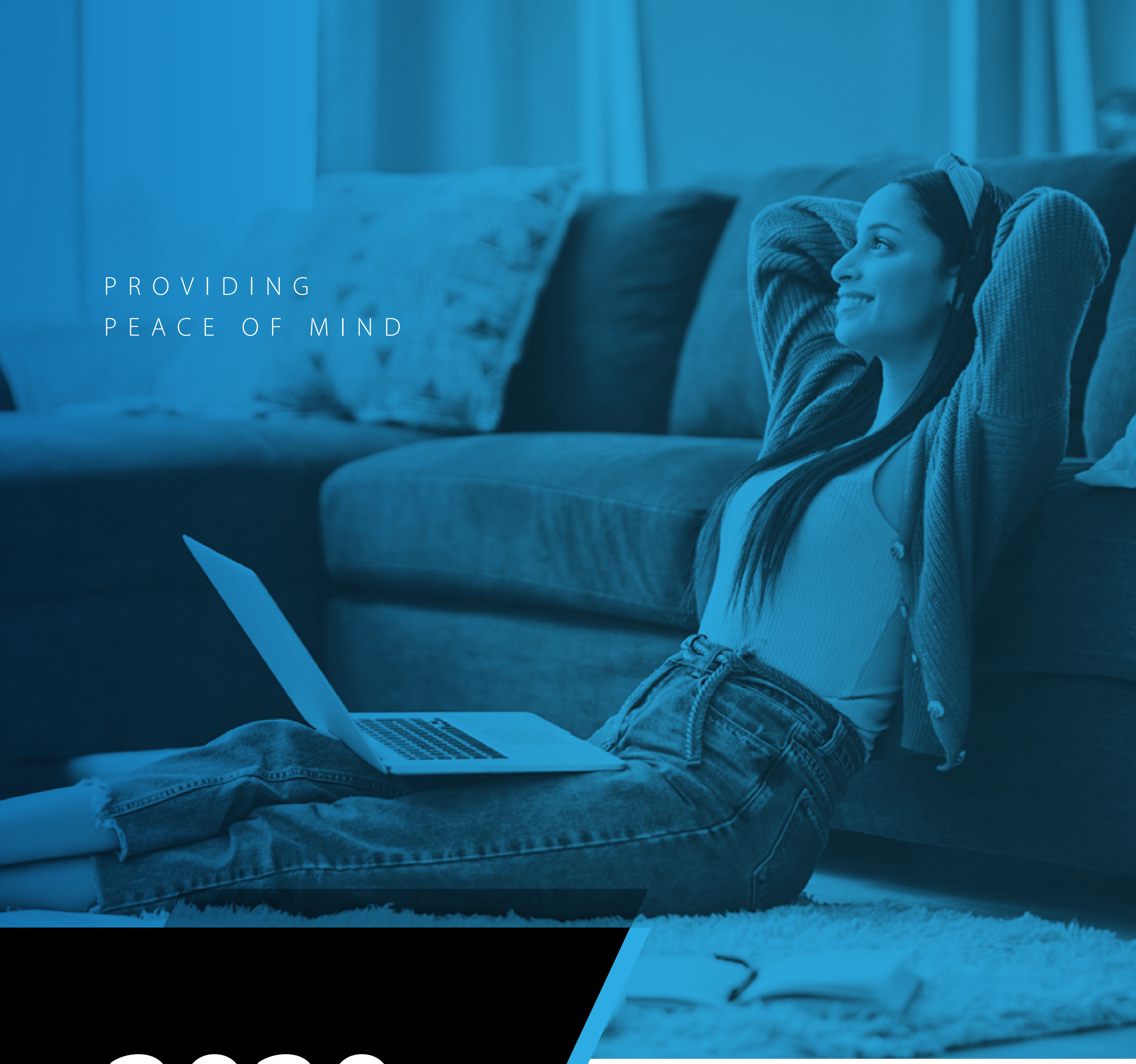

PROVIDING
PEACE OF MIND

2020
ANNUAL REPORT

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

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

Click on the page numbers on each page to return to the Table of Contents.

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.

2 0 2 0
OVERVIEW

It is with great pleasure we present the 2020 Annual Report. It is hard to believe it has been more than a year since the start of the Covid-19 pandemic.

> *"She stood in the storm, and when the wind did not blow her way, she adjusted her sails."*
>
> – Elizabeth Edwards, author

In the past year we have all had to 'adjust our sails' personally and professionally while dealing with uncertainty and fear. Property & Casualty Insurance is much more than the purchase and/or renewal of a policy. More than ever, it represents "peace of mind" and the key to the safety and security of our loved ones and those around us. Our team adapted quickly to the changing work environment while continuing to deliver the high-quality service our policyholders and business partners expect. In mid-March, we transitioned 80% of our staff to working remotely. We are very proud of the SMI team and how they adapted, 'adjusting their sails,' in order to allow continued support for our policyholders. Overall, 2020 was a successful year for SMI. Growth targets were achieved and SMI ended the year in a strong capital position.

Direct premium written increased to $90 million as the result of the continued hardening commercial market as well as industry rate increases in the habitational line of business. While overall growth was 9%, there was significant growth in Alberta and Manitoba where direct premium written increased 15% and 19% respectively.

2020 was an active year from a weather-related loss perspective. One impact of climate change is an increase in the frequency of extreme weather events, and the summer of 2020 was no exception where severe weather caused $2.4 billion in insured damage in Canada. Flooding in Fort McMurray and hailstorms in Calgary were two of the costliest events in 2020. On June 13th, the weather system responsible for both the Calgary hailstorm, as well as other storm related claims in southern Saskatchewan, resulted in 260 claims with a total incurred of $4 million. Overall, after factoring in the reinsurance program, net incurred claims and adjusting expenses from the 2020 catastrophe events amounted to $6.5 million compared with $2.9 million in the prior year. Fortunately, there were fewer large per risk losses (those exceeding $100,000) in 2020 as there were 30 large losses with an incurred of $5.8 million compared with 41 large losses with an incurred of $10.8 million in the prior year. SMI ended 2020 with a gross loss ratio of 52% compared to 47% in 2019, while the net loss ratio was 51% compared to 52% in the prior year. After expenses, investment earnings and income taxes, net earnings of $6.6 million were generated in 2020 (2019 – $5.5 million). This resulted in a return on equity (net income over total surplus) of 10.8% compared to 10.5% in the prior year. When combined with other comprehensive income, the bottom line comprehensive income for 2020 was $10.7 million.

While there was a slight uptick in the gross loss ratio, there were 110 brokers (up from 103 in the prior year) who earned contingent profit and the Platinum Brokers (those with direct written premium greater than $1 million) continued to grow in both premium and number. We extend our sincere appreciation to all our brokers for their continued support each and every year. Their partnership with SMI has resulted in mutual long-term success since 1908.

It is our privilege to be in a position to give back to the communities where we work, live and support, and in line with SMI's philosophy of giving back to communities, $88,000 in donations and sponsorships were disbursed in 2020. Significant contributions were presented to the United Way and homeless shelters in Saskatchewan, Alberta and Manitoba, to help those facing barriers such as poverty and homelessness during this pandemic.

The minimum capital test (MCT) is a regulatory calculation of capital available over capital required that assesses the capital strength of an insurer. The Office of the Superintendent of Financial Institutions has set a minimum MCT at 150%, while the Company has established a minimum internal target of 245%. In 2020, the Company's MCT rose from 328% in 2019 to 364%. We are also pleased to report on May 15, 2020 AM Best affirmed the Company's A- (Excellent) financial strength rating with a stable outlook. (Further information on the Company's rating can be found at ambest.com.)

While we were forced to 'adjust our sails' in regards to our work environment, a number of significant projects were undertaken in 2020. Advancements on our digital initiatives with a focus to improve the policyholder's experience continued with the rollout of our initial phase of broker connectivity. This initial phase allowed broker online access to policyholder information. Work also progressed on phase two which allows straight-through processing of policyholder transactions directly from the broker management system. These steps will reduce the amount of time spent on administrative details resulting in improved customer service.

An update to our rating model for the Habitational line of business progressed in 2020 and was implemented in March 2021. SMI is moving to a more individualized rating of habitational property policies considering the many different characteristics of each property.

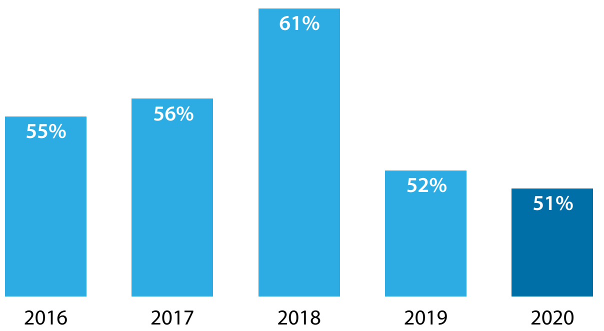
Another exciting project that began in 2020 was the design of the new head office building. The purchase of a piece of land in Saskatoon was finalized in early 2021 and construction is expected to commence in the spring. It is anticipated we will move to the new building in the fall of 2022.

Finally, SMI Leadership and the Board of Directors revitalized SMI's strategic plan and established a five-year vision including five key focus areas for the next five years: profitable growth, customer, people, brand and data. 2021 will be a foundational year where we focus primarily on people, brand and data.

In 2020, the term of two directors expired; Lorne Timmerman and Marion Van Impe. We are so appreciative of the invaluable insight and guidance both Lorne and Marion provided over the many years serving on our Board. A brief time after his retirement from the Board, we were all saddened by the news of Lorne's passing in the summer of 2020 and our thoughts are with his family. With the transition of the two directors, we were excited to welcome Briana Brownell and Erin Smith on to the Board in June. Briana and Erin bring expertise in governance, strategy, business intelligence and data analytics.

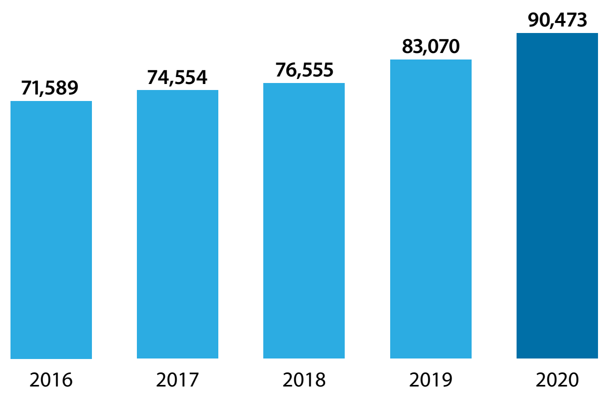
Our success in 2020 would not have been possible without the commitment and dedication of all our staff who worked diligently throughout the year. We express, as well, our appreciation to our brokers, independent adjusters and other key stakeholders who continue to support SMI. As a strong, Prairie-based mutual insurer we remain committed to providing peace of mind and exceptional service to our policyholders into the future!

NET LOSS RATIO



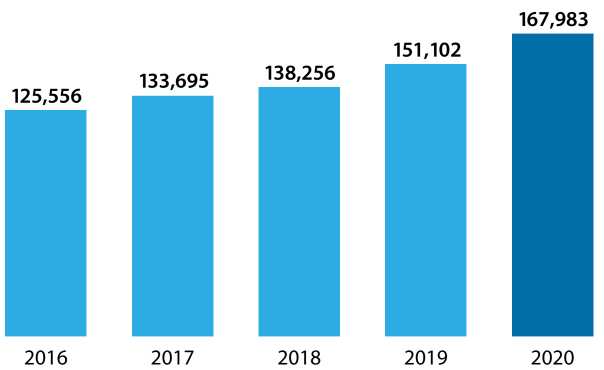
GROSS WRITTEN PREMIUM

$ in thousands



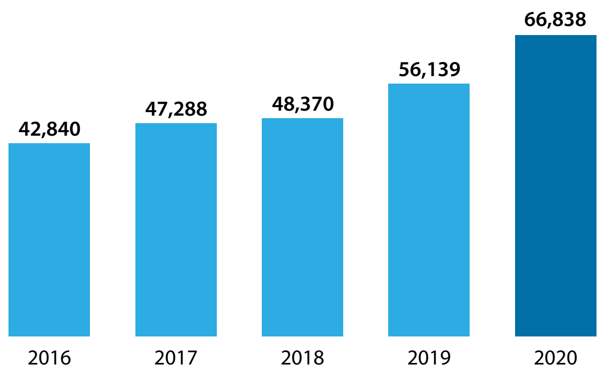
TOTAL ASSETS

$ in thousands

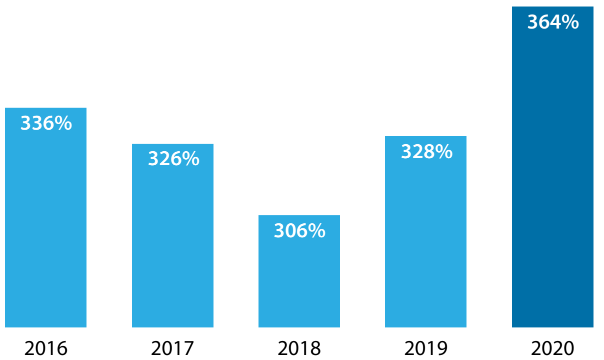


POLICYHOLDERS' SURPLUS

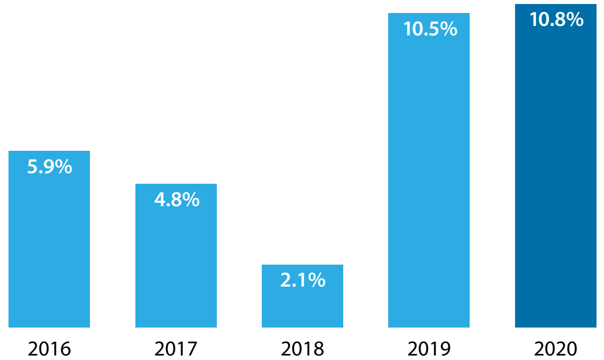
$ in thousands



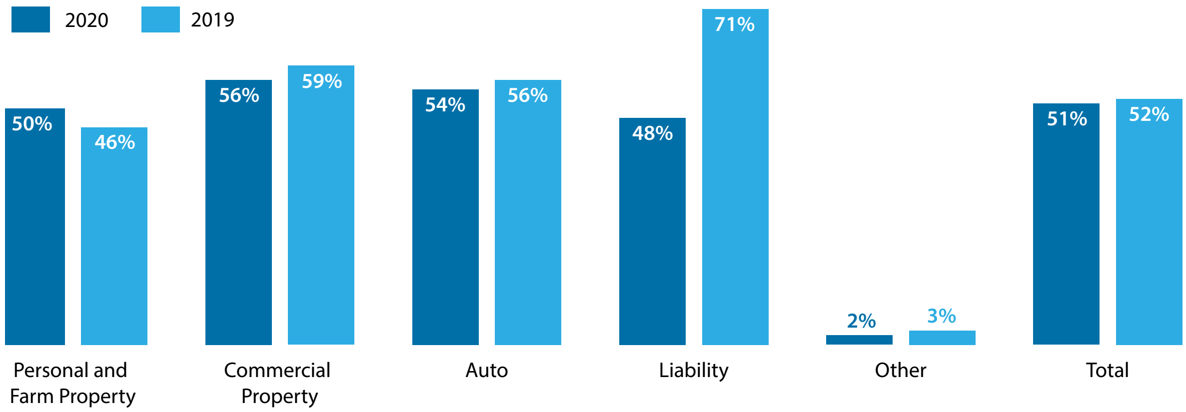
MINIMUM CAPITAL TEST (MCT)



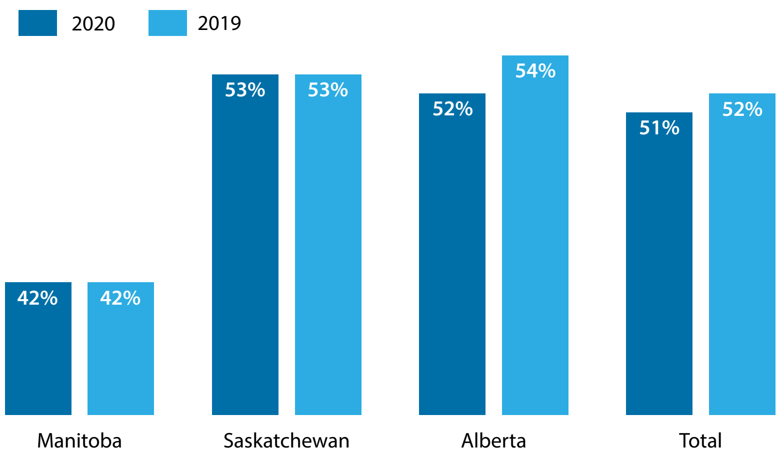
RETURN ON EQUITY (ROE)



NET LOSS RATIO BY CLASS OF BUSINESS

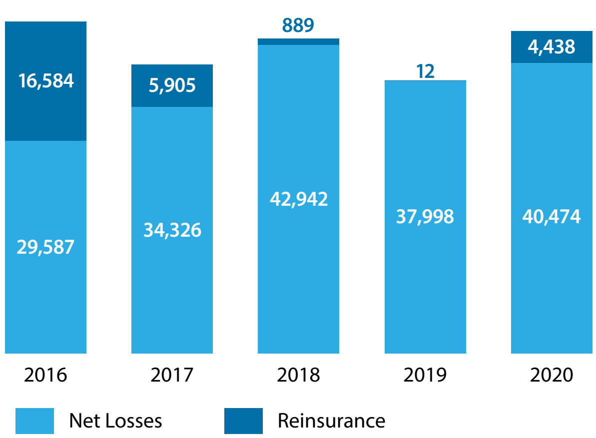


NET LOSS RATIO BY PROVINCE



LOSSES DUE TO STORM ACTIVITY

$ in thousands



BOARD OF DIRECTORS

CATHERINE GRYBA, BSc – Chair

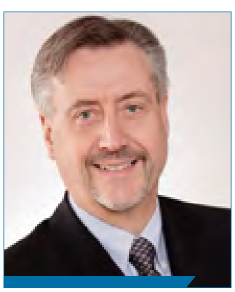
Catherine owns CRG Strategies, a management consulting business specializing in strategy, communications and governance relations. She currently is a board member with the Canada Games Foundation, Chair of the Nutrien Wonderhub and Co-Chair of the Institute of Corporate Directors, Saskatchewan Chapter and previously served on the boards of Saskatchewan Blue Cross, United Way of Saskatoon and Shakespeare on the Saskatchewan. In addition to extensive professional development training, Catherine holds a Bachelor of Science, Physical Education degree, majoring in Commerce, from the University of Saskatchewan. Catherine retired in 2017 from the City of Saskatoon after holding several positions, her most recent being General Manager, Corporate Performance Department. She was elected to the SMI Board of Directors May 17, 2018. Catherine assumed the role of Board Chair on June 25, 2020.

TROY MILNTHORP, FSA, FCIA, SOA, CIA – Vice Chair

Troy is the Senior Managing Director, Corporate Funds with the Saskatchewan Teachers' Federation (STF) where he assumes oversight responsibility for all pension, health, life insurance and disability programs administered by the STF, including plan administration, risk management, strategic direction, innovation and investment management. He was previously a partner with Aon Hewitt acting as an account executive for a large book of business for various clients. Troy is an actuary holding his FSA, FCIA, SOA and CIA and obtained his Bachelor of Science in Statistics (Honours) from the University of Saskatchewan. He was elected to the SMI Board of Directors on May 17, 2018. Troy assumed the role of Board Vice Chair on June 25, 2020.

SHELLEY L. WILLICK, CPA, CA, BComm – President & CEO

Shelley has 25 years of progressive management experience in the P & C industry. She joined SMI in 1994 as the Accounting Manager and held various management positions prior to being appointed President and CEO on July 15, 2019. Shelley obtained her Bachelor of Commerce degree from the University of Saskatchewan in 1989 and Chartered Professional Accountant designation (CPA, CA) in 1992. In 2018, Shelley completed the Queen's Executive Education program.



ROGER ARNOLD, LLB

Roger graduated from the University of Saskatchewan with both, a Bachelor of Commerce, majoring in finance and economics, and a Bachelor of Laws degree. Roger entered into the practice of law with the firm of Cuelenaere & Company and 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 held the role of Board Chair from 2007 - 2020. 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 and past Chair of the Board of Ronald McDonald House.

ARNIE ARNOTT, FCPA, FCA, ICD.D

Arnie joined the SMI Board of Directors in May of 2008. He is currently retired; previous to retirement he was the President & 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, a strong supporter of the community, and is a Past Chair of the Royal University Hospital Foundation.

BRIANA BROWNELL, B.Sc., M.A.

Briana is the founder and CEO of Pure Strategy, Inc. She has a Masters of Arts in Economics from Carleton University and a Bachelor of Science in Mathematics from the University of Saskatchewan. She also has advanced training in natural language processing and artificial neural networks. Briana has served on the boards for the Saskatoon Opera and the Marketing Research and Intelligence Association. She is an active member of the leadership community and is currently involved with the Standards Council of Canada, CIO Strategy Council, Canadian Research Insights Council and is an Ambassador for the Center for Open Science. Briana was named as one of Authority Magazine's Top Women Leaders in AI, was a finalist for the YWCA Women of Distinction Award in Research and Technology, and was featured as one of Innovation Saskatchewan's Entrepreneurship Success Stories. Briana was elected to the SMI Board of Directors on June 25, 2020.

BRIAN HEAGY, CPA, CA, BComm

Brian 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.

SUSAN MILBURN, BComm, MBA

Susan is a Vice President for Raymond James Ltd. She graduated from the University of Saskatchewan with a Bachelor of Commerce majoring in Finance and Marketing along with a Masters of Business Administration. Susan has served on many boards, both in the for-profit sector and in the charitable sector and currently sits on the Board of the Saskatoon Airport Authority. She has been included in Saskatchewan Business Magazine's annual list of 10 Most Influential Women, received the Alumni Service Award from the University of Saskatchewan Alumni Association, and has been named a Woman of Distinction by Raymond James Ltd. Susan was elected to the SMI Board of Directors on May 30, 2019.

ERIN SMITH, J.D., MBA, B.A. (Hons.)

Erin is the Director of Operations for The Targeted Strategies Group (TTSG), which helps successful entrepreneurs and families protect, preserve, and optimize their net worth by using proprietary life insurance solutions. Prior to taking on a management role with TTSG, Erin was a corporate commercial lawyer at a leading Western Canadian law firm. Erin has expertise in corporate governance, executing business change strategies, and managing risk. Erin has a Masters of Business Administration & Juris Doctor from Queen's University and a Bachelor of Arts (Honours) in Political Science from McGill University. She has also completed the Not-for-Profit Corporate Governance Essentials Program through the Institute of Corporate Directors and Rotman School of Management. Erin has served as a volunteer on the board for the Saskatoon Crisis Intervention Service and the Maria Montessori Preschool and Elementary. Erin was elected to the SMI Board of Directors on June 25, 2020.

BOARD COMMITTEE MEMBERSHIP

(Effective June 25, 2020)

AUDIT & FINANCE COMMITTEE

Brian Heagy, Chair
Arnie Arnott
Susan Milburn
Troy Milnthorp
Erin Smith

HR & GOVERNANCE COMMITTEE

Troy Milnthorp, Chair
Roger Arnold
Brianna Brownell
Catherine Gryba
Erin Smith

COMPLIANCE & RISK COMMITTEE

Arnie Arnott, Chair
Brianna Brownell
Catherine Gryba
Brian Heagy
Susan Milburn

COMPANY
PROFILE

HEAD OFFICE

279 - 3rd Avenue North
Saskatoon, SK S7K 2H8

Phone: (306) 653-4232 or (800) 667-3067
Email: headoffice@saskmutual.com
Website: saskmutual.com

Shelley Willick, *CPA, CA*
President & CEO
Corporate Secretary

Rob Jones, *B. Comm., B.A., ProDir*
Senior Vice President, Operations

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

Jennifer Woloschuk, *CPA, CMA*
Vice President, Finance
Chief Risk Officer

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

Chelsa Materi, *FCIP, BAC*
Associate Vice President, Underwriting

Stewart Reinfelds, *MBA*
Associate Vice President, Technology & Intelligence

REGINA OFFICE

311 - 2505 11th Avenue
Regina, SK S4P 0K6
Phone: (306) 545-2855

Don Cook
Claims Adjuster

Evan Kohli
Claims Adjuster

WINNIPEG OFFICE

Unit J - 2151 Portage Avenue
Winnipeg, MB R3J 0L4
Phone: (204) 256-2078

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

CALGARY OFFICE

P.O. Box 71032 Silver Springs
Calgary, AB T3B 5K2

Sheroo Hyder, BA, CIP
Marketing Representative | AB
Phone: (403) 968-8154

David Chapman-Collier, *LLB*
Claims Adjuster
Phone: (403) 333-9236

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, QC 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 & Finance Committee, without management present, to discuss the results of their work. Their report dated February 25, 2021, appearing on the following page, expresses their unqualified opinion on the Company's 2020 financial statements.

Shelley Willick, CPA, CA
President & CEO

Jennifer Woloschuk, CPA, CMA
Vice President, Finance

February 25, 2021

INDEPENDENT AUDITORS' REPORT
TO THE POLICYHOLDERS

of Saskatchewan Mutual Insurance Company

OPINION

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

- the statement of financial position as at December 31, 2020
- the statement of comprehensive income for the year then ended
- the statement of changes in policyholders' surplus for the year then ended
- the statement of cash flows for the year then ended
- and notes to financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

BASIS FOR OPINION

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

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

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

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

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

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

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

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

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

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Saskatoon, Canada
February 25, 2021

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, 2020 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 25, 2021

STATEMENT OF FINANCIAL POSITION

(in thousands of Canadian dollars)
December 31, 2020, with comparative figures for 2019

	2020	2019
ASSETS		
Cash and cash equivalents	**$ 11,882**	$ 10,410
Investments (note 6)	**107,151**	96,256
Premiums due from policyholders	**16,097**	14,676
Amounts due from brokers	**835**	874
Other receivables	**915**	2,058
Recoverable from reinsurers:		
Unpaid claims and adjusting expenses (note 8)	**8,452**	5,425
Unearned premiums (note 9)	**590**	539
Deferred policy acquisition costs (note 10)	**10,865**	9,945
Property, plant and equipment (note 11)	**1,020**	684
Net pension benefit asset (note 13)	**5,670**	5,453
Intangible assets (note 14)	**4,506**	4,782
	$ 167,983	$ 151,102
LIABILITIES AND POLICYHOLDERS' SURPLUS		
Due to other insurance companies	**$ 32**	$ 52
Premium taxes payable	**4,092**	3,778
Accounts payable	**2,005**	1,871
Income taxes payable (note 12)	**796**	2,755
Unearned reinsurance commissions	**165**	151
Unearned premiums (note 9)	**46,189**	42,374
Unpaid claims and adjusting expenses (note 8)	**45,756**	41,723
Deferred tax liability (note 12)	**1,705**	1,719
Other liabilities (note 13)	**405**	540
	101,145	94,963
Policyholders' surplus:		
Surplus and resources for protection of policyholders	**61,889**	55,214
Accumulated other comprehensive income	**4,949**	925
	66,838	56,139
	$ 167,983	$ 151,102

See accompanying notes to financial statements.

Approved by the Board:

Catherine Gryba, Director
Shelley Willick, Director

STATEMENT OF COMPREHENSIVE INCOME

(in thousands of Canadian dollars)
December 31, 2020, with comparative figures for 2019

	2020	2019
Direct premiums written (note 9)	**$ 90,473**	$ 83,070
Reinsurance ceded (note 9)	**(7,399)**	(6,371)
Net premiums written	**83,074**	76,699
Change in net unearned premium	**(3,764)**	(3,318)
Net premiums earned (note 9)	**79,310**	73,381
Service charge revenue	**761**	552
Net underwriting revenue	**80,071**	73,933
Gross claims and adjusting expenses (note 8)	**44,912**	38,010
Reinsurers' share of claims and adjusting expenses (note 8)	**(4,438)**	(12)
Net claims and adjusting expenses	**40,474**	37,998
Commissions	**17,772**	16,082
Premium taxes	**3,939**	3,641
General expenses	**12,217**	11,261
Total insurance related claims and expenses	**74,402**	68,982
Net underwriting income	**5,669**	4,951
Investment operations		
Investment income	**3,320**	2,739
Investment expenses	**268**	236
Net investment income	**3,052**	2,503
Earnings before income taxes	**8,721**	7,454
Income taxes (note 12)	**2,090**	1,967
Net earnings	**6,631**	5,487
Other comprehensive income		
Items that may be subsequently reclassified to net income:		
Net gain arising on revaluation of available-for-sale financial assets during the year	**5,895**	3,240
Reclassification of adjustments relating to available-for-sale financial assets disposed of in the year	**(383)**	(133)
Income tax expense (note 12)	**(1,488)**	(839)
Items that may be subsequently reclassified to net income	**4,024**	2,268
Items that will not be reclassified subsequently to net income:		
Net actuarial gains on employee future benefits (note 13)	**60**	19
Income tax expense (note 12)	**(16)**	(5)
Items that will not be reclassified subsequently to net income	**44**	14
Total other comprehensive income	**4,068**	2,282
Comprehensive income	**$ 10,699**	$ 7,769

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN POLICYHOLDERS' SURPLUS

(in thousands of Canadian dollars)
December 31, 2020, with comparative figures for 2019

	Accumulated other comprehensive income (loss)	Surplus and resources for protection of policyholders	Total policyholders' surplus
Balance, January 1, 2019	$ (1,343)	$ 49,713	$ 48,370
Net earnings	–	5,487	5,487
Other comprehensive income	2,268	14	2,282
Comprehensive income	2,268	5,501	7,769
Balance, December 31, 2019	$ 925	$ 55,214	$ 56,139
Net earnings	–	6,631	6,631
Other comprehensive income	4,024	44	4,068
Comprehensive income	4,024	6,675	10,699
Balance, December 31, 2020	$ 4,949	$ 61,889	$ 66,838

Accumulated other comprehensive income is comprised solely of unrealized gains/(losses) on available for sale securities, net of tax of $1,830,000 (2019 – $342,000).

STATEMENT OF CASH FLOWS

(in thousands of Canadian dollars)
December 31, 2020, with comparative figures for 2019

	2020	2019
Cash flows from operating activities:		
Net earnings	**$ 6,631**	$ 5,487
Items not affecting cash:		
Income taxes	**2,090**	1,967
Depreciation of property, plant and equipment	**133**	116
Amortization of intangible assets	**850**	752
Loss (gains) realized on investments	**(759)**	(189)
Income taxes received (paid)	**(5,567)**	126
Change in non-cash balances related to operations:		
Unearned premiums	**3,815**	3,439
Unpaid claims and adjusting expenses	**4,033**	(1,899)
Unearned reinsurance commissions	**14**	34
Reinsurers' share of unearned premiums	**(51)**	(121)
Reinsurers' share of unpaid claims and adjusting expenses	**(3,027)**	1,329
Deferred policy acquisition costs	**(920)**	(820)
Employee future benefits	**(292)**	(170)
Receivables	**(239)**	(1,326)
Payables	**428**	779
	7,139	9,504
Cash flows from investment activities:		
Purchase of investments	**(12,298)**	(7,036)
Proceeds from sale of investments	**7,674**	1,629
Purchase of intangible assets	**(574)**	(936)
Purchase of property, plant and equipment	**(469)**	(20)
	(5,667)	(6,363)
Increase in cash and cash equivalents	**1,472**	3,141
Cash and cash equivalents, beginning of year	**10,410**	7,269
Cash and cash equivalents, end of year	**$ 11,882**	$ 10,410
Cash and cash equivalents are comprised of:		
Cash in bank less outstanding cheques	**$ 4,882**	$ 3,410
Short-term investments	**7,000**	7,000
	$ 11,882	$ 10,410

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)
Year ended December 31, 2020

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 & Finance Committee. Management and the Audit & Finance Committee report to the Board of Directors, which approved the financial statements on February 25, 2021. The financial statements will be presented for approval by the policyholders at the Annual General Meeting which will take place on June 3, 2021.

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 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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(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 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 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 investment income. Capital gains distributions from the pooled funds are also recorded in investment income.

(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 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.

(b) Property, plant and equipment:

Property, plant and equipment are measured at historical cost less accumulated depreciation. Cost includes expenditures 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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 investment income in net earnings.

(c) Intangible assets:

The Company's intangible assets consist of identifiable and unique software controlled by the Company. Costs 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 the intangible asset may be impaired. An impairment loss is recognized when the carrying amount exceeds the fair value.

(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 policyholders for damage suffered to their property or for the value of property lost. Policyholders 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 policyholders 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 policyholders 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).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Automobile insurance contracts compensate the Company's policyholders 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 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 considers 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.

(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 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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 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 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 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 taxes 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 an employee will receive on retirement, dependent upon age, years of service and compensation. Service was frozen as of June 30, 2014.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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.

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 2020, 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 IFRS 9 is also early adopted. OSFI has indicated 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.

4. NEW ACCOUNTING STANDARDS (CONTINUED):

- IFRS 9, *Financial Instruments*. In July 2014, the International Accounting Standards Board (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 was effective for annual periods beginning on or after January 1, 2019. 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"). The Company has not yet assessed the impact 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, *Insurance Contracts* 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 disclosures to provide information on the recognized amounts from insurance contracts and the nature and extent of risks arising from these contracts.

  The original effective date for IFRS 17 was January 1, 2021 with mandatory restatement of comparative periods. In 2020, the standard was finalized and a deferral of the effective date by two years to annual periods beginning on or after January 1, 2023 was announced. The Company continues to monitor developments and discussions and determine impacts related to this standard. IFRS 17 is expected to significantly impact the overall financial statements.

  The Company is dedicated to the successful implementation of the standard and has committed considerable resources and efforts. Preliminary work has been completed in efforts to determine financial impacts and to also assist in the assessment of technological and data needs. The Company is formulating accounting policies, selecting vendor solutions and initial stages of determining and modifying data needs.

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.

(in thousands of Canadian dollars)

5. ROLE OF THE ACTUARY AND AUDITOR (CONTINUED):

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:

	2020		2019	
	Market value	Unrealized gain/(loss)	Market value	Unrealized gain/(loss)
Short-term fixed income	$ 61,607	$ 1,599	$ 56,523	$ (677)
Universe fixed income	30,455	1,950	27,427	365
	92,062	3,549	83,950	(312)
Equities:				
Canadian	6,210	338	5,477	211
Global	8,879	2,892	6,829	1,368
	15,089	3,230	12,306	1,579
	$ 107,151	$ 6,779	$ 96,256	$ 1,267

No impairment losses were recognized in 2020 or 2019.

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

	2020	2019
Bonds issued by:		
Federal	19.8%	34.8%
Provincial	22.4%	12.9%
Corporate		
A rated or higher	26.4%	34.7%
BBB rated or lower	19.8%	9.0%
Short-term investments (A rated or higher)	9.2%	4.8%
Mortgages		
Federal	0.1%	0.1%
Other	2.3%	3.7%
Total	100.0%	100.0%

Liquidity and interest rate risk:

	Effective yield	Duration
Short-term fixed income pooled fund	0.8%	2.6 years
Universe fixed income pooled fund	1.4%	8.3 years

6. INVESTMENTS (CONTINUED):

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 based on significant observable inputs or inputs 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, 2020 and December 31, 2019 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 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 the Company is exposed to is of a short- tail nature as the average duration of unpaid claims and adjusting expense liabilities is 2.0 years as at December 31, 2020 (1.8 years at December 31, 2019). Policies generally cover a twelve-month period.

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 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 risk of the reinsurance program being ineffective or unaffordable due to inappropriate or incorrect modeling assumptions or by initiating an ineffective program design.

The Company follows the policy of underwriting and reinsuring through excess contracts of insurance which limit the liability of the Company. The Company's retention is $700,000 (2019 – $700,000) in the event of a single loss.

7. INSURANCE RISK (CONTINUED):

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 (2019 – $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 with an upper limit of $60 million (2019 – $60 million) and which limits the Company's liability to $1.5 million (2019 – $1.5 million) in the event of multiple property claims arising from a single catastrophic event. The Company's excess of loss reinsurance program is subject to a $1 million annual aggregate deductible in relation to catastrophe losses.

The Company also has an aggregate catastrophe cover protecting the Company against an accumulation of smaller catastrophe losses in the year. Catastrophe losses exceeding $250,000 (2019 – $250,000) contribute towards the aggregate retention and limit from the first dollar, subject to a maximum amount contributed from any one loss occurrence of $1.5 million. The limit is $2 million in excess of $5 million (2019 – $2 million excess of $5 million).

While there is no guarantee 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 2020 amounted to $6,476,000 (2019 – $2,937,000).

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 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 incident 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, 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.

(in thousands of Canadian dollars)

8. UNPAID CLAIMS AND ADJUSTING EXPENSES (CONTINUED):

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, 2020			
Balance, beginning of year	$ 41,723	$ 5,425	$ 36,298
Current year claims	46,214	4,981	41,233
Prior year development – (favourable)/unfavourable	(1,302)	(543)	(759)
Total claims incurred	44,912	4,438	40,474
Claims paid	40,879	1,411	39,468
Balance, end of year	$ 45,756	$ 8,452	$ 37,304
December 31, 2019			
Balance, beginning of year	$ 43,622	$ 6,754	$ 36,868
Current year claims	42,370	1,308	41,062
Prior year development – (favourable)/unfavourable	(4,360)	(1,296)	(3,064)
Total claims incurred	38,010	12	37,998
Claims paid	39,909	1,341	38,568
Balance, end of year	$ 41,723	$ 5,425	$ 36,298

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, 2020			
Long settlement term:			
Automobile (excluding physical damage)	$ 7,816	$ 2,705	$ 5,111
General liability	13,189	1,104	12,085
Short settlement-term	24,751	4,643	20,108
Balance, end of year	$ 45,756	$ 8,452	$ 37,304
December 31, 2019			
Long settlement term:			
Automobile (excluding physical damage)	$ 7,610	$ 2,965	$ 4,645
General liability	11,363	834	10,529
Short settlement-term	22,750	1,626	21,124
Balance, end of year	$ 41,723	$ 5,425	$ 36,298

(in thousands of Canadian dollars)

8. UNPAID CLAIMS AND ADJUSTING EXPENSES (CONTINUED):

Claim development:

The tables that follow present the development of claim payments and the estimated ultimate cost of claims for the claim years 2011 to 2020. 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.

Gross claim development	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Gross ultimate loss											
At end of accident year	$ 32,002	$ 32,428	$ 42,548	$ 43,460	$ 38,467	$ 48,192	$ 43,543	$ 47,750	$ 41,110	$ 44,677	
One year later	30,975	32,864	41,443	41,194	37,715	46,060	41,656	48,102	40,932		
Two years later	30,166	31,176	39,624	40,183	37,052	45,142	40,462	46,887			
Three years later	29,848	30,500	38,915	40,233	36,298	45,003	40,864				
Four years later	29,752	30,119	38,771	40,134	35,511	44,740					
Five years later	29,617	29,976	38,685	39,686	35,392						
Six years later	29,547	29,943	38,444	39,911							
Seven years later	29,466	29,898	38,387								
Eight years later	29,442	29,901									
Nine years later	29,404										
Current estimate of gross ultimate loss	29,404	29,901	38,387	39,911	35,392	44,740	40,864	46,887	40,932	44,677	391,095
Cumulative paid	29,353	29,549	37,671	39,149	34,851	43,499	36,519	43,744	32,512	23,104	349,951
Gross provision for unpaid claims for the ten most recent accident years	51	352	716	762	541	1,241	4,345	3,143	8,420	21,573	41,144
Gross undiscounted claims outstanding for accident year 2010 and prior											1,123
Loss adjusting expense reserve											1,104
Provision for adverse deviation and discounting											2,385
Gross provision for unpaid claims											$ 45,756

(in thousands of Canadian dollars)

8. UNPAID CLAIMS AND ADJUSTING EXPENSES (CONTINUED):

Net claim development	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Net ultimate loss											
At end of accident year	$ 27,933	$ 29,432	$ 38,070	$ 32,175	$ 31,269	$ 31,419	$ 36,190	$ 45,919	$ 39,849	$ 39,815	
One year later	26,969	29,613	37,995	30,674	30,626	30,388	34,859	46,206	39,700		
Two years later	25,813	28,082	36,711	30,112	30,126	29,793	34,000	45,786			
Three years later	24,922	27,409	36,036	30,198	29,459	29,674	34,313				
Four years later	24,760	27,061	35,988	30,121	29,361	29,457					
Five years later	24,544	26,964	35,908	29,745	29,263						
Six years later	24,470	26,935	35,637	29,939							
Seven years later	24,384	26,895	35,582								
Eight years later	24,363	26,901									
Nine years later	24,327										
Current estimate of net ultimate loss	24,327	26,901	35,582	29,939	29,263	29,457	34,313	45,786	39,700	39,815	335,083
Cumulative paid	24,297	26,558	34,876	29,300	28,985	28,413	32,550	42,507	31,709	22,732	301,927
Net provision for unpaid claims for the ten most recent accident years	30	343	706	639	278	1,044	1,763	3,279	7,991	17,083	33,156
Net undiscounted claims outstanding for accident year 2010 and prior											1,013
Loss adjusting expense reserve											1,095
Provision for adverse deviation and discounting											2,040
Net provision for unpaid claims											$ 37,304

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 0.99% (2019 – 2.02%).

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.

(in thousands of Canadian dollars)

8. UNPAID CLAIMS AND ADJUSTING EXPENSES (CONTINUED):

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

	Undiscounted	Impact of discounting	PFADs	Discounted
December 31, 2020				
Gross provision	$ 43,370	$ (873)	$ 3,259	$ 45,756
Reinsurance ceded	8,106	(184)	530	8,452
Net provision	$ 35,264	$ (689)	$ 2,729	$ 37,304

	Undiscounted	Impact of discounting	PFADs	Discounted
December 31, 2019				
Gross provision	$ 40,308	$ (1,638)	$ 3,053	$ 41,723
Reinsurance ceded	5,330	(378)	473	5,425
Net provision	$ 34,978	$ (1,260)	$ 2,580	$ 36,298

The impact on net unpaid claims at the statement of financial position date could be an increase of up to $322,000 if the discount rate were to decrease by 42 basis points (0.42%).

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, 2020			
Balance, beginning of year	$ 42,374	$ 539	$ 41,835
Premium written	90,473	7,399	83,074
Premium earned	(86,658)	(7,348)	(79,310)
Balance, end of year	$ 46,189	$ 590	$ 45,599
December 31, 2019			
Balance, beginning of year	$ 38,935	$ 418	$ 38,517
Premium written	83,070	6,371	76,699
Premium earned	(79,631)	(6,250)	(73,381)
Balance, end of year	$ 42,374	$ 539	$ 41,835

(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, 2020			
Long settlement term:			
Automobile (excluding physical damage)	$ 1,452	$ –	$ 1,452
General liability	4,587	8	4,579
Short settlement-term	40,150	582	39,568
Balance, end of year	$ 46,189	$ 590	$ 45,599
December 31, 2019			
Long settlement term:			
Automobile (excluding physical damage)	$ 1,436	$ –	$ 1,436
General liability	3,803	4	3,799
Short settlement-term	37,135	535	36,600
Balance, end of year	$ 42,374	$ 539	$ 41,835

10. DEFERRED POLICY ACQUISITION COSTS:

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

	2020	2019
Balance, January 1	$ 9,945	$ 9,125
Acquisition costs deferred	22,918	20,964
Amortization of deferred costs	(21,998)	(20,144)
Balance, December 31	$ 10,865	$ 9,945

(in thousands of Canadian dollars)

11. PROPERTY, PLANT AND EQUIPMENT:

	Cost	Accumulated depreciation	Net book value
December 31, 2020			
Land	$ 437	$ –	$ 437
Buildings and building components	1,307	884	423
Furniture and equipment	672	593	79
Computer hardware	1,362	1,281	81
	$ 3,778	$ 2,758	$ 1,020
December 31, 2019			
Land	$ 129	$ –	$ 129
Buildings and building components	1,277	853	424
Furniture and equipment	659	574	85
Computer hardware	1,247	1,201	46
	$ 3,312	$ 2,628	$ 684

Depreciation charged to general expenses amounted to $133,000 (2019 – $116,000).

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 26.2% (2019 – 27.0%) to earnings before taxes. A reconciliation is summarized in the following table:

	2020	2019
Tax at basic rates	$ 2,284	$ 2,012
Increase (decrease) in taxes resulting from:		
Permanent differences	(71)	(45)
Change in statutory rates	(123)	–
Income tax expense	$ 2,090	$ 1,967
Effective rate	24.0%	26.4%

Income tax expense is comprised of:

	2020	2019
Current tax expense	$ 3,608	$ 2,874
Deferred tax expense	(1,518)	(907)
	$ 2,090	$ 1,967
Income tax recorded in other comprehensive income		
Net changes in unrealized gains	$ 1,591	$ 875
Reclassification to income of net (gains)	(103)	(36)
Net actuarial gains on employee future benefits	16	5
Total income tax expense recorded in other comprehensive income	$ 1,504	$ 844

(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:

	2020	2019
Deferred tax assets:		
Property, plant and equipment	$ 32	$ 43
Unpaid claims and adjusting expenses	481	490
	513	533
Deferred tax liabilities:		
Employee future benefits	(1,358)	(1,326)
Intangible assets	(860)	(985)
	(2,218)	(2,252)
Net deferred tax asset (liability)	$ (1,705)	$ (1,719)

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

	2020	2019
Balance, January 1	$ (2,755)	$ 245
Amounts recorded in net earnings	(3,608)	(2,874)
Net payments (refunds) during the period	5,567	(126)
Balance, December 31	$ (796)	$ (2,755)

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

	2020	2019
Balance, January 1	$ (1,719)	$ (1,782)
Amounts recorded in net earnings	1,518	907
Amounts recorded in other comprehensive income	(1,504)	(844)
Balance, December 31	$ (1,705)	$ (1,719)

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 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 61% in respect of active members and 39% in respect of pensioners, beneficiaries and deferred members.

(in thousands of Canadian dollars)

13. EMPLOYEE FUTURE BENEFITS (CONTINUED):

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, 2019, and the next required valuation would be as of December 31, 2023. Information about the Company's defined benefit pension plan movements is as follows:

	2020	2019
Accrued benefit obligation		
Balance, January 1	$ 30,390	$ 25,693
Interest cost on benefit obligation	932	1,012
Benefit payments	(623)	(780)
Re-measurement recognized in other comprehensive income arising from actuarial loss from changes in:		
financial assumptions	2,825	4,465
experience loss	290	–
Balance, December 31	$ 33,814	$ 30,390

	2020	2019
Fair value of plan assets		
Balance, January 1	$ 35,843	$ 30,925
Interest income on plan assets	1,100	1,220
Re-measurement recognized in other comprehensive income – return on plan assets	3,236	4,527
Benefits paid	(623)	(780)
Other	(72)	(49)
Balance, December 31	$ 39,484	$ 35,843

The actual return on pension plan assets for the year ended December 31, 2020 was a gain of $4,336,000 (2019 – gain of $5,747,000).

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

	2020	2019
Accrued benefit obligation	$ (33,814)	$ (30,390)
Fair value of plan assets	39,484	35,843
Net pension benefit asset/(liability)	$ 5,670	$ 5,453

(in thousands of Canadian dollars)

13. EMPLOYEE FUTURE BENEFITS (CONTINUED):

The Company has determined, 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, 2020.

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, 2019, both a solvency excess and going concern surplus existed, and accordingly, no payments are required in 2020.

At December 31, 2020, the weighted-average duration of the defined benefit pension obligation was 18.8 years (2019 – 18.5 years).

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

	2020	2019
Actuarial assumptions:		
Discount rate	2.6%	3.1%
Rate on general salary increase	3.25%	3.25%
Inflation	2.00%	2.00%
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)	11.3	12.8

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 2020 as the adjusted solvency ratio exceeded 100% where the ultimate target allocation shift was triggered and will remain at 85% fixed income and 15% equities.

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

	2020	2019
Fixed income	84.4%	73.9%
Canadian equities	7.7%	12.4%
Global equities	7.9%	13.7%
	100.0%	100.0%

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.

(in thousands of Canadian dollars)

13. EMPLOYEE FUTURE BENEFITS (CONTINUED):

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)	$ (5,482)	$ 7,201
Inflation rate (1% movement)	5,254	(4,302)
Salary (1% movement)	984	(977)
Mortality (each member lives 1 year longer)	1,019	

The other non-pension future benefits are unfunded with an obligation of $405,000 (2019 – $540,000) and have been actuarially determined using the following assumptions:

	2020	2019
Discount rate	2.4% – 2.6%	3.0% – 3.1%
Rate of general salary increase	3.25%	3.25%
Inflation	2.00%	2.00%
Average remaining service life of employee (in years)	16.6 – 19.9	15.5 – 16.2

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

	Defined benefit pension provisions		Other benefit plans	
	2020	2019	2020	2019
Cost of benefits earned in the year	$ –	$ –	$ 37	$ 32
Interest cost on benefit in the year	(168)	(208)	17	19
Other	72	49	(225)	–
Total benefit expense (recovery) recognized in the general expenses	$ (96)	$ (159)	$ (171)	$ 51

Contributions under the defined contribution provisions charged to general expenses amounted to $313,000 (2019 – $304,000).

(in thousands of Canadian dollars)

13. EMPLOYEE FUTURE BENEFITS (CONTINUED):

	Defined benefit pension provisions 2020	Defined benefit pension provisions 2019	Other benefit plans 2020	Other benefit plans 2019
Balance, January 1	$ (1,734)	$ (1,769)	$ (121)	$ (78)
Re-measurements related to:				
Actuarial gain (loss) from changes in:				
financial assumptions	(2,825)	(4,465)	(37)	(43)
experience gain (loss)	(290)	–	(24)	–
Return on plan assets	3,236	4,527	–	–
Net actuarial gains recognized in other comprehensive income (loss)	$ 121	$ 62	$ (61)	$ (43)
Balance, December 31	$ (1,613)	$ (1,734)	$ (182)	$ (121)

14. INTANGIBLE ASSETS:

	Cost	Accumulated amortization	Net book value
December 31, 2020			
Computer software	$ 9,105	$ 4,599	$ 4,506
December 31, 2019			
Computer software	$ 8,531	$ 3,749	$ 4,782

Amortization charged to general expenses amounted to $850,000 (2019 – $752,000).

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 has an established minimum MCT of 150%, the Board of Directors has set an internal target of 245% (2019 – 245%) which under normal circumstances the Company will operate in excess of. The MCT for the Company as of December 31, 2020 was 364% (2019 – 328%).

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, 2020 was 1.2 (2019 – 1.4).

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 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 Audit and Finance Committee of the Board of Directors. The objective of the policy is to generate a reasonably 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 arising from potential changes in the market rates, prices or liquidity in various markets. Market factors include four types of risk: interest rate risk, equity risk, currency risk and inflation risk.

Interest rate risk is related to changes in interest rates and their impact when durations of assets and liabilities are different. 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% (2019 – 90%).

At December 31, 2020, a 1% move in interest rates, with all other variables held constant, could impact the market value of the bond portfolio by $4,139,000 (2019 – $3,575,000). For securities 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.

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

The Company's investment portfolio includes Canadian pooled fund units with fair values that move with the S&P/TSX Capped Composite Index and global pooled fund units that move with MSCI World Net Index. A 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the Company's equity pooled funds of $1,481,000 (2019 –$1,203,000). For securities the Company did not sell during the period, the change would be recognized in the asset value and in other comprehensive income.

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% (2019 – 10%).

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.

Inflation risk is when realized inflation differs from the anticipated inflation which has an effect on both liabilities and assets.

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 arises from the credit component embedded in market rates. It arises from a counterparty's potential inability or unwillingness to fully meet its on or off-balance sheet contractual obligations. 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 19.8% (2019 – 9.0%) 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 2020 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 2020 or 2019.

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 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, 2020 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, 2020 was $2,041,000 (2019 – $1,875,000).

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 policyholders 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, 2020 $350,000 (2019 – $330,000), of which $79,000 (2019 – $82,000) 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, 2020 (2019 – $43,000).

18. COVID-19 GLOBAL PANDEMIC:

On March 11, 2020, the Coronavirus (COVID-19) was declared a pandemic by the World Health Organization. The financial and economic impact of the pandemic continues to evolve, both globally and locally, and is contributing to increased market volatility.

Both federal and provincial governments have introduced legislative measures to curb negative financial impacts of the pandemic as well as to limit the spread of the virus, including restrictions on gatherings and forced closures of several businesses.

The Company continues to manage the impact on its business and believes its operations and financial position remain strong as it is well positioned to deal with this crisis. As at the date these financial statements were issued, the full financial impact of the pandemic on the Company remains unknown but is expected to be limited.

19. SUBSEQUENT EVENTS:

On February 1, 2021, the Company completed a Purchase Agreement for a parcel of land for a cash consideration of approximately $3,000,000. A deposit of $300,000 of the purchase price is included in the Property, plant and equipment balance of the Company as at the end of the financial year. This parcel of land, located in Saskatoon, SK, is the future location of the Company's head office. The design and construction considerations for the new head office remains in development at the time these financial statements were issued. Initial indication is construction of the head office will commence during the spring of 2021 with the relocation occurring in 2022. The sale of the current head office location is anticipated after the relocation in 2022.

SASKATCHEWAN MUTUAL
INSURANCE COMPANY

279 3rd Avenue North
Saskatoon, SK S7K 2H8

(306) 653-4232 or (800) 667-3067

headoffice@saskmutual.com
saskmutual.com