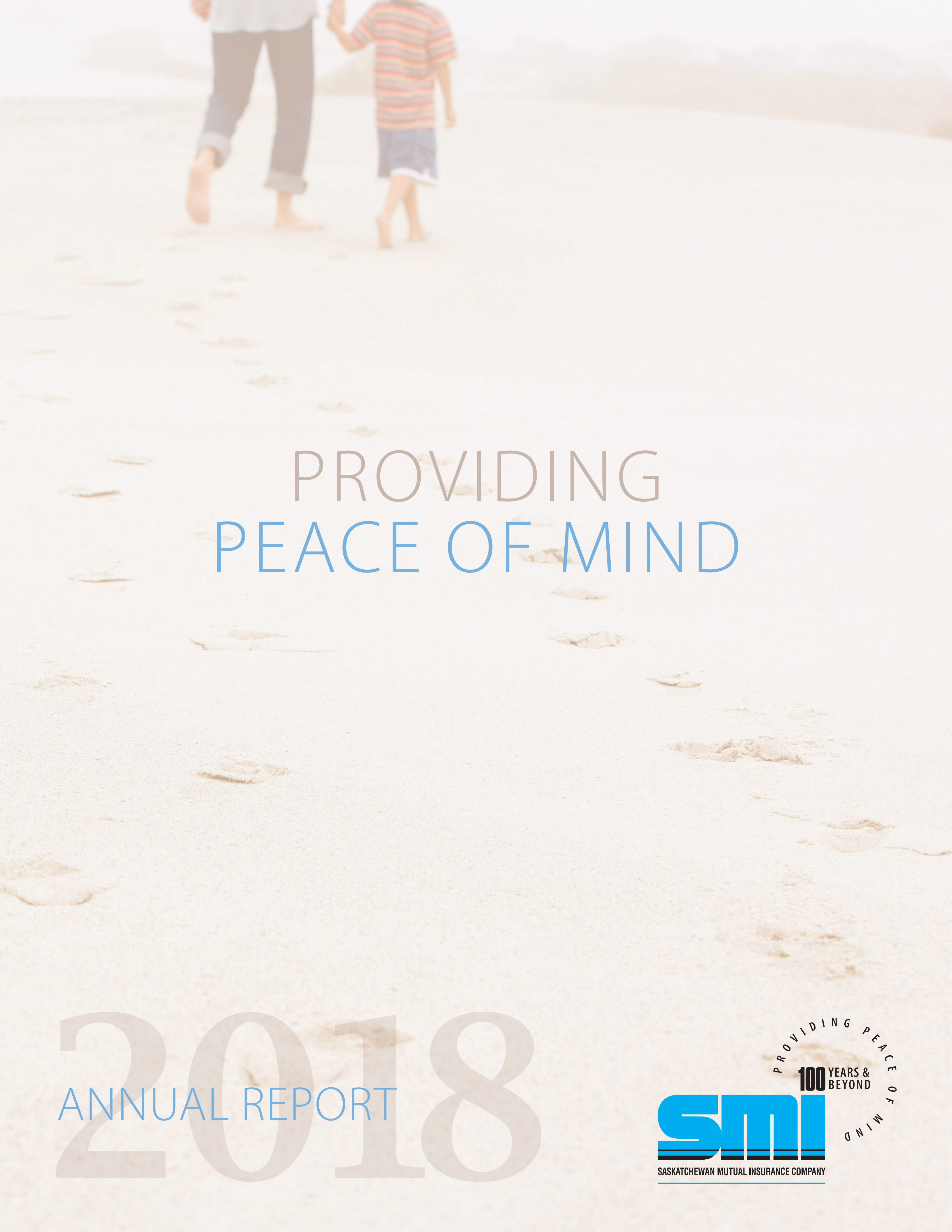

PROVIDING PEACE OF MIND

2018

ANNUAL REPORT

PROVIDING PEACE OF MIND
100 YEARS & BEYOND

SMI
SASKATCHEWAN MUTUAL INSURANCE COMPANY

2018

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

MISSION STATEMENT

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

2018

LETTER TO POLICYHOLDERS

Laura Wiebe, CPA, CA, FCIP
President & CEO

D. Roger Arnold, LLB
Chair of the Board

The Board of Directors is pleased to present the 2018 Annual Report to the policyholders of Saskatchewan Mutual Insurance Company (SMI).

As you will read in this report, 2018 was a challenging year for SMI from an underwriting perspective and for the Canadian P&C industry overall, which incurred $1.9B of insured losses from ice storms, floods, windstorms and tornadoes. Unlike years that featured major events, 2018 was a year where frequency of smaller weather events in aggregate impacted insurers and reinsurers with what has been identified as the fourth highest year of weather losses on record. In addition to a significant number of catastrophe events, SMI was also affected by an unusual number of large individual losses, the majority of which were fire losses. In spite of a combined ratio of 102%, the Company's investment income offset the underwriting loss to generate after-tax earnings of $1M and overall comprehensive income of $1.1M for the year.

In 2018, an in-depth analysis of the Company's habitational book of business was completed with the assistance of SMI's business intelligence resources and a new data analytics tool. This work will be leveraged in 2019 and 2020 as a new pricing model is implemented. Competitive and appropriate pricing is essential for growth, managing accumulations and for generating long-term underwriting profitability.

With the Company's capital in a position of strength and an MCT in excess of 300% for the past four years, the decision was made to eliminate the quota share reinsurance treaty in 2018, which had been in place since 2014. We are also pleased to report AM Best affirmed on March 23, 2018 the Company's A- (Excellent) financial strength rating with a stable outlook. (Further information on the Company's rating can be found at http://www.ambest.com.) An updated rating based on 2018 results is expected shortly.

During 2018 a number of important projects were undertaken largely related to risk management and regulatory compliance. A significant governance review project was also completed, which resulted in updated Board Committees, new terms of reference, a new meeting schedule and meeting format. In addition to ensuring ongoing compliance with changing regulatory requirements, the restructuring will ensure the Board's time is efficiently and effectively utilized and focused on key areas of the business such as strategy and risk management. As our industry continues to evolve it is important to ensure our Directors are well positioned to meet the challenges.

With its operating system functioning well, the Company has turned its attention in recent years to enhancing its data analytics capabilities, developing a new pricing model strategy and working towards improving its connectivity with brokers. As discussed in the operating report included, progress in all of these areas was made in 2018.

On February 12th, SMI's Board Chair announced the pending retirement of SMI's President & CEO, Laura Wiebe, who has held the position since January 4th, 2008. During her tenure the Company maintained its capital and financial strength even with significant premium growth, the rising frequency and severity of weather events and the challenging investment environment. The implementation of the new fully-integrated, web-based operating system on January 1st, 2015 remains a highlight as well. While an extensive and professional search process is being undertaken, Laura continues to lead the Company with the full support of the Board and leadership team to ensure a smooth leadership transition.

SMI's positive overall results and its ability to meet the challenges of a constantly changing business and regulatory environment would not be possible without the commitment, dedication and hard work of all SMI staff, Board of Directors and senior management team. 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!

OPERATIONS REPORT

Shelley Willick, CPA, CA
Senior Vice President, Operations

2018 was a rewarding but challenging year. It was rewarding as progress was made on a number of initiatives, but challenging as the frequency of large losses and weather related events increased.

A new comprehensive water coverage product for homeowners business was introduced and a review of the Company's current sewer backup coverage was completed in the first quarter of 2018. This was a significant undertaking involving resources from underwriting, marketing, business intelligence and claims. The new coverage has been well received in the market and take up has exceeded our expectations.

An in-depth review of our habitational book of business was also completed in the year, which focused on accumulations, loss experience, new business and cancellations by risk type and province. With improving underwriting profitability remaining a priority, the results of the review along with outside data were used to develop the 2019 habitational rate changes. Our business intelligence (BI) department was a great asset during this review. In addition to implementing a new BI framework in 2018, they rolled out a data visualization tool utilized in the review of the habitational book of business. The tool is expected to continue to provide valuable insights now and in the future. Going forward, in 2019, SMI is introducing credit scoring for certain habitational products to assist with retaining existing business and generating new business. For 2020, a transition to a peril score pricing model is planned to help ensure SMI remains competitive.

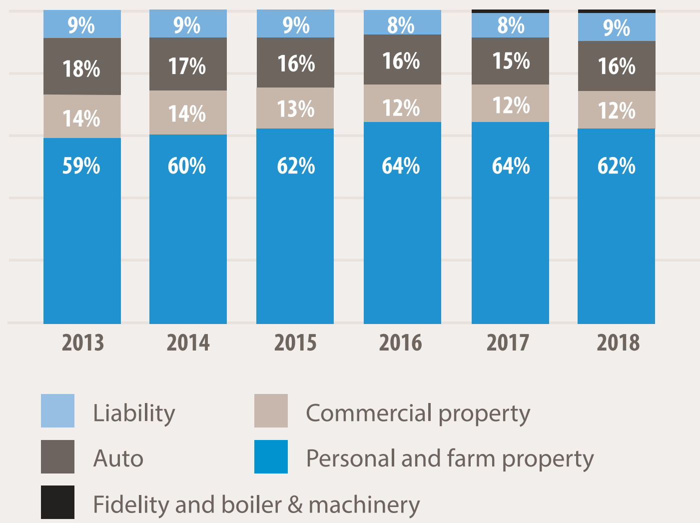
In 2018 we also launched two new commercial insurance products – data compromise and cyber coverage. With cyber risk increasing, these new coverages provide protection for SMI's commercial policyholders for the consequences of data breach and cyber-attacks.

From a results perspective, the Company ended 2018 with direct written premiums of $76.6M, a 3% increase over the prior year. Auto direct written premiums in Saskatchewan and Manitoba increased 13% and 7%, respectively. Saskatchewan auto in particular was positively impacted by the decision to enhance SMI's replacement cost coverage. From a mix of business perspective, the automobile line of business increased from 15% to 16%, while the personal and farm property class of business declined to 62%. Commercial property business remained consistent with the prior year at 12% and realized a 5% increase in direct premiums written and a 3% increase in the number of commercial policies written.

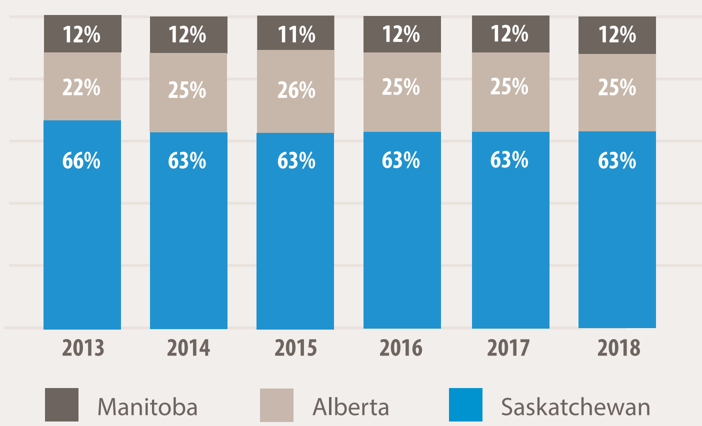
According to MSA Research & CatIQ, there were 12 catastrophe events (events with more than $25M in insured losses) in the Canadian insurance industry and nine notable events (events with insured losses between $10 and $25M) for total insured losses of $1.9B. Unlike recent years, Alberta did not lead the way with losses but rather came in third behind Ontario and Quebec. The events included heavy rain, windstorms, snow/freezing rain, hail and tornadoes.

For SMI, there were ten major catastrophe events exceeding $100,000. Gross incurred losses from these events were $6.7M compared to $4.6M in the prior year. Net of reinsurance, the amounts were $5.7M compared with $4.6M in the prior year. The largest impact for 2018 was the increase in per risk losses exceeding $100,000, from 41 in the prior year to 59 in 2018. Total incurred was $14.7M on a gross basis and $14.5M net of reinsurance compared to $12.8M on a gross basis and $10.3M net of reinsurance in the prior year. The Company conducted an in-depth review of the per risk losses and determined there were no identifiable negative trends in the type of risks, types of losses or locations identified. By province the Company's net loss ratios were as follows: Saskatchewan 63% (59% - 2017), Alberta 54% (42% -2017) and Manitoba 71%

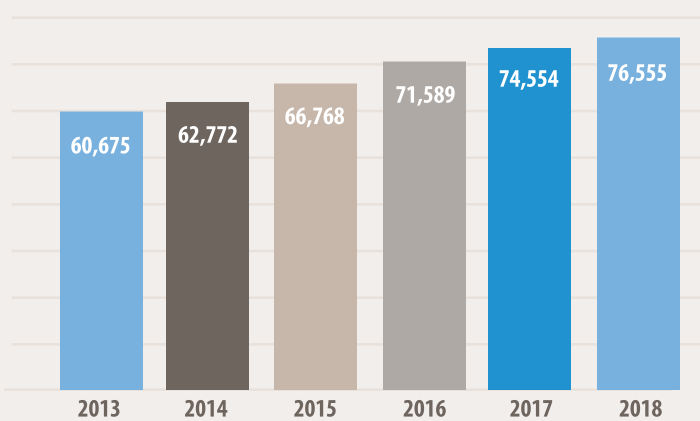
Direct premiums written by class of business



Direct premiums written by province



Direct premiums written *(in thousands)*



(69% - 2017). The Company's overall net loss ratio for 2018 was 61% compared to 56% in 2017.

Despite the active loss year, 90 brokers qualified for contingent profit cheques. Premium written by the Company's Platinum brokers, over $1M direct written premium, continued to grow and several other brokers are close to achieving Platinum status. Sincere appreciation is extended to all SMI brokers for their continued support.

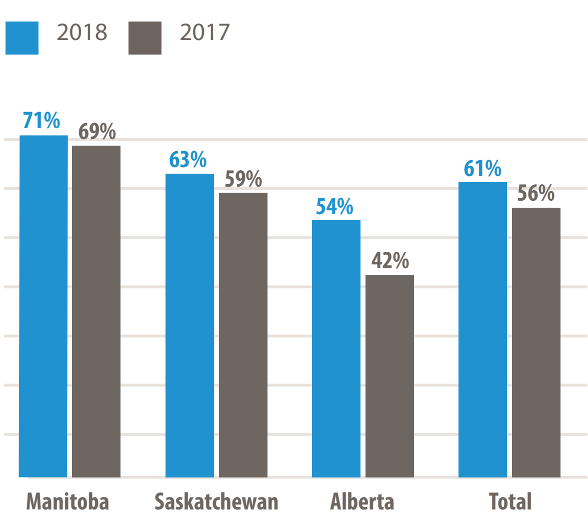
As a property & casualty insurer dedicated to providing security for its policyholders, SMI believes in the value of supporting registered charities that have an impact on the communities in which we operate. We believe this aligns with our policyholders' interests and helps to strengthen and create healthy communities. To promote our business partnerships with our independent brokers in Alberta, Saskatchewan and Manitoba, SMI created a broker donation fund under which $5,000 is donated to a charitable organization in each of the provinces. The three charities for 2018 were Aspire Special Needs Resource Centre, Huntington Society of Canada and Teen Challenge Canada Inc. In addition to the broker donations, scholarships, employee matching donation initiatives, sponsorships and other donations, the Company made a $25,000 donation to the STARS (Shock Trauma Air Rescue Service) Foundation. With its roots beginning in Alberta, STARS operates in the four Western provinces. They not only provide helicopter air ambulance services across the provinces, but they operate the STARS Emergency Link Centre and provide specialized critical care skill education and training to numerous communities each year. It was a pleasure to be able to provide a donation to a great organization that continues to provide life-saving services every day.

All in all, 2018 was a very busy year. Milestones achieved and projects completed could not have been accomplished without the dedication and commitment of all SMI staff. Sincere appreciation is extended to everyone for their hard work.

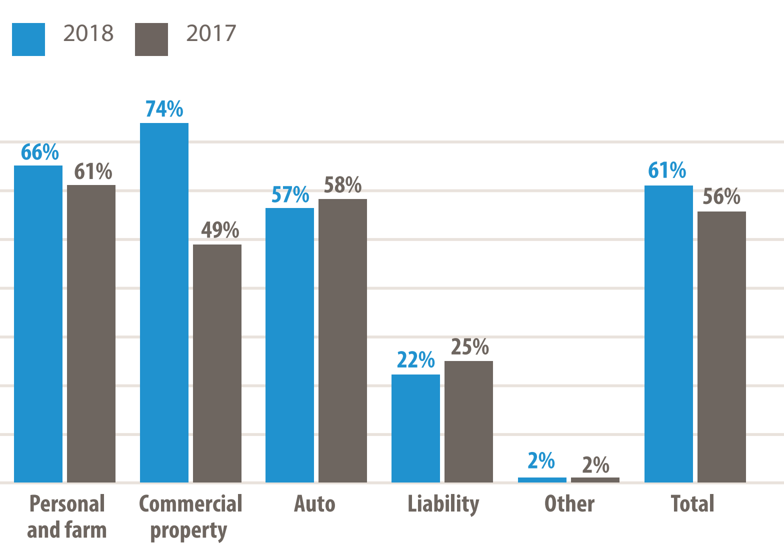
Looking forward to 2019 and beyond, the industry continues to evolve and in order to remain relevant to its many stakeholders, SMI must also continue to evolve and innovate. In that regard we are working towards enhancing broker connectivity to provide our brokers with on-line access to policy information, broker reports, and straight-through processing. We are also enhancing our website to provide more information for brokers and consumers. Increasing our use of data analytics, reports, and ease of doing business will play important roles going forward. SMI is committed to offering exceptional customer service, competitive products and investing in new technology in order to continue to provide peace of mind to its policyholders.

SWillick

Net loss ratio by province



Net loss ratio by class of business



TECHNOLOGY REPORT

Kerri Heuchert, MCSE, MCP
Vice President, Technology

2018 was another noteworthy year for Information Technology Services (ITS), with many significant goals being achieved as we continued to manage technology operations and the needs of the Company in an environment of high demand and change. We continue to improve existing and explore new technologies to continue to build a solid foundation for future progress and success.

Our primary focus this past year was the continued support and enhancement of our enterprise insurance system, in particular, the implementation of the comprehensive water product. Other key initiatives ITS focused on were in the areas of departmental risk management. These projects allowed us to reduce the risk of business downtime and catastrophic loss due to system vulnerabilities and helped to enhance our cyber risk profile.

ITS is committed to delivering a strategic advantage to SMI by fostering creative and innovative use of technology to achieve our corporate objectives. We continue to look for ways to enhance SMI's technology infrastructure and services. The ITS group is grateful for the opportunity to serve the organization and for the continued support of the staff and all the key stakeholders. I would like to thank the ITS staff for their dedication and commitment over the past year as they continue to serve with initiative, enthusiasm and professionalism, and make essential contributions across the organization.

Kerri L Heuchert

FINANCE REPORT

Jennifer Woloschuk, CPA, CMA
Vice President, Finance

From an underwriting perspective the Company's combined ratio for 2018 was 102% consisting of a net loss ratio of 61% and an expense ratio of 41% resulting in an underwriting loss of $1.1 million. As highlighted in the operations report, overall growth was below expectations at 3% and an increase in both large losses and catastrophe losses contributed to the year over year deterioration of the Company's direct loss ratio. Commission expense increased largely due to the discontinuance of the quota share program and operating expenses, largely consisting of employee compensation and IT costs, increased marginally over the prior year.

From an investment income perspective, the Company generated income of $2.4 million. When combined with other comprehensive income of $80,000, the bottom line comprehensive income for 2018 was $1.1 million; a return on equity (comprehensive income over total surplus) of 2.2% compared to 9.4% in the prior year.

Financial market conditions unfortunately deteriorated at the end of 2018 largely related to rising interest rates, widening credit spreads and falling stock prices. The TSX posted its worst annual loss since 2008 and most of the year's losses were recorded in the fourth quarter which was the worst quarter since Q3 of 2011. Due to rising interest rates, bond prices fell and SMI ended 2018 with unrealized losses in its fixed income investments of $662,000. Equities also suffered steep declines at year end resulting in unrealized losses in the equity investments of $819,000. After a small realized gain and the tax provision, there was an other comprehensive loss relating to the investments of $1.2 million.

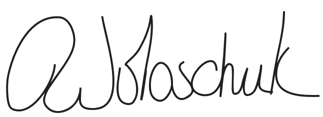
With regard to the Company's defined benefit pension plan, the discount rate increased to 4% from 3.4% and the inflation rate assumption decreased to 2% from 2.25%, resulting in an actuarial gain of $3.7 million on the pension obligation. When netted against an experience loss of $455,000, the overall actuarial gain on the pension obligation was $3.3 million. The actual return on plan assets was negative 1.3% resulting in an actuarial loss of $1.6 million on plan assets. The net result for all employee future benefits was an actuarial gain of $1.2 million after tax.

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 (OSFI) has set a minimum MCT at 150%, while the Company has established a minimum internal target of 230%. In 2018, the Company's MCT fell modestly from 326% to 306%. The capital available remained comparable to 2017 due to the $1.1 million comprehensive income and the $1 million decrease of capital available due to the increase in the assets with a capital requirement of 100%, mainly related to the increase in the net accrued pension benefit asset. The capital required component increased by $847,000 mostly due to the discontinuance of the quota share program in 2018. Due to the reinsurance program changes, the net unpaid claims as well as the net premium liabilities both increased creating an increase in the capital required. Overall the Company's capital strength position remains very strong year over year.

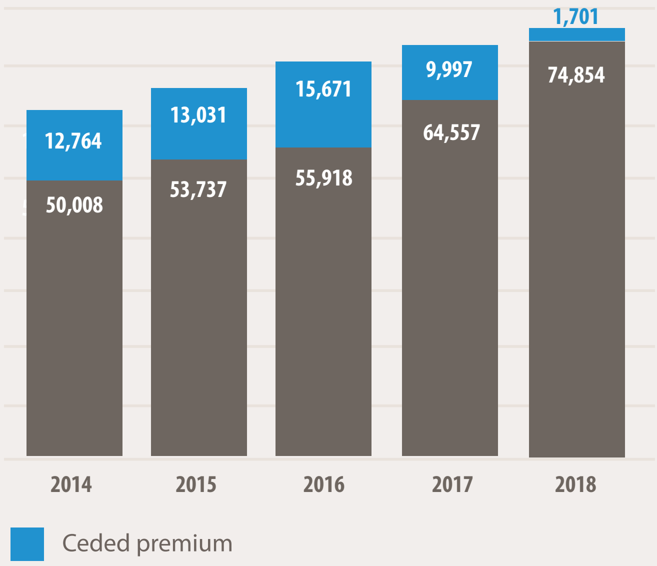
Risk is inherent to the insurance industry. One of the regulatory tools in place to measure and manage this risk is the ORSA (Own Risk and Solvency Assessment). In 2018 SMI completed an extensive independent review of its ORSA framework, and in 2019, will begin to adopt the recommendations to update its processes and reporting. In conjunction with a renewed focus on its enterprise risk management framework, the ORSA work will ensure a risk assessment is integrated throughout the Company, both financial and non-financial risks are identified and monitored, and risk assessments are considered in operational and strategic business decisions.

IFRS 17 is in the forefront for insurance accounting professionals in Canada as this new financial reporting standard fundamentally changes how insurance companies account for insurance contracts. Financial statement structure along with the methodology of calculations, such as revenue recognition and increased note disclosures, are all elements of the new standard. As of November 14, 2018, the International Accounting Standards Board (IASB) tentatively decided to propose a one year deferral to January 1, 2022. To ensure SMI is prepared for this significant change, PWC, a leader in the financial consulting industry, has been engaged to assist with developing an implementation strategy and the adoption of the standard.

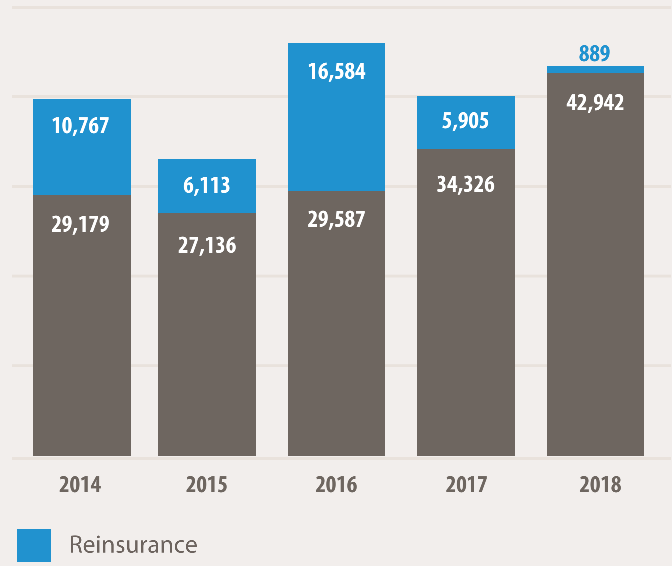
The pace of the industry is not slowing and each year presents new challenges for our staff, brokers, adjusters and Board. I would like to take a moment to thank each member for their dedication and commitment to the success of SMI. In light of the retirement announcement of Laura Wiebe, I would also like to take a moment to thank her for the years of service in the position of President & CEO, and more personally, for her mentorship over the last number of years.



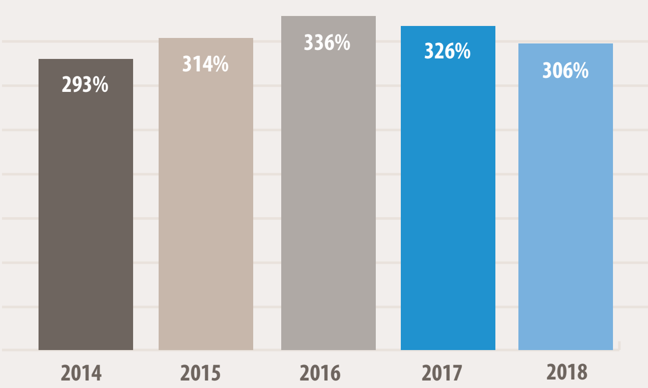
Premiums written *(in thousands)*



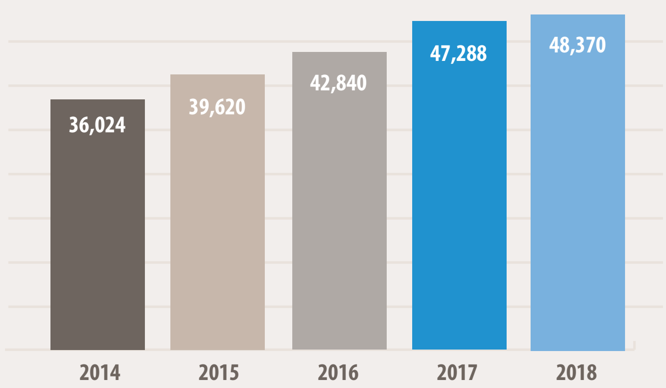
Incurred losses and adjusting expenses *(in thousands)*



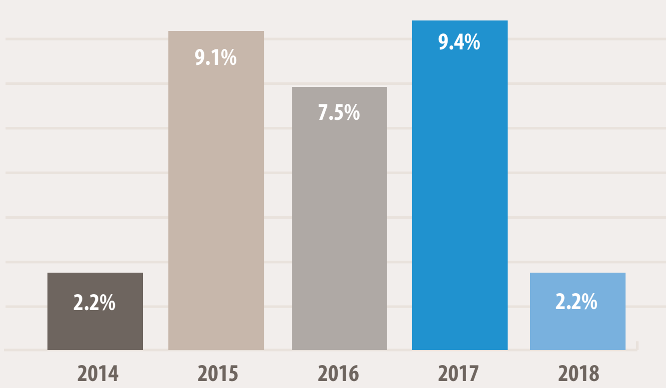
Minimum captital test



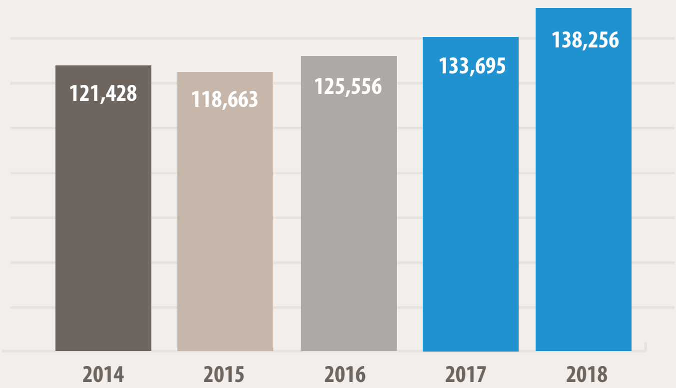
Policyholders' surplus *(in thousands)*



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



Total assets *(in thousands)*



BOARD OF DIRECTORS

D. Roger Arnold

Chair

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

Roger was elected to the SMI Board of Directors on May 1, 2003 and is currently SMI's Board Chair, a role he has held since May 10, 2007. Roger 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.

Phyllis Salisbury

Vice-Chair

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

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

Laura Wiebe

President & CEO

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

G. N. (Arnie) Arnott

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

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

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

Brian Heagy

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

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

Troy Milnthorp

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.

Lorne Timmerman

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

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

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

Marion van Impe

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

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

Catherine Gryba

Catherine owns CRG Strategies, a management consulting business specializing in strategy, communications and government relations. She currently is a board member with Saskatchewan Blue Cross, eHealth Saskatchewan, the Canada Games Foundation and the Institute of Corporate Directors and previously served on the boards of the United Way of Saskatoon and Shakespeare on the Saskatchewan.

In addition to extensive professional development training, she 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.

Board committee membership

Audit & Finance Committee

- Brian Heagy, *Chair*
- Arnie Arnott
- Phyllis Salisbury
- Catherine Gryba
- Marion van Impe

HR & Governance Committee

- Roger Arnold, *Chair*
- Phyllis Salisbury
- Lorne Timmerman
- Marion van Impe
- Troy Milnthorp

Compliance & Risk Committee

- Arnie Arnott, *Chair*
- Brian Heagy
- Catherine Gryba
- Lorne Timmerman
- Troy Milnthorp

COMPANY PROFILE

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Saskatoon, SK S7K 2H8

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Website: www.saskmutual.com

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

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

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

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

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

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

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

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

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

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Phone: (306) 545-2855

Don Cook
David Chapman-Collier
Claims Adjusters

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Phone: (204) 256-2078

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

Calgary office

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Calgary, AB T3G 0B4

Phone: (587) 390-7370

Fawn Mah, *CIP*
Marketing Representative

Auditors

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

Actuary

Carol Desbiens, *FCAS, FCIA*
PricewaterhouseCoopers LLP

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

PROVIDING 100 YEARS
PEACE OF MIND & BEYOND

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 & Finance 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 27, 2019, appearing on the following page, expresses their unqualified opinion on the Company's 2018 financial statements.

Laura Wiebe, CPA, CA, FCIP
President & CEO

Jennifer Woloschuk, CPA, CMA
Vice President, Finance

February 27, 2019

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, 2018
- 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, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (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
February 27, 2019
Saskatoon, Canada

APPOINTED ACTUARY'S REPORT TO THE POLICYHOLDERS

I have valued the policy liabilities of Saskatchewan Mutual Insurance Company for its statement of financial position at 31 December, 2018 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, 2019

Statement of financial position
(in thousands of Canadian dollars)

December 31, 2018, with comparative figures for 2017

	2018	2017
Assets		
Cash and cash equivalents	$ 7,269	$ 3,788
Investments (note 6)	87,553	83,559
Premiums due from policyholders	13,214	12,554
Amounts due from brokers	894	1,010
Other receivables	2,174	1,571
Income tax receivable (note 12)	245	--
Recoverable from reinsurers:		
Unpaid claims and adjusting expenses (note 8)	6,754	8,713
Unearned premiums (note 9)	418	4,095
Deferred policy acquisition costs (note 10)	9,125	8,847
Property, plant and equipment (note 11)	780	894
Net pension benefit asset (note 13)	5,232	3,528
Intangible assets (note 14)	4,598	5,136
	$ 138,256	$ 133,695
Liabilities and Policyholders' Surplus		
Due to other insurance companies	$ 33	$ 784
Premium taxes payable	3,495	3,222
Accounts payable	1,394	1,428
Income taxes payable	--	445
Unearned reinsurance commissions	117	1,445
Unearned premiums (note 9)	38,935	37,695
Unpaid claims and adjusting expenses (note 8)	43,662	39,294
Deferred tax liability (note 12)	1,782	1,552
Other liabilities (note 13)	508	542
	89,886	86,407
Policyholders' surplus:		
Surplus and resources for protection of policyholders	49,713	47,469
Accumulated other comprehensive loss	(1,343)	(181)
	48,370	47,288
	$ 138,256	$ 133,695

See accompanying notes to financial statements.

Approved by the Board:

Director

Director

Statement of comprehensive income

(in thousands of Canadian dollars)

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

	2018	2017
Direct premiums written (note 9)	$ 76,555	$ 74,554
Reinsurance ceded (note 9)	(1,701)	(9,997)
Net premiums written	74,854	64,557
Change in net unearned premium	(4,917)	(2,988)
Net premiums earned (note 9)	69,937	61,569
Service charge revenue	525	502
Net underwriting revenue	70,462	62,071
Gross claims and adjusting expenses (note 8)	43,831	40,231
Reinsurers' share of claims and adjusting expenses (note 8)	(889)	(5,905)
Net claims and adjusting expenses	42,942	34,326
Commissions	14,846	12,422
Premium taxes and licenses	3,445	3,347
General expenses	10,340	9,674
Total insurance related claims and expenses	71,573	59,769
Net underwriting income (loss)	(1,111)	2,302
Investment operations:		
Investment income	2,662	806
Investment expenses	213	207
Net investment income	2,449	599
Earnings before income taxes	1,338	2,901
Income taxes (note 12)	336	736
Net earnings	1,002	2,165
Other comprehensive income (loss)		
Items that may be subsequently reclassified to net income:		
Net gain (loss) arising on revaluation of available-for-sale financial assets during the year	(1,481)	55
Reclassification of adjustments relating to available-for-sale financial assets disposed of in the year	(110)	1,362
Income tax (expense) benefit (note 12)	429	(382)
Items that may be subsequently reclassified to net income	(1,162)	1,035
Items that will not be reclassified subsequently to net income:		
Net actuarial gains on employee future benefits (note 13)	1,701	1,710
Income tax expense (note 12)	(459)	(462)
Items that will not be reclassified subsequently to net income	1,242	1,248
Total other comprehensive income	80	2,283
Comprehensive income	$ 1,082	$ 4,448

See accompanying notes to financial statements.

Statement of changes in policyholders' surplus

(in thousands of Canadian dollars)

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

	Accumulated other comprehensive income (loss)	Surplus and resources for protection of policyholders	Total policyholders' surplus
Balance, January 1, 2017	$ (1,216)	$ 44,056	$ 42,840
Net earnings	--	2,165	2,165
Other comprehensive income	1,035	1,248	2,283
Comprehensive income	1,035	3,413	4,448
Balance, December 31, 2017	$ (181)	$ 47,469	$ 47,288
Net earnings	--	1,002	1,002
Other comprehensive income (loss)	(1,162)	1,242	80
Comprehensive income (loss)	(1,162)	2,244	1,082
Balance, December 31, 2018	$ (1,343)	$ 49,713	$ 48,370

Accumulated other comprehensive income is comprised solely of unrealized gains (losses) on available for sale securities, net of tax recovery of $497,000 (2017 - $68,000 recovery).

Statement of cash flows

(in thousands of Canadian dollars)

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

	2018	2017
Cash flows from operating activities:		
Net earnings	$ 1,002	$ 2,165
Items not affecting cash:		
Income taxes	336	736
Depreciation of property, plant and equipment	231	217
Amortization of intangible assets	775	752
Losses (gains) realized on investments	(366)	1,070
Income taxes received (paid)	(826)	52
Change in non-cash balances related to operations:		
Unearned premiums	1,240	1,468
Unpaid claims and adjusting expenses	4,328	332
Unearned reinsurance commissions	(1,328)	(559)
Reinsurers' share of unearned premiums	3,677	1,520
Reinsurers' share of unpaid claims and adjusting expenses	1,959	5,274
Deferred policy acquisition costs	(278)	(333)
Employee future benefits	(37)	(953)
Receivables	(1,147)	(1,421)
Payables	(512)	831
	9,054	11,151
Cash flows from investment activities:		
Purchase of investments	(10,980)	(85,628)
Proceeds from sale of investments	5,761	76,788
Purchase of intangible assets	(237)	(271)
Purchase of property, plant and equipment	(117)	(92)
	(5,573)	(9,203)
Increase in cash and cash equivalents	3,481	1,948
Cash and cash equivalents, beginning of year	3,788	1,840
Cash and cash equivalents, end of year	$ 7,269	$ 3,788
Cash and cash equivalents are comprised of:		
Cash in bank less outstanding cheques	$ 7,269	$ 2,290
Short-term investments	--	1,498
	$ 7,269	$ 3,788

See accompanying notes to financial statements.

1. Company information:

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

These financial statements have been presented by management to the Audit & Finance Committee. Management and the Audit & Finance Committee report to the Board of Directors, which approved the financial statements on February 27, 2019. The financial statements will be presented for approval by the policyholders at the Annual General Meeting which will take place on May 30, 2019.

2. Basis of presentation:

a. Statement of compliance

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

b. Basis of measurement

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

c. Use of estimates and judgments

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

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

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

d. Functional and presentation currency

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

3. Significant accounting policies:

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

3. Significant accounting policies (continued):

a. Financial assets:

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

i. Classification

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

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

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

ii. Recognition and measurement

Financial assets are initially recognized at fair value.

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

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

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

iii. Determination of fair value

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

iv. Impairment of financial assets

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

3. Significant accounting policies (continued):

b. Property, plant and equipment:

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

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

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

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

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

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

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

c. Intangible assets:

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

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

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

3. Significant accounting policies (continued):

d. Insurance contracts:

i. Recognition and measurement

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

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

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

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

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

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

These provisions are adjusted up or down as additional information affecting the estimated amounts becomes known during the course of claims settlement. All changes in estimates are recorded as incurred losses in the current period.

ii. Deferred policy acquisition costs

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

3. Significant accounting policies (continued):

iii. Liability adequacy test

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

iv. Reinsurance

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

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

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

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

v. Salvage and subrogation reimbursements

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

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

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

e. Income taxes:

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

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

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

3. Significant accounting policies (continued):

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

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

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

f. Employee benefits:

i. Pension obligations

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

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

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

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

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

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

ii. Other post-employment obligations

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

3. Significant accounting policies (continued):

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

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

g. Statement of financial position classification:

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

4. New accounting standards:

In 2018, the Company did not early adopt any new, revised or amended standards.

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

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

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

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

  IFRS 17 fundamentally changes how entities account for insurance contracts, introducing a default "building block approach", which disaggregates the cash flows in an insurance contract and provides a different measurement basis for each component, and a simplified "premium allocation approach" for certain short-term contracts. The premium allocation approach will be applicable to most property and casualty insurance contracts. Assumptions used in measuring insurance assets and liabilities such as cash flows, discount rates and risk adjustment will be updated at each reporting period. The discount rate will reflect the characteristics of the insurance liabilities and the estimated future cash flows to settle claims incurred will be discounted unless the period of time between claim occurrence and settlement is less than one year. Presentation changes include 'insurance revenue' replacing the current reporting of 'written premiums' and 'earned premiums' and insurance contract assets and liabilities

4. **New accounting standards** (continued):

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 effective date for IFRS 17 is January 1, 2021 with mandatory restatement of comparative periods. As of November 14, 2018, the IASB tentatively decided to propose a one year deferral to January 1, 2022. The Company has not yet determined the impact of adoption, however it is expected to significantly impact the overall financial statements.

- IFRS 16, *Leases*. In January 2016, the IASB issued IFRS 16 which replaces IAS 17, *Leases*. IFRS 16 requires lessees to recognize most leases on their balance sheets as right-of-use-assets (representing the right to use the underlying assets), with the corresponding lease liabilities (representing the obligation to make lease payments). Generally, the recognition pattern for capitalized leases will be similar to today's finance lease accounting, with interest and depreciation expense recognized in finance costs and other expenses respectively on the Statement of Comprehensive Income.

  IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company does not have any material lease contracts or transactions, as a result, no material impacts are expected on the Company's financial position or performance as a result of the adoption of IFRS 16.

5. Role of the actuary and auditor:

The actuary is appointed by the Board of Directors pursuant to the *Insurance Companies Act*. The actuary's responsibility is to carry out an annual valuation of the Company's policy liabilities, which consist of a provision for, and reinsurance recovery of, unpaid claims and adjusting expenses on insurance policies in force and of future obligations on the unearned portion of insurance policies in force, including deferred policy acquisition costs. The valuation is made in accordance with accepted actuarial practice and regulatory requirements and reported thereon to the policyholders. In performing the valuation of the liabilities, which are by their very nature inherently variable, assumptions are made as to the future loss ratios, trends, rates of claims frequency and severity, inflation, reinsurance recoveries, investment rates of return, and both internal and external adjusting expenses, taking into consideration the circumstances of the Company and the nature of the insurance policies in force. The provisions do not include estimates for extraordinary future emergence of either new classes of claims or claims categories not sufficiently recognized in the claims database. The actual development of claims and adjusting expenses will vary from the valuation and may, in fact, vary materially. Examination of supporting data for accuracy and completeness, and analysis of Company assets for their ability to support the amount of policy liabilities are important elements of the work required to form this opinion. The actuary, in this verification of the underlying data used in the valuation, also makes use of the work of the external auditor. The actuary's report outlines the scope of his work and opinion.

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

(in thousands of Canadian dollars)

6. Investments:

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

	2018		2017	
	Market value	Unrealized gain/(loss)	Market value	Unrealized gain/(loss)
Short-term fixed income	$ 53,149	$ (1,051)	$ 49,849	$ (189)
Universe fixed income	24,926	(550)	24,106	(830)
	78,075	(1,601)	73,955	(1,019)
Equities:				
Canadian	4,742	(465)	4,934	77
Global	4,736	226	4,670	693
	9,478	(239)	9,604	770
	$ 87,553	$ (1,840)	$ 83,559	$ (249)

No impairment losses were recognized in 2018 or 2017.

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

	2018	2017
Bonds issued by:		
Federal	36.3%	44.9%
Provincial	15.6%	15.9%
Corporate		
A rated or higher	29.3%	23.2%
BBB rated or lower	10.7%	8.1%
Short-term investments (A rated or higher)	3.2%	1.7%
Mortgages		
Federal	0.3%	0.4%
Other	4.6%	5.8%
Total	100.0%	100.0%

Liquidity and interest rate risk:

	Effective yield	Duration
Short-term fixed income pooled fund	2.5%	2.6 years
Universe fixed income pooled fund	2.8%	7.4 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 that is based on significant observable inputs or inputs that are derived principally for or corroborated with observable market data through correlation or other means.

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

At December 31, 2018 and December 31, 2017 all of the Company's investments were categorized as level 2 investments.

7. Insurance risk:

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

Insurance risk is composed of underwriting, product pricing, claims, catastrophe, and reinsurance risk. The majority of the underwriting risk that the Company is exposed to is of a short-tail nature as the average duration of unpaid claims and adjusting expense liabilities is 1.5 years as at December 31, 2018 (1.7 years at December 31, 2017). 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 that products may be inappropriately priced due to actual experience not matching the assumptions made at the time pricing is determined. The Company's underwriting objective is to market products within a target market to achieve profitable underwriting results. Products are priced taking into account numerous factors including claims frequency and severity trends and expense ratios. Market share will decrease if an appropriate price cannot be obtained. Product pricing risk is mitigated by regular underwriting reviews of product rate adequacy.

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

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

7. Insurance risk (continued):

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 (2017 - $630,000 (net of quota share)) in the event of a single loss. The quota share contract in place from 2014 – 2017 was determined to no longer be required, and accordingly, was not renewed in 2018.

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 (2017 - $100,000). These are an inherent risk of property and casualty insurance and contribute to material year-to-year fluctuations in the Company's results of operations and financial condition when they occur. The level of catastrophe loss experienced in any year cannot be predicted and could be material to the results of operations and financial position. The Company has catastrophe reinsurance that has an upper limit of $60 million (2017 - $50 million) and which limits the Company's liability to $1.5 million (2017 - $1.35 million (net of quota share)) 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 that protected the Company against an accumulation of smaller catastrophe losses in the year. Catastrophe losses exceeding $250,000 (2017 - $250,000) contribute towards the aggregate retention limit from the first dollar, subject to a maximum amount contributed from any one loss occurrence of $1.5 million. The limit is $2 million in excess of $5 million (2017 - $2 million in 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 2018 amounted to $5,697,000 (2017 - $4,142,000).

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 that are considered include the Company's experience with similar cases and historical trends involving claims payment patterns, loss payments, pending levels of unpaid claims, product mix or concentration, claims severity and claim frequency patterns, such as those caused by natural disasters or accidents.

Other factors include the continually evolving and changing regulatory and legal environment, actuarial studies, professional experience and expertise of the Company's claim department's personnel and independent adjusters retained to handle individual claims, the quality of data used for projection purposes, existing claims management practices, including claims handling are a critical part of the provision determination, since the longer the span between the incidence of loss and the payment or settlement of the claims, the more variable the ultimate settlement can be. Accordingly, short-tailed claims, such as property claims, tend to be more reasonably predictable than long-tailed claims, such as general liability claims.

Consequently, the establishment of the provision for unpaid claims and adjusting expenses process relies on the judgment and opinions of a large number of individuals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The provision for unpaid claims and adjusting expenses and related reinsurers' share involves risk that actual amounts could vary materially from estimates in the near term.

(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, 2018			
Balance, beginning of year	$ 39,294	$ 8,713	$ 30,581
Current year claims	48,948	1,858	47,090
Prior year development - (favorable)/unfavorable	(5,117)	(969)	(4,148)
Total claims incurred	43,831	889	42,942
Claims paid	39,503	2,848	36,655
Balance, end of year	$ 43,622	$ 6,754	$ 36,868
December 31, 2017			
Balance, beginning of year	$ 38,962	$ 13,987	$ 24,975
Current year claims	44,644	7,383	37,262
Prior year development – (favorable)/unfavorable	(4,413)	(1,478)	(2,936)
Total claims incurred	40,231	5,905	34,326
Claims paid	39,899	11,179	28,720
Balance, end of year	$ 39,294	$ 8,713	$ 30,581

(in thousands of Canadian dollars)

8. Unpaid claims and adjusting expenses (continued):

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

	Direct unpaid claims and adjusting expenses	Reinsurers' share of unpaid claims and adjusting expenses	Net unpaid claims and adjusting expenses
December 31, 2018			
Long settlement term:			
Automobile (excluding physical damage)	$ 6,696	$ 2,612	$ 4,084
General liability	9,006	1,269	7,737
Short settlement term	27,920	2,873	25,047
Balance, end of year	$ 43,622	$ 6,754	$ 36,868
December 31, 2017			
Long settlement term:			
Automobile (excluding physical damage)	$ 6,148	$ 2,654	$ 3,494
General liability	9,659	1,587	8,072
Short settlement term	23,487	4,472	19,015
Balance, end of year	$ 39,294	$ 8,713	$ 30,581

Claim development:

The tables that follow present the development of claim payments and the estimated ultimate cost of claims for the claim years 2009 to 2018. The upper half of the table shows the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased, as more information becomes known about the original claims and overall claim frequency and severity.

(in thousands of Canadian dollars)

8. Unpaid claims and adjusting expenses (continued):

Gross claim development	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Gross ultimate loss											
At end of accident year	$ 19,918	$ 30,029	$ 32,002	$ 32,428	$ 42,548	$ 43,460	$ 38,467	$ 48,192	$ 43,543	$ 47,750	
One year later	19,789	29,434	30,975	32,864	41,443	41,194	37,715	46,060	41,656		
Two years later	19,090	38,881	30,166	31,176	39,624	40,183	37,052	45,142			
Three years later	18,400	28,462	29,848	30,500	38,915	40,233	36,298				
Four years later	18,223	27,956	29,752	30,119	38,771	40,134					
Five years later	18,093	27,661	29,617	29,976	38,685						
Six years later	17,991	28,439	29,547	29,943							
Seven years later	18,139	28,468	29,466								
Eight years later	18,165	28.480									
Nine years later	18,076										
Current estimate of gross ultimate loss	$ 18,076	$ 28,480	$ 29,466	$ 29,943	$ 38,685	$ 40,134	$ 36,298	$ 45,142	$ 41,656	$ 47,750	$ 355,630
Cumulative paid	17,354	27,598	29,330	29,479	37,568	39,063	35,164	43,074	32,642	23,386	314,658
Gross provision for unpaid claims for the ten most recent accident years	722	882	136	464	1,117	1,071	1,134	2,068	9,014	24,364	40,972
Net undiscounted claims outstanding for accident year 2008 and prior											541
Loss adjusting expense reserve											898
Provision for adverse deviation and discounting											1,211
Gross provision for unpaid claims											$ 43,622

(in thousands of Canadian dollars)

8. Unpaid claims and adjusting expenses (continued):

Net claim development	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Net ultimate loss											
At end of accident year	$ 19,751	$ 26,975	$ 27,933	$ 29,432	$ 38,070	$ 32,175	$ 31,269	$ 31,419	$ 36,190	$ 45,919	
One year later	19,684	25,613	26,969	29,613	37,995	30,674	30,626	30,388	34,859		
Two years later	19,017	25,157	25,813	28,082	36,711	30,112	30,126	29,793			
Three years later	18,325	24,739	24,922	27,409	36,036	30,198	29,459				
Four years later	18,155	24,283	24,760	27,061	35,988	30,121					
Five years later	18,043	24,042	24,544	26,964	35,908						
Six years later	17,972	24,533	24,470	26,935							
Seven years later	18,126	24,507	24,384								
Eight years later	18,143	24,509									
Nine years later	18,062										
Current estimate of net ultimate loss	$ 18,062	$ 24,509	$ 24,384	$ 26,935	$ 35,908	$ 30,121	$ 29,459	$ 29,793	$ 34,859	$ 45,919	$ 299,949
Cumulative paid	17,345	23,993	24,279	26,487	34,809	29,227	28,743	28,500	29,112	23,098	265,593
Net provision for unpaid claims for the ten most recent accident years	717	516	105	448	1,099	894	716	1,293	5,747	22,821	34,356
Net undiscounted claims outstanding for accident year 2008 and prior											469
Loss adjusting expense reserve											886
Provision for adverse deviation and discounting											1,157
Net provision for unpaid claims											$ 36,868

Discounting of the provision for unpaid claims and adjusting expenses:

The provision for unpaid claims and adjusting expenses is discounted using a discount rate of 2.34% (2017 – 2.19%).

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, 2018				
Gross provision	$ 42,411	$ (1,670)	$ 2,881	$ 43,622
Reinsurance ceded	6,699	(471)	526	6,754
Net provision	$ 35,712	$ (1,199)	$ 2,355	$ 36,868

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

The impact on net unpaid claims at the statement of financial position date could be an increase of up to $555,000 if the discount rate were to decrease by 100 basis points (1%).

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, 2018			
Balance, beginning of year	$ 37,695	$ 4,095	$ 33,600
Premium written	76,555	1,701	74,854
Premium earned	(75,315)	(5,378)	(69,937)
Balance, end of year	$ 38,935	$ 418	$ 38,517
December 31, 2017			
Balance, beginning of year	$ 36,227	$ 5,615	$ 30,612
Premium written	74,554	9,997	64,557
Premium earned	(73,086)	(11,517)	(61,569)
Balance, end of year	$ 37,695	$ 4,095	$ 33,600

(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, 2018			
Long settlement term:			
Automobile (excluding physical damage)	$ 1,431	$ -	$ 1,431
General liability	3,261	-	3,261
Short settlement term	34,243	418	33,825
Balance, end of year	$ 38,935	$ 418	$ 38,517
December 31, 2017			
Long settlement term:			
Automobile (excluding physical damage)	$ 1,324	$ 132	$ 1,192
General liability	3,118	312	2,806
Short settlement term	33,253	3,651	29,602
Balance, end of year	$ 37,695	$ 4,095	$ 33,600

10. Deferred policy acquisition costs:

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

	2018	2017
Balance, January 1	$ 8,847	$ 8,514
Acquisition costs deferred	19,164	18,744
Amortization of deferred costs	(18,886)	(18,411)
Balance, December 31	$ 9,125	$ 8,847

(in thousands of Canadian dollars)

11. Property, plant and equipment:

	Cost	Accumulated depreciation	Net book value
December 31, 2018			
Land	$ 129	$ –	$ 129
Buildings and building components	1,277	821	456
Furniture and equipment	651	552	99
Computer hardware	1,235	1,139	96
	$ 3,292	$ 2,512	$ 780
December 31, 2017			
Land	$ 129	$ –	$ 129
Buildings and building components	1,277	788	489
Furniture and equipment	648	527	121
Computer hardware	1,320	1,165	155
	$ 3,374	$ 2,480	$ 894

Depreciation charged to general expenses amounted to $231,000 (2017 - $217,000).

(in thousands of Canadian dollars)

12. Income taxes:

Income tax expense, including both the current and deferred portions, varies from the amounts that would be computed by applying the statutory federal and provincial tax rates aggregating 26.85% (2017 – 26.84%) to earnings before taxes. A reconciliation is summarized in the following table:

	2018	2017
Tax at basic rates	$ 359	$ 779
Increase (decrease) in taxes resulting from:		
Permanent differences	(23)	(45)
Change in deferred statutory rates	-	2
Income tax expense	$ 336	$ 736
Effective rate	25.2%	25.4%

Income tax expense is comprised of:

	2018	2017
Current tax expense	$ 136	$ 445
Deferred tax expense	200	291
	$ 336	$ 736
Income tax recorded in other comprehensive income		
Net changes in unrealized gains (losses)	$ (400)	$ 14
Reclassification to income of net gains (losses)	(29)	368
Net actuarial gains on employee future benefits	459	462
Total income tax expense recorded in other comprehensive income	$ 30	$ 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:

	2018	2017
Deferred tax assets:		
Property, plant and equipment	$ 51	$ 37
Unpaid claims and adjusting expenses	498	413
Intangible assets	137	148
	686	598
Deferred tax liabilities:		
Investments	-	(7)
Employee future benefits	(1,275)	(806)
Intangible assets	(1,193)	(1,337)
	(2,468)	(2,150)
Net deferred tax liability	$ (1,782)	$ (1,552)

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

	2018	2017
Balance, January 1	$ (445)	$ 52
Amounts recorded in net earnings	(136)	(445)
Payments (refunds) during the period	826	(52)
Balance, December 31	$ 245	$ (445)

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

	2018	2017
Balance, January 1	$ (1,552)	$ (417)
Amounts recorded in net earnings	(200)	(291)
Amount recorded in other comprehensive income	(30)	(844)
Balance, December 31	$ (1,782)	$ (1,552)

(in thousands of Canadian dollars)

13. Employee future benefits:

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

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

The defined benefit pension provisions define an amount of pension benefit that a member will receive on retirement, dependent upon age, years of pensionable service and final average pensionable earnings. As at the date of the latest actuarial valuation, the breakdown of the defined benefit obligation is 66% in respect of active members and 34% in respect of pensioners, beneficiaries and deferred members.

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

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

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plan for funding purposes was as of December 31, 2017, and the next required valuation would be as of December 31, 2020.

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

	2018	2017
Accrued benefit obligation		
Balance, January 1	$ 30,579	$ 30,003
Interest cost on benefit obligation	996	1,137
Benefit payments	(2,588)	(1,685)
Re-measurement recognized in other comprehensive income arising from actuarial (gain) loss from changes in:		
financial assumptions	(3,749)	2,593
experience (gain) loss	455	(1,469)
Balance, December 31	$ 25,693	$ 30,579

(in thousands of Canadian dollars)

13. Employee future benefits (continued):

	2018	2017
Fair value of plan assets		
Balance, January 1	$ 34,107	$ 30,829
Interest income on plan assets	1,112	1,184
Re-measurement recognized in other comprehensive income - return on plan assets	(1,644)	2,860
Employer contributions	-	982
Benefits paid	(2,588)	(1,685)
Other	(62)	(63)
Balance, December 31	$ 30,925	$ 34,107

The actual return on pension plan assets for the year ended December 31, 2018 was a loss of $532,000 (2017 - gain of $4,044,000).

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

	2018	2017
Accrued benefit obligation	$ (25,693)	$ (30,579)
Fair value of plan assets	30,925	34,107
Net pension benefit asset	$ 5,232	$ 3,528

The Company has determined that, in accordance with the terms and conditions of the pension plan and in accordance with statutory requirements, including minimum funding requirements for the defined benefit pension provisions, the present value of reductions in future contributions is higher than the balance of the total fair value of the defined benefit provision plan assets less the total present value of the defined benefit pension obligations. As such, no decrease in the defined benefit asset was necessary at December 31, 2018.

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, 2017, both a solvency excess and going concern surplus existed, and accordingly, no payments are required in 2019.

At December 31, 2018, the weighted-average duration of the defined benefit pension obligation was 17.3 years (2017 – 18.9 years).

(in thousands of Canadian dollars)

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

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

	2018	2017
Actuarial assumptions:		
Discount rate	**4.0%**	**3.4%**
Rate on general salary increase	**3.25%**	**3.25%**
Inflation	**2.00%**	**2.25%**
Mortality	2014 Canadian Pensioner Mortality Table (Private sector) unadjusted	2014 Canadian Pensioner Mortality Table (Private sector) unadjusted
Average remaining service life of employees (in years)	**12.8**	**13.1**

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 2018 as the adjusted solvency ratio exceeded 95%. The ultimate target allocation is 85% fixed income and 15% equities.

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

	2018	2017
Fixed income	**75.8%**	**65.3%**
Canadian equities	**11.9%**	**17.3%**
Global equities	**12.3%**	**17.4%**
	100.0%	**100.0%**

(in thousands of Canadian dollars)

13. Employee future benefits (continued):

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

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

Assumptions which may vary significantly include:

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

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

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

	Increase	Decrease
Discount rate (1% movement)	$ (3,810)	$ 4,933
Inflation rate (1% movement)	3,646	(3,009)
Salary (1% movement)	757	(676)
Mortality (each member lives 1 year longer)	627	

The other non-pension future benefits are unfunded with an obligation of $508,000 (2017 - $542,000) and have been actuarially determined using the following assumptions:

	2018	2017
Discount rate	3.7% - 3.9%	3.3% - 3.4%
Rate of general salary increase	3.25%	3.25%
Inflation	2.0%	2.25%
Average remaining service life of employees (in years)	15.5 – 16.2	15.5 – 16.2

(in thousands of Canadian dollars)

13. Employee future benefits (continued):

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

	Defined benefit pension provisions		Other benefit plans	
	2018	2017	2018	2017
Cost of benefits earned in the year	$ –	$ –	$ 33	$ 31
Interest cost on benefit in the year	(116)	(47)	18	18
Other	62	63	–	–
Total benefit expense recognized in the general expenses	$ (54)	$ 16	$ 51	$ 49

Contributions under the defined contribution provisions charged to general expenses amounted to $303,000 (2017 - $289,000).

	Defined benefit pension provisions		Other benefit plans	
	2018	2017	2018	2017
Balance, January 1	$ (3,446)	$ (5,182)	$ (129)	$ (103)
Re-measurements related to:				
Actuarial gain (loss) from changes in:				
financial assumptions	3,749	(2,593)	51	(26)
experience gain (loss)	(455)	1,469	–	–
Return on plan assets	(1,644)	2,860	–	–
Net actuarial gains recognized in other comprehensive income (loss)	$ 1,650	$ 1,736	$ 51	$ (26)
Balance, December 31	$ (1,796)	$ (3,446)	$ 78	$ (129)

(in thousands of Canadian dollars)

14. Intangible assets:

	Cost	Accumulated amortization	Net book value
December 31, 2018			
Computer software	$ 7,595	$ 2,997	$ 4,598
December 31, 2017			
Computer software	$ 7,358	$ 2,222	$ 5,136

Amortization charged to general expenses amounted to $775,000 (2017 - $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 230% (2017 – 230%) which under normal circumstances the Company will operate in excess of. The MCT for the Company as of December 31, 2018 was 306% (2017 – 326%).

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, 2018 was 1.6 (2017 – 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 that the Company is exposed to and taking measures to manage these risks within acceptable tolerances. Material risks are managed through a combination of board policy, management monitoring and other management practices.

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

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

Market risk:

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

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

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

The Company's investment policy establishes a minimum of 70% fixed income in the investment portfolio and recommends a target of 90% (2017 - 90%).

At December 31, 2018, a 1% move in interest rates, with all other variables held constant, could impact the market value of the bond portfolio by $3,217,000 (2017 - $3,121,000). For securities that the Company did not sell during the period, the change in market value would be recognized in the asset value and in other comprehensive income (loss).

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

The Company's investment portfolio includes Canadian pooled fund units with fair values that move with the Toronto Stock Exchange Composite Index and global pooled fund units that move with MSCI World Net Indices. A 10% movement in the stock markets with all other variables held constant would have an estimated affect on the fair values of the Company's equity pooled funds of $948,000 (2017 – $960,000). For securities that the Company did not sell during the period, the change would be recognized in the asset value and in other comprehensive income.

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% (2017 – 10%).

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

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

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

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

Credit risk:

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

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The fixed income investments remain high quality with only 10.7% (2017 – 8.1%) 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 2018 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 2018 or 2017.

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

Liquidity risk:

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

Claim payments are funded by current operating cash flow including investment income which normally exceeds cash requirements. At December 31, 2018 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, 2018 was $1,670,000 (2017 - $1,468,000).

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 clients and employees of the Company.

The Company's transactions with post-employment plans comprise the contributions paid to the pension plan for all employees, which represent for the year ended December 31, 2018 $303,000 (2017 – $1,272,000), of which $83,000 (2017 – $246,000) 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, 2018 (2017 – nil).

2018

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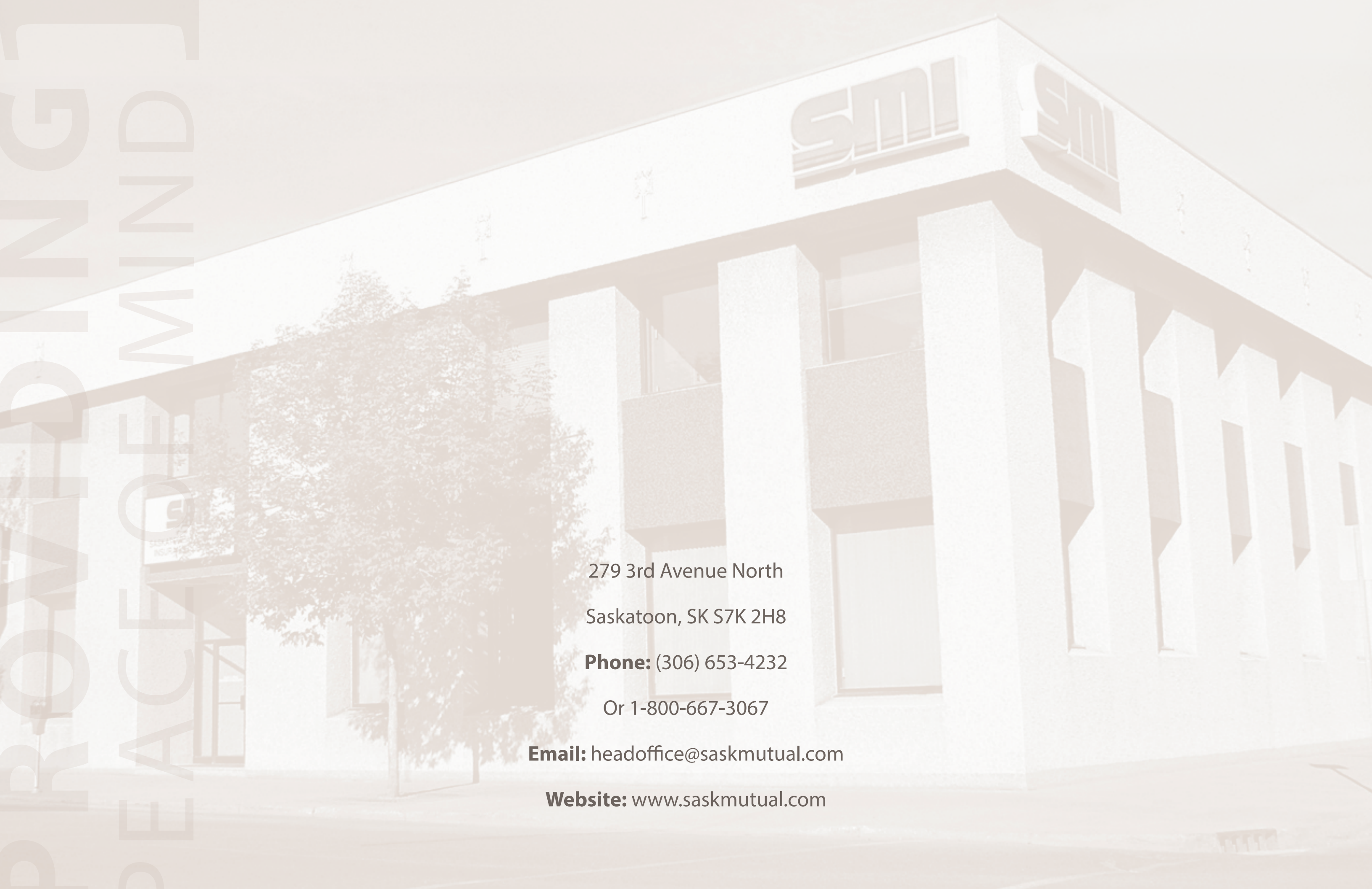

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