SGI CANADA

ANNUAL REPORT 2013

MISSION VISION AND VALUES

Mission

We're your insurance company, offering protection that benefits you, your family and your community.

Vision

To be a company where every customer, employee, owner and business partner across Canada is proud to do business and work with us.

Values

Integrity

- Leading by example and being accountable for our actions.
- Following through on commitments.
- Providing honest, timely feedback.
- Explaining why a decision is taken.
- Giving credit to those who contribute to our success.
- Providing information openly without breaching confidentiality.
- Maintaining the privacy of personal data.

Caring

- Acting in a manner that preserves the dignity of others.
- Valuing and actively supporting diversity.
- Acknowledging and validating the feelings of others.
- Actively seeking and listening to differing points of view.
- Responding to individual differences.

Innovation

- Seeking solutions that recognize individual circumstances.
- Challenging the status quo for positive change.
- Pursuing alternatives which lead to business improvements.
- Continuously working to revitalize products and services.
- Preparing for the needs of the future.

About SGI CANADA

SGI CANADA is fully competitive, selling property and casualty insurance products such as home, farm, business and auto in seven Canadian provinces. It operates as SGI CANADA in Saskatchewan, SGI CANADA Insurance Services Ltd. in Manitoba and Alberta, the Coachman Insurance Company in Ontario and as a major partner in the Insurance Company of Prince Edward Island in Nova Scotia, New Brunswick and Prince Edward Island.

Visit SGI CANADA at www.sgicanada.ca.

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LETTER OF TRANSMITTAL

Regina, Saskatchewan
April, 2014

To Her Honour,
The Honourable Vaughn Solomon Schofield, S.O.M., S.V.M.
Lieutenant Governor of Saskatchewan

Your Honour,

I am pleased to submit herewith the annual report of SGI CANADA for the year ended December 31, 2013, including the financial statements in the form required by the Treasury Board and in accordance with *The Saskatchewan Government Insurance Act.*

Respectfully submitted,

Donna Harpauer
Minister Responsible for Saskatchewan Government Insurance

MINISTER'S MESSAGE

I am pleased to report that SGI CANADA had a strong year in 2013.

Last year is another example of how the company's strategy to diversify its risk geographically is paying off. While a number of Saskatchewan customers coped with ice damming claims from a long, tough winter in early 2013 and customers in Alberta experienced flooding in June, the cost of those claims was offset in part by excellent results in Ontario leading to an overall profit. Spreading risk enhances financial stability, which benefits customers in all jurisdictions as it controls the cost of providing insurance coverage.

SGI CANADA's business strategy is built around understanding what customers need from their insurance company, providing products that answer those needs and making those products easily accessible. This fits well with what we ask of our Crown corporations, and should help the company to continue to perform well into the future.

I extend my gratitude to the Board of Directors for their ongoing contributions and leadership to the organization, and to the staff of SGI CANADA for their achievements in 2013.

I am pleased to present the 2013 SGI CANADA Annual Report.

Donna Harpauer
Minister Responsible for Saskatchewan Government Insurance

CHAIR'S MESSAGE

Profitable results in 2013 demonstrate that SGI CANADA is a corporation on the right track in a dynamic and competitive Canadian insurance industry. While significant snowfall causing ice damming in the winter of 2012-13 followed by extraordinary summer storm costs led to an increase in claims, strong leadership and sound business practices meant SGI CANADA was able to meet those challenges head on. At the same time, the corporation grew premium in Saskatchewan and in markets outside Saskatchewan, capitalizing on innovation and strong partnerships with independent insurance brokers.

I thank my fellow directors for their commitment and leadership in 2013, and I thank them for welcoming me as their new chair and helping me to get to know the company.

On behalf of the Board, I also thank SGI CANADA's hard working management, employees and brokers for their contributions in 2013.

Arlene Wiks,
Chair, SGI Board of Directors

PRESIDENT'S MESSAGE

Insurance is a funny business in that part of any insurance company's financial results is really beyond the company's control — volatile weather or investment markets, or lack of same, can make a big difference. Having said that, there is a lot our insurance company can control to contribute to a good year. There's a strategic plan behind the success and, for SGI CANADA, 2013 is a good example of that. Severe weather definitely impacted the company, while favourable investment markets and a well-thought-out long-term plan offset the bad news to make 2013 a profitable year.

Our entire strategic plan can be summarized in one sentence — we want to know our customers well enough to give them exactly the coverage and service they need from their insurance company. SGI CANADA had the opportunity to help customers in the wake of several major weather events in 2013, including covering $23 million in ice damming claims in Saskatchewan caused by large snow loads, responding after flooding in Calgary and other areas of Alberta, and flooding in Toronto. However, our investment portfolios swung the other way last year, delivering favourable results, as noted in the management's discussion and analysis (MD&A) section in this report.

Our plan recognized a need to hold on to Saskatchewan market share while still growing the book of business outside of Saskatchewan. In insurance, geographic diversification can make a big difference, spreading both risks and rewards. In 2013, this strategy again paid off, with strong profits from most jurisdictions outside Saskatchewan.

The property and casualty market is becoming increasingly competitive, further demonstrating the need for SGI CANADA's renewed focus on customers and improving their overall experience with our company, brokers and products. Our Customer and Marketing Strategy division has been working to identify and anticipate customers' needs, with the goal of making their interactions with the company as positive as possible.

One area where we've identified a need and opportunity is in the transportation industry. We're meeting commercial customers' needs with a refreshed truck cargo insurance product called Cargo Secure. This product received a makeover to offer unique options and value-added features that set it apart from the competition. Small business customers are also getting attention through our Toolbox Pak online quote for contracting operations.

None of this success would have been possible without our network of knowledgeable and respected brokers. In 2013, we focused on their needs too by improving online services and with the Better Together program. The program helped us to strengthen relationships, leading to brokers reporting a 97% satisfaction rating with SGI CANADA.

SGI CANADA works to be an active part of the communities it does business in. Beyond corporate partnerships and sponsorships for such high-profile events as the Juno awards and Grey Cup in Regina, we also try to respond when there is a need. This past year when the Transition to Trades program had a trailer full of tools stolen from a Regina worksite, we were able to step up and help them replace the tools and find a safe storage location for their trailer. When Alberta experienced severe flooding in July, we quickly mobilized adjusters to assist customers who had losses and sent bottled water to communities in need.

A good plan clearly focused on customers, committed brokers and staff, and a dedicated Board of Directors all contributed to a successful 2013, and I'd like to thank everyone at SGI CANADA for their efforts.

Andrew R. Cartmell
President and CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis (MD&A) is the responsibility of management and reflects events known to management to February 26, 2014. The Board of Directors carries out its responsibility for review of this disclosure principally through its Audit and Finance Committee, comprised exclusively of independent directors. The Audit and Finance Committee's mandate can be found on the Corporation's website at www.sgi.sk.ca. The Board of Directors approved this MD&A at its meeting on February 27, 2014, after a recommendation to approve was put forth by the Audit and Finance Committee.

Overview

The MD&A is structured to provide users of SGI CANADA's financial statements with insight into SGI CANADA (denoted as the Corporation) and the industry in which it operates. This section contains discussion on its strategies and its capability to execute the strategies, key performance drivers, financial capital, 2013 financial results, risk management and an outlook for 2014. Information contained in the MD&A should be read in conjunction with the consolidated financial statements and the notes to the consolidated financial statements, along with other sections in this annual report. All dollar amounts are in Canadian dollars.

SGI CANADA annual and quarterly reports are available on its website at www.sgicanada.ca.

Caution Regarding Forward-Looking Statements

Forward-looking statements include, among others, statements regarding SGI CANADA's objectives, strategies and capabilities to achieve them. Forward-looking statements are based on estimations and assumptions made by the Corporation in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. SGI CANADA deems the assumptions built into the forward-looking statements are plausible; however, all factors should be considered carefully when making decisions with respect to the Corporation. Undue reliance should not be placed on the Corporation's forward-looking statements, which only apply as of the date of this MD&A document. The Corporation does not undertake to update any forward-looking statements that may be made from time to time by or on its behalf.

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WHERE SGI CANADA CAME FROM

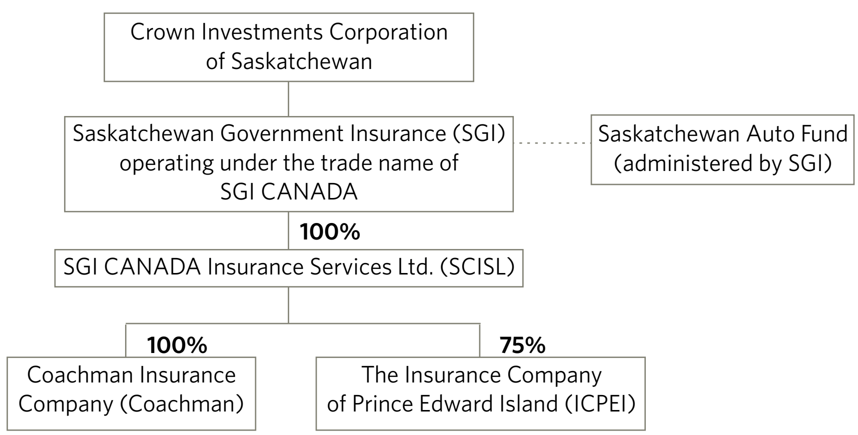
In 1944, the Government of Saskatchewan passed *The Saskatchewan Government Insurance Act,* creating the provincial Crown corporation that is known today as SGI. SGI was created to rectify problems in the Saskatchewan insurance industry. At that point in time, poor economic conditions had driven many insurers out of the province.

SGI's mandate since its inception has been to provide comprehensive, affordable insurance protection to the people of Saskatchewan. In 1980, legislated changes to *The Saskatchewan Government Insurance Act, 1980,* and *The Automobile Accident Insurance Act* distinguished between the compulsory vehicle insurance program for the province (the Saskatchewan Auto Fund) and the competitive insurer offering additional property and casualty products (SGI CANADA).

SGI CANADA is the trade name that SGI operates under to provide competitive, quality property and casualty (P&C) insurance products in Saskatchewan. P&C product offerings include policies for automobile, home, farm and commercial enterprises. In addition, SGI CANADA, through its subsidiary SGI CANADA Insurance Services Ltd., offers similar products in six other provinces across Canada.

The operations in provinces outside Saskatchewan are important to the Corporation to spread risk, maintain and create jobs in Saskatchewan, and increase economic returns for SGI CANADA's shareholder, Crown Investments Corporation of Saskatchewan (CIC). In 1993, SGI CANADA Insurance Services Ltd. began offering P&C insurance in Manitoba. In 2001, SGI CANADA Insurance Services Ltd. became the majority shareholder (75%) of The Insurance Company of Prince Edward Island (ICPEI) and also purchased 100% of the shares of Coachman Insurance Company (Coachman). Coachman operates in Ontario while ICPEI operates in Prince Edward Island, New Brunswick and Nova Scotia. SGI CANADA Insurance Services Ltd. has also been operating in Alberta since 2006.

The Corporation is a provincial Crown corporation wholly owned by CIC. The following organizational chart illustrates the Corporation's ownership structure:



As a provincial Crown corporation, SGI CANADA is not subject to federal or provincial income taxes. Its subsidiaries are not provincial Crown corporations, thus they are subject to federal and provincial income taxes. The consolidated financial results of SGI CANADA are included in CIC's consolidated financial statements.

At December 31, 2013, the Corporation employed over 1,870 people, including employees who work directly for the Saskatchewan Auto Fund. SGI CANADA operates with a network of 231 independent brokers throughout Saskatchewan, as well as 271 brokers operating in Manitoba, Alberta, Ontario, Prince Edward Island, New Brunswick and Nova Scotia. SGI CANADA's corporate head office is located in Regina, Saskatchewan.

THE PROPERTY AND CASUALTY INSURANCE BUSINESS ENVIRONMENT

Canada's highly competitive P&C industry consists of approximately 210 private and government-owned insurers. The P&C industry covers all types of insurance except life and health insurance. The automobile insurance sector continues to be the largest contributor to gross premium volume, at half of all premiums. Property insurance ranks second, followed by liability insurance and other insurance.

Insurance is a mechanism for spreading risk, for sharing the losses of the few among the many. Insurance makes the life of an individual or business enterprise more stable by allowing people and businesses to engage in many ventures without having to set aside reserves to meet the financial requirements that may arise from certain types of losses. Insurance also facilitates granting of credit by protecting the investments of both lenders and borrowers.

Insurance can be considered a large pool into which policyholders place their premiums.[1] This pool provides for payment of losses suffered by those who have claims and for the cost of running the insurance company. Sometimes, total premiums are insufficient to pay claims and operating expenses; however, insurers also use investment earnings to pay claims and keep premiums lower than they might otherwise be.

P&C insurance companies are supervised and regulated at the federal and provincial levels. The federal regulator, the Office of the Superintendent of Financial Institutions (OSFI), is responsible for the solvency and stability of P&C insurance companies registered federally. Provincial authorities supervise the terms and conditions of insurance contracts and licensing of companies, agents, brokers and adjusters, along with monitoring the solvency and stability of provincially registered companies. SGI CANADA's subsidiaries are provincially regulated insurance companies.

Since automobile insurance is compulsory in Canada, unlike home and business insurance, it is the most regulated area that P&C companies operate within. Regulation of premium rates is based on claims and other costs of providing insurance coverage, as well as projected profit margins. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. The Corporation's automobile premiums are subject to rate regulation in Alberta, Ontario, Prince Edward Island, New Brunswick and Nova Scotia, which represent approximately 17.5% of consolidated net premiums earned in 2013.

The industry is a major part of the social and economic fabric of Canada. P&C insurers invest mainly in domestic government bonds, corporate bonds, preferred shares and common stocks. Government regulations are in place for the P&C industry that require these investments to be made using a prudent person's viewpoint.

The P&C industry also utilizes reinsurance. Reinsurers, most of which are international organizations, spread risk by writing business with insurers in several countries and in many regions around the world. Insurance companies pay premiums to reinsurers in exchange for an agreement to have a proportion of their claims paid for them, particularly in the event of a major loss or catastrophe. Reinsurance is one of many tools used by insurers to guarantee that they will meet every obligation to pay legitimate claims. Recent disasters around the world have led to a decline in the amount of reinsurance available to insurers. As a result, Canadian insurance companies have had to pay higher prices for reinsurance.

The Property and Casualty Insurance Compensation Corporation (PACICC), a non-profit entity, was formed in 1988 to provide a reasonable level of recovery for policyholders and claimants under most policies issued by P&C companies in Canada in the unlikely event of the failure of a Canadian P&C company. The maximum amount a policyholder could recover from PACICC is $250,000 in respect of all claims arising from each policy issued by the insolvent insurer and arising from a single occurrence. Policyholders may also claim 70% of unearned premiums that have been paid in advance, to a maximum of $700 per policy.

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[1] This and other terms are defined in the glossary included in this annual report. The glossary begins on page 74.

Membership in PACICC is compulsory for most P&C insurers in Canada. At present, SGI CANADA, SGI CANADA Insurance Services Ltd., Coachman and ICPEI are members of PACICC. Members have contributed funds to PACICC so there is money available to pay claims immediately in the event of an insolvency occurring in the industry. Member insurers provide additional funds, as required, to maintain PACICC. For more information on PACICC, visit its website at www.pacicc.com.

STRATEGIC DIRECTION

SGI CANADA's mission, vision and values are:

Mission

We're your insurance company, offering protection that benefits you, your family and your community.

Vision

To be a company where every customer, employee, owner and business partner across Canada is proud to do business and work with us.

Values

Integrity	Conducting ourselves with honesty, trust and fairness.
Caring	Acting with empathy, courtesy and respect.
Innovation	Implementing creative solutions to achieve our vision.

CORPORATE OBJECTIVES AND MEASURES

As the competitive arm of SGI, SGI CANADA is facing pressures today that are greater than at any prior point in its history. A number of trends are changing how Canadian P&C insurance companies compete, such as acquisitions, consolidation, changes in consumer preferences and delivery channels, development and use of "big data," and the need to respond to a rapidly changing business environment. The Saskatchewan P&C insurance market has been relatively immune to these changes. But with the strong provincial economy and technology that allows businesses to more easily penetrate new markets, that is changing. In addition, severe weather events have been increasing in recent years, putting pressure on all insurance companies. In particular, SGI CANADA is exposed to severe weather events due to its concentration of business in Saskatchewan and the propensity for severe summer storms in the province.

In 2013, SGI CANADA had two overriding long-term corporate objectives. For the Saskatchewan marketplace, the long-term objective was to protect the Saskatchewan book of business. Outside of Saskatchewan, the long-term objective was to achieve optimal geographic diversification. Based on actuarial modeling, SGI CANADA believes the optimal spread of risk is roughly 50% of business inside Saskatchewan and 50% of business outside Saskatchewan.

SGI CANADA uses a balanced scorecard approach to monitor performance towards corporate objectives and provide a balanced evaluation of key financial and operational results. SGI CANADA's balanced scorecard uses four perspectives: financial, customer, internal processes, and organizational capacity. The balanced scorecard is reviewed annually to ensure continued alignment with SGI CANADA's corporate objectives.

Financial

SGI CANADA measures financial results in terms of growth and profitability:

Legend: ● achieved ❍ not achieved

Measure	2013 Target	2013 Result	2014 Target
Growth			
Maintain Saskatchewan market share	39.1%	❍ 37.9%	37.9%
Spread of risk outside Saskatchewan	30%	❍ 28.5%	28.6%
Profitability			
After-tax return on equity	12.6%	● 13.5%	10.0%

Growth

Growth is measured through SGI CANADA's Saskatchewan market share and the portion of its book of business held outside of Saskatchewan.

SGI CANADA holds the largest share of Saskatchewan's P&C insurance market. Maintaining market share was a priority in 2013 due to competitive pressures in the Saskatchewan marketplace. While SGI CANADA's market share is slightly under target, its book of business grew in Saskatchewan by 5.5% in 2013. This is encouraging, as it highlights the fact that organic growth opportunities remain. SGI CANADA aims to maintain its current Saskatchewan market share going forward.

Geographic diversification of business is an important objective because it is essential to SGI CANADA's financial stability, as losses in one jurisdiction can be offset by profits in other jurisdictions. While the Corporation believes the optimal spread of risk is roughly 50% of business inside Saskatchewan and 50% of business outside Saskatchewan, as SGI CANADA continues to increase premiums in Saskatchewan's strong economic environment, increasing the portion of its book of business that is held outside of Saskatchewan becomes more difficult.

SGI CANADA wrote $159.6 million in gross premium in markets outside of Saskatchewan in 2013, 3.5% below target. This translated into a 28.5% share of premiums from outside Saskatchewan, under its target for 2013 of 30%.

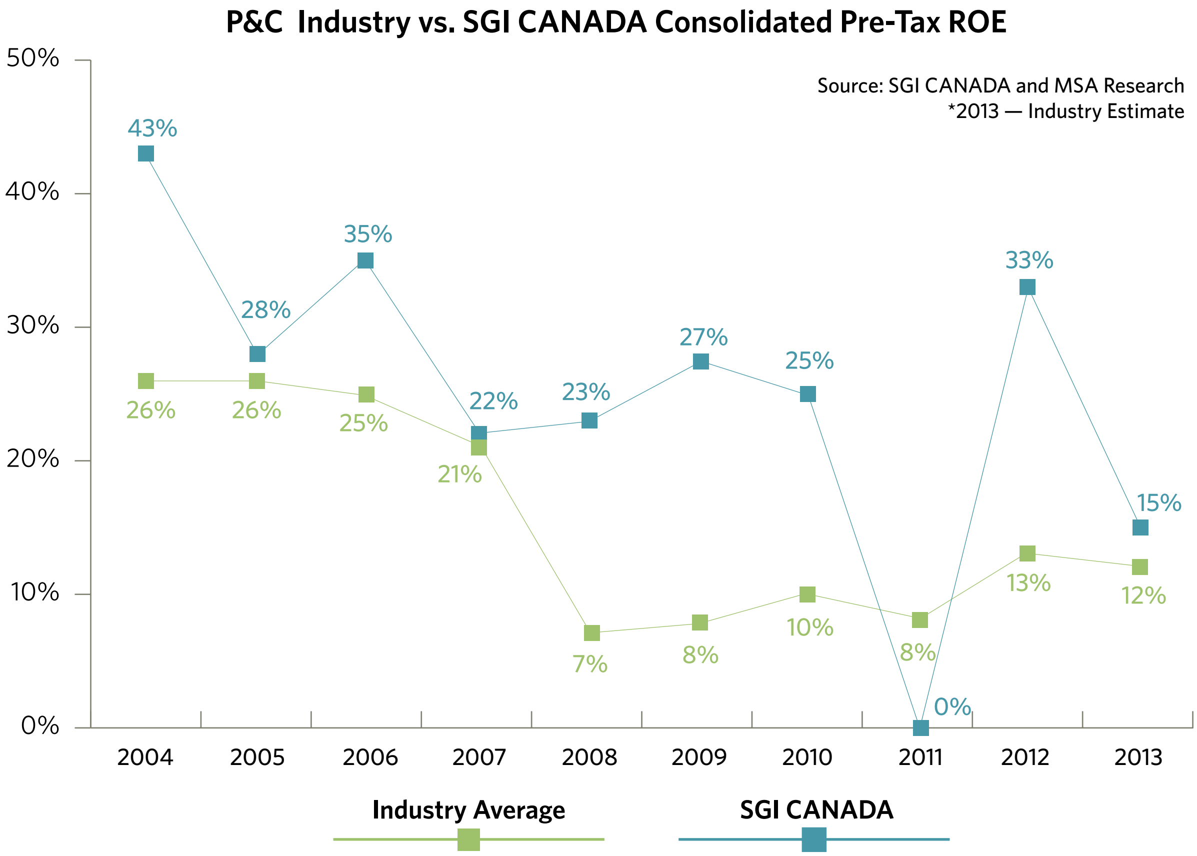
The Corporation continues to have a long-term objective of about 50% of its business outside Saskatchewan. In 2014, SGI CANADA has set aggressive growth targets for both markets inside and outside Saskatchewan. These result in a 2014 target for spread of risk outside Saskatchewan of 28.6%.

Profitability

Profitability is measured by after-tax return on equity (ROE), which compares profit to the investment in the Corporation.

SGI CANADA achieved an after-tax ROE of 13.5%, ahead of its target of 12.6%. This result was driven by SGI CANADA's consolidated net income of $39.2 million, which was slightly better than budgeted ($36.5 million).

SGI CANADA's ROE has been favourable compared to the industry over the years. The Corporation's 10-year average pre-tax ROE is 25%, while the industry averaged 16% for the same time period. Note that because SGI CANADA does not pay income tax on Saskatchewan operations, the most relevant ROE comparison to the industry is pre-tax.



The Corporation's 2014 target of 10% is relatively low compared to historical ROE trends, however remains above the five-year industry average. It is calculated based on the Corporation's 2014 budgeted net income, which takes into consideration continuing competitive pressures, aggressive growth objectives and lower expected investment yields.

Customer

SGI CANADA assesses success with customers by its ability to attract and retain preferred customers:

Legend: ● achieved ❍ not achieved

Measure	2013 Target	2013 Result	2014 Target
Attract and retain SGI CANADA preferred customers			
Commercial business direct premium written	$147.7M	● $152.4M	$186.4M
Renewal rate	92%	● 93.3%	92%

Attract and retain SGI CANADA preferred customers

SGI CANADA uses two measures to evaluate customer attraction and retention: commercial business direct premium written and the overall renewal rate.

SGI CANADA is a dominant commercial underwriter in Saskatchewan, attributable to excellent customer service and market knowledge. Commercial business has been a profitable customer segment for the Corporation, and is a good fit with its broker distribution channel due to the complexity of commercial transactions. Commercial business growth also mitigates the threat of direct writers, who focus primarily on personal business. As such, the Corporation aims to retain the commercial business it has, while attracting additional commercial business, thus increasing the direct premium written for commercial lines. In 2013, SGI CANADA exceeded its target by $4.7 million. For 2014, the Corporation continues to focus on growing commercial business and has set an aggressive target over 20% higher than its 2013 result.

SGI CANADA assesses overall customer retention by its ability to maintain a policy renewal rate of 92%. The Corporation surpassed its target in 2013 with a renewal rate of 93.3%. Renewal success rates have improved across the majority of product lines in all jurisdictions. Although SGI CANADA is competing in both a highly competitive and a soft market, it achieved considerable success through various operational strategies, including premium adjustments, improved policy terms and conditions, insurance risk scoring for personal property (where permitted) and pure postal code rating. These strategies, along with continuing to build strong broker relationships, were essential to success in 2013. The 2014 goal is to maintain a renewal rate consistent with prior years, which, based on a five-year average, remains 92%.

Organizational Capacity

SGI CANADA's ability to deliver on its corporate strategy is dependent on employees, efficiency and capital adequacy, which are measured as follows:

Legend: ● achieved ❍ not achieved

Measure	2013 Target	2013 Result	2014 Target
Employee engagement and enablement			
Engagement and enablement score compared to the North American average	Two points below average	❍ Three points below average	At or above the average
Efficiency			
Administrative expense ratio	12.9%	● 12.9%	13.5%
Capital adequacy			
Minimum Capital Test	250%	❍ 231%	250%

Employee engagement and enablement

To continually improve operations, SGI CANADA needs the support of dedicated and engaged employees. It also needs to provide an environment that enables employees to do their best work. An employee engagement and enablement score, derived from the Corporation's annual employee survey, is used to measure whether employees are engaged in their jobs and whether they have the environment they need to execute the strategic plan. While the result was one point below target, SGI is relatively satisfied with this score due to the degree of organizational change and the ambitious corporate strategy in 2013. That said, the company acknowledges that it needs to continue to build on the work already done to improve employee engagement and enablement going forward, and is aiming for a three point improvement in 2014.

Efficiency

Efficiency is assessed based on SGI CANADA's administrative expense ratio. The ratio is total administrative expenses expressed as a percentage of net premiums earned. The actual administrative expense ratio is compared to budgeted ratios within the specified time period. SGI CANADA met its target for 2013 with a 12.9% administrative expense ratio. Analysis of administrative expenses and the administrative expense ratio is provided in the 2013 Financial Results section.

For 2014, the target administrative expense ratio is 13.5%. It is expected to increase over 2013 as the Corporation has planned an aggressive agenda of initiatives to support its strategic direction.

Capital adequacy

Capital adequacy speaks to the Corporation's ability to honour its financial obligations. The industry measurement developed by insurance regulators for capital adequacy is the Minimum Capital Test (MCT). The MCT is a risk-based capital adequacy framework that assesses the riskiness of assets, policy liabilities and off balance sheet exposures by applying varying factors. From these calculations comes a ratio of capital available to capital required. The regulatory supervisory target for this ratio is 150%. That is, capital available has to be at least 50% more than capital required. The 50% cushion provides comfort for insurers to cope with volatility in markets and economic conditions, innovations in the industry, consolidation trends and international developments, and to provide for risks not explicitly addressed, including those related to systems, data, fraud and legal.
SGI CANADA targets an MCT of 250%, and evaluates the target annually.

The following table shows MCT results by legal entity:

Company	December 31, 2013	December 31, 2012
SGI CANADA (consolidated)	231%	250%
SGI CANADA Insurance Services Ltd. (consolidated)	335%	345%
Coachman	313%	314%
ICPEI	326%	347%

All companies have an MCT above the regulatory supervisory target at the end of 2013. While SGI CANADA's consolidated MCT of 231% remains strong, and considerably higher than the regulatory target, it was below the target of 250% due to inadequate growth in equity to offset the growth in balance sheet risk. The MCT is expected to return to target over the medium-term through profitability and revised dividend payout ratios.

CAPABILITY TO EXECUTE STRATEGIES

Fundamental to the capability to execute corporate strategies, manage key performance drivers and deliver results are the Corporation's employees, brokers, technology and financial capital. They are discussed further below.

Employees

SGI CANADA's management team is experienced and knowledgeable about the Canadian P&C insurance market. Many of the Corporation's employees are long-term with an average term of approximately 16 years of employment, and the staff turnover rate for the last five years has averaged 9%. Due to this long tenure and low turnover, the Corporation has significant expertise in the core underwriting and claim handling areas of its business, as well as within its support areas. This expertise has contributed to strong underwriting results in the Saskatchewan market, compared to the insurance industry overall, and is crucial to success in markets outside Saskatchewan. Maintaining this expertise is key to meeting the challenges that will present themselves in the future.

SGI CANADA is projecting a significant level of retirements in the near future as a large portion of its workforce reaches retirement age. In fact, nearly 37% of the Corporation's employees are expected to retire or be eligible for retirement by 2021. The challenge is to recruit and retain the best people to ensure the longevity, growth and maintenance of SGI CANADA's competitive position for the future. The Corporation has developed a workforce-planning model that includes Aboriginal employment, youth employment, management development and expanded performance management strategies. This model will assist in transitioning expertise as retirements occur.

SGI CANADA's succession planning process focuses on: (i) ensuring current senior management positions have capable successors; and, (ii) identifying high-performing staff who have potential for more senior roles. The corporate diversity/ recruitment strategy was updated recently to enhance partnerships with outreach agencies and educational institutions, and the Corporation's visibility as a preferred employer.

On December 31, 2013, the four-year Collective Bargaining Agreement (CBA) between SGI and SGI CANADA Insurance Services Ltd., and the Canadian Office and Professional Employees' Union, Local 397 (COPE 397) expired. The bargaining committee is currently negotiating a new agreement. The agreement applies to all in-scope employees at SGI. SGI has not had a work stoppage since 1948, and it will continue to work with COPE 397 to ensure that this record continues into the future.

Brokers

SGI CANADA sells products through a network of 231 independent brokers who conduct business from 365 offices throughout Saskatchewan, and 271 brokers who operate 681 offices throughout the rest of Canada. To continue delivering insurance products that customers desire, SGI CANADA works closely with brokers to obtain input and advice on the changing needs of customers. With the assistance of brokers, SGI CANADA is able to take a lead in delivering innovative insurance products to customers.

SGI CANADA's brokers are well-known in the communities in which they operate and they actively promote the Corporation's products and services. To support brokers, the Corporation is continually enhancing broker web interfaces to make it easier for them to promote its products and to provide them with the self-service capabilities they have requested. SGI CANADA's success is built on long standing and successful relationships with broker partners. It has a reputation for excellent service to brokers and, if it is to continue to earn that reputation in the rapidly evolving insurance marketplace, it needs to remain innovative about approaches to support brokers' success. eServices for brokers have been an SGI CANADA focus for a number of years, and will continue to be expanded.

Technology

SGI CANADA maintains an in-house insurance system which hosts a large database of valuable information in assessing insurable risks. Reporting systems are utilized to ensure management receives timely information regarding operations and to provide complete and accurate reporting to stakeholders and regulators. The Corporation monitors and responds to changes in technology to ensure that key areas are upgraded in a timely manner.

The Corporation is building business intelligence capability through an ongoing project to further leverage the data in the system to produce timely, sophisticated and consistent information to support the decision-making required to succeed in a competitive environment. While the project is expected to be completed in 2015, it is being implemented in phases, such that the Corporation is already beginning to see returns.

The Corporation is also a technology leader when it comes to dealing with broker partners. It is an industry leader in the use of the web portals, Policy Works and Brovada, and generally excels at eServices for brokers through a strong eServices strategy.

Financial Capital

Adequate capitalization is crucial for insurers competing in the P&C insurance market in Canada. Not only is it important to ensure adequate funding is available to pay policyholder claims, but it allows a company to be flexible in its product offering mix in a competitive marketplace. In addition, regulators have certain capital requirements that must be met in order to sell P&C insurance in each province. Without adequate capitalization, SGI CANADA would not be capable of meeting growth targets.

The Corporation's main sources of capital are retained earnings and cash injections in the form of equity advances from its parent, CIC. These advances form the Corporation's equity capitalization. There were no new equity advances to SGI from its parent in 2013 and there were no changes to the capital of the Corporation's subsidiaries during the same time period.

In Canada, either the Office of the Superintendent of Financial Institutions or provincial regulators regulate P&C insurers. Regulators require insurers to maintain a level of capital sufficient to achieve a supervisory MCT target of 150%. SGI CANADA uses this test to assess its capital adequacy, as discussed in the Corporate Objectives and Measures section of this report. The Corporation has an internal MCT target of 250%, which represents a higher capital requirement than the regulatory supervisory target and provides comfort that adequate funding is available to pay claims as they come due, and support achievement of the Corporation's strategic objectives.

Financial liquidity represents the ability of SGI CANADA's companies to fund future operations, pay claims in a timely manner and grow. A main indicator of liquidity is the cash flow generated from operating activities, as reported on the Consolidated Statement of Cash Flows. For 2013, SGI CANADA generated consolidated operating cash flows of $72.0 million. This cash flow is invested so that it is available to pay claims as they come due and to meet dividend requirements to its parent, CIC.

For the cash flow the Corporation retains, its enabling legislation requires it to follow the same investment criterion that federally regulated P&C companies must follow. This means the majority of the Corporation's investments are in highly liquid securities that can be sold in a timely manner in order to satisfy financial commitments. As at December 31, 2013, 40% (2012 — 46%) of the investment portfolio was in treasury bills and highly liquid bonds and debentures issued by the federal and provincial governments. The Corporation also invests in corporate bonds, a pooled mortgage fund, publicly traded North American equities and a non-North American pooled equity fund.

2013 FINANCIAL RESULTS

For the Year Ended December 31, 2013

Overview of operations

A $44.3 million pre-tax profit was returned in 2013. While significantly lower than the $88.8 million profit posted in 2012, it resulted in a strong consolidated pre-tax return on equity of 15.3% (2012 — 32.9%). Increased claims in all jurisdictions, except Ontario, contributed to a consolidated underwriting loss of $14.4 million (2012 — $55.8 million profit), which was more than offset by improved investment earnings of $58.7 million (2012 — $33.0 million).

Investment earnings increased $25.7 million from 2012, consistent with the strong growth in global investment markets. Equity markets generated strong returns, particularly in the U.S. and internationally. Holding low yielding bonds combined with small increases in short-term interest rates led to capital losses and lower overall fixed income returns compared to 2012.

Pre-tax profit (loss) by operating segment

(thousands of $)

	2013	2012	Change
SGI CANADA — Saskatchewan	$ 25,109	$ 63,561	$ (38,452)
Coachman — Ontario	17,205	12,406	4,799
SGI CANADA — Manitoba	4,241	3,681	560
ICPEI — Maritimes	1,969	4,577	(2,608)
SGI CANADA — Alberta	(4,215)	4,584	(8,799)
Pre-tax profit	**$ 44,309**	**$ 88,809**	**$ (44,500)**

Saskatchewan operations provided 56.7% of the pre-tax profit in 2013, with out-of-province business contributing 43.3%. The year-over-year variances in pre-tax profitability are primarily attributable to swings in claim costs in the various jurisdictions.

Premium revenue

Consolidated net premiums written in 2013 increased by $25.8 million or 5.2% compared to 2012.

Net premiums written by operating segment

(thousands of $)

	2013	% of net premium written	2012	% of net premium written
SGI CANADA — Saskatchewan	$ 371,963	71.9%	$ 352,462	71.7%
SGI CANADA — Manitoba and Alberta	70,606	13.6%	60,418	12.3%
Coachman — Ontario	50,923	9.8%	55,715	11.3%
ICPEI — Maritimes	24,135	4.7%	23,223	4.7%
Net premiums written	**$ 517,627**	**100.0%**	**$ 491,818**	**100.0%**

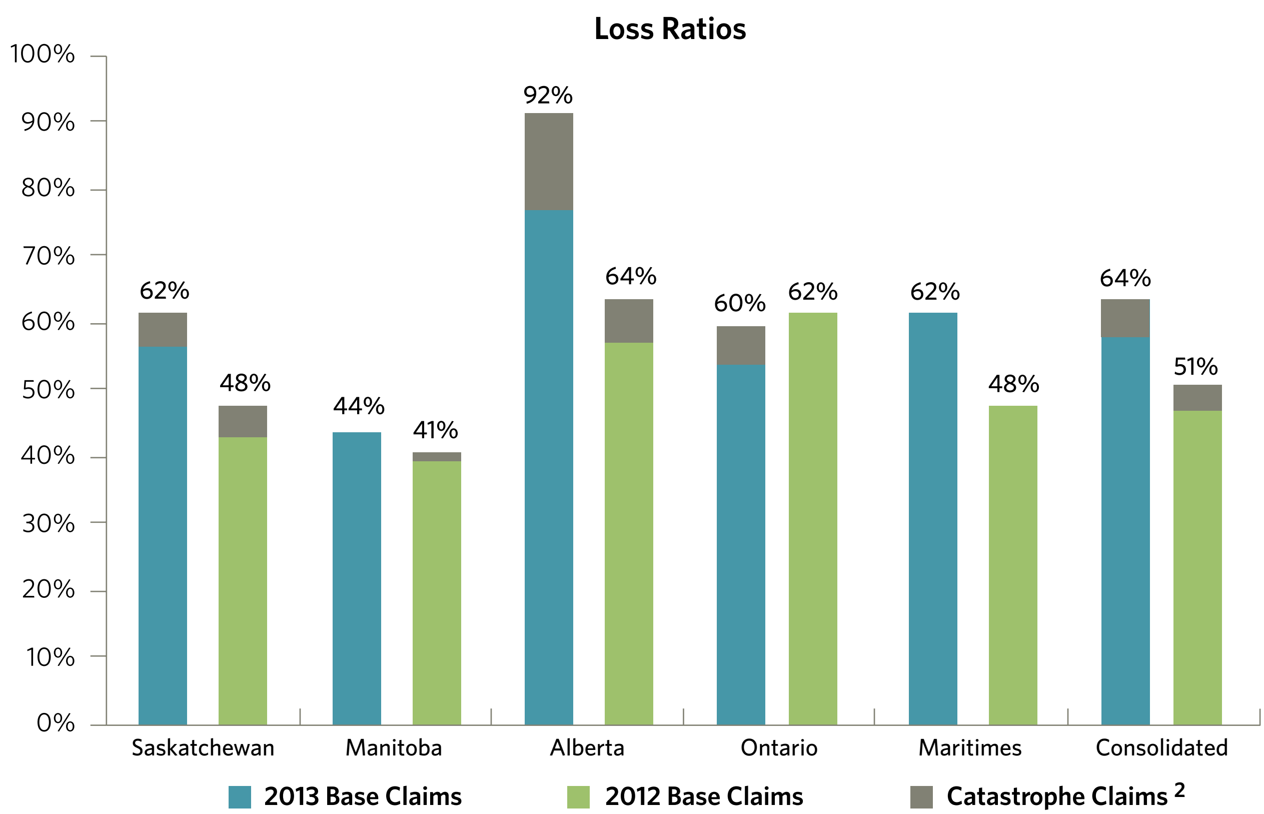
Net premiums written in Saskatchewan increased 5.5% for the year, while out-of-province operations increased by 4.5%. The growth in Saskatchewan premiums was across all lines of business, except for commercial property. Growth in out-of-province premiums was driven by a 23.6% increase from Alberta (primarily from auto and personal property) and Nova Scotia (9.6% growth).

Overall, out-of-province growth was significantly lower than experienced in previous years, due to a decline in Ontario premiums of 8.6%. Since January 2012, Ontario has experienced a steady decline in auto and personal lines policies in force, a trend which has continued throughout 2013. This trend commenced when rate increases were implemented in 2012, which were meant to improve the profitability of what had been poorly performing product lines, and to slow the significant auto growth experienced between 2009 and the end of 2011. In addition, competition in Ontario auto increased during the year as other insurers were getting more experience with the new auto reforms put in place in late 2010 and experiencing improved profitability. While premium levels continue to decline in Ontario, underwriting profitability of the operating segment has improved.

On a consolidated basis, the Corporation's split of business in 2013 was approximately 56% property and 44% auto, consistent with 2012.

Claims incurred

Consolidated claims incurred totalled $322.6 million, an increase of $76.6 million, or 31.2%, from 2012. Each operating segment, with the exception of Ontario, had a higher loss ratio than in 2012, resulting in the consolidated loss ratio increasing to 64.2%, compared to 50.9% in 2012. The following chart summarizes the loss ratios by jurisdiction, detailing components of the 2013 loss ratio between storm and non-storm claim costs:



Claim costs related to Saskatchewan operations (not including storm claims assumed from other jurisdictions) increased $58.1 million from $166.4 million to $224.5 million in 2013 with a corresponding increase in the loss ratio of 13.9% to 62.1%. The unfavourable results were due to a combination of an estimated $22.8 million in ice damming claims,[3] and large losses in personal lines, commercial lines and agro.

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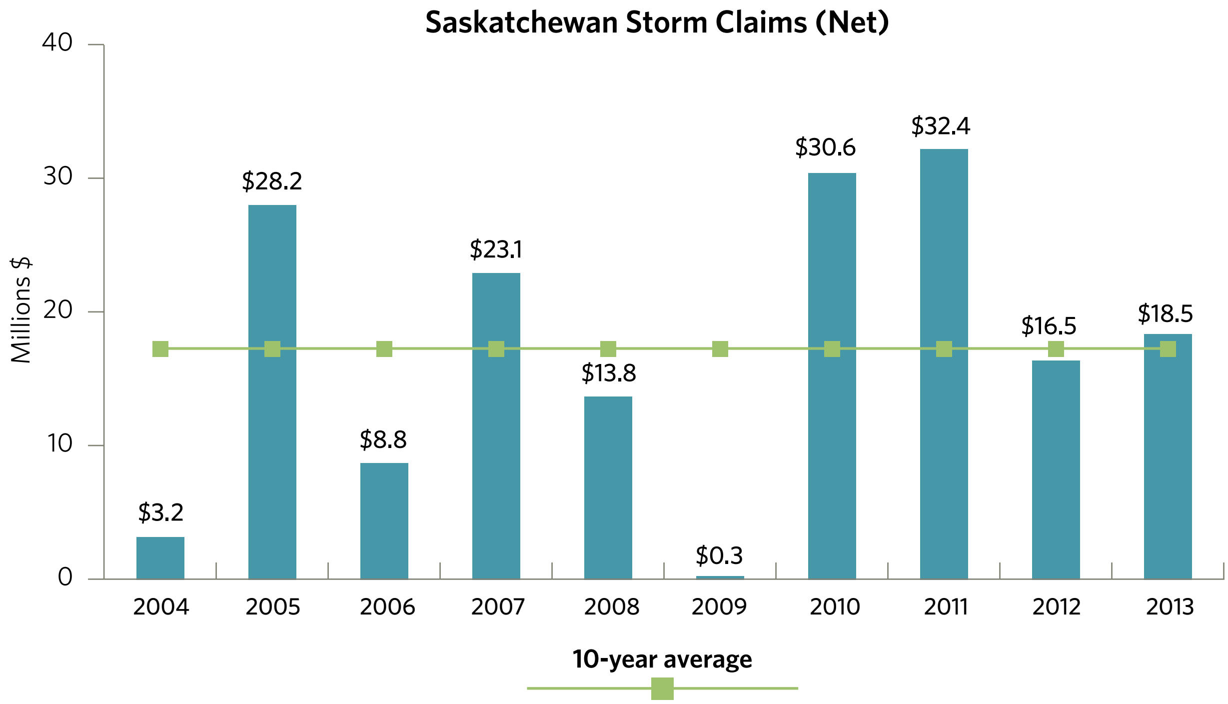
2 Catastrophe claims represent claims occurring from a single weather event over a period no longer than 72 hours and with an estimated cost greater than $1 million (Saskatchewan) or $500,000 (other jurisdictions).

3 Ice damming occurs when snow melts above a warmed attic. Water moves down to the cooler roof edge and soffit, and freezes. Unless this water is able to drain properly, the resulting freezing can create ice dams on the roof, allowing water to damage shingles and soffit, and eventually work its way into a home.

The cost of the 2013 storms in Saskatchewan is estimated at $18.5 million, compared with the 10-year average of $17.5 million. The following graph shows the significance of storm claims over the past 10 years and demonstrates their unpredictability:



Manitoba's loss ratio increased to 44.4% from 40.9% in 2012, due primarily to a higher number of personal lines claims and large losses in agro.

Alberta's loss ratio is 27.2% higher than the prior year at 91.5% compared to 64.3% in 2012. Both auto and personal lines experienced large losses and worse than expected development on prior year claims. As well, summer storms resulted in $7.1 million of claims, compared to $2.6 million in 2012.

Ontario's loss ratio decreased to 59.9% in 2013 (2012 — 62.3%), due largely to lower auto claim costs, as the auto reforms in Ontario are resulting in lower accident benefit costs. Favourable auto results were partially offset by claims related to the catastrophic flooding that occurred in July 2013, which resulted in $3.1 million of claims, compared to no storm claims in the same period in 2012.

The loss ratio for the Maritimes operations increased to 62.1% from 47.6% in 2012, due primarily to auto claims having a higher average severity. As well, there were large personal and commercial lines losses.

Expenses excluding claims incurred

Expenses excluding claims incurred were $194.4 million (2012 — $181.1 million) for the year, an increase of $13.3 million or 7.4%. Commissions and premium taxes increased due primarily to higher premiums. The commission and premium tax ratio of 25.9% increased 0.5%, the result of enhancements made to the broker bonus program in Saskatchewan and implementation of the "Better Together" program for Saskatchewan brokers. Administrative expenses increased $6.1 million, or 10.5%, in 2013, while the administrative expense ratio grew to 12.9% from 12.2% in 2012. Growth in administrative expenses was due primarily to higher salaries and benefits, systems depreciation and advertising costs. Also included in 2013 underwriting results is a gain of $307,000 related to participation in the Facility Association (2012 — loss of $127,000).

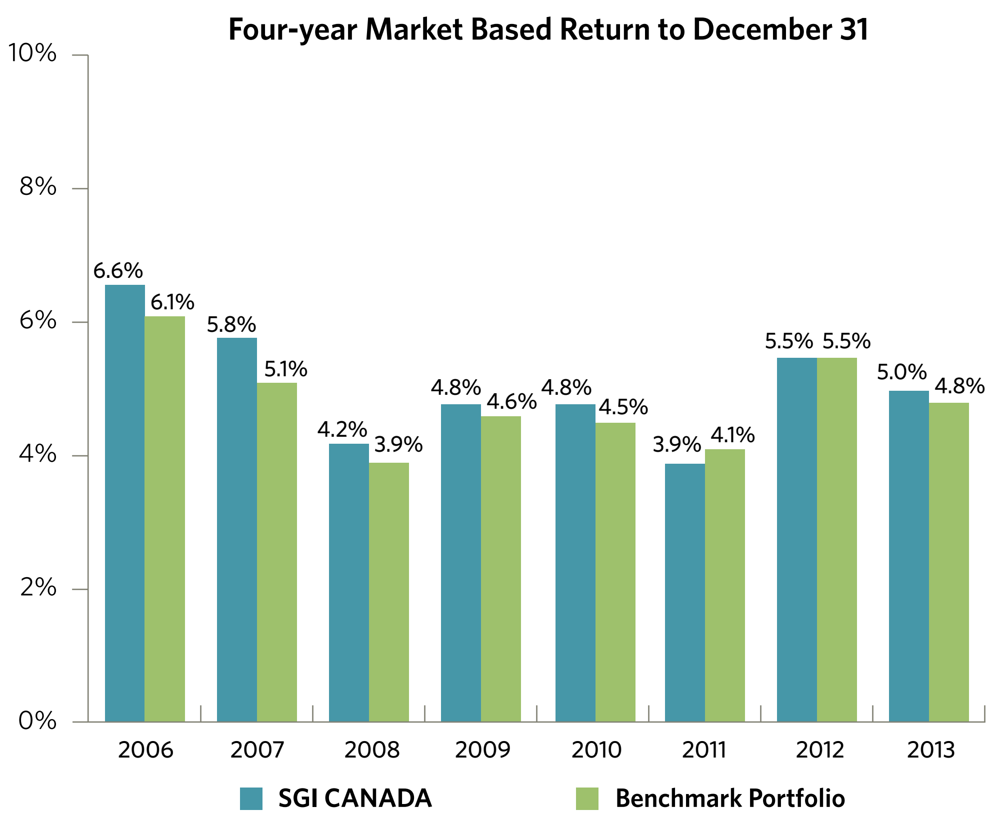
Investment earnings

In 2013, investment earnings were $58.7 million and represented 10.5% of total revenues (2012 — $33.0 million or 6.4% of total revenues). Investment earnings are calculated using market-based accounting principles, the components of which are disclosed in note 14 to the financial statements, and include interest, dividends, and both realized and unrealized capital gains and losses on investments.

The primary investment performance objective of the portfolio is to earn a market-based return in excess of a benchmark portfolio return. The asset mix for the benchmark portfolio is set by the Board to be consistent with SGI CANADA's risk profile and is reviewed on an annual basis. In addition, each subsidiary has its own investment portfolio with a policy consistent with its risk profile. Actual asset class weights are allowed to vary around the benchmark portfolio within the policy asset mix guidelines.

The benchmark portfolio return is calculated by applying the benchmark portfolio weights to capital market index returns. While the portfolio's rate of return is compared to the benchmark portfolio return on a quarterly basis, the performance measure is expected to be met over four years, a long enough period to capture a full market cycle. This longer-term measure is appropriate as it recognizes that the effectiveness of investment management styles varies depending on the market environment.

Performance relative to the benchmark portfolio varies from year-to-year but, as illustrated in the following graph, over rolling four-year periods investment performance remains satisfactory with just one period lagging the benchmark in the last eight years.



Equity markets embraced improved economic and fiscal data delivering strong, consistent returns during 2013. Common themes continued to drive growth in the U.S., including the recovery in housing, manufacturing and development of cheap domestic energy sources. Relative stability in Europe combined with ultra-accommodative monetary policy in Japan drove strong performance in international markets. World central banks maintained accommodative monetary policy affirming their commitment to sustained economic momentum, which helped further drive equity prices. Canadian equity markets delivered decent performance despite significant declines in material prices, especially gold.

Interest rates in Canada increased over the course of 2013. While short-term rates remained well anchored, mid and long-term rates rose resulting in a steeper yield curve. With interest rates still near multi-generational lows, low inflation, low growth and high consumer debt levels are expected to keep yields low through 2014.

		Annual index returns ending December 31 (%)	
Asset Class	**Benchmark Index**	**2013**	**2012**
Canadian equities	S&P/TSX Composite	13.0	7.2
U.S. equities	S&P 500 ($C)	41.3	13.4
Non-North American equities	MSCI EAFE ($C)	31.0	14.7
Bonds	DEX Universe Bond	-1.2	3.6
Short-term bonds	DEX Short-term Bond	1.7	2.0

Equity markets continued to gain momentum throughout 2013, generating strong returns for the year. The resource dependent TSX Composite Index finished the year up 13.0%. The S&P 500 Index generated a 32.4% return for the year (41.3% in Canadian dollar terms) while non-North American equities, the EAFE Index, rose 26.9% in aggregate local currency terms (31.0% in Canadian dollar terms). The Canadian dollar fell during 2013 creating foreign exchange gains for Canadian investors.

For purposes of portfolio management, a market-based result is calculated that captures all interest and dividend income, as well as the impact of the change in market value of securities, both realized and unrealized. In 2013, the SGI CANADA portfolio's market-based return was 7.8% compared to a 4.3% return in 2012. The 2013 return beat the benchmark portfolio return of 6.6% by 1.2% (2012 beat the benchmark by 0.3%). The 2013 return was higher than experienced in 2012 due to strong equity performance, particularly from U.S. and non-North American equities, as well as positive returns generated from the fixed income portfolio. Similar performance trends were seen in the portfolios for each operating segment.

Income taxes

The Corporation's out-of-province legal entities, SGI CANADA Insurance Services Ltd., Coachman and ICPEI, are subject to corporate income tax, while SGI CANADA is not. On a consolidated basis, SGI CANADA recorded a tax expense of $5.1 million in 2013 compared to an expense of $6.6 million in 2012. Excluding Saskatchewan operations, which are non-taxable, this results in a tax rate of 26.4%, compared to the expected tax rate of 26.7%. The primary reason for the difference is Canadian dividend revenue that is not subject to tax.

Consolidated Statement of Cash Flows

(thousands of $)	2013	2012	Change
Operating activities	$ 71,970	$ 99,355	$ (27,385)
Investing activities	14,444	(114,859)	129,303
Financing activities	(57,660)	(10,007)	(47,653)
Change in cash and cash equivalents	**$ 28,754**	**$ (25,511)**	**$ 54,265**

Operating activities

Cash from operations contributed $72.0 million in 2013 compared to $99.4 million in 2012. The lower underwriting profit in the current year is responsible for the decline, with the significant increase in claims being the primary impact on cash flows in 2013. However, at $72.0 million, 2013 cash flow from operations is still strong, due largely to the continued favourable premium growth from all companies and cash-based investment returns from the Corporation's significant investment portfolio.

Investing activities

Each legal entity's excess cash from operating activities is invested in its own investment portfolio. The investment managers actively trade each investment portfolio in the capital markets following the restrictions set out in each legal entity's Statement of Investment Policies and Goals. For 2013, the investment managers, on a consolidated basis, generated cash through proceeds from the sale of investments of $1,210.3 million (2012 — $593.0 million), and reinvested into investments $1,189.9 million (2012 — $702.9 million). In addition, there were $5.9 million in purchases of property and equipment in 2013, resulting in a net generation of cash during the year of $14.4 million (2012 — net use of cash of $114.9 million).

Financing activities

Financing activities related solely to dividends paid during the year of $57.7 million (2012 — $10.0 million). Dividends paid during 2013 were significantly higher than in 2012 due largely to the 2012 fourth quarter dividend payment (paid in March 2013) of $42.0 million.

Cash and cash equivalents

Of the $86.4 million of cash generated from operations and investing activities, $57.7 million was used to pay dividends and the remaining $28.8 million was added to cash and cash equivalents. Cash and cash equivalents were $42.6 million at the end of 2013. Of this balance, $52.1 million is invested in money market investments with a maturity of 90 days or fewer from the date of acquisition. Money market investments increased by $32.5 million compared to 2012, due to revisions to the Corporation's investment policies which increased weightings on short-term investments, including money market investments.

Consolidated Statement of Financial Position

(thousands of $)	2013	2012	Change
Total assets	**$ 1,120,755**	**$ 1,073,598**	**$ 47,157**
Key asset account changes:			
Cash and cash equivalents	42,608	13,854	28,754
Accounts receivable	159,361	146,265	13,096
Investments	763,916	751,096	12,820
Deferred policy acquisition costs	68,811	65,357	3,454
Unpaid claims recoverable from reinsurers	35,624	45,501	(9,877)

Cash and cash equivalents

Cash and cash equivalents at December 31, 2013, were $42.6 million (2012 — $13.9 million), an increase of $28.8 million. The sources of the change in cash and cash equivalents for the year are discussed in the above section Consolidated Statement of Cash Flows. Cash equivalents consist of money market investments such as treasury bills, banker's acceptances, discount notes or other liquid short-term investments that have a maturity of 90 days or fewer from the date of acquisition.

Accounts receivable

Accounts receivable increased by 9.0% during the year. The increase is the result of an additional $8.6 million of receivables due on insurance policies, a direct result of the increase in premium volume. In addition, there is $2.1 million outstanding due to the Saskatchewan broker loan program, which saw additional activity due to increased awareness of the program. Also included in accounts receivable is $3.3 million of income tax receivable, whereas 2012 had an income tax payable.

Investments

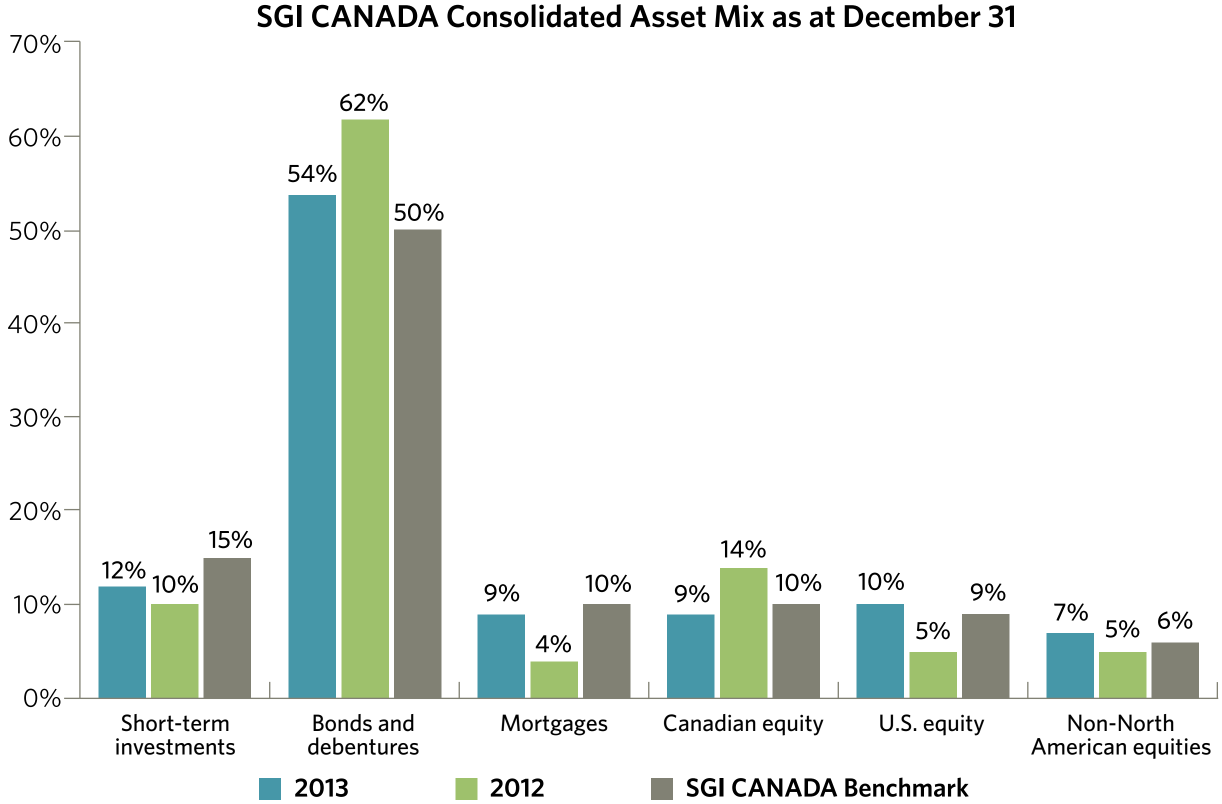
The carrying value of investments increased by $12.8 million during the year, primarily the result of increased market values, and despite a $32.5 million increase to cash equivalent money market investments.

The Corporation's investment strategy is based on prudence, regulatory guidelines and claim settlement patterns, with a view to maximizing long-term returns utilizing a conservative investment portfolio. The portfolio's asset mix strategy is set by the Board through a detailed assessment of the Corporation's risk tolerance. The asset mix strategy takes into consideration the current and expected conditions of the capital markets, and the historic return and risk profile of various asset classes. In order to achieve the long-term investment goals, the portfolio must invest in asset classes that provide an attractive risk-return profile over the medium- to long-term. Over shorter periods, however, performance of these asset classes can be volatile. In 2013, investment earnings benefited from lower volatility generating more consistent results over the period. The Corporation believes a diversified asset mix and longer-term focus remains appropriate, balancing the need for capital preservation in the short term with the desire for portfolio growth over the longer term.

The asset mix strategy is formally documented in the Statement of Investment Policies and Goals. In addition to capturing the asset mix strategy, this document provides guidance on permissible investments, quality and quantity guidelines, conflicts of interest, related party transactions and investment performance expectations, among others. Management monitors and enforces compliance with the investment policy. No material compliance deviations were noted in 2013.

The Corporation's investment portfolio is managed by external investment managers. The portfolio is invested in short-term investments, bonds, mortgages and equities. Equities consist of Canadian, U.S. and non-North American mandates. The Corporation's subsidiaries hold their Canadian and U.S. equities through pooled funds, while all the Corporation's non-North American equities are held through a pooled fund.

SGI CANADA Consolidated Asset Mix as at December 31



The 2013 investment policy review resulted in some changes to the policy asset mix guidelines and benchmark portfolio weights. The Canadian equity manager was replaced, due to poor relative performance. Two new Canadian equity mangers were added, a growth manager and a value manager, which in combination demonstrated consistent returns with better downside risk characteristics. Separately, an asset mix optimization identified adding or increasing commercial mortgages as well as reducing Canadian equities in favour of U.S. and non-North American equities. These three policy changes were fully implemented during the third quarter of 2013. The Corporation continues to monitor its fixed income investments to ensure the assets are relatively well matched to their associated liabilities.

Deferred policy acquisition costs

Deferred policy acquisition costs increased $3.5 million during the year. The increase is due to an increase in prepaid commissions and prepaid premiums, a direct result of increased premium volume, and consistent with the growth in unearned premiums.

Unpaid claims recoverable from reinsurers

Unpaid claims recoverable from reinsurers decreased $9.9 million in 2013, due to lower Saskatchewan storm claim costs, and Ontario auto claim costs.

(thousands of $)	2013	2012	Change
Total liabilities	**$ 822,307**	**$ 790,923**	**$ 31,384**
Key liability account changes:			
Provision for unpaid claims	420,753	369,137	51,616
Unearned premiums	291,087	275,410	15,677
Accounts payable and accrued liabilities	63,523	69,600	(6,077)
Dividend payable	9,925	41,993	(32,068)

Provision for unpaid claims

This liability reflects the estimated ultimate cost of claims reported but not settled, along with claims incurred but not reported. The December 31, 2013, provision for unpaid claims increased $51.6 million, or 14.0%, from the end of the previous year. This increase is due largely to unpaid losses related to the flooding in Alberta and Ontario, and the high property claim costs experienced in Saskatchewan, including $13.8 million of unpaid ice damming claims. As well, there is additional exposure related to the Corporation's continued auto policy growth, particularly outside Saskatchewan.

The process to determine this liability is complex as it takes into consideration numerous variables that are subject to the outcome of future events. Any change in estimates is reflected as claims incurred on the Consolidated Statement of Operations.

Unearned premiums

The $15.7 million increase in unearned premiums is the result of the increase in premium volume in 2013.

Accounts payable and accrued liabilities

The $6.1 million decrease in accounts payable in the current year is largely the result of a $4.5 million income tax payable at December 31, 2012, and no corresponding payable in the current year. In 2013, the Corporation is in an overall income tax receivable position.

Dividends payable

Dividends payable to Crown Investments Corporation (CIC) are $9.9 million at the end of 2013. This is significantly lower than the $42.0 million payable in the prior year, due primarily to the record profit in 2012. The overall dividend for 2013 is $25.6 million, and is based on the dividend payout ratio determined within SGI's dividend policy.

(thousands of $)	2013	2012	Change
Total equity	**$ 294,954**	**$ 279,521**	**$ 15,433**
Key equity account changes:			
Retained earnings	214,954	199,521	15,433
Non-controlling interest	3,494	3,154	340

Retained earnings

The $15.4 million increase in retained earnings is attributable to the $39.2 million consolidated net income, the transfer of other comprehensive income of $2.1 million, less dividends declared of $25.6 million. Other comprehensive income represents actuarial gains and losses associated with the Corporation's defined benefit pension and service recognition plans.

Non-controlling interest

The non-controlling interest is a result of the minority interest that exists in the Corporation's subsidiary, ICPEI.

For the three months ended December 31, 2013

SGI CANADA prepares public quarterly financial reports for the first three quarters of each year. These reports are available on its website at www.sgicanada.ca. Click on the About link and follow the links in the Publications section. The following is the Corporation's analysis of 2013 fourth quarter results:

SGI CANADA recorded consolidated net income of $21.8 million for the fourth quarter, $2.0 million lower than net income of $23.8 million in 2012.

Consolidated net premiums earned increased $5.4 million, or 4.3%, compared to the fourth quarter of 2012. All jurisdictions except for Ontario and Manitoba generated increases in premium earnings compared to 2012, with Alberta business contributing $2.4 million and Saskatchewan operations contributing $3.9 million. The Alberta and Saskatchewan markets were driven by both auto and property lines growth.

Claims incurred were $80.8 million for the fourth quarter of 2013, $26.6 million or 48.7% higher than 2012 ($54.2 million). The increase in the quarter was due primarily to unfavourable results in personal and commercial lines due to large losses in Saskatchewan, and unfavourable auto results in Alberta. Overall, the consolidated loss ratio increased to 62.3% in the quarter from 43.7% in 2012.

Quarterly Consolidated Financial Highlights

The following table highlights quarter over quarter results for the Corporation:

	2013					2012				
(thousands of $)	Q 4	Q 3	Q 2	Q 1	**Year**	Q 4	Q 3	Q 2	Q 1	**Year**
Net premiums written	137,936	138,220	147,847	93,624	**517,627**	130,880	130,439	140,762	89,737	**491,818**
Net premiums earned	129,664	127,127	123,778	122,099	**502,668**	124,280	121,540	119,290	117,706	**482,816**
Claims incurred	80,845	97,352	82,195	62,240	**322,632**	54,214	75,646	68,219	47,907	**245,986**
Net income (loss)	21,790	(7,249)	(5,885)	30,576	**39,232**	23,756	14,999	3,645	39,837	**82,237**
Cash flow from (used in) operations	31,830	36,150	9,540	(5,550)	**71,970**	35,035	40,883	40,533	(17,096)	**99,355**
Investments	763,916	741,171	705,625	708,109		751,096	723,889	669,056	651,538	
Provision for unpaid claims	420,753	419,057	397,376	375,599		369,137	384,501	371,603	358,790	
Minimum Capital Test	231%	237%	262%	288%		250%	268%	269%	280%	

The following points are intended to assist the reader in analyzing trends in the quarterly financial highlights:

- Net premiums earned generally increase on a quarter-over-quarter basis during the year.
- Claims incurred typically peak in both the second and third quarters due to summer hail storms and flooding that can occur. In 2013, there was $18.5 million in storm claims compared to 2012 storm costs of $16.5 million.
- With the exception of the first quarter, the Corporation generates positive cash flow from operations. Cash is typically low in the first quarter as the Corporation pays its annual premium taxes to the province in March. Operating cash flows are generally strong throughout the remaining nine months of the year and during these months excess cash generated is directed to investments.

IMPACT OF NEW ACCOUNTING STANDARDS

Future accounting policy changes

The following future changes to accounting standards will have applicability to the Corporation:

IFRS 4 — Insurance Contracts

In June 2013, the IASB published a revised exposure draft (2013 ED) on the accounting for insurance contracts which builds on the previous consultations undertaken in 2007 and 2010. The 2013 ED is the result of deliberations at the IASB using comments received from constituents. The ED continues to propose a new standard on accounting for insurance contracts, which would replace IFRS 4, *Insurance Contracts.* The proposals represent a comprehensive IFRS accounting model for insurance contracts and are expected to have a significant impact on the financial reporting of insurers. A final standard is expected in 2015 with implementation not expected before 2018.

IFRS 9 — Financial Instruments

In November 2009, the IASB issued an exposure draft of IFRS 9, *Financial Instruments,* as part of its plan to replace IAS 39, *Financial Instruments: Recognition and Measurement.*

The new standard requires financial assets to be measured at either fair value or amortized cost, on the basis of the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. A financial asset that is held by an entity for the purpose of collecting contractual cash flows on specified dates per contractual terms should be measured at amortized cost. All other financial assets should be measured at fair value.

For equity instruments, management has an option on initial recognition to irrevocably designate on an instrument-by-instrument basis to present the changes in their fair value directly in equity. There is no subsequent recycling of fair value gains and losses from equity to the Consolidated Statement of Operations; however, dividends from such equity investments will continue to be recognized in profit or loss.

In November 2012, the IASB issued limited amendments to the exposure draft. The amendments include introduction of a fair value through other comprehensive income (FVOCI) measurement category for simple debt instruments. In this measurement category, the Consolidated Statement of Financial Position will reflect the fair value carrying amount while amortized cost information is presented in the Consolidated Statement of Operations. The difference between the fair value and amortized cost information will be recognized in other comprehensive income.

In July 2013, the mandatory effective date for this standard was deferred and is pending the finalization of the impairment and classification and measurement requirements. While early adoption is permitted under the standard, the Office of the Superintendent of Financial Institutions (OSFI) has indicated that early adoption is not allowed. While the Corporation is not federally regulated, it generally follows OSFI's guidance in such matters.

The Corporation is in the process of assessing the impact of the new standard.

IAS 36 — Impairment of Assets — Recoverable Amounts Disclosures for Non-Financial Assets

In May 2013, the IASB issued limited scope amendments to IAS 36. The amendment clarified the requirement to disclose the recoverable amount of an asset (including goodwill) or a cash-generating unit for which a material impairment loss was recognized or reversed during the reporting period. In addition, the amendment requires an entity to disclose the discount rate used in a present value technique that has been used in determining the recoverable amount of an impaired asset on the basis of fair value less costs of disposal. These amendments are effective for annual periods beginning on or after January 1, 2014. Earlier application is permitted. The Corporation does not expect these amendments to impact the consolidated financial statements.

Annual Improvements Cycles

In 2012, the IASB issued two exposure drafts for Annual Improvements Cycles 2010-2012 and 2011-2013, which include minor amendments to a number of IFRSs. The annual improvements process is used to make necessary but non-urgent changes to IFRSs that are not included in other projects. The amendments issued are all effective for annual periods beginning January 1, 2014. The Corporation is in the process of assessing the impact of the amendments.

RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government of Saskatchewan ministries, agencies, boards, commissions, Crown corporations and jointly controlled and significantly influenced corporations and enterprises. Transactions with these entities were entered into in the normal course of business and are settled at prevailing market prices under normal trade terms. Further details regarding these related party transactions are disclosed in note 20 of the consolidated financial statements. Details of other significant related party transactions disclosed in the consolidated financial statements follow.

SGI CANADA acts as the administrator of the Saskatchewan Auto Fund on behalf of the Province of Saskatchewan. SGI CANADA incurs administrative and claim adjustment expenses on behalf of the Auto Fund, which are charged to the Auto Fund directly or on the basis of specific distributions. Amounts incurred by SGI CANADA and charged to the Auto Fund were $138.2 million (2012 — $130.8 million).

One Board member owns an organization that sells insurance policies of the Corporation. Premiums written during the year from this organization amounted to $5.4 million (2012 — $5.0 million) and the associated accounts receivable at December 31, 2013, were $825,000 (2012 — $819,000). Commissions related to these premiums were $1.1 million (2012 — $1.0 million). The above noted transactions are routine operating transactions in the normal course of business.

OFF BALANCE SHEET ARRANGEMENTS

SGI CANADA, in its normal course of operations, enters into certain transactions that are not required to be recorded on its Consolidated Statement of Financial Position — commonly referred to as the balance sheet. These items include litigation, structured settlements and a long-term telecommunications contract. These items are discussed below and in notes 10 and 20 to the consolidated financial statements.

The Corporation, as is common in the P&C insurance industry, is subject to litigation arising in the normal course of its operations, primarily in claim settlements. The Corporation is of the opinion that current litigation will not have a material impact on its operations, financial position or cash flows.

Also, the Corporation and its subsidiaries, in the normal course of settling claims, settle some long-term disability claims by purchasing structured settlements (annuities) from various financial institutions for its claimants. This is a common practice in the P&C industry. The net present value of the scheduled payments at December 31, 2013, was $58.2 million (2012 — $57.9 million). The Corporation provides a financial guarantee to the claimant in the event of default by the financial institution on the payment schedule to the claimant. No default has occurred in the past on these payment schedules and the Corporation considers the likelihood of such default as being remote.

The Corporation has secured a long-term telecommunications contract with a related provincial Crown corporation that is scheduled to end in 2015. At December 31, 2013, the remaining commitment under this contract was $4.2 million (2012 — $2.1 million). The Corporation and its subsidiaries are committed to leases on their office premises and other contractual obligations. Annual commitments related to these obligations over the next five years range from $889,000 in 2014 to $445,000 in 2018.

CRITICAL ACCOUNTING ESTIMATES

This discussion and analysis of the Corporation's financial condition and results of operations is based upon its consolidated financial statements as presented in this annual report. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and interpretations of the International Reporting Interpretations Committee. Significant accounting policies are contained in note 3 to the consolidated financial statements. Some of these policies involve critical accounting estimates because they require management to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or by using different assumptions.

The Corporation has discussed the development, selection and application of its key accounting policies and the critical accounting estimates and assumptions they involve, with the Audit and Finance Committee of the Board of Directors. The Audit and Finance Committee has reviewed the disclosures described in this section. The most significant critical accounting estimates involve the provision for unpaid claims, unpaid claims recoverable from reinsurers, income taxes and employee future benefits.

Provision for unpaid claims

A provision for unpaid claims is maintained to cover the estimated ultimate liability for losses and loss adjustment expenses for reported claims and claims incurred but not yet reported as at the end of each accounting period. The initial provision is determined on the reported facts filed with the claim and then revised regularly, as more information on the claim becomes known. The provision does not represent the exact calculation of the liability owing to claimants, but is an estimate developed using Canadian accepted actuarial practices and Canadian insurance regulatory requirements. The estimate reflects an expectation of the ultimate cost of settlement and administration of claims. It involves an assessment based on the facts and circumstances of the events reported in the claim, the Corporation's experience with similar claims, historical trends involving claim payments, claim severity, the effect of inflation on reported and future claims, court decisions and the timeframe anticipated to settle and pay the claim.

This provision is refined on a continual basis as prior fiscal year claims are settled and additional claims are reported and settled. There may be significant time delays from the occurrence of the insured event and when it is reported. If this occurs near the year-end date, estimates are made as to the value of these claims based on information known to the Corporation. As well, uncertainty exists for reported claims that are not settled, as all necessary information may not be available. Thus, with the level of uncertainty involved in the claim process until the final settlement occurs, current reserves may not be sufficient. The provision has been calculated including the impact of discounting. Any adjustments to these estimates, both positive (a redundancy or excess) and negative (a deficiency) are included in the provision for unpaid claims and are reflected as claims incurred in the current year's Consolidated Statement of Operations.

Unpaid claims recoverable from reinsurers

Unpaid claims recoverable from reinsurers includes amounts for expected recoveries related to unpaid claim liabilities, as well as the portion of the reinsurance premium that has not yet been earned. Amounts recoverable from reinsurers are estimated in a manner consistent with claim and claim adjustment expense reserves, and are reported in the Consolidated Statement of Financial Position. The ceding of insurance does not discharge the Corporation's primary liability to its insureds. An estimated allowance for doubtful accounts is recorded on the basis of periodic evaluations of balances due from reinsurers, reinsurer solvency, management's experience and current economic conditions. No allowance for doubtful accounts has been recorded related to unpaid claims recoverable from reinsurers in the current or prior year.

Income taxes

The provision for income taxes is calculated based on the expected tax treatment of transactions recorded in the consolidated financial statements. In determining the provision for income taxes, the Corporation interprets tax legislation in a variety of jurisdictions and makes assumptions about the expected timing of the reversal of deferred tax assets and liabilities and the valuation of deferred income tax assets.

Management makes assumptions regarding the value of deferred tax assets using a valuation allowance. This allowance is based on management's assessment of whether it is more likely than not that the Corporation will utilize tax assets before they expire. This assessment is based on expected future earnings, tax rates, the amount of taxable income in future years and the timing of the reversal of deferred tax liabilities. No valuation allowance has been recorded in the current or prior year.

Employee future benefits

The Corporation's benefit expense for its defined benefit pension plan and defined benefit service recognition plans is calculated by the Corporation's external benefits actuary utilizing management's best estimate of critical assumptions. These critical assumptions consist of: expected plan investment performance, salary escalation, age at retirement, mortality of members and future pension indexing. Management reviews and adjusts these assumptions as required on an annual basis. Actuarial gains and losses regarding the pension obligation or the investment returns are recorded as other comprehensive income on the Consolidated Statement of Operations.

The end of period discount rate is determined at each year end using market rates of high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments.

Further details of the Corporation's defined benefit plans are contained in note 19 to the consolidated financial statements.

RISK MANAGEMENT

Risk management is a process for recognizing and addressing risks that could affect the achievement of corporate objectives. On an annual basis, management reviews the key risks faced by SGI CANADA by identifying specific risk events and their potential impact on the Corporation's operations, finances and reputation. Each risk event is rated based on the likelihood of the event occurring and severity of the consequences if it did occur, both before and after the application of potential mitigations.

The above process results in a risk profile for the Corporation, which is reviewed by the Risk Committee of the Board of Directors annually. SGI's Audit Services department also uses the risk profile in developing its annual work plan, which provides an assurance component to SGI's risk management process.

The following risks represent the most serious threats to SGI CANADA. Failure to manage any of these risks could lead to significant operational, financial or reputational damage. The nature of these risks, along with efforts to mitigate them, is summarized below.

Competition

Risk: Large competitors pursue market share through aggressive pricing or the purchase of independent brokers, leading to reduced margins and/or loss of market share for SGI CANADA.

Mitigation: SGI CANADA monitors market developments closely, particularly in Saskatchewan, and has expanded its broker network in areas outside Saskatchewan where competitors have acquired brokers who sell SGI CANADA policies. In 2013, a National Business Development unit was created to establish stronger broker relationships, particularly as the company transitions to more consumer facing technologies. The Corporation continues to introduce new products into the personal and commercial markets, and has developed online services to improve the speed, accuracy and ease with which brokers and consumers do business with the Corporation.

Significant Privacy Breach

Risk: Personal information held by SGI CANADA for a large number of customers is lost, accessed, used or disclosed contrary to legislated privacy requirements, resulting in adverse legal, regulatory and financial consequences, as well as a loss in confidence by customers and the shareholder.

Mitigation: Specific guidelines on handling personal information have been implemented and are updated regularly to be consistent with industry recommended best practices. SGI CANADA is implementing the AICPA/CICA Privacy Maturity Model which provides the company with tools to assess and measure its privacy program. SGI CANADA conducts privacy audits in areas that handle customer information, and uses a Privacy Impact Assessment process for reviewing business changes, to ensure privacy concerns are addressed at the design level. To promote awareness of privacy obligations, new staff must complete online privacy training, and all staff are required to complete an annual sign-off of the Code of Ethics and Conduct, and the Confidentiality and Non-Disclosure Agreement.

Catastrophic Claim Loss

Risk: An event loss in excess of reinsurance limits, an aggregation of large losses within the corporate net retention or the failure of a reinsurer could result in major financial losses for SGI CANADA.

Mitigation: SGI CANADA's reinsurance limits were determined based on independent catastrophe modeling, and reinsurance limits are purchased in excess of the 1-in-250-year event probable maximum loss. The Corporation conducts scenario modeling on relevant catastrophic storm events, overlaying them on high exposure concentrations to validate the upper limit of reinsurance protection. To mitigate the risk of reinsurer failure, SGI CANADA and its reinsurance brokers monitor the reinsurer rating provided by AM Best, and Standard and Poor's.

Scale

Risk: SGI fails to achieve the minimum sustainable size that will allow it to survive in an increasingly consolidating market.

Mitigation: Scale is considered to be an essential advantage in the insurance industry to support economies of scale in capital and information. SGI is currently investigating a number of possible options to address this strategic issue, including:

a) The acquisition of books of business;

b) Pursuing aggressive organic growth through targeted customer and industry segments, geographic growth and underwriting innovations; and,

c) Exploring strategic partnerships that present an opportunity to develop scale and/or prevent additional acquisitions by consolidators.

Leadership/Strategy

Risk: The risk that the company does not have the right strategic plan or leadership to be successful.

Mitigation: SGI CANADA's purpose and ideals are defined clearly in the corporate mission, vision and values statements, and the Corporation promotes leadership in training programs. The corporate commitment to privacy and ethical behaviour is reinforced through the annual review and sign-off by all employees of the Code of Ethics and Conduct. A strategic plan was developed with the feedback of employees and other stakeholders, and provides a detailed plan for the future of the Corporation. The strategic plan is formally reviewed and updated annually, and a redeveloped prioritization process for major corporate projects is being implemented.

Product Design and Pricing

Risk: Inferior product design or inaccurate pricing leads to uncompetitive and unprofitable products, loss of business, and loss of confidence by policyholders and brokers.

Mitigation: To ensure its products are designed and priced appropriately, SGI CANADA monitors rate adequacy, competitor pricing and product offerings, as well as insurance market developments, legal decisions and societal trends. Pricing and product design are reviewed in detail annually. The Corporation has built actuarial data marts so more timely, reliable and types of data are available to improve decisions about the pricing and structure of products.

Transfer and Acquisition of Expertise

Risk: SGI CANADA is unable to build and maintain the knowledge, skills and experience within the organization's workforce needed to thrive now and in the future. Challenges include retirements, recruitment of qualified personnel in a tight labour market and the need to support an analytical and customer-centric culture.

Mitigation: SGI CANADA has implemented or is working on a number of programs in this area, including competency-based recruitment, training and mentoring programs, knowledge management solutions, and monitoring of workplace engagement and enablement through employee surveys. A corporate learning strategy is in place to grow talent, and SGI CANADA has devoted additional resources and technology to training and development. SGI CANADA's succession planning process focuses on: (i) ensuring senior management positions have backups; (ii) identifying high performing staff who have potential for more senior roles; and, (iii) ensuring high potential staff and the leadership team have ongoing development and support. The corporate diversity/recruitment strategy was updated in 2012 to enhance partnerships with outreach agencies and educational institutions, and the Corporation's visibility as a preferred employer. As a result, SGI has received national recognition as a Top 100 Employer, one of Canada's top diversity employers and one of Canada's top employers for employees over 40.

Business Intelligence

Risk: The development and implementation of the Business Intelligence (BI) project is unsuccessful, adversely affecting SGI CANADA's ability to make good decisions.

Mitigation: The BI project was established to meet the Corporation's need for greater and easier access to information. SGI CANADA contracted with an outside consultant with extensive expertise to assist in the development of BI technology. Rather than implementing the entire project at once, an iterative staged approach to development and adoption is being used to control project scope and ensure user needs are being met. Resources have been dedicated to help internal users in refining data needs and applying the BI technology to gather and present information faster and easier.

OUTLOOK FOR 2014

SGI CANADA is facing pressures today that are greater than at any prior point in its history. The Canadian property and casualty (P&C) insurance business environment is rapidly changing, and a number of trends are impacting how companies compete, such as acquisitions, consolidation, changes in consumer preferences and delivery channel, and the development and use of "big data." The Saskatchewan P&C insurance market has been relatively immune to industry changes in the past, but with the strong provincial economy and technology that allows businesses to more easily penetrate new markets, that is changing.

Heading into 2014, SGI CANADA is focused on three critical priorities — evolving to a strongly customer-centric business model, maximizing shareholder value and ensuring the staff culture supports these priorities. That will mean developing a deeper understanding of customers and seeking opportunities to achieve scale.

SGI CANADA is already working to fully leverage internal and external data to better improve rating models and enhance service. It is also developing an integrated distribution model to provide customers with access to self-serve and broker channels, assisting with customer attraction and retention by identifying the customer segments it wishes to target, and tailoring products and services to the needs and preferences of those segments. To maximize stability of its results and dividend, SGI CANADA plans to further spread risk geographically — with a long-term objective of having at least 50% of premium volume outside of Saskatchewan. SGI CANADA also aims to keep expense ratios as low as possible over the longer term by leveraging technology and strategic partnerships where possible to achieve productivity and efficiency improvements.

The Corporation's expectations are ambitious given the highly competitive, ever-changing insurance industry it operates in. Competitors continue to become more sophisticated and competition from new sources, such as direct writers, is becoming more prevalent. SGI CANADA has confidence in its ability to succeed, given the expertise of its employees and a clear strategic direction to guide the Corporation to continued success in the competitive Canadian insurance marketplace.

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The consolidated financial statements are the responsibility of Management and have been prepared in conformity with International Financial Reporting Standards. In the opinion of Management, the consolidated financial statements fairly reflect the financial position, results of operations and cash flows of Saskatchewan Government Insurance (the Corporation) within reasonable limits of materiality.

Preparation of financial information is an integral part of Management's broader responsibilities for the ongoing operations of the Corporation. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. In this regard, an annual statement of management responsibility is provided on the following page. In addition, the adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

An actuary has been appointed by the Corporation to carry out a valuation of the policy liabilities in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Corporation and the nature of the insurance policies. The actuary also makes use of Management information provided by the Corporation and the work of the external auditors in verifying the data used in the valuation.

The consolidated financial statements have been examined and approved by the Board of Directors. An Audit and Finance Committee, composed of members of the Board of Directors, meets periodically with financial officers of the Corporation and the external auditors. These external auditors have free access to this Committee, without Management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

As appointed by the Lieutenant Governor in Council and approved by Crown Investments Corporation of Saskatchewan, PricewaterhouseCoopers LLP have been appointed external auditors. Their responsibility is to report to the Members of the Legislative Assembly regarding the fairness of presentation of the Corporation's financial position and results of operations as shown in the consolidated financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and her report on the policy liabilities. The Auditor's Report outlines the scope of their examination and their opinion.

Andrew R. Cartmell
President and Chief Executive Officer

Jeff Stepan
Chief Financial Officer

February 27, 2014

ANNUAL STATEMENT OF MANAGEMENT RESPONSIBILITY

I, Andrew Cartmell, President and Chief Executive Officer, and I, Jeff Stepan, Chief Financial Officer, certify the following:

a. That we have reviewed the consolidated financial statements included herein. Based on our knowledge, having exercised reasonable diligence, the consolidated financial statements fairly present, in all material respects, the financial condition, results of operations and cash flows, as of December 31, 2013.

b. That based on our knowledge, having exercised reasonable diligence, the consolidated financial statements do not contain any untrue statements of material fact, or omit to state a material fact that is either required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made.

c. That SGI CANADA (the Corporation) is responsible for establishing and maintaining effective internal control over financial reporting, which includes safeguarding of assets and compliance with applicable legislative authorities; and, the Corporation has designed internal controls over financial reporting that are appropriate to its circumstances.

d. That the Corporation conducted its assessment of the effectiveness of its internal controls over financial reporting and, based on the results of this assessment, it can provide reasonable assurance that internal controls over financial reporting as of December 31, 2013, were operating effectively and no material weaknesses were found in the design or operation of the internal controls over financial reporting.

Andrew R. Cartmell
President and Chief Executive Officer

Jeff Stepan
Chief Financial Officer

February 27, 2014

ACTUARY'S REPORT

To the Board of Directors of
Saskatchewan Government Insurance

I have valued the policy liabilities and reinsurance recoverables of SGI CANADA for its consolidated statement of financial position at December 31, 2013, and their change in the consolidated statement of operations for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

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

Barb Addie
Baron Insurance Services Inc.
Fellow, Canadian Institute of Actuaries
Fellow, Casualty Actuarial Society

February 27, 2014

INDEPENDENT AUDITOR'S REPORT

February 27, 2014

To the Members of the Legislative Assembly, Province of Saskatchewan

We have audited the accompanying consolidated financial statements of Saskatchewan Government Insurance and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2013 and the consolidated statements of operations, changes in equity and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Saskatchewan Government Insurance and its subsidiaries as at December 31, 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The consolidated financial statements of Saskatchewan Government Insurance for the year ended December 31, 2012, were audited by another auditor who expressed an unmodified opinion on those statements on February 28, 2013.

PricewaterhouseCoopers LLP

Chartered Accountants

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	December 31 2013	December 31 2012 (restated note 4)
	(thousands of $)	
Assets		
Cash and cash equivalents (note 5)	$ 42,608	$ 13,854
Accounts receivable (note 6)	159,361	146,265
Investments under security lending program (note 7)	142,460	75,750
Investments (note 7)	621,456	675,346
Unpaid claims recoverable from reinsurers (note 10)	35,624	45,501
Reinsurers' share of unearned premiums (note 12)	13,279	12,561
Deferred policy acquisition costs (note 11)	68,811	65,357
Property and equipment (note 8)	32,835	32,353
Other assets (note 9)	1,358	1,905
Deferred income tax asset (note 15)	2,963	4,706
	$ 1,120,755	$ 1,073,598
Liabilities		
Accounts payable and accrued liabilities	$ 63,523	$ 69,600
Dividend payable	9,925	41,993
Premium taxes payable	21,886	20,505
Amounts due to reinsurers	9,702	9,250
Unearned reinsurance commissions	4,339	4,014
Unearned premiums (note 12)	291,087	275,410
Provision for unpaid claims (note 10)	420,753	369,137
Deferred income tax liability (note 15)	1,092	1,014
	822,307	790,923
Equity		
Equity advances (note 13)	80,000	80,000
Retained earnings	214,954	199,521
Province of Saskatchewan's equity	**294,954**	279,521
Non-controlling interest	3,494	3,154
Total equity	**298,448**	282,675
	$ 1,120,755	$ 1,073,598

Contingencies (note 23)

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

Approved by the Board of Directors and signed on their behalf on February 27, 2014.

Arlene Wiks
Director

Howard Crofts
Director

CONSOLIDATED STATEMENT OF OPERATIONS

For the years ended December 31		2013		2012 (restated note 4)
		(thousands of $)		
Gross premiums written	$	559,395	$	531,115
Premiums ceded to reinsurers		(41,768)		(39,297)
Net premiums written		517,627		491,818
Change in net unearned premiums (note 12)		(14,959)		(9,002)
Net premiums earned		**502,668**		482,816
Net claims incurred (note 10)		322,632		245,986
Commissions		106,722		100,063
Administrative expenses		64,703		58,579
Premium taxes		23,281		22,307
Facility Association participation (note 21)		(307)		127
Total claims and expenses		**517,031**		427,062
Underwriting profit (loss)		**(14,363)**		55,754
Investment earnings (note 14)		58,672		33,055
Income before income taxes		**44,309**		88,809
Income tax expense (note 15)		5,077		6,572
Net income		**39,232**		82,237
Other comprehensive gain (loss)		2,133		(1,561)
Comprehensive income	**$**	**41,365**	$	80,676
Attributable to:				
The Province of Saskatchewan		41,025		79,872
Non-controlling interest		340		804
	$	**41,365**	$	80,676

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the years ended December 31	**2013**	2012 (restated note 4)
	(thousands of $)	
Equity advances		
Balance, end of year	**$ 80,000**	$ 80,000
Retained earnings		
Balance, beginning of year	$ 199,521	$ 171,649
Net income	38,892	81,433
Other comprehensive income (loss)	2,133	(1,561)
Dividends	(25,592)	(52,000)
Balance, end of year	**$ 214,954**	$ 199,521
Total Province of Saskatchewan's equity	**$ 294,954**	$ 279,521
Non-controlling interest		
Balance, beginning of year	$ 3,154	$ 2,350
Comprehensive income	340	804
Balance, end of year	**$ 3,494**	$ 3,154
Total equity	**$ 298,448**	$ 282,675

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31	2013	2012 (restated note 4)
	(thousands of $)	
Cash provided by (used for):		
Operating activities		
Net income	$ 39,232	$ 82,237
Non-cash items:		
Bond amortization	2,929	3,322
Depreciation	5,427	4,655
Goodwill impairment	481	—
Net realized gain on sale of investments	(20,604)	(2,143)
Net unrealized gain on change in market value of investments	(15,498)	(10,005)
Actuarial gain (loss) on employee benefit plans	2,133	(1,561)
Deferred income taxes	1,821	(606)
Change in non-cash operating items (note 18)	56,049	23,456
	71,970	99,355
Investing activities		
Purchases of investments	(1,189,930)	(702,939)
Proceeds on sale of investments	1,210,283	593,001
Purchases of property and equipment, net of proceeds from disposals	(5,909)	(4,921)
	14,444	(114,859)
Financing activities		
Dividends paid	**(57,660)**	(10,007)
Increase (Decrease) in cash and cash equivalents	**28,754**	(25,511)
Cash and cash equivalents, beginning of year	13,854	39,365
Cash and cash equivalents, end of year	**$ 42,608**	$ 13,854
Supplemental cash flow information:		
Interest received	$ 12,589	$ 13,616
Dividends received	$ 2,512	$ 2,309
Income taxes paid	$ 6,712	$ 2,697

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013

1. NATURE OF OPERATIONS

Saskatchewan Government Insurance (the Corporation or SGI), which operates under the trade name of SGI CANADA is incorporated, registered and conducts a property and casualty insurance business in the province of Saskatchewan and in other provinces of Canada through its wholly owned subsidiary SGI CANADA Insurance Services Ltd. SGI CANADA Insurance Services Ltd. operates directly in Alberta and Manitoba, in Ontario through its wholly owned subsidiary Coachman Insurance Company (Coachman) and in Prince Edward Island, New Brunswick and Nova Scotia through its 75%-owned subsidiary, The Insurance Company of Prince Edward Island (ICPEI). The address of the Corporation's registered head office is 2260-11th Avenue, Regina, SK, Canada.

In many provinces in Canada, automobile insurance premium rates are regulated by provincial government authorities. Regulation of premium rates is based on claims and other costs of providing insurance coverage, as well as projected profit margins. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. The Corporation's automobile premiums are subject to rate regulation in Alberta, Ontario, Prince Edward Island, New Brunswick and Nova Scotia and represent approximately 17.5% (December 31, 2012 — 18.1%) of the Corporation's consolidated net premiums earned.

SGI was established as a branch of the Public Service by *The Government of Saskatchewan Act, 1944,* reorganized pursuant to *The Saskatchewan Government Insurance Act, 1946,* and continued under the provisions of *The Saskatchewan Government Insurance Act, 1980.* SGI also acts as administrator of the Saskatchewan Auto Fund under the provisions of *The Automobile Accident Insurance Act.* As a provincial Crown corporation, the Corporation is not subject to federal or provincial income taxes; however, SGI CANADA Insurance Services Ltd., Coachman and ICPEI are subject to federal and provincial income taxes.

As a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), the consolidated financial results of the Corporation are included in the consolidated financial statements of CIC. CIC is ultimately owned by the Government of Saskatchewan.

2. BASIS OF PREPARATION

Statement of compliance

The consolidated financial statements for the year-ended December 31, 2013, have been prepared in accordance with International Financial Reporting Standards (IFRS). References to IFRS are based on Canadian Generally Accepted Accounting Principles (GAAP) for publicly accountable enterprises as set out in Part 1 of the CPA Canada Handbook. Part 1 of the CPA Canada Handbook incorporates IFRS as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

Basis of measurement

The consolidated financial statements have been prepared using the historical cost basis, except for financial instruments and the provision for unpaid claims and unpaid claims recoverable from reinsurers. The methods used to measure the values of financial instruments are discussed further in note 3. The provision for unpaid claims and unpaid claims recoverable from reinsurers are measured on a discounted basis in accordance with accepted actuarial practice (which in the absence of an active market provides a reasonable proxy of fair value).

Statement of Financial Position classification

The Consolidated Statement of Financial Position has been prepared on a non-classified basis in order of liquidity, with a distinction based on expectations regarding recovery or settlement within 12 months after the balance sheet date (current) and more than 12 months after the balance sheet (non-current), presented in the notes.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional and presentation currency.

Use of estimates and judgment

The preparation of the consolidated financial statements in accordance with IFRS 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 amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation processes are related to the actuarial determination of the provision for unpaid claims (note 10) and employee future benefits (note 19).

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the accounts of the Corporation and the consolidated accounts of its 100%-owned subsidiaries, SGI CANADA Insurance Services Ltd. and Coachman and its 75%-owned subsidiary, ICPEI. All inter-company accounts and transactions have been eliminated on consolidation. The financial accounting records of the subsidiaries are prepared for the same reporting year as the Corporation, using consistent accounting policies.

Financial assets and liabilities

The measurement basis for financial assets and financial liabilities depends on whether the financial assets and liabilities have been classified as fair value through profit and loss, available for sale, held to maturity, loans and receivables, or other financial liabilities. Financial assets and liabilities classified as fair value through profit and loss are measured at fair value and changes in fair value are recognized in net income. Financial assets classified as available for sale are measured at fair value with unrealized changes in fair value recorded in other comprehensive income (OCI); however, unrealized losses on investments that show objective evidence of impairment are recognized as a decrease to net income. Financial assets designated as held to maturity or loans and receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment losses, if any. Other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. The Corporation has no financial assets and liabilities designated as available for sale or held to maturity.

The Corporation has designated its cash and cash equivalents and investments as fair value through profit and loss. Accounts receivable are designated as loans and receivables. Accounts payable and accrued liabilities, dividend payable and premium taxes payable are designated as other financial liabilities. Unpaid claims recoverable from reinsurers, amounts due to reinsurers, and the provision for unpaid claims are exempt from the above requirement.

Financial assets and financial liabilities are offset and the net amount reported in the Consolidated Statement of Financial Position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and liabilities simultaneously. Income and expenses are not offset in the Consolidated Statement of Operations unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Corporation. There are no financial assets and financial liabilities reported as offset in these consolidated financial statements.

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. All fair value measurements relate to recurring measurements. Fair value measurements for investments are categorized into levels within a fair value hierarchy based on the nature of the valuation inputs (Level 1, 2 or 3).

The three levels are based on the priority of inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset's or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities
The Corporation defines active markets based on the frequency of valuation and any restrictions or illiquidity on disposition of the underlying investment and trading volumes. Assets measured at fair value and classified as Level 1 include Canadian and U.S. common shares, and pooled equity funds. Fair value is based on market price data for identical assets obtained from the investment custodian, investment managers or dealer markets. The Corporation does not adjust the quoted price for such investments.

Level 2: Quoted prices in markets that are not active or inputs that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices)
Level 2 inputs include observable market information, including quoted prices for assets in markets that are considered less active. Assets measured at fair value and classified as Level 2 include short-term investments, bonds and debentures, and the pooled mortgage fund. Fair value for short-term investments and bonds and debentures is based on or derived from market price data for same or similar instruments obtained from the investment custodian, investment managers or dealer markets. Fair value for the pooled mortgage fund is determined based on the market values of the underlying mortgage investments, calculated by discounting scheduled cash flows through to the estimated maturity of the mortgages, subject to adjustments for liquidity and credit risk.

Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities
Level 3 assets and liabilities would include financial instruments whose values are determined using internal pricing models, discounted cash flows methodologies, or similar techniques that are not based on observable market data, as well as instruments for which the determination of estimated fair value requires significant management judgment or estimation. The Corporation has no financial assets or liabilities considered level 3.

The fair value of other financial assets and financial liabilities is considered to be the carrying value when they are of short duration or when the investment's interest rate approximates current observable market rates. Where other financial assets and financial liabilities are of longer duration, then fair value is determined using the discounted cash flow method using discount rates based on adjusted observable market rates. The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividend payable and premium taxes payable approximate their carrying values due to their short-term nature.

Investments

The Corporation records its investment purchases and sales on a trade-date basis, being the date when the transactions are entered into. Financial assets are derecognized when the rights to receive cash flows from them have expired, or when the Corporation has transferred substantially all risks and rewards of ownership.

Investments under securities lending program

Securities lending transactions are entered into on a collateralized basis. The securities lent are not derecognized on the Consolidated Statement of Financial Position given that the risks and rewards of ownership are not transferred from the Corporation to the counterparties in the course of such transactions. The securities are reported separately on the Consolidated Statement of Financial Position on the basis that the counterparties may resell or re-pledge the securities during the time that the securities are in their possession.

Securities received from counterparties as collateral are not recorded on the Consolidated Statement of Financial Position given that the risks and rewards of ownership are not transferred from the counterparties to the Corporation in the course of such transactions.

Investment earnings

The Corporation recognizes interest and premium financing as earned, dividends when declared, pooled fund revenue when a distribution is declared, realized gains and losses on investments when the investment has been sold and unrealized gains and losses based on the changes in market value of the investments held at the year-end date.

Interest revenue includes amortization of any premium or discount recognized at the date of purchase of the security. Amortization is calculated using the effective interest method. Realized gains and losses represent the difference between the amounts received through the sale of investments and their respective cost base. Interest is generally receivable on a semi-annual basis.

Direct investment expenses, such as external custodial, investment management and investment consultant expenses, are recorded against investment earnings.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate in effect at the year-end date. Revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized foreign exchange gains and/or losses arising on monetary and non-monetary investments designated as fair value through profit and loss are recognized in investment earnings. Unrealized gains and/or losses arising on translation are charged to operations in the current year. Translation gains and/or losses related to other financial assets and liabilities are charged to operations in the current year.

Premiums written

The Corporation's policies have all been classified upon inception as insurance contracts. An insurance contract is a contract that transfers significant insurance risk and, upon the occurrence of the insured event, causes the insurer to make a benefit payment to the insured party. The sale of policies generates premiums written and are taken into income as net premiums earned over the terms of the related policies, no longer than 12 months. The portion of the policy premiums relating to the unexpired term of each policy is recorded as an unearned premium liability on the Consolidated Statement of Financial Position.

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

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of outstanding claims to the year-end date. The estimate includes the cost of reported claims, and claims incurred but not reported, and an estimate of adjustment expenses to be incurred on these claims and a provision for adverse deviation (PFAD) in accordance with Canadian Institute of Actuaries standards. The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current year.

Deferred policy acquisition costs

Premium taxes, commissions and certain underwriting and policy issuance costs are deferred, to the extent they are recoverable, and charged to expense over the terms of the insurance policies to which such costs relate, no longer than 12 months.

Reinsurance ceded

The Corporation uses various types of reinsurance to limit its maximum insurance risk exposure. Estimates of amounts recoverable from reinsurers in respect of insurance contract liabilities and their share of unearned premiums are recorded as reinsurance assets on a gross basis in the Consolidated Statement of Financial Position. Unpaid claims recoverable from reinsurers, reinsurers' share of unearned premiums and unearned reinsurance commissions are estimated in a manner consistent with the method used for determining the provision for unpaid claims, unearned premiums and deferred policy acquisition costs respectively. Insurance ceded does not relieve the Corporation of its primary obligation to policyholders.

Income taxes

The Corporation uses the asset and liability method of accounting for income taxes. Income taxes are comprised of both current and deferred taxes. Income taxes are recognized in the Consolidated Statement of Operations.

Current income taxes are recognized as estimated income taxes for the current year. Deferred income tax assets and liabilities consist of temporary differences between tax and accounting bases of assets and liabilities, as well as the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any deferred income tax asset if it is probable that the asset will not be realized, probable being defined as more likely than not.

Employees' future benefits

The Corporation provides a defined contribution pension plan, a defined benefit pension plan and defined benefit service recognition plans that provide retirement benefits for its employees.

For the defined contribution pension plan, the Corporation's obligations are limited to contributions made for current service. When made, these contributions are charged to income.

The Corporation's defined benefit pension plan is available to certain of its employees and it has been closed to new membership since 1980. The plan provides a full pension at retirement calculated as 2% of a member's average earnings during the five years of highest earnings, multiplied by the total number of years of service to a maximum of 35 years. The plan may be indexed at the discretion of the Board of Directors. The plan is pre-funded by payments from employee and employer contributions which are made to a separately administered fund and are determined by periodic actuarial calculations taking into account the recommendations of a qualified actuary.

Responsibility for governance of the plan lies with the Corporation. The Corporation has a pension committee to assist in the management of the plan and has also appointed experienced, independent professional experts such as investment managers, an actuary, and a custodian.

Plan assets consist primarily of fixed income and equity pooled funds and are carried at fair value. Plan assets are not available to creditors of the Corporation nor can they be paid directly to the Corporation.

For the defined benefit plan:

(i) Net interest on the accrued pension liability is recognized in net income.

(ii) Pension obligations are determined by an independent actuary using the projected unit credit method prorated on service and management's best estimate assumptions of expected plan investment performance, salary escalation, age at retirement, mortality of members and future pension indexing, based upon the consumer price index.

(iii) The discount rate used to determine the accrued benefit obligation and the expected return on plan assets was determined by reference to market interest rates at the measurement date of high-quality debt instruments that are denominated in the currency in which the benefits will be paid with cash flows that match the timing and amount of expected benefit payments.

(iv) Past service costs are expensed immediately.

(v) Actuarial gains and losses are recognized in OCI in the period in which they arise.

The accrued benefit asset (liability) is the fair value of plan assets out of which the obligation is to be settled directly, less the present value of the defined benefit obligation. It is restricted to the present value of the economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

By design, the plan exposes the Corporation to the typical risks faced by defined benefit pension plans such as investment performance, changes to the discount rate used to value the obligation, longevity of plan members, and future price inflation. Pension risk is managed by established policies, regular monitoring, re-evaluation and potential adjustments of these policies as future events unfold.

The Corporation provides defined benefit service recognition plans for certain management and in-scope (union) employees for the purpose of providing retirement benefits. Employees in the plans are eligible for benefits at the earlier of: age plus service equal to or greater than 75, or age 50. Upon retirement, employees meeting the eligibility criteria receive a lump-sum payment of five days for management and three days for in-scope (union) employees for each year of continuous service less ineligible time and ineligible partial service time. A participant who dies while a member of either plan is deemed to satisfy the eligibility requirements. The member's beneficiary or estate will receive the same benefit payment based on the calculation. Effective December 31, 2011, the defined benefit service recognition plan for the unionized employees was frozen for current employees and closed to new employees. Effective December 31, 2011, the defined benefit service recognition plan for the management employees was closed to new employees, and the current employees were provided the option to elect to remain in the plan or to receive an annual payout, commencing in 2012.

The accrued benefit obligation of the service recognition plans is funded by the Corporation as eligible employees terminate employment. The cost of the plans is determined using the projected unit credit method prorated on service. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for the defined benefit pension plan. Obligations under these plans are determined annually by an independent actuary.

By design, the service recognition plans expose the Corporation to risks such as changes to the discount rate used to value the obligation, expected salary increases, and duration of employee service. These risks are managed by established policies, regular monitoring, re-evaluation and potential adjustments of these policies as future events unfold.

Cash and cash equivalents

Cash and cash equivalents consist of money market investments with a maturity of 90 days or less from the date of acquisition, and are presented net of cash on hand, less outstanding cheques.

Property and equipment

All classes of property and equipment are recorded at cost less accumulated depreciation and accumulated impairment, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset. In the case of land, building and building components, fair value upon transition to IFRS has been used as the deemed cost.

The Corporation has not incurred any borrowing costs attributable to property and equipment and therefore no borrowing costs have been capitalized. Subsequent costs are included in the assets' carrying value when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be reliably measured. Repairs and maintenance are charged to the Consolidated Statement of Operations in the period in which they have been incurred.

The depreciation method being used, the useful lives of the assets and the residual values of the assets are reviewed at each reporting date.

Depreciation is recorded in operations on a straight-line basis, commencing in the year the asset is available to be placed in service, over the estimated useful lives as follows:

Building	40 years
Building components	15-30 years
Computer hardware and other equipment	3-5 years

Building components consists of heating and cooling systems, elevators, roofs and parking lots.

Land is not subject to amortization and is carried at cost.

Impairment reviews are performed when there are indicators that the carrying value of an asset may exceed its recoverable amount.

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated, as of the date of the business combination, to the Corporation's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. If the carrying value of the reporting unit, including the allocated goodwill, exceeds its recoverable amount, the amount of goodwill impairment is measured as the excess of the carrying amount of the reporting unit over its recoverable amount. The recoverable amount is the higher of its fair value less costs to sell or its value in use. Should the carrying value exceed the recoverable amount, an impairment loss is recognized. Previously recorded impairment losses for goodwill are not reversed in future periods. Goodwill is included in other assets on the Consolidated Statement of Financial Position.

Leased assets

Leases where the Corporation does not assume substantially all of the risks and reward of ownership are classified as operating leases. The payments are expensed as they are incurred.

Provisions and contingent liabilities

Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

Structured settlements

In the normal course of claims adjudication, the Corporation settles certain long-term claims losses through the purchase of annuities under structured settlement arrangements with life insurance companies. As the Corporation does not retain any interest in the related insurance contract and obtains a legal release from the claimant, any gain or loss on the purchase of the annuity is recognized in the Consolidated Statement of Operations at the date of the purchase and the related claims liabilities are derecognized. However, the Corporation remains exposed to the credit risk that the life insurance companies may fail to fulfill their obligations.

Comprehensive income

Comprehensive income consists of net income and OCI. OCI includes net actuarial gains (losses) on the employee defined benefit pension plan and service recognition plans. These items of OCI are not reclassified subsequently to net income.

Adoption of new and amended accounting standards

IFRS 7 — Financial instruments: Disclosures

IFRS 7 was amended in December 2011 to require additional disclosures related to netting arrangements, including rights to off-set associated with an entity's financial assets and financial liabilities. These disclosures are intended to help financial statement users evaluate the impact or potential impacts of these arrangements on an entity's financial position. The Corporation has adopted this amendment on January 1, 2013, and has determined that these additional disclosures do not impact the financial statements.

IFRS 10 — Consolidated Financial Statements

IFRS 10 builds on existing principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 replaced the guidance on the concept of control and consolidation in IAS 27 *Consolidated and Separate Financial Statements.* In June 2012, the IASB issued amendments to the transition guidance, which reiterated that the standard is to be applied retrospectively, however relief is provided from retrospective adjustments where consolidation conclusions are unaffected by the adoption. The Corporation assessed its consolidation conclusions on January 1, 2013, and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries.

IFRS 12 — Disclosure of Interests in Other Entities

IFRS 12 is a new standard on disclosure requirements and applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. In June 2012, the IASB issued amendments to the transition guidance and clarified that IFRS 12, including these amendments, is effective for annual periods beginning on or after January 1, 2013. The Corporation has adopted IFRS 12 on January 1, 2013, and included the disclosures required by IFRS 12 in the notes to the financial statements.

IFRS 13 — Fair Value Measurement

IFRS 13 defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements, except in specified circumstances. The Corporation adopted IFRS 13 on January 1, 2013, on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Corporation to measure fair value and did not result in any measurement adjustments as at January 1, 2013, however the definition of fair value has been updated.

IAS 1 — Presentation of Financial Statements

IAS 1 was amended in 2011 to require net income and OCI to be presented together either as a single statement of comprehensive income or separate income statement and statement of comprehensive income. The amendment also requires presentation of OCI to segregate comprehensive income items reclassified to net income and the comprehensive income items not reclassified to net income. The Corporation has adopted the amendments to IAS 1 effective January 1, 2013, and has determined that these additional disclosures do not impact the financial statements.

IAS 19R — Employee Benefits

IAS 19 was amended in June 2011. The amendments require all past service costs to be recognized immediately in net income, regardless of vesting requirements. The Corporation has adopted IAS 19 on January 1, 2013, and reconciliations on the quantification of the effect of adopting the IAS 19 amendments on equity as at January 1, 2012, and December 31, 2012, and net income and comprehensive income for the period ended December 31, 2012, are disclosed in note 4.

Annual Improvements 2009-2011 Cycle

Annual improvements 2009-2011 Cycle was issued in May 2012 by the IASB, and included minor amendments to five IFRSs. The annual improvements process is used to make necessary but non-urgent changes to IFRS that are not included in other projects. The Corporation has adopted Annual Improvements 2009-2011 Cycle on January 1, 2013, and has determined that there is no impact to the financial statements.

Future accounting policy changes

The following future changes to accounting standards will have applicability to the Corporation:

IFRS 4 — Insurance Contracts

In June 2013, the IASB published a revised exposure draft (2013 ED) on the accounting for insurance contracts which builds on the previous consultations undertaken in 2007 and 2010. The 2013 ED is the result of deliberations at the IASB using comments received from constituents. The ED continues to propose a new standard on accounting for insurance contracts, which would replace IFRS 4, *Insurance Contracts.* The proposals represent a comprehensive IFRS accounting model for insurance contracts and are expected to have a significant impact on the financial reporting of insurers. A final standard is expected in 2015 with implementation not expected before 2018.

IFRS 9 — Financial Instruments

In November 2009, the IASB issued an exposure draft of IFRS 9, *Financial Instruments*, as part of its plan to replace IAS 39, *Financial Instruments: Recognition and Measurement.*

The new standard requires financial assets to be measured at either fair value or amortized cost, on the basis of the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. A financial asset that is held by an entity for the purpose of collecting contractual cash flows on specified dates per contractual terms should be measured at amortized cost. All other financial assets should be measured at fair value.

For equity instruments, management has an option on initial recognition to irrevocably designate on an instrument-by-instrument basis to present the changes in their fair value directly in equity. There is no subsequent recycling of fair value gains and losses from equity to the Consolidated Statement of Operations; however, dividends from such equity investments will continue to be recognized in profit or loss.

In November 2012, the IASB issued limited amendments to the exposure draft. The amendments include introduction of a fair value through other comprehensive income (FVOCI) measurement category for simple debt instruments. In this measurement category, the Consolidated Statement of Financial Position will reflect the fair value carrying amount while amortized cost information is presented in the Consolidated Statement of Operations. The difference between the fair value and amortized cost information will be recognized in other comprehensive income.

In July 2013, the mandatory effective date for this standard was deferred and is pending the finalization of the impairment and classification and measurement requirements. While early adoption is permitted under the standard, the Office of the Superintendent of Financial Institutions (OSFI) has indicated that early adoption is not allowed. While the Corporation is not federally regulated, it generally follows OSFI's guidance in such matters.

The Corporation is in the process of assessing the impact of the new standard.

IAS 36 — Impairment of Assets — Recoverable Amounts Disclosures for Non-Financial Assets

In May 2013, the IASB issued limited scope amendments to IAS 36. The amendment clarified the requirement to disclose the recoverable amount of an asset (including goodwill) or a cash-generating unit for which a material impairment loss was recognized or reversed during the reporting period. In addition, the amendment requires an entity to disclose the discount rate used in a present value technique that has been used in determining the recoverable amount of an impaired asset on the basis of fair value less costs of disposal. These amendments are effective for annual periods beginning on or after January 1, 2014. Earlier application is permitted. The Corporation does not expect these amendments to impact the consolidated financial statements.

Annual Improvements Cycles

In 2012, the IASB issued two exposure drafts for Annual Improvements Cycles 2010-2012 and 2011-2013, which include minor amendments to a number of IFRSs. The annual improvements process is used to make necessary but non-urgent changes to IFRSs that are not included in other projects. The amendments issued are all effective for annual periods beginning January 1, 2014. The Corporation is in the process of assessing the impact of the amendments.

4. CHANGE IN ACCOUNTING POLICY

Effective January 1, 2013, the Corporation adopted the amendments to IAS 19, *Employee Benefits.* The amendments require all past service costs to be recognized immediately in net income, regardless of vesting requirements. In addition, remeasurements (actuarial gains and losses and the difference between the actual return on plan assets and the return implied by the interest cost calculation) are recognized immediately in other comprehensive income and all current service costs and interest income (expense) are recognized immediately in net income. Interest income (expense) is calculated by applying the discount rate to the net defined benefit asset (liability). Prior to adopting the amendment the Corporation had $1,470,000 of unamortized past service costs associated with its two defined benefit service recognition plans, of which $591,000 had been expensed in 2012. In addition, in 2012 there were remeasurements of $456,000 related to the difference between the actual return on plan assets and the return implied by the interest cost calculation.

The impact of the amendment is as follows:

	(thousands of $)		
	As previously reported	Increase (decrease) due to adjustment	Restated
Statement of Operations			
For the year ended December 31, 2012			
Net claims incurred	$ 246,236	$ (250)	$ 245,986
Administrative expenses	58,464	115	58,579
Net income	82,102	135	82,237
Other comprehensive loss	(2,017)	456	(1,561)
Comprehensive income	80,085	591	80,676
Statement of Financial Position			
As at January 1, 2012			
Accounts payable and accrued liabilities	$ 52,671	$ 2,061	$ 54,732
Retained earnings	173,710	(2,061)	171,649
As at December 31, 2012			
Accounts payable and accrued liabilities	$ 68,130	$ 1,470	$ 69,600
Retained earnings	200,991	(1,470)	199,521

There is no tax impact associated with this change in accounting policy as the Corporation is not subject to federal or provincial income tax, and the change does not impact the subsidiary companies.

5. CASH AND CASH EQUIVALENTS

	(thousands of $)	
	2013	2012
Money market investments	$ 52,105	$ 19,578
Cash on hand, net of outstanding cheques (bank overdraft)	(9,497)	(5,724)
Total cash and cash equivalents	$ 42,608	$ 13,854

The average effective interest rate on money market investments is 1.0% (2012 — 1.0%).

6. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	(thousands of $)	
	2013	2012
Due from insureds	$ 97,895	$ 91,218
Due from brokers	46,679	43,387
Amounts recoverable on claims paid	7,673	7,256
Facility Association (note 21)	4,377	4,168
Income tax receivable	3,338	—
Accrued investment income	3,009	2,830
Due from reinsurers	1,511	2,635
Other	601	404
	165,083	151,898
Less: Allowance for doubtful accounts (note 16)	(5,722)	(5,633)
Total accounts receivable	$ 159,361	$ 146,265
Current	151,775	140,269
Non-current	7,586	5,996
	$ 159,361	$ 146,265

Included in due from insureds is $91,953,000 (2012 — $85,012,000) of financed premiums receivable, which represents the portion of policyholders' monthly premium payments that are not yet due. The majority of policyholders have the option to pay a portion of the premium when the policy is placed in force and the balance in monthly instalments. The policyholder pays an additional charge for this option, reflecting handling costs and the investment earnings that would have been earned on such premium, had the total amount been collected at the beginning of the policy period. The additional charge is recognized in investment earnings using the effective interest method. The effective interest rate is 8.0% (2012 — 8.0%).

Due from brokers includes loans receivable with a carrying value of $7,894,000 (2012 — $5,953,000). The loans require annual repayments with terms ranging between one to 10 years. The loans accrue interest at rates ranging from 2.25% to 5.25% (2012 — 2.25% to 5.75%) and are secured by general security agreements. The loans are recorded at their amortized cost, which is considered to be equal to their fair value.

7. INVESTMENTS

The carrying and fair values of the Corporation's investments are as follows:

	(thousands of $)	
	2013	2012
Short-term investments	$ 90,737	$ 79,632
Bonds and debentures	277,030	411,386
Canadian common shares	47,176	58,751
U.S. common shares	50,645	25,845
Pooled funds:		
Canadian equity	19,168	23,595
United States equity	19,509	10,447
Non-North American equity	51,113	37,584
Mortgage	66,078	28,106
	621,456	675,346
Investments under securities lending program		
Bonds and debentures	131,683	53,878
Canadian common shares	5,282	21,423
U.S. common shares	5,495	449
	142,460	75,750
Total investments	$ 763,916	$ 751,096

Details of significant terms and conditions, exposures to interest rate, credit risks of investments and counter party risk are as follows:

Short-term investments

Short-term investments are comprised of money market investments with a maturity of less than one year but greater than 90 days from the date of acquisition. These investments have an average effective interest rate of 1.0% (2012 — 1.1%) and an average remaining term to maturity of 59 days (2012 — 75 days). The Corporation's investment policy states that investments must meet minimum investment standards of R-1, as rated by a recognized credit rating service.

Holdings for any one issuer, other than the Government of Canada or a Canadian province, are limited to 10% of the market value of the combined short-term investment and bond portfolios.

Bonds and debentures

The Corporation's investment policy states that the minimum quality standard for purchase of bonds and debentures is BBB, as rated by a recognized credit rating service.

The Corporation's investment policy limits its holdings for any one issuer, other than the Government of Canada or a Canadian province, to 10% of the market value of the combined bond and short-term investment portfolios. The holdings for any one province are limited to 20% of the market value of the bond portfolio. No more than 10% of the market value of the bond portfolio shall be invested in securities of foreign issuers.

The carrying value and average effective interest rates are shown in the following chart by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	(thousands of $)			
	2013		2012	
Term to maturity (years)	Carrying Value	Average Effective Rates	Carrying Value	Average Effective Rates
Government of Canada:				
One or less	$ —	—	$ 32,952	1.1%
After one through five	131,141	1.8%	165,337	1.4%
Canadian provincial and municipal:				
One or less	5,108	1.0%	5,759	1.3%
After one through five	79,441	1.9%	95,548	1.6%
Canadian corporate:				
One or less	20,639	1.4%	—	—
After one through five	172,384	2.0%	146,936	2.0%
After five	—	—	18,732	3.7%
Total bonds and debentures	$ 408,713		$ 465,264	

Common shares

On the basis of its analysis of the nature, characteristics and risks of its common share investments, the Corporation has determined presenting them by geography is appropriate. Common shares have no fixed maturity dates and are generally not exposed to interest rate risk. The average effective dividend rate is 1.9% (2012 — 2.4%).

The Corporation's investment policy limits its investment concentration in any one investee or related group of investees to 10% of the market value of the Corporation's common shares portfolio. As well, no one holding may represent more than 10% of the voting shares of any corporation.

Pooled funds

The Corporation owns units in Canadian, United States and non-North American pooled equity funds and a pooled mortgage fund. These pooled funds have no fixed distribution rate. Fund returns are based on the success of the fund managers.

Securities lending program

Through its custodian, the Corporation participates in an investment securities lending program for the purpose of generating fee income. When securities are loaned, the Corporation is exposed to counterparty risk, which is the risk that the borrower will not return the loaned securities, or if the collateral is liquidated, it may be for less than the value of the loan. The Corporation mitigates this risk through non-cash collateral and a guarantee provided by its custodian. Non-cash collateral of at least 102% of the market value of the loaned securities is retained by the Corporation until the loaned securities have been returned. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value of the loaned securities fluctuates. In addition, the custodian provides indemnification against any potential losses in the securities lending program. While in the possession of counterparties, the loaned securities may be resold or re-pledged by such counterparties.

At December 31, 2013, the Corporation held collateral of $149,582,000 (2012 — $79,543,000) for the loaned securities.

Fair value hierarchy

Fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where quoted prices are readily available, representing regularly occurring transactions. The determination of fair value requires judgment and is based on market information where available and appropriate. Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of the inputs used in the valuation.

	(thousands of $)					
	2013			2012		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Short-term investments	$ —	$ 90,737	$ 90,737	$ —	$ 79,632	$ 79,632
Bonds and debentures	—	408,713	408,713	—	465,264	465,264
Canadian common shares	52,458	—	52,458	80,174	—	80,174
U.S. common shares	56,140	—	56,140	26,294	—	26,294
Pooled funds:						
Canadian equity	19,168	—	19,168	23,595	—	23,595
United States equity	19,509	—	19,509	10,447	—	10,447
Non-North American equity	51,113	—	51,113	37,584	—	37,584
Mortgage	—	66,078	66,078	—	28,106	28,106
	$ 198,388	$ 565,528	$ 763,916	$ 178,094	$ 573,002	$ 751,096

The Corporation's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. During the year, no investments were transferred between levels and the Corporation did not hold any investments classified as level 3.

8. PROPERTY AND EQUIPMENT

The components of the Corporation's investment in property and equipment, as well as the related accumulated depreciation, are as follows:

	Land	Buildings	Building Components	Computer Hardware & Other Equipment	Total
			(thousands of $)		
Cost:					
At January 1, 2013	$ 3,000	$ 23,502	$ 7,163	$ 25,534	$ 59,199
Additions	—	271	1,168	4,470	5,909
Disposals	—	—	—	(30)	(30)
At December 31, 2013	3,000	23,773	8,331	29,974	65,078
Accumulated depreciation:					
At January 1, 2013	—	6,934	1,644	18,268	26,846
Depreciation	—	2,368	645	2,414	5,427
Disposals	—	—	—	(30)	(30)
At December 31, 2013	—	9,302	2,289	20,652	32,243
Net book value at December 31, 2013	$ 3,000	$ 14,471	$ 6,042	$ 9,322	$ 32,835

	Land		Buildings		Building Components		Computer Hardware & Other Equipment		Total
					(thousands of $)				
Cost:									
At January 1, 2012	$	3,000	$	23,448	$	6,030	$	21,880	$	54,358
Additions		—		54		1,133		3,734		4,921
Disposals		—		—		—		(80)		(80)
At December 31, 2012		3,000		23,502		7,163		25,534		59,199
Accumulated depreciation:										
At January 1, 2012		—		4,564		1,055		16,652		22,271
Depreciation		—		2,370		589		1,696		4,655
Disposals		—		—		—		(80)		(80)
At December 31, 2012		—		6,934		1,644		18,268		26,846
Net book value at December 31, 2012	$	3,000	$	16,568	$	5,519	$	7,266	$	32,353

Depreciation for the year is $5,427,000 (2012 — $4,655,000), of which $1,403,000 (2012 — $1,437,000) is charged to the Saskatchewan Auto Fund for related space usage. Depreciation is included in administrative expenses on the Consolidated Statement of Operations. When an asset has been disposed, its original cost is removed from the consolidated financial statements along with any accumulated depreciation related to that asset.

9. OTHER ASSETS

Other assets are comprised of the following:

	(thousands of $)			
	2013		2012	
Prepaid expenses	$	1,358	$	1,424
Goodwill		—		481
Total	$	1,358	$	1,905

The Corporation performs an annual test for impairment of goodwill. In the current year, the Corporation recognized an impairment loss of $481,000 (2012 — nil) related to the Maritime cash generating unit. The Corporation recorded a write-down of the entire amount of goodwill associated with this reporting unit and recorded this expense in administrative expenses on the Consolidated Statement of Operations.

10. CLAIMS INCURRED AND PROVISION FOR UNPAID CLAIMS

Net claims incurred

(thousands of $)

	2013			2012 (restated note 4)		
	Current year	Prior years	Total	Current year	Prior years	Total
Gross claims incurred	$ 361,898	$ (16,534)	$ 345,364	$ 282,557	$ (13,636)	$ 268,921
Ceded claims incurred	(25,631)	2,899	(22,732)	(20,224)	(2,711)	(22,935)
Net claims incurred	$ 336,267	$ (13,635)	$ 322,632	$ 262,333	$ (16,347)	$ 245,986

Current year claims relate to events that occurred in the current financial year. Prior year claims incurred relate to adjustments for the reassessment of the estimated cost for claim events that occurred in all previous financial periods.

Ceded claims incurred represent an estimate of the recoverable cost of those claims transferred to the Corporation's various reinsurers pursuant to reinsurance contracts (note 16).

Net provision for unpaid claims

(thousands of $)

	2013	2012
Net unpaid claims, beginning of year — discounted	$ 323,636	$ 319,459
PFAD and discount, beginning of the year	(12,378)	(11,636)
Net unpaid claims, beginning of year — undiscounted	311,258	307,823
Payments made during the year relating to:		
Prior year claims	(100,517)	(105,140)
Prior year Facility Association claims	(1,591)	(1,120)
Excess relating to:		
Prior year estimated unpaid claims	(13,635)	(16,347)
Prior year estimated unpaid Facility Association claims	(198)	(82)
Net unpaid claims, prior years — undiscounted	195,317	185,134
Claims incurred during the current year	176,316	124,021
Provision for Facility Association claims occurring in the current year	1,954	2,103
Net unpaid claims, end of year — undiscounted	373,587	311,258
PFAD and discount, end of year	11,542	12,378
Net unpaid claims, end of year — discounted	$ 385,129	$ 323,636

The net provision for unpaid claims of $385,129,000 (2012 — $323,636,000) consists of the gross provision for unpaid claims of $420,753,000 (2012 — $369,137,000) less unpaid claims recoverable from reinsurers of $35,624,000 (2012 — $45,501,000).

Management believes that the unpaid claims provision is appropriately established in the aggregate and is adequate to cover the ultimate net cost on a discounted basis. The determination of this provision, which includes unpaid claims, adjustment expenses and expected salvage and subrogation, requires an assessment of future claims development. This assessment takes into account the consistency of the Corporation's claim handling procedures, the amount of information available, the characteristics of the line of business from which the claims arise and the delay inherent in claims reporting. This provision is an estimate and as such is subject to variability that may arise from future events, such as the receipt of additional claims information, changes in judicial interpretation of contracts or significant changes in frequency and severity of claims. This estimate is principally based on the Corporation's historical experience and may be revised as additional experience becomes available. Any such changes would be reflected in the Consolidated Statement of Operations for the period in which the change occurred.

The provision for unpaid claims and unpaid claims recoverable from reinsurers are carried on a discounted basis to reflect the time value of money. In that respect, the Corporation determines the discount rate based upon the expected return of the bond investments that approximates the cash flow requirements of the unpaid claims. The discount rate applied was 2.27% (2012 — 1.97%). The resulting carrying amount is considered to be an indicator of fair value as there is no ready market for trading insurance contract liabilities.

Net unpaid claims

(thousands of $)

	Gross Unpaid Claims		Reinsurance Recoverable		Net Unpaid Claims	
	2013	2012	2013	2012	2013	2012
Provision for reported claims, undiscounted	$ 262,796	$ 224,326	$ 30,835	$ 36,108	$ 231,961	$ 188,218
Provision for claims incurred but not reported	144,816	130,516	3,190	7,476	141,626	123,040
PFAD	34,802	32,475	3,285	3,542	31,517	28,933
Effects of discounting	(21,661)	(18,180)	(1,686)	(1,625)	(19,975)	(16,555)
	$ 420,753	$ 369,137	$ 35,624	$ 45,501	$ 385,129	$ 323,636

Structured settlements

The Corporation settles some long-term disability claims by purchasing annuities for its claimants from various life insurers. The settlements legally release the Corporation from its obligations to the claimants. Consequently, neither the annuities purchased nor the claim liabilities are recognized on the Consolidated Statement of Financial Position. However, as part of the settlement, the Corporation provides a financial guarantee to the claimants in the event the life insurers default on the scheduled payments and is thus exposed to credit risk to the extent any of the life insurers fail to fulfil their obligations. As at December 31, 2013, no information has come to the Corporation's attention that would suggest any weakness or failure in the life insurers from which it has purchased annuities. The net present value of the scheduled payments as of the year-end date is $58,186,000 (2012 — $57,896,000). The net risk to the Corporation is the credit risk related to the life insurance companies that the annuities are purchased from. No defaults have occurred, and the Corporation considers the possibility of default to be remote.

11. DEFERRED POLICY ACQUISITION COSTS

(thousands of $)

	2013	2012
Deferred policy acquisition costs, at January 1	$ 65,357	$ 61,325
Decrease to premium deficiency	63	1,344
Acquisition costs deferred during the year	121,438	115,586
Amortization of deferred acquisition costs	(118,047)	(112,898)
Deferred policy acquisition costs, at December 31	$ 68,811	$ 65,357

12. UNEARNED PREMIUMS

	(thousands of $)					
	Gross Unearned Premiums		Reinsurer's Share of Unearned Premiums		Net Unearned Premiums	
	2013	2012	2013	2012	2013	2012
Unearned premiums, at January 1	$ 275,410	$ 264,926	$ 12,561	$ 11,079	$ 262,849	$ 253,847
Premiums written	559,395	531,115	41,768	39,297	517,627	491,818
Premiums earned	(543,718)	(520,631)	(41,050)	(37,815)	(502,668)	(482,816)
Change in net unearned premiums	15,677	10,484	718	1,482	14,959	9,002
Unearned premiums, at December 31	$ 291,087	$ 275,410	$ 13,279	$ 12,561	$ 277,808	$ 262,849

13. EQUITY ADVANCES

The Corporation does not have share capital. However, the Corporation has received equity advances from its parent, CIC, to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

14. INVESTMENT EARNINGS

The components of investment earnings are as follows:

	(thousands of $)	
	2013	2012
Net realized gain on sale of investments	$ 20,604	$ 2,143
Net unrealized gains on change in market value of investments	15,498	10,005
Interest	10,178	10,978
Premium financing	5,663	5,534
Pooled fund distributions	5,468	3,083
Dividends	2,437	2,318
Total investment earnings	59,848	34,061
Investment expenses	(1,176)	(1,006)
Net investment earnings	$ 58,672	$ 33,055

Details of the net unrealized gains on change in market value of investments is as follows:

	(thousands of $) 2013	2012
Bonds and debentures	$ (3,213)	$ (2,565)
Canadian common shares	(1,389)	5,706
U.S. common shares	7,340	180
Pooled funds:		
Canadian equity	3,033	969
United States equity	2,426	904
Non-North American equity	9,008	5,151
Mortgage	(1,707)	(340)
	$ 15,498	$ 10,005

15. INCOME TAXES

The Corporation's provision (recovery) for income taxes is as follows:

	(thousands of $) 2013	2012
Current	$ 3,256	$ 7,178
Deferred	1,821	(606)
Income tax expense	$ 5,077	$ 6,572

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates to income before income taxes and non-controlling interest.

The reasons for the differences are as follows:

	(thousands of $) 2013	(restated note 4) 2012
Income before income taxes and non-controlling interest	$ 44,309	$ 88,809
Combined federal and provincial tax rate	26.74%	26.57%
Computed tax expense based on combined rate	$ 11,848	$ 23,597
Increase (decrease) resulting from:		
Changes to enacted tax rates	(8)	(12)
Non-deductible expenses for tax purposes	29	31
Investment earnings not subject to taxation	(6,776)	(16,956)
Other	(16)	(88)
Total income taxes	$ 5,077	$ 6,572

The combined federal and provincial tax rate is calculated by taking the federal tax rate added to the tax rate of the individual provinces on a pro-rata basis. During 2013 there has been an increase in the combined tax rates to 26.74% from 26.57%, primarily as a result of an increase in the provincial rate for New Brunswick from 10% to 12% effective July 1, 2013.

All income taxes payable and/or receivable are due within one year.

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

Deferred tax asset (thousands of $)

	Provision for unpaid claims	Other	Total
At January 1, 2012	$ 4,125	$ 23	$ 4,148
Credit (charge) reflected in income tax expense	561	(3)	558
At December 31, 2012	4,686	20	4,706
Charge reflected in income tax expense	(1,734)	(9)	(1,743)
At December 31, 2013	$ 2,952	$ 11	$ 2,963

Deferred tax liability (thousands of $)

	Unpaid claims recoverable from reinsurers	Investments	Total
At January 1, 2012	$ 219	$ 843	$ 1,062
Charge (credit) reflected in income tax expense	(73)	25	(48)
At December 31, 2012	146	868	1,014
Charge (credit) reflected in income tax expense	(54)	132	78
At December 31, 2013	$ 92	$ 1,000	$ 1,092

The Corporation expects that the deferred tax asset will be realized in the normal course of operations.

16. INSURANCE AND FINANCIAL RISK MANAGEMENT

The Corporation has established an enterprise risk management policy. The Board of Directors approved this policy, and management is responsible for ensuring it is properly maintained and implemented. The Board of Directors receives confirmation that the risks are being appropriately managed through regular reporting from management.

Insurance risk arises with respect to the adequacy of the Corporation's insurance premium rates and provision for unpaid claims (consisting of underwriting and actuarial risks). The nature of insurance operations also result in significant financial risks, as the Corporation's Statement of Financial Position consists primarily of financial instruments. The financial risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Insurance risk

Underwriting risk

The Corporation manages its insurance risk through its underwriting and reinsurance strategies within an overall strategic planning process. Pricing is based on assumptions with regards to past experiences and trends. Exposures are managed by having documented underwriting limits and criteria, product and geographic diversification and reinsurance.

Diversification

The Corporation writes property, liability and motor risks over a 12-month period. The most significant risks arise from weather-related events, such as severe summer storms. The Corporation attempts to mitigate risk by conducting business in a number of provinces across Canada and by offering different lines of insurance products.

The concentration of insurance risk by region and line of business is summarized below by reference to gross premiums written:

		(thousands of $)			
December 31, 2013	Automobile	Personal Property	Commercial Property	Liability	Total
Saskatchewan	$ 145,303	$ 174,699	$ 44,187	$ 35,606	$ 399,795
Manitoba	—	10,318	4,079	2,659	17,056
Alberta	36,983	13,006	4,255	4,790	59,034
Ontario	44,160	6,695	3,925	2,669	57,449
Maritimes	17,129	3,883	3,090	1,959	26,061
Total	$ 243,575	$ 208,601	$ 59,536	$ 47,683	$ 559,395

		(thousands of $)			
December 31, 2012	Automobile	Personal Property	Commercial Property	Liability	Total
Saskatchewan	$ 135,235	$ 164,827	$ 43,029	$ 35,980	$ 379,071
Manitoba	—	10,888	3,822	2,561	17,271
Alberta	29,797	10,070	3,438	4,232	47,537
Ontario	48,217	7,892	3,398	2,568	62,075
Maritimes	16,506	4,062	2,819	1,774	25,161
Total	$ 229,755	$ 197,739	$ 56,506	$ 47,115	$ 531,115

The concentration of insurance risk by line of business is summarized below by reference to unpaid claims liabilities:

	(thousands of $)					
	Gross		Reinsurance Recoverable		Net	
	2013	2012	2013	2012	2013	2012
Automobile	$ 209,811	$ 193,784	$ 10,849	$ 20,357	$ 198,962	$ 173,427
Personal property	101,787	70,843	10,917	14,078	90,870	56,765
Commercial property	27,229	17,197	8,818	5,239	18,411	11,958
Liability	54,720	59,274	3,441	3,910	51,279	55,364
Assumed	7,689	7,740	—	—	7,689	7,740
PFAD and discounting	13,141	14,295	1,599	1,917	11,542	12,378
Facility Association	6,376	6,004	—	—	6,376	6,004
Total	$ 420,753	$ 369,137	$ 35,624	$ 45,501	$ 385,129	$ 323,636

The concentration of insurance risk by region is summarized below by reference to unpaid claims liabilities:

	(thousands of $)					
	Gross		Reinsurance Recoverable		Net	
	2013	2012	2013	2012	2013	2012
Alberta	$ 49,002	$ 31,906	$ 5,946	$ 4,341	$ 43,056	$ 27,565
Saskatchewan	221,117	191,040	14,577	20,365	206,540	170,675
Manitoba	6,130	6,830	814	582	5,316	6,248
Ontario	122,939	120,549	13,687	19,923	109,252	100,626
Maritimes	21,565	18,812	600	290	20,965	18,522
Total	$ 420,753	$ 369,137	$ 35,624	$ 45,501	$ 385,129	$ 323,636

Reinsurance

The Corporation also seeks to reduce losses that may arise from catastrophes or other events that cause unfavourable underwriting results by reinsuring certain levels of risk with other insurers.

The policy of underwriting and reinsuring contracts of insurance limits the liability of the Corporation to a maximum amount on any one loss as follows:

	(thousands of $)	
	2013	2012
Dwelling and farm property	$ 750	$ 750
Unlicensed vehicles	750	750
Commercial property	1,000	1,000
Automobile and general liability	1,500	1,500
(subject to filling an annual aggregate deductible of)	1,500	1,500
Property catastrophe (health care)	7,500	7,500
Property catastrophe (non-health care)	12,500	10,000

While the Corporation utilizes reinsurance, it is still exposed to reinsurance risk. Reinsurance risk is the risk of financial loss due to inadequacies in reinsurance coverage or the default of a reinsurer. The Corporation evaluates and monitors the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvency.

The following table sets out the amount by which reinsurance ceded has reduced (increased) the premiums earned, claims incurred, commissions, premium taxes and administrative expenses:

	(thousands of $)	
	2013	2012
Premiums earned	$ 41,050	$ 37,815
Claims incurred	22,732	22,935
Commissions and premium taxes	5,752	5,176
Administrative expenses	(1,079)	(999)

Actuarial risk

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Corporation at the year-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists regarding the cost of reported claims that have not been settled, as all the necessary information may not be available at the year-end date.

The significant assumptions used to estimate the provision include: the Corporation's experience with similar cases, historical claim payment trends and claim development patterns, the characteristics of each class of business, claim severity and claim frequency, the effect of inflation on future claim settlement costs, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim, the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as physical damage or collision claims tend to be more reasonably predictable than long-tail claims such as liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors, which necessarily involves risk that actual results may differ materially from the estimates.

The following table shows the development of the estimated net provision for unpaid claims relative to the current estimate of ultimate claim costs for the seven most recent accident years as estimated at each reporting date.

(thousands of $)

Accident Year	2007	2008	2009	2010	2011	2012	2013
Net ultimate loss							
At end of accident year	$ 177,379	$ 184,394	$ 197,049	$ 241,557	$ 272,800	$ 239,569	$ 306,483
One year later	176,137	178,233	188,851	237,473	265,460	233,007	
Two years later	171,591	175,654	185,368	234,864	259,579		
Three years later	169,744	173,824	181,901	234,631			
Four years later	168,734	171,653	181,065				
Five years later	166,942	171,837					
Six years later	166,950						
Cumulative loss development	$ (10,429)	$ (12,557)	$ (15,984)	$ (6,926)	$ (13,221)	$ (6,562)	n/a
Cumulative loss development as a % of original ultimate loss	-5.9%	-6.8%	-8.1%	-2.9%	-4.8%	-2.7%	n/a

(thousands of $)

Accident Year	2007	2008	2009	2010	2011	2012	2013	Total
Current estimate of net ultimate loss	166,950	171,837	181,065	234,631	259,579	233,007	306,483	1,553,552
Cumulative paid	(160,514)	(164,873)	(167,959)	(215,778)	(230,966)	(187,461)	(145,539)	(1,273,090)
Net provision for unpaid claims for the seven most recent accident years	$ 6,436	$ 6,964	$ 13,106	$ 18,853	$ 28,613	$ 45,546	$ 160,944	$ 280,462

Net undiscounted claims outstanding for accident years 2006 and prior	37,208
Internal reinsurance to subsidiaries	28,741
Provision for adverse deviation and discounting	11,542
Loss adjusting expense reserve	10,441
Gross subrogation recoveries	7,622
Unpaid Facility Association claims	6,376
Other reconciling items	1,889
Health levies	848
Net provision for unpaid claims	$ 385,129

The Corporation's estimated sensitivity of its provision for unpaid claims and net income to changes in best estimate assumptions in the insurance contract liabilities is as follows:

(thousands of $)		Change to Net Provision for Unpaid Claims		Change to Net Income	
Assumption	Sensitivity	2013	2012	2013	2012
Discount rate	+100 bps	$ (9,172)	$ (8,840)	$ (5,174)	$ (3,015)
Discount rate	- 100 bps	9,172	8,840	5,174	3,015
Net loss ratio	+ 10%	52,544	50,623	(52,544)	(50,623)
Misestimate	1% deficiency	3,675	3,058	(3,675)	(3,058)

The net provision for unpaid claims refers to the provision for unpaid claims net of unpaid claims recoverable from reinsurers. The method used for deriving this sensitivity information did not change from the prior period.

Financial risk

The nature of the Corporation's operations result in a Consolidated Statement of Financial Position that consists primarily of financial instruments. The risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Significant financial risks are related to the Corporation's investments. These financial risks are managed by having a Statement of Investment Policies and Goals (SIP&G), which is approved annually by the Corporation's Board of Directors. The SIP&G provides guidelines to the investment managers for the asset mix of the portfolio regarding quality and quantity of debt and equity investments using a prudent person approach. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. The Corporation receives regular reporting from the investment managers and custodian regarding compliance with the SIP&G. The investment managers' performance is evaluated based on return objectives, including realized and unrealized capital gains and losses plus income from all sources, and goals stated in the SIP&G.

Credit risk

The Corporation's credit risk arises primarily from two distinct sources: accounts receivable (from its customers, brokers and reinsurers) and certain investments. The maximum credit risk to which the Corporation is exposed is limited to the carrying value of the financial assets summarized as follows:

	(thousands of $)	
	2013	2012
Cash and cash equivalents	$ 42,608	$ 13,854
Accounts receivable	159,361	146,265
Fixed income investments [1]	565,528	573,002
Unpaid claims recoverable from reinsurers	35,624	45,501

[1] Includes short-term investments, bonds and debentures, and the mortgage pooled fund

In addition, the Corporation is exposed to credit risk associated with its structured settlements as described separately in the notes to the consolidated financial statements.

Cash and cash equivalents include money market investments of $52,105,000 less bank overdraft, net of outstanding cheques of $9,497,000 (2012 — money market investments of $19,578,000 less bank overdraft, net of outstanding cheques of $5,724,000). The money market investments mature within 90 days from the date of acquisition and have a credit rating of R-1.

Accounts receivable are primarily from customers, diversified among residential, farm and commercial, along with amounts from brokers across the provinces that the Corporation operates in. Accounts receivable consist of balances outstanding for one year or less.

	(thousands of $)	
	2013	2012
Current	$ 158,365	$ 144,440
30 - 59 days	553	834
60 - 90 days	307	188
Greater than 90 days	5,858	6,436
Subtotal	165,083	151,898
Allowance for doubtful accounts	(5,722)	(5,633)
Total	$ 159,361	$ 146,265

Provisions for credit losses are maintained in an allowance account and are regularly reviewed by the Corporation. Amounts are written off once reasonable collection efforts have been exhausted.

Details of the allowance account are as follows:

	(thousands of $)	
	2013	2012
Allowance for doubtful accounts, at January 1	$ 5,633	$ 5,126
Accounts written off	(1,698)	(1,814)
Current period provision	1,787	2,321
Allowance for doubtful accounts, at December 31	$ 5,722	$ 5,633

Concentrations of credit risk for insurance contracts can arise from reinsurance ceded contracts as insurance ceded does not relieve the Corporation of its primary obligation to the policyholder. Reinsurers are typically all required to have a minimum financial strength rating of A- at the inception of the treaty; rating agencies used are A.M.Best and Standard & Poor's. Guidelines are also in place to establish the maximum amount of business that can be placed with a single reinsurer.

Credit risk within investments is related primarily to short-term investments, bonds and debentures, and the mortgage pooled fund. It is managed through the investment policy that limits debt instruments to those of high credit quality (minimum rating for bonds and debentures is BBB, and for short-term investments is R-1) along with limits to the maximum notional amount of exposure with respect to any one issuer.

Credit ratings for the bond and debenture investments are as follows:

	(thousands of $)			
	2013		2012	
Credit Rating	Fair Value	Makeup of Portfolio	Fair Value	Makeup of Portfolio
AAA	$ 137,268	33.6%	$ 214,126	46.0%
AA	131,020	32.0%	137,751	29.6%
A	100,830	24.7%	91,048	19.6%
BBB	39,595	9.7%	22,339	4.8%
Total	$ 408,713	100.0%	$ 465,264	100.0%

Within bond and debentures, there are no holdings from one issuer, other than the Government of Canada or a Canadian province, over 10% of the market value of the combined bond and short-term investment portfolios. No one holding of a province is over 20% of the market value of the bond portfolio.

The unit value of the mortgage pooled fund is impacted by the credit risk of the underlying mortgages. This risk is limited by restrictions within its own investment policy, which include single loan limits, diversification by property type and geographic regions within Canada. Each underlying mortgage is secured by real estate and related contracts.

Market risk

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk primarily impacts the value of investments.

Interest rate risk

The Corporation is exposed to changes in interest rates in its fixed income investments, including short-term investments, bonds and debentures and the mortgage pooled fund. Changes in interest rates also impact the provision for unpaid claims and unpaid claims recoverable from reinsurers. The impact that a change in interest rates has on investment income will be partially offset by the impact the change in interest rates has on discounting of claims incurred.

It is estimated that a 100 basis point increase/decrease in interest rates would have the following impact:

	(thousands of $)			
	100 basis point increase		100 basis point decrease	
	2013	2012	2013	2012
Investment earnings	$ (14,346)	$ (11,855)	$ 14,346	$ 11,855
Claims incurred	(9,172)	(8,840)	9,172	8,840
Net income	(5,174)	(3,015)	5,174	3,015

Foreign exchange risk

The Corporation is subject to changes in the U.S./Canadian dollar exchange rate on its U.S. equity investments, purchases of goods and services that are denominated in U.S. dollars, and a portion of claims and reinsurance receivables and payables denominated in U.S. dollars. Also, the Corporation is exposed to EAFE (Europe, Australasia and Far East) currencies through its investment in the non-North American pooled fund. Exposure to U.S. equities and non-North American equities is limited to a maximum of 14% and 9%, respectively, of the market value of the total investment portfolio. At December 31, 2013, the Corporation's exposure to U.S. equities was 9.9% (2012 — 4.9%) and its exposure to non-North American equities was 6.7% (2012 — 5.0%).

At December 31, 2013, a 10% appreciation/depreciation in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a $7,600,000 (2012 — $3,700,000) decrease/increase in net income and retained earnings. A 10% appreciation/depreciation in the Canadian dollar versus the EAFE currencies would result in approximately a $5,100,000 (2012 — $3,800,000) decrease/increase in net income and retained earnings. As U.S. common shares, the U.S. equity pooled fund and the non-North American equity pooled fund are classified as fair value through profit and loss, any unrealized changes due to foreign currency are recorded in net income.

There is no exposure to foreign exchange risk within the Corporation's bond and debenture portfolio. As well, no more than 10% of the market value of the bond portfolio shall be invested in bonds of foreign issuers.

The Corporation's exposure to exchange rate risk resulting from the purchase of goods and services, and claims and reinsurance receivables and payables, are not considered material to the operations of the Corporation.

Equity prices

The Corporation is exposed to changes in equity prices in Canadian, U.S. and EAFE markets. Equities comprise 26.0% (2012 — 23.7%) of the carrying value of the Corporation's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. No one investee or related group of investees represents greater than 10% of the market value of the Corporation's common share portfolio. As well, no one holding represents more than 10% of the voting shares of any corporation.

The Corporation's equity price risk is assessed using Value at Risk (VaR), a statistical technique that measures the potential change in the value of an asset class. The VaR has been calculated based on volatility over a four-year period, using a 95% confidence level. As such, it is expected that the annual change in the portfolio market value will fall within the range outlined in the following table 95% of the time (19 times out of 20 years).

Asset class	2013	2012
Canadian equities	$ +/- 20,199	$ +/- 36,319
U.S. equities	+/- 21,182	+/- 8,891
Non-North American equities	+/- 15,232	+/- 12,252

The Corporation's equity investments are classified as fair value through profit and loss and as such, any unrealized changes in their fair value are recorded in the Consolidated Statement of Operations.

No derivative financial instruments have been used to alter the effects of market changes and fluctuations.

Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows. The majority of financial liabilities, excluding certain unpaid claims liabilities, are short-term in nature, due within one year. The Corporation generally maintains positive overall cash flows through cash generated from operations, as well as cash generated from its investing activities.

The following tables summarize the estimated contractual timings of cash flows on an undiscounted basis arising from the Corporation's financial assets and liabilities at December 31:

(thousands of $)	2013					
	No stated maturity	0 - 6 months	7 - 12 months	1 - 2 years	3 - 5 years	More than 5 years
Financial assets						
Cash and cash equivalents	$ —	$ 42,608	$ —	$ —	$ —	$ —
Accounts receivable	—	99,742	52,033	2,087	3,023	2,476
Investments	264,466	95,518	20,966	83,747	299,219	—
Unpaid claims recoverable from reinsurers	—	11,389	5,997	5,887	7,476	3,276
	$ 264,466	$ 249,257	$ 78,996	$ 91,721	$ 309,718	$ 5,752
Financial liabilities						
Accounts payable and accrued liabilities	$ 53,108	$ 10,415	$ —	$ —	$ —	$ —
Dividend payable	—	9,925	—	—	—	—
Premium taxes payable	—	21,886	—	—	—	—
Amounts due to reinsurers	—	9,672	30	—	—	—
Provision for unpaid claims	—	126,648	62,676	60,745	93,797	63,746
	53,108	178,546	62,706	60,745	93,797	63,746
Finance lease commitment	—	410	479	946	2,112	—
	$ 53,108	$ 178,956	$ 63,185	$ 61,691	$ 95,909	$ 63,746

(thousands of $)	2012					
	No stated maturity	0 - 6 months	7 - 12 months	1 - 2 years	3 - 5 years	More than 5 years
Financial assets						
Cash and cash equivalents	$ —	$ 13,854	$ —	$ —	$ —	$ —
Accounts receivable	—	95,072	45,197	1,516	2,266	2,214
Investments	206,200	114,351	3,991	47,831	359,991	18,732
Unpaid claims recoverable from reinsurers	—	14,660	7,386	7,255	9,929	4,354
	$ 206,200	$ 224,083	$ 56,574	$ 56,602	$ 372,186	$ 25,300
Financial liabilities						
Accounts payable and accrued liabilities	$ 42,339	$ 27,261	$ —	$ —	$ —	$ —
Dividend payable	—	41,993	—	—	—	—
Premium taxes payable	—	20,505	—	—	—	—
Amounts due to reinsurers	—	9,193	57	—	—	—
Provision for unpaid claims	—	95,410	50,109	54,845	91,172	63,306
	42,339	194,362	50,166	54,845	91,172	63,306
Finance lease commitment	—	1,284	1,284	388	883	—
	$ 42,339	$ 195,646	$ 51,450	$ 55,233	$ 92,055	$ 63,306

The estimated contractual maturities related to the unpaid claims recoverable from reinsurers excludes the net effect of discounting and PFAD of $1,599,000 (2012 — $1,917,000) (note 10). The estimated contractual maturities related to the provision for unpaid claims excludes the net effect of discounting and PFAD of $13,141,000 (2012 — $14,295,000) (note 10).

17. CAPITAL MANAGEMENT

The Corporation's primary objectives when managing capital are to ensure adequate funding is available to pay policyholder claims, be flexible in its product offerings and support its growth strategies, while providing an adequate return to its shareholder. Its main sources of capital are retained earnings and cash injections in the form of equity advances from its parent, CIC. There were no changes to the Corporation's capital structure during the period.

The Corporation uses a common industry measurement, the Minimum Capital Test (MCT), to monitor its capital adequacy. The MCT is a risk-based capital adequacy formula that assesses risks to assets, policy liabilities and off balance sheet exposures by applying various factors to determine a ratio of capital available over capital required.

SGI CANADA is not a regulated insurer; however, its subsidiaries, SGI CANADA Insurance Services Ltd., Coachman Insurance Company and The Insurance Company of Prince Edward Island, are subject to rate regulation related to their automobile premiums. Regulators require insurers to maintain a level of capital sufficient to achieve an MCT of 150% or higher based on the risk profile of the insurer and its business. There have been no changes to the Corporation's capital management processes and measures since the prior year-end. SGI CANADA and each of its subsidiaries, maintain MCT's greater than 150%.

18. CHANGE IN NON-CASH OPERATING ITEMS

The change in non-cash operating items is comprised of the following:

	(thousands of $)	
	2013	(restated note 4) 2012
Accounts receivable	$ (13,096)	$ (1,015)
Unpaid claims recoverable from reinsurers	9,877	9,099
Reinsurers' share of unearned premiums	(718)	(1,482)
Deferred policy acquisition costs	(3,454)	(4,032)
Other assets	66	(243)
Accounts payable and accrued liabilities	(6,077)	14,868
Premium taxes payable	1,381	444
Amounts due to reinsurers	452	(227)
Unearned reinsurance commissions	325	482
Unearned premiums	15,677	10,484
Provision for unpaid claims	51,616	(4,922)
	$ 56,049	$ 23,456

19. EMPLOYEE SALARIES AND BENEFITS

The Corporation incurs salaries costs, retirement benefit costs associated with its defined benefit pension plan, defined contribution plan and its defined benefit service recognition plans and other benefits costs. The Corporation allocates a portion of these costs to the Saskatchewan Auto Fund for those employees of the Corporation who provide service to it based on a cost allocation framework. These amounts have been disclosed separately in this note.

The Corporation allocates expenses incurred to the various operating functions. The Corporation includes employee salaries and benefits in the claims incurred and administrative expense line on the Consolidated Statement of Operations.

The total salary and benefits expenses incurred during the year are as follows:

	(thousands of $) 2013	(restated note 4) 2012
Salaries	$ 122,587	$ 115,192
Defined contribution pension plan	6,795	6,552
Defined benefit pension plan	227	238
Defined benefit service recognition plans	1,130	1,002
Other benefits	17,285	16,338
Total salaries and benefits	148,024	139,322
Less: Allocation to Saskatchewan Auto Fund	(91,420)	(85,766)
Salaries and benefits incurred in SGI CANADA	$ 56,604	$ 53,556

Defined contribution pension plan

The Corporation has employees who are members of the Capital Pension Plan, which is a defined contribution pension plan. The Corporation's financial obligation is limited to matching employee contributions of 5.5% to the plan.

Defined benefit pension plan

The Corporation has a defined benefit pension plan for certain of its employees that has been closed to new membership since 1980. Current service costs of this plan are charged to operations on the basis of actuarial valuations, the most recent valuation being as of December 31, 2010. The next valuation is anticipated to have a valuation date of December 31, 2013.

Results from the latest valuation have been projected to December 31, 2013. The actuarial valuation is measured using management's best estimates based on assumptions that reflect the most probable set of economic circumstances and planned courses of action. The estimate, therefore, involves risks that the actual amount may differ materially from the estimate.

The major assumptions used in the valuation, are as follows:

Economic assumptions:	2013	2012
Discount rate — beginning of period	3.60%	4.20%
Discount rate — end of period	4.30%	3.60%
Inflation rate	2.50%	2.50%
Expected salary increase	2.50%	2.50%
Remaining service life of active members in years (EARSL)	2	2
Last actuarial valuation	Dec. 31/10	Dec. 31/10

Changes in the assumptions would impact the accrued benefit obligation as follows:

	1% Increase	1% Decrease
Discount rate	(2,886)	3,453
Inflation rate	(21)	28
Post-retirement indexing	814	n/a

The weighted average duration of the accrued benefit obligation is 8.9 years.

The asset allocation of the defined benefit pension plan assets is as follows:

Asset Category	Target Range	Per cent of Plan Assets at December 31 2013	2012
Short-term investments	0 - 8%	1%	1%
Bonds and debentures	55 - 65%	58%	60%
Canadian equities	10 - 20%	17%	16%
U.S. equities	Total foreign	12%	11%
Non-North American equities	17 - 27%	12%	12%

The movements in the defined benefit obligation are as follows:

	(thousands of $) 2013	2012
Accrued benefit obligation		
Accrued benefit obligation, at January 1	$ 37,719	$ 37,307
Current service cost	67	98
Interest cost	1,309	1,503
Benefits paid	(2,747)	(3,050)
Actuarial loss (gain) on discount rate assumption changes	(2,110)	1,841
Actuarial loss on mortality assumption changes	1,440	—
Actuarial loss arising from plan member experience	—	20
Accrued benefit obligation, at December 31	$ 35,678	$ 37,719

The movements in the fair value of pension plan assets are as follows:

	(thousands of $) 2013	2012
Plan assets		
Fair value of plan assets, at January 1	$ 33,536	$ 34,091
Interest income	1,132	1,336
Return on plan assets, excluding interest income	1,096	1,062
Employer contributions	36	70
Employee contributions	17	27
Benefits paid	(2,747)	(3,050)
Fair value of plan assets, at December 31	$ 33,070	$ 33,536
Accrued pension liability	$ 2,608	$ 4,183

Pension expense for the defined benifit pension plan is as follows:

	(thousands of $)	
	2013	(restated note 4) 2012
Current service cost	$ 50	$ 71
Interest cost	177	167
Pension expense	$ 227	$ 238

During the year, $140,000 of the pension expense (2012 — $134,000 of pension expense) was allocated to the Saskatchewan Auto Fund. The Corporation has recorded the remaining $87,000 of pension expense (2012 — $84,000 of pension expense) in administrative expenses on the Consolidated Statement of Operations.

The Corporation expects $19,000 in contributions to be paid to its defined benefit plans in 2014.

Defined benefit service recognition plans

Current service costs of the service recognition plans are charged to operations on the basis of actuarial valuations performed annually. The actuarial valuations are measured using management's best estimates based on assumptions that reflect the most probable set of economic circumstances and planned courses of action. The estimates, therefore, involve risks that the actual amount may differ materially from the estimate. Significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligation at December 31 are:

	2013	2012
Discount rate	3.8 - 4.0%	3.2 - 3.3%
Expected salary increase	3.50%	3.50%
Inflation rate	2.50%	2.50%
Termination rate	2.50%	2.50%
EARSL — management	9	9
EARSL — in-scope	9	9

Changes in the assumptions would impact the accrued benefit obligation as follows:

	1% Increase	1% Decrease
Discount rate	(965)	1,097
Expected salary increase	1,094	(978)
Inflation rate	3	(3)
Termination rate	(368)	410

The weighted average duration of the accrued benefit obligation is 5.1 years.

Information about the defined benefit service recognition plans is as follows:

	(thousands of $)	
	2013	2012
Accrued benefit obligation		
Accrued benefit obligation, at January 1	$ 21,765	$ 21,238
Current service cost	241	226
Interest cost	662	776
Benefits paid	(2,089)	(1,237)
Experience loss (gain)	(367)	762
Accrued benefit obligation, at December 31	$ 20,212	$ 21,765

Pension expense for the defined benefit service recognition plan is as follows:

Current service cost	$ 241	$ 226
Interest cost	662	776
Pension expense	$ 903	$ 1,002

During the year, $558,000 of the pension expense (2012 — $616,000) was allocated to the Saskatchewan Auto Fund. The Corporation has recorded the remaining $345,000 of pension expense (2012 — $386,000) in administrative expenses on the Consolidated Statement of Operations.

The Corporation incurs retirement benefit costs associated with its defined benefit pension plan, defined contribution plan and its defined benefit service recognition plans. The Corporation allocates a portion of these costs to the Saskatchewan Auto Fund for those employees of the Corporation who provide service to it. These amounts are recovered by the Corporation as part of its cost allocation process.

Measurement uncertainty exists in valuing the components of both the defined benefit pension plan and service recognition plans. Each assumption is determined by management based on current market conditions and plan experience information available at the time, however, the long-term nature of the exposure and future fluctuations in the actual results makes the valuations uncertain.

The accrued benefit obligation of $22,820,000 is included in accounts payable and accrued liabilities.

20. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties"). All transactions are settled at prevailing market prices under normal trade terms. The Corporation has elected to take a partial exemption under IAS 24, *Related Party Disclosures,* which allows government-related entities to limit the extent of disclosures about related party transactions with government or other government-related entities.

The Corporation acts as administrator of the Saskatchewan Auto Fund. Administrative and loss adjustment expenses incurred by the Corporation are allocated to the Saskatchewan Auto Fund directly or on the basis of specific allocations. Amounts incurred by the Corporation and charged to the Saskatchewan Auto Fund were $138,232,000 (2012 — $130,775,000) and accounts payable were $6,308,000 (2012 — $8,580,000).

All transactions with the defined benefit pension plan, the defined contribution pension plan and the defined benefit service recognition plans are related party transactions by virtue of the plans being created for the benefit of the Corporation's employees.

Key management personnel

Key management personnel are those persons having authority over the planning, directing and controlling activities of the company, and include Board members, President and Chief Executive Officer, and Vice Presidents of the Corporation. Key management personnel compensation is comprised of:

	(thousands of $)	
	2013	2012
Salaries and benefits	$ 3,725	$ 3,263
Post-employment benefits	39	39
Contributions to defined contribution plan	223	213
	$ 3,987	$ 3,515

During the year, $2,536,000 of the key management personnel expenses (2012 — $2,162,000) was allocated to the Saskatchewan Auto Fund.

Certain Board members are partners in organizations that provided $nil (2012 — $11,000) of professional services to the Corporation. These services were recorded in claims incurred and administrative expenses in the Consolidated Statement of Operations. In addition, one board member owns an organization that sells insurance policies of the Corporation. Premiums written during the year from this organization amounted to $5,381,000 (2012 — $4,976,000) and the associated accounts receivable at December 31, 2013, was $825,000 (2012 — $819,000). Commissions paid were $1,066,000 (2012 — $1,028,000). The above noted transactions are routine operating transactions in the normal course of business.

The Corporation is committed to a related party until 2015 for telecommunications contracts. At December 31, 2013, the remaining commitment is $4,227,000 (2012 — $2,096,000).

Other related party transactions are described separately in the notes to the consolidated financial statements.

21. FACILITY ASSOCIATION PARTICIPATION

Through its subsidiaries, the Corporation is a participant in automobile residual market and risk-sharing pools, whereby companies in the industry are required by regulation to provide automobile insurance coverage to high-risk insureds.

Facility Association transactions recorded in the Corporation's financial results are as follows:

	(thousands of $)	
	2013	2012
Gross premiums written	$ 4,544	$ 4,889
Net premiums earned	$ 4,583	$ 4,671
Claims incurred	3,184	3,385
Commissions	154	301
Premium taxes	143	146
Administrative expenses	953	1,076
Total claims and expenses	4,434	4,908
Underwriting income (loss)	149	(237)
Investment earnings	158	110
Net income (loss)	$ 307	$ (127)
Facility Association receivable	$ 4,377	$ 4,168
Unearned premiums	1,987	2,016
Facility Association payable	3,504	3,504
Provision for unpaid claims	6,376	6,004

22. SELECT OPERATING INFORMATION

The Corporation provides property and casualty insurance directly in Saskatchewan, and through subsidiaries operating in Manitoba and Alberta, Ontario and the Maritimes (where Maritimes represents Prince Edward Island, New Brunswick and Nova Scotia). The performance of each subsidiary is reported separately to the Corporation's Board of Directors.

The product offerings vary across the jurisdictions, but all products offered are considered property and casualty insurance.

(thousands of $)

2013	Saskatchewan	Manitoba and Alberta	Ontario	Maritimes	Consolidation Adjustments	Total
Net premiums written	$ 371,963	$ 70,606	$ 50,923	$ 24,135	$ —	$ 517,627
Net premiums earned	361,655	64,391	52,879	23,743	—	502,668
Claims incurred	228,441	49,245	30,194	14,752	—	322,632
Other expenses	149,237	21,488	15,216	8,458	—	194,399
Underwriting profit (loss)	(16,023)	(6,342)	7,469	533	—	(14,363)
Investment earnings	41,132	6,368	9,736	1,436	—	58,672
Income before income taxes	25,109	26	17,205	1,969	—	44,309
Income tax expense	—	35	4,475	567	—	5,077
Net income (loss)	$ 25,109	$ (9)	$ 12,730	$ 1,402	$ —	$ 39,232
Total assets	$ 845,826	$ 252,231	$ 215,097	$ 55,527	$ (247,926)	$ 1,120,755
Total liabilities	$ 550,392	$ 129,759	$ 158,949	$ 40,371	$ (57,164)	$ 822,307
Shareholder's equity	$ 295,434	$ 122,472	$ 56,148	$ 15,156	$ (190,762)	$ 298,448

(thousands of $)

(restated note 4) 2012	Saskatchewan	Manitoba and Alberta	Ontario	Maritimes	Consolidation Adjustments	Total
Net premiums written	$ 352,462	$ 60,418	$ 55,715	$ 23,223	$ —	$ 491,818
Net premiums earned	345,839	55,624	58,880	22,473	—	482,816
Claims incurred	167,572	31,002	36,707	10,705	—	245,986
Other expenses	137,367	19,592	15,969	8,148	—	181,076
Underwriting profit	40,900	5,030	6,204	3,620	—	55,754
Investment earnings	22,661	3,235	6,202	957	—	33,055
Income before income taxes	63,561	8,265	12,406	4,577	—	88,809
Income tax expense	—	2,113	3,152	1,307	—	6,572
Net income	$ 63,561	$ 6,152	$ 9,254	$ 3,270	$ —	$ 82,237
Total assets	$ 814,475	$ 210,217	$ 213,910	$ 51,926	$ (216,930)	$1,073,598
Total liabilities	$ 534,955	$ 102,007	$ 160,492	$ 37,860	$ (44,391)	$ 790,923
Shareholder's equity	$ 279,519	$ 108,210	$ 53,418	$ 14,066	$ (172,538)	$ 282,675

23. CONTINGENCIES

In common with the insurance industry in general, the Corporation is subject to litigation arising in the normal course of conducting its insurance business. The Corporation is of the opinion that this litigation will not have a significant effect on the financial position or results of operations of the Corporation.

GLOSSARY OF TERMS

Broker

A person who negotiates insurance policies on behalf of the insurance company, receiving a commission from the insurance company for policies placed and other services rendered.

Casualty insurance

One of the three main groups of insurance products (the others are life insurance and property insurance). This type of insurance is primarily concerned with losses caused by injuries to others than the policyholder and the resulting legal liability imposed on the insured.

Catastrophe reinsurance

A policy purchased by a ceding company that indemnifies that company for the amount of loss in excess of a specified retention amount subject to a maximum specific limit from a covered catastrophic event.

Cede, Cedant, Ceding company

An insurance company that transfers some or all of the risks in active policies to another company cedes its business. The company transferring its risks is known as the cedant or ceding company.

Claims incurred

The totals for all claims paid and related claim expenses during a specific accounting period(s) plus the changes in IBNR reserve for the same period of time.

Combined ratio

A measure of total expenses (claims and administration) in relation to net premiums earned as determined in accordance with GAAP. If this ratio is below 100%, there was a profit from underwriting activities, while over 100% represents a loss from underwriting.

Facility Association

Participation in automobile risk-sharing pools whereby P&C insurance companies share resources to provide insurance coverage to high-risk individuals or businesses.

GAAP

Generally accepted accounting principles. These are defined in the handbook prepared by the Canadian Institute of Chartered Accountants.

Gross premiums written (GPW)

Total premiums, net of cancellations, on insurance underwritten during a specified period of time before deduction of reinsurance premiums ceded.

IBNR reserve

Abbreviation for "incurred but not reported." A reserve that estimates claims that have been incurred by a policyholder but not reported to the insurance company. It also includes unknown future developments on claims that have been reported.

IFRS

International Financial Reporting Standards. These are global accounting standards issued by the International Accounting Standards Board (IASB), including interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

Loss ratio (Claims ratio)

Claims incurred net of reinsurance expressed as a percentage of net premiums earned for a specified period of time.

Minimum Capital Test (MCT)

A solvency ratio used by regulators to assess a company's financial strength. This ratio measures capital requirements in relation to the degree of risk undertaken by a particular company. The minimum amount required by this ratio, as determined by the regulators, is 1.5 or 150% of capital available over capital required.

Net premiums earned (NPE)
The portion of net premiums written that is recognized for accounting purposes as revenue during a period.

Net premiums written (NPW)
Gross premiums written for a given period of time less premiums ceded to reinsurers during such period.

Net risk ratio (NRR)
A ratio of net premiums written to equity. This ratio indicates the ability of a company's financial resources to withstand adverse underwriting results. The regulatory guideline is a ratio of 3.0 or lower.

Premium
The dollars that a policyholder pays today to insure a specific set of risk(s). In theory, this reflects the current value of the claims that a pool of policyholders can be expected to make in the future, as well as the costs of administering those potential claims.

Premium tax
A tax collected by insurance companies from policyholders and paid to various provincial and territorial governments. It is calculated as a percentage of gross premiums written.

Property insurance
One of the three main groups of insurance products (the others are life insurance and casualty insurance). This type of insurance provides coverage to a policyholder for an insurable interest in tangible property for property loss, damage or loss of use.

Prudent person
A common law standard against which those investing the money of others are judged against.

Redundancy & deficiency
Claims reserves are constantly re-evaluated. An increase in a reserve from the original estimate is a deficiency, while a decrease to the original reserve is called a redundancy.

Reinsurance
In its simplest form, insurance for an insurance company. It is an agreement where the reinsurer agrees to indemnify the ceding company against all or a portion of the insurance or reinsurance risk underwritten by the ceding company under one or more policies.

Reinsurer
A company that purchases the cedant risk in the reinsurance contract.

Underwriting
The process of reviewing applications submitted for insurance coverage, deciding whether to insure all or part of the coverage requested and calculating the related premium for the coverage offered.

Underwriting capacity
The maximum amount that a company can underwrite. It is based on retained earnings and investment capital held by the company. Using reinsurance allows a company to increase its underwriting capacity as it reduces the company's exposure to particular risks.

Underwriting profit/loss
The difference between net premiums earned and the sum of net claims incurred, commissions, premium taxes and all general and administrative expenses.

Unearned premiums
The difference between net premiums written and net premiums earned. It reflects the net premiums written for that portion of the term of its insurance policies that are deferred to subsequent accounting periods.

GOVERNANCE

Please visit the SGI CANADA website at www.sgicanada.ca for information on governance for SGI CANADA, including:

- governance guidelines
- Board of Directors' photos and bios, committee members, frequency of meetings and terms of reference
- SGI CANADA executives' photos and bios

IN MEMORIAM

Stephen Cochrane, a Clerk 2 at the Regina Commercial Claims Centre, was an upbeat, hard working employee with a quirky sense of humour and a giving nature. Colleagues say that he exemplified our corporate values of honesty, integrity and respect.

Stephen was devoted to his Christian faith. He was preparing for missionary work in Japan, a country he was fascinated by.

Conrad Brooks, a Permit Office Representative 1 at the Regina Operations Centre, was an outgoing employee with a bright nature who suited his job well.

Conrad was easy-going and generous, an avid fisher and a huge sports fan. He was a devoted husband and father of two young children.

Debbie Potts, an Adjuster 1 Auto at Regina Northwest Claims Centre, had a bubbly personality and would always go the extra mile for her claimants.

Debbie was a wonderful friend, known for her smile, compassion for others and love of animals.

Celine Nelson, a Clerk 5 at the Prince Albert Claims Centre, was voted Employee of the Year before her passing.

Celine was a devoted wife and mother of two children who provided fodder for her funny stories. She had an incredible sense of humour and was known for her sarcasm, goofiness and a contagious smile.

Bob Snell, an Adjuster 3 at the Prince Albert Claims Centre, was an office mentor and resource.

Bob taught Chartered Insurance Professional (CIP) courses and enjoyed investigating insurance issues. He loved the outdoors and would regale colleagues with stories. His family also meant the world to him and he was proud of his sons.

Cheryl MacMillan, a Clerk 6 in Driver Programs, was an exemplary employee, setting a busy pace at the office and inspiring others with her willingness to take on a challenge.

Cheryl was a fun person who had a great sense of humour. She was also a devoted mother who never missed her children's events.

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