2019
ANNUAL REPORT

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

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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.

2019 OVERVIEW

We are currently faced with an unprecedented worldwide event, the COVID-19 (novel coronavirus) pandemic. This is challenging not only how we do business but our everyday life. Property & Casualty Insurance is much more than the purchase and/or renewal of a policy. More than ever, it represents "peace of mind" and the key to the safety and security of our loved ones and those around us. At SMI we have taken steps to work remotely where possible so we can continue servicing the needs of our policyholders during this time. Fortunately, SMI ended 2019 with a strong capital position and is well established to withstand this current situation.

Due to a mild 2019 storm season, overall lower claims activity and a rebounding investment market, SMI's financial results for 2019 included a net loss ratio of 52%, comprehensive income of $7.8 million, and an MCT of 328%.

Direct premium written increased to $83 million as the result of hardening commercial markets and industry rate increases in the habitational line of business. While overall growth was 9%, there was significant growth in Alberta commercial lines where direct premium written increased 24%. At the end of the year, Saskatchewan represented 61% of the direct premium written, Alberta 26% and Manitoba 13%.

It was a much quieter year in 2019 for storm activity across the Prairies in both frequency and severity. SMI defines catastrophe events as an event with claims exceeding $100,000. In 2019 there were 10 such events with 223 claims for a total incurred of $2.9 million. None of the events exceeded the $1.5 million retention of our reinsurance program and thus, no recoveries through reinsurance were recorded. In comparison, while there were also 10 events in 2018, there were 475 claims and an incurred of $6.7 million ($5.7 million net of reinsurance). In addition, fewer large per risk losses (those exceeding $100,000) occurred in 2019. In 2019, there were 41 losses with a total incurred of $10.8 million compared to 59 losses in 2018 with an incurred of $14.7 million. The result was that on a gross basis, SMI's 2019 loss ratio was 47% compared to 59% in 2018 and the net loss ratio was 52% compared to 61% in 2018.

As the market demands more digital services and technological efficiencies, there is an overall expectation of more investment in technology as well as increasing general expenses in areas of professional services and electronic data processing. Also, the anticipated transition to IFRS 17 and the executive searches performed in 2019 resulted in higher expenses for the company, increasing the expense ratio to 42%. Although the expenses increased, premium growth combined with decreased claims activity resulted in a combined ratio of 94%.

Financial market conditions recovered from 2018 and, in 2019, fixed income yields in the marketplace decreased resulting in unrealized gains on the fixed income investments of $1.3 million. The equity investments also rebounded and strengthened which resulted in unrealized gains on those investments of $1.9 million.

Employee future benefits experienced a small actuarial gain of $19,000, combined with the unrealized gains on the investment portfolio and a realized gain of $133,000, there was after tax other comprehensive income of $2.3 million.

When combined with other comprehensive income, the bottom line comprehensive income for 2019 was $7.8 million representing a return on equity (comprehensive income over total surplus) of 10.5% compared to 2.1% in the prior year.

The minimum capital test (MCT) is a regulatory calculation of capital available over capital required that assesses the capital strength of an insurer. The Office of the Superintendent of Financial Institutions has set a minimum MCT of 150%, while the Company has established a minimum internal target of 245%. In 2019, the Company's MCT rose from 306% in 2018 to 328%. We are also pleased to report AM Best affirmed on April 12, 2019, the Company's A- (Excellent) financial strength rating with a stable outlook. (Further information on the Company's rating can be found at www.ambest.com).

Risk is a topic of great interest, and during 2019, the board and management of SMI focused on some key areas of the Own Risk Solvency Assessment and Enterprise Risk Management frameworks. One of the first steps in reinforcing these frameworks is ensuring there is a corporate wide understanding of risk, where the risks are well defined, understood and used consistently across the organization.

It is imperative to identify top risks to the organization, create systems to monitor these risks and develop strategic plans to mitigate the risks.

An update to our rating model for the Habitational line of business began in 2019 and is scheduled to be implemented in 2020. SMI is moving to a more individualized rating of habitational property policies, taking into account the many different characteristics of each property. Enhancements to credit score discounts will also be implemented in 2020.

As noted, 2019 was a less active year in regard to weather events resulting in profit for both SMI and our broker force. 103 brokers earned contingent profit and the Platinum Brokers (those with direct written premium greater than $1 million) continued to grow in both premium and number. In addition, several other brokers that have supported SMI for several years are close to achieving the Platinum status. We extend our sincere appreciation to all our brokers for their continued support each and every year. Their partnership with SMI has resulted in long term success since 1908.

SMI's philosophy of giving back to the communities that we do business in allowed the Company to gift $74,000 in donations and sponsorships. The largest donation was given to STARS (Shock Trauma Air Rescue Service Foundation) to support their efforts to provide emergency services that are accessible by all residents, whether rural or urban. The donation was split between the STARS chapters located in Manitoba, Saskatchewan, and Alberta. SMI partnered with several other very worthwhile causes and organizations throughout the Prairies benefiting communities in several different ways.

2019 was a busy year developing technological services for the brokers to improve ease of doing business with SMI. Broker connectivity, allowing online access to policyholder information and straight through processing, are significant milestones being focused on to reduce the amount of time spent on administrative details resulting in improved customer service. A new website was launched providing easily accessible and useful information for brokers and consumers. SMI remains committed to providing new and innovative services continuing to enhance our relationship with the brokers and policyholders.

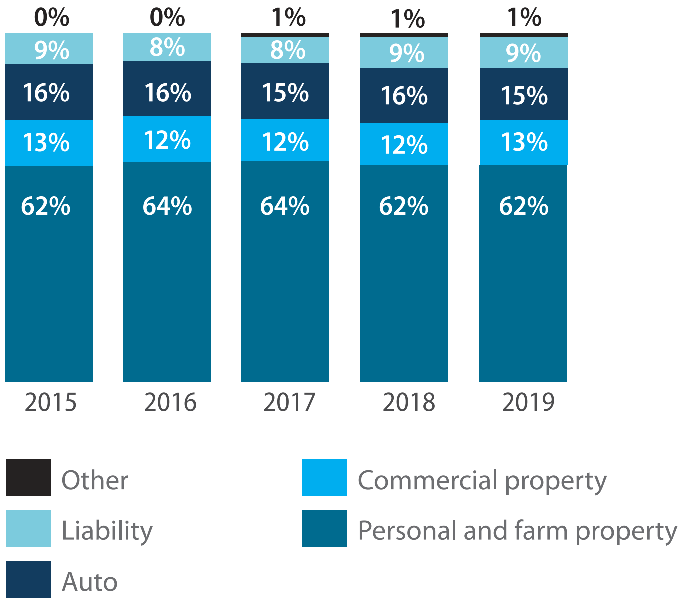
Understanding the need to further develop and formalize our cybersecurity program, preliminary investigation and research into the development of a cybersecurity framework was undertaken in 2019. A strategy was developed and enhancements were made in key areas. Further work on this project will be completed in 2020. Other key initiatives were the implementation of additional network and security measures to help enhance our overall risk profile along with the continued support and enhancement of our enterprise insurance system, in particular, the implementation of credit scoring.

As you can see, 2019 was a busy year for SMI. In addition to the increased business and progress on significant projects, there have been management changes and we welcomed eleven new team members. Two of the significant changes in 2019 included saying goodbye to Laura Wiebe who retired after holding the position of President & CEO for eleven years and Phyllis Salisbury who was a director on the SMI board for fifteen years. Both individuals provided invaluable insight and guidance over the years and we wish them well in their future endeavors. In 2019, we welcomed Susan Milburn to our Board of Directors. Susan's business knowledge and experience are both relevant and beneficial to the composition of our Board, which ensures meaningful and knowledgeable oversight for our management team. To round out our management team, I am happy to announce the recent appointment of Rob Jones, Senior Vice President of Operations as well as Stewart Reinfelds, Associate Vice President of Business Intelligence. We are excited to add their knowledge and experience to our team.

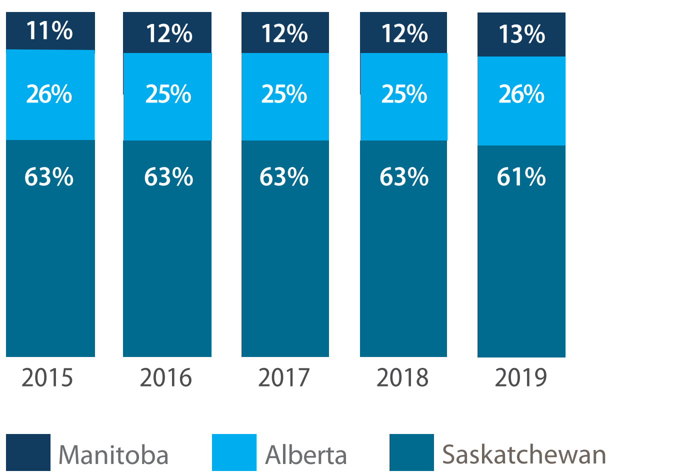
SMI's success would not be possible without the commitment, dedication and hard work of all SMI's staff, Board of Directors and senior management team. We express, as well, our appreciation to our brokers, independent adjusters and other key stakeholders who continue to support SMI. As a strong, Prairie-based, mutual insurer we remain committed to providing peace of mind and exceptional service to our policyholders into the future!

Please note, due to the COVID-19 pandemic, SMI's AGM originally scheduled for May 28, 2020 has been rescheduled to June 25, 2020.

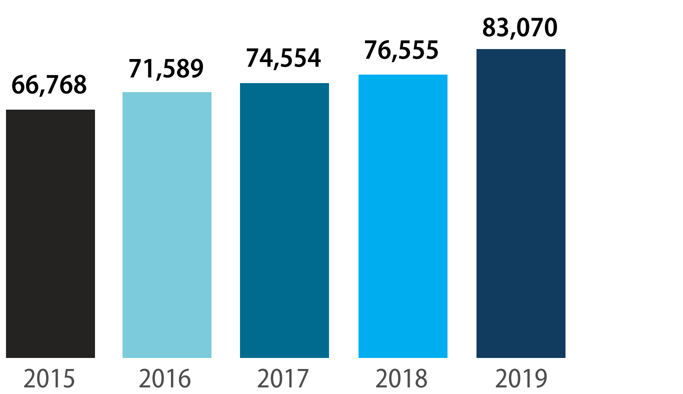
Direct premiums written by class of business



Direct premiums written by province

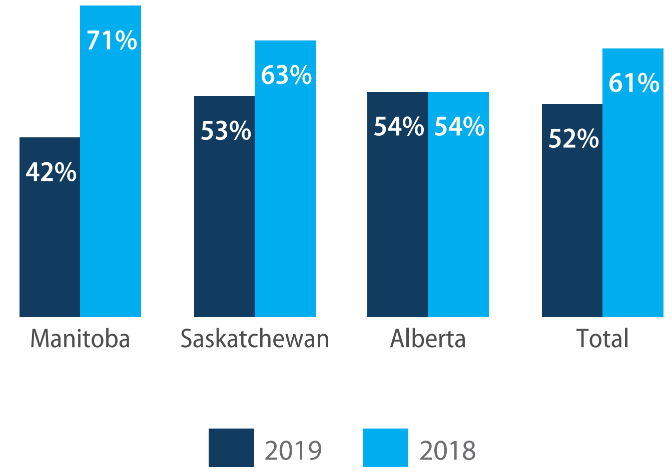


Direct premiums written *(in thousands)*

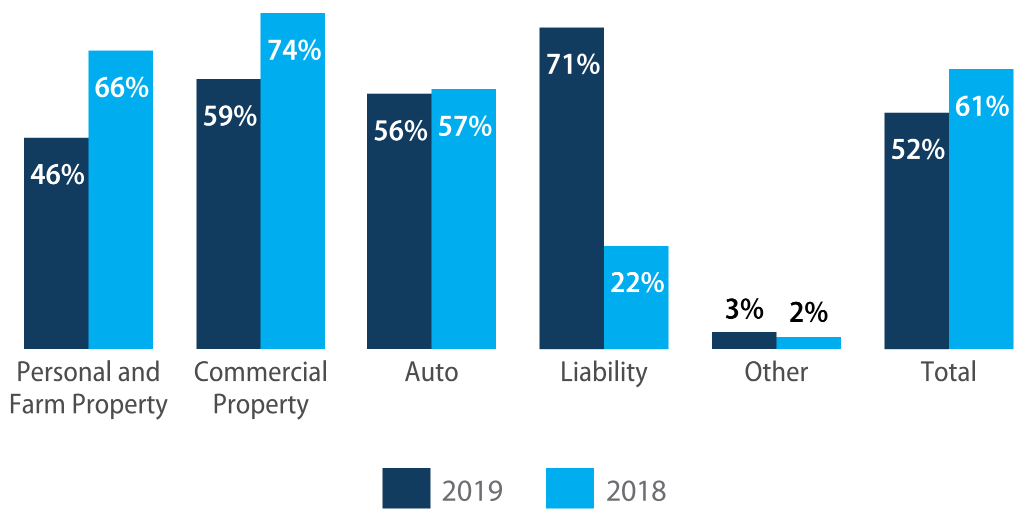


Providing peace of mind, 100 years and beyond

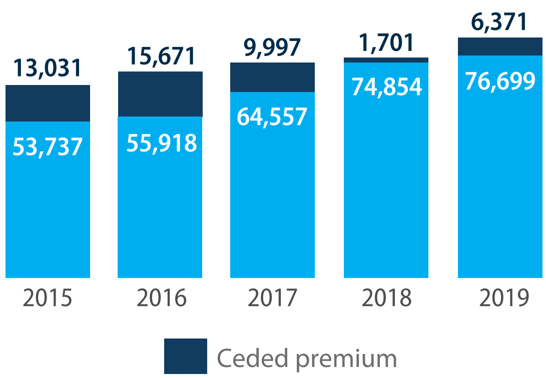
Net loss ratio by province



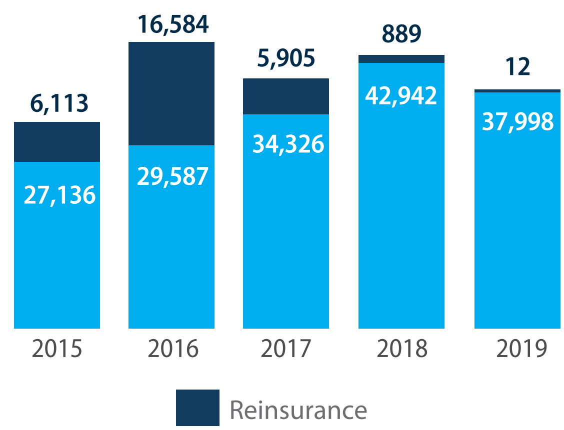
Net loss ratio by class of business



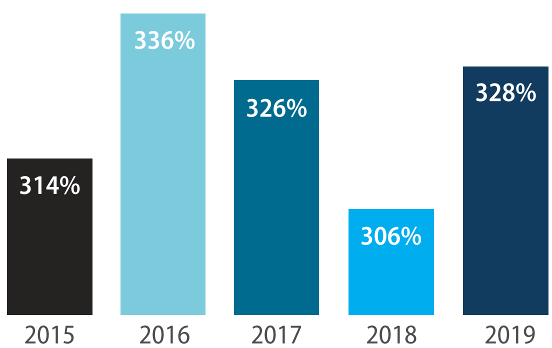
Premiums written *(in thousands)*



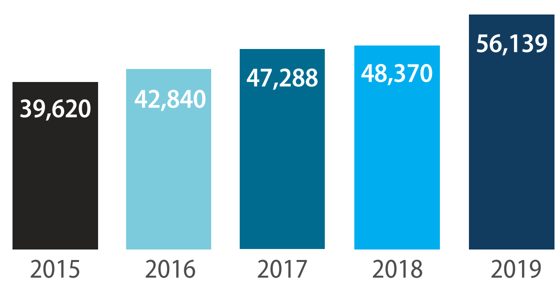
Incurred losses and adjusting expenses *(in thousands)*



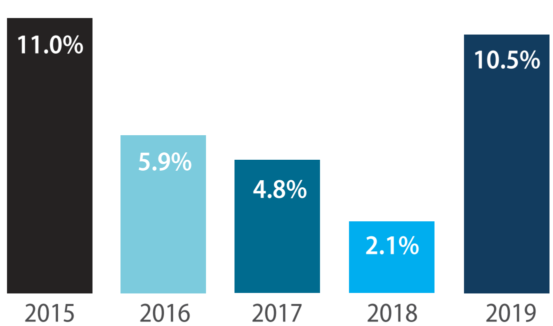
Minimum capital test



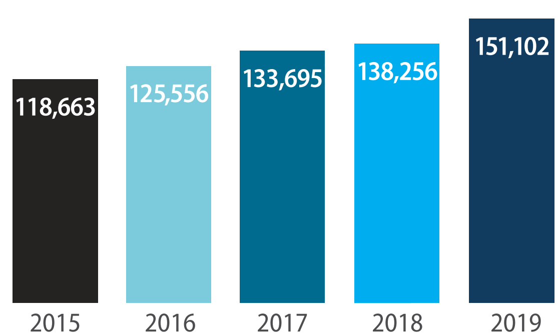
Policyholders' surplus *(in thousands)*



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



Total assets *(in thousands)*



BOARD OF DIRECTORS

D. Roger Arnold
Chair

Roger graduated from the University of Saskatchewan with both, a Bachelor of Commerce, majoring in finance and economics, and a Bachelor of Laws degree. Roger entered into the practice of law with the firm of Cuelenaere & Company and is currently a partner with the firm practicing in the areas of corporate commercial law, real estate and wills & estates. Roger was elected to the SMI Board of Directors on May 1, 2003 and 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.

Catherine Gryba
Vice-Chair

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

Shelley Willick
President & CEO

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

Arnie Arnott

Arnie joined the SMI Board of Directors in May of 2008. He is currently retired; previous to retirement he was the President & CEO of Saskatchewan Blue Cross. Arnie is a Fellow Chartered Professional Accountant (FCPA, FCA) and has been very active in the profession serving on provincial and national governing boards and holding the position of President and Chairman of the Saskatchewan Institute of Chartered Accountants. Arnie is currently a director of the Saskatchewan Roughrider Football Club, a strong supporter of the community, and is a Past Chair of the Royal University Hospital Foundation.

Brian Heagy

Brian is the Director of Finance and Administration for the Buckwold Group of Companies, a wholesale distributor of flooring products in western Canada and the northwestern United States. Brian is part of the senior management team and has overall responsibility for accounting, finance, treasury, taxation and administrative areas of the business. He is also a minority partner and actively involved in the management of Pinnacle Developments Inc., a commercial real estate developer. Brian is also past chairman of the Board of Directors of the Saskatoon Family YMCA. He holds a Bachelor of Commerce from the University of Saskatchewan and is a Chartered Professional Accountant (CPA, CA). Brian was elected to the SMI Board of Directors on May 10, 2007.

Marion van Impe

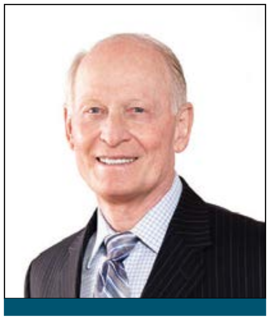
Marion is a Chartered Professional Accountant, (CPA, CGA, non-practicing) and has a Bachelor of Arts from the University of Saskatchewan. Marion is currently retired. She was formerly the Director, Student Accounts & Treasury at the University of Saskatchewan where she was responsible for all investment, 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. Marion was elected to the SMI Board of Directors on May 12, 2005.

Susan Milburn

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

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. He was elected to the SMI Board of Directors on May 17, 2018.



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.

BOARD COMMITTEE MEMBERSHIP

Audit & Finance Committee
Brian Heagy, *Chair*
Arnie Arnott
Marion van Impe
Susan Milburn
Troy Milnthorp

HR & Governance Committee
Roger Arnold, *Chair*
Catherine Gryba
Marion van Impe
Troy Milnthorp
Lorne Timmerman

Compliance & Risk Committee
Arnie Arnott, *Chair*
Catherine Gryba
Brian Heagy
Susan Milburn
Lorne Timmerman

COMPANY PROFILE

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Website: www.saskmutual.com

Shelley Willick, *CPA, CA*
President & CEO

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

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

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

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

Wes Moroziuk, *B. Comm., CRM, FCIP, BAC*
Vice President, Claims
Facilities Management

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

Stewart Reinfelds, *MBA*
Associate Vice President, Business Intelligence

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

REGINA OFFICE

327 - 2505 11th Avenue
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Phone: (306) 545-2855

Don Cook
Claims Adjuster

Evan Kohli
Claims Adjuster

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Phone: (204) 256-2078

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

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Fawn Mah, *CIP*
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Phone: (403) 968-8154

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

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475 - 2nd Avenue South, Suite 500
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ACTUARY

Carol Desbiens, *FCAS, FCIA*
PricewaterhouseCoopers LLP

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

REPORT OF MANAGEMENT'S ACCOUNTABILITY

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

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

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

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control and is ultimately responsible for reviewing and approving the financial statements. The Board is assisted in exercising its responsibilities through the Audit & 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, 2020, appearing on the following page, expresses their unqualified opinion on the Company's 2019 financial statements.

Shelley Willick, CPA, CA
President & CEO

Jennifer Woloschuk, CPA, CMA
Vice President, Finance

February 27, 2020

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, 2019
- 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, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

BASIS FOR OPINION

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

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (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
Chartered Professional Accountants

Saskatoon, Canada
February 27, 2020

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, 2019 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, 2020

STATEMENT OF FINANCIAL POSITION

(in thousands of Canadian dollars)

December 31, 2019, with comparative figures for 2018

	2019	2018
ASSETS		
Cash and cash equivalents	**$ 10,410**	$ 7,269
Investments (note 6)	**96,256**	87,553
Premiums due from policyholders	**14,676**	13,214
Amounts due from brokers	**874**	894
Other receivables	**2,058**	2,174
Income taxes receivable (note 12)	**-**	245
Recoverable from reinsurers:		
Unpaid claims and adjusting expenses (note 8)	**5,425**	6,754
Unearned premiums (note 9)	**539**	418
Deferred policy acquisition costs (note 10)	**9,945**	9,125
Property, plant and equipment (note 11)	**684**	780
Net pension benefit asset (note 13)	**5,453**	5,232
Intangible assets (note 14)	**4,782**	4,598
	$ 151,102	$ 138,256
LIABILITIES AND POLICYHOLDERS' SURPLUS		
Due to other insurance companies	**$ 52**	$ 33
Premium taxes payable	**3,778**	3,495
Accounts payable	**1,871**	1,394
Income taxes payable	**2,755**	-
Unearned reinsurance commissions	**151**	117
Unearned premiums (note 9)	**42,374**	38,935
Unpaid claims and adjusting expenses (note 8)	**41,723**	43,622
Deferred tax liability (note 12)	**1,719**	1,782
Other liabilities (note 13)	**540**	508
	94,963	89,886
Policyholders' surplus:		
Surplus and resources for protection of policyholders	**55,214**	49,713
Accumulated other comprehensive income (loss)	**925**	(1,343)
	56,139	48,370
	$ 151,102	$ 138,256

See accompanying notes to financial statements.

Approved by the Board:

D.R. Arnold, Director
S.L. Willick, Director

STATEMENT OF COMPREHENSIVE INCOME

(in thousands of Canadian dollars)

December 31, 2019, with comparative figures for 2018

	2019	2018
Direct premiums written (note 9)	**$ 83,070**	$ 76,555
Reinsurance ceded (note 9)	**(6,371)**	(1,701)
Net premiums written	**76,699**	74,854
Change in net unearned premium	**(3,318)**	(4,917)
Net premiums earned (note 9)	**73,381**	69,937
Service charge revenue	**552**	525
Net underwriting revenue	**73,933**	70,462
Gross claims and adjusting expenses (note 8)	**38,010**	43,831
Reinsurers' share of claims and adjusting expenses (note 8)	**(12)**	(889)
Net claims and adjusting expenses	**37,998**	42,942
Commissions	**16,082**	14,846
Premium taxes	**3,641**	3,445
General expenses	**11,261**	10,340
Total insurance related claims and expenses	**68,982**	71,573
Net underwriting income (loss)	**4,951**	(1,111)
Investment operations:		
Investment income	**2,739**	2,662
Investment expenses	**236**	213
Net investment income	**2,503**	2,449
Earnings before income taxes	**7,454**	1,338
Income taxes (note 12)	**1,967**	336
Net earnings	**5,487**	1,002
Other comprehensive income		
Items that may be subsequently reclassified to net income:		
Net gain (loss) arising on revaluation of available-for-sale financial assets during the year	**3,240**	(1,481)
Reclassification of adjustments relating to available-for-sale financial assets disposed of in the year	**(133)**	(110)
Income tax benefit (expense) (note 12)	**(839)**	429
Items that may be subsequently reclassified to net income	**2,268**	(1,162)
Items that will not be reclassified subsequently to net income:		
Net actuarial gains on employee future benefits (note 13)	**19**	1,701
Income tax expense (note 12)	**(5)**	(459)
Items that will not be reclassified subsequently to net income	**14**	1,242
Total other comprehensive income	**2,282**	80
Comprehensive income	**$ 7,769**	$ 1,082

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN POLICYHOLDERS' SURPLUS

(in thousands of Canadian dollars)

December 31, 2019, with comparative figures for 2018

	Accumulated other comprehensive income (loss)	Surplus and resources for protection of policyholders	Total policyholders' surplus
Balance, January 1, 2018	$ (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
Net earnings	–	5,487	5,487
Other comprehensive income	2,268	14	2,282
Comprehensive income	2,268	5,501	7,769
Balance, December 31, 2019	$ 925	$ 55,214	$ 56,139

Accumulated other comprehensive income is comprised solely of unrealized gains/(losses) on available-for-sale securities, net of tax recovery of $342,000 (2018 - $497,000 recovery).

STATEMENT OF CASH FLOWS

(in thousands of Canadian dollars)

December 31, 2019, with comparative figures for 2018

		2019		2018
Cash flows from operating activities:				
Net earnings	**$**	**5,487**	$	1,002
Items not affecting cash:				
Income taxes		**1,967**		336
Depreciation of property, plant and equipment		**116**		231
Amortization of intangible assets		**752**		775
Losses (gains) realized on investments		**(189)**		(366)
Income taxes received (paid)		**126**		(826)
Change in non-cash balances related to operations:				
Unearned premiums		**3,439**		1,240
Unpaid claims and adjusting expenses		**(1,899)**		4,328
Unearned reinsurance commissions		**34**		(1,328)
Reinsurers' share of unearned premiums		**(121)**		3,677
Reinsurers' share of unpaid claims and adjusting expenses		**1,329**		1,959
Deferred policy acquisition costs		**(820)**		(278)
Employee future benefits		**(170)**		(37)
Receivables		**(1,326)**		(1,147)
Payables		**779**		(512)
		9,504		9,054
Cash flows from investment activities:				
Purchase of investments		**(7,036)**		(10,980)
Proceeds from sale of investments		**1,629**		5,761
Purchase of intangible assets		**(936)**		(237)
Purchase of property, plant and equipment		**(20)**		(117)
		(6,363)		(5,573)
Increase in cash and cash equivalents		**3,141**		3,481
Cash and cash equivalents, beginning of year		**7,269**		3,788
Cash and cash equivalents, end of year	**$**	**10,410**	$	7,269
Cash and cash equivalents are comprised of:				
Cash in bank less outstanding cheques	**$**	**3,410**	$	7,269
Short-term investments		**7,000**		–
	$	**10,410**	$	7,269

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, 2020. The financial statements will be presented for approval by the policyholders at the Annual General Meeting which will take place on May 28, 2020.

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.

(a) Financial assets:

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

(i) **Classification**

Receivables arising from insurance contracts

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

Investments

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

Cash and cash equivalents

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

(ii) **Recognition and measurement**

Financial assets are initially recognized at fair value.

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

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

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

(iii) **Determination of fair value**

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

(iv) **Impairment of financial assets**

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

(b) Property, plant and equipment:

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

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

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

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount. These are included and recognized with investment income in net earnings.

(c) Intangible assets:

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

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

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

(d) Insurance contracts:

(i) **Recognition and measurement**

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

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

Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. The provision for unpaid claims represents the amounts needed to provide for the estimated ultimate expected cost of settling claims related to insured events (both reported and unreported) that occurred on or before each statement of financial position date. The provision for adjusting expenses represents the estimated ultimate expected costs of investigating, resolving and processing these claims. Estimated recoveries of these costs from reinsurance ceded are included in assets. The computation of these provisions 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.

(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 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

(v) **Salvage and subrogation reimbursements**

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

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

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

(e) Income taxes:

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

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

Deferred income tax is recognized, using the liability method of tax allocation. Under this method, deferred income tax assets and liabilities are determined based on temporary differences between the financial reporting and tax basis of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to be recovered or settled.

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

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

(f) Employee benefits:

(i) **Pension obligations**

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

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

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

(ii) **Other post-employment obligations**

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

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

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

(g) Statement of financial position classification:

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

4. NEW ACCOUNTING STANDARDS:

In 2019, the Company did not early adopt any new, revised or amended standards.

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

- IFRS 7, *Financial Instruments: Disclosures*. In December 2011 this standard was amended to require disclosures upon transition from IAS 39, *Financial Instruments: Recognition and Measurement*, to IFRS 9, *Financial Instruments*. The amendments are effective on adoption of IFRS 9. Early adoption of these amendments is permitted where IFRS 9 is also early adopted. OSFI has indicated it will not allow early adoption of IFRS 9 for federally regulated insurance companies. The Company has not yet assessed the impact this amended standard will have on its financial statements.
- IFRS 9, *Financial Instruments*. In July 2014, the International Accounting Standards Board (IASB) issued the complete version of IFRS 9, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. It requires financial assets to be recorded at amortized cost or fair value depending on the Company's business model for managing the assets and their associated cash flow characteristics. All financial assets are to be measured at fair value on the balance sheet if they are not measured at amortized cost. The new standard requires companies to account for expected credit losses from when financial instruments are first recognized and it lowers the threshold for recognition of full lifetime expected losses. Finally the standard introduces a substantially-reformed model for hedge accounting with enhanced disclosures about risk management activity. IFRS 9 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"). The Company has not yet assessed the impact this standard will have on its financial statements.

4. NEW ACCOUNTING STANDARDS (continued):

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

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

  The effective date for IFRS 17 is January 1, 2021 with mandatory restatement of comparative periods. In June 2019, the IASB issued an exposure draft which proposes amendments to IFRS 17, including the deferral of the effective date by one year to annual periods beginning on or after January 1, 2022. The exposure draft was subject to public consultation and addresses concerns and implementation challenges. The Company continues to monitor developments and discussions and determine impacts related to this standard. IFRS 17 is expected to significantly impact the overall financial statements.

  The Company is dedicated to the successful implementation of the standard and has committed considerable resources and efforts. Preliminary work was completed in 2019 in efforts to determine financial impacts and to also assist in the assessment of technological and data needs. The Company is in the initial stages of formulating accounting policies, selecting vendor solutions and modifying data needs while monitoring any amendments to the standard.

- On January 1, 2019, the Company adopted IFRS 16, *Leases* ("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). As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most leases. The Company has elected not to recognize right-of-use assets and lease liabilities for a lease of low value assets based on the value of the underlying asset when new or for short-term leases with a lease term of 12 months or less. The adoption of IFRS 16 did not have a material impact on the Company's financial statements.

5. ROLE OF THE ACTUARY AND AUDITOR:

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

(in thousands of Canadian dollars)

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

required to form this opinion. The actuary, in this verification of the underlying data used in the valuation, also makes use of the work of the external auditor. The actuary's report outlines the scope of his work and opinion.

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

6. INVESTMENTS:

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

	2019		2018	
	Market value	**Unrealized gain/(loss)**	**Market value**	**Unrealized gain/(loss)**
Short-term fixed income	$ 56,523	$ (677)	$ 53,149	$ (1,051)
Universe fixed income	27,427	365	24,926	(550)
	83,950	(312)	78,075	(1,601)
Equities:				
Canadian	5,477	211	4,742	(465)
Global	6,829	1,368	4,736	226
	12,306	1,579	9,478	(239)
	$ 96,256	$ 1,267	$ 87,553	$ (1,840)

No impairment losses were recognized in 2019 or 2018.

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

	2019	2018
Bonds issued by:		
Federal	34.8%	36.3%
Provincial	12.9%	15.6%
Corporate		
A rated or higher	34.7%	29.3%
BBB rated or lower	9.0%	10.7%
Short-term investments (A rated or higher)	4.8%	3.2%
Mortgages		
Federal	0.1%	0.3%
Other	3.7%	4.6%
Total	100.0%	100.0%

(in thousands of Canadian dollars)

6. INVESTMENTS (continued):

Liquidity and interest rate risk:

	Effective yield	Duration
Short-term fixed income pooled fund	2.2%	2.6 years
Universe fixed income pooled fund	2.3%	7.7 years

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

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

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

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

At December 31, 2019 and December 31, 2018 all of the Company's investments were categorized as level 2 investments.

7. INSURANCE RISK:

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

Insurance risk is composed of underwriting, product pricing, claims, catastrophe, and reinsurance risk. The majority of the underwriting risk the Company is exposed to is of a short-tail nature as the average duration of unpaid claims and adjusting expense liabilities is 1.8 years as at December 31, 2019 (1.5 years at December 31, 2018). Policies generally cover a twelve month period.

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

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

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

7. INSURANCE RISK (continued):

In the normal course of business, the Company seeks to reduce the loss that may arise from catastrophic or other events that cause unfavourable underwriting results by reinsuring certain levels of risk, in various areas of exposure, with other insurers. Reinsurance ceded does not relieve the Company of primary liability as the originating insurer and failure of reinsurers to honour their obligations could result in losses to the Company. Reinsurance risk is the risk of the reinsurance program being ineffective or unaffordable due to inappropriate or incorrect modeling assumptions or by initiating an ineffective program design.

The Company follows the policy of underwriting and reinsuring through excess contracts of insurance which limit the liability of the Company. The Company's retention is $700,000 (2018 - $700,000) in the event of a single loss.

Catastrophe events caused by such actions as wind, hail and sewer backup are events that result in multiple property claims arising from a single occurrence with net incurred claims and adjusting expenses greater than $100,000 (2018 - $100,000). These are an inherent risk of property and casualty insurance and contribute to material year-to-year fluctuations in the Company's results of operations and financial condition when they occur. The level of catastrophe loss experienced in any year cannot be predicted and could be material to the results of operations and financial position. The Company has catastrophe reinsurance with an upper limit of $60 million (2018 - $60 million) and which limits the Company's liability to $1.5 million (2018 - $1.5 million) in the event of multiple property claims arising from a single catastrophic event. The Company's excess of loss reinsurance program is subject to a $1 million annual aggregate deductible in relation to catastrophe losses.

The Company also has an aggregate catastrophe cover protecting the Company against an accumulation of smaller catastrophe losses in the year. Catastrophe losses exceeding $250,000 (2018 - $250,000) contribute towards the aggregate retention and limit from the first dollar, subject to a maximum amount contributed from any one loss occurrence of $1.5 million. The limit is $2 million in excess of $5 million (2018 - $2 million excess of $5 million).

While there is no guarantee a catastrophe would not result in claims in excess of the maximum reinsurance coverage, management considers the level of protection prudent. Net incurred claims and adjusting expenses from catastrophe events in 2019 amounted to $2,937,000 (2018 - $5,697,000).

8. UNPAID CLAIMS AND ADJUSTING EXPENSES:

Scope:

The establishment of the provision for unpaid claims and adjusting expenses is based on known facts and interpretation of circumstances and is therefore a complex and dynamic process influenced by a large variety of factors. Uncertainty exists on reported claims since all information may not be available at the reporting date. In addition, claims may not be reported to the Company immediately, therefore estimates are made of the value of claims incurred but not yet reported. Factors considered include the Company's experience with similar cases and historical trends involving claims payment patterns, loss payments, pending levels of unpaid claims, product mix or concentration, claims severity and claim frequency patterns, such as those caused by natural disasters or accidents.

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

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

(in thousands of Canadian dollars)

8. UNPAID CLAIMS AND ADJUSTING EXPENSES (continued):

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

	Direct unpaid claims and adjusting expenses	Reinsurers' share of unpaid claims and adjusting expenses	Net unpaid claims and adjusting expenses
December 31, 2019			
Balance, beginning of year	$ 43,622	$ 6,754	$ 36,868
Current year claims	42,370	1,308	41,062
Prior year development – (favourable)/unfavourable	(4,360)	(1,296)	(3,064)
Total claims incurred	38,010	12	37,998
Claims paid	39,909	1,341	38,568
Balance, end of year	$ 41,723	$ 5,425	$ 36,298
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 – (favourable)/unfavourable	(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

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, 2019			
Long settlement term:			
Automobile (excluding physical damage)	$ 7,610	$ 2,965	$ 4,645
General liability	11,363	834	10,529
Short settlement-term	22,750	1,626	21,124
Balance, end of year	$ 41,723	$ 5,425	$ 36,298
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

(in thousands of Canadian dollars)

8. UNPAID CLAIMS AND ADJUSTING EXPENSES (continued):

Claim development:

The tables that follow present the development of claim payments and the estimated ultimate cost of claims for the claim years 2010 to 2019. The upper half of the table shows the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased, as more information becomes known about the original claims and overall claim frequency and severity.

Gross claim development	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
Gross ultimate loss											
At end of accident year	$ 30,029	$ 32,002	$ 32,428	$ 42,548	$ 43,460	$ 38,467	$ 48,192	$ 43,543	$ 47,750	$ 41,110	
One year later	29,434	30,975	32,864	41,443	41,194	37,715	46,060	41,656	48,102		
Two years later	28,881	30,166	31,176	39,624	40,183	37,052	45,142	40,462			
Three years later	28,462	29,848	30,500	38,915	40,233	36,298	45,003				
Four years later	27,956	29,752	30,119	38,771	40,134	35,511					
Five years later	27,661	29,617	29,976	38,685	39,686						
Six years later	28,439	29,547	29,943	38,444							
Seven years later	28,468	29,466	29,898								
Eight years later	28,480	29,442									
Nine years later	27,844										
Current estimate of gross ultimate loss	27,844	29,442	29,898	38,444	39,686	35,511	45,003	40,462	48,102	41,110	375,502
Cumulative paid	27,747	29,337	29,527	37,676	39,065	34,661	43,350	35,090	40,649	19,911	337,013
Gross provision for unpaid claims for the ten most recent accident years	97	105	371	768	621	850	1,653	5,372	7,453	21,199	38,489
Gross undiscounted claims outstanding for accident year 2008 and prior											794
Loss adjusting expense reserve											1,024
Provision for adverse deviation and discounting											1,416
Gross provision for unpaid claims											$ 41,723

(in thousands of Canadian dollars)

8. UNPAID CLAIMS AND ADJUSTING EXPENSES (continued):

Net claim development	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Net ultimate loss											
At end of accident year	$ 26,975	$ 27,933	$ 29,432	$ 38,070	$ 32,175	$ 31,269	$ 31,419	$ 36,190	$ 45,919	$ 39,849	
One year later	25,613	26,969	29,613	37,995	30,674	30,626	30,388	34,859	46,206		
Two years later	25,157	25,813	28,082	36,711	30,112	30,126	29,793	34,000			
Three years later	24,739	24,922	27,409	36,036	30,198	29,459	29,674				
Four years later	24,283	24,760	27,061	35,988	30,121	29,361					
Five years later	24,042	24,544	26,964	35,908	29,745						
Six years later	24,533	24,470	26,935	35,637							
Seven years later	24,507	24,384	26,895								
Eight years later	24,509	24,363									
Nine years later	24,237										
Current estimate of net ultimate loss	24,237	24,363	26,895	35,637	29,745	29,361	29,674	34,000	46,206	39,849	319,967
Cumulative paid	24,142	24,283	26,535	34,880	29,229	28,834	28,287	31,305	39,580	19,659	286,734
Net provision for unpaid claims for the ten most recent accident years	95	80	360	757	516	527	1,387	2,695	6,626	20,190	33,233
Net undiscounted claims outstanding for accident year 2008 and prior											732
Loss adjusting expense reserve											1,012
Provision for adverse deviation and discounting											1,321
Net provision for unpaid claims											$ 36,298

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 2.02% (2018 – 2.34%).

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, 2019				
Gross provision	$ 40,308	$ (1,638)	$ 3,053	$ 41,723
Reinsurance ceded	5,330	(378)	473	5,425
Net provision	$ 34,978	$ (1,260)	$ 2,580	$ 36,298

	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

The impact on net unpaid claims at the statement of financial position date could be an increase of up to $683,000 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, 2019			
Balance, beginning of year	$ 38,935	$ 418	$ 38,517
Premium written	83,070	6,371	76,699
Premium earned	(79,631)	(6,250)	(73,381)
Balance, end of year	$ 42,374	$ 539	$ 41,835
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

(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, 2019			
Long settlement term:			
Automobile (excluding physical damage)	$ 1,436	$ –	$ 1,436
General liability	3,803	4	3,799
Short settlement-term	37,135	535	36,600
Balance, end of year	$ 42,374	$ 539	$ 41,835
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

10. DEFERRED POLICY ACQUISITION COSTS:

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

	2019	2018
Balance, January 1	$ 9,125	$ 8,847
Acquisition costs deferred	20,964	19,164
Amortization of deferred costs	(20,144)	(18,886)
Balance, December 31	$ 9,945	$ 9,125

(in thousands of Canadian dollars)

11. PROPERTY, PLANT AND EQUIPMENT:

	Cost	Accumulated depreciation	Net book value
December 31, 2019			
Land	$ 129	$ –	$ 129
Buildings and building components	1,277	853	424
Furniture and equipment	659	574	85
Computer hardware	1,247	1,201	46
	$ 3,312	$ 2,628	$ 684
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

Depreciation charged to general expenses amounted to $116,000 (2018 - $231,000).

12. INCOME TAXES:

Income tax expense, including both the current and deferred portions, varies from the amounts that would be computed by applying the statutory federal and provincial tax rates aggregating 27.0% (2018 – 26.8%) to earnings before taxes. A reconciliation is summarized in the following table:

	2019	2018
Tax at basic rates	$ 2,012	$ 359
Increase (decrease) in taxes resulting from:		
Permanent differences	(45)	(23)
Income tax expense	$ 1,967	$ 336
Effective rate	26.4%	25.2%

Income tax expense is comprised of:	2019	2018
Current tax expense	$ 2,874	$ 136
Deferred tax expense	(907)	200
	$ 1,967	$ 336
Income tax recorded in other comprehensive income		
Net changes in unrealized gains (losses)	$ 875	$ (400)
Reclassification to income of net gains (losses)	(36)	(29)
Net actuarial gains on employee future benefits	5	459
Total income tax expense recorded in other comprehensive income	$ 844	$ 30

(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:

	2019	2018
Deferred tax assets:		
Property, plant and equipment	$ 43	$ 51
Unpaid claims and adjusting expenses	490	498
Intangible assets	128	137
	661	686
Deferred tax liabilities:		
Employee future benefits	(1,326)	(1,275)
Intangible assets	(1,054)	(1,193)
	(2,380)	(2,468)
Net deferred tax asset (liability)	$ (1,719)	$ (1,782)

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

	2019	2018
Balance, January 1	$ 245	$ (445)
Amounts recorded in net earnings	(2,874)	(136)
Net payments (refunds) during the period	(126)	826
Balance, December 31	$ (2,755)	$ 245

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

	2019	2018
Balance, January 1	$ (1,782)	$ (1,552)
Amounts recorded in net earnings	907	(200)
Amounts recorded in other comprehensive income	(844)	(30)
Balance, December 31	$ (1,719)	$ (1,782)

(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 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:

	2019	2018
Accrued benefit obligation		
Balance, January 1	$ 25,693	$ 30,579
Interest cost on benefit obligation	1,012	996
Benefit payments	(780)	(2,588)
Re-measurement recognized in other comprehensive income arising from actuarial (gain) loss from changes in:		
financial assumptions	4,465	(3,749)
experience (gain) loss	–	455
Balance, December 31	$ 30,390	$ 25,693

(in thousands of Canadian dollars)

13. EMPLOYEE FUTURE BENEFITS (continued):

	2019	2018
Fair value of plan assets		
Balance, January 1	$ 30,925	$ 34,107
Interest income on plan assets	1,220	1,112
Re-measurement recognized in other comprehensive income - return on plan assets	4,527	(1,644)
Benefits paid	(780)	(2,588)
Other	(49)	(62)
Balance, December 31	$ 35,843	$ 30,925

The actual return on pension plan assets for the year ended December 31, 2019 was a gain of $5,747,000 (2018 – loss of $532,000).

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

	2019	2018
Accrued benefit obligation	$ (30,390)	$ (25,693)
Fair value of plan assets	35,843	30,925
Net pension benefit asset/(liability)	$ 5,453	$ 5,232

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, 2019.

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 2020.

At December 31, 2019, the weighted-average duration of the defined benefit pension obligation was 18.5 years (2018 – 17.3 years).

(in thousands of Canadian dollars)

13. EMPLOYEE FUTURE BENEFITS (continued):

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

	2019	2018
Actuarial assumptions:		
Discount rate	3.1%	4.0%
Rate on general salary increase	3.25%	3.25%
Inflation	2.00%	2.00%
Mortality	2014 Canadian Pensioner Mortality Table (Private sector) unadjusted	2014 Canadian Pensioner Mortality Table (Private sector) unadjusted
Average remaining service life of employees (in years)	12.8	12.8

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

To reduce the risk of experience losses, the investment policy incorporates a dynamic asset allocation process. Under the dynamic asset allocation process, the investment asset mix shifted in 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.

	2019	2018
Fixed income	73.9%	75.8%
Canadian equities	12.4%	11.9%
Global equities	13.7%	12.3%
	100.0%	100.0%

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

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

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.

(in thousands of Canadian dollars)

13. EMPLOYEE FUTURE BENEFITS (continued):

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

	Increase	Decrease
Discount rate (1% movement)	$ (4,854)	$ 6,379
Inflation rate (1% movement)	4,685	(3,826)
Salary (1% movement)	1,012	(900)
Mortality (each member lives 1 year longer)	834	

The other non-pension future benefits are unfunded with an obligation of $540,000 (2018 - $508,000) and have been actuarially determined using the following assumptions:

	2019	2018
Discount rate	3.0% – 3.1%	3.7% - 3.9%
Rate of general salary increase	3.25%	3.25%
Inflation	2.00%	2.00%
Average remaining service life of employees (in years)	15.5 – 16.2	15.5 – 16.2

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

	Defined benefit pension provisions		Other benefit plans	
	2019	2018	2019	2018
Cost of benefits earned in the year	$ –	$ –	$ 32	$ 33
Interest cost on benefit in the year	(208)	(116)	19	18
Other	49	62	–	–
Total benefit expense recognized in the general expenses	$ (159)	$ (54)	$ 51	$ 51

Contributions under the defined contribution provisions charged to general expenses amounted to $304,000 (2018 - $303,000).

	Defined benefit pension provisions		Other benefit plans	
	2019	2018	2019	2018
Balance, January 1	$ (1,796)	$ (3,446)	$ (78)	$ (129)
Re-measurements related to:				
Actuarial gain (loss) from changes in:				
financial assumptions	(4,465)	3,749	(43)	51
experience gain (loss)	–	(455)	–	–
Return on plan assets	4,527	(1,644)	–	–
Net actuarial gains recognized in other comprehensive income (loss)	$ 62	$ 1,650	$ (43)	$ 51
Balance, December 31	$ (1,734)	$ (1,796)	$ (121)	$ (78)

(in thousands of Canadian dollars)

14. INTANGIBLE ASSETS:

	Cost	Accumulated amortization	Net book value
December 31, 2019			
Computer software	$ 8,531	$ 3,749	$ 4,782
December 31, 2018			
Computer software	$ 7,595	$ 2,997	$ 4,598

Amortization charged to general expenses amounted to $752,000 (2018 - $775,000).

15. CAPITAL MANAGEMENT:

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

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

One measure used by the regulators to assess the financial strength of property and casualty insurers is the minimum capital test ("MCT"). This test compares a company's capital against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors. While the regulator has an established minimum MCT of 150%, the Board of Directors has set an internal target of 245% (2018 – 230%) which under normal circumstances the Company will operate in excess of. The MCT for the Company as of December 31, 2019 was 328% (2018 – 306%).

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, 2019 was 1.4 (2018 – 1.6).

16. FINANCIAL RISK MANAGEMENT:

Overview:

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

- Market risk
- Credit risk
- Liquidity risk

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

16. FINANCIAL RISK MANAGEMENT (continued):

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

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

Market risk:

Market risk is the risk arising from potential changes in the market rates, prices or liquidity in various markets. Market factors include four types of risk: interest rate risk, equity risk, currency risk and inflation risk.

Interest rate risk is related to changes in interest rates and their impact when durations of assets and liabilities are different. The Company is exposed to this risk through its interest bearing investments (described in note 6) and through the discounting of its provision for unpaid claims and adjusting expenses (described in note 8).

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

The Company's investment policy establishes a minimum of 70% fixed income in the investment portfolio and recommends a target of 90% (2018 - 90%).

At December 31, 2019, a 1% move in interest rates, with all other variables held constant, could impact the market value of the bond portfolio by $3,575,000 (2018 - $3,217,000). For securities the Company did not sell during the period, the change in market value would be recognized in the asset value and in other comprehensive income (loss).

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

The Company's investment portfolio includes Canadian pooled fund units with fair values that move with the S&P/TSX Capped Composite Index and global pooled fund units that move with MSCI World Net Index. A 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the Company's equity pooled funds of $1,203,000 (2018 – $948,000). For securities the Company did not sell during the period, the change would be recognized in the asset value and in other comprehensive income (loss).

The Company's investment policy limits equity investments to 20% of the total portfolio investment and recommends a target of 10% (2018 – 10%).

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

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

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

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

16. FINANCIAL RISK MANAGEMENT (continued):

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

Credit risk:

Credit risk arises from the credit component embedded in market rates. It arises from a counterparty's potential inability or unwillingness to fully meet its on or off-balance sheet contractual obligations. The Company is primarily exposed to this risk relating to its investment portfolio and the reliance on reinsurers to make payment when certain loss conditions are met. Accounts receivable from policyholders and brokers are short-term in nature and are not subject to material credit risk.

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The fixed income investments remain high quality with only 9.0% (2018 – 10.7%) 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 2019 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 2019 or 2018.

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

Liquidity risk:

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

Claim payments are funded by current operating cash flow including investment income which normally exceeds cash requirements. At December 31, 2019 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, 2019 was $1,918,000 (2018 - $1,670,000).

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

The Company's transactions with post-employment plans comprise the contributions paid to the pension plan for all employees, which represent for the year ended December 31, 2019 $304,000 (2018 – $303,000), of which $82,000 (2018 – $83,000) 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, 2019 (2018 – nil).

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