



# ANNUAL REPORT 2005



*"Security & Service Since 1908"*



## REPORT OF THE BOARD OF DIRECTORS

The Board of Directors is pleased to present the 2005 Annual Report to the policyholders of Saskatchewan Mutual Insurance Company.

After having one of our most successful years ever in 2004, we experienced significantly reduced earnings in 2005 as intense summer storms resulted in sharply higher claims costs. The loss ratio increased to 68% in 2005 from 51% in 2004, primarily because of the rainstorms that occurred throughout the Prairies. In particular, two severe storms in Saskatoon and the Lloydminster area resulted in claims totaling \$3.4 million.

The financial position of SMI remains extremely strong. The surplus of the company amounts to \$19.5 million, assets have increased to \$48.1 million, and we maintain an A.M. Best financial strength rating of A- pd (Excellent). The 2005 net written premiums of \$27.1 million are equal to 140% of the company's capital, which is a very prudent ratio.

Direct written premiums increased 8% to \$28.6 million. Commercial property premiums, which represented 17% of our total premiums just five years ago, now amount to almost 30% of our total premiums. Similarly, our business in Alberta has increased from 16% of our total business in 2000 to 28% currently.

Our commercial property and automobile lines of business remain our most profitable, with 2005 direct loss ratios of 50% and 40% respectively.

The expense ratio increased to 41% from 39% in 2004. Like many companies, we are facing rising pension plan costs as well as increasing needs for investment in technology.

Investment income increased by 34% as gains on sales of investments amounted to almost \$1 million. We experienced good returns on all asset classes in 2005 with Canadian equities excelling by earning a 27.5% return. Investments total \$32.9 million at the end of the year.

We wish to thank our brokers for their continued support of the company and its products. SMI could not be successful without the support and loyalty of our brokers. We will continue providing our brokers and our policyholders with the excellent service they expect and deserve from SMI.

We also thank all employees for their efforts throughout 2005. The company's success over the years is the direct result of their knowledge, expertise and dedication.

Dr. Wheaton is completing his term as a director and is not eligible for re-election. He has served on various committees of the Board, including the Executive Committee, and we thank Dr. Wheaton for his many contributions and his dedication to SMI.



A.G. Ayers, F.C.A.  
Chairman



R. W. Trost, C.A., HCIP  
President & C.E.O.

## MANAGEMENT REPORT

The financial statements are the responsibility of the management of SASKATCHEWAN MUTUAL INSURANCE COMPANY. They have been prepared in accordance with generally accepted accounting principles, using management's best estimates and judgments, where appropriate.

Management is responsible for the reliability and integrity of the financial statements, the notes to the financial statements, and other financial information contained in this report. In the preparation of these statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.

Management is also responsible for maintaining a system of internal control designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.

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



R. W. Trost, C.A., HCIP  
President & C.E.O.



S. L. Willick, C.A.  
Vice President, Finance and Administration

February 15, 2006

## AUDITORS' REPORT TO THE POLICYHOLDERS

We have audited the balance sheet of Saskatchewan Mutual Insurance Company as at December 31, 2005 and the statements of operations and surplus and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants  
Saskatoon, Canada  
February 15, 2006

## APPOINTED ACTUARY'S REPORT TO THE POLICYHOLDERS

I have valued the policy liabilities of Saskatchewan Mutual Insurance Company for its balance sheet at December 31, 2005 and their change in the statement of operations for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

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



Richard Gauthier, FCIA  
February 14, 2006



## BALANCE SHEET

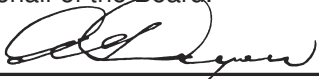
(in thousands of dollars)


December 31, 2005, with comparative figures for 2004

	2005	2004
<b>Assets</b>		
Cash	\$ 1,974	\$ 2,146
Investments (note 3)	32,902	30,871
Premiums due from policyholders	3,100	2,659
Amounts due from brokers	1,193	1,082
Due from other insurance companies	1	96
Accrued investment income	-	218
Income taxes receivable	473	-
Sundry accounts receivable	13	13
Reinsurers' share of provisions for:		
Unpaid claims and adjusting expenses (note 4)	2,132	649
Unearned premiums	41	40
Deferred policy acquisition costs	3,265	2,999
Property and equipment at cost less accumulated amortization of \$2,338 (2004 - \$2,257)	551	495
Accrued pension benefits (note 7)	2,441	2,663
	<b>\$ 48,086</b>	<b>\$ 43,931</b>
<b>Liabilities and Surplus</b>		
Due to other insurance companies	\$ 270	\$ 7
Premium taxes payable	1,120	1,046
Accounts payable	137	340
Income taxes payable	-	1,186
Unpaid claims and adjusting expenses (note 4)	12,244	7,820
Unearned premiums	14,337	13,214
Future income taxes (note 6)	481	955
	<b>28,589</b>	<b>24,568</b>
Surplus	19,497	19,363
	<b>\$ 48,086</b>	<b>\$ 43,931</b>

See accompanying notes to financial statements.

On behalf of the Board:

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

## STATEMENT OF OPERATIONS AND SURPLUS

(in thousands of dollars)

Year ended December 31, 2005, with comparative figures for 2004

	2005	2004
Direct premiums written	\$ 28,589	\$ 26,502
Deduct reinsurance ceded	1,514	1,298
Net premiums written	27,075	25,204
Change in unearned premiums	(1,122)	(605)
Net premiums earned (note 5)	25,953	24,599
Service charges	225	215
	26,178	24,814
Claims and adjusting expenses (note 5)	17,682	12,536
Commissions	5,308	4,994
Taxes and licenses	1,161	1,104
General expenses	4,144	3,521
	28,295	22,155
Net underwriting income (loss)	(2,117)	2,659
Investment operations:		
Investment income	1,395	1,220
Gain on sale of investments	939	509
Rental income	5	40
	2,339	1,769
Expenses	143	133
Investment income	2,196	1,636
Earnings before income taxes	79	4,295
Income tax provision (recovery) (note 6)	(55)	1,603
Net earnings	134	2,692
Surplus, beginning of year	19,363	16,671
Surplus, end of year	\$ 19,497	\$ 19,363



## STATEMENT OF CASH FLOWS

(in thousands of dollars)

Year ended December 31, 2005, with comparative figures for 2004

	2005	2004
Cash provided by (used in):		
Operations:		
Net earnings	\$ 134	\$ 2,692
Items not affecting cash:		
Future income tax provision (recovery)	(474)	134
Amortization of property and equipment	81	157
Gain on sale of investments	(939)	(509)
Amortization of premium on bonds	144	145
Change in non-cash balances related to operations:		
Unearned premiums	1,123	614
Unpaid claims and adjusting expenses	4,424	(400)
Reinsurers' share of unearned premiums	(1)	(9)
Reinsurers' share of unpaid claims and adjusting expenses	(1,483)	(134)
Deferred policy acquisition costs	(266)	(144)
Accrued pension benefit	222	(117)
Receivables	(712)	235
Payables	(1,052)	992
	1,201	3,656
Investments:		
Purchase of fixed income investments	(87,723)	(30,248)
Purchase of equities	(871)	(1,573)
Proceeds from sale of fixed income investments	85,986	27,203
Proceeds from sale of equities	1,184	1,471
Purchase of equipment	(137)	(55)
	(1,561)	(3,202)
Increase (decrease) in cash and cash equivalents	(360)	454
Cash and cash equivalents, beginning of year	2,334	1,880
Cash and cash equivalents, end of year	\$ 1,974	\$ 2,334
Cash and cash equivalents, end of year:		
Cash	\$ 1,974	\$ 2,146
Cash equivalents	-	188
	\$ 1,974	\$ 2,334
Supplemental cash flow disclosure:		
Income taxes paid	\$ 2,079	\$ 285

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## NOTES TO FINANCIAL STATEMENTS

(in thousands of dollars)

Year ended December 31, 2005

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Saskatchewan Mutual Insurance Company is a 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 (the "OSFI") and the Provincial Superintendents of Financial Institutions/Insurance for the provinces in which the Company is licensed.

### 1. Significant accounting policies:

These financial statements have been prepared in accordance with Section 331(4) of the Act which states that, except as otherwise specified by OSFI, the financial statements are to be prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies adopted by the Company are set out below. These accounting policies conform, in all material respects, to Canadian generally accepted accounting principles.

(a) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the reporting period. Actual results could differ from these estimates.

(b) Cash and cash equivalents:

Cash and cash equivalents consist of balances with financial institutions that have an initial term to maturity of three months or less, net of cheques and other items in transit.

(c) Investments:

Investments in pooled funds are carried at cost.

A write-down of the carrying value of investments is charged against income when evidence indicates a decline in the underlying value and earning power of an investment that is other than temporary. Gains and losses on disposal of investments are determined on a completed transaction basis.



## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(in thousands of dollars)

Year ended December 31, 2005

### 1. Significant accounting policies (continued):

(d) Property and equipment:

Property and equipment is carried at cost less accumulated amortization. Amortization is provided on the following basis:

Asset	Basis	Rate
Building	Declining balance	5%
Furniture and equipment	Declining balance	20%
Computer equipment	Straight-line	33%

(e) Premiums earned and deferred policy acquisition costs:

i) Premiums and unearned premiums:

Insurance premiums are included in income 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.

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 method followed in determining the deferred policy acquisition costs limits the amount of the deferrals to a realizable value giving consideration to losses and expenses expected to be incurred as premiums are earned. Consideration is given to anticipated investment income in determining the amount of the deferral.

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## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(in thousands of dollars)

Year ended December 31, 2005

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### 1. Significant accounting policies (continued):

(f) Unpaid claims and adjusting expenses:

The provision for unpaid claims represents the amounts needed to provide for the estimated ultimate expected cost of settling claims related to insured events (both reported and unreported) that have occurred on or before each balance sheet date. The provision for adjusting expenses represents the estimated ultimate expected costs of investigating, resolving and processing these claims. The computation of these provisions takes into account the time value of money. 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.

(g) Reinsurance:

The Company reflects reinsurance balances on the balance sheet on a gross basis to indicate the extent of credit risk related to reinsurance and its obligations to policyholders and on a net basis in the statement of operations to indicate the results of its retention of premiums written.

Amounts recoverable from reinsurers are estimated in a manner consistent with the related liability.

(h) Income taxes:

Income taxes are accounted for using the liability method of tax allocation. Under this method, future 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. The major differences relate to unpaid claims and adjusting expenses, investments, amortization of property and equipment and the accrued pension benefit asset.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(in thousands of dollars)

Year ended December 31, 2005

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### 1. Significant accounting policies (continued):

(i) Accrued pension benefit:

The Company maintains a contributory defined benefit pension plan for substantially all its employees. The cost of pension benefits earned by employees is determined 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 the pension plan's expected investment yields, salary escalations, mortality of members, terminations and the ages at which members will retire.

For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

Past service costs from plan amendments are deferred and amortized on a straight line basis over the average remaining service life of members active at the date of the amendment.

Actuarial gains (losses) on plan assets arise from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period. Actuarial gains (losses) 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. The excess of the net accumulated actuarial gains (losses) over ten percent of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the average remaining service life of active members.

### 2. 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 in accordance with accepted actuarial practice and regulatory requirements and report thereon to the policyholders. 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 his 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 auditors' report outlines the scope of their audit and their opinion.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(in thousands of dollars)

Year ended December 31, 2005

### 3. Investments:

In 2005, the Company switched from holding individual debt securities to units in a number of pooled funds. The allocation of investments by asset class, is as follows:

	2005		2004	
	Book Value	Estimated Fair Value	Book Value	Estimated Fair Value
Cash equivalents	\$ -	\$ -	\$ 188	\$ 188
Short-term investments	557	557	-	-
Debt:				
Government	22,689	22,773	19,451	19,958
Corporate	4,772	4,790	6,191	6,379
	<u>28,018</u>	<u>28,120</u>	<u>25,642</u>	<u>26,337</u>
Equities:				
Canadian	1,933	2,703	2,332	2,812
U.S.	1,701	1,668	1,539	1,442
Non-North American	1,250	1,363	1,170	1,171
	<u>4,884</u>	<u>5,734</u>	<u>5,041</u>	<u>5,425</u>
	<u>\$ 32,902</u>	<u>\$ 33,854</u>	<u>\$ 30,871</u>	<u>\$ 31,950</u>

The estimated fair value of investments is based on quoted market values.



## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(in thousands of dollars)

Year ended December 31, 2005

### 3. Investments (continued):

The difference between book value and estimated fair value of the investments consists of the following gross unrealized gains and losses:

	2005		2004	
	Unrealized gains	Unrealized losses	Unrealized gains	Unrealized losses
<b>Debt:</b>				
Government	\$ 84	\$ -	\$ 507	\$ -
Corporate	18	-	188	-
	102	-	695	-
<b>Equities:</b>				
Canadian	770	-	480	-
U.S.	-	33	-	97
Non-North American	113	-	1	-
	883	33	481	97
	\$ 985	\$ 33	\$ 1,176	\$ 97

Liquidity and interest rate risk:

	Effective yield	Duration
Money Market pooled fund	3.2%	121 days
Fixed Income pooled fund	4.2%	6.7 years

Investments are susceptible to interest rate fluctuations. The impact on investment income in the next year over that of the current year, for fixed rate investments maturing within one year would not be materially different if the yield to maturity were to change by 100 basis points (1%).

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## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(in thousands of dollars)

Year ended December 31, 2005

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### 4. 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. These factors 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 and settlement practices, the effect of inflationary trends on future claims settlement costs, investment rates of return, court decisions, economic conditions and public attitudes. In addition, time can be a critical part of the provision determination, since the longer the span between the incidence of loss and the payment or settlement of the claims, the more variable the ultimate settlement can be. Accordingly, short-tailed claims, such as property claims, tend to be more reasonably predictable than long-tailed claims, such as general liability claims.

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



## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(in thousands of dollars)

Year ended December 31, 2005

### 4. Unpaid claims and adjusting expenses (continued):

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

Type of claim provision	2005		2004	
	Gross	Reinsurers' Share	Gross	Reinsurers' Share
Long settlement term:				
Automobile (excluding physical damage)	\$ 1,444	\$ 87	\$ 1,394	\$ 78
General liability	3,708	244	2,604	282
Short settlement term	7,092	1,801	3,822	289
	\$ 12,244	\$ 2,132	\$ 7,820	\$ 649

#### *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 4.12% (2004 - 4.37%).

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 claim development, reinsurance recoveries and future investment income. The PFADs selected are in the mid-range of those recommended by the Canadian Institute of Actuaries.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(in thousands of dollars)

Year ended December 31, 2005

### 4. Unpaid claims and adjusting expenses (continued):

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

	2005		2004	
	Discounted	Undiscounted	Discounted	Undiscounted
Gross provision	\$ 12,244	\$ 12,254	\$ 7,820	\$ 8,024
Reinsurance ceded	2,132	2,134	649	678

The impact on net unpaid claims at the balance sheet date could be an increase of up to \$171,000 if the discount rate were to decrease by 100 basis points (1%).

#### *Claims and adjusting expenses:*

Changes in claim liabilities recorded in the balance sheet for the years ended December 31, 2005 and 2004 and their impact on claims and adjusting expenses for the two years follow:

	2005	2004
Unpaid claim liabilities, beginning of year, net	\$ 7,171	\$ 7,705
Decrease in estimated losses and expenses, for losses occurring in prior years	(49)	(1,019)
Provision for losses and expense on claims occurring in the current year	17,731	13,555
Paid on claims occurring during:		
Current year	(10,570)	(8,504)
Prior years	(4,171)	(4,566)
Unpaid claim liabilities, end of year, net	10,112	7,171
Reinsurers' share	2,132	649
Provision for unpaid claims and adjusting expenses, end of year	\$ 12,244	\$ 7,820

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(in thousands of dollars)

Year ended December 31, 2005

### 5. Underwriting policy and reinsurance ceded:

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

The Company follows the policy of underwriting and reinsuring contracts of insurance that limits the liability of the Company to \$350,000 (2004 - \$350,000) in the event of a single loss. The Company also has catastrophe reinsurance that has an upper limit of \$11,100,000 and which limits the Company's liability to \$1,000,000 (2004 - \$650,000) in the event of multiple property claims arising from a single occurrence.

The Company has guidelines and a review process in place to ascertain the credit worthiness of the companies to which it cedes. The Company places all of its reinsurance with companies registered with OSFI. There were no write-offs in 2005 or 2004. No information has come to the Company's attention indicating weakness or failure of any of its current reinsurers, so no provision has been made in the accounts for doubtful collection.

The following table sets out the impact of reinsurance ceded on premiums earned and claims and adjusting expenses:

	2005		2004	
Gross premiums earned	\$	27,466	\$	25,889
Deduction for reinsurance ceded		1,513		1,290
<b>Net premiums earned</b>	<b>\$</b>	<b>25,953</b>	<b>\$</b>	<b>24,599</b>
Gross claims and adjusting expenses	\$	19,241	\$	12,885
Deduction for reinsurance ceded		1,559		349
<b>Claims and adjusting expenses</b>	<b>\$</b>	<b>17,682</b>	<b>\$</b>	<b>12,536</b>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(in thousands of dollars)

Year ended December 31, 2005

### 6. Income taxes:

Income tax expense, including both the current and future portions, varies from the amounts that would be computed by applying the statutory federal and provincial tax rates aggregating 37.3% (2004 - 37.6%) to income before taxes. Income taxes have been computed as follows:

	2005	2004
Tax at basic rates	\$ 29	\$ 1,613
Increase (decrease) in taxes resulting from:		
Permanent differences	(87)	(16)
Change in future statutory rates	(2)	6
Large corporation tax	5	-

Income tax provision (recovery)	\$ (55)	\$ 1,603
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Effective rate	(69.6)%	37.3 %
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The provision for income taxes is comprised of:

Current income tax provision	\$ 419	\$ 1,469
Future income tax provision (recovery)	(474)	134

Income tax provision (recovery)	\$ (55)	\$ 1,603
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The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities are presented below:

	2005	2004
Future income tax assets:		
Property and equipment	\$ 126	\$ 74
Unpaid claims and adjusting expenses	189	134
Investments	449	-
	\$ 764	\$ 208

Future income tax liabilities:

Accrued pension benefit	\$ (911)	\$ (996)
Investments	(334)	(167)

	(1,245)	(1,163)
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Net future income tax liability	\$ (481)	\$ (955)
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## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(in thousands of dollars)

Year ended December 31, 2005

### 7. Contributory defined benefit pension plan:

Plan assets and obligations:

	2005		2004	
Accrued benefit obligation:				
Balance, beginning of year	\$	8,972	\$	7,035
Current service cost		388		284
Interest cost		550		496
Members' contributions		-		-
Benefits paid		(398)		(308)
Actuarial losses (gains)		1,231		46
Plan amendments		-		1,419
Balance, end of year	\$	10,743	\$	8,972
Plan assets:				
Fair value, beginning of year	\$	12,242	\$	11,419
Actual return on plan assets		2,299		1,240
Members' contributions		-		-
Benefits paid		(398)		(308)
Plan expenses		(109)		(109)
Balance, end of year	\$	14,034	\$	12,242
Fair value of plan assets	\$	14,034	\$	12,242
Accrued benefit obligation		10,743		8,972
Funded status - surplus		3,291		3,270
Balance of unamortized amounts		(850)		(607)
Accrued benefit asset	\$	2,441	\$	2,663

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 July 1, 2002, and the next required valuation will be as of January 1, 2006.

Current service costs and other pension expenses net of the investment return on pension assets and amortization of experience gains totalling \$222,000 (2004 - \$117,000 reduction) has been recorded in general expenses in the statement of operations.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(in thousands of dollars)

Year ended December 31, 2005

### 7. Contributory defined benefit pension plan (continued):

Supplementary information:

Plan assets consists of units in a number of pooled funds with a balanced mandate.

The Company bears the risk of experience loss against the actuarial assumptions and credit risk associated with the 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 significant actuarial assumptions adopted in measuring the Company's benefit obligation are as follows:

	2005	2004
Discount rate	5.3 %	6.0 %
Expected rate of return on plan assets	6.5 %	6.5 %
Rate of compensation increase	4.0 %	4.0 %

The average remaining service period of active members is 16 years.

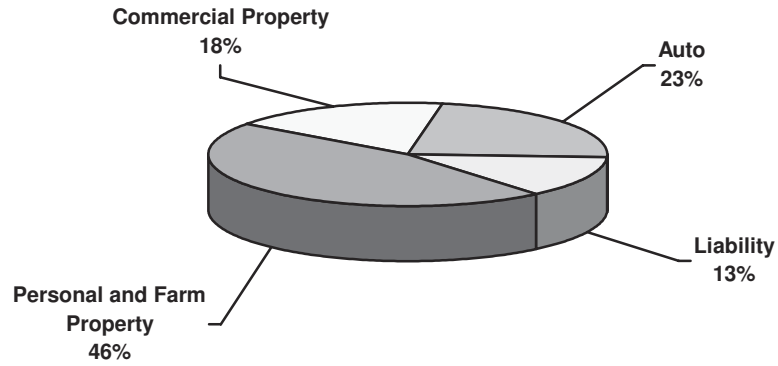
### 8. Fair values:

The fair value of financial assets and liabilities, other than investments (note 3) and unpaid claims and adjusting expenses (note 4) approximate their carrying amounts due to the short-term maturity of these financial instruments.

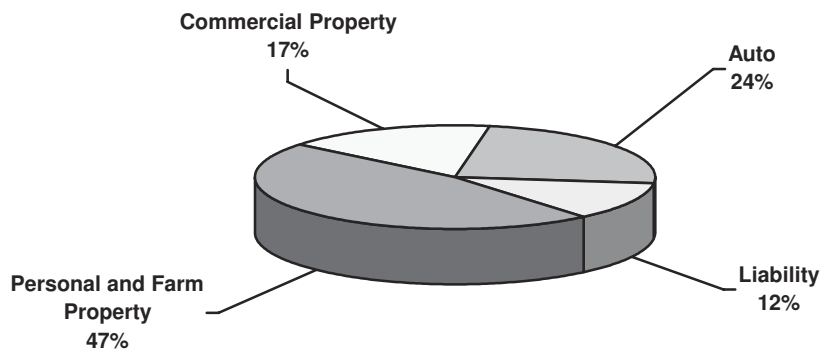
The fair value of unpaid claims and adjusting expenses has not been provided since the fair value cannot be determined with sufficient reliability.

# NET PREMIUMS WRITTEN BY CLASS OF BUSINESS

2005

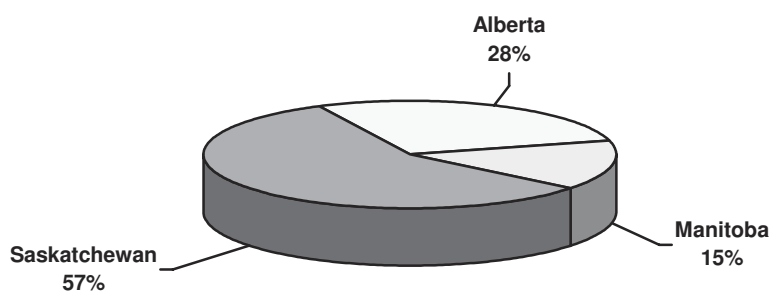


2004

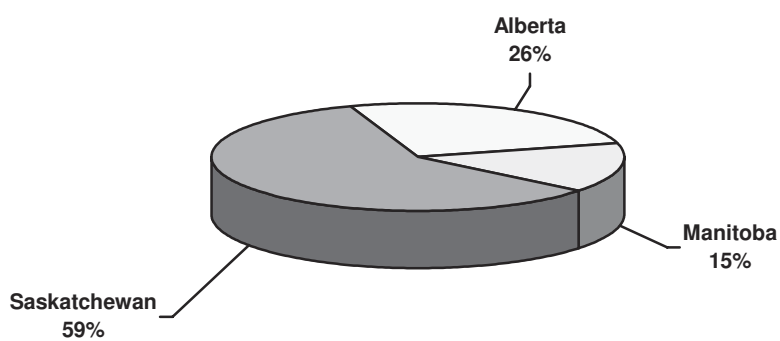


## NET PREMIUMS WRITTEN BY PROVINCE

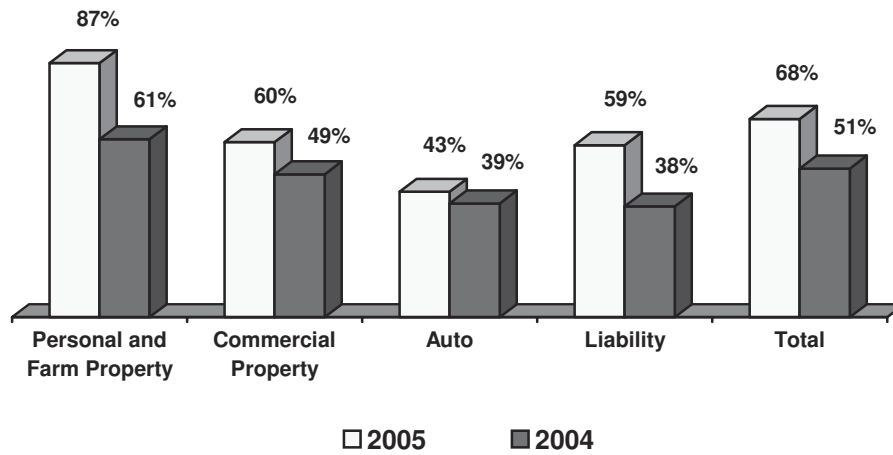
2005



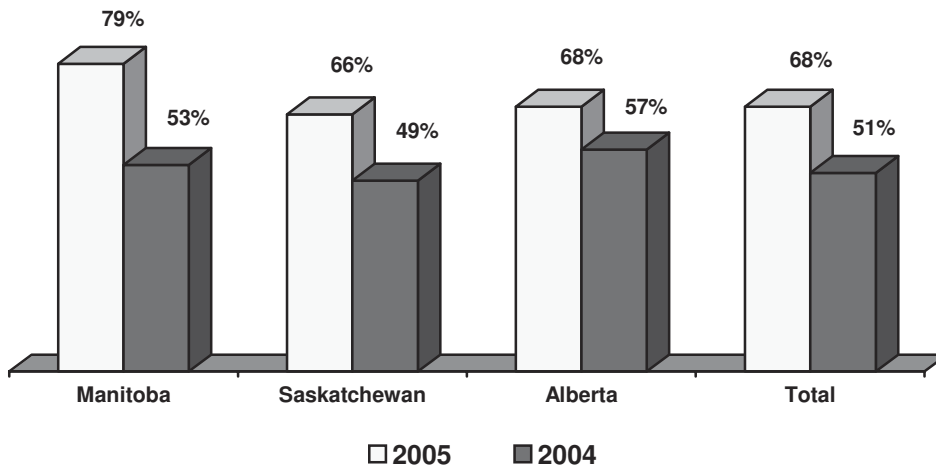
2004



### NET LOSS RATIO BY CLASS OF BUSINESS



### NET LOSS RATIO BY PROVINCE



## **CORPORATE MISSION**

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

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S.L. Willick, C.A.	Vice President, Finance and Administration
R.J. Wotherspoon, FCIP	Vice President, Claims
	Corporate Secretary/Compliance Officer

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N.J. Chabot, CIP, Regina  
T.D. Stone, CIP, Saskatoon



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For more information on our Code of Consumer Rights and Responsibilities, please refer to our website, [www.saskmutual.com](http://www.saskmutual.com).

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SMI is committed to protecting the privacy of the personal information of its customers, which includes insureds, former insureds, applicants, claimants and other individuals involved in a claim. The federal Personal Information Protection and Electronic Documents Act (PIPEDA) sets out the rights of the consumer and duties of the company to protect personal information and puts into law the general insurance industry privacy practices that we follow. Our pledge is to safeguard the privacy rights defined in PIPEDA and all other relevant laws.

For more information on our privacy policies or procedures, please refer to our website, [www.saskmutual.com](http://www.saskmutual.com). You may also contact the Vice President, Finance and Administration.

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