



SASKATCHEWAN MUTUAL INSURANCE COMPANY

ANNUAL REPORT 2006



"Security & Service Since 1908"

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors is pleased to present the 2006 Annual Report to the policyholders of Saskatchewan Mutual Insurance Company

In preparing the 2006 report, we reflected upon the achievements, challenges and issues faced by SMI during the year and we are very pleased to report that 2006 was an exceptionally good year. The net loss ratio decreased to 50% from 68% in 2005, a direct result of fewer large losses and no catastrophe losses in 2006.

Our financial strength continued to grow as evidenced by the increase in surplus to \$23.9 million (2005 - \$19.5 million), growth in financial assets to \$55.5 million (2005 - \$48.1 million) and a healthy net risk ratio, net written premiums to surplus, of 1.2 (2005 - 1.4). Our current A.M. Best financial strength rating, which evaluates a company's balance sheet strength, operating performance and business profile, is A- pd (Excellent). We recognize that a healthy surplus position will allow SMI to safely increase written premiums while protecting against large loss years.

In 2006, direct written premiums increased by 9% to \$31.1 million. Much of this growth is attributed to an increase in commercial business primarily in Alberta and Manitoba and to a lesser degree growth in habitational business in Manitoba and Saskatchewan. SMI continues to focus its growth marketing strategies on commercial and auto business which in 2006 generated the lowest loss ratios.

The expense ratio increased from 41% in 2005 to 42% in 2006. The majority of the increase was a result of higher salary and benefit costs. SMI continues to balance these costs against the necessity of retaining, training and attracting highly qualified staff to lead SMI into the future. In 2006 SMI experienced significant progress towards the implementation of a new web-based information technology system which is targeted for completion in 2007.

In the interest of securing the best possible investment returns while minimizing the risk of capital loss, SMI appointed a new investment manager in 2006. This change resulted in significant realized capital gains of \$1.6 million on the disposition of the previously held investments. Total investment income increased to \$3.5 million from \$2.2 million in 2005 and at year end investments totaled \$40.1 million compared to \$32.9 million in the previous year.

SMI continues to support the independent broker system and we wish to extend our sincere thanks to our brokers for their continuing support and loyalty. Our commitment to provide the best possible service to our brokers and policyholders underlies all that we do.

We wish to expressly thank all employees for their hard work and dedication throughout the year. The company's success over the years is a direct result of their efforts, knowledge and expertise.

It is with regret that we announce the retirement of our Board Chairman, A.G. Ayers. Mr. Ayers contributions over his twenty years on the Board have been significant. We will miss his enthusiasm, wealth of knowledge and commitment to the success of the company.



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, 2007

AUDITORS' REPORT TO THE POLICYHOLDERS

We have audited the balance sheet of Saskatchewan Mutual Insurance Company as at December 31, 2006 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, 2006 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, 2007

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, 2006 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 23, 2007



BALANCE SHEET


(in thousands of dollars)

December 31, 2006, with comparative figures for 2005

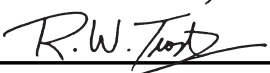
	2006	2005
Assets		
Cash	\$ 2,053	\$ 1,974
Investments (note 4)	40,856	32,902
Premiums due from policyholders	3,525	3,100
Amounts due from brokers	1,134	1,193
Income taxes receivable	-	473
Sundry accounts receivable	90	14
Reinsurers' share of provisions for:		
Unpaid claims and adjusting expenses (note 5)	1,519	2,132
Unearned premiums	46	41
Deferred policy acquisition costs	3,565	3,265
Property and equipment at cost less accumulated amortization of \$2,381 (2005 - \$2,338)	622	551
Accrued pension benefits (note 8)	2,100	2,441
	<u>\$ 55,510</u>	<u>\$ 48,086</u>
Liabilities and Surplus		
Due to other insurance companies	\$ 225	\$ 270
Premium taxes payable	1,213	1,120
Accounts payable	561	137
Income taxes payable	990	-
Unpaid claims and adjusting expenses (note 5)	12,338	12,244
Unearned premiums	15,599	14,337
Future income taxes (note 7)	653	481
	<u>31,579</u>	<u>28,589</u>
Surplus	23,931	19,497
	<u>\$ 55,510</u>	<u>\$ 48,086</u>

See accompanying notes to financial statements.

On behalf of the Board:



Director



Director

STATEMENTS OF OPERATIONS AND SURPLUS

(in thousands of dollars)

Year ended December 31, 2006, with comparative figures for 2005

	2006	2005
Direct premiums written	\$ 31,104	\$ 28,589
Reinsurance ceded	1,332	1,514
Net premiums written	29,772	27,075
Change in unearned premiums	(1,257)	(1,122)
Net premiums earned (note 6)	28,515	25,953
Service charges	236	225
	28,751	26,178
Claims and adjusting expenses (note 6)	14,332	17,682
Commissions	5,887	5,308
Premium taxes and licenses	1,255	1,161
General expenses	4,767	4,144
	26,241	28,295
Net underwriting income (loss)	2,510	(2,117)
Investment operations:		
Investment income	1,394	1,274
Gain on sale of investments	2,277	1,060
Rental income	7	5
	3,678	2,339
Expenses	156	143
Investment income	3,522	2,196
Earnings before income taxes	6,032	79
Income tax provision (recovery) (note 7)	1,598	(55)
Net earnings	4,434	134
Surplus, beginning of year	19,497	19,363
Surplus, end of year	\$ 23,931	\$ 19,497



STATEMENT OF CASH FLOWS

(in thousands of dollars)

Year ended December 31, 2006, with comparative figures for 2005

	2006	2005
Cash provided by (used in):		
Operations:		
Net earnings	\$ 4,434	\$ 134
Items not affecting cash:		
Future income tax provision (recovery)	172	(474)
Amortization of property and equipment	141	81
Gain on sale of investments	(2,277)	(1,060)
Amortization of premium on bonds	-	144
Change in non-cash balances related to operations:		
Unearned premiums	1,262	1,123
Unpaid claims and adjusting expenses	94	4,424
Reinsurers' share of unearned premiums	(5)	(1)
Reinsurers' share of unpaid claims and adjusting expenses	613	(1,483)
Deferred policy acquisition costs	(300)	(266)
Accrued pension benefit	341	222
Receivables	31	(712)
Payables	1,462	(1,052)
	5,968	1,080
Investments:		
Purchase of fixed income investments	(51,500)	(87,723)
Purchase of equities	(262)	(871)
Proceeds from sale of fixed income investments	39,155	85,984
Proceeds from sale of equities	6,921	1,307
Purchase of equipment	(214)	(137)
Proceeds from sale of equipment	11	-
	(5,889)	(1,440)
Increase (decrease) in cash and cash equivalents	79	(360)
Cash, beginning of year	1,974	2,334
Cash, end of year	\$ 2,053	\$ 1,974
Supplemental cash flow disclosure:		
Income taxes paid (recovered)	\$ (37)	\$ 2,079

NOTES TO FINANCIAL STATEMENTS

(in thousands of dollars)

Year ended December 31, 2006

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, 2006

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(in thousands of dollars)

Year ended December 31, 2006

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.



NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(in thousands of dollars)

Year ended December 31, 2006

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. Recently issued standards:

In 2005, the Accounting Standards Board ("AcSB) issued new and revised standards that are effective for the Company's fiscal years beginning January 1, 2007. The impact of these new standards is not yet determinable and will be dependent upon the Company's outstanding positions and market volatility.

a) Comprehensive income:

Unrealized gains and losses on financial assets that will be held as available-for-sale will be recorded in other comprehensive income, net of tax, until recognized in earnings. Accumulated other comprehensive income will form part of surplus.

b) Equity:

An enterprise is required to present a separate component of equity for each category of equity that is of a different nature.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(in thousands of dollars)

Year ended December 31, 2006

2. Recently issued standards (continued):

c) Financial instruments:

All financial assets will be classified as one of the following: held-to-maturity, loans and receivables, held for trading or available-for-sale. All financial liabilities will be classified as held for trading or other liabilities. Financial assets and liabilities held for trading will be measured at fair value with gains and losses recognized in net earnings. Financial assets held-to-maturity, receivables and financial liabilities other than those held-for-trading, will be measured at amortize cost based on the effective interest method. Available-for-sale instruments will be measured at fair value with gains and losses recognized in other comprehensive income. Revised standards also address the presentation and disclosure of financial instruments and non-financial derivatives.

3. 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, 2006

4. Investments:

In December 2006 pooled funds were liquidated and transferred to a new investment manager. Funds transferred to the new investment manager were temporarily invested in money market pooled funds. Subsequent to year end, funds were invested in debt and equity pooled funds in accordance with the Company's Statement of Investment Policies.

The allocation of investments by asset class at December 31 is as follows:

	2006		2005	
	Book Value	Estimated Fair Value	Book Value	Estimated Fair Value
Short-term investments	\$ 40,856	\$ 40,856	\$ 557	\$ 557
Debt:				
Government	-	-	22,689	22,773
Corporate	-	-	4,772	4,790
	40,856	40,856	28,018	28,120
Equities:				
Canadian	-	-	1,933	2,703
U.S.	-	-	1,701	1,668
Non-North American	-	-	1,250	1,363
	-	-	4,884	5,734
	\$ 40,856	\$ 40,856	\$ 32,902	\$ 33,854

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

Liquidity and interest rate risk:

	Effective yield	Duration
Money Market pooled fund	4.3%	70 days
Short term investments	4.2%	75 days

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 could be a decrease of up to \$409,000 if the yield to maturity were to decrease by 100 basis points (1%).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(in thousands of dollars)

Year ended December 31, 2006

5. 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, 2006

5. 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	2006		2005	
	Gross	Reinsurers' Share	Gross	Reinsurers' Share
Long settlement term:				
Automobile (excluding physical damage)	\$ 2,787	\$ 139	\$ 1,444	\$ 87
General liability	4,336	545	3,708	244
Short settlement term	5,215	835	7,092	1,801
	\$ 12,338	\$ 1,519	\$ 12,244	\$ 2,132

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 4.25% (2005 - 4.12%).

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, 2006

5. Unpaid claims and adjusting expenses (continued):

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

	2006		2005	
	Discounted	Undiscounted	Discounted	Undiscounted
Gross provision	\$ 12,338	\$ 12,469	\$ 12,244	\$ 12,254
Reinsurance ceded	1,519	1,564	2,132	2,134

The impact on net unpaid claims at the balance sheet date could be an increase of up to \$200,000 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, 2006 and 2005 and their impact on claims and adjusting expenses for the two years follow:

	2006	2005
Unpaid claim liabilities, beginning of year, net	\$ 10,112	\$ 7,171
Decrease in estimated losses and expenses, for losses occurring in prior years	(88)	(49)
Provision for losses and expense on claims occurring in the current year	14,420	17,731
Paid on claims occurring during:		
Current year	(7,324)	(10,570)
Prior years	(6,301)	(4,171)
Unpaid claim liabilities, end of year, net	10,819	10,112
Reinsurers' share	1,519	2,132
Provision for unpaid claims and adjusting expenses, end of year	\$ 12,338	\$ 12,244

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(in thousands of dollars)

Year ended December 31, 2006

6. 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 \$500,000 (2005 - \$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 (2005 - \$1,000,000) 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 2006 or 2005. 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:

	2006	2005
Gross premiums earned	\$ 29,842	\$ 27,466
Deduction for reinsurance ceded	1,327	1,513
Net premiums earned	\$ 28,515	\$ 25,953
Gross claims and adjusting expenses	\$ 14,885	\$ 19,241
Deduction for reinsurance ceded	553	1,559
Claims and adjusting expenses	\$ 14,332	\$ 17,682

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(in thousands of dollars)

Year ended December 31, 2006

7. 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 36.0% (2005 - 37.3%) to income before taxes. Income taxes have been computed as follows:

	2006	2005
Tax at basic rates	\$ 2,171	\$ 29
Increase (decrease) in taxes resulting from:		
Permanent differences	(457)	(87)
Change in future statutory rates	(127)	(2)
Large corporation tax	11	5
Income tax provision (recovery)	\$ 1,598	\$ (55)
Effective rate	26.5 %	(69.6)%
The provision for income taxes is comprised of:		
Current income tax provision	\$ 1,426	\$ 419
Future income tax provision (recovery)	172	(474)
Income tax provision (recovery)	\$ 1,598	\$ (55)

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities are presented below:

	2006	2005
Future income tax assets:		
Property and equipment	\$ 50	\$ 126
Unpaid claims and adjusting expenses	165	189
Investments	-	449
	\$ 215	\$ 764
Future income tax liabilities:		
Accrued pension benefit	\$ (640)	\$ (911)
Investments	(228)	(334)
	(868)	(1,245)
Net future income tax liability	\$ (653)	\$ (481)



NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(in thousands of dollars)

Year ended December 31, 2006

8. Contributory defined benefit pension plan:

Plan assets and obligations:

	2006	2005
Accrued benefit obligation:		
Balance, beginning of year	\$ 10,743	\$ 8,972
Current service cost	518	388
Interest cost	582	550
Members' contributions	-	-
Benefits paid	(351)	(398)
Actuarial losses	866	1,231
Balance, end of year	\$ 12,358	\$ 10,743
Plan assets:		
Fair value, beginning of year	\$ 14,034	\$ 12,242
Actual return on plan assets	1,186	2,299
Members' contributions	-	-
Benefits paid	(351)	(398)
Plan expenses	(134)	(109)
Balance, end of year	\$ 14,735	\$ 14,034
Fair value of plan assets	\$ 14,735	\$ 14,034
Accrued benefit obligation	12,358	10,743
Funded status - surplus	2,377	3,291
Balance of unamortized amounts	(277)	(850)
Accrued benefit asset	\$ 2,100	\$ 2,441

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, 2005, and the next required valuation will be as of December 31, 2008.

Current service costs and other pension expenses net of the investment return on pension assets and amortization of experience gains totalling \$341,000 (2005 - \$220,000) has been recorded in general expenses in the statement of operations.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(in thousands of dollars)

Year ended December 31, 2006

8. Contributory defined benefit pension plan (continued):

Supplementary information:

Plan assets consists of units in a number of pooled funds invested in accordance with the Plan's Statement of Investment Policies.

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:

	2006	2005
Discount rate	5.3 %	5.3 %
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.

9. Fair values:

The fair value of financial assets and liabilities, other than investments (note 4) and unpaid claims and adjusting expenses (note 5) approximate their carrying amounts due to the short-term maturity of these financial instruments.

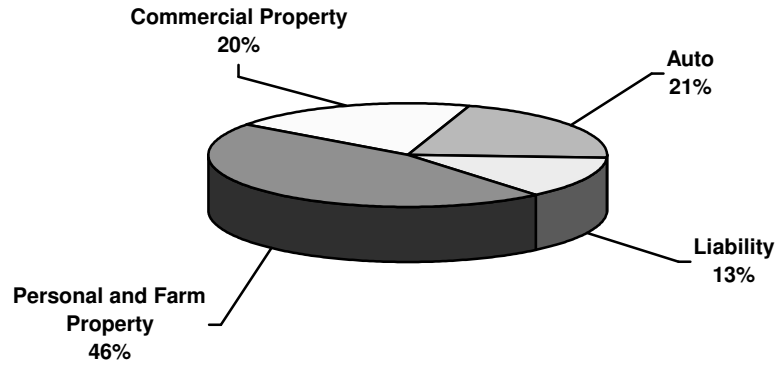
The fair value of unpaid claims and adjusting expenses has not been provided since the fair value cannot be determined with sufficient reliability.

10. Comparative figures:

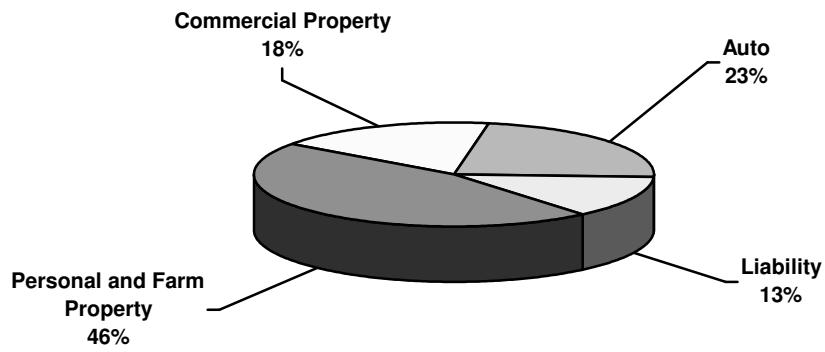
Certain comparative figures have been reclassified to conform with the financial statement presentation in the current year.

NET PREMIUMS WRITTEN BY CLASS OF BUSINESS

2006

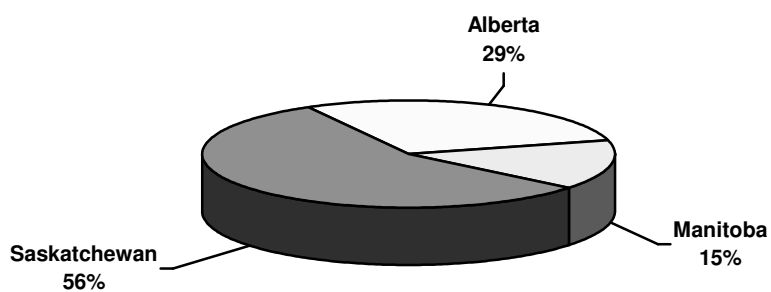


2005

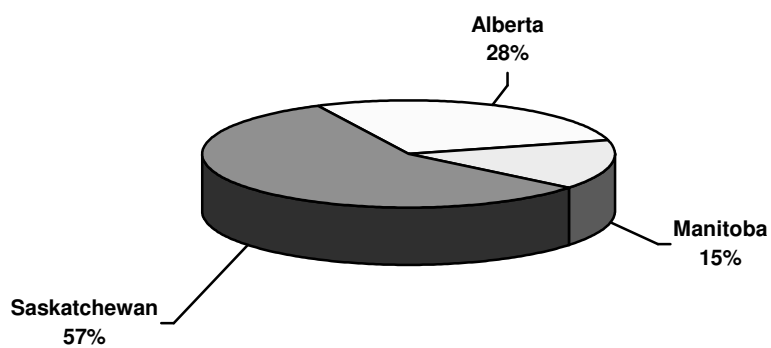


NET PREMIUMS WRITTEN BY PROVINCE

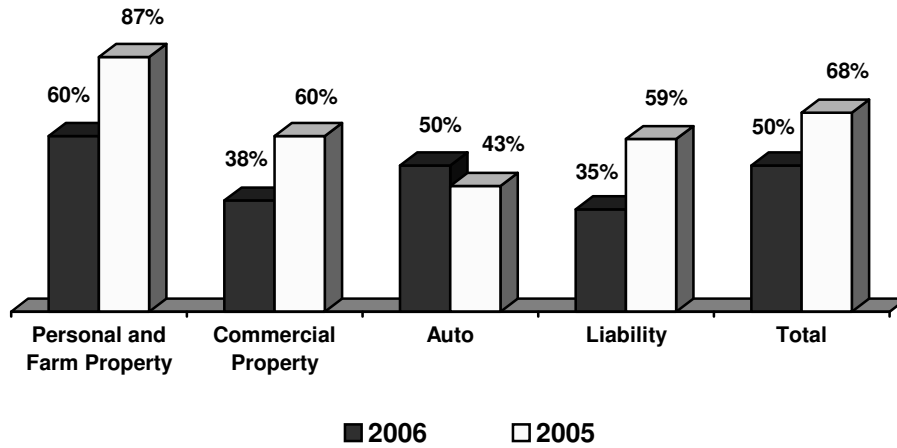
2006



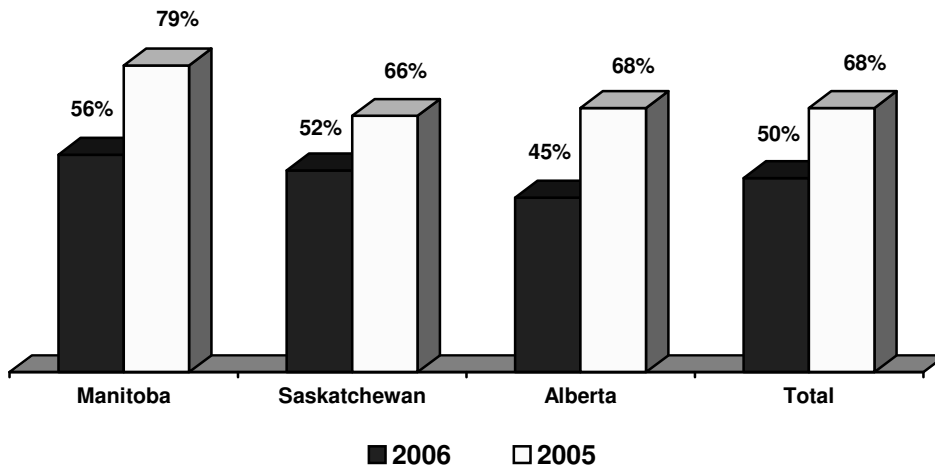
2005



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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D.R. Arnold	Vice Chairman
T.G. Davis	
B.A. Latrace-Henderson	
P.L. Salisbury	
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M.E. Van Impe	
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K.L. Heuchert, MCSE	Vice President, Technology
D.M. Thiessen, FCIP	Vice President, Underwriting and Marketing
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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S.M. Cronin Roussel, CIP, Edmonton
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CLAIMS REPRESENTATIVES

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N.J. Chabot, CIP, Regina
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CODE OF CONSUMER RIGHTS AND RESPONSIBILITIES

Insurance companies, along with the brokers and agents who sell home, auto and business insurance, are committed to safeguarding your rights when you shop for insurance and when you submit a claim following a loss. Your rights include the right to be informed fully, to be treated fairly, to timely complaint resolution, and to privacy. These rights are grounded in the contract between you and your insurer and the insurance laws of your province. With rights, however, come responsibilities including, for example, the expectation that you will provide complete and accurate information to your insurer. Your policy outlines other important responsibilities. Insurers and their distribution networks, and governments also have important roles to play in ensuring that your rights are protected.

For more information on our Code of Consumer Rights and Responsibilities, please refer to our website, 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. You may also contact the Vice President, Finance and Administration.

279 3rd Avenue North
Saskatoon, SK S7K 2H8
Telephone: (306) 653-4232
Fax: (306) 653-3260
Email address: headoffice@saskmutual.com
Website: www.saskmutual.com