

2021

ANNUAL REPORT

PROVIDING PEACE OF MIND





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

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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.

We are pleased to present our 2021 Annual Report. 2021 was a successful year with SMI reaching a significant milestone of \$100 million in direct written premium!

Direct premium written increased 11% in 2021, with much of the increase coming from the habitational and commercial lines of business. The increase in the habitational line of business was due to a change in the rating algorithms implemented in early 2021 combined with rate changes. The increase in the commercial line resulted from a hardened market combined with rate increases and targeted growth.

2021 was another active year from a weather-related loss perspective. The year started with a rare wind event that traveled across the Prairies in January and ended with another wind event in Alberta in November. Net losses from catastrophe events amounted to \$8.5 million compared with \$6.5 million in 2020. Due to lower non-storm-related claims activity, the net loss ratio remained at 51% for the year. Continued investment in personnel and technology resulted in an expense ratio of 44% (compared with 43% in the prior year) and a combined ratio of 95% (94% in 2020). As a result, an underwriting income of \$5.4 million was generated for 2021.

Like many other property & casualty insurance companies, we invest a significant portion of our investments in fixed income. With rising fixed income yields in the market, our realized and unrealized investment income declined to \$2.7 million in 2021. Overall, 2021 was a successful year with net earnings of \$7.6 million, a comprehensive income of \$5.8 million, and a return on equity of 11%.

Giving back to the communities where we work, live, and support is an integral part of who we are as a company.

In 2021, we donated over \$90,000 to Children's hospitals located across the Prairies to allow children and their families to be close to home during traumatic and emotional stays, giving children the best chance to live a long and healthy life. These donations help make a difference in children's health today to help build a healthier tomorrow.

In 2021, our MCT (minimum capital test) increased to 399% from 364% in the prior year. The MCT is a regulatory calculation assessing the capital strength of an insurer. We are also proud to report AM Best affirmed our A- (Excellent)

rating in 2021. This rating indicates our ability to meet our financial obligations in the future, as well as an assessment of our risk management practices.

As noted in our report last year, SMI established a five-year vision focused on profitable growth, customers, people, brand, and data. 2021 was a foundational year where we focused primarily on people, brand, and data. Changes to our organizational structure were made, and our staffing complement increased from 78 to 84. Work progressed on the development of straight-through processing for the habitational line, and it is anticipated this will be fully operational early in Q2 of 2022. In addition, work also progressed on the review of our vision, mission, values, and name. Stay tuned for an exciting announcement coming later in 2022.

Roger Arnold, our former Board Chair, retired from the SMI Board in 2021. Roger served on SMI's Board for 18 years, 14 years of which he served as Board Chair. We appreciate the invaluable insight and guidance provided by Roger over the years. In June, we were pleased to have Alan Migneault and Barry Walter join the SMI Board. Alan and Barry bring expertise in finance, governance, strategy, and risk management to the Board.

Our success and ability to provide excellent service to our policyholders and brokers would not be possible without our staff's hard work, loyalty, and enthusiasm. Thank you! We also wish to express appreciation to our brokers, independent adjusters, and other key stakeholders who continue to support SMI.

In the words of Oprah Winfrey, *"We can't become what we need to be by remaining what we are."* So, what's next for SMI? SMI has been helping people with their insurance needs since 1908. Our humble roots were planted by a group of farmers in Saskatchewan looking to meet their needs for insurance when there were limited choices. Being a mutual, we strive to do what is best for our policyholders, brokers, and the communities we serve.

Doing what's best isn't always the easiest. It takes time, money, and resources to make even the most minor changes to the business model. But what about fundamental shifts? How do we uproot the "old way" and rebuild to ensure we are there for our customers in the ways they expect? Well, that takes dedication.

SMI is experiencing a fundamental shift in how we operate throughout the Prairies. Listening to our policyholders and brokers, we took a good hard look at our business model and what came out of this deep dive was crystal clear. Although

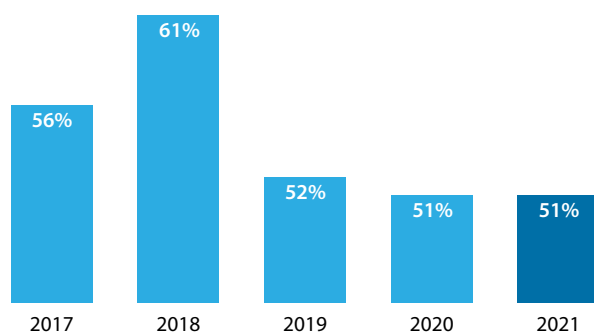
we offer excellent customer service and products, we lacked the ease of doing business. We've decided to invest the time, money, and resources into technology to create solutions for customers that will make all interactions with SMI smooth and easy.

In 2022, we will be focused on product development and updating our website with an easy-to-use, all-device-friendly, clean and crisp site people will actually want to use. We are also creating a customer portal to allow policyholders and brokers to quickly locate the information they need. In addition, we will be increasing automation to eliminate or reduce manual entry by both our staff and brokers. This automation will allow more time to focus on providing service and trusted advice.

We have ambitious plans for 2022, but our dedication to policyholders and brokers to improve the ease of doing business is what matters. We want SMI to be top of mind when it comes to insurance, not just because of our price, but also delivering exceptional value to our policyholders and brokers.

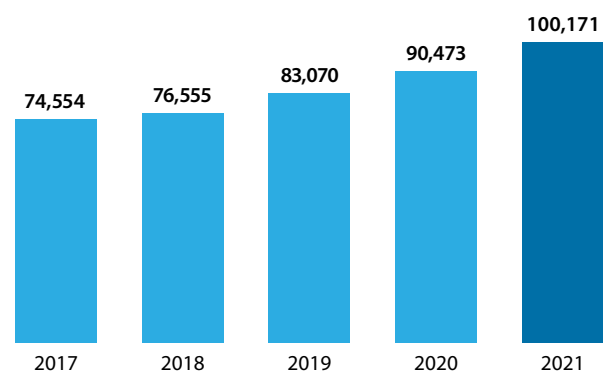


NET LOSS RATIO



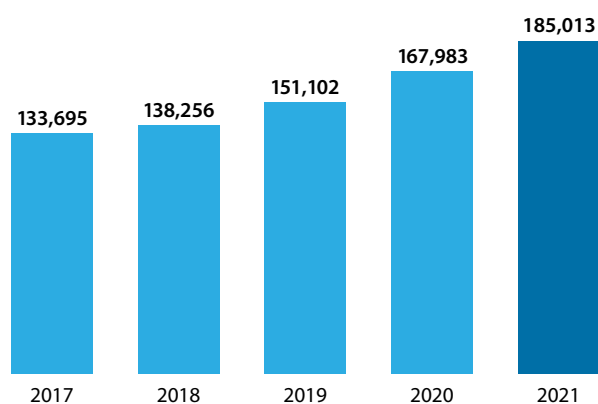
GROSS WRITTEN PREMIUM

\$ in thousands



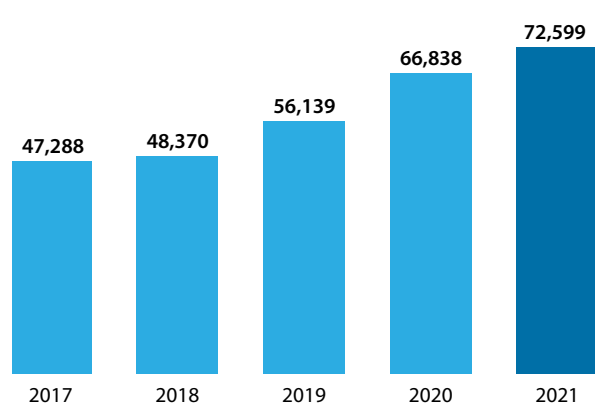
TOTAL ASSETS

\$ in thousands

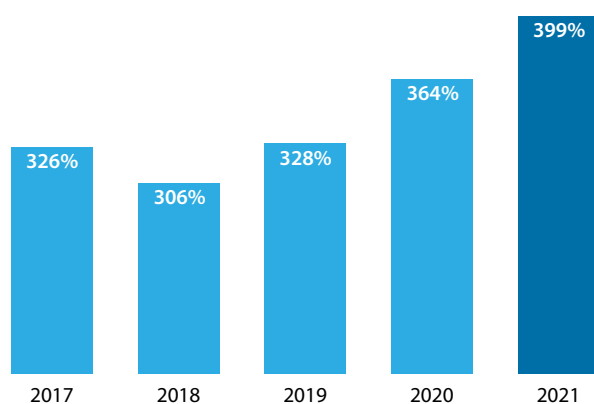


POLICYHOLDERS' SURPLUS

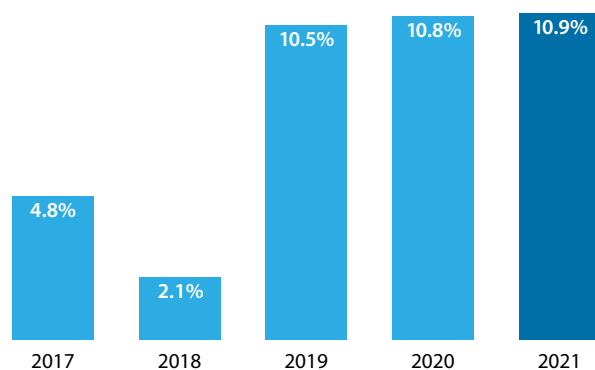
\$ in thousands



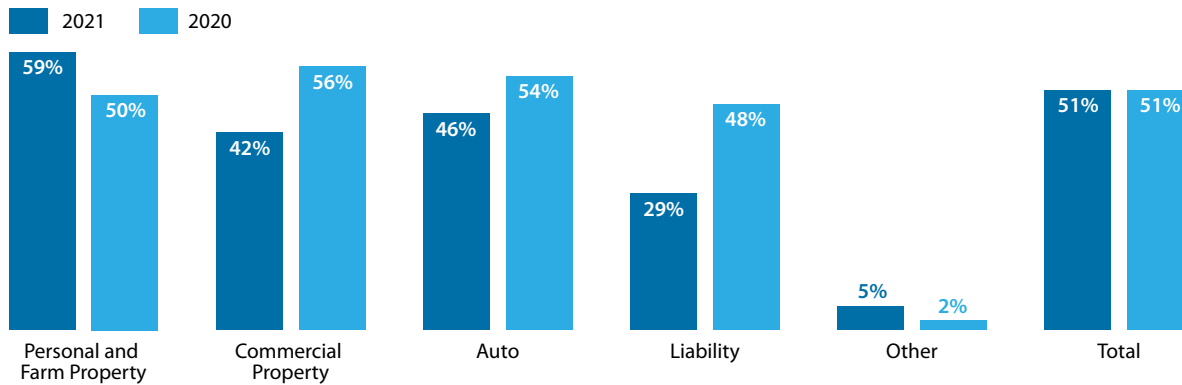
MINIMUM CAPITAL TEST (MCT)



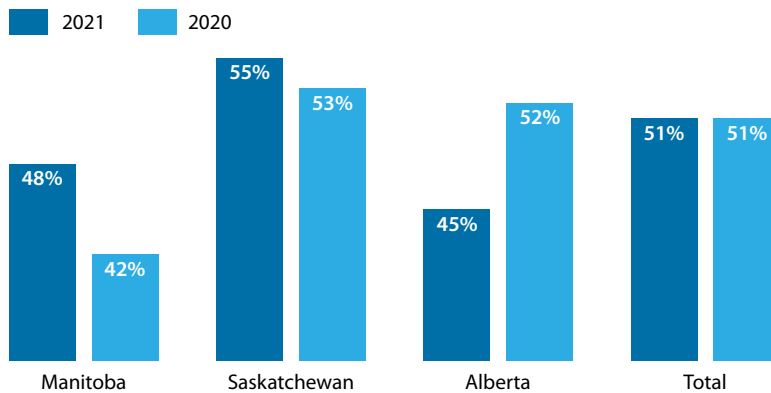
RETURN ON EQUITY (ROE)



NET LOSS RATIO BY CLASS OF BUSINESS

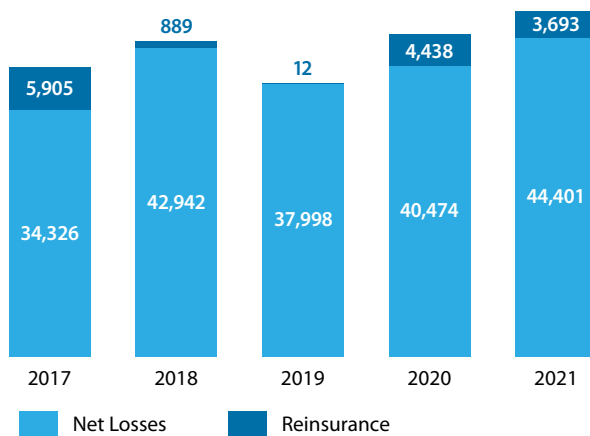


NET LOSS RATIO BY PROVINCE



INCURRED LOSSES AND ADJUSTING EXPENSES

\$ in thousands



BOARD OF DIRECTORS



CATHERINE GRYBA, BSc, ICD.D – Chair

Catherine owns CRG Strategies, a management consulting business specializing in strategy and board governance. She is currently the Co-Chair of the Institute of Corporate Directors, Saskatchewan Chapter, Past-Chair of the Nutrien Wonderhub, on the Board of Trustees for Huskie Athletics, University of Saskatchewan, and is a board member with the Canada Games Foundation. She previously served on the boards of Saskatchewan Blue Cross (Board Chair), 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 on May 17, 2018. Catherine assumed the role of Board Chair on June 25, 2020.



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

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



ARNIE ARNOTT, FCPA, FCA, ICD.D

Arnie joined the SMI Board of Directors in May of 2008. He was the President & CEO of Saskatchewan Blue Cross before retirement. 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 community supporter, and a Past Chair of the Royal University Hospital Foundation.



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

Briana is the founder and CEO of Pure Strategy, Inc. She has a Master of Arts in Economics from Carleton University and a Bachelor of Science in Mathematics from the University of Saskatchewan. She also has advanced training in natural language processing and artificial neural networks. Briana has served on the Saskatoon Opera and the Marketing Research and Intelligence Association boards. She is an active member of the leadership community and is currently involved with the Standards Council of Canada, CIO Strategy Council, Canadian Research Insights Council, and is an Ambassador for the Center for Open Science. Briana was named VentureBeat's AI Entrepreneur of the Year in 2021, included as one of Authority Magazine's Top Women Leaders in AI, was a finalist for the YWCA Women of Distinction Award in Research and Technology, and was featured as one of Innovation Saskatchewan's Entrepreneurship Success Stories. Briana was elected to the SMI Board of Directors on June 25, 2020.

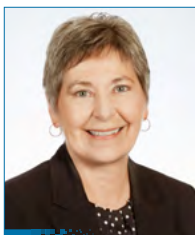


BRIAN HEAGY, CPA, CA, B.Comm

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 administration. 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.

**ALAN MIGNEAULT, CPA, CA, ICD.D**

Alan is the President of AJM Management Corp. As a Professional Management Consultant, Alan works with clients to prepare businesses for success and succession through operational and financial initiatives and typically takes on the interim capacity of Chief Executive Officer or Chief Financial Officer. A Chartered Professional Accountant (CPA, CA) and accredited as a certified corporate director through the Institute of Corporate Directors' Directors Education Program (ICD.D), Alan is currently the Board Vice-Chair and Chair of the Audit and Risk Committee of SaskTel, a member of the audit committee of the Pacific Northwest Economic Region and has served or is currently serving as either a board director or board advisor to several for-profit and not-for-profit companies. Alan's work experience spans many industries, including the Banking industry, Telecommunications, Manufacturing, and the Transportation industry. Alan was elected to the Board of Directors of SMI in June 2021.

**SUSAN MILBURN, B.Comm, MBA**

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

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

Erin Smith is the Chief Operating Officer of The Targeted Strategies Group (TTSG), which creates and implements innovative, proprietary life insurance solutions for successful families and entrepreneurs that optimize intergenerational wealth and legacy. Before joining TTSG, Erin was a corporate commercial lawyer with one of Western Canada's most prominent law firms. She has a JD / MBA from Queen's University and a Bachelor of Arts (First Class Honours) from McGill University. Erin has completed the Not-for-Profit Corporate Governance Essentials Program through the Institute of Corporate Directors and Rotman School of Management. She has served as a volunteer on the board for Saskatoon Crisis Intervention Service and Maria Montessori Preschool and Elementary. Erin was elected to the SMI Board of Directors on June 25, 2020.

**BARRY WALTER, B.Comm, CPA, CA (retired)**

Barry is a retired business executive. He is currently a board member of The Saskatchewan Catholic Health Corporation (operating as Emmanuel Care). He is Chair of the Finance Committee and Riverside Country Club, where he currently serves as President. He previously served on Saskatoon Big Brothers' board and several Chartered Professional Accountants' committees of Saskatchewan. Barry holds a Bachelor of Commerce Degree, Major in Accounting from the University of Saskatchewan and earned his CPA, CA designation in 1981. Barry retired in 2017 from VersaBank (formerly Pacific & Western Bank of Canada), a Canadian Schedule 1 Bank, and its parent company PW Capital Inc. where he held the positions of Senior Vice President & Chief Financial Officer for 23 years. He was elected to the SMI Board of Directors on June 3, 2021.

**SHELLEY L. WILLICK, CPA, CA, B.Comm – President & CEO**

Shelley has over 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 before 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.

BOARD COMMITTEE MEMBERSHIP

(Effective June 3, 2021)

AUDIT & FINANCE COMMITTEE

Brian Heagy, *Chair*
 Arnie Arnott
 Alan Migneault
 Susan Milburn
 Troy Milnthorp
 Barry Walter

HR & GOVERNANCE COMMITTEE

Troy Milnthorp, *Chair*
 Briana Brownell
 Catherine Gryba
 Susan Milburn
 Erin Smith

COMPLIANCE & RISK COMMITTEE

Arnie Arnott, *Chair*
 Briana Brownell
 Brian Heagy
 Alan Migneault
 Erin Smith
 Barry Walter

COMPANY PROFILE

HEAD OFFICE

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

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

Shelley Willick, CPA, CA, B.Comm
President & CEO
Corporate Secretary

Rob Jones, B.Comm, B.A., Pro.Dir
Senior Vice President, Operations

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

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

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

Chelsa Materi, FCIP, BAC
Associate Vice President, Underwriting

Stewart Reinfelds, MBA
Associate Vice President, Technology & Intelligence

REGINA BEACH OFFICE

P.O. Box 535
Regina Beach, SK S0G 4C0

Don Cook
Claims Adjuster
Phone: (306) 539-8630

Evan Kohli
Claims Adjuster
Phone: (306) 550-4280

WINNIPEG OFFICE

P.O. Box 28142, RPO North Kildonan
Winnipeg, MB R2G 4E9
Phone: (204) 771-7785

Janet Carriere
Marketing Representative | MB

CALGARY OFFICE

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

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

David Chapman-Collier, LLB
Supervisor, Claims & Administration
Phone: (403) 333-9236

AUDITORS

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

ACTUARY

Denise Cheung, FCAS, FCIA
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600
Toronto, ON M5J 0B2

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 preparing these statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities depends on future events. Management believes such estimates have been based on careful judgments and are 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 ensures that management fulfills its responsibilities for financial reporting and internal control and is ultimately responsible for reviewing and approving the financial statements. The Board is assisted in exercising its responsibilities through the Audit Committee of the Board, composed of five non-management directors. The Committee meets periodically with management and the auditors to satisfy itself that management's responsibilities are properly discharged, to review the financial statements and to recommend approval of the financial statements to the Board.

The accompanying financial statements have been audited by KPMG LLP. The auditors have access to the Audit & Finance Committee, without management present, to discuss the results of their work. Their report dated February 25, 2022, appearing on the following page, expresses their unqualified opinion on the Company's 2021 financial statements.

Shelley Willick, CPA, CA, B.Comm
President & CEO

Jennifer Woloschuk, CPA, CMA
Vice President, Finance

February 25, 2022

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, 2021
- 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, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

BASIS FOR OPINION

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

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

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

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

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

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

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

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

We also:

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Saskatoon, Canada

February 25, 2022

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, 2021 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.

Denise Cheung, FCAS, FCIA

February 25, 2022

STATEMENT OF FINANCIAL POSITION

(in thousands of Canadian dollars)

December 31, 2021, with comparative figures for 2020

	2021	2020
ASSETS		
Cash and cash equivalents	\$ 5,198	\$ 11,882
Investments (note 6)	117,738	107,151
Premiums due from policyholders	18,700	16,097
Amounts due from brokers	296	835
Other receivables	1,396	915
Income taxes receivable (note 12)	1,092	–
Recoverable from reinsurers:		
Unpaid claims and adjusting expenses (note 8)	8,926	8,452
Unearned premiums (note 9)	817	590
Deferred policy acquisition costs (note 10)	12,081	10,865
Property, plant and equipment (note 11)	8,796	1,020
Net pension benefit asset (note 13)	6,037	5,670
Intangible assets (note 14)	3,936	4,506
	\$ 185,013	\$ 167,983
LIABILITIES AND POLICYHOLDERS' SURPLUS		
Due to other insurance companies	\$ 54	\$ 32
Premium taxes payable	4,469	4,092
Accounts payable	2,988	2,005
Loan due on demand (note 16)	1,381	–
Income taxes payable (note 12)	–	796
Unearned reinsurance commissions	229	165
Unearned premiums (note 9)	51,190	46,189
Unpaid claims and adjusting expenses (note 8)	50,095	45,756
Deferred tax liability (note 12)	1,660	1,705
Other liabilities (note 13)	348	405
	112,414	101,145
Policyholders' surplus:		
Surplus and resources for protection of policyholders	69,767	61,889
Accumulated other comprehensive income	2,832	4,949
	72,599	66,838
	\$ 185,013	\$ 167,983

See accompanying notes to financial statements.

Approved by the Board:

Catherine Gryba, Director

Shelley Willick, Director

STATEMENT OF COMPREHENSIVE INCOME

(in thousands of Canadian dollars)

December 31, 2021, with comparative figures for 2020

	2021	2020
Direct premiums written (note 9)	\$ 100,171	\$ 90,473
Reinsurance ceded (note 9)	(8,723)	(7,399)
Net premiums written	91,448	83,074
Change in net unearned premium	(4,774)	(3,764)
Net premiums earned (note 9)	86,674	79,310
Service charge revenue	1,203	761
Net underwriting revenue	87,877	80,071
Gross claims and adjusting expenses (note 8)	48,094	44,912
Reinsurers' share of claims and adjusting expenses (note 8)	(3,693)	(4,438)
Net claims and adjusting expenses	44,401	40,474
Commissions	19,772	17,772
Premium taxes	4,269	3,939
General expenses	14,004	12,217
Total insurance related claims and expenses	82,446	74,402
Net underwriting income	5,431	5,669
Investment operations		
Investment income	5,054	3,320
Investment expenses	254	268
Net investment income	4,800	3,052
Earnings before income taxes	10,231	8,721
Income taxes (note 12)	2,601	2,090
Net earnings	7,630	6,631
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	(613)	5,895
Reclassification of adjustments relating to available-for-sale financial assets disposed of in the year	(2,329)	(383)
Income tax benefit (expense) (note 12)	825	(1,488)
Items that may be subsequently reclassified to net income	(2,117)	4,024
Items that will not be reclassified subsequently to net income:		
Net actuarial gains on employee future benefits (note 13)	336	60
Income tax expense (note 12)	(88)	(16)
Items that will not be reclassified subsequently to net income	248	44
Total other comprehensive income (loss)	(1,869)	4,068
Comprehensive income	\$ 5,761	\$ 10,699

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN POLICYHOLDERS' SURPLUS

(in thousands of Canadian dollars)

December 31, 2021, with comparative figures for 2020

	Accumulated other comprehensive income (loss)	Surplus and resources for protection of policyholders	Total policyholders' surplus
Balance, January 1, 2020	\$ 925	\$ 55,214	\$ 56,139
Net earnings	–	6,631	6,631
Other comprehensive income	4,024	44	4,068
Comprehensive income	4,024	6,675	10,699
Balance, December 31, 2020	\$ 4,949	\$ 61,889	\$ 66,838
Net earnings	–	7,630	7,630
Other comprehensive income (loss)	(2,117)	248	(1,869)
Comprehensive income (loss)	(2,117)	7,878	5,761
Balance, December 31, 2021	\$ 2,832	\$ 69,767	\$ 72,599

Accumulated other comprehensive income is comprised solely of unrealized gains/(losses) on available for sale securities, net of tax of \$1,005,000 (2020 – \$1,830,000).

STATEMENT OF CASH FLOWS

(in thousands of Canadian dollars)

December 31, 2021, with comparative figures for 2020

	2021	2020
Cash flows from operating activities:		
Net earnings	\$ 7,630	\$ 6,631
Items not affecting cash:		
Income taxes	2,601	2,090
Depreciation of property, plant and equipment	125	133
Amortization of intangible assets	908	850
Loss (gains) realized on investments	(2,447)	(759)
Income taxes received (paid)	(3,797)	(5,567)
Change in non-cash balances related to operations:		
Unearned premiums	5,001	3,815
Unpaid claims and adjusting expenses	4,339	4,033
Unearned reinsurance commissions	64	14
Reinsurers' share of unearned premiums	(227)	(51)
Reinsurers' share of unpaid claims and adjusting expenses	(474)	(3,027)
Deferred policy acquisition costs	(1,216)	(920)
Employee future benefits	(88)	(292)
Receivables	(2,545)	(239)
Payables	1,382	428
	11,256	7,139
Cash flows from investment activities:		
Purchase of investments	(52,392)	(12,298)
Proceeds from sale of investments	41,310	7,674
Purchase of intangible assets	(338)	(574)
Proceeds from loan	1,381	–
Purchase of property, plant and equipment	(7,901)	(469)
	(17,940)	(5,667)
Increase (decrease) in cash and cash equivalents	(6,684)	1,472
Cash and cash equivalents, beginning of year	11,882	10,410
Cash and cash equivalents, end of year	\$ 5,198	\$ 11,882
Cash and cash equivalents are comprised of:		
Cash in bank less outstanding cheques	\$ 3,698	\$ 4,882
Short-term investments	1,500	7,000
	\$ 5,198	\$ 11,882

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

Year ended December 31, 2021

1. COMPANY INFORMATION:

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

These financial statements have been presented by management to the Audit & Finance Committee. Management and the Audit & Finance Committee report to the Board of Directors, which approved the financial statements on February 25, 2022. The financial statements will be presented for approval by the policyholders at the Annual General Meeting which will take place on June 2, 2022.

2. BASIS OF PRESENTATION:

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Use of estimates and judgments

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

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

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

(d) Functional and presentation currency

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

3. SIGNIFICANT ACCOUNTING POLICIES:

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

(a) Financial instruments:

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.

The Company classifies its financial liabilities at amortized cost. The classification is determined by management at initial recognition and depends on the purpose for which the liabilities were incurred. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. The Company's significant financial liabilities comprise trade payables, a bank loan due on demand and accrued liabilities.

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

Year ended December 31, 2021

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.

Financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

(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.

The fair value of financial liabilities is based on quoted market prices of the underlying liability at the statement of financial position date.

(iv) Impairment of financial instruments

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.

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

Year ended December 31, 2021

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(b) Property, plant and equipment:

Property, plant and equipment are measured at historical cost less accumulated depreciation. Cost includes expenditures directly attributable to the acquisition. Interest on debt is capitalized into the cost of the building under construction.

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.

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. Building under construction is not depreciated until the asset is in use. 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).

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

Year ended December 31, 2021

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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.

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

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

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

(ii) Deferred policy acquisition costs

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

(iii) Liability adequacy test

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

(iv) Reinsurance

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

The benefits to which the Company is entitled under its reinsurance contracts are recognized as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables dependent on

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

Year ended December 31, 2021

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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.

(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.

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

Year ended December 31, 2021

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

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

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

(ii) Other post-employment obligations

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

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

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

(g) Statement of financial position classification:

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

4. NEW ACCOUNTING STANDARDS:

In 2021, 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.

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

Year ended December 31, 2021

4. NEW ACCOUNTING STANDARDS (CONTINUED):

- IFRS 9, *Financial Instruments*. In July 2014, the International Accounting Standards Board (IASB) issued the complete version of IFRS 9, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. It requires financial assets to be recorded at amortized cost or fair value depending on the Company's business model for managing the assets and their associated cash flow characteristics.

All financial assets are to be measured at fair value on the balance sheet if they are not measured at amortized cost. The new standard requires companies to account for expected credit losses from when financial instruments are first recognized and it lowers the threshold for recognition of full lifetime expected losses. Finally, the standard introduces a substantially reformed model for hedge accounting with enhanced disclosures about risk management activity. IFRS 9 was effective for annual periods beginning on or after January 1, 2019. However, the Company meets the eligibility criteria of the temporary exemption from IFRS 9 as provided by IFRS 4, *Insurance Contracts* ("IFRS 4") and has elected to defer the application of IFRS 9 until the effective date of the new insurance contracts standard IFRS 17, *Insurance Contracts* ("IFRS 17"). Preliminary work has been completed in efforts to determine financial impacts and accounting policies. The Company is currently evaluating the impact IFRS 9, in conjunction with IFRS 17, will have on its financial statements but has not yet determined the impact.

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

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

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

The Company is dedicated to the successful implementation of the standard and has committed considerable resources and efforts. Preliminary work has been completed in efforts to determine financial impacts and to also assist in the assessment of technological and data needs. The Company has selected policies and a vendor solution and continues efforts toward determining and modifying data needs.

5. ROLE OF THE ACTUARY AND AUDITOR:

The actuary is appointed by the Board of Directors pursuant to the *Insurance Companies Act*. The actuary's responsibility is to carry out an annual valuation of the Company's policy liabilities, which consist of a provision for, and reinsurance recovery of, unpaid claims and adjusting expenses on insurance policies in force and of future obligations on the unearned portion of insurance policies in force, including deferred policy acquisition costs. The valuation is made in accordance with accepted actuarial practice and regulatory requirements and reported thereon to the policyholders. In performing the valuation of the liabilities, which are by their very nature inherently variable, assumptions are made as to the future loss ratios, trends, rates of claims frequency and severity, inflation, reinsurance recoveries, investment rates of return, and both internal and external adjusting expenses, taking into consideration the circumstances of the Company and the nature of the insurance policies in

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

Year ended December 31, 2021

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

force. The provisions do not include estimates for extraordinary future emergence of either new classes of claims or claims categories not sufficiently recognized in the claims database. The actual development of claims and adjusting expenses will vary from the valuation and may, in fact, vary materially. Examination of supporting data for accuracy and completeness, and analysis of Company assets for their ability to support the amount of policy liabilities are important elements of the work required to form this opinion. The actuary, in this verification of the underlying data used in the valuation, also makes use of the work of the external auditor. The actuary's report outlines the scope of his work and opinion.

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

6. INVESTMENTS:

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

	2021		2020	
	Market value	Unrealized gain/(loss)	Market value	Unrealized gain/(loss)
Short-term fixed income	\$ 103,690	\$ (242)	\$ 61,607	\$ 1,599
Universe fixed income	–	–	30,455	1,950
	103,690	(242)	92,062	3,549
Equities:				
Canadian	7,032	1,450	6,210	338
Global	7,016	2,629	8,879	2,892
	14,048	4,079	15,089	3,230
	\$ 117,738	\$ 3,837	\$ 107,151	\$ 6,779

No impairment losses were recognized in 2021 or 2020.

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

	2021	2020
Bonds issued by:		
Federal	25.1%	19.8%
Provincial	11.6%	22.4%
Corporate		
A rated or higher	35.3%	26.4%
BBB rated or lower	13.5%	19.8%
Short-term investments (A rated or higher)	5.0%	9.2%
Mortgages		
Federal	0.1%	0.1%
Other	9.4%	2.3%
Total	100.0%	100.0%

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

Year ended December 31, 2021

6. INVESTMENTS (CONTINUED):

Liquidity and interest rate risk:

	Effective yield	Duration
Short-term fixed income pooled fund	1.5%	2.5 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, 2021 and December 31, 2020 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, product development, 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 1.6 years as at December 31, 2021 (2.0 years at December 31, 2020). 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 associated with the failure to forecast claims experience resulting in inadequate premium rates. 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.

Product development risk is the risk associated with the failure to develop and maintain products to address changing market needs. The importance of including effective, up-to-date and modern products within the offerings of the Company is addressed within the business planning initiatives including corporate structure and project priorities set. Market share will decrease if appropriate and effective product offerings are not available.

Claims risk is the exposure to financial loss relating to the reserving and adjudication of claims due to inaccurate actuarial assumptions or ineffective claims adjudication practices and guidelines. 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.

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

Year ended December 31, 2021

7. INSURANCE RISK (CONTINUED):

Catastrophic risk is the risk associated of incurring large-scale losses due to insurable events of high severity low frequency or to a combination of smaller events with higher claims frequency. In the normal course of business, the Company seeks to reduce loss arising from catastrophic or other events that cause unfavorable 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 honor their obligations could result in losses to the Company. Reinsurance risk is the risk of the reinsurance program being ineffective or unaffordable due to 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 (2020 – \$700,000) in the event of a single loss.

Catastrophe events caused by such actions as wind, hail and sewer backup are events resulting in multiple property claims arising from a single occurrence with net incurred claims and adjusting expenses greater than \$100,000 (2020 – \$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 (2020 – \$60 million) and which limits the Company's liability to \$1.5 million (2020 – \$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 (2020 – \$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 (2020 – \$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 (2020 – \$1.5 million). The limit is \$2 million in excess of \$5 million (2020 – \$2 million in excess of \$5 million).

While there is no guarantee a catastrophe would not result in claims in excess of the maximum reinsurance coverage, management considers the level of protection prudent. Net incurred claims and adjusting expenses from catastrophe events in 2021 amounted to \$8,462,000 (2020 – \$6,476,000).

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.

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

Year ended December 31, 2021

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, 2021			
Balance, beginning of year	\$ 45,756	\$ 8,452	\$ 37,304
Current year claims	51,897	4,099	47,798
Prior year development – (favourable)/unfavourable	(3,803)	(406)	(3,397)
Total claims incurred	48,094	3,693	44,401
Claims paid	43,755	3,219	40,536
Balance, end of year	\$ 50,095	\$ 8,926	\$ 41,169
December 31, 2020			
Balance, beginning of year	\$ 41,723	\$ 5,425	\$ 36,298
Current year claims	46,214	4,981	41,233
Prior year development – (favourable)/unfavourable	(1,302)	(543)	(759)
Total claims incurred	44,912	4,438	40,474
Claims paid	40,879	1,411	39,468
Balance, end of year	\$ 45,756	\$ 8,452	\$ 37,304

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, 2021			
Long settlement term:			
Automobile (excluding physical damage)	\$ 6,645	\$ 2,851	\$ 3,794
General liability	12,285	588	11,697
Short settlement-term	31,165	5,487	25,678
Balance, end of year	\$ 50,095	\$ 8,926	\$ 41,169
December 31, 2020			
Long settlement term:			
Automobile (excluding physical damage)	\$ 7,816	\$ 2,705	\$ 5,111
General liability	13,189	1,104	12,085
Short settlement-term	24,751	4,643	20,108
Balance, end of year	\$ 45,756	\$ 8,452	\$ 37,304

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(in thousands of Canadian dollars)

Year ended December 31, 2021

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 2012 to 2021. 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Gross ultimate loss											
At end of accident year	\$ 32,428	\$ 42,548	\$ 43,460	\$ 38,467	\$ 48,192	\$ 43,543	\$ 47,750	\$ 41,110	\$ 44,677	\$ 50,206	
One year later	32,864	41,443	41,194	37,715	46,060	41,656	48,102	40,932	42,766		
Two years later	31,176	39,624	40,183	37,052	45,142	40,462	46,887	40,192			
Three years later	30,500	38,915	40,233	36,298	45,003	40,864	46,963				
Four years later	30,119	38,771	40,134	35,511	44,740	40,805					
Five years later	29,976	38,685	39,686	35,392	44,869						
Six years later	29,943	38,444	39,911	35,694							
Seven years later	29,898	38,387	40,280								
Eight years later	29,901	38,045									
Nine years later	29,898										
Current estimate of gross ultimate loss	29,898	38,045	40,280	35,694	44,869	40,805	46,963	40,192	42,766	50,206	409,718
Cumulative paid	29,557	37,664	39,673	35,366	43,644	36,809	44,228	36,847	36,334	24,011	364,133
Gross provision for unpaid claims for the ten most recent accident years	341	381	607	328	1,225	3,996	2,735	3,345	6,432	26,195	45,585
Gross undiscounted claims outstanding for accident year 2011 and prior											1,022
Loss adjusting expense reserve											1,204
Provision for adverse deviation and discounting											2,284
Gross provision for unpaid claims											\$ 50,095

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

Year ended December 31, 2021

8. UNPAID CLAIMS AND ADJUSTING EXPENSES (CONTINUED):

Net claim development	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Net ultimate loss											
At end of accident year	\$ 29,432	\$ 38,070	\$ 32,175	\$ 31,269	\$ 31,419	\$ 36,190	\$ 45,919	\$ 39,849	\$ 39,815	\$ 46,200	
One year later	29,613	37,995	30,674	30,626	30,388	34,859	46,206	39,700	38,374		
Two years later	28,082	36,711	30,112	30,126	29,793	34,000	45,786	38,925			
Three years later	27,409	36,036	30,198	29,459	29,674	34,313	45,937				
Four years later	27,061	35,988	30,121	29,361	29,457	34,100					
Five years later	26,964	35,908	29,745	29,263	29,574						
Six years later	26,935	35,637	29,939	29,538							
Seven years later	26,895	35,582	30,260								
Eight years later	26,901	35,247									
Nine years later	26,905										
Current estimate of net ultimate loss	26,905	35,247	30,260	29,538	29,574	34,100	45,937	38,925	38,374	46,200	355,060
Cumulative paid	26,565	34,869	29,746	29,431	28,536	32,809	43,230	35,606	33,579	23,565	317,936
Net provision for unpaid claims for the ten most recent accident years	340	378	514	107	1,038	1,291	2,707	3,319	4,795	22,635	37,124
Net undiscounted claims outstanding for accident year 2011 and prior											899
Loss adjusting expense reserve											1,196
Provision for adverse deviation and discounting											1,950
Net provision for unpaid claims											\$ 41,169

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 1.39% (2020 – 0.99%).

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.

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

Year ended December 31, 2021

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, 2021				
Gross provision	\$ 47,811	\$ (1,009)	\$ 3,293	\$ 50,095
Reinsurance ceded	8,592	(177)	511	8,926
Net provision	\$ 39,219	\$ (832)	\$ 2,782	\$ 41,169

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

The impact on net unpaid claims at the statement of financial position date could be an increase of up to \$452,000 if the discount rate were to decrease by 69 basis points (2020 – 0.69%).

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, 2021			
Balance, beginning of year	\$ 46,189	\$ 590	\$ 45,599
Premium written	100,171	8,723	91,448
Premium earned	(95,170)	(8,496)	(86,674)
Balance, end of year	\$ 51,190	\$ 817	\$ 50,373
December 31, 2020			
Balance, beginning of year	\$ 42,374	\$ 539	\$ 41,835
Premium written	90,473	7,399	83,074
Premium earned	(86,658)	(7,348)	(79,310)
Balance, end of year	\$ 46,189	\$ 590	\$ 45,599

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

Year ended December 31, 2021

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, 2021			
Long settlement term:			
Automobile (excluding physical damage)	\$ 1,495	\$ –	\$ 1,495
General liability	5,555	12	5,543
Short settlement-term	44,140	805	43,335
Balance, end of year	\$ 51,190	\$ 817	\$ 50,373

December 31, 2020

Long settlement term:

Automobile (excluding physical damage)	\$ 1,452	\$ –	\$ 1,452
General liability	4,587	8	4,579
Short settlement-term	40,150	582	39,568
Balance, end of year	\$ 46,189	\$ 590	\$ 45,599

10. DEFERRED POLICY ACQUISITION COSTS:

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

	2021	2020
Balance, January 1	\$ 10,865	\$ 9,945
Acquisition costs deferred	25,639	22,918
Amortization of deferred costs	(24,423)	(21,998)
Balance, December 31	\$ 12,081	\$ 10,865

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

Year ended December 31, 2021

11. PROPERTY, PLANT AND EQUIPMENT:

	Cost	Accumulated depreciation	Net book value
December 31, 2021			
Land	\$ 2,966	\$ –	\$ 2,966
Buildings and building components	1,309	916	393
Building under construction	5,265	–	5,265
Furniture and equipment	676	610	66
Computer hardware	1,463	1,357	106
	\$ 11,679	\$ 2,883	\$ 8,796
December 31, 2020			
Land	\$ 437	\$ –	\$ 437
Buildings and building components	1,307	884	423
Furniture and equipment	672	593	79
Computer hardware	1,362	1,281	81
	\$ 3,778	\$ 2,758	\$ 1,020

Depreciation charged to general expenses amounted to \$125,000 (2020 – \$133,000). Interest on debt is capitalized into the cost of the building under construction.

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 25.7% (2020 – 26.2%) to earnings before taxes.

A reconciliation is summarized in the following table:

	2021	2020
Tax at basic rates	\$ 2,624	\$ 2,284
Increase (decrease) in taxes resulting from:		
Permanent differences	(56)	(71)
Change in statutory rates	33	(123)
Income tax expense	\$ 2,601	\$ 2,090
Effective rate	25.9%	24.0%
Income tax expense is comprised of:		
	2021	2020
Current tax expense	\$ 1,909	\$ 3,608
Deferred tax expense	692	(1,518)
	\$ 2,601	\$ 2,090
Income tax recorded in other comprehensive income		
Net changes in unrealized gains	\$ (215)	\$ 1,591
Reclassification to income of net (gains)	(610)	(103)
Net actuarial gains on employee future benefits	88	16
Total income tax expense recorded in other comprehensive income	\$ 737	\$ 1,504

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

Year ended December 31, 2021

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.

	2021	2020
Deferred tax assets:		
Property, plant and equipment	\$ 18	\$ 32
Unpaid claims and adjusting expenses	531	481
	549	513
Deferred tax liabilities:		
Employee future benefits	(1,431)	(1,358)
Intangible assets	(778)	(860)
	(2,209)	(2,218)
Net deferred tax asset (liability)	\$ (1,660)	\$ (1,705)

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

	2021	2020
Balance, January 1	\$ (796)	\$ (2,755)
Amounts recorded in net earnings	(1,909)	(3,608)
Net payments (refunds) during the period	3,797	5,567
Balance, December 31	\$ 1,092	\$ (796)

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

	2021	2020
Balance, January 1	\$ (1,705)	\$ (1,719)
Amounts recorded in net earnings	(692)	1,518
Amounts recorded in other comprehensive income	737	(1,504)
Balance, December 31	\$ (1,660)	\$ (1,705)

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 58% in respect of active members and 42% in respect of pensioners, beneficiaries and deferred members.

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

Year ended December 31, 2021

13. EMPLOYEE FUTURE BENEFITS (CONTINUED):

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

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

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plan for funding purposes was as of December 31, 2020, and the next required valuation would be as of December 31, 2023. Information about the Company's defined benefit pension plan movements is as follows:

	2021	2020
Accrued benefit obligation		
Balance, January 1	\$ 33,814	\$ 30,390
Interest cost on benefit obligation	848	932
Benefit payments	(2,426)	(623)
Re-measurement (gains)/losses recognized in other comprehensive income arising from actuarial loss from changes in:		
demographic assumptions	488	–
financial assumptions	(2,309)	2,825
experience	(20)	290
Balance, December 31	\$ 30,395	\$ 33,814

	2021	2020
Fair value of plan assets		
Balance, January 1	\$ 39,484	\$ 35,843
Interest income on plan assets	994	1,100
Re-measurement gains/(losses) recognized in other comprehensive income – return on plan assets	(1,535)	3,236
Benefits paid	(2,426)	(623)
Other	(85)	(72)
Balance, December 31	\$ 36,432	\$ 39,484

The actual return on pension plan assets for the year ended December 31, 2021 was a loss of \$541,000 (2020 – gain of \$4,336,000).

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

	2021	2020
Accrued benefit obligation	\$ (30,395)	\$ (33,814)
Fair value of plan assets	36,432	39,484
Net pension benefit asset/(liability)	\$ 6,037	\$ 5,670

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

Year ended December 31, 2021

13. EMPLOYEE FUTURE BENEFITS (CONTINUED):

The Company has determined, in accordance with the terms and conditions of the pension plan and in accordance with statutory requirements, including minimum funding requirements for the defined benefit pension provisions, the present value of reductions in future contributions is higher than the balance of the total fair value of the defined benefit provision plan assets less the total present value of the defined benefit pension obligations. As such, no decrease in the defined benefit asset was necessary at December 31, 2021.

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, 2020, both a solvency excess and going concern surplus existed, and accordingly, no payments are required in 2021.

At December 31, 2021, the weighted-average duration of the defined benefit pension obligation was 17.9 years (2020 – 18.8 years).

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

Actuarial assumptions:	2021	2020
Discount rate	3.00%	2.60%
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)	12.4	11.3

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.

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

	2021	2020
Fixed income	84.5%	84.4%
Canadian equities	7.8%	7.7%
Global equities	7.7%	7.9%
	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.

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

Year ended December 31, 2021

13. EMPLOYEE FUTURE BENEFITS (CONTINUED):

Assumptions which may vary significantly include:

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

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

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

	Increase	Decrease
Discount rate (1% movement)	\$ (4,714)	\$ 6,142
Inflation rate (1% movement)	4,473	(3,686)
Salary (1% movement)	751	(769)
Mortality (each member lives 1 year longer)	880	

The other non-pension future benefits are unfunded with an obligation of \$348,000 (2020 – \$405,000) and have been actuarially determined using the following assumptions:

	2021	2020
Discount rate	2.9% – 3.0%	2.4% – 2.6%
Rate of general salary increase	3.25%	3.25%
Inflation	2.00%	2.00%
Average remaining service life of employee (in years)	16.6 – 19.9	16.6 – 19.9

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

	Defined benefit pension provisions		Other benefit plans	
	2021	2020	2021	2020
Cost of benefits earned in the year	\$ –	\$ –	\$ 22	\$ 37
Interest cost on benefit in the year	(146)	(168)	10	17
Other	85	72	–	(225)
Total benefit expense (recovery) recognized in the general expenses	\$ (61)	\$ (96)	\$ 32	\$ (171)

Contributions under the defined contribution provisions charged to general expenses amounted to \$318,000 (2020 – \$313,000).

NOTES TO FINANCIAL STATEMENTS

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Year ended December 31, 2021

13. EMPLOYEE FUTURE BENEFITS (CONTINUED):

	Defined benefit pension provisions		Other benefit plans	
	2021	2020	2021	2020
Balance, January 1	\$ (1,613)	\$ (1,734)	\$ (182)	\$ (121)
Re-measurements related to:				
Actuarial gain (loss) from changes in:				
demographic assumptions	(488)	–	–	–
financial assumptions	2,309	(2,825)	30	(37)
experience gain (loss)	20	(290)	–	(24)
Return on plan assets	(1,535)	3,236	–	–
Net actuarial gains recognized in other comprehensive income (loss)	\$ 306	\$ 121	\$ 30	\$ (61)
Balance, December 31	\$ (1,307)	\$ (1,613)	\$ (152)	\$ (182)

14. INTANGIBLE ASSETS:

	Cost	Accumulated amortization	Net book value
December 31, 2021			
Computer software	\$ 9,443	\$ 5,507	\$ 3,936
December 31, 2020			
Computer software	\$ 9,105	\$ 4,599	\$ 4,506

Amortization charged to general expenses amounted to \$908,000 (2020 – \$850,000).

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% (2020 – 245%) which under normal circumstances the Company will operate in excess of. The MCT for the Company as of December 31, 2021 was 399% (2020 – 364%).

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, 2021 was 1.3 (2020 – 1.2).

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16. LOAN DUE ON DEMAND:

On September 24, 2021, the Company entered into a \$8.25 million Toronto Dominion Bank demand loan facility agreement at an interest rate of prime plus 0.25%. In the absence of demand, interest is due monthly. The loan will be used to draw on to provide financing for construction of the new head office building. Interest expense is capitalized to the cost of the building. The building construction is set to complete in July 2022, at which time, the demand loan will roll into a 25-year mortgage agreement. As of December 31, 2021, the amount drawn on the loan was \$1.38 million. As security for the loan, a general security agreement from the Company was made representing a first charge on all its present and after acquired personal property.

17. FINANCIAL RISK MANAGEMENT:

Overview

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

- Market risk
- Credit risk
- Liquidity risk

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

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

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

Market risk:

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

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

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

The Company's investment policy establishes a minimum of 70% fixed income in the investment portfolio and recommends a target of 90% (2020 – 90%).

At December 31, 2021, a 1% move in interest rates, with all other variables held constant, could impact the market value of the bond portfolio by \$2,629,000 (2020 – \$4,139,000). 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.

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(in thousands of Canadian dollars)

Year ended December 31, 2021

17. FINANCIAL RISK MANAGEMENT (CONTINUED):

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 \$1,419,000 (2020 – \$1,481,000). For securities the Company did not sell during the period, the change would be recognized in the asset value and in other comprehensive income.

The Company's investment policy limits equity investments to 20% of the total portfolio investment and recommends a target of 10% (2020 – 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.

The duration of the fixed income investments was intentionally shortened to 2.5 years (2020 – 4.5 years) which decreased the sensitivity of the portfolio to interest rates (market risk). There have been no significant changes from the previous period in the 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 fixed income 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 13.5% (2020 – 19.8%) of the securities held recorded BBB or lower. Mortgages are controlled through the composition limits of the fund and are limited to first mortgages on income producing property located in Canada. 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 2021 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 2021 or 2020.

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.

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

Year ended December 31, 2021

17. FINANCIAL RISK MANAGEMENT (CONTINUED):

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 the bank loan can be called at the demand of Toronto Dominion. The Company has no material commitments, other than noted in Note 19 – *Commitments*, for capital expenditures and there is normally no need for such expenditures in the normal course of business.

Claim payments and debt repayments are funded by current operating cash flow including investment income which normally exceeds cash requirements. At December 31, 2021 the Company has sufficient liquidity to meet obligations as they become due.

18. 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, 2021 was \$2,280,000 (2020 – \$2,041,000).

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, 2021 \$351,000 (2020 – \$350,000), of which \$77,600 (2020 – \$79,000) 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, 2021 (2020 – \$nil).

19. COMMITMENTS:

The Company entered into a contract to complete the construction of the new head office building. The agreed upon contract price is \$9.6 million, of which, \$1.38 million had been paid by the end of the year. Progress payments are made monthly subject to a holdback of 10%, which on December 31, 2021 was \$378,000. Substantial performance of the work is to be completed by July 2022. Failure to make contract payments results in interest, ranging from prime plus 2 - 4%, due and payable above the unpaid invoiced amounts.



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