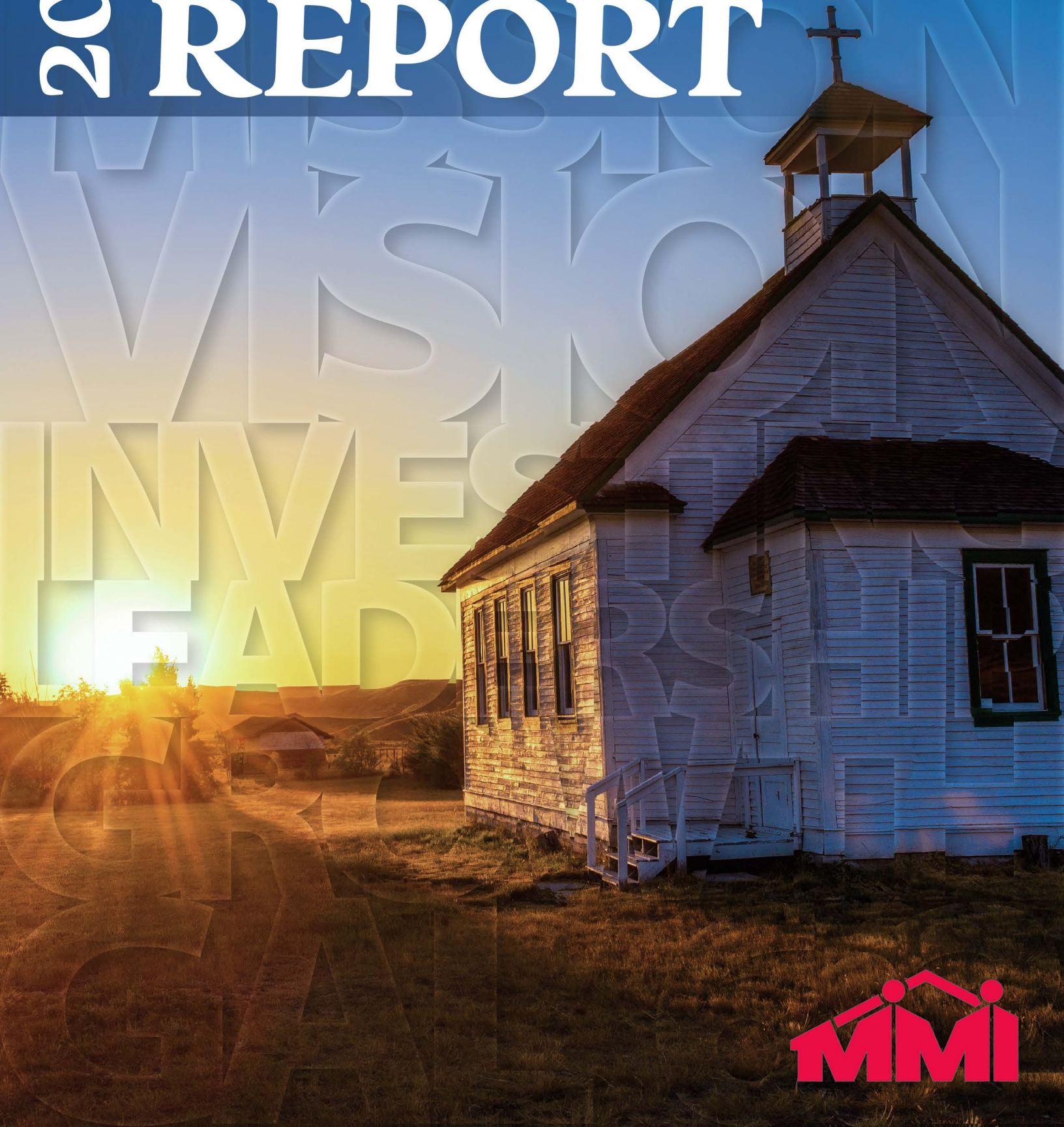


2018 ANNUAL REPORT



Our Mission | Our Vision

To provide mutual aid by meeting the property and casualty insurance needs of the Mennonite community and those of like faith in Alberta, thereby supporting and strengthening the church.

To be an organization of Mennonite believers and others of like faith that consistently exemplifies the principles in Galatians 6:2, "Bear one another's burdens, and so fulfill the law of Christ." (NIV)

*“The insurance market of choice for
evangelical Christians in Alberta”*

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Chairman's Report

MMI continued to grow and evolve as it met the insurance needs of its members in 2018. While the growth was not as large as last year, the investments we are making will make us a stronger company and help us achieve the goals of our Five Year Strategic Plan for 2020.

Some of the investments we have made include:

- New offices and increased staffing in Grande Prairie and Lethbridge
- Loss Control Programs related to Flooding
- Computer System Upgrades

We are pleased that we have again been able to donate 10% of our profit to MCC amounting to \$63,000. We also helped our member churches by giving matching funds of \$30,000 through our Compassion Fund.

The Board of MMI continues to oversee the Management of MMI through several committees. The Investment Committee oversees our investments and ensures they follow the MMI Investment Guidelines and Insurance Act requirements. While our returns are low, they are in line with the current state of the market. The Audit Committee establishes an Audit Plan and does a detailed review of the Audit with our Auditors. No irregularities were found.

The Corporate Governance Committee maintains and updates the Corporate Governance Manual, which includes the Bylaws, and oversees the performance evaluation and remuneration for the CEO. This committee is also exploring the role of an "Ambassador" who would provide a contact between MMI and churches which do not have a Treasurer or Adjuster. We are also planning a Bylaw review in 2019 for presentation to the AGM in 2020.

The Conduct Review Committee is tasked with ensuring operations are performed in accordance with the Insurance Act and that any potential conflicts of interest are reported to the board.

The Nominating Committee is responsible for finding qualified people to fill the Board of Directors. This year we appointed two new board members, Becky Andres from Calgary and Susan Siemens from La Crete. We also reappointed former board member, Abe Thiessen. The added gender diversity and skill levels of the new board members will help us be a stronger board and a stronger company. Gary Sawatsky took

a temporary leave from the board, but will rejoin in 2019.

The most significant event for MMI in 2018 was the retirement announcement of Ken Ritchie in April. Over the last 13 years Ken has brought a wealth of insurance industry experience to the company and implemented a number of initiatives that have a significant impact on processing claims and renewals and improved the overall efficiency of our organization. He led MMI through some very tough years of high claims and leaves the company in a very strong financial and organizational position. Under Ken's leadership we have expanded our exposure to other denominations and set a focus to become "the insurance company of choice for the evangelical Christians of Alberta".

As the board of MMI, we want to sincerely express our appreciation for the great work Ken has done for MMI over the past 13 years. Our prayer is that God will grant him a long healthy retirement with a satisfaction for the good work he has performed over his career.

In response to Ken's retirement a Succession Planning Committee was formed to select a new CEO and General Manager. From a pool of very qualified candidates, we were pleased to announce the hiring of Sandra van Raalten in December. Sandra has over 20 years of experience in the insurance industry, most recently with Wawanesa Mutual Insurance. She brings important leadership and technical skills to MMI. Sandra grew up as the daughter of missionaries to the First Nations and spent several years as Music and Arts Director at a church in BC before entering the insurance profession. The transition is going very well from Ken to Sandra and we are very confident that Sandra will be able to lead MMI through the next stage of its development.

As always, we want to thank the staff and management for the work they do on a daily basis to fulfill the mission of MMI. We also want to thank the volunteers for the work they do to help be the voice of MMI in the churches and to help those who have experienced a loss and are in need of financial, logistical and emotional assistance.

Kevin Neufeldt



Board Chair



CEO's Report

Investing in our Future

I was honoured to be invited by the board of directors of MMI to join the team in January of 2019. These past months have been filled with delightful discoveries about the people and history of MMI. I am learning that MMI (Alberta) Ltd. has a long tradition of putting into practise the Apostle Paul's edict to "Bear one another's burdens and thus fulfill the law of Christ." (Galatians 6:2) As an insurance company with our roots firmly planted in the faith of those who have gone before, we are in a unique position to play a strategic role in supporting and strengthening Mennonite and other evangelical churches in Alberta.

Year in Review

We are thankful that for the first time in 15 years, we did not have any weather-related catastrophic losses to report in 2018. As a result, gross claims incurred was just under \$4.0 million as compared to \$4.9 million in 2017. Net claims (after reinsurance recoveries) was \$3.8 million compared to \$3.9 million last year.

We did, however, experience a significant increase in water damage claims and our loss control department continues to seek ways in which to partner with our policyholders to reduce the risk of loss to property and/or life. This past year saw our network of exclusive inspection contractors throughout Alberta grow to six. A unified inspection scope was developed and delivered to the contractors in 2018.

Financially, we ended the year in a favourable position. We are more than adequately capitalized and although we always want to have a substantial cushion, we also want to make sure that we use capital appropriately for the business. While we saw growth on the brokerage side, our GWP (gross written premium) revenue for MMI decreased slightly.

Underwriting introduced and/or updated coverages and wordings for several specialty lines and completed a project to review and update all of the Personal Lines

wordings for home and farms. In addition, after an extensive review of our book of business, the 2019 rate change was developed and implemented. Our PIF count (Policies in Force) for 2018 was 7,845 and our retention rate was 93.1%. In 2018 the commercial department began handling all our large farms to provide a specialized service while, at the same time, providing "best in industry" coverages.

Of note, 2018 saw the beginning of our back-office software conversion. We have partnered with MCCG (Mutual Concept Computer Group) and our expected go-live date is spring of 2019.

Looking Forward

It is my conviction that our destiny generally informs our journey and answers questions such as, "Where are we going?" and "What is most important for us to know right now?" and "How should we prioritize our time and resources?" As a leadership team, we are focused on growing the company and expanding our reach. We are committed to the mission and vision of MMI and believe in the uniqueness and strategic advantage of our brand and business model.

Special Recognition

I would be remiss if I did not express my personal thanks to Ken Ritchie for generously making himself available to me during this transition period. Ken is leaving behind a strong leadership team and talented staff. Not only have they made me feel welcome, but they have extended grace and wisdom as I take my first steps into the new role.

Regards,



Sandra van Raalten
CEO & General Manager



Chief Financial Officer's Report

2018 was an interesting year for MMI from a financial perspective. There was a bit of good news and a bit of bad news; overall a decent year.

Financial Position

MMI continues to have a healthy financial position.

The good news: liabilities in general and specifically the claim payments we expect to pay in the near future (provision for unpaid claims) have decreased during 2018. The bad news: assets have also decreased, although by a smaller amount than the decrease in liabilities. As a result, our capital (members' equity) increased.

Net Income

We ended the year with a net income of \$650,000; slightly better than budget.

Policy Revenues

The bad news: neither gross premiums written, nor gross premiums earned grew by any significant amount in 2018.

Policy Expenses

The good news: MMI did not suffer any catastrophic losses this year. There were no severe weather events that caused significant claims and as a result our gross claims incurred were less than last year. The bad news: the amount of claims payments we could recover from our reinsurer (claims ceded to reinsurer) was also less than last year. As a result, our net claims incurred for 2018 and 2017 were almost equal.

Members' Equity

As previously mentioned, our capital (members' equity) increased during 2018. The amount of capital an insurance company has is an extremely important number and is closely watched by the Superintendent

of Insurance of Alberta. An insurance company must have enough capital to pay future claims and fund operations. In fact, the Superintendent has established a method to measure if an insurance company has enough capital; it is called the Minimum Capital Test (MCT).

The good news: the MCT at the end of 2018 was 493%, well above the required regulatory MCT of 150%. The bad news: the MCT at the end of 2018 was 493%, well above the internal target of 300% set by management with advice from our Appointed Actuary. Such a large spread between the MCT and the internal target means that we have underutilized our capital; money that we could spend for growth and improvement.

Cash Flows

Overall our cash balance grew by \$566,000. The good news: our insurance operations generated \$309,000. The bad news: we drew on our investments in the amount of \$257,000 to support our insurance operations.

Next Year

2019 will be a year of Ramping Up. A year in which we will put in place strategies for growth. When that year is complete, we expect to maintain our strong financial position and have the leadership, the teams and the technology to grow in 2020.

Regards,



Peggy Stevenson, CPA, CA
Chief Financial Officer



Board of Directors & Committees



BOARD OF DIRECTORS

Kevin Neufeldt	Chairman	Corney Driedger	Board Member
Gordon Baergen	Vice-Chairman	John Hubert	Board Member
Willy Goertzen	Treasurer	Abe Thiessen	Board Member
Lorne Siebert	Secretary	Becky Andres	Board Member
Sandra van Raalten	CEO & General Manager	Susan Siemens	Board Member

EXECUTIVE

Kevin Neufeldt	Board Chairman
Gordon Baergen	Board Vice-Chairman
Willy Goertzen	Treasurer
Lorne Siebert	Secretary
Sandra van Raalten	CEO & General Manager

CORPORATE GOVERNANCE

John Hubert	Committee Chairman
Kevin Neufeldt	Board Chairman
Becky Andres	Board Member
Sandra van Raalten	CEO & General Manager

AUDIT

Willy Goertzen	Committee Chairman
Lorne Seibert	Board Secretary
Gordon Baergen	Board Vice-Chairman
Abe Thiessen	Board Member

INVESTMENT

Willy Goertzen	Committee Chairman
Gordon Baergen	Board Vice-Chairman
Lorne Seibert	Board Secretary
Abe Thiessen	Board Member
Peggy Stevenson	Chief Financial Officer
Larry Jantzi	Chief Compliance Officer

CONDUCT REVIEW

Corney Driedger	Committee Chairman
Lorne Seibert	Board Secretary
John Hubert	Board Member
Susan Siemens	Board Member
Sandra van Raalten	CEO & General Manager

SUCCESSION PLANNING

Kevin Neufeldt	Board Chairman
Gordon Baergen	Board Vice Chairman
Willy Goertzen	Board Treasurer
Abe Thiessen	Board Member

NOMINATING

Gordon Baergen	Committee Chairman
Willy Goertzen	Board Treasurer
Kevin Neufeldt	Board Chairman
Susan Siemens	Board Member

Branch Locations

Calgary

300 - 2946 32 Street NE
Calgary AB T1Y 6J7



La Crete

9706 100 Street
La Crete AB T0H 2H0



Edmonton

4249 97 Street NW
Edmonton AB T6E 5Y7



Grande Prairie

101 - 9901 97 Avenue
Grande Prairie AB T8V 0N2

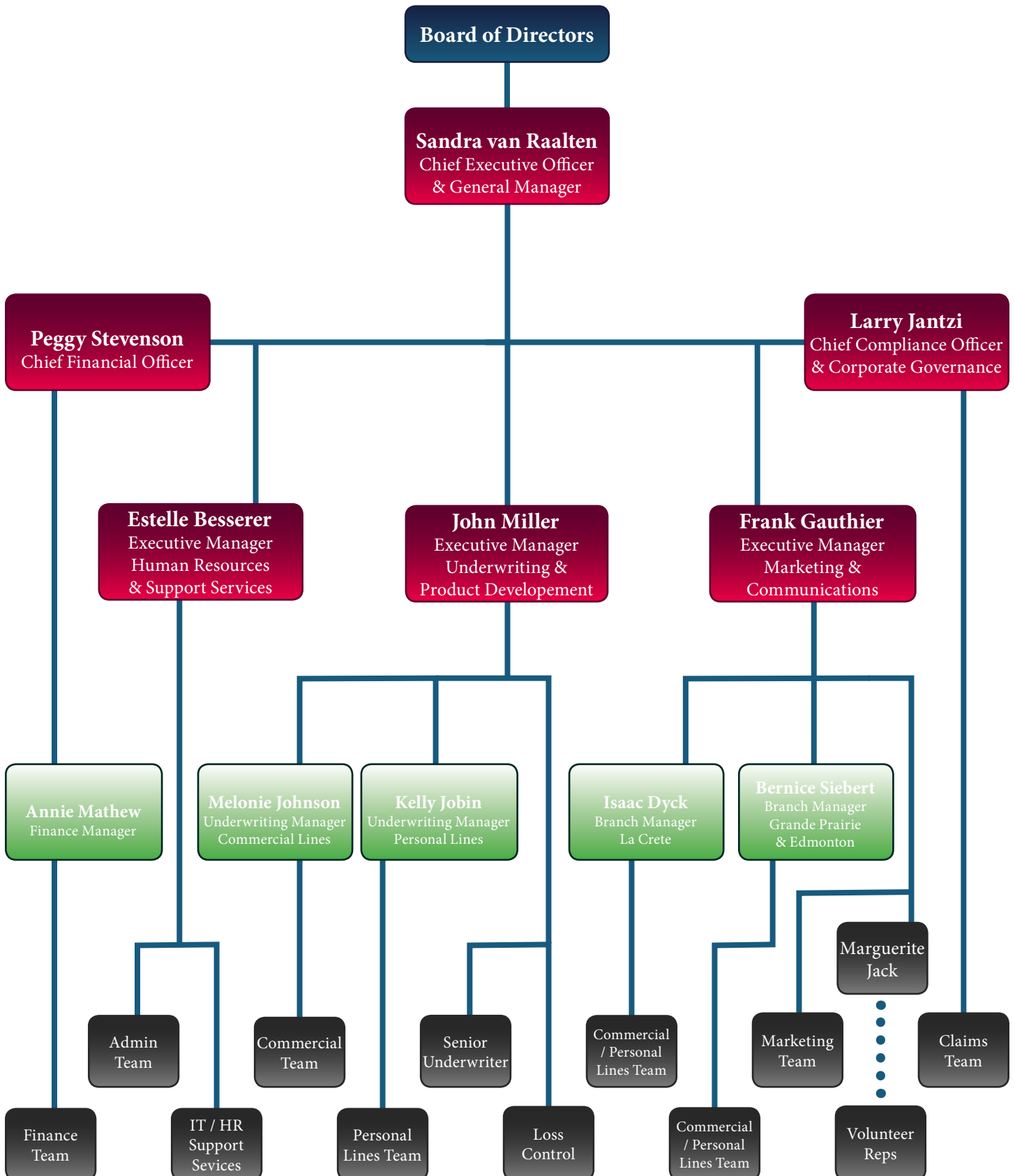


Lethbridge

4115 18 Ave N
Lethbridge AB T1H 5G1
(Temporary Location)



Corporate Structure

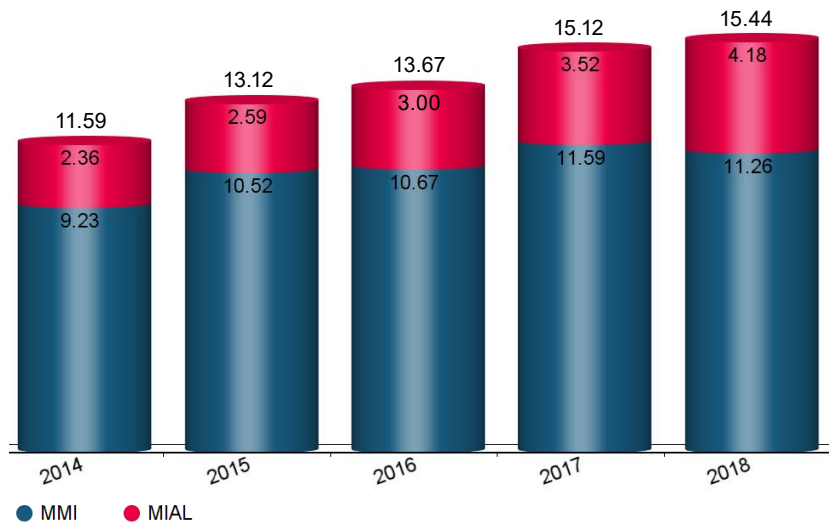


Financial Trends

GROSS WRITTEN PREMIUMS (GWP)

(\$ millions)

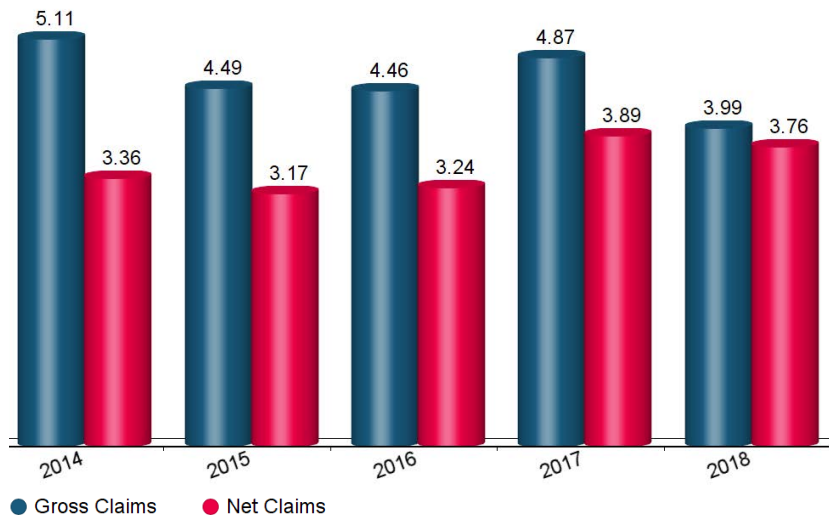
Although the revenue of MIAL is Commissions, we use GWP to measure the growth of MIAL. Based on GWP MIAL grew almost 18.6%. Alternatively, the GWP for MMI shrunk by 2.9%.



CLAIMS

(\$ millions)

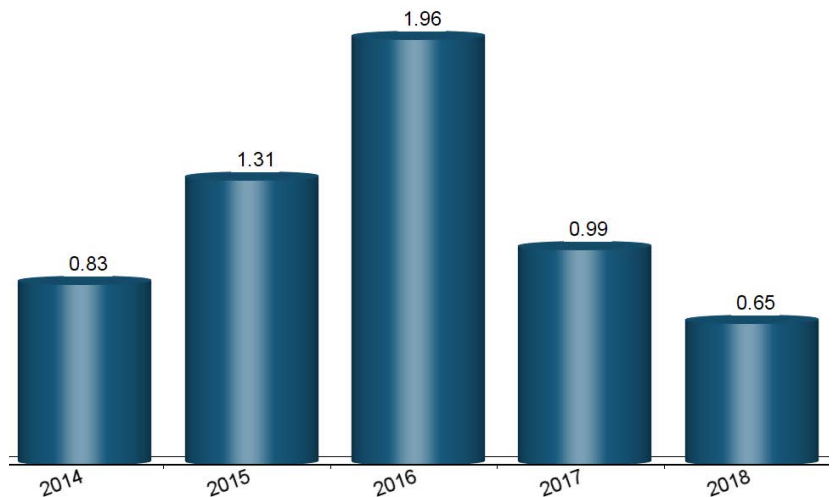
Net claims incurred is the amount of the gross claims incurred less the amount recovered from reinsurance.



NET INCOME

(\$ millions)

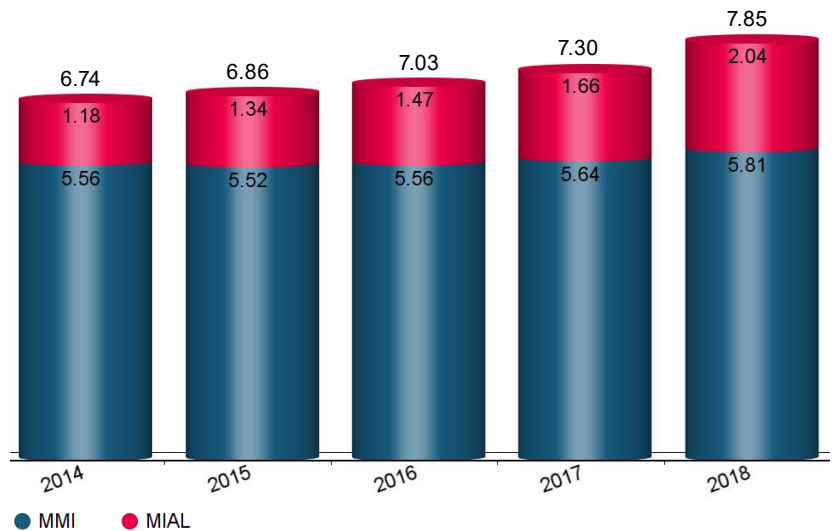
We ended 2018 with a profit of \$650 thousand.



Financial Trends

POLICIES IN FORCE

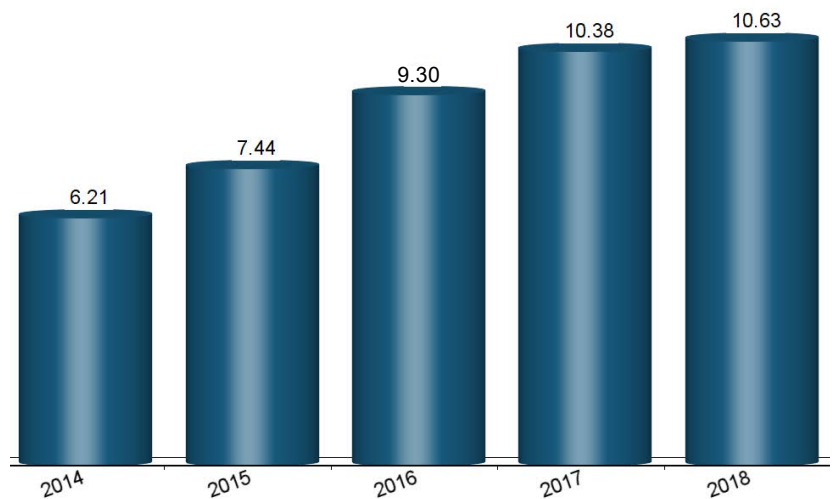
(in thousands)



MEMBERS' EQUITY

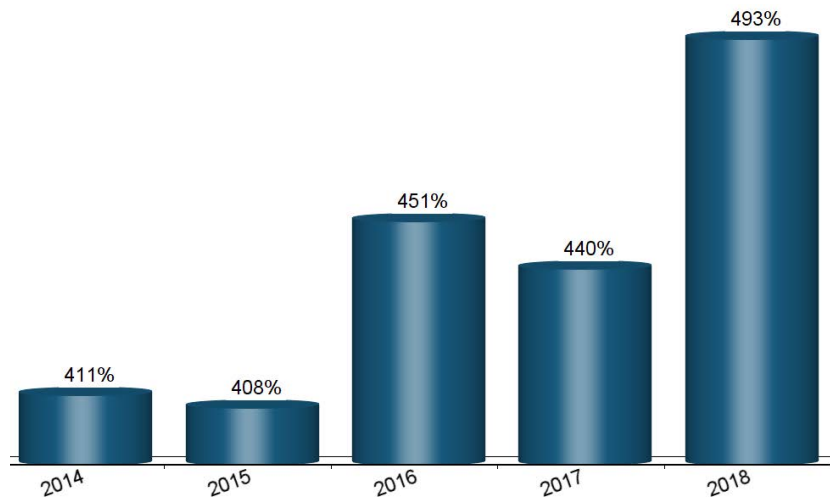
(\$ millions)

We wanted our members' equity to be \$10 million by the end of 2020. We achieved this in 2017; three years early.



MINIMUM CAPITAL TEST (MCT)

MCT is a standardized measure of capital adequacy of a property and casualty insurer. The minimum regulatory requirement is 150%. We have set our internal target at 300%.





2018 Auditor's Opinion

Report of the Independent Auditor on the Summary Financial Statements

To the Members of Mennonite Mutual Insurance Co. (Alberta) Ltd.

Our opinion

In our opinion, the accompanying summary consolidated financial statements of Mennonite Mutual Insurance Co. (Alberta) Ltd. and its subsidiaries (together, the Company) are a fair summary of the audited consolidated financial statements, on the basis described in Note 2 to the summary consolidated financial statements.

The summary consolidated financial statements

The Company's summary consolidated financial statements derived from the audited consolidated financial statements for the year ended December 31, 2018 comprise:

- the summary consolidated statement of financial position as at December 31, 2018;
- the summary consolidated statement of net income for the year then ended;
- the summary consolidated statement of comprehensive income for the year then ended;
- the summary consolidated statement of members' equity for the year then ended;
- the summary consolidated schedule of general expenses for the years then ended; and
- the related notes to the summary consolidated financial statements.

The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards. Reading the summary consolidated financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated financial statements and the auditor's report thereon.

The audited consolidated financial statements and our report thereon

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated February 25, 2019.

Management's responsibility for the summary consolidated financial statements

Management is responsible for the preparation of the summary consolidated financial statements on the basis described in Note 2

Auditor's responsibility

Our responsibility is to express an opinion on whether the summary consolidated financial statements are a fair summary of the audited consolidated financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standard (CAS) 810, *Engagements to Report on Summary Financial Statements*.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
February 25, 2019

Summary Consolidated Statement of Financial Position

As at December 31, 2018

(in thousands of dollars)

	2018	2017
ASSETS		
Cash	\$ 3,916	\$ 3,350
Accounts receivable	1,164	1,148
Reinsurance receivable	-	27
Prepaid expenses	38	24
Deferred acquisition costs	100	100
Investments	10,887	11,834
Reinsurer's share of provision for unpaid claims	1,212	2,790
Property and equipment	1,970	2,000
Software	384	5
	\$ 19,671	\$ 21,278
LIABILITIES		
Accounts payable and accrued liabilities	\$ 883	\$ 782
Reinsurance premium payable	6	87
Prepaid premiums	2,622	2,519
Unearned premiums	2,390	2,179
Provision for unpaid claims	3,037	5,317
Deferred income tax liabilities	105	10
	9,043	10,894
MEMBERS' EQUITY		
Accumulated other comprehensive income	4	410
Retained earnings	10,624	9,974
	10,628	10,385
	\$ 19,671	\$ 21,278

The accompanying notes are an integral part of these summary consolidated financial statements.

APPROVED BY THE BOARD



Ken Ritchie, General Manager & CEO



Willy Goertzen, Chairman of Audit Committee

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Summary Consolidated Statement of Net Income

For the year ended December 31, 2018

(in thousands of dollars)

	2018	2017
POLICY REVENUES		
Gross premiums written	\$ 11,258	\$ 11,591
Premiums ceded to reinsurer	(2,196)	(2,004)
Net premiums written	9,062	9,587
Change in unearned premiums	(211)	(564)
Net premiums earned	8,851	9,023
Service fees revenue	118	113
Net policy revenues	8,969	9,136
POLICY EXPENSES		
Gross claims incurred	(3,993)	(4,873)
Claims ceded to reinsurer	236	987
Premium taxes	(443)	(438)
Commissions	(9)	(30)
Net policy expenses	(4,208)	(4,354)
UNDERWRITING INCOME	4,760	4,782
Depreciation	(107)	(95)
General expenses	(4,288)	(3,817)
UNDERWRITING INCOME, net of depreciation and operating expenses	365	870
Finance income, net of investment management fees	344	162
Fee and commission operations, net of general expenses	152	147
Donation to Mennonite Central Committee Alberta	(63)	(85)
Payments to the Mennonite Mutual Compassion Fund	(30)	(40)
Other donations	(3)	(3)
INCOME BEFORE INCOME TAXES	765	1,051
INCOME TAX (EXPENSE) RECOVERY		
Current	(21)	(39)
Deferred	(94)	(24)
NET INCOME	\$ 650	\$ 988

The accompanying notes are an integral part of these summary consolidated financial statements.

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Summary Consolidated Statement of Comprehensive Income

For the year ended December 31, 2018

	<u>2018</u>	<u>2017</u>
NET INCOME	\$ 650	\$ 988
OTHER COMPREHENSIVE LOSS		
Items that may subsequently be reclassified to net income		
Reclassification of net realized (gains) losses to net income	(172)	8
Income tax on reclassification of net realized (gains) losses to net income	46	(2)
Write-down of impaired investments (Note 13)	8	4
Income tax on write-down of impaired investment	(2)	(1)
Net unrealized (losses) gains arising during the year	(392)	120
Income tax on net unrealized (losses) gains arising during the year	106	(33)
OTHER COMPREHENSIVE LOSS	(406)	96
COMPREHENSIVE INCOME	\$ 244	\$ 1,084

Summary Consolidated Statement of Members' Equity

For the year ended December 31, 2018

	<u>2018</u>	<u>2017</u>
RETAINED EARNINGS		
Balance, beginning of the year	\$ 9,974	\$ 8,986
Net income	650	988
BALANCE, END OF YEAR	10,624	9,974
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance, beginning of year	410	314
Other comprehensive (loss) income	(406)	96
BALANCE, END OF YEAR	4	410
TOTAL MEMBERS' EQUITY	\$ 10,628	\$ 10,384

The accompanying notes are an integral part of these summary consolidated financial statements.

Summary Consolidated Schedule of General Expenses

For the year ended December 31, 2018

	<u>2018</u>	<u>2017</u>
Salaries and employee benefits	\$ 2,644	\$ 2,412
Information technology	437	141
Meetings, conferences and conventions	281	172
Rent and building occupancy costs	219	351
Professional fees	117	73
Inspections and loss prevention	68	20
Membership dues and fees	32	9
Licenses and regulatory assessments	8	168
Other general expenses	482	472
Total general expenses	\$ 4,288	\$ 3,817

The amounts above have been reduced by \$438 (2017 - \$394) of general expense allocated to the Agency.

The accompanying notes are an integral part of these summary consolidated financial statements.

Notes to the Summary Consolidated Financial Statements

Year ended December 31, 2018

1. DESCRIPTION OF BUSINESS

Mennonite Mutual Insurance Co. (Alberta) Ltd. (the “Company”) is an Alberta company that provides property and liability insurance for homes, farms and businesses. The majority of policyholders attend the Company’s member churches. Those churches belong to the various Mennonite denominational groups, as well as Christian churches that share a similar faith. Some policyholders also attend Christian churches that are not member churches. The Company’s Board of Directors (“Board”) are policyholders who are elected by delegates from the member churches. By insuring with the Company, policyholders help to provide mutual aid within their faith communities and help to support the Mennonite Mutual Compassion Fund as well as the work of Mennonite Central Committee Alberta.

The Company has a wholly owned subsidiary company, Mennonite Insurance Agency Ltd. (the “Agency”), through which they offer policyholders access to third-party automobile insurance and other insurance products not provided by the Company.

The Company operates in Alberta and has expanded into British Columbia and Saskatchewan through the Agency. The Company has been licensed and regulated by the government of Alberta since 1960. It participates in a national reinsurance facility which provides additional financial strength and security for policyholders.

The Company is domiciled in Alberta, Canada and its registered office is #300 - 2946, 32 Street NE, Calgary, Alberta.

2. BASIS OF PRESENTATION

The accounting policies have been applied consistently to all periods presented in these summary consolidated financial statements. The policies applied in these summary consolidated financial statements are based on International Financial Reporting Standards (“IFRS”) issued and outstanding as of December 31, 2018.

These summarized consolidated financial statements do not contain all of the disclosures required by IFRS. Readers are cautioned that these consolidated statements may not be appropriate for their purposes. For more information on the Company’s consolidated financial position, consolidated results of operations, and consolidated cash flows, reference should be made to the related complete consolidated financial statements. The Company’s complete set of consolidated financial statements prepared in accordance with IFRS, and these summarized consolidated financial statements, were authorized for issue by the Board on February 22, 2019.

