

READY FOR WHAT'S NEXT.

2016 ANNUAL REPORT

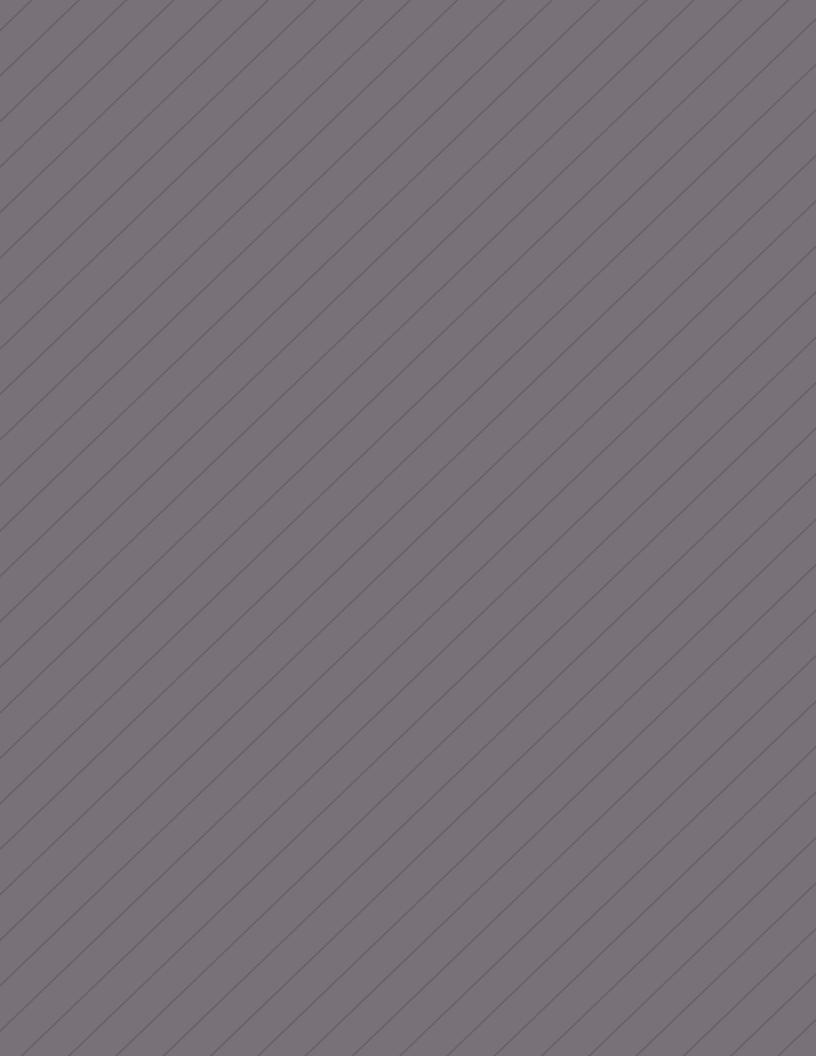


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140 YEARS AND COUNTING

Red River Mutual is a Prairie success story. Having protected homes, farms, and businesses on the Prairies since 1875. Red River Mutual is committed to providing competitive insurance products and equitable claims service.



Head Office located at 245 Centre Ave East Altona, Manitoba.



Winnipeg Regional Office located at 2445 Pembina Hwy.

MAKE IT YOUR OWN

This simple phrase is an invitation to our policyholders, brokers, and other stakeholders to embrace the benefits of being a Red River Mutual owner. If you aren't already, we invite you to be a part of it too.

YOU ALWAYS COME FIRST



Message from the Board of Directors

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Red River Mutual is a Prairie success story. Protecting homes, farms, and businesses on the Prairies since 1875, Red River Mutual currently insures over 64,000 policyholders and looks forward to continued growth.

We are pleased to report that 2016 was a very profitable year for your company. In fact, 2016 was the best financial year that Red River Mutual has ever had! The combined income from insurance operations and investments resulted in over \$10 Million being added to the equity of the company. Looking forward, we expect 2017 Gross Premiums Written to surpass \$100 Million.

Although 2016 was a great financial year for Red River Mutual, we can't rest on our laurels. In this light, the theme for the 2016 Annual Report is "Ready for What's Next," a reminder that although we have come a long way since 1875, we must constantly prepare for the future. To that end, some key deliverables in the 2017 Strategic Plan include:

- The successful completion of the implementation of the Guidewire InsuranceSuite[®] software. We mentioned in the annual report last year that the Guidewire InsuranceSuite[®] is one of the most significant investments ever made by the company. This new insurance system will provide us with a strong foundation for the future, over time enabling us to meet the growing expectations of brokers and policyholders.
- Develop a plan to build scale. No one knows what the future holds, however, it is our belief that we will
 need to increase our size in order to not only survive but thrive in the future. Scale can be achieved in
 many ways doing business in new places, offering different products, mergers, acquisitions and more.
 Your Board will carefully consider opportunities to build scale as we seek to position Red River Mutual
 for continued success in the future.
- The increased use of Analytics to support rating, risk selection, and our corporate risk profile is another key to our future success and will be an area of focus for 2017.

Although the future is unpredictable, it is imperative that we evolve and adapt to the ever-changing landscape that is our future. New technologies, competitors and ways of doing business, including the servicing of our policyholders, will remain at the forefront of this evolution. As we look to the future, your Board and Management are taking the necessary steps to ensure that Red River Mutual is "Ready for What's Next."

In closing, the Board wishes to acknowledge that although insurance systems and strategic plans are important, Red River Mutual continues to grow and achieve success due to our people. We are thankful to our President and CEO, Brian Esau, and his entire team who deliver Red River Mutual products and services to our policyholders and brokers on a daily basis.

The Board would also like to thank our policyholders, brokers and all other stakeholders, who together play such an important role in our day to day activities. We look forward to working together with all of you for many years to come.

Submitted on behalf of the Board of Directors,

Ray Joemen

Ray Loewen Board Chair

BOARD OF DIRECTORS



Ray Loewen



Frank Friesen



Monique Vielfaure-Mackenzie



Catherine Kloepfer



Garth Reimer



Bill Siemens



Darrel Penner



Heidi Reimer-Epp



Dr. Sylvie Albert

BUILDING Partnerships



Message from the President

This year's theme, "Ready for What's Next," is an acknowledgment that we are engaging the future of the insurance industry head on.

We are positioning our company to provide a compelling value proposition for our current and prospective policyholders now and into the future.

I am pleased to report that we had a very profitable year in 2016, with Gross Premiums Written reaching close to \$100 Million, an increase of 8.3% over the previous year. More importantly, we experienced a positive net loss ratio of 48.9% resulting in \$9.2 Million in pretax income from insurance operations. Combining this with solid investment performance resulted in over \$10 Million being added to the equity of the company.

Over the last few years, our primary business focus has been on the growth of our Commercial Line of business which now represents 19% of our Gross Premiums Written. We expect this sector to continue to grow and to represent 25% of our Gross Premiums Written within the next five years. Our Residential and Agricultural Lines of business represent 63% and 18% of our Gross Premiums Written respectively. Our company is licensed to conduct business from Ontario to British Columbia; however, over 90% of our business is concentrated in the province of Manitoba. Geographical distribution of business is important for our long-term success, and we are carefully exploring regional growth strategies to expand our geographical footprint.

Last year it was reported that we had taken bold steps with a major investment in a technology platform. The implementation of the market leading Guidewire InsuranceSuite[®] has been a major focus for 2016, with the expectation of going live mid-2017. This technology replaces our legacy system that no longer meets the expectations of our broker network or consumers, and most importantly it provides the ability to support our long-term growth. As a mutual insurance company, our policyholders are our shared owners, and this greatly influences how we do business. We continually strive to provide value in the insurance coverages that we offer, aiming to provide fair and prompt claims settlement. We have also made a substantial investment in loss prevention education. We promote loss prevention through safety tips and educational tools available on our website and social media channels. We also promote loss prevention education through the continued support of the Firefighters' Burn Fund Safety Trailer Program. Lastly, we promote loss prevention education through the availability of our loss prevention inspection team that provides loss prevention and safety reports for our policyholders to assist them in avoiding preventable losses.

We recognize that our policyholders have many insurance options, so we are very appreciative of the trust each has placed in us. We would like to thank and recognize our brokers who present our company's value proposition to their customers and for their continued support. Lastly, I would like to extend my appreciation to our Board of Directors for their expert oversight and to our management and staff for their continued dedication to our mission.

Sincerely,

Brian Esau, FCPA, FCMA President & CEO

GOING THE DISTANCE

Red River Mutual defines itself as a 'Modern Mutual,' by investing a portion of company profits back into the community through loss prevention education and the support of worthy community projects.

Through Loss Prevention

We believe the best insurance policy is the one that is never needed. That is why we invest in educational tools and materials focused on building safety awareness and best practices for policyholders and the general public.

Through Community Involvement

Whether through major sponsorships or supporting staff-initiated charitable efforts like the Big Bike Ride for Heart and Stroke, the Manitoba Camping Association Sunshine Fund, or fundraising for local food banks, Red River Mutual is engaged in the community.



Big Bike Ride for the Heart and Stroke 'Mutual Marauders' Team pictured in front of the Red River Mutual Head Office in Altona, Manitoba.



RED RIVER MUTUAL TRAIL

Rekindle your love for winter!

Strap on your skates, skis or snowshoes, and we'll see you on the Red River Mutual Trail!

Red River Mutual is proud to be the title sponsor of the Red River Mutual Trail. Starting in the heart of the city, it offers the unique experience of seeing the sights of Winnipeg from the frozen Red and Assiniboine Rivers.

The direction, timing, and length of the Red River Mutual Trail changes every year, as it is initially hand shoveled and takes about three weeks to prepare before it can be used. In 2016, we saw the trail grow to 6 km in length. The trail included an Olympic-sized hockey rink, art installations, and kilometers of fun for people of all ages.



Red River Mutual partnered with Kelvin High School to create the Warming Hut '6043' located on the Red River Mutual Trail. The Warming Hut was designed and built by Kelvin High School students who were inspired by the CNR steam locomotive '6043' located in Assiniboine Park.

BENEFITS OF THE INDEPENDENT BROKER

Our company is represented by some of the finest insurance people in the industry. We are committed to nurturing positive, enduring relationships with our brokers. The broker network provides Red River Mutual and its policyholders with unique benefits.

Benefit to the Policyholder

For policyholders, this means personal accessibility.

- One size does not fit all when it comes to insurance. An independent insurance broker can help uncover all of your insurance needs.
- Brokers live in the communities they serve, providing in-person access and advice. When you buy insurance through a broker, you support employment in your community. Most brokers are active community supporters and make their cities and towns better places to live.
- In the unfortunate event of a loss, a local broker can assist you in working through the claims process. It's the difference between personal assistance and dialing a 1-800 number.

Benefit to Red River Mutual

Red River Mutual has a deep history with our brokers.

- Brokers understand the communities they serve. They offer us valuable insight into community dynamics and regional needs.
- Brokers provide frontline policyholder support. It's often brokers who initiate the claims process on behalf of the policyholder. Providing vital direction before we make initial contact.
- Brokers also act as industry advocates. Brokers are organized and defend the insurance industry from threats such as big banks selling generic policies directly to consumers.



BUSINESS TRANSFORMATION

We are committed to being an efficient, flexible and fair company to do business with. Whether through policy issuance or claims service, we strive to be the best partners for our policyholders and brokers.

We have selected the Guidewire InsuranceSuite[®] as our underwriting, policy administration, billing, and claims management platform.

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With the growth in digital expectations such as mobile access and big data, this software will help us, over time, transform how business is leveraged by enhancing our commitment to serving both our policyholders and brokers.

We are building a 'culture' of continuous improvements that is constantly on the lookout for how to be better.



The Red River Mutual Guidewire Project Team pictured in front of the Winnipeg Regional Office.

2/2/2/ CLAIMS COMMITMENT

We understand that an insurance policy is only as good as the claims service you receive after a loss. That is why Red River Mutual introduced the 2/2/2 Claims Commitment.

The 2/2/2 Claims Commitment

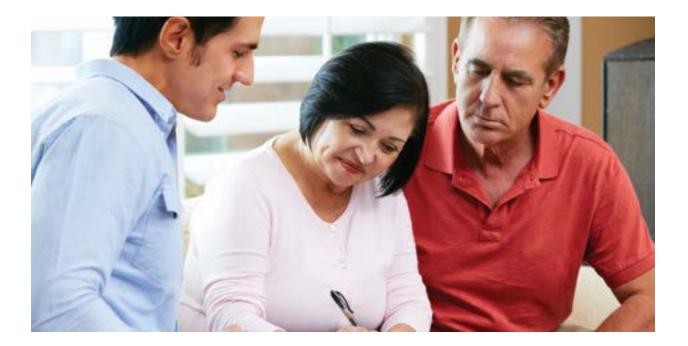
If you experience a loss, one of our Claims Specialists will:

- Contact you within 2 hours of receiving the notice of claim
- Make arrangements to visit you within 2 days of contact to survey the damage
- Follow up within 2 weeks and stay in touch to help the process along

Our Commitment includes

- > A rapid response from a skilled Claims Specialist
- > A clear overview of the claims process
- Regular communication until the claim is completed
- > An equitable outcome

Our goal is to get you back to normal as quickly and smoothly as possible.



PREVENTING LOSS

Red River Mutual believes the best insurance policy is the one that is never needed. That is why we make safety services and products available to policyholders that will aid in preventing a loss before it happens.

The Loss Prevention Program includes:

- Offering access to home, farm, commercial and fire safety information
- Providing access to On-Site Safety Evaluations
- Direct support for volunteer firefighters to deliver community level fire prevention messaging through the use of interactive Fire Safety Trailers

Firefighters' Burn Fund Safety Trailer Program

Since 2011, Red River Mutual has been a major sponsor of the Manitoba Firefighters' Burn Fund Fire Safety Trailer Program. This program has seen 22 Fire Safety Trailers deployed throughout Manitoba. They provide interactive fire safety training, emergency response service and education to young people. The trailers target elementary schoolaged children and are designed to look just like a house. Children learn about fire safety through the use of props like smoke machines and heated doors that stimulate a real fire in a home.



Online Resources

With the goal of making homes and businesses safer places, Red River Mutual offers in-depth information and videos related to loss prevention. To learn more go to **www.preventingloss.com**.



Safety Product Promotion

We provide fire extinguishers at a discounted rate to our brokers so they may be made available for our policyholders. These are ABC Fire and Safety approved extinguishers that will protect our policyholders in the event of a fire.

Loss Prevention Safety Evaluations

Our Loss Prevention Specialists are trained to identify potential security, fire safety, and liability hazard areas and recommend the repairs and upgrades required to keep your home or business safe and operating smoothly.

Our Loss Prevention Team

In 2016, we took steps to internalize our Loss Prevention Program and have dedicated in-house Loss Prevention Specialists available to our policyholders for value added loss prevention inspections.

In 2017, we will continue to grow our loss prevention talent and knowledge to ensure that we provide our policyholders with the education and information they need to mitigate loss.





COMMERCIAL INSURANCE

Business is done a little differently on the Prairies. We should know – we're fortunate enough to live and work here too. Red River Mutual commercial insurance is designed specifically for Prairie businesses.

In 2016 we:

- > Enhanced the service capabilities of our growing Commercial Lines team.
- > Quoted and bound more than \$6 Million of new commercial business.
- > Grew our commercial lines premiums by over 18%.
- > Built stronger relationships with our commercial brokers.
- Continued to reshape Red River Mutual into a leading commercial insurer on the Prairies.
- Enabled a broker partner to offer a digital online quote and bind capability targeted towards small commercial business.



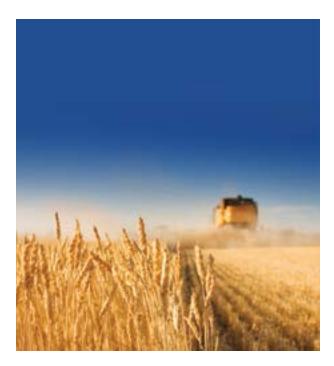
FARM INSURANCE

Red River Mutual has protected family and commercial farms since 1875. We live in farm country – this provides us with the expertise to create customized farm policies for any size operation.

Whether a small mixed farm, a livestock operation, or a large grain and oilseed farm, Red River Mutual has products for every type of operator.

We have been a leader in farm insurance in Manitoba and Saskatchewan for many years and constantly challenge ourselves to provide unique and emerging coverages. In 2016, we completed our resourcing of talent to continue to build a strong farm department.

In 2017, we will be reviewing our current farm program and will be augmenting that with new wordings, new product development and enabling a focus group to continue to influence our farm underwriting department's development and growth.





RESIDENTIAL INSURANCE

Whether you have a home or cottage, Red River Mutual has a product to protect your property and contents from damage.

In 2016, we responded to our policyholders request for Overland Water Coverage for Manitoba and launched this coverage in August. We have had many compliments from our brokers on keeping the coverage simple for our policyholders with a straight forward approach to protecting residential properties from water damage.

We have had another successful growth year for our 'EXTRA' high-valued homeowners' product which is an industry leading product for homes with a replacement cost value in excess of \$450,000.

We are committed to providing a quality product for all homeowners, so our policyholders can enjoy the 'peace of mind' that Red River Mutual will be there when you need us most.





PRODUCT Development

Red River Mutual is committed to ongoing product development and improvement. Recently we introduced a new product to enhance our existing coverages:

WATER PROTECTION COVERAGE

Red River Mutual is proud to introduce Water Protection Coverage for Manitoba which provides flexible options for homeowners to meet their water protection needs.

Generally, homeowners insurance does not offer protection against overland and ground water losses. Red River Mutual's Water Protection Coverage provides an affordable option to most homeowners, providing 'peace of mind' in knowing their home or property is covered in the case of overland water, ground water or sewer back-up loss.

What's the Difference?



Sewer Back-Up occurs when water backs up into the home through a sewer line. Sewer back-up coverage is a common option for coverage with most insurance policies, however, it does not include overland water damage or ground water damage coverage.



Overland Water Damage occurs due to the rising or overflow of a body of fresh water, torrential rainfall or snow melt.



Ground Water Damage occurs when water enters your home through your foundation, walls, basement, driveway, sidewalks, or other floors and causes loss or damage.

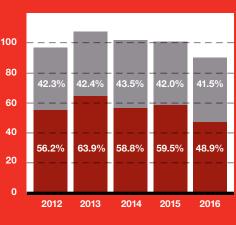


Crunching the Numbers

Gross Premiums Written (\$ Millions)

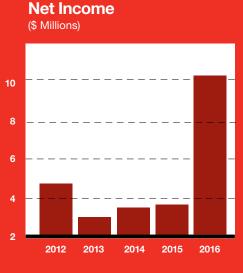
Gross Premiums Written grew by 8.3% in 2016.

Net Loss & Expense Ratios



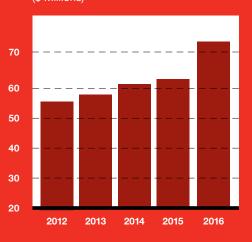
Net Loss Ratio Expense Ratio

The decrease in the Net Loss Ratio in 2016 was primarily due to relatively modest weather related claims and higher reinsurance recoveries. The decrease in the Expense Ratio was driven by the capitalization of costs to Intangible Assets and management of selling costs.



Net income of \$10 Million in 2016 reflected the impact of strong underwriting performance and solid investment results.

Equity (\$ Millions)



The company ended 2016 with equity in excess of \$73 Million.

Statement of Operations For the years ended December 31

(in thousands of dollars)

	2016	2015
Gross premiums written	99,509	91,874
Premiums ceded	13,706	10,783
Net premiums written	85,803	81,091
Change in unearned premiums	3,365	3,857
Net premiums earned	82,438	77,234
Service charges on installment payments	1,303	1,211
	83,741	78,445
Claims incurred		
Gross claims and adjustment expenses	57,157	60,216
Reinsurance portion	(16,870)	(14,302)
Net claims and adjustment expenses	40,287	45,914
Acquisition expenses		
Commissions	20,428	19,947
Premium taxes	4,037	3,728
General expenses	9,742	8,780
	74,494	78,369
Underwriting income	9,247	76
Net investment income	3,941	4,292
Operating income	13,188	4,368
Income of associates accounted	304	288
for using the equity method		
Income before income taxes	13,492	4,656
Provision for income taxes	3,444	1,032
Net income for the year	10,048	3,624

Statement of Financial Position

As at December 31 (in thousands of dollars)

	2016	2015
Cash and cash equivalents	13,025	8,862
Investments	89,807	84,426
Investment income accrued	134	258
Receivables	27,903	26,050
Prepaid expenses and deposits	124	121
Deferred policy acquisition expenses	12,468	11,646
Income taxes receivable	-	536
Property and equipment	7,532	7,746
Investments in associates accounted	5,543	5,258
for using the equity method		
Intangible assets	14,546	6,903
Reinsurance assets	21,351	13,796
Total assets	192,433	165,602
Liabilities and Equity		
Trade and other payables	20,536	14,748
Income taxes payable	3,207	-
Insurance contract liabilities	95,389	87,897
Deferred income taxes	149	178
Total Liabilities	119,281	102,823
Equity	73,152	62,779
Total liabilities and equity	192,433	165,602

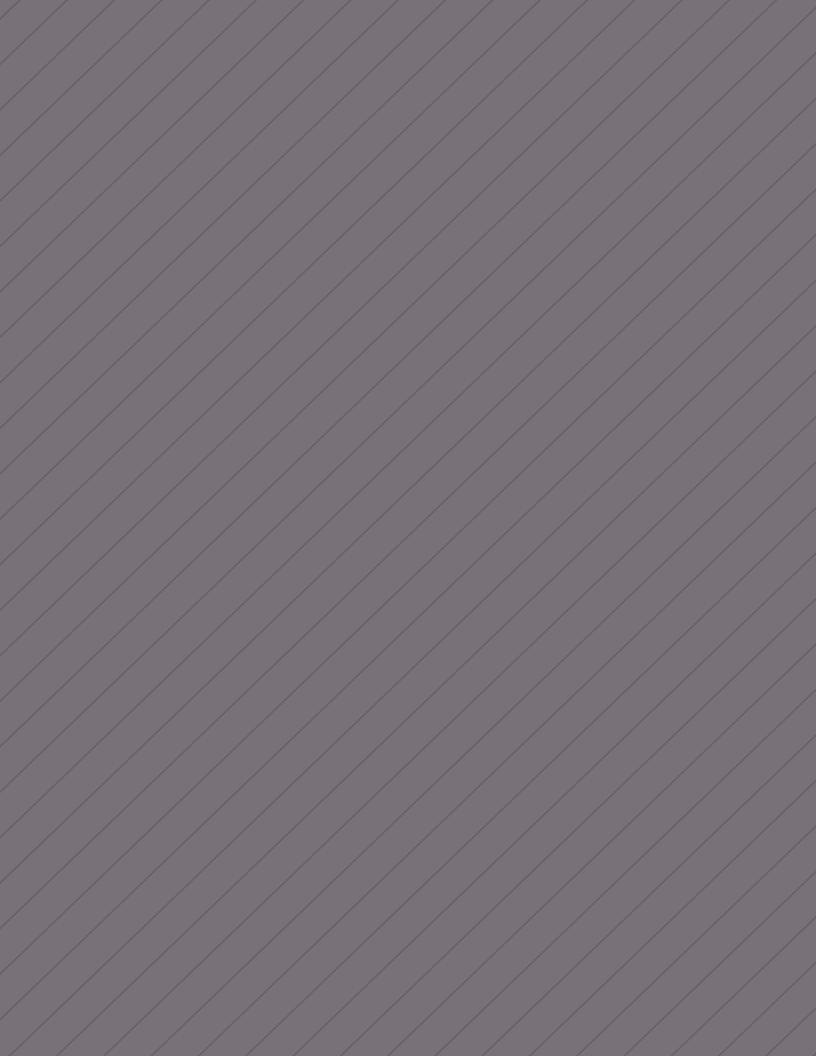
APPROVED BY THE BOARD OF DIRECTORS

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