	8	(26)	33
experience gain (loss)	1,469	407	–	(56)
Return on plan assets	2,860	1,271	–	–
Net actuarial gains recognized in other comprehensive income (loss)	$ 1,736	$ 1,686	$ (26)	$ (23)
Balance, December 31	$ (3,446)	$ (5,182)	$ (129)	$ (103)

(in thousands of Canadian dollars)

14. Intangible assets:

	Cost	Accumulated amortization	Net book value
December 31, 2017			
Computer software	$ 7,358	$ 2,222	$ 5,136
December 31, 2016			
Computer software	$ 7,087	$ 1,470	$ 5,617

Amortization charged to general expenses amounted to $752,000 (2016 - $718,000).

15. Capital management:

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

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

One measure used by the regulators to assess the financial strength of property and casualty insurers is the minimum capital test ("MCT"). This test compares a company's capital against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors. While the regulator indicates the Company should produce a minimum MCT of 150%, the Board of Directors has set an internal target of 230% (2016 – 230%) which under normal circumstances the Company will operate in excess of. The MCT for the Company as of December 31, 2017 was 326% (2016 – 336%).

Another measure of capital adequacy is the net risk ratio which compares net premiums written to policyholder surplus. The higher the ratio the greater the risk borne by the Company to absorb adverse loss ratio variations. The Board of Directors has set a maximum target of 2.0. The net risk ratio for the Company at December 31, 2017 was 1.4 (2016 – 1.3).

16. Financial risk management:

Overview:

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

- Market risk
- Credit risk
- Liquidity risk

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

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

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

Market risk:

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

Interest rate risk is the exposure to fluctuations in the value of assets and liabilities due to changes in market interest rates. The Company is exposed to this risk through its interest bearing investments (described in note 6) and through the discounting of its provision for unpaid claims and adjusting expenses (described in note 8).

Investment policy and strategy are established in a broad sense to profile the ultimate claims settlement pattern by class of insurance using historical data and current information. However, because a significant portion of the Company's assets relate to its capital rather than liabilities, the value of its interest rate based assets exceeds its interest rate based liabilities.

The Company's investment policy establishes a minimum of 70% fixed income in the investment portfolio and recommends a target of 90% (2016 - 90%).

At December 31, 2017, a 1% move in interest rates, with all other variables held constant, could impact the market value of the bond portfolio by $3,121,000 (2016 - $3,068,000). For securities that the Company did not sell during the period, the change in market value would be recognized in the asset value and in other comprehensive income (loss).

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

The Company's investment portfolio includes Canadian pooled fund units with fair values that move with the Toronto Stock Exchange Composite Index and global pooled fund units that move with MSCI ACWI Indices. A 10% movement in the stock markets with all other variables held constant would have an estimated affect on the fair values of the Company's equity pooled funds of $960,000 (2016 – $779,000). For securities that the Company did not sell during the period, the change would be recognized in the asset value and in other comprehensive income (loss).

16. Financial risk management (continued):

The Company's investment policy limits equity investments to 20% of the total portfolio investment and recommends a target of 10% (2016 – 10%).

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

The Company's foreign exchange risk is related to its foreign equity pooled fund holdings. The Company's investment policy limits its holdings in foreign equity to 10% of total investments and recommends a target of 5%. A 1% change in the value of foreign currency would have a nominal effect on the fair value of these securities.

The recommended asset targets noted above reflect the mid-point between the minimum and maximum limits. Actual asset allocations will vary, within the limits, based on the investment strategy within the portfolio.

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

Credit risk:

Credit risk is the risk of financial loss to the Company if a debtor fails to make payments of interest and principal when due. The Company is primarily exposed to this risk relating to its investment portfolio and the reliance on reinsurers to make payment when certain loss conditions are met. Accounts receivable from policyholders and brokers are short-term in nature and are not subject to material credit risk.

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The fixed income investments remain high quality with only 8.1% (2016 – 12.4%) of the securities held recorded BBB or lower. Refer to note 6 for a breakdown of the fixed income securities held by the pooled funds.

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

Reinsurance is placed only with Canadian registered reinsurers. The Company has guidelines and a review process in place to ascertain the credit worthiness of the companies to which it cedes. At year end all reinsurers on the 2017 program had a rating of no less than A- by both Standard & Poor's and A.M. Best. Risk is also reduced by having an adequate number of reinsurers on the program and by limiting their maximum participation in any one layer. There were no loss provisions in 2016 or 2015.

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

Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The Company mitigates this risk by monitoring cash activities and expected outflows. Current liabilities arise as claims are made and there are no material liabilities that can be called at the demand of a lender or client. The Company has no material commitments for capital expenditures and there is normally no need for such expenditures in the normal course of business.

Claim payments are funded by current operating cash flow including investment income which normally exceeds cash requirements. At December 31, 2017 the Company has sufficient liquidity to meet obligations as they become due.

17. Related party transactions:

Compensation, which includes salaries, short-term employee benefits and directors' fees for the Company's key management team and Board of Directors for the year ended December 31, 2017 was $1,468,000 (2016 - $1,141,000). A reorganization in 2017 resulted in an increase in the number of key management.

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

The Company's transactions with post-employment plans comprise the contributions paid to the pension plan for all employees, which represent for the year ended December 31, 2017 $1,272,000 (2016 – $2,171,000), of which $246,000 (2016 – $329,000) related to key management personnel.

The Company did not conclude any other transactions with post-employment plans and there are no amounts payable as at December 31, 2017 (2016 – nil).

2017

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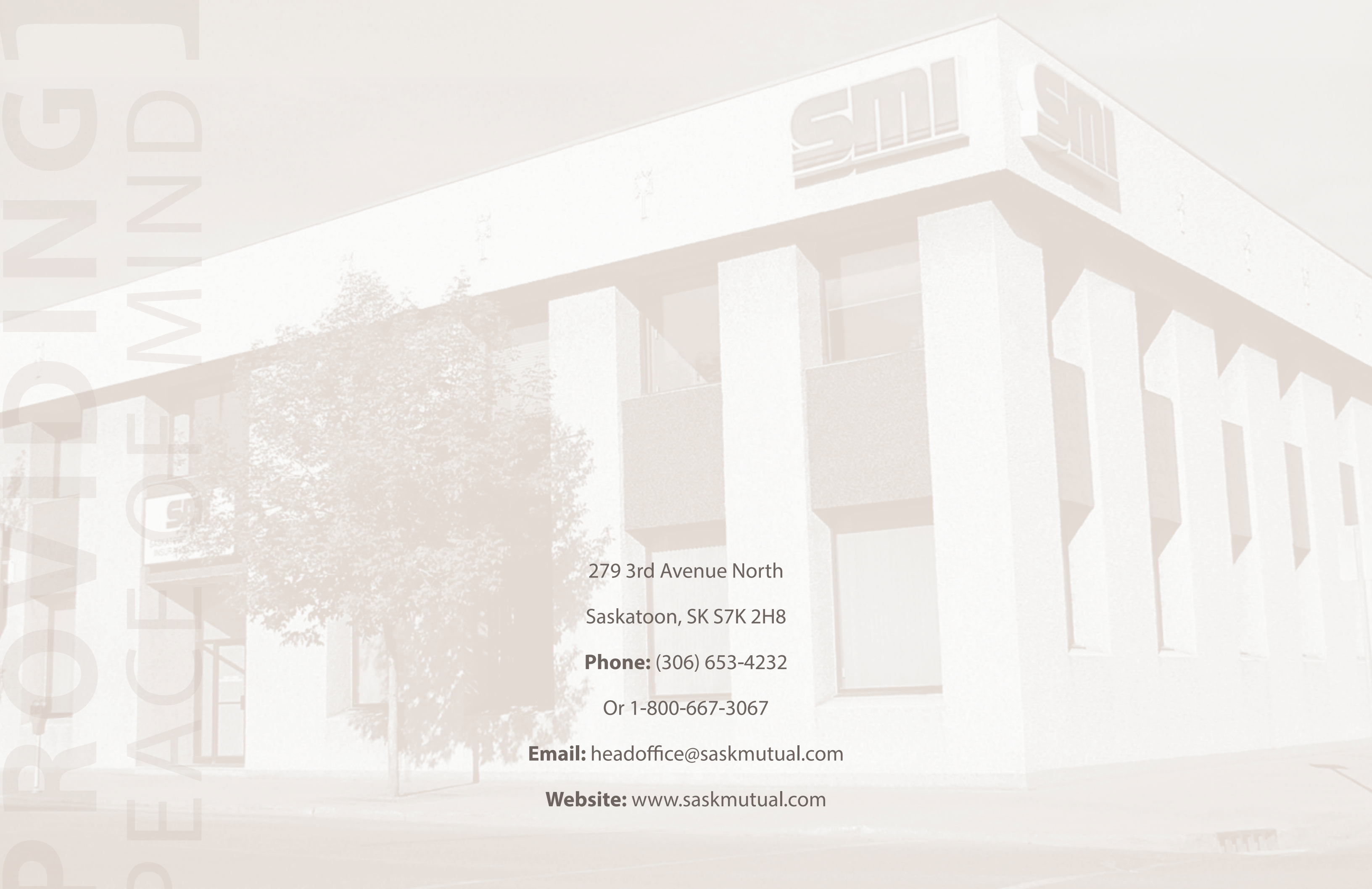

279 3rd Avenue North

Saskatoon, SK S7K 2H8

Phone: (306) 653-4232

Or 1-800-667-3067

Email: headoffice@saskmutual.com

Website: www.saskmutual.com