

# SGI CANADA 2009 ANNUAL REPORT



You speak, we listen.



## **Vision**

We will be a leading, diversified property and casualty insurer by offering competitive, high-quality products and services in partnership with our brokers.

## **Values**

Integrity–

Conducting ourselves with honesty, trust and fairness

Caring –

Acting with empathy, courtesy and respect

Innovation –

Implementing creative solutions to achieve our visions

## **About SGI CANADA**

SGI CANADA is a dynamic and innovative company selling property and casualty insurance in seven provinces. It operates as SGI CANADA in Saskatchewan; SGI CANADA Insurance Services Ltd. in Alberta and Manitoba; Coachman Insurance Company in Ontario; and the Insurance Company of Prince Edward Island in New Brunswick, Nova Scotia and Prince Edward Island. The company employs over 1,800 people and its head office is located in Regina. Products are sold exclusively through independent insurance brokers in all jurisdictions. Visit SGI CANADA at [www.sgicanada.ca](http://www.sgicanada.ca).

## **You speak, we listen.**

We take great pride in being a valuable asset to brokers like Stephen Barlow of Dusyk and Barlow Insurance of Regina. In 2009, we built on that commitment by continuing to make it easier for brokers to do business with us. Our goal was simple: To help brokers meet the ongoing needs of their customers, while being a company they want to do business with. SGI CANADA has a tradition of excellent customer service – when our brokers speak, we listen.

# Table of Contents

3 . . . .	Letter of Transmittal
4 . . . .	Minister's Message
5 . . . .	Chair's Message
6 . . . .	President's Message
12 . . . .	Five-year Review
13 . . . .	Management's Discussion and Analysis
41 . . . .	Responsibility for Financial Statements
42 . . . .	Annual Statement of Management Responsibility
43 . . . .	Actuary's Report
44 . . . .	Auditors' Report
45 . . . .	Consolidated Statement of Financial Position
46 . . . .	Consolidated Statement of Operations
47 . . . .	Consolidated Statement of Comprehensive Income
48 . . . .	Consolidated Statement of Changes in Province of Saskatchewan's Equity
49 . . . .	Consolidated Statement of Cash Flows
50 . . . .	Notes to the Consolidated Financial Statements
74 . . . .	Corporate Governance
81 . . . .	Glossary of Terms
83 . . . .	Board of Directors
83 . . . .	Vice-Presidents
84 . . . .	In Memoriam

## Letter of Transmittal

Regina, Saskatchewan  
March 2010

To His Honour,  
The Honourable Dr. Gordon L. Barnhart, S.O.M., PhD  
Lieutenant Governor of the Province of Saskatchewan

Your Honour,

I am pleased to submit herewith the annual report of SGI CANADA for the year ended December 31, 2009, including the financial statements in the form required by the Treasury Board and in accordance with *The Saskatchewan Government Insurance Act*.

Respectfully submitted,

A handwritten signature in black ink, reading "June Draude". The signature is written in a cursive, flowing style.

Honourable June Draude  
Minister Responsible for Saskatchewan Government Insurance



## Minister's Message

Like many industries across Canada, the Crown sector experienced challenges in 2009 as world markets continued to rebound. It is times like these when Saskatchewan residents appreciate the value of our publicly owned Crown corporations. They have faced these challenges and continue to provide the highest quality services and products with the lowest rates in the country.

I am proud to report that SGI CANADA achieved another profitable year in 2009, building on its reputation for providing industry-leading insurance products at competitive prices.

My personal goal for the future of SGI CANADA, as it is with each Crown corporation, is to ensure it remains successful so that Saskatchewan residents can continue to enjoy the benefits provided by a publicly owned insurance company.

Recently, the Saskatchewan government promised to operate more efficiently. I take that promise to heart and am excited to see SGI CANADA taking steps to make it easier for brokers to do business with it.

I am confident our Saskatchewan First investment policy provides clear direction for SGI CANADA, which recognizes how important it is to grow in a strategic and profitable manner in all jurisdictions in which it currently operates. This is a sensible approach, and SGI CANADA will continue to support its in-province operations by geographically diversifying its out-of-province operations in 2010.

Our Crown corporations are strong, healthy and committed to you, the citizens of Saskatchewan.

I am proud to present you with the 2009 SGI CANADA Annual Report.

A handwritten signature in black ink, reading "June draude". The signature is fluid and cursive.

Honourable June Draude  
Minister Responsible for Saskatchewan Government Insurance



## Chair's Message

In 2009, SGI CANADA's Board of Directors was very pleased to welcome its newest President and CEO, Andrew Cartmell, to the Corporation. Andrew brings with him more than 25 years of industry expertise, and we are confident that Andrew is the right person to lead SGI CANADA and its exceptional team forward.

The Board recognizes and thanks Earl Cameron for his leadership and counsel during his term as Acting President and CEO. For 36 years, Earl has made an invaluable contribution to the Corporation and his service as Acting President and CEO is a further example of this.

In 2009, the staff of SGI CANADA relied on their strong partnership with brokers and a solid business strategy to produce another successful year. Our net income represents the highest in SGI CANADA's history, reflected by low storm activity in Saskatchewan, staff productivity gains, administrative expense efficiencies and good experience on prior year claims.

On behalf of the Board, I thank employees and brokers for their dedication and commitment to excellence. Their ability to provide exceptional customer service and high quality products at competitive prices remains second to none. If 2009 is any indication, I am confident our customers will continue to enjoy the benefits of this partnership for many years to come.

I thank our management team for their efforts during the year and for ensuring SGI CANADA continues to offer industry leading products and services to clients while staying profitable and focused on the future.

A handwritten signature in black ink, appearing to read 'Warren Sproule'.

Warren Sproule, Q.C.  
Chair, SGI CANADA Board of Directors



## President's Message

Sometimes you look at an opportunity and it just feels right. When I assumed the position of President and CEO of SGI CANADA in August 2009, I knew I made the right decision.

SGI CANADA has a tradition of excellence, and that tradition evolved through the hard work and commitment of our employees and our dedicated broker force. I am honoured to be part of such a successful team.

To ensure success in 2009 and beyond, SGI CANADA took a hard look at the way it did business. Operating in a complex business environment, with an expanded reliance on technology and increased consumer expectations, we recognized it was more important than ever to be a valuable asset to brokers and to help them meet the needs of their customers – as well as attract new ones.

At the same time, we recognized how important it is to keep pace with changing expectations, meaning our brokers must continue to meet client expectations, or risk being left behind entirely.

With that in mind, the focus for SGI CANADA in 2009 was to continue to make it easier for brokers to do business with us. We did this by listening to what brokers had to say. Then we took action. Our results prove how successful this strategy was.

We also focused on being efficient, providing quality service and finding new and innovative ways to ensure that we continue to be a company that brokers want to do business with.

In order to address these challenges head-on, we developed an Ease of Doing Business initiative in 2009 as part of the Corporation's overall eServices strategy.

The goal of the Ease of Doing Business model will position the Corporation to remain competitive and profitable. By using technology in innovative ways, we will be able to make informed strategic decisions and enhance efficiency.

With the development of this initiative, we also look to take customer service to the next level by anticipating the needs of customers.

We will not only recognize how eServices can make it easier for brokers to do business with us, but we will anticipate the kinds of eServices brokers will need to remain competitive.

### Financial position

Guided by a solid business strategy, we overcame the challenges of a worldwide recession and uncertain global markets to enjoy another successful year.

In 2009, we posted earnings of \$52.4 million, which includes a strong underwriting profit of \$33.8 million.

The 2009 net income represents the highest in SGI CANADA's history, and is due in large part to little to no storm activity in Saskatchewan and good experience on prior year claims.

Our positive financial position also contributed to a strong Minimum Capital Test score of 254% at the end of 2009, well above the regulatory minimum. This 26 point improvement from 2008 is a reflection of strong profitability and improvement in the market value of the investment portfolio.

SGI CANADA also achieved a favourable return on equity (ROE). With the industry pre-tax ROE for the year estimated at 9%, consolidated pre-tax ROE was 27%, 18 points higher than the projected industry average. For 2010, our goal is to achieve a consolidated after-tax ROE of 20%.

The government's Saskatchewan First investment policy continues to provide clear direction for SGI CANADA. The policy recognizes the importance of geographic diversification to an insurance company, and supports SGI CANADA continuing to grow profitably in the markets we currently operate in.

Our diversification strategy has once again paid dividends, and I am proud to report that out-of-province operations were again profitable in 2009.

Without question, geographic spread of risk continues to be a successful strategy for SGI CANADA. Out-of-province investments continue to support in-province operations, as losses in one product or province are balanced by profit in another. As a result, the more business we write outside Saskatchewan, the more financially stable the Corporation ultimately becomes.

Despite our success in 2009, we recognize this is not the time to become complacent. As we move forward, we continue looking for ways to improve our processes and customer service, and to build upon the early success of the Ease of Doing Business initiative.

## **Operations**

Premium growth in 2009 out-of-province was 25.4%, resulting in over \$87 million in premium from outside Saskatchewan and representing about 22% of SGI CANADA's overall premium for the year.

Business in Saskatchewan was extremely successful as premiums written increased to their highest level since 2004. The results are due in large part to the relative stability of economic conditions across the province, as well as an increase in the number of registered vehicles on the road.

We continued to exceed expectations in the Alberta market as we saw significant policy growth and an increase in premiums. Success can also be attributed to a lower collision frequency and the successful appeal of the minor injury cap in 2009. We also continue to receive positive feedback from our Alberta broker force.

Manitoba experienced its second consecutive year of double-digit growth in premiums written. Brokers continue to praise SGI CANADA for its exceptional level of service. A profit was recorded in 2009, thanks in large part to the reduction of house fire losses in the province compared to 2008.



Despite significant policy growth, it was a challenging year for Ontario. After six consecutive years of profitability, several large house fires, increased summer storm activity and poor underwriting results from the automobile market contributed to a small loss for Coachman. Going forward, we will look at specific underwriting initiatives, as well as rate increases, to help boost future results.

Continued growth in New Brunswick and Nova Scotia, as well as investment earnings, helped the Insurance Company of Prince Edward Island earn a profit in 2009. However, we will look to improve the weak personal lines results during the year by focusing on underwriting discipline and rate actions to return to underwriting profitability, while continuing to provide strong service to our brokers.

### **Broker partnerships**

Our hard working and dedicated network of independent brokers remained an integral part of SGI CANADA's success in 2009, and we value the long-standing relationship we share with them.

We are committed to providing excellent service, and take pride in the fact that when our brokers speak, we listen.

In 2009, SGI CANADA finalized a strategy to deliver eService solutions that support the way our broker partners choose to do business. This focus has already contributed to some highly successful implementations over the past year, such as the addition of the personal automobile web revision to the existing eServices suite of products for Saskatchewan brokers.

These tools proved so successful that over 70% of Saskatchewan brokers are using eServices to submit SGI CANADA business.

Although our Ease of Doing Business initiative made a difference for our brokers in 2009, we understand this is really only the beginning. We are committed to working hard, adapting and overcoming challenges in order to achieve our corporate goals. In 2010, for example, we will double our efforts to provide even more eServices to brokers inside and outside Saskatchewan, with the support and training they need to remain competitive.

By providing our broker force with the necessary tools and resources, we have freed up their time to focus more attention on sales, cross marketing and providing their clients with value-added services.



## Broker Partnerships

We're proud to support brokers, like Mike McRitchie of McCauley Agencies of Moose Jaw, and how they choose to do business. Renewed focus on supporting brokers contributed to a number of successful eBusiness

implementations in 2009 that made it easier for brokers to do business with us. In 2010, we look to double our efforts and provide increased eServices to brokers inside and outside of Saskatchewan.

## Employees

Our success in 2009 can also be attributed to our talented, engaged and hard-working employees.

By combining the expertise of our staff with the strength and reputation of our insurance products, we turn routine commodity-based transactions into a value-added experience.

The experience we offer each and every broker is what sets us apart from our competition.

To prepare for a renewed focus on supporting brokers, we required the participation and co-operation of all employees who deal with brokers. We required a new way of thinking about how SGI CANADA does business with its broker force. In short, we required all of our departments to think and move in the same direction.

In 2009, employees focused on the importance of eServices, how they could make it easier for brokers to do business with us and what eService solutions were available to our broker force.

There are truly no better ambassadors to champion our eService tools than our employees, and the increased use of our websites indicates that staff promotion of them is already making a big difference.

In 2009, SGI CANADA rose to the top as an employer once again. For the third consecutive year, the Corporation was selected as one of Canada's Top 100 Employers and one of Canada's Best Diversity Employers.


We were also named one of Saskatchewan's Top Employers – the fourth year in a row we have received this honour.

And the accolades didn't stop there. For the first time ever, we were named one of Canada's Top Family-Friendly Employers, an award we are very proud to receive as we take our commitment to family seriously.

One of the people who deserves credit for helping achieve these honours, and a successful 2009, is Earl Cameron, Vice President, Claims and Salvage. I would like to take this opportunity to thank Earl for his tireless efforts as acting President and CEO of SGI CANADA in the first half of the year.

Moving forward, I look for SGI CANADA to continue to strengthen the close relationship it shares with brokers, while delivering solutions that affirm our position as a leading insurance company. We will do this through our commitment to innovation, technological enhancements and our continued dedication to our Ease of Doing Business initiative. Our team is built on the goal that we will not only meet your expectations, but exceed them.

We take pride in the fact that when you speak, we listen.



Andrew R. Cartmell  
President and CEO





## Our Employees

There are no better ambassadors to champion our eService tools than our employees. SGI CANADA's eTeam was formed to help educate and train brokers on the eBusiness tools available to them. The team is a collection of underwriters, product reps and business

analysts, who focus on providing training and education to brokers on our eBusiness applications. Front row: Pat Scherle, Sherry Grad  
Back row: Lana Jordan, Shane Ostapowich, Wendy Shepard, Robert Mack

# Five-year Review

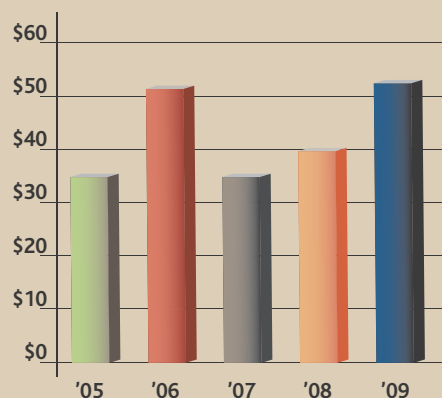
## SGI CANADA Consolidated

Millions of dollars except pre-tax return on equity and ratios.

	2005	2006	2007	2008	2009
Net premiums written	286	301	321	353	394
Net income	35	52	35	40	52
Total assets	598	663	707	717	827
Province of Saskatchewan's equity	143	162	189	178	226
Pre-tax return on equity	28%	35%	22%	23%	27%
Loss ratio	58%	54%	61%	55%	51%
Expense ratio	36%	37%	39%	39%	40%
Combined ratio	94%	91%	99%	95%	91%

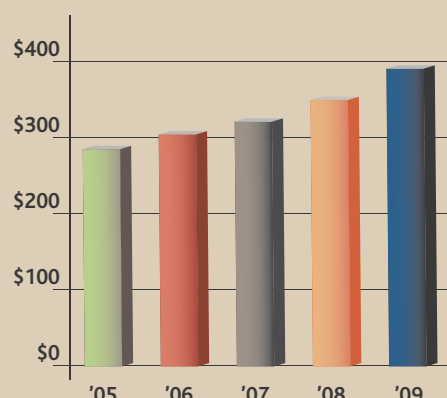
**Net Income**

millions of dollars



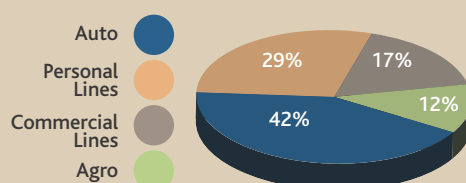
**Net Premiums Written**

millions of dollars



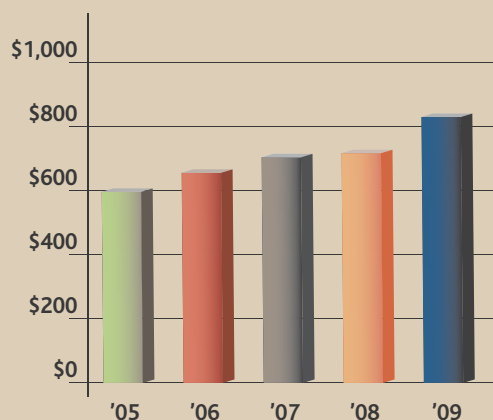
**2009 Net Premiums Written**

by product



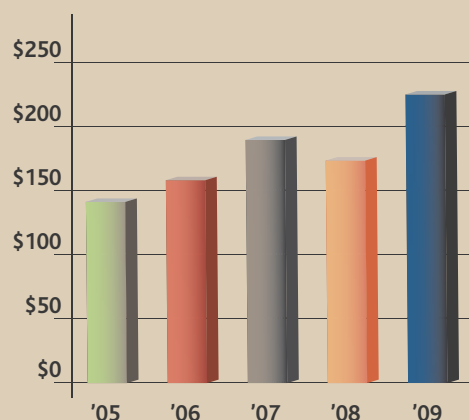
**Total Assets**

millions of dollars



**Province of Saskatchewan's Equity**

millions of dollars



# 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 24, 2010. 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](http://www.sgi.sk.ca) under About SGI. The Board of Directors approved this MD&A at its meeting on February 25, 2010, 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, 2009 financial results, risk management and an outlook for 2010. 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.

## 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.

## Table of Contents

13	.....	Where SGI CANADA Came From
14	.....	The Property and Casualty Insurance Business Environment
15	.....	Strategic Direction
15	.....	Corporate Strategies
23	.....	Capability to Execute Strategies
25	.....	2009 Financial Results
34	.....	Impact of New Accounting Standards
35	.....	Related Party Transactions
36	.....	Off-Balance Sheet Arrangements
36	.....	Critical Accounting Estimates
38	.....	Risk Management
39	.....	Outlook For 2010

## 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.

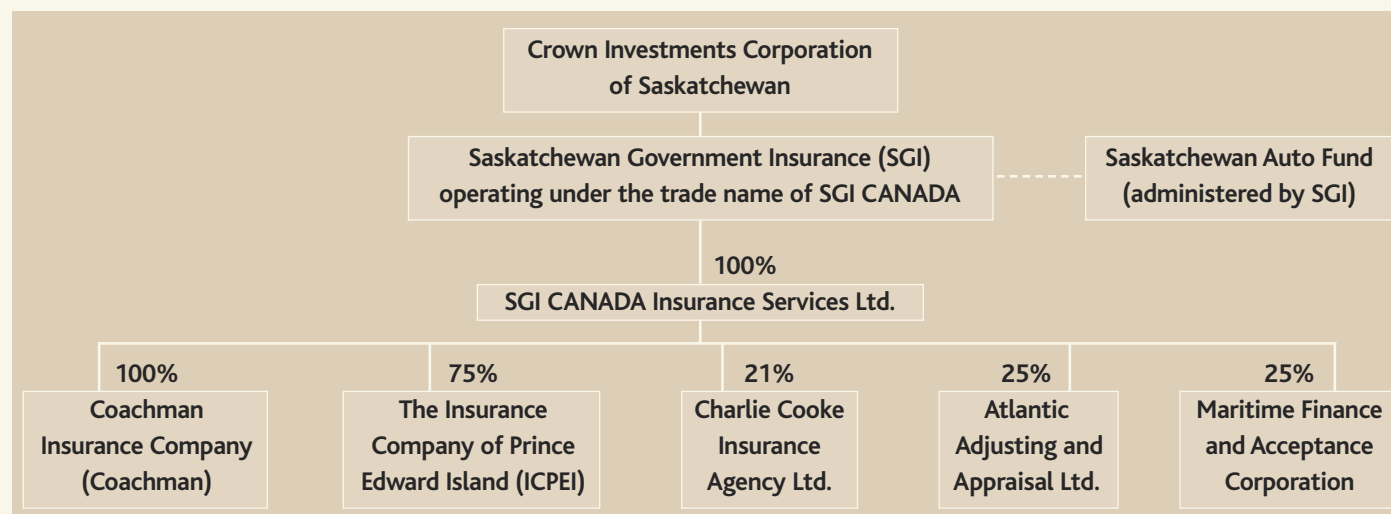
SGI's mandate since its inception has been to provide comprehensive, affordable insurance protection to the people of Saskatchewan. In 1980, legislated changes to *The Saskatchewan Government Insurance Act, 1980* and *The Automobile Accident Insurance Act* distinguished between the compulsory vehicle 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 SGI CANADA annual and quarterly reports are available on its website at [www.sgicanada.ca](http://www.sgicanada.ca).

The operations in provinces outside Saskatchewan are important to the Corporation in order 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, 2009 the Corporation employed over 1,800 people, including those employees who work directly for the Saskatchewan Auto Fund. SGI CANADA operates with a network of 259 independent brokers throughout Saskatchewan, as well as 248 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<sup>1</sup>

At September 30, 2009, Canada's highly competitive P&C industry had approximately 230 private and government-owned insurers. The P&C industry covers all types of insurance other than 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 the 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.<sup>2</sup> 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.

<sup>1</sup> Adapted from "Facts About Property and Casualty Insurance In Canada" prepared by the Insurance Bureau of Canada, *Facts 2009*.

<sup>2</sup> This and other terms are defined in the glossary included in this annual report. The glossary begins on page 81.

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, 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 the 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 represents approximately 11.9% of the consolidated net premiums earned in 2009.

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 risks 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.

Membership in PACICC is compulsory for most P&C insurers in Canada. SGI CANADA, SGI CANADA Insurance Services Ltd., Coachman and ICPEI are all 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 will provide additional funds, as required, to maintain PACICC. For more information on PACICC, visit its website at [www.pacicc.com](http://www.pacicc.com).

## Strategic Direction

SGI CANADA's vision and values are as follows:

### Vision

We will be a leading, diversified property and casualty insurer by offering competitive, high-quality products and services in partnership with our brokers.

### Values

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

## Corporate Strategies

SGI CANADA's corporate strategies focus on maintaining its market share in Saskatchewan, while diversifying operations profitably using a network of independent brokers to distribute its insurance products.

SGI CANADA's rationale for growth outside Saskatchewan is to diversify geographic risk and to return a profit to its shareholder, CIC. Diversification is important because writing business solely in one geographic location, Saskatchewan, presents a significant risk exposure for an insurance company. Further growth opportunities within Saskatchewan, from an insurance perspective, are limited. Therefore, it is critical to the continued long-term success of SGI CANADA to increase its written premiums profitably outside Saskatchewan.



To meet its overriding strategic goals, the Corporation's main areas of strategic focus are:

- Profitable Growth;
- Customers;
- People; and,
- Business Infrastructure.

These four areas are crucial to SGI CANADA's current and future success. Within them, the Corporation has specific strategic initiatives and has developed key targets to measure performance. The Corporation uses a balanced scorecard to monitor performance and results. Balanced scorecard objectives provide a balanced evaluation of key operations and financial results, activities and achievements with both a short and long-term focus.

The following sections discuss key initiatives in each of the four areas of strategic focus, as well as related key performance indicators from the balanced scorecard. The balanced scorecard is reviewed annually to ensure its continued alignment with SGI CANADA's corporate strategies. Key performance targets are also reviewed and either updated or removed along with new performance targets being added.

### ***Profitable Growth***

Key to the Corporation's success is its ability to grow while maintaining profitability in a highly competitive industry. Operations in provinces outside Saskatchewan continue to be crucial to SGI CANADA's diversification strategy; however, this strategy also includes maintaining the Corporation's large market share within Saskatchewan. It is a basic business principle for insurance companies to reduce the impact of significant losses by having diversified operations – both geographically and in product mix. Losses in one product or province can be made up through profits in other products and in other provinces. It is important for the Corporation to continue to diversify its insured risks, although it is understood that it is not possible for all segments or markets to be profitable each year. During 2009, 22.2% of direct premiums written were from outside Saskatchewan, an increase of 2.3% from 2008.

To be competitive in the P&C insurance industry in Canada, adequate capitalization is critical. This is not only important from a regulatory perspective, but to allow the Corporation to be flexible in its product offerings in a competitive marketplace. SGI CANADA's main sources of equity are from retained earnings and capital from its parent, CIC. There were no new capital advances to SGI CANADA from its parent during 2009. As well, there were no changes to the capital in the Corporation's subsidiaries during 2009. The Corporation uses the Minimum Capital Test, a balanced scorecard measure, to assess the adequacy of its capitalization.

While growth is key to long-term success, the Corporation overall must be profitable in order to sustain growth. The Corporation recognizes that it cannot lose sight of the Saskatchewan marketplace, the market where its success developed and that represents approximately 80% of its overall premium base. SGI CANADA strives to continue to grow profitable lines of business in Saskatchewan while maintaining its market share.

Profitable underwriting is dependent on a disciplined underwriting approach and historically SGI CANADA has been very successful. Its success comes from two areas: a large database of information in its underwriting system that allows it to properly assess risks; and, committed and experienced employees and brokers.

As well, effective utilization of reinsurance is important as it allows the Corporation to write additional business without having to increase its capital base. Reinsurance also sets a maximum dollar limit on exposure to a claim or on a series of claims occurring from a common incident or catastrophe.

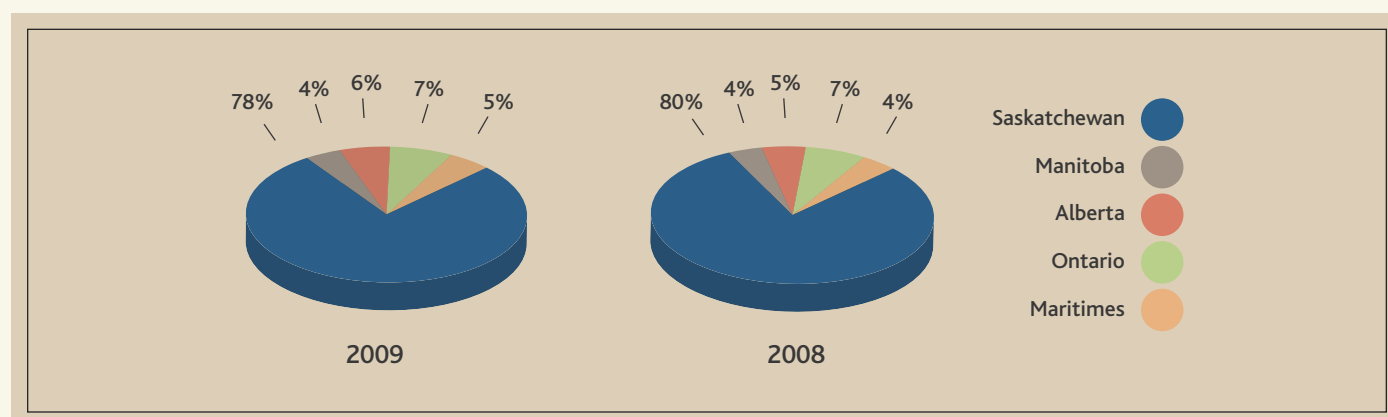
S&G CANADA uses a number of key performance indicators in its balanced scorecard to monitor the above initiatives to ensure that it is on course with its strategies:

LEGEND: <span style="display: inline-block; width: 10px; height: 10px; background-color: black; border-radius: 50%;"></span> achieved <span style="display: inline-block; width: 10px; height: 10px; background-color: white; border-radius: 50%; border: 1px solid black;"></span> did not achieve			
Measure	2009 Target	2009 Results	2010 Target
The next \$50 million of business	\$406.7 million total direct premiums from consolidated operations	<span style="display: inline-block; width: 10px; height: 10px; background-color: black; border-radius: 50%;"></span> \$421.1 million	In-province gross premium written of \$338.7 million  Out-of-province gross premium written of \$103.7 million
Minimum Capital Test (consolidated entity)	Be at the industry average (291%)	<span style="display: inline-block; width: 10px; height: 10px; background-color: white; border-radius: 50%; border: 1px solid black;"></span> 254%	Be at the industry average
Consolidated combined ratio	Less than 100%	<span style="display: inline-block; width: 10px; height: 10px; background-color: black; border-radius: 50%;"></span> 90.9%	Less than 98%
Return on equity (consolidated entity)	21.8% (pre-tax)	<span style="display: inline-block; width: 10px; height: 10px; background-color: black; border-radius: 50%;"></span> 27.1%	20.2% (after-tax)

### The next \$50 million of business

In 1993, S&G CANADA began to diversify its operations with three goals in mind: spreading geographic risk, creating jobs in Saskatchewan and increasing profits for its shareholder. In 2005, it further defined the financial goal as increasing premiums written out-of-province by \$50 million between 2005 and 2009.

In 2009, the measure was redefined to consider total direct premium written in its consolidated operations. The current strategy for all operations is profitable growth. Targets for growth are set in the budget each year. The 2009 target for total consolidated direct premium written was \$406.7 million, which was exceeded. Alberta business contributed the majority of the growth in out-of-province operations, with \$26.7 million in direct premiums, compared to \$19.6 million in 2008.



The growth strategy for 2010 is measured by separate targets for in-province and out-of-province operations, based on budgeted gross direct premiums written. The in-province gross premium written target is \$338.7 million. The out-of-province gross premium written target is \$103.7 million.

## Minimum Capital Test (MCT)

The MCT is a regulatory measure used to assess a company's financial strength. 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 minimum 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, international developments and to provide for risks not explicitly addressed, including those related to systems, data, fraud, legal and other risks. The industry<sup>3</sup> average MCT score at December 31, 2009 is not yet available, however it was 291% at December 31, 2008.

The following table shows MCT results by legal entity:

Company	December 31, 2009	December 31, 2008
SGI CANADA (consolidated)	254%	228%
SGI CANADA Insurance Services Ltd. (consolidated)	358%	378%
Coachman	385%	433%
ICPEI	269%	297%

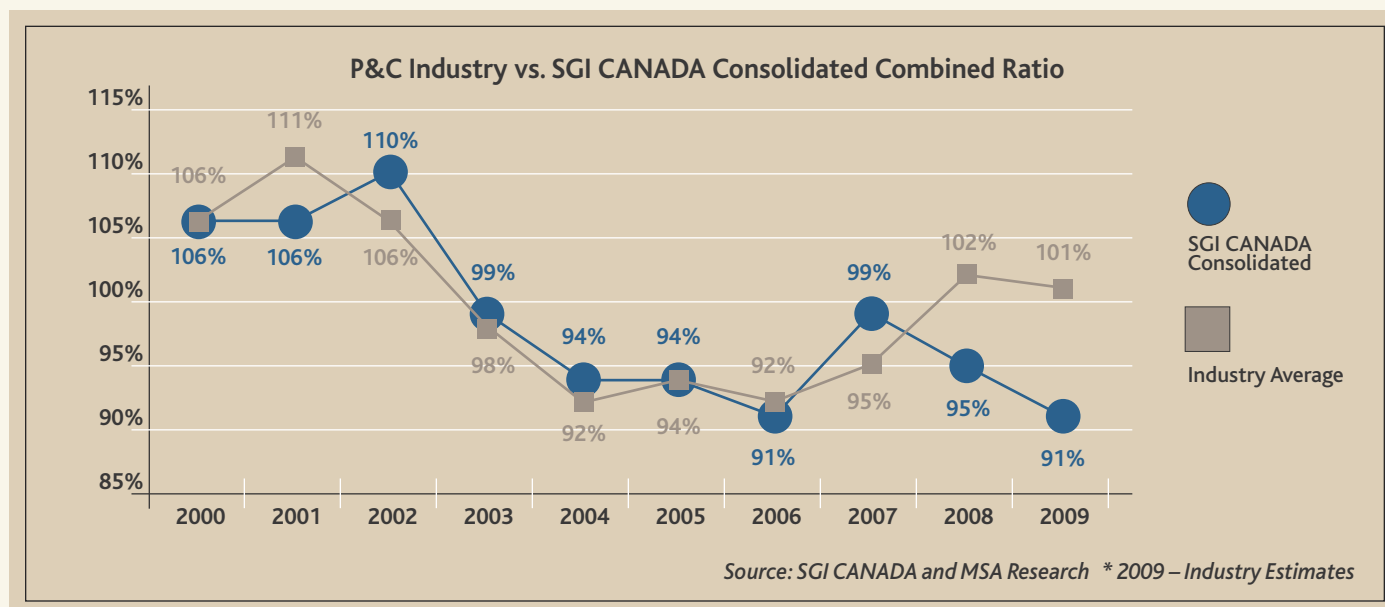
The above table indicates that all companies have a strong MCT score at the end of 2009, well above the regulatory minimum. SGI CANADA realized a 26 point improvement in 2009, a reflection of strong profitability and improvement in the market value of the investment portfolio. The decrease in SGI CANADA Insurance Services Ltd.'s consolidated MCT was driven by the growing book of business primarily in Alberta and the Maritimes, and is a reflection of the need to maintain higher capital levels when a company is experiencing significant growth. SGI CANADA Insurance Services Ltd. is adequately capitalized to support the Corporation's continued diversification efforts in Alberta, Ontario and the Maritimes. Coachman's decrease was primarily attributable to an unfavourable underwriting year in 2009.

For 2010, the target is for consolidated operations to have an MCT score at the average of the industry.

## Consolidated combined ratio

This ratio is a key profitability measure for the Corporation. It measures the underwriting profit or loss for a company for a period of time. The combined ratio is calculated as total expenses (claims and other expenses, excluding income taxes and minority interest) divided by net premiums earned. Insurance companies attempt to achieve a ratio of less than 100%, which represents an underwriting profit.

The Corporation's average combined ratio over the period 2000-2009 was 98%, slightly better than the industry average of 100%.



<sup>3</sup> SGI CANADA has defined "industry" for MCT and combined ratio purposes to represent P&C companies (both domestic and foreign branch) with net premium written exceeding \$6 million CDN and excludes all reinsurers, Lloyd's, Insurance Corporation of British Columbia, Manitoba Public Insurance and the Saskatchewan Auto Fund.

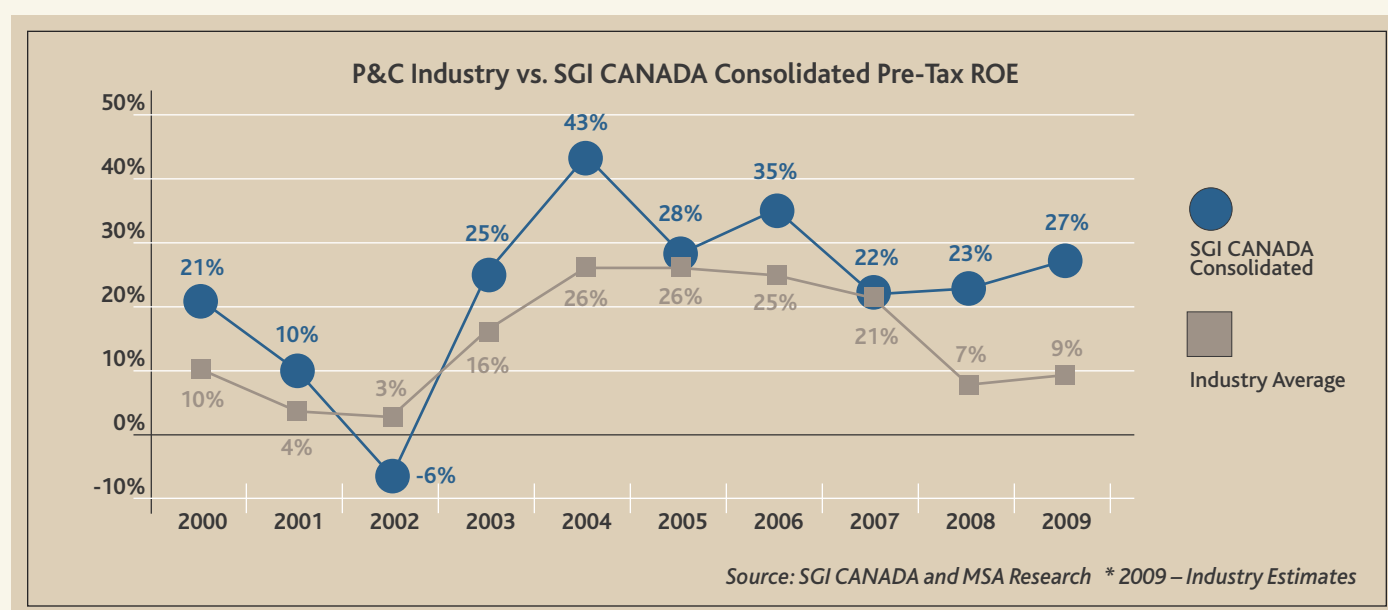
SGI CANADA's consolidated combined ratio for 2009 was 90.9%, bettering its target of 100% and the prior year ratio of 94.5%. The 90.9% combined ratio reflects a record underwriting profit (\$33.8 million) for the Corporation, and marks the seventh consecutive year that SGI CANADA has achieved a profit from its core activity of underwriting insurable risks. Strong performance from Western Canadian operations was key in achieving the record underwriting results in 2009.

While in recent years SGI CANADA has achieved a consolidated combined ratio below 100%, the Corporation understands that each jurisdiction may not reach that target every year. Instead, geographic diversification helps the Corporation limit its insurance risk in any one geographic area by allowing it to maintain a strong combined ratio while experiencing high claim costs in certain markets. For instance, in 2007, Saskatchewan operations experienced increased claim costs associated with significant summer storms; however, strong underwriting results from other jurisdictions assisted the Corporation in maintaining a consolidated combined ratio under 100%.

The 2010 target is a consolidated combined ratio below 98%.

## Return on equity

Return on equity (ROE) indicates the annual return on the investment made by SGI CANADA's shareholder. It is calculated as the ratio of income before income taxes to the average equity for the year excluding accumulated other comprehensive income.







The industry pre-tax ROE for the year is estimated to be 9%, based on data available to the end of the third quarter of 2009, the most recent time period available. For the year ended December 31, 2009, SGI CANADA's consolidated pre-tax ROE was 27%, a significant 18 points higher than the projected industry average. The Corporation's 10-year average ROE is 23% while the industry averaged 15% for the same time period.

For 2010, the target is to achieve a consolidated after-tax ROE of 20.2%, based on the Corporation's consolidated budget estimates.

## Customers

Another area of strategic focus is the customer. In addition to policyholders, SGI CANADA considers its customers to be the independent insurance brokers it partners with to sell its products. The Corporation supports them by providing underwriting expertise and self-service capabilities through its broker web interfaces. SGI CANADA works closely with its brokers to obtain input and advice on the changing needs of policyholders. This recognizes that, as the insurance industry continues to evolve, it is important to stay at the forefront of advancements in technology and changes in customer expectations.

SGI CANADA uses the following key performance indicators in its balanced scorecard to monitor customer initiatives to ensure it is on course with its strategies and in meeting the needs of both its brokers and policyholders:

LEGEND:  achieved  did not achieve			
Measure	2009 Target	2009 Results	2010 Target
Broker satisfaction survey	90% broker satisfaction level	 93% broker satisfaction level	90% broker satisfaction level
Customer process improvement/innovation through technology	Finalize eServices strategy	 eServices strategy finalized	25% increase in personal lines online transactions in Saskatchewan; Implement commercial lines upload; Implement Phase 1 of the business intelligence program

### Broker satisfaction surveys

SGI CANADA conducts annual surveys in December with brokers in every jurisdiction in which it does business to determine the level of satisfaction with the services provided to them. It strives for at least 90% of brokers indicating they rate SGI CANADA the same or better than the competition. For 2009, SGI CANADA exceeded its target with a 93% satisfaction rating from its brokers.

The target for 2010 continues to be at least a 90% broker satisfaction level in all provinces in which the Corporation operates.

### Customer process improvement







SGI CANADA has a history of providing excellent service to its brokers, as indicated through the broker satisfaction survey results. However, competitive pressures continue to increase, and it is important to maintain and advance the corporation's competitive advantage. SGI CANADA has made a commitment to make it easier for brokers to do business with it. During 2009, SGI CANADA introduced a new eServices strategy. This strategy is a multi-year undertaking with many elements: it adds value to the broker partnership, enhances customer service, assists in attaining SGI CANADA's objectives for growth and profitability, and is an important tool for gaining efficiencies and improving productivity in both SGI CANADA's and its brokers' business processes. This broad strategy takes many forms, such as delivering high quality, valued eServices and tools to brokers. Implementation will strengthen relationships with brokers and help them quickly respond and adapt to the needs of their customers.

In 2009, SGI CANADA finalized its eServices strategy. In 2010, the Corporation is targeting a 25% increase in personal lines transactions performed online, as well as implementation of broker upload for commercial lines products and the first phase of a business intelligence program, which is discussed further under Technology in the Capability to Execute Strategies section of this report.

### People

SGI CANADA's people strategies for 2009 focused on four areas: becoming a high-performance organization in which employees understand the strategic direction and how they contribute to it; achieve their objectives and are recognized for their efforts; building employee engagement; and, growing its people talent.

Key performance indicators in the balanced scorecard to monitor the Corporation's people strategies are:

LEGEND:  achieved  did not achieve			
Measure	2009 Target	2009 Results	2010 Target
Strategic clarity index result	77.5%	 75.3%	78.5%
Recognition index result	54.0%	 53.8%	55.0%
Employee value index	72.0%	 65.2%	73.0%
Grow people talent – new hires who are designated group members	25.0%	 26.4%	25.0%

### Strategic clarity index

Strategic clarity is achieved when employees understand the strategic direction of the Corporation, they understand how their work contributes to achieving the strategic goals and they understand the progress SGI CANADA is making towards its strategic goals. The strategic clarity index measures how well employees believe SGI CANADA is achieving those three goals. At 75.3%, the 2009 score was just under the target of 77.5%.

While the result is under target, the score remains strong, demonstrating that employees' perceptions of how well they understand the corporate direction and their alignment to it are high. However, a genuine understanding of the corporate direction is important to ensure everyone in the Corporation is working toward a common outcome. This will be a key focus in 2010.

The target for 2010 is a score of 78.5%.

### Recognition index result

SGI CANADA recognizes that the achievements and efforts of employees is a key part of achieving high performance. The recognition index measures how well employees believe SGI CANADA is recognizing their efforts and achievements. Results from the 2008 employee survey were used to tabulate a benchmark recognition index score. With an index score of 53.8%, the 54.0% recognition target for 2009 was achieved.

The goal for 2010 is a score of 55.0%.

### Employee engagement

SGI CANADA recognizes that the key to achieving its goals is employing the right people and giving them a good environment to work in. Therefore, it puts emphasis on building employee engagement. Beginning in December 2006, SGI CANADA began measuring employee engagement through an employee value index survey. The result for 2009 was under its 72% target with an employee value index score of 65.2%.

In early 2010, SGI will facilitate targeted employee focus sessions to explore the survey results. The intent is to assist management with the development and implementation of specific strategies to identify and address concerns in their respective areas.

The goal for 2010 is a score of 73.0%.







### Grow people talent

Provincial and corporate demographics demonstrate the need to recruit a workforce representative of the population. SGI CANADA targeted 25% of new hires to be from designated groups and exceeded the target with 26.4%. The Corporation continues to target the recruitment of designated group members in 2010.

## Business Infrastructure

A common pillar supporting many of SGI CANADA's strategies and initiatives is business infrastructure. To build on success and deliver on goals, SGI's employees need the right infrastructure in place to support their work. To work efficiently and effectively, to be able to deliver what the business needs when the business needs it, they need the right computer systems, facilities and strong business processes. The strategies supporting Business Infrastructure aim to meet those needs.

The key performance indicators in the balanced scorecard to monitor the above initiatives are:

LEGEND:  achieved  did not achieve			
Measure	2009 Target	2009 Results	2010 Target
Availability of business systems	99.5% of designated hours of operation and implementation of a business prioritization process	 99.7% of designated hours of operation and prioritization process completed	99.5% of designated hours of operation
Manage administrative expenses	13.5%	 13.1%	12.9%
Enhance enterprise risk management process	Implement the action plan	 Approval of first phase of ERM	Implement first phase of ERM
CEO/CFO Certification	In compliance	 In compliance	n/a

### Availability of business systems

SGI CANADA needs its computer systems available in order to operate its business. This target measures SGI CANADA's success in having its computer business systems available for use by staff and brokers during specific hours of the day and for specific days of the week. For 2009, the target was exceeded. While business systems availability continues to be of high importance to maintaining operations, it will not be a measure on the 2010 balanced scorecard.

In addition, the Corporation targeted to implement its business prioritization process in 2009. The Corporation has many important initiatives ongoing, and most require systems resources. This was an important initiative towards ensuring systems resources are deployed effectively. The business prioritization process was implemented in 2009, and will continue to be used to allocate systems resources.

### Manage administrative expenses

To ensure effective use of resources, all divisions and departments in the Corporation are expected to manage their allocated administrative expense budget such that the Corporation remains within its administrative expense ratio. The administrative expense ratio is total administrative expenses expressed as a percentage of net premiums earned. The actual administrative expense ratio is compared to budget administrative expense ratios within the specified time period. For 2009, SGI CANADA exceeded its target of a 13.5% administrative expense ratio.

The target for 2010 is 12.9%.

### Enhance enterprise risk management process

Given the nature of the insurance business, risk management is a particularly important objective. The Corporation has been actively identifying, managing and prioritizing its risks for several years. Issues such as quantifying risks using actuarial modelling techniques will be explored to determine the benefits of this evolving process in risk management. In 2008, SGI CANADA completed a gap analysis on the current process. In 2009, the Corporation developed an action plan for ERM, including components and a timetable for the first implementation phase.

Implementation of this first phase is targeted for 2010.



## **CEO/CFO certification**

On an annual basis, starting in 2009, SGI CANADA's CEO and CFO will certify in the Corporation's annual report that the financial statements are accurate and that appropriate internal controls are in place over their financial reporting processes. This is a process common in public companies that the entire Crown sector in Saskatchewan is implementing. It is an important process for public sector accountability and transparency and is considered a corporate governance best practice. The project the Corporation underwent to prepare for its initial certification in 2009 was successful and the 2009 certification is included on page 42 of this annual report.

While CEO/CFO certification will remain a priority, it will not be a measure on the 2010 balanced scorecard.

## **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 16 years of employment, and the staff turnover rate for the last five years has averaged 6%. Due to this long tenure and low turnover, the Corporation has significant expertise in the core underwriting and claims handling areas of its business, as well as within its support areas. This expertise has contributed to SGI CANADA's superior loss ratio and combined ratio in the Saskatchewan market, compared to the insurance industry overall. This expertise is also crucial to its 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 31% of the Corporation's employees are expected to retire, or be eligible for retirement, by 2017. 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.

On December 31, 2009, the three-year Collective Bargaining Agreement between SGI and SGI CANADA Insurance Services Ltd., and Office and Professional Employees' Union, Local 397 (COPE 397) expired. The bargaining committee is currently in negotiations with respect to reaching a new agreement. This 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 its products through a network of 259 independent brokers who conduct business from 369 offices throughout Saskatchewan, and 248 brokers who operate 539 offices throughout the rest of Canada. In order 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 its 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 its 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. Through 2010, the Corporation will continue to implement and monitor its comprehensive eServices strategy to ensure projects are implemented on time, on budget and that they deliver specified benefits. The Corporation provides other services to ensure a strong commitment between brokers and SGI CANADA. This business model has brought the Corporation success in seven different markets in Canada, and it will continue to market its products this way, building its broker relationships into the future.



## **Technology**

SGI CANADA relies on technology and systems to maintain its in-house underwriting system. Its general insurance system is flexible and can adapt to the changing competitive environment that SGI CANADA operates in. The Corporation has developed a large database of information in this system that provides valuable information in assessing insurable risks. Management 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.

In 2009, a business intelligence project was started to further leverage the data in its general insurance system in order to produce timely, sophisticated and consistent information for the decision-making support required to succeed in a competitive environment. This is an important project for the Corporation and will expand its ability to:

- Focus on key performance indicators, ensuring alignment with corporate objectives and strategies, and a quicker response to changes in the business environment.
- Focus on obtaining more profitable business and more accurately pricing risks.
- Better manage and control claim costs.
- Have consolidated views of customers, brokers/issuers.
- Reduce the risk associated with using incomplete, inconsistent or inaccurate information.
- Allow easier access to information in a self-service reporting environment.

## **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 its 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 equity advances form the Corporation's equity capitalization. There were no new equity advances to SGI from its parent in 2009 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 target of 150% of a minimum capital test. SGI CANADA uses this test to assess its capital adequacy, as discussed in the Corporate Strategies section of this report. Management of the Corporation believes SGI CANADA and each of its subsidiaries is adequately capitalized to meet capital targets as well as to achieve targets for premium growth for the next five years.

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. This is a Canadian generally accepted accounting principle (GAAP) measurement and is reported on the Consolidated Statement of Cash Flows. For 2009, SGI CANADA generated consolidated operating cash flows of over \$68 million. This cash flow is invested so that it is available to pay claims as they come due and also to meet its 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, 2009, 44% (2008 – 41%) 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.

The Corporation's dividend policy requires that at least 65%, to a maximum of 90%, of its consolidated net income be paid as a dividend to CIC. During the current year, dividends of \$34.0 million (2008 – \$26.2 million) were declared, meeting this policy requirement. At the same time, adequate capital has been maintained within the Corporation to meet its capital targets and its financial obligations as they come due.

## 2009 Financial Results

### For the Year Ended December 31, 2009

#### Overview of operations

SGI CANADA's consolidated net income before income taxes and non-controlling interest of \$53.4 million in 2009 provided a strong pre-tax return on equity of 27.1%, compared to the \$41.0 million earned in 2008. The 2009 net income before income taxes and non-controlling interest represents the highest in SGI CANADA's history, despite a return on the investment portfolio of only 2.9%. The record profit is a result of essentially no summer storm activity in Saskatchewan in 2009, which has resulted in a very attractive consolidated combined ratio of 90.9%.

#### Pre-tax profit (loss) by operating segment

(thousands of \$)	2009	% of pre-tax profit (loss)	2008	% of pre-tax profit (loss)
SGI CANADA – Saskatchewan	\$ 49,539	92.8%	\$ 36,845	89.9%
SGI CANADA – Manitoba and Alberta	4,404	8.2%	(3,274)	(8.0%)
ICPEI (Maritimes)	205	0.4%	881	2.2%
Coachman (Ontario)	(761)	(1.4%)	6,523	15.9%
<b>Pre-tax profit</b>	<b>\$ 53,387</b>	<b>100.0%</b>	<b>\$ 40,975</b>	<b>100.0%</b>

Higher profits in Saskatchewan are primarily due to no summer storms and good experience on prior year claims. Out-of-province operations contributed \$3.8 million to pre-tax profit, primarily from Alberta and Manitoba operations. Alberta and Manitoba experienced improved claims results in 2009, resulting in underwriting profits of \$1.4 million and \$1.3 million, respectively. Coachman was the only jurisdiction to incur a net loss in 2009. The loss comes after six consecutive years of profitability for Coachman and was largely due to poor claim results due to several large house fires. In contrast to the current year results, 2008 saw strong results from Coachman, while Alberta and Manitoba experienced a net loss.

#### Premium revenue

Consolidated net premiums written in 2009 increased by \$40.5 million or 11% compared to 2008.

#### Net premiums written by operating segment

(thousands of \$)	2009	% of net premium written	2008	% of net premium written
SGI CANADA – Saskatchewan	\$ 306,531	77.8%	\$ 283,779	80.3%
SGI CANADA – Manitoba and Alberta	40,015	10.1%	31,715	9.0%
Coachman (Ontario)	29,459	7.5%	23,693	6.7%
ICPEI (Maritimes)	17,909	4.6%	14,260	4.0%
<b>Net premiums written</b>	<b>\$ 393,914</b>	<b>100.0%</b>	<b>\$ 353,447</b>	<b>100.0%</b>

Saskatchewan operations had an increase in net premiums written of 8% for the year, while out-of-province operations increased written premiums by 25% compared to the prior year. Increased property values in Saskatchewan have contributed to an overall increase of 7% in the average premium per policy. Also contributing to the premium increase was policy growth in personal products (personal lines and personal auto).

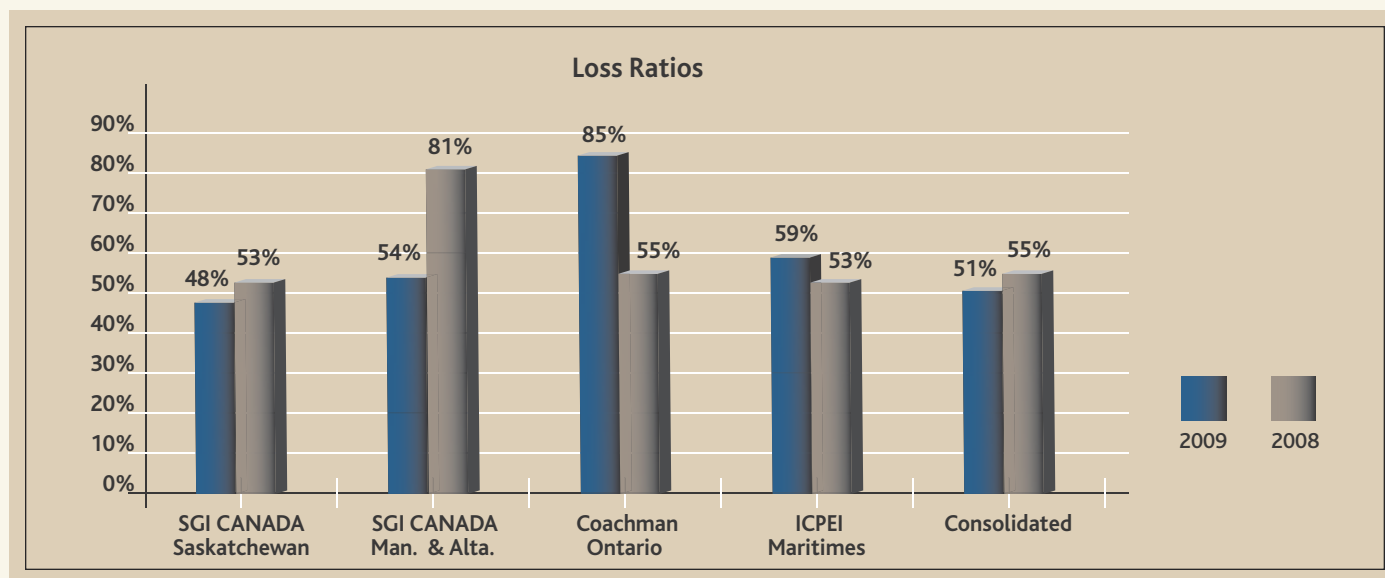
The Corporation continued to achieve strong premium growth from its newest markets of Alberta, New Brunswick and Nova Scotia, where combined net premiums written increased by 40% compared to last year. Net premiums written in the Ontario operations increased 24% in 2009, while Manitoba operations had an increase in net premiums written of 12% for the year.

When viewed from a consolidated line of business basis, the Corporation's split of business in 2009 was approximately 49% property (2008 – 47%), 42% auto (2008 – 43%) and 9% liability and other (2008 – 10%).

### Claims incurred

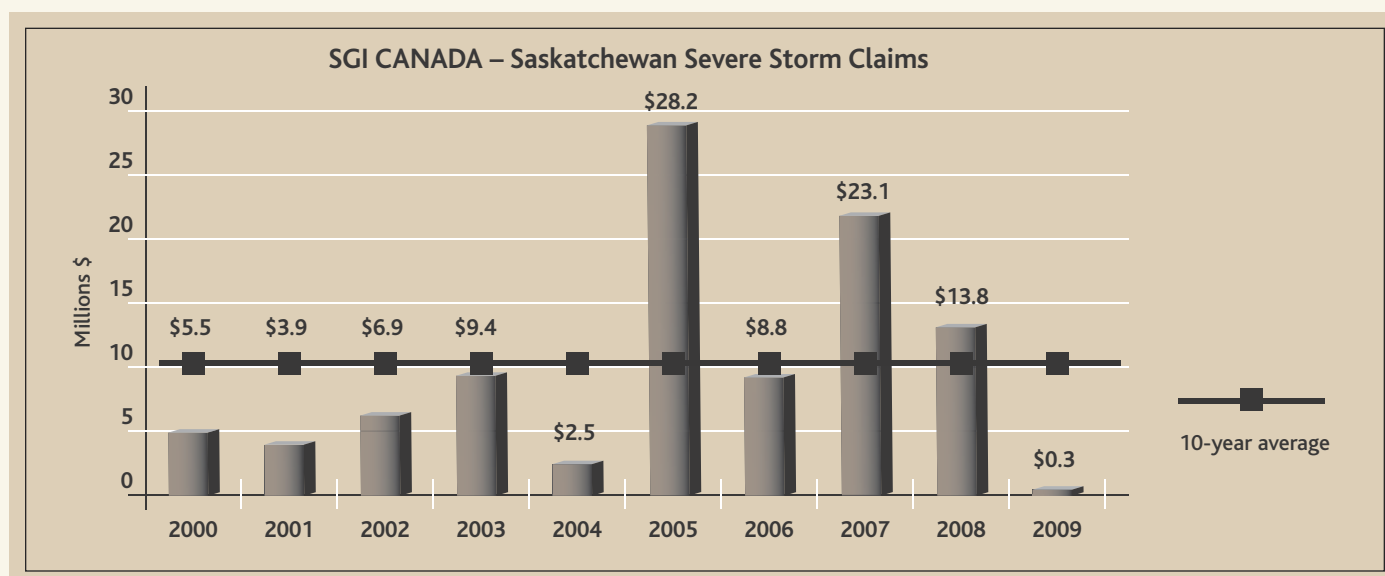
Consolidated claims incurred increased by \$4.0 million from \$185.6 million in 2008 to \$189.6 million in 2009. The modest increase is the result of higher claims incurred in Ontario, due to an abnormally high number of house fires, partially offset by lower claims from Saskatchewan operations, led by the lack of summer storms in 2009. The consolidated loss ratio of 51% decreased 4% from the 2008 level of 55%.

The following table highlights the ratio of claim costs in relation to premiums earned, commonly known as loss ratio, for each operating segment:



Claim costs related to Saskatchewan operations decreased \$5.4 million from \$145.0 million in 2008 to \$139.6 million in 2009 with a corresponding decrease in the loss ratio from 53% to 48%. The decrease was a reflection of significantly lower summer storm costs in 2009. Summer storm activity was much milder than average, with only \$252,000 reported in 2009 (2008 – \$13.8 million). In addition, there was significant favourable development on prior year claims.

The following graph shows the significance of storm claims over the past 10 years:



The graph demonstrates how 2009 appears as an anomaly over the 10-year period, and the 10-year average, at \$10.2 million, remains significant. The severe storm seasons experienced in 2005 and 2007 indicate a higher frequency of more severe storms in more recent years. While storm claims were minimal in 2009, the risk of severe summer storms continues.

The loss ratio for Manitoba and Alberta operations decreased from 81% to 54% in 2009, primarily a result of several significant fire losses in the prior year. In Alberta, the auto loss ratio is significantly lower in 2009, at 65.4% (2008 – 97.3%). The improvement is largely due to a lower accident frequency. In addition, as the removal of the minor injury cap was successfully appealed in 2009, the provision for the cap was removed in 2009 and positively impacted results.

The loss ratio for the Ontario operations increased from 55% in 2008 to 85% in 2009, primarily a result of several large house fires in the current year, as well as one severe summer storm, which caused significant basement flooding.

The loss ratio for the Maritimes operations is comparable to the prior year, as the Maritime's loss ratio increased from 53% in 2008 to 59% in 2009, primarily a result of a few large commercial claims during the year.

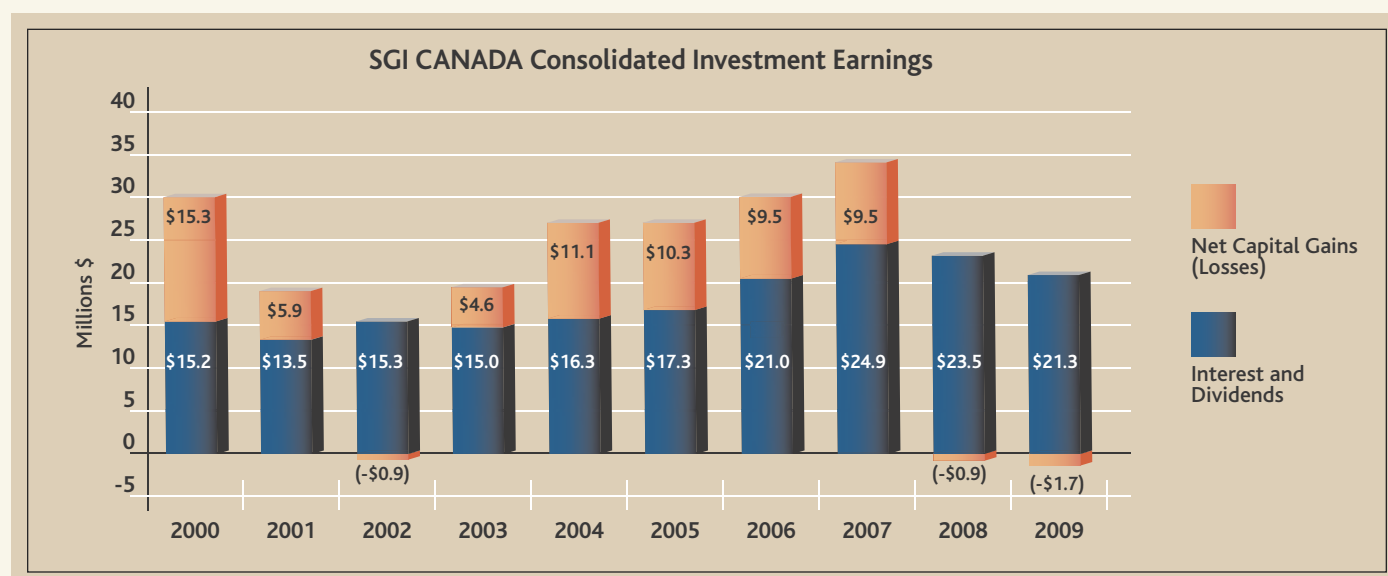
### Expenses excluding claims incurred

Other expenses of \$147.1 million increased \$15.3 million in 2009. Of this increase, \$10.7 million related to increased commissions and premium taxes. This increase was consistent with the growth in net premiums written, as there was minimal change to the commissions and premium tax ratio of 26.5% (2008 – 26.0%). Administrative expenses increased \$4.6 million in 2009, while the administrative expense ratio remained consistent with the prior year at 13.1%. The growth in administrative expenses was primarily due to higher salaries and benefits costs. Also included in the 2009 underwriting results is a \$482,000 loss related to participation in the Facility Association (2008 – \$487,000).

### Investment earnings

Investment earnings contribute significantly to net income and help minimize volatility in insurance rates. Investment earnings consist of interest and dividend income, net of investment expenses and realized gains (losses) on investments. The amount of realized gains or losses on sale of investments can fluctuate from year to year depending on the size of the unrealized gains in the portfolio, the changes in interest rates and the trading activity in the investment portfolio.

Investment earnings in 2009 of \$19.6 million were \$2.9 million lower than the previous year's earnings of \$22.5 million. Investment earnings consisted of \$21.3 million in interest and dividends (2008 – \$23.5 million), and \$1.7 million in capital losses, net of write-downs (2008 – \$924,000). The following chart shows the breakdown of investment earnings between interest and dividends, and net capital gains (losses) over the last 10 years.



The downturn in worldwide capital markets in the last half of 2008 continued into early 2009, resulting in significant unrealized loss positions in the investment portfolio to the end of the first quarter. Given the size of the losses at that time and the time necessary to recoup the losses, investment write-downs were taken, which totalled \$4.0 million in 2009 (2008 – \$5.7 million).

The market recovery that ensued for the remainder of 2009 provided a strong reversal for the Corporation's equity position with unrealized capital gains increasing by \$58.6 million for the full year. In 2009, equity markets around the globe anticipated an economic recovery and generated large gains, while falling bond yields increased bond prices, producing solid gains.

Asset Class	Benchmark Index	Annual index returns ending December 31 (%)	
		2009	2008
Canadian equities	S&P/TSX Composite	35.1	-33.0
U.S. equities	S&P 500 (\$C)	7.4	-21.2
Non-North American equities	MSCI EAFE (\$C)	11.9	-29.2
Bonds	DEX Universe Bond	5.4	6.4
Short-term bonds	DEX Short-term Bond	4.5	8.6

Equity market gains in 2009 were widespread with the TSX Composite Index increasing 35%, the S&P 500 rising 26% (7% in Canadian dollar terms) and non-North American equities, the EAFE Index, rising 25% in aggregate local currency terms (12% in Canadian dollar terms). While foreign equities markets were strong over the last nine months of 2009, the corresponding increase in the Canadian dollar limited gains for Canadian investors.

For purposes of portfolio management, a market-based rate of return 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 2009, the SGI CANADA portfolio's market-based return was 9.9% compared to a negative 2.0% in 2008. In addition, the 2009 return was ahead of the benchmark portfolio return of 9.3% by 0.6% (2008 under performed the benchmark by 0.7%). The increase in 2009 from 2008 was a result of large positive returns in each of the Canadian, U.S. and non-North American equity markets. Value added over the benchmark in 2009 of 0.6% was due to strong relative Canadian and non-North American equity returns. Similar performance trends were seen in the portfolios for SGI CANADA Insurance Services Limited, Coachman Insurance Company and Insurance Company of Prince Edward Island.

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. The investment manager is permitted to vary the actual asset class weights 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 over rolling four-year periods, investment performance remains satisfactory as illustrated in the following graph.



### 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 \$1.0 million in 2009 compared to an expense of \$471,000 in 2008. Excluding Saskatchewan operations, which are non-taxable, this results in a tax rate of 26.1%, compared to the expected tax rate of 29.5%. The primary reason for the difference in tax rates is a result of certain investment earnings that are non-taxable, partially offset by non-deductible expenses (meals and entertainment).

At December 31, 2008, SGI CANADA Insurance Services Ltd. had a \$5.5 million balance of non-capital tax loss carry-forwards. As a result of strong underwriting results and the strong market value return on investments, the tax loss carry-forwards were used in their entirety during 2009.

### Consolidated Statement of Comprehensive Income

(thousands of \$)	2009	2008	Change
Net income	\$ 52,367	\$ 40,351	\$ 12,016
Other comprehensive income (loss)	30,151	(25,327)	55,478
<b>Total comprehensive income</b>	<b>\$ 82,518</b>	<b>\$ 15,024</b>	<b>\$ 67,494</b>

Comprehensive income is the sum of net income and other items that must bypass the statement of operations because they have not been realized (other comprehensive income or loss). For the Corporation, this includes unrealized gains and losses from available for sale investments. These unrealized gains and losses are not part of net income, yet are important enough to be included in comprehensive income, giving the user a more comprehensive picture of the organization as a whole.

In 2009, other comprehensive income added \$30.2 million to net income for total comprehensive income of \$82.5 million. Other comprehensive income improved \$55.5 million over 2008. This improvement is a result of the market recovery that occurred during 2009, which resulted in a significant increase in the market value of the investment portfolio.

## Consolidated Statement of Cash Flows

(thousands of \$)	2009	2008	Change
Operating activities	\$ 68,432	\$ 59,394	\$ 9,038
Investing activities	(44,564)	(52,734)	8,170
Financing activities	(19,247)	(29,355)	10,108
<b>Change in cash and cash equivalents</b>	<b>\$ 4,621</b>	<b>\$ (22,695)</b>	<b>\$ 27,316</b>

### Operating activities

Cash from operations contributed \$68.4 million in 2009 compared to \$59.4 million in 2008. The increase in cash generated from operations is a result of growth in premiums written in Saskatchewan, Alberta and the Maritimes, partially offset by corresponding growth in claims paid and higher commissions and premium taxes paid.

### Investing activities

Each legal entity's excess cash from operating activities is invested in its own investment portfolio. The investment manager actively trades each investment portfolio in the capital markets following the conditions set out in each legal entity's Statement of Investment Policies and Goals. For 2009, the investment manager purchased investments on a consolidated basis worth \$464.9 million (2008 – \$616.8 million) and received proceeds from the sale of investments of \$419.9 million (2008 – \$563.4 million), resulting in a consolidated net purchase of investments of \$45.0 million (2008 – \$53.4 million).

### Financing activities

Financing activities during the year related solely to dividends paid during the year of \$19.2 million (2008 – \$29.4 million). The Corporation's dividend policy is to pay between 65% and 90% of the Corporation's consolidated net income for the year as a dividend to CIC.

### Cash and cash equivalents

Of the \$68.4 million of cash generated from operations, \$44.6 million was invested, \$19.2 million was used to pay dividends and the remaining \$4.6 million is included with cash and cash equivalents at the end of the year.

## Consolidated Statement of Financial Position

(thousands of \$)	2009	2008	Change
<b>Total assets</b>	<b>\$ 827,437</b>	<b>\$ 717,345</b>	<b>\$ 110,092</b>
Key asset account changes:			
Investments	579,730	506,114	73,616
Accounts receivable	125,334	98,528	26,806
Deferred policy acquisition costs	52,412	47,662	4,750
Cash and cash equivalents	16,920	12,299	4,621
Unpaid claims recoverable from reinsurers	29,626	26,455	3,171



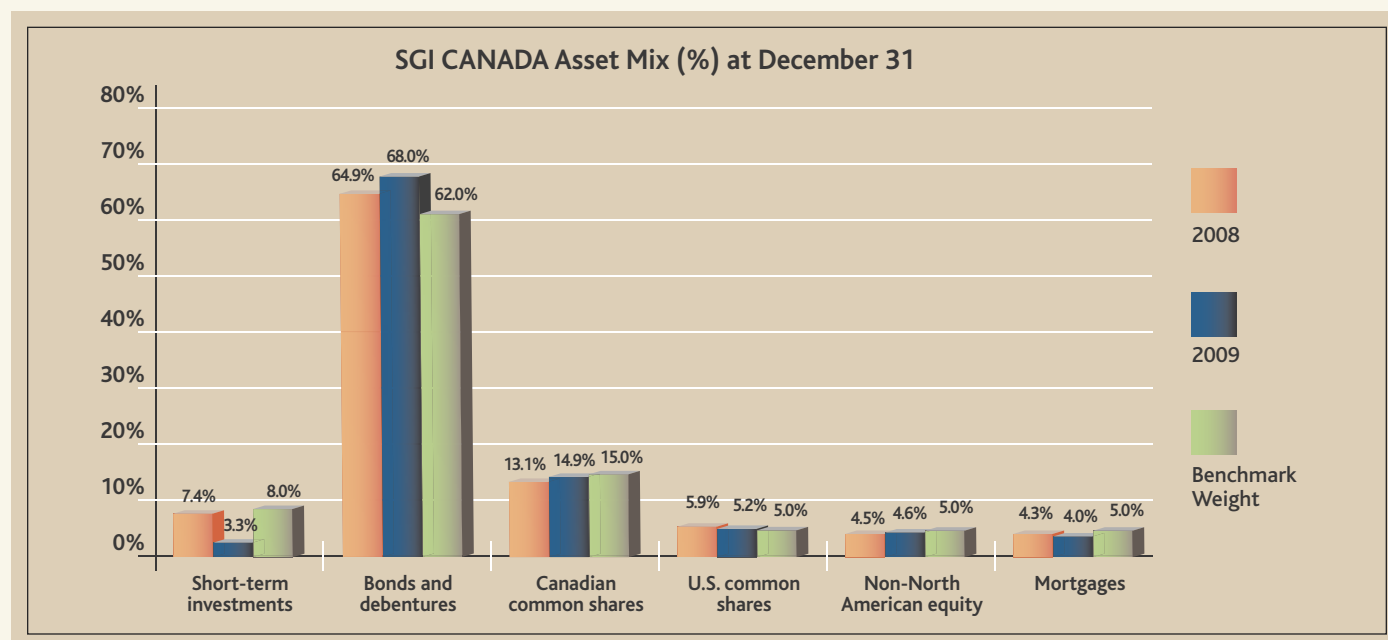
## Investments

The carrying value of investments increased by \$73.6 million during the year, primarily a result of investing positive operating cash flows of \$68.4 million during the year. In addition, 2009 experienced growth in net unrealized gains of \$30.4 million. Partially offsetting this was the payment of dividends of \$19.2 million.

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 2009, volatility continued, with strong gains reversing some of the losses experienced in 2008. The 2009 returns demonstrated that the 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 2009.

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 equities. 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.



The investment policy review in 2009 resulted in no changes to the policy asset mix guidelines or the benchmark portfolio weights.

## Accounts receivable

Accounts receivable increased \$26.8 million in 2009, largely as a result of an increase in amounts due from customers and brokers, and a direct result of increased premium volumes. In addition, there are investment proceeds receivable of \$12.3 million related to investment transactions in progress at year-end. Amounts recoverable on claims paid also increased \$3.9 million, primarily from one significant (\$3.2 million) claim recovery outstanding at the end of the year.



### Deferred policy acquisition costs

Deferred policy acquisition costs increased \$4.8 million during the year. The increase is due to an increase in prepaid commissions and prepaid premiums, a direct result of increased premium volume.

### Cash and cash equivalents

Cash and cash equivalents at December 31, 2009, was \$16.9 million (2008 – \$12.3 million), an increase of \$4.6 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 less from the date of acquisition.

### Unpaid claims recoverable from reinsurers

Unpaid claims recoverable from reinsurers increased \$3.2 million in 2009, primarily due to one very large Ontario auto claim, which remained unpaid at December 31, 2009, with over \$3.0 million recoverable from external reinsurers.

(thousands of \$)	2009	2008	Change
<b>Total liabilities</b>	<b>\$ 599,246</b>	<b>\$ 537,650</b>	<b>\$ 61,596</b>
<b>Non-controlling interest</b>	<b>1,879</b>	<b>1,862</b>	<b>17</b>
Key liability account changes:			
Unearned premium	218,893	195,541	23,352
Accounts payable and accrued liabilities	39,476	23,287	16,189
Dividend payable	22,199	7,407	14,792
Provision for unpaid claims	293,575	287,103	6,472

### Unearned premiums

Unearned premiums increased \$23.4 million during the year, a result of increased premium volume. Of the increase, 56% (2008 – 57%) related to premium growth from Saskatchewan and 44% (2008 – 43%) related to out-of-province business. Alberta's premium growth in 2009 contributed \$6.7 million, or 29%, of the increase in consolidated unearned premiums.

### Accounts payable and accrued liabilities

Accounts payable and accrued liabilities increased \$16.2 million, primarily a result of a \$13.3 million payable related to investment transactions in progress at year-end.

### Dividends payable

Dividends payable to Crown Investments Corporation (CIC) are \$14.8 million higher at the end of 2009 compared to the end of 2008. This was primarily due to not paying a second quarter dividend due to reforecasted investment earnings that suggested it wasn't prudent at that time.

### Provision for unpaid claims

This liability reflects the estimated ultimate costs of claims reported but not settled, along with claims incurred but not reported. The December 31, 2009, provision for unpaid claims increased \$6.5 million, or 2.3%, from the end of last year. The modest increase is a result of the growth in policy base being largely offset by the milder Saskatchewan summer storm season and reserve reductions from favourable developments on prior year claims in 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.

(thousands of \$)	<u>2009</u>	<u>2008</u>	<u>Change</u>
<b>Province of Saskatchewan's equity</b>	<b>\$ 226,312</b>	<b>\$ 177,833</b>	<b>\$ 48,479</b>
Key equity account changes:			
Accumulated other comprehensive income (loss)	19,833	(10,318)	30,151
Retained earnings	126,479	108,151	18,328

### **Accumulated other comprehensive income (loss) (AOCI)**

AOCI represents the unrealized gains or losses recorded on available for sale investments (net of tax). For the Corporation, this includes its entire investment portfolio, excluding investments accounted for on the equity basis. AOCI increased significantly during the year (\$30.2 million) due to the capital market recovery over the course of 2009.

### **Retained earnings**

The increase in retained earnings is attributable to the \$52.4 million consolidated net income less the annual dividend to CIC of \$34.0 million. The Corporation's dividend was 65% of net income, consistent with its dividend policy.

### **For the Three Months Ended December 31, 2009**

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](http://www.sgicanada.ca). The following is the Corporation's analysis of the 2009 fourth quarter results:

SGI CANADA recorded consolidated net income of \$15.0 million for the fourth quarter (2008 – \$9.4 million). The increase in net income was primarily attributable to an increase in investment earnings for the quarter.

Consolidated net premiums earned increased \$9.9 million, or 11.2%, compared to the fourth quarter of 2008. The increase in net premiums earned was primarily due to growth in the Saskatchewan and Alberta markets.

Claims incurred were \$49.1 million for the fourth quarter of 2009, \$6.0 million, or 13.8%, higher than 2008. A significant contribution to the increase in the quarter were claim costs from Saskatchewan and Ontario, which increased \$5.4 million and \$2.8 million, respectively, compared to the prior year. The \$5.4 million increase in the Saskatchewan claim costs is partly due to a few very large agro claims reported late in the year. The \$2.8 million increase in Ontario claim costs is primarily due to the continuing industry-wide deterioration of the Ontario auto market.

Other expenses for the fourth quarter of 2009, excluding claims incurred, were \$40.7 million, \$4.7 million more than in 2008. The most significant increase relates to commissions and premium taxes of \$27.9 million (2008 – \$23.4 million) for the quarter. The increase in commissions and premium taxes corresponded with the growth in premiums written.

Also included in the fourth quarter underwriting results in 2009 is a \$64,000 profit related to participation in the Facility Association, while participation in the Facility Association for the fourth quarter of 2008 resulted in a loss of \$516,000.

## Quarterly Consolidated Financial Highlights

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

(thousands of \$)	2009					2008				
	Q 4	Q 3	Q 2	Q 1	Year	Q 4	Q 3	Q 2	Q 1	Year
Net premiums earned	98,166	94,468	90,477	87,444	370,555	88,282	85,651	81,989	79,967	335,889
Claims incurred	49,136	56,912	42,956	40,607	189,611	43,171	63,593	43,139	35,689	185,592
Net income (loss)	15,045	6,431	17,659	13,232	52,367	9,430	(6,442)	15,747	21,616	40,351
Cash flow from (used in) operations	33,361	18,897	25,208	(9,034)	68,432	34,163	11,937	20,834	(7,540)	59,394
Investments	579,730	566,248	519,335	489,212		506,114	484,208	490,130	463,205	
Provision for unpaid claims	293,575	289,608	277,681	280,737		287,103	289,579	276,175	278,721	
Minimum Capital Test	254%	273%	265%	232%		228%	234%	282%	283%	

The following points are intended to assist the reader in analyzing trends in the quarterly financial highlights for 2009:

- Net premiums earned increase each quarter during the year, as can be seen in the quarterly results for both 2009 and 2008.
- Claims incurred typically peak in both the second and third quarters due to summer hailstorms and flooding that can occur in Saskatchewan and Manitoba. In 2009, there was only \$252,000 in summer storm claims. In comparison, 2008 summer storms resulted in \$13.8 million on claims costs, with 2,237 reported claims. As such third-quarter claims were lower in 2009 than 2008.
- The Corporation typically generates positive cash flows from operations each quarter, except for the first. In the first quarter of each year, there is a negative cash flow that is a result of higher payments for claims from the prior year's storms and the payment of annual premium taxes.

## Impact of New Accounting Standards

### Current year accounting standard changes

During the year, the Canadian Institute of Chartered Accountants (CICA) expanded required disclosures related to the reliability of fair value measures. The new disclosure introduces a three-level fair value hierarchy that demonstrates the reliability of information used in estimating the fair value of financial instruments.

The fair values for the three levels are based on:

- Level 1 – quoted prices in active markets.
- Level 2 – models using observable inputs other than quoted market prices.
- Level 3 – models using inputs that are not based on observable market data.

Note 5 of the financial statements discloses the fair value hierarchy for SGI CANADA. All of the investments held by SGI, except the mortgage pooled fund, preferred shares and investments accounted for on the equity basis, are measured at fair value using quoted market prices from active markets, which is the highest level of reliability of fair values.

The mortgage pooled fund does not have quoted market prices to base fair value on. Its fair value is based on the market values of the underlying mortgage investments, calculated by discounting scheduled cash flows through to the estimated maturity of the mortgage using interest rates that reflect the term and credit risk associated with the mortgage. Its estimate of fair value is considered a Level 2 reliability.

The fair value hierarchy is not applicable to the preferred shares, as they are carried at cost, or the investments accounted for on the equity basis, as they are recorded using the equity method.

### Future accounting standard changes

In February 2008, the CICA Accounting Standards Board confirmed that publicly accountable enterprises, including the Corporation and its subsidiaries, will be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian generally accepted accounting principles (GAAP) for interim and annual reporting in fiscal years beginning on or after January 1, 2011, including comparative figures. The Corporation is considered to be a government business enterprise and therefore the Corporation and its subsidiaries are proceeding with the adoption of IFRS.

The Corporation has an IFRS conversion project ongoing that began with the development of a high-level IFRS implementation plan. The plan includes stakeholder identification, milestones and deadlines, planned scope and approach, risks and mitigations, project governance and accountability responsibilities and resource requirements. A Steering Committee is in place that includes senior level management who have the responsibility to ensure the project is adequately planned in sufficient detail, appropriate resources are available, necessary milestones are established and project progress is properly monitored. An external advisor has been engaged to assist with the conversion project. Regular reporting is provided by the project team to senior management, the Steering Committee and the Audit and Finance Committee of the Board of Directors.

The IFRS conversion project is progressing on schedule, in accordance with the plan. The project consists of four phases: Project Initiation and Initial Assessment, Detailed Assessment, Design and Execution. The Corporation has completed the Project Initiation and Initial Assessment stage, which involved a high-level preliminary assessment of the differences between Canadian GAAP and IFRS and the potential impacts of IFRS to accounting and reporting processes, approval of the project charter and a high-level project plan, and the development of an IFRS training plan.

The Initial Assessment, completed in the first quarter of 2009, provided insight as to the most significant differences applicable to the Corporation, which include insurance contract classification and measurement, first-time adoption, financial instruments, property, plant and equipment, joint ventures, employee future benefits, consolidation and minority interest, provisions and leases, as well as the more extensive presentation and disclosure requirements under IFRS.

During the Detailed Assessment, completed in the fourth quarter of 2009, the Corporation selected IFRS accounting policies, made transitional elections and identified any information technology system requirements. This phase of the project was completed December 31, 2009.

Set out below are the key areas where changes in accounting policies are expected to impact the Corporation's consolidated financial statements. The list and comments below should not be regarded as a complete list of all changes that will result from the transition to IFRS. The list is intended to highlight those areas believed to have the most significant financial impact to the Corporation at the time of writing this report.

### ***Employee benefits***

The Corporation plans to utilize an election to recognize all cumulative actuarial gains and losses existing at the date of transition immediately in retained earnings. In addition, vested past service costs are required to be expensed immediately under IFRS, whereas these costs were deferred and amortized under Canadian GAAP. This change in accounting policy will also be adjusted at the date of transition through retained earnings.

On a go-forward basis, actuarial gains and losses are permitted to be recognized using one of three options: the corridor method, immediately through profit or loss or in other comprehensive income. The Corporation plans to continue to recognize actuarial gains/losses using the corridor method.

### ***Financial instruments***

Financial instruments require that financial assets classified as available for sale be tested for impairment at each reporting date. The Corporation is currently assessing the impact of transitioning to IFRS on the Corporation's impairment policy for investments.

## **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 17 of the consolidated financial statements. Details of other significant related party transactions disclosed in the consolidated financial statements follow.

SGI CANADA is 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. Amounts incurred by SGI CANADA and charged to the Auto Fund were \$112.4 million (2008 – \$104.7 million).

The Corporation, as the lessor, has an interest in a capital lease in Prince Albert, Saskatchewan with the Ministry of Government Services, a provincial government ministry. This lease expires in April 2011. Further details of this lease are provided in Note 7 to the consolidated financial statements.

The Corporation has direct premiums that are brokered through Charlie Cooke Insurance Agency Ltd. (CCIA), pays loss adjustment fees to Atlantic Adjusting & Appraisals Ltd. and has premiums financed for policyholders by Maritime Finance & Acceptance Corporation. These companies are affiliated with the minority shareholder of ICPEI, who is a member of ICPEI's senior management. The policies written and the loss adjustment expenses paid are routine operating transactions in the normal course of business. Details of the transactions and amounts outstanding are included in Note 17 to the consolidated financial statements.

In 2007, the Corporation provided CCIA a \$450,000 loan for the purpose of purchasing a brokerage. The terms of the agreement provide for repayment in six annual instalments of \$75,000 and require CCIA to maintain minimum premium limits. At December 31, 2009, the loan is recorded at its amortized cost of \$268,000 (2008 – \$326,000), calculated by discounting the scheduled instalments at an interest rate that reflects the term and credit risk associated with the loan. During the year, \$75,000 (2008 – \$75,000) was repaid and interest revenue of \$17,000 (2008 – \$20,000) was recorded through investment earnings.

One Board member owns an organization that sells insurance policies of the Corporation. Premiums written during the year from this organization amounted to \$4.4 million (2008 – \$4.2 million) and the associated accounts receivable at December 31, 2009 was \$887,000 (2008 – \$932,000). Commissions related to these premiums were \$792,000 (2008 – \$843,000). The above noted transactions are routine operating transactions in the normal course of business.

## Off-Balance Sheet Arrangements

SGL 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 8 and 21 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, 2009, was \$49.5 million (2008 – \$50.7 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 2012. At December 31, 2009, the remaining commitment under these contracts was \$2.4 million (2008 – \$243,000). The Corporation is also committed until 2011 for a systems support contract. At December 31, 2009, the remaining commitment is \$688,000. Each subsidiary is committed to leases on their office premises. Annual commitments related to these leases range between \$34,000 to \$446,000 over the next five years.

## 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 Canadian GAAP, as recommended by the Canadian Institute of Chartered Accountants. Significant accounting policies are contained in Note 2 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, and 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, impairment of investments, reinsurance, income taxes and employees' 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 (IBNR) 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 time frame 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. As permitted by Canadian GAAP, the Corporation only discounts long-term disability claims included in this provision. 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.

## Impairment of investments

When the market value of an investment falls below its cost, accounting standards require an assessment of whether the impairment in value is temporary or other than temporary. If it is determined that the impairment is other than temporary, the investment must be written down to market value. Management performs a quarterly analysis of investment holdings to determine if declines in market value of a particular investment are other than temporary. This analysis includes:

- Identifying all security holdings in an unrealized loss position that have existed for at least 12 months.
- Evaluating the size of the loss, both in percentage and absolute dollar terms relative to the market outlook for the security.
- For debt securities, evaluating the credit ratings from third-party security rating agencies or evaluating any change in payments on the security.

Investments are written down to market value if it is determined that the loss is other than temporary, or if the investment manager has plans for disposition of the security in the near term.

## Reinsurance

Reinsurance recoverable includes amounts for expected recoveries related to claim liabilities, as well as the portion of the reinsurance premium that has not yet been earned. The cost of reinsurance is accounted for over the terms of the underlying reinsurance policies using assumptions consistent with those used to account for the policies. 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.

## 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 future tax assets and liabilities and the valuation of future income tax assets.

Management makes assumptions regarding the value of future 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 future 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. The financial impact of changing these assumptions, along with actual experience being different from the assumptions, is reflected in 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 16 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, in the absence of any controls, and severity of the consequences if it did occur. Mitigating factors for each risk are then identified.

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

The following risks represent the most serious threat 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.

### Financial markets

**Risk:** The market value of the investment portfolio fluctuates widely, negatively impacting investment earnings and the capital base.

**Mitigation:** Investment portfolio management is governed by the Statement of Investment Policies and Goals (SIP&G), which sets out specific investment quality and quantity guidelines that are in line with industry standards as defined by *The Insurance Companies Act* (Canada). The SIP&G is reviewed annually by the Investment Committee of SGI CANADA's Board of Directors, to ensure portfolio risk is acceptable based on both historical and forward-looking volatility. Portfolios are monitored externally by the investment consultant and custodians to ensure compliance with the policy guidelines and investment performance standards.

### Claims provisions

**Risk:** SGI CANADA is unable to forecast future claims accurately, resulting in inappropriate pricing decisions and a possible drain on the capital position of the corporation. Further, the use of inaccurate data in the claim forecasting process may lead to the misstatement of financial results.

**Mitigation:** In-house actuarial claims valuations are conducted and reviewed with senior management three times per year. A committee of senior management also reviews significant claims twice annually. Actuarial claims valuations are reviewed annually by an independent actuary hired as part of the external audit process. In addition, SGI CANADA created an Actuarial Pricing department in 2008 to place a higher priority on product pricing. Appropriate controls are maintained regarding the completeness and accuracy of data used in actuarial valuations.

### Losses from diversification

**Risk:** Due to their start-up status and relatively small policy base, SGI CANADA's diversification initiatives are vulnerable to market fluctuations and the effects of major claims. Significant losses by SGI CANADA's diversification operations may not be acceptable.

**Mitigation:** To reduce the risk of poor operating results in markets outside the province, premium levels are based on sustainable profitability, rather than aggressive premium growth. As well, investment policies and reinsurance programs are more conservative than for Saskatchewan operations.

## **Recruitment, retention and engagement**

**Risk:** Without a talented, experienced and motivated workforce, SGI CANADA will not be able to meet its business objectives.

**Mitigation:** SGI CANADA has implemented many programs in this area, including competency-based recruitment, support for training and succession planning. Workplace engagement is monitored through an employee value index and support is provided for employee recognition through training and funding. Competitors' salaries and benefits are monitored and employee turnover is analyzed using exit interviews.

## **Privacy**

**Risk:** SGI CANADA is unable to safeguard the personal, financial and medical information of its customers. Inappropriate or unauthorized use of data by employees, entities with approved access to certain SGI CANADA systems or third parties would likely result in adverse legal and financial consequences, as well as a loss of confidence by customers and the shareholder.

**Mitigation:** To safeguard data, SGI CANADA screens employees who handle sensitive data, tracks employee use of information and restricts access to systems. The Corporation has also implemented industry standards for handling payment card information. Under the Records Management project, SGI CANADA is developing a framework for storage, retention and disposal of all electronic and paper-based data.

## **Responsiveness to business needs**

**Risk:** SGI CANADA is unable to make timely changes to business systems (software, policies and procedures, or controls), resulting in a loss of competitiveness or an inability to meet the increasing requirements of customers, regulators or the shareholder.

**Mitigation:** SGI CANADA's business systems are operated by an experienced, capable workforce, and a planning and project prioritization process is in place to improve response times. In addition, beginning in 2010, the Corporation will be undertaking a business intelligence project designed to access corporate data more effectively.

## **System availability and integrity**

**Risk:** SGI CANADA is unable to access critical systems and data, resulting in lost revenue, delayed services and unhappy customers. System unavailability can result from power, equipment or application failures; data can be corrupted by system failures, or by internal or external sabotage.

**Mitigation:** SGI CANADA's Corporate Information Security Policy provides the security principles applicable to the use of corporate information system assets, and security standards have been developed based on these principles to guide day-to-day operations. To deal with major system disruptions, disaster recovery plans are in place and are tested regularly. To facilitate disaster recovery, SGI CANADA operates two production computing sites. Each of these sites has the capability to run SGI CANADA's entire computing environment should the other site become unavailable.

## **Outlook for 2010**

While 2009 represents the highest net income in SGI CANADA's history, the Corporation experienced challenges in many of its markets, consistent with industry-wide experience. Personal property results suffered in most jurisdictions across the country, while the Ontario automobile market also experienced poor underwriting results. The Corporation expects to continue to face many underwriting challenges throughout 2010.

Following the significant downturn in worldwide capital markets in 2008, the Corporation realized a strong recovery in 2009. Although the investment portfolio continued to incur some losses during the year, market values have generally recovered from their depressed values. While continued market volatility is likely in 2010, the Corporation plans to maintain its well diversified investment portfolio and prudent investment management policies and processes. Improved investment results will be important as the Corporation faces a challenging underwriting environment in 2010.



Saskatchewan operations had record underwriting profits in 2009; however, this was primarily a result of minimal summer storms during the year. Saskatchewan operations always face a significant risk of severe summer storms resulting in increased claim costs. Recent years have seen an increase in the frequency and severity of storms, and this trend is expected to continue. The Corporation will continue to focus on improving insurance to value related to its property risks. Barring significant storm activity in 2010, SGI CANADA expects another strong year of profitability from its Saskatchewan operations.

The Ontario marketplace continued to harden in 2009, as deteriorating loss ratios were seen on all products. This deterioration is expected to result in upward pressure on both personal property and automobile rates in 2010. In addition, the impact of automobile reform in Ontario remains uncertain and it is not clear whether the reforms will assist with improving auto underwriting profitability.

Maritime operations in 2010 will be focused on improving on the 2009 personal lines results, through continued focus on underwriting discipline and rate actions to return to underwriting profitability. Growth in the recent diversification jurisdictions of New Brunswick and Nova Scotia is expected to continue, albeit at a controlled pace that allows the Corporation to maintain its underwriting discipline and provide strong service to its brokers. The Corporation benefits from senior management with a sound understanding of the Maritime market and its presence as a local insurer with local management is viewed favourably within the Maritime market.

Alberta experienced strong premium growth and underwriting profitability during 2009. In 2010, the focus will be on growth in Alberta that is both profitable and balanced in order to achieve appropriate diversification of risk. Manitoba also provided solid premium growth in 2009 for an established market, and good underwriting profitability. In both Alberta and Manitoba, there will be a continuing focus on broker management and providing excellent customer service to the brokers. The Corporation will also remain focused on diligently managing its claims in order to maintain costs, while providing customers with excellent customer service.

In February 2008, the Alberta Court of Queen's Bench ruled that the entire Minor Injury Regulation 123/04 was null and void. This ruling removed the \$4,000 cap on soft tissue injuries that was enacted in October 2004 in Alberta. During 2009, this ruling was successfully appealed. While an attempt was made to have this case heard by the Supreme Court of Canada, the Supreme Court denied leave to appeal the decision. With the cap reinstated, this should lessen some of the uncertainty regarding automobile injury costs in Alberta going forward. The appeal court in Nova Scotia also upheld the injury cap in Nova Scotia. As such, it appears that removal of the minor injury caps in the Maritime provinces is becoming more remote as well.

Effective use of technology will be an important focus in 2010 for the Corporation. Elements of the Corporation's eServices strategy will be implemented in 2010 with an objective towards gaining efficiencies and improving productivity in both the Corporation's and its brokers' business processes, and adding value to the broker partnership. In addition, work will begin on a project which will leverage data for decision making towards obtaining more profitable business, more accurately pricing risks and better managing and controlling of claim costs.

While the Corporation will continue to face many challenges in 2010, it will remain focused on strong underwriting fundamentals and providing outstanding customer service to its brokers.

## Responsibility for Financial Statements

The consolidated financial statements are the responsibility of Management and have been prepared in conformity with accounting principles generally accepted in Canada. 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, KPMG 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 Auditors' Report outlines the scope of their examination and their opinion.



Andrew R. Cartmell  
President and Chief Executive Officer



Don Thompson  
Chief Financial Officer

February 24, 2010

## Annual Statement of Management Responsibility

I, Andrew Cartmell, President and Chief Executive Officer, and I, Don Thompson, 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, 2009.
- 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, 2009 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



Don Thompson  
Chief Financial Officer

February 24, 2010

## Actuary's Report

To the Board of Directors of  
Saskatchewan Government Insurance

I have valued the policy liabilities of SGI CANADA for its consolidated statement of financial position at December 31, 2009 and their change in the consolidated statement of operations for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods, except as described in the following paragraph.

In accepted actuarial practice, the valuation of policy liabilities reflects the time value of money. Management required that the valuation of some policy liabilities not reflect the time value of money, which is permissible under Canadian generally accepted accounting principles for financial reporting purposes. My valuation complies with that practice.

In my opinion, except as noted in the previous paragraph, the amount of policy liabilities makes appropriate provision for all policyholder obligations, and the consolidated financial statements fairly present the results of the valuation.



Cara Low  
Assistant Vice-President, Corporate Actuary  
Saskatchewan Government Insurance  
Fellow, Canadian Institute of Actuaries

February 24, 2010

# Auditors' Report

To the Members of the Legislative Assembly  
Province of Saskatchewan

We have audited the consolidated statement of financial position of Saskatchewan Government Insurance as at December 31, 2009 and the consolidated statements of operations, comprehensive income, changes in Province of Saskatchewan's equity and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada

February 24, 2010

# Consolidated Statement of Financial Position

December 31

2009

2008

(thousands of \$)

## Assets

Cash and cash equivalents (note 3)  
Accounts receivable (note 4)  
Deferred policy acquisition costs  
Reinsurers' share of unearned premiums  
Future income taxes (note 12)  
Investments (note 5)  
Unpaid claims recoverable from reinsurers  
Property, plant and equipment (note 6)  
Other assets (note 7)

\$	16,920	\$	12,299
	125,334		98,528
	52,412		47,662
	9,480		9,897
	1,406		2,613
	579,730		506,114
	29,626		26,455
	8,746		9,336
	3,783		4,441
<b>\$</b>	<b>827,437</b>	<b>\$</b>	<b>717,345</b>

## Liabilities

Accounts payable and accrued liabilities  
Dividend payable  
Premium taxes payable  
Amounts due to reinsurers  
Unearned reinsurance commissions  
Unearned premiums  
Provision for unpaid claims (note 8)

\$	39,476	\$	23,287
	22,199		7,407
	17,474		15,908
	4,578		5,388
	3,051		3,016
	218,893		195,541
	293,575		287,103
	<b>599,246</b>		<b>537,650</b>

## Non-controlling interest

	<b>1,879</b>		<b>1,862</b>
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## Province of Saskatchewan's equity

Equity advances (note 9)  
Retained earnings  
Accumulated other comprehensive income (loss)

	80,000		80,000
	126,479		108,151
	19,833		(10,318)
	<b>226,312</b>		<b>177,833</b>
<b>\$</b>	<b>827,437</b>	<b>\$</b>	<b>717,345</b>

Commitments and contingencies (note 21)

(see accompanying notes)

On behalf of the Board:



Warren Sproule, Q.C.  
Chair, Board of Directors



Anne M. Lavack  
Director



# Consolidated Statement of Operations

year ended December 31	2009	2008
	(thousands of \$)	
Gross premiums written	\$ 421,090	\$ 380,824
Net premiums written	\$ 393,914	\$ 353,447
<b>Net premiums earned</b>	<b>\$ 370,555</b>	<b>\$ 335,889</b>
Claims incurred	189,611	185,592
Commissions	80,466	71,311
Administrative expenses	48,610	44,009
Premium taxes	17,571	16,056
Facility Association participation (note 19)	482	487
<b>Total claims and expenses</b>	<b>336,740</b>	<b>317,455</b>
<b>Underwriting profit</b>	<b>33,815</b>	<b>18,434</b>
Investment earnings (note 11)	19,572	22,541
<b>Income before income taxes and non-controlling interest</b>	<b>53,387</b>	<b>40,975</b>
Income taxes (note 12)	1,003	471
<b>Income after income taxes and before non-controlling interest</b>	<b>52,384</b>	<b>40,504</b>
Non-controlling interest	17	153
<b>Net income</b>	<b>\$ 52,367</b>	<b>\$ 40,351</b>

(see accompanying notes)

# Consolidated Statement of Comprehensive Income

year ended December 31

2009

2008

(thousands of \$)

**Net income**

\$ 52,367

\$ 40,351

**Other comprehensive income (loss), net of income taxes:**

Net unrealized income (loss) on available for sale

financial assets arising during the year

30,414

(28,201)

Income tax recovery (expense)

(2,288)

1,610

28,126

(26,591)

Reclassification of net realized gains

on sale of investments included in net income

(2,272)

(4,741)

Reclassification for investment write-downs

included in net income

3,965

5,665

Income tax expense

332

340

2,025

1,264

**Other comprehensive income (loss)**

30,151

(25,327)

**Comprehensive income**

\$ 82,518

\$ 15,024

(see accompanying notes)

## Consolidated Statement of Changes in Province of Saskatchewan's Equity

year ended December 31

2009

2008

(thousands of \$)

### Equity advances

**Balance, end of year**

**\$ 80,000**

**\$ 80,000**

### Retained earnings

Balance, beginning of year

\$ 108,151

\$ 94,028

Net income

52,367

40,351

Dividend

(34,039)

(26,228)

**Balance, end of year**

**\$ 126,479**

**\$ 108,151**

### Accumulated other comprehensive income (loss)

Balance, beginning of year

\$ (10,318)

\$ 15,009

Other comprehensive income (loss)

30,151

(25,327)

**Balance, end of year**

**\$ 19,833**

**\$ (10,318)**

**Total Province of Saskatchewan's equity**

**\$ 226,312**

**\$ 177,833**

(see accompanying notes)

# Consolidated Statement of Cash Flows

year ended December 31

2009

2008

(thousands of \$)

## Cash provided by (used for):

### Operating activities

Net income	\$ 52,367	\$ 40,351
Non-cash items:		
Amortization	2,646	1,596
Net realized gain on sale of investments	(2,272)	(5,345)
Future income taxes	1,207	673
Investment write-downs	3,965	5,665
Non-controlling interest	17	153
Income from investments accounted for on the equity basis	(206)	(187)
Change in non-cash operating items (note 15)	10,708	16,488

68,432

59,394

### Investing activities

Purchases of investments	(464,894)	(616,745)
Proceeds on sale of investments	419,856	563,360
Repayment of capital lease	488	442
Disposals (purchases) of property, plant and equipment	(14)	209

(44,564)

(52,734)

### Financing activities

Dividends paid	<u>(19,247)</u>	<u>(29,355)</u>
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### Increase (decrease) in cash and cash equivalents

4,621

(22,695)

Cash and cash equivalents, beginning of year

12,299

34,994

Cash and cash equivalents, end of year

\$ 16,920

\$ 12,299

### Supplemental cash flow information:

Income taxes paid	<u>\$ 573</u>	<u>\$ 1,000</u>
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(see accompanying notes)

# Notes to the Consolidated Financial Statements

December 31, 2009

## 1. Nature of Operations

Saskatchewan Government Insurance (the Corporation or SGI), which operates under the trade name of SGI CANADA, 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).

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 11.9% (2008 – 9.8 %) 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, SGI 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.

## 2. Significant Accounting Policies

The accounting policies of the Corporation are in accordance with Canadian generally accepted accounting principles (GAAP). The following are considered to be the Corporation's significant accounting policies:

### Changes in Accounting Standards

In June 2009, the Canadian Institute of Chartered Accountants (CICA) issued amendments to its Financial Instruments – Disclosure standard to expand disclosures of financial instruments consistent with new disclosure requirements made under International Financial Reporting Standards. These amendments were effective for the Corporation commencing January 1, 2009 and introduces a three-level fair value hierarchy that prioritizes the quality and reliability of information used in estimating the fair value of financial instruments. The fair values for the three levels are based on:

- Level 1 – quoted prices in active markets.
- Level 2 – models using observable inputs other than quoted market prices.
- Level 3 – models using inputs that are not based on observable market data.

These additional disclosures are included in note 5.

### 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.

## Measurement uncertainty

The preparation of financial statements in accordance with Canadian GAAP 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. 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 8), investment valuation (note 5), income taxes (note 12), and employee future benefits (note 16).

## 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 held for trading, available for sale, held to maturity, loans and receivables or other financial liabilities. Financial assets and liabilities classified as held for trading are measured at fair value. Those 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; however, unrealized losses considered other than temporary continue to be recognized as a decrease to net income. Financial assets designated as held to maturity, loans and receivables or other financial liabilities are measured at amortized cost using the effective interest method. The Corporation has no financial assets and liabilities designated as held for trading or held to maturity.

The Corporation has designated its cash and cash equivalents and its investments as available for sale, except for investments accounted for on the equity basis, which are exempt from Section 3855. Accounts receivable are designated as loans and receivables. Accounts payable, dividend payable and premium taxes payable are designated as other financial liabilities. The net investment in capital lease, the accrued pension asset, unpaid claims recoverable from reinsurers, amounts due to reinsurers and the provision for unpaid claims are exempt from the above requirement.

## Investments

All investments are carried at fair value, except preferred shares and investments accounted for on the equity basis. The fair value of short-term investments is based on cost, which approximates fair value due to the immediate or short-term nature of these financial instruments. The fair value of bonds and debentures and common shares is determined using quoted market values based on the latest bid prices. The fair value of pooled equity funds is based on the quoted market values of the underlying investments, which is based on the latest bid prices. The fair value of the pooled mortgage fund is based on the market values of the underlying mortgage investments, calculated by discounting scheduled cash flows through to the estimated maturity of the mortgage using interest rates that reflect the term and credit risk associated with the mortgage.

Preferred shares are carried at cost as the fair value cannot be estimated reliably. Investments accounted for on the equity basis are recorded using the equity method, whereby the Corporation's investment is adjusted for its share of the investee's net earnings or losses and reduced by dividends received.

The Corporation records its investment purchases and sales on a trade-date basis, which is the date when the transactions are entered into.

## Investment earnings

The Corporation recognizes interest, premium financing and capital lease revenue as earned, dividends when declared, pooled fund revenue when a distribution is declared, and investment gains and losses when realized.

Interest revenue includes amortization of any premium or discount recognized as of 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.

Transaction costs are included in the acquisition cost of individual investments. Direct investment expenses, such as external custodial, investment management and investment consultant expenses, are recorded against investment earnings.

When the fair value of an investment falls below its cost, and the decline is determined to be other than temporary, a loss equivalent to the difference between cost and fair value is recorded in investment earnings as an investment write-down.



## 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 gains and/or losses arising on translation are charged to operations in the current year. Unrealized foreign exchange gains and/or losses arising on investments designated as available for sale are included in other comprehensive income until realized, at which time they are reclassified from accumulated other comprehensive income to investment earnings. Translation gains and/or losses related to other financial assets and liabilities are charged to operations in the current year.

## Premiums

Premiums written are taken into income over the terms of the related policies, no longer than 12 months. Unearned premiums represent the portion of the policy premiums relating to the unexpired term of each policy.

## Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of outstanding claims at 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. The provision is calculated without discounting, except for long-term disability claims. 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 period.

## Reinsurance ceded

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts.

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.

## Income taxes

The Corporation uses the asset and liability method of accounting for income taxes. Current income taxes are recognized as estimated income taxes payable for the current year. Future 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 future 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 future income tax asset if it is more likely than not that the asset will not be realized.

## Employee future benefits

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

Under 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.

For the defined benefit plan:

- (i) For the purpose of calculating the expected return on plan assets, those assets are valued at fair value, which approximates market value.
- (ii) Pension obligations are determined by an independent actuary using the projected benefit 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 was determined by reference to market interest rates at the measurement date of high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments.

- (iv) Past service costs from plan amendments and the transitional asset are amortized on a straight-line basis over a period of time, which is a blending of the expected average remaining service lifetime of the active members and the future life expectancy of the pensioners.
- (v) The excess of the net actuarial gain (loss) over 10% of the greater of the accrued benefit obligation and the fair value of the plan assets is amortized over a period of time, which is a blending of the expected average remaining service lifetime of the active members and the future life expectancy of the pensioners.

The Corporation provides defined benefit service recognition plans for both management and in-scope (union) employees for the purpose of providing certain retirement benefits. The cost of the plans is determined using the projected benefit method prorated on service.

### **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.

### **Deferred policy acquisition costs**

Premium taxes, commissions and certain underwriting and policy issuance costs are charged to expense over the terms of the insurance policies to which such costs relate. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums after giving consideration to investment income, as well as claim and adjustment expenses expected to be incurred as the premiums are earned.

### **Net investment in capital lease**

Investment earnings related to the direct financing lease are recognized in a manner that produces a constant rate of return on the investment in the lease. The net investment in the lease is composed of net minimum lease payments less unearned finance income.

### **Property, plant and equipment**

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis, commencing in the year in which the assets are placed in service, over their estimated useful lives as follows:

Building	40 years
Computer hardware and other equipment	3-5 years

### **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.

### **Future accounting policy changes**

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises, including the Corporation, will be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian GAAP for interim and annual reporting in fiscal years beginning on or after January 1, 2011, including comparative figures for the prior year. In September 2009, the Public Sector Accounting Board (PSAB) approved an amendment to the introduction to the Public Sector Accounting Handbook that requires any Government Business Enterprise (GBE) to adopt IFRS. The Corporation falls into the category of a GBE and is proceeding with the adoption of IFRS.

The Corporation commenced an IFRS conversion project in 2008 for it and its subsidiaries to assess the potential impacts of the transition and developed a detailed project plan to ensure compliance with the new standards. The conversion project is progressing according to the project plan. At this time, the impact on the Corporation's future financial position and results of operations is not reasonably determinable.

### 3. Cash and Cash Equivalents

	(thousands of \$)	
	2009	2008
Money market investments	\$ 22,300	\$ 18,860
Cash on hand, net of outstanding cheques	(5,380)	(6,561)
Total cash and cash equivalents	<u>\$ 16,920</u>	<u>\$ 12,299</u>

The average effective interest rate on money market investments is 0.2% (2008 – 1.4%).

### 4. Accounts Receivable

Accounts receivable is comprised of the following:

	(thousands of \$)	
	2009	2008
Due from insureds	\$ 63,331	\$ 51,917
Due from brokers	37,291	33,666
Investment proceeds receivable	12,328	–
Amounts recoverable on claims paid	5,212	1,351
Facility Association (note 19)	3,951	3,806
Accrued investment income	2,520	3,411
Other	309	280
Computer purchase plan	226	377
Due from reinsurers	166	1,554
Income taxes	–	2,166
Total accounts receivable	<u>\$ 125,334</u>	<u>\$ 98,528</u>

Included in due from insureds is \$59,773,000 (2008 – \$50,088,000) 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 over the period of the policy.

## 5. Investments

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

	(thousands of \$)	
	2009	2008
Short-term investments	\$ 18,933	\$ 37,361
Bonds and debentures	393,128	327,598
Canadian common shares	68,330	51,533
U.S. common shares	22,637	22,171
Pooled funds:		
Canadian equity	17,287	13,809
United States equity	7,529	7,361
Non-North American equity	26,747	22,510
Mortgage	23,067	21,706
Preferred shares	735	735
Investments accounted for on the equity basis	1,337	1,330
Total investments	<u>\$ 579,730</u>	<u>\$ 506,114</u>

Details of significant terms and conditions, exposures to interest rate and credit risks of investments 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 0.3% (2008 – 1.9%) and an average remaining term to maturity of 54 days (2008 – 69 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. Foreign currency exposure is limited to 5% of the market value of the bond portfolio, and 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.

Term to maturity (years)	(thousands of \$)			
	2009		2008	
	Carrying Value	Average Effective Rates	Carrying Value	Average Effective Rates
Government of Canada:				
One or less	\$ –	–	\$ 19,847	4.1%
After one through five	143,765	3.4%	79,841	3.7%
After five	22,347	2.9%	6,480	4.2%
Canadian provincial and municipal:				
One or less	–	–	4,688	5.3%
After one through five	31,235	4.6%	34,775	5.6%
After five	36,795	5.1%	32,493	5.1%
Canadian corporate:				
One or less	10,181	4.7%	6,190	4.8%
After one through five	99,851	4.7%	94,374	5.0%
After five	48,954	5.3%	48,910	5.0%
Total bonds and debentures	<u>\$ 393,128</u>		<u>\$ 327,598</u>	

### Common shares

Common shares have no fixed maturity dates and are generally not exposed to interest rate risk. The average effective dividend rate is 2.2% (2008 – 2.5%).

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 single 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.

### Preferred shares

The preferred share investment was a private placement. It provides for a 6.75% annual dividend payable semi-annually for the first five years. The rights of these shares will allow the holder to convert the preferred shares into that entity's common shares or allow the entity to redeem the preferred shares. The effective dividend rate is 6.8% (2008 – 6.8%).

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 portfolio. As well, no single holding may represent more than 10% of the voting shares of any corporation.

### Investments accounted for on the equity basis

Through a subsidiary, the Corporation has a 21.25% ownership interest in Charlie Cooke Insurance Agency Ltd., and a 25% ownership interest in Atlantic Adjusting & Appraisals Ltd. and Maritime Finance & Acceptance Corporation.

The fair value of investments accounted for on the equity basis is considered to approximate carrying value.

## Unrealized loss positions

The following table presents available for sale investments with unrealized losses where the decline is considered temporary. The unrealized losses are recorded as a component of accumulated other comprehensive income (loss).

	(thousands of \$)			
	2009		2008	
	Carrying Value	Unrealized Losses	Carrying Value	Unrealized Losses
Bonds and debentures:				
Federal	\$ 87,165	\$ (491)	\$ 6,559	\$ (39)
Provincial and municipal	20,956	(247)	9,145	(196)
Corporate	29,046	(365)	80,443	(3,507)
Canadian common shares	7,694	(465)	30,105	(6,066)
U.S. common shares	7,176	(498)	13,336	(1,031)
Pooled funds:				
Canadian equity	17,287	(1,807)	13,809	(5,707)
United States equity	7,529	(195)	7,361	(914)
Non-North American equity	26,747	(296)	22,510	(4,909)
	<u>\$ 203,600</u>	<u>\$ (4,364)</u>	<u>\$ 183,268</u>	<u>\$ (22,369)</u>

As at December 31, 2009, the cost of 131 (2008 – 128) available for sale investments exceeded their fair value by \$4,364,000 (2008 – \$22,369,000). The unrealized losses on the bonds and debentures arose primarily from changes in interest rates. For Canadian and U.S. common shares and pooled funds, the unrealized losses are primarily the result of investment-specific business environment factors associated with the underlying equity investments.

The Corporation conducts a quarterly review to identify and evaluate investments that show indications of impairment. An investment is considered impaired if its fair value falls below its cost, and a write-down is recorded in investment earnings when the decline is considered other than temporary. Factors considered in determining whether a loss is temporary include the length of time and extent to which fair value has been below cost, financial condition and near-term prospects of the issuer, and the ability to hold the investment for a period of time sufficient to allow for any anticipated recovery. During the year, investment write-downs of \$3,965,000 (2008 – \$5,665,000) (note 11) were recorded related to impairments of Canadian and U.S. common shares and U.S. and non-North American pooled equity funds that were considered other than temporary.

## Determination of fair value

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.

Level 1 – Where quoted prices are readily available from an active market.

Level 2 – Valuation model not using quoted prices, but still using predominantly observable market inputs, such as market interest rates.

Level 3 – models using inputs that are not based on observable market data.



	(thousands of \$)					
	Level 1	2009 Level 2	Total	Level 1	2008 Level 2	Total
Short-term investments	\$ 18,933	\$ –	\$ 18,933	\$ 37,361	\$ –	\$ 37,361
Bonds and debentures	393,128	–	393,128	327,598	–	327,598
Canadian common shares	68,330	–	68,330	51,533	–	51,533
U.S. common shares	22,637	–	22,637	22,171	–	22,171
Pooled funds:						
Canadian equity	17,287	–	17,287	13,809	–	13,809
United States equity	7,529	–	7,529	7,361	–	7,361
Non-North American equity	26,747	–	26,747	22,510	–	22,510
Mortgage	–	23,067	23,067	–	21,706	21,706
	<u>\$ 554,591</u>	<u>\$ 23,067</u>	<u>\$ 577,658</u>	<u>\$ 482,343</u>	<u>\$ 21,706</u>	<u>\$ 504,049</u>

Preferred shares and investments accounted for on the equity basis are not included in the above fair value hierarchy table as the preferred share are carried at cost and the investments accounted for on the equity basis are recorded using the equity method.

## 6. Property, Plant and Equipment

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

	(thousands of \$)			2008
	2009			
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 972	\$ –	\$ 972	\$ 972
Building	23,136	15,649	7,487	8,275
Computer hardware and other equipment	16,179	15,892	287	89
Total	<u>\$ 40,287</u>	<u>\$ 31,541</u>	<u>\$ 8,746</u>	<u>\$ 9,336</u>

Amortization for the year is \$604,000 (2008 – \$609,000) and is included in administrative expenses on the Consolidated Statement of Operations.

## 7. Other Assets

Other assets are comprised of the following:

	(thousands of \$)	
	2009	2008
Accrued pension asset (note 16)	\$ 1,464	\$ 1,375
Prepaid expenses	1,157	1,416
Net investment in capital lease	681	1,169
Goodwill	481	481
Total	<u>\$ 3,783</u>	<u>\$ 4,441</u>

## Net investment in capital lease

The Corporation, as lessor, has a 37% interest in a lease agreement with the Ministry of Government Services, a related party, for a term of 30 years (expiring April 2011) on property in Prince Albert, Saskatchewan. The lease transfers substantially all benefits and risks associated with the ownership of the property to the lessee. The total minimum lease payments receivable under the lease agreement are \$727,000 (2008 – \$1,311,000), payable at \$583,000 per year. Unearned income at December 31, 2009, is \$46,000 (2008 – \$141,000).

The fair value of the net investment in the capital lease is \$744,000 (2008 – \$1,351,000). The fair value is calculated by discounting scheduled cash flows through to the estimated expiration of the lease using current interest rates.

## 8. Provision for Unpaid Claims

### Nature of unpaid claims

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.

Factors used to estimate the provision include the Corporation's experience with similar cases, historical claim payment trends, 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 and on the judgment and opinions of a number of individuals, which necessarily involves risk that actual results may differ materially from the estimates.

Changes in the estimate for the provision for unpaid claims are as follows:

	(thousands of \$)	
	2009	2008
Net unpaid claims, beginning of year	\$ 260,648	\$ 251,743
Payments made during the year relating to:		
Prior year claims	(77,895)	(77,548)
Prior year Facility Association claims	(1,291)	(988)
Deficiency (excess) relating to:		
Prior year estimated unpaid claims	(25,009)	(13,326)
Prior year estimated unpaid Facility Association claims	(522)	52
Net unpaid for claims of prior years	155,931	159,933
Provision for claims occurring in the current year	106,569	99,778
Provision for Facility Association claims occurring in the current year	1,449	937
Net unpaid claims, end of year	<u>\$ 263,949</u>	<u>\$ 260,648</u>

The fair value of the provision for unpaid claims and unpaid claims recoverable from reinsurers has not been provided because it is not practicable to determine fair value with sufficient reliability.

## Type of unpaid claims

The provision for unpaid claims is summarized by line of business as follows:

	(thousands of \$)					
	2009			2008		
	Gross	Reinsurance Recoverable	Net	Gross	Reinsurance Recoverable	Net
Automobile	\$ 148,528	\$ 21,234	\$ 127,294	\$ 140,864	\$ 18,252	\$ 122,612
Property	62,958	4,146	58,812	58,910	2,703	56,207
Liability	69,546	4,246	65,300	75,696	5,500	70,196
Assumed	7,813	–	7,813	7,942	–	7,942
Facility Association (note 19)	4,730	–	4,730	3,691	–	3,691
<b>Total</b>	<b>\$ 293,575</b>	<b>\$ 29,626</b>	<b>\$ 263,949</b>	<b>\$ 287,103</b>	<b>\$ 26,455</b>	<b>\$ 260,648</b>

Included in the provision for unpaid claims are discounted amounts for certain injury accident benefits in the amount of \$13,920,000 (2008 – \$10,944,000). These claims have been discounted using a rate of 6% (2008 – 6%), which reflects the expected claim settlement patterns and SGI's projected rate of return on its investment portfolio. The provision for unpaid claims on these injury accident benefits also includes a provision for adverse development in the amount of \$1,530,000 (2008 – \$954,000).

## Assumed claims

The provision for unpaid claims includes a provision for unpaid reinsurance assumed claims of \$7,813,000 (2008 – \$7,942,000). The Corporation discontinued its practice of underwriting reinsurance assumed business in 1985, but remains financially responsible for claims run-off on assumed contracts.

## Structured settlements

The Corporation settles some long-term disability claims by purchasing annuities from various financial institutions. 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 financial institutions default on the scheduled payments. As at December 31, 2009, no information has come to the Corporation's attention that would suggest any weakness or failure in the financial institutions from which it has purchased annuities. The net present value of the scheduled payments as of the year-end date is \$49,488,000 (2008 – \$50,660,000).

## 9. 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.

## 10. Underwriting Policy and Reinsurance Ceded

The Corporation 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 \$)	
	2009	2008
Dwelling and farm property	\$ 750	\$ 500
Unlicensed vehicles	750	500
Commercial property	1,000	1,000
Automobile and general liability	1,500	1,000
(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)	8,500	8,500

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 \$)	
	2009	2008
Premium earned	\$ 30,664	\$ 29,488
Claims incurred	10,626	1,042
Commissions and premium taxes	4,594	4,410
Administrative expenses	(1,766)	(1,823)

## 11. Investment Earnings

The components of investment earnings are as follows:

	(thousands of \$)	
	2009	2008
Interest	\$ 13,918	\$ 16,555
Premium financing	3,572	3,113
Pooled fund distributions	2,371	2,499
Net realized gain on sale of investments	2,272	5,345
Dividends	1,873	1,094
Investments accounted for on the equity basis	206	187
Interest on net investment in capital lease	95	142
Investment write-downs	(3,965)	(5,665)
Total investment earnings	\$ 20,342	\$ 23,270
Investment expenses	770	729
Net investment earnings	<u>\$ 19,572</u>	<u>\$ 22,541</u>

Investment write-downs by category are as follows:

	(thousands of \$)	
	2009	2008
Canadian common shares	\$ (2,127)	\$ (4,825)
U.S. common shares	(479)	(840)
U.S. pooled equity fund	(668)	—
Non-North American pooled equity fund	(691)	—
Total investment write-downs	<u>\$ (3,965)</u>	<u>\$ (5,665)</u>

## 12. Income Taxes

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

	(thousands of \$)	
	2009	2008
Current	\$ (204)	\$ (202)
Future	1,207	673
Total income taxes	<u>\$ 1,003</u>	<u>\$ 471</u>

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 \$)	
	2009	2008
Income before income taxes and non-controlling interest	<u>\$ 53,387</u>	<u>\$ 40,975</u>
Combined federal and provincial tax rate	29.54%	35.78%
Computed tax expense based on combined rate	\$ 15,771	\$ 14,661
Increase (decrease) resulting from:		
Changes to enacted tax rates	45	52
Non-deductible expenses for tax purposes	33	33
Earnings not subject to taxation	(14,809)	(14,252)
Other	<u>(37)</u>	<u>(23)</u>
Total income taxes	<u>\$ 1,003</u>	<u>\$ 471</u>

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

	(thousands of \$)	
	2009	2008
<b>Future income tax assets</b>		
Provision for unpaid claims	\$ 2,507	\$ 2,074
Tax loss carryforwards	—	1,620
Other	<u>24</u>	<u>26</u>
Total future income tax assets	<u>2,531</u>	<u>3,720</u>
<b>Future income tax liabilities</b>		
Investments	472	655
Unpaid claims recoverable from reinsurers	<u>653</u>	<u>452</u>
Total future income tax liabilities	<u>1,125</u>	<u>1,107</u>
Net future income tax assets	<u>\$ 1,406</u>	<u>\$ 2,613</u>

The Corporation has non-capital tax loss carryforwards of \$nil (2008 – \$5,492,000 that expire in 2028).

### 13. Financial Risk Management

The nature of the Corporation's operations results in a 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, based on a recommendation from the Board's Investment Committee. The SIP&G provides guidelines to the investment manager for the asset mix of the portfolio, regarding quality and quantity of debt, real estate and equity investments using a prudent person approach. The asset mix guidelines help reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. SGI receives regular reporting from the investment manager and custodian regarding compliance with 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 it is exposed at December 31, 2009, is limited to the carrying value of the financial assets summarized as follows:

	(thousands of \$)	
	2009	2008
	Carrying Value	Carrying Value
Cash and cash equivalents	\$ 16,920	\$ 12,299
Accounts receivable	125,953	98,528
Fixed income investments <sup>1</sup>	435,128	386,665
Unpaid claims recoverable from reinsurers	29,626	26,455

<sup>1</sup> 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 and securities lending program as described separately in the notes to the consolidated financial statements.

Cash and cash equivalents include money market investments of \$22,300,000 less cash on hand, net of outstanding cheques of \$5,380,000 (2008 – money market investments of \$18,860,000 less cash on hand, net of outstanding cheques of \$6,561,000). 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 SGI CANADA operates in. Accounts receivable consist of balances outstanding for one year or less.

	(thousands of \$)	
	2009	2008
Current	\$ 121,798	\$ 98,410
30-59 days	1,031	542
60-89 days	323	281
Greater than 90 days	8,443	4,195
Subtotal	131,595	103,428
Allowance for doubtful accounts	(6,261)	(4,900)
Total	\$ 125,334	\$ 98,528



Provisions for credit losses are maintained in an allowance account and 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 \$)	
	2009	2008
Allowance for doubtful accounts, opening balance	\$ 4,900	\$ 4,937
Accounts written off	(1,430)	(1,912)
Current period provision	2,791	1,875
Allowance for doubtful accounts, ending balance	<u>\$ 6,261</u>	<u>\$ 4,900</u>

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 bonds and debentures are as follows:

	(thousands of \$)			
	2009		2008	
Credit Rating	Fair Value	Makeup of Portfolio	Fair Value	Makeup of Portfolio
AAA	\$ 202,557	51.5%	\$ 143,326	43.8%
AA	84,534	21.5%	88,265	26.9%
A	86,160	21.9%	85,422	26.1%
BBB	19,877	5.1%	10,585	3.2%
Total	<u>\$ 393,128</u>	<u>100.0%</u>	<u>\$ 327,598</u>	<u>100.0%</u>

Within bonds 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 single 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.

Through its custodian, the Corporation participates in an investment security lending program. Collateral of at least 102% of the market value of the loaned securities is held for the loan. This collateral is marked to market on a daily basis. In addition, the custodian provides indemnification against any potential losses in the securities lending program. At December 31, 2009, the Corporation had \$40,139,000 (2008 – \$47,636,000) of securities on loan under the program and held collateral of \$42,149,000 (2008 – \$50,638,000).

Credit risk associated with reinsurers is managed through regular monitoring of credit ratings of the reinsurers utilized by the Corporation. Reinsurers' credit ratings range from AA+ to A- based on the most recent ratings by A.M. Best.

### 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. It is estimated that a 100 basis point increase/decrease in interest rates would decrease/increase other comprehensive income and accumulated other comprehensive income by \$18.1 million at December 31, 2009 (2008 – \$14.0 million), representing 4.2% of the \$435.1 million fair value (2008 – 3.6%, \$386.7 million) of fixed income investments.

### 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 Europe, Australasia and Far East (EAFE) currencies through its investment in the non-North American Pooled Fund. Exposure to both U.S. equities and non-North American equities is limited to a maximum 7% each of the market value of the total investment portfolio, excluding investments accounted for on the equity basis and preferred shares. At December 31, 2009, the Corporation's exposure to U.S. equities was 5.2% (2008 – 5.9%) and its exposure to non-North American equities was 4.6% (2008 – 4.5%).

At December 31, 2009, a 10% appreciation/depreciation in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a \$3.0 million (2008 – \$3.0 million) decrease/increase in other comprehensive income and accumulated other comprehensive income. A 10% appreciation/depreciation in the Canadian dollar versus the EAFE currencies would result in approximately a \$2.7 million (2008 – \$2.3 million) decrease/increase in other comprehensive income and accumulated other comprehensive income. As U.S. common shares, the U.S. equity pooled fund and the non-North American equity pooled fund are classified as available for sale, any unrealized changes due to foreign currency are recorded as other comprehensive income and do not directly impact net income until the investment is sold.

The Corporation's exposure to foreign exchange risk within its bond and debenture portfolio is limited to a maximum 5% of the market value of the 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 24.7% (2008 – 23.5%) 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	2009	2008
Canadian pooled equity fund and Canadian common shares	\$ +/- 32,877,000	\$ +/- 23,915,000
U.S. pooled equity fund and U.S. common shares	+/- 7,542,000	+/- 7,029,000
Non-North American pooled equity fund	+/- 9,147,000	+/- 6,843,000

The Corporation's equity investments are classified as available for sale and as such, any unrealized changes in their fair value are recorded as other comprehensive income and do not directly impact net income until the investment is sold.

## Liquidity risk

Liquidity risk is the risk 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 and 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 summarizes the estimated contractual maturities of the Corporation's financial liabilities at December 31:

(thousands of \$)

	2009				
Carrying amount	0-6 months	7-12 months	1-2 years	3-5 years	More than 5 years
\$ 39,476	\$ 39,476	\$ —	\$ —	\$ —	\$ —
22,199	22,199	—	—	—	—
17,474	16,346	1,128	—	—	—
4,578	4,532	37	9	—	—
293,575	77,160	40,834	45,148	74,397	56,036
<u>\$ 377,302</u>	<u>\$ 159,713</u>	<u>\$ 41,999</u>	<u>\$ 45,157</u>	<u>\$ 74,397</u>	<u>\$ 56,036</u>

(thousands of \$)

Carrying amount	2008				
	0-6 months	7-12 months	1-2 years	3-5 years	More than 5 years
\$ 23,287	\$ 23,287	\$ —	\$ —	\$ —	\$ —
7,407	7,407	—	—	—	—
15,908	15,908	—	—	—	—
5,388	5,033	140	215	—	—
287,103	78,436	40,468	42,756	65,341	60,102
<u>\$ 339,093</u>	<u>\$ 130,071</u>	<u>\$ 40,608</u>	<u>\$ 42,971</u>	<u>\$ 65,341</u>	<u>\$ 60,102</u>

## 14. Capital Management

The Corporation's primary objectives when managing capital is 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.

SGL CANADA is not a regulated insurer; however, its subsidiaries, SGL 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 ratio based on the risk profile of the insurer and its insurance business, generally at or above 150%. At December 31, 2009, the Corporation's MCT was 254% (2008 – 228%). There have been no changes to the Corporation's capital management processes and measures since the prior year-end.

## 15. Change in Non-Cash Operating Items

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

	(thousands of \$)	
	2009	2008
Accounts receivable	\$ (26,806)	\$ (10,014)
Deferred policy acquisition costs	(4,750)	(4,315)
Reinsurers' share of unearned premiums	417	(1,035)
Unpaid claims recoverable from reinsurers	(3,171)	7,369
Other assets	170	(297)
Accounts payable and accrued liabilities	14,233	2,182
Premium taxes payable	1,566	1,500
Amounts due to reinsurers	(810)	58
Unearned reinsurance commissions	35	567
Unearned premiums	23,352	18,937
Provision for unpaid claims	6,472	1,536
	<u>\$ 10,708</u>	<u>\$ 16,488</u>

## 16. Employee Future Benefits

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 have been disclosed separately in this note.

### 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, 2007. The next valuation is anticipated to have a valuation date of December 31, 2010.

The actuarial valuation includes a provision for uncommitted and ad hoc benefit increases, and 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. Results from the latest valuation as at December 31, 2007, projected to December 31, 2009, and the major assumptions used in the valuation, are as follows:

Economic assumptions:	2009	2008
Discount rate, beginning of period	7.50%	5.50%
Discount rate, end of period	5.30%	7.50%
Expected return on plan assets	6.25%	6.25%
Inflation rate	2.50%	2.50%
Expected salary increase	2.50%	3.50%
Post-retirement index	—	50% of CPI
Remaining service life of active members in years (EARS)	3	3

Information about the Corporation's defined benefit pension plan is as follows:

	(thousands of \$)	
	2009	2008
<b>Accrued benefit obligation</b>		
Accrued benefit obligation, beginning of year	\$ 35,531	\$ 41,242
Current service cost	126	235
Interest cost	2,559	2,205
Benefits paid	(3,008)	(3,040)
Change in actuarial assumptions	1,986	(5,691)
Experience loss	—	580
Accrued benefit obligation, end of year	<u>\$ 37,194</u>	<u>\$ 35,531</u>

	(thousands of \$)	
	2009	2008
<b>Plan assets</b>		
Fair value of plan assets, beginning of year	\$ 35,533	\$ 42,724
Actual return on plan assets	3,822	(4,349)
Employer contributions	96	133
Employee contributions	48	65
Benefits paid	(3,008)	(3,040)
Fair value of plan assets, end of year	<u>\$ 36,491</u>	<u>\$ 35,533</u>
Funded status - plan surplus (deficit)	\$ (703)	\$ 2
Unamortized transitional asset	(3)	(611)
Unamortized net actuarial losses	5,125	4,759
Accrued pension asset	<u>\$ 4,419</u>	<u>\$ 4,150</u>

As at December 31, 2009, \$1,464,000 (2008 – \$1,375,000) of the accrued pension asset has been recorded by the Corporation (note 7) and \$2,955,000 (2008 – \$2,775,000) has been allocated to the Saskatchewan Auto Fund.

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	
		2009	2008
Short-term investments	3-20%	3%	5%
Bonds and debentures	40-70%	54%	54%
Canadian equities	10-30%	18%	15%
U.S. equities	Total foreign	14%	15%
Non-North American equities		11%	11%

Pension income for the defined benefit pension plan is as follows:

	(thousands of \$)	
	2009	2008
Current service cost	\$ (77)	\$ (170)
Interest cost	(2,559)	(2,205)
Expected return on pension plan assets	2,131	2,591
Amortization of net transitional asset	608	608
Amortization of actuarial gains	70	205
Valuation allowance	—	957
Pension income	<u>\$ 173</u>	<u>\$ 1,986</u>

During the year, \$117,000 (2008 – \$1,330,000) of the pension income was allocated to the Saskatchewan Auto Fund. The Corporation has recorded the remaining \$56,000 (2008 – \$656,000) of pension income in administrative expenses on the Consolidated Statement of Operations.

### Defined contribution pension plan

The Corporation also 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.

Pension expense for the defined contribution pension plan is \$5,685,000 (2008 – \$5,272,000). During the year, \$3,840,000 (2008 – \$3,730,000) of pension expense was allocated to the Saskatchewan Auto Fund. The Corporation has recorded the remaining \$1,845,000 (2008 – \$1,542,000) of pension expense in administrative expenses on the Consolidated Statement of Operations.

### Defined benefit service recognition plans

Significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligation at December 31 are:

	2009	2008
Discount rate	5.00 - 5.40%	7.40%
Expected salary increase	4.60 - 5.00%, in 2010 3.5%, thereafter	6.00 - 8.00%, in 2009 3.5%, thereafter
EARSL – management	9	12
EARSL – in-scope	11	12

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

	(thousands of \$)	
	2009	2008
Benefit expense	<u>\$ 3,069</u>	<u>\$ 3,218</u>
Accrued benefit obligation	\$ 18,984	\$ 15,445
Unamortized past service costs, net actuarial losses and transitional asset	<u>(7,750)</u>	<u>(6,122)</u>
Accrued benefit liability	<u>\$ 11,234</u>	<u>\$ 9,323</u>

As at December 31, 2009, \$7,589,000 (2008 – \$6,243,000) of the accrued benefit liability was allocated to the Saskatchewan Auto Fund. The Corporation has recorded the remaining \$3,645,000 (2008 – \$3,080,000) of accrued benefit liability in accounts payable and accrued liabilities on the Consolidated Statement of Financial Position.

## 17. 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).

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Transactions and amounts outstanding at year-end are as follows:

Category	(thousands of \$)	
	2009	2008
Accounts receivable	\$ 701	\$ 644
Deferred policy acquisition costs	8,207	7,598
Investments	7,767	6,741
Accounts payable and accrued liabilities	80	71
Dividends payable	22,199	7,407
Premium taxes payable	15,926	14,807
Unearned premiums	2,172	2,019
Provision for unpaid claims	3,084	1,544
Gross premiums written	4,800	4,514
Gross premiums earned	4,737	4,511
Claims incurred	2,874	1,781
Administrative expenses	2,273	2,137
Premium taxes	15,316	14,280
Investment earnings	287	290

The Corporation acts as administrator of the Saskatchewan Auto Fund. Administrative and loss adjustment expenses incurred by the Corporation are allocated to the Corporation and the Saskatchewan Auto Fund directly or on the basis of specific distributions. Amounts incurred by the Corporation and charged to the Saskatchewan Auto Fund were \$112,382,000 (2008 – \$104,699,000) and accounts payable were \$133,000 (2008 – \$2,635,000).

The Corporation has direct premiums brokered through Charlie Cooke Insurance Agency Ltd. (CCIA), pays claim adjusting fees to Atlantic Adjusting & Appraisals Ltd. (AAA) and has premiums financed for policyholders by Maritime Finance & Acceptance Corporation (MFAC). These companies are affiliated with the minority shareholder of ICPEI, who is a member of ICPEI's senior management. The policies written and the claim adjusting expenses paid are routine operating transactions in the normal course of business. Transactions and amounts outstanding between the Corporation and CCIA, AAA and MFAC at year-end are as follows:

Category	(thousands of \$)	
	2009	2008
Accounts receivable	\$ 946	\$ 978
Accounts payable and accrued liabilities	1,131	842
Premiums written	11,320	10,737
Claims incurred	624	522
Commissions	2,659	2,468
Premiums financed	4,653	3,841

In addition, during 2007 the Corporation provided CCIA a \$450,000 loan for the purpose of purchasing a brokerage. The terms of the agreement provide for repayment in six annual instalments of \$75,000 and require CCIA to maintain minimum premium limits. At December 31, 2009, the loan is recorded at its amortized cost of \$268,000 (2008 – \$326,000), calculated by discounting the scheduled instalments at an interest rate that reflects the term and credit risk associated with the loan. During the year, \$75,000 (2008 – \$75,000) was repaid and interest revenue of \$17,000 (2008 – \$20,000) was recorded through investment earnings.



Certain board members are partners in organizations that provided \$4,000 (2008 – \$13,000) of professional services to the Corporation. These services were recorded in claims incurred and administrative expenses in the 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 \$4,436,000 (2008 – \$4,190,000) and the associated accounts receivable at December 31, 2009, was \$887,000 (2008 – \$932,000). Commissions related to these premiums were \$792,000 (2008 – \$843,000). The above noted transactions are routine operating transactions in the normal course of business.

One of the Corporation's subsidiaries, ICPEI, has a director who is the owner of an organization that provided professional services to ICPEI. During the current year, these services amounted to \$nil (2008 – \$16,000). These transactions are routine operating transactions in the normal course of operations.

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

## 18. Fair Values of Financial Assets and Liabilities

The fair value of financial assets and liabilities, other than investments (note 5), net investment in capital lease (note 7), unpaid claims and unpaid claims recoverable from reinsurers (notes 8 and 10) approximate carrying value due to their immediate or short-term nature.

## 19. 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 \$)	
	2009	2008
Gross premiums written	\$ 4,113	\$ 3,052
Net premiums earned	\$ 3,705	\$ 2,706
Claims incurred	3,119	2,464
Commissions	129	118
Premium taxes	115	87
Administrative expenses	973	684
Total claims and expenses	4,336	3,353
Underwriting loss	(631)	(647)
Investment earnings	149	160
Net loss	\$ (482)	\$ (487)
Facility Association receivable	\$ 3,951	\$ 3,806
Unearned premiums	1,215	797
Provision for unpaid claims	4,730	3,691
Facility Association payable	3,504	3,504

## 20. Segmented Information

The Corporation provides property and casualty insurance through four operating segments: Saskatchewan, Manitoba and Alberta, Ontario and the Maritimes (where Maritimes represents Prince Edward Island, New Brunswick and Nova Scotia). These operating segments correspond with the legal entities that make up the Corporation, as discussed in note 1. The performance of each operating segment is reported separately to the Corporation's Board of Directors.

(thousands of \$)						
2009	Saskatchewan	Manitoba and Alberta	Ontario	Maritimes	Consolidation Adjustments	Total
Net premiums written	\$ 306,531	\$ 40,015	\$ 29,459	\$ 17,909	\$ —	\$ 393,914
Net premiums earned	\$ 293,721	\$ 35,400	\$ 25,452	\$ 15,982	\$ —	\$ 370,555
Claims incurred	139,634	18,965	21,516	9,496	—	189,611
Other expenses	116,765	13,726	9,331	7,307	—	147,129
Underwriting profit (loss)	37,322	2,709	(5,395)	(821)	—	33,815
Investment earnings	12,217	1,695	4,634	1,026	—	19,572
Income (loss)						
before the following:	49,539	4,404	(761)	205	—	53,387
Income taxes (recovery)	—	1,190	(270)	83	—	1,003
Non-controlling interest	—	—	—	—	17	17
Net income (loss)	\$ 49,539	\$ 3,214	\$ (491)	\$ 122	\$ (17)	\$ 52,367
Total assets	\$ 586,144	\$ 114,504	\$ 132,581	\$ 38,233	\$ (43,406)	\$ 828,056
Province of Saskatchewan's equity	\$ 144,842	\$ 34,942	\$ 39,335	\$ 9,072	\$ (1,879)	\$ 226,312

(thousands of \$)						
2008	Saskatchewan	Manitoba and Alberta	Ontario	Maritimes	Consolidation Adjustments	Total
Net premiums written	\$ 283,779	\$ 31,715	\$ 23,693	\$ 14,260	\$ —	\$ 353,447
Net premiums earned	\$ 273,874	\$ 26,441	\$ 23,169	\$ 12,405	\$ —	\$ 335,889
Claims incurred	145,006	21,291	12,670	6,625	—	185,592
Other expenses	106,791	10,880	8,346	5,846	—	131,863
Underwriting profit (loss)	22,077	(5,730)	2,153	(66)	—	18,434
Investment earnings	14,768	2,456	4,370	947	—	22,541
Income (loss)						
before the following:	36,845	(3,274)	6,523	881	—	40,975
Income taxes (recovery)	—	(1,564)	1,841	194	—	471
Non-controlling interest	—	—	—	—	153	153
Net income (loss)	\$ 36,845	\$ (1,710)	\$ 4,682	\$ 687	\$ (153)	\$ 40,351
Total assets	\$ 513,631	\$ 98,487	\$ 116,284	\$ 34,211	\$ (45,268)	\$ 717,345
Province of Saskatchewan's equity	\$ 103,531	\$ 28,798	\$ 38,654	\$ 8,712	\$ (1,862)	\$ 177,833

## 21. Commitments and Contingencies

The Corporation is committed to a related party until 2012 for a telecommunications contract. At December 31, 2009, the remaining commitment is \$2.4 million (2008 – \$243,000).

The Corporation is committed until 2011 for a systems support contract. At December 31, 2009, the remaining commitment is \$688,000.

The Corporation is committed to annual payments under operating leases for buildings as follows:

(thousands of \$)

2010	\$ 446
2011	427
2012	328
2013	254
2014	34
Thereafter	20

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.

## 22. Comparative Financial Information

For comparative purposes, certain 2008 balances have been reclassified to conform to 2009 financial statement presentation.

# Corporate Governance

The Canadian Securities Administrators and securities regulators across Canada have implemented governance policies for publicly traded companies. National Policy 58-201 and National Instrument 58-101 came into effect on June 30, 2005. While Saskatchewan Government Insurance is not publicly traded and therefore not required to comply with these guidelines, they provide an excellent benchmark to measure good governance practices.

## National Policy 58-201 Corporate Governance Guidelines

Guideline	Saskatchewan Government Insurance
<b>Composition of the Board</b> 1. The board should have a majority of independent directors.	Yes. The Board of Directors is constituted of a majority of independent directors.
2. The chair of the board should be an independent director. Where this is not appropriate, an independent director should be appointed to act as "lead director." However, either an independent chair or an independent lead director should act as the effective leader of the board and ensure that the board's agenda will enable it to successfully carry out its duties.	Yes. The Chair of the Board is an independent director.
<b>Meetings of Independent Directors</b> 3. The independent directors should hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance.	Yes. The Board of Directors has meetings in-camera, during which no management is in attendance, at every Board and committee meeting, as well as on an as-required basis. There are no non-independent directors on the current Board.
<b>Board Mandate</b> 4. The board should adopt a written mandate in which it explicitly acknowledges responsibility for the stewardship of the issuer, including responsibility for: <ul style="list-style-type: none"> <li>(a) to the extent feasible, satisfying itself as to the integrity of the chief executive officer (the CEO) and other executive officers and that the CEO and other executive officers create a culture of integrity throughout the organization;</li> <li>(b) adopting a strategic planning process and approving, on at least an annual basis, a strategic plan which takes into account, among other things, the opportunities and risks of the business;</li> </ul>	Yes. The Board has approved Terms of Reference (mandate) which explicitly acknowledge responsibility for the stewardship of the Corporation.  Yes. The Board has approved the corporate values to which all employees, including the CEO and senior management, are expected to operate.  Yes. The Board of Directors holds an annual multi-day strategic planning session. This session provides the basis of the Corporation's strategic plan and initiatives, as well as direction to management in the formation of the Corporation's operating budget and goals. Further, the Board is provided with quarterly updates during the year on the progress of the corporate strategic initiatives.

## National Policy 58-201 Corporate Governance Guidelines

### Guideline

### Saskatchewan Government Insurance

- (c) the identification of the principal risks of the issuer's business, and ensuring the implementation of appropriate systems to manage these risks;

Yes. The Board of Directors undertakes a process to identify the principal risks of the business, to achieve a proper balance between risks incurred and potential returns and to oversee the implementation of appropriate systems to manage the risks. The Board of Directors has charged the Audit and Finance committee with responsibility for this function and it reports to the Board on those risks on at least an annual basis.

- (d) succession planning (including appointing, training and monitoring senior management);

Yes. The Board of Directors has charged the Governance and Human Resources committee with responsibility for reviewing the Corporation's succession plan. The committee reviews the plan on an annual basis and reports its findings to the Board.

- (e) adopting a communication policy for the issuer;

Yes. The Corporation has a formal communications policy which has been approved by the Board of Directors.

- (f) the issuer's internal control and management information systems; and

Yes.

- (g) developing the issuer's approach to corporate governance, including developing a set of corporate governance principles and guidelines that are specifically applicable to the issuer.

Yes.

The written mandate of the board should also set out:

- (i) measures for receiving feedback from stakeholders (e.g., the board may wish to establish a process to permit stakeholders to directly contact the independent directors), and
- (ii) expectations and responsibilities of directors, including basic duties and responsibilities with respect to attendance at board meetings and advance review of meeting materials.

Yes. The Corporation also undertakes research annually on behalf of the Board.

In developing an effective communication policy for the issuer, issuers should refer to the guidance set out in *National Policy 51-201 Disclosure Standards*.

Yes. Position descriptions for directors were developed and approved.

#### Position Descriptions

5. The board should develop clear position descriptions for the chair of the board and the chair of each board committee. In addition, the board, together with the CEO, should develop a clear position description for the CEO, which includes delineating management's responsibilities. The board should also develop or approve the corporate goals and objectives that the CEO is responsible for meeting.

Yes. Position descriptions for directors were developed and approved. A position description for the CEO has been developed and approved. The Board has developed and approved corporate goals and objectives.

## National Policy 58-201 Corporate Governance Guidelines

### Guideline

### Saskatchewan Government Insurance

#### Orientation and Continuing Education

6. The board should ensure that all new directors receive a comprehensive orientation. All new directors should fully understand the role of the board and its committees, as well as the contribution individual directors are expected to make (including, in particular, the commitment of time and resources that the issuer expects from its directors). All new directors should also understand the nature and operation of the issuer's business.

Yes. The Terms of Reference for the Board specify the responsibility for director training, which has been delegated to the Governance committee. New directors receive an orientation which provides a overview of the Corporation, its operations and its industry. Further, directors are educated on the role of the Board, its committees and the expectation of directors. The director position description describes a director's responsibilities.

7. The board should provide continuing education opportunities for all directors, so that individuals may maintain or enhance their skills and abilities as directors, as well as to ensure their knowledge and understanding of the issuer's business remains current.

Yes. The Board provides opportunities for all directors to increase their knowledge of issues and subjects facing the Corporation. Further, Crown Investments Corporation provides annual director training opportunities to all Crown corporation directors.

#### Code of Business Conduct and Ethics

8. The board should adopt a written code of business conduct and ethics (a code). The code should be applicable to directors, officers and employees of the issuer. The code should constitute written standards that are reasonably designed to promote integrity and to deter wrongdoing. In particular, it should address the following issues:

Yes. The Board has adopted a written Code of Conduct for Directors and a Corporate Code of Ethics and Conduct which is applicable to directors, officers and employees.

(a) conflicts of interest, including transactions and agreements in respect of which a director or executive officer has a material interest;

Yes. Conflicts of interest are addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct.

(b) protection and proper use of corporate assets and opportunities;

Yes. The protection and proper use of corporate assets and opportunities are addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct.

(c) confidentiality of corporate information;

Yes. The confidentiality of corporate information is addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct.

(d) fair dealing with the issuer's security holders, customers, suppliers, competitors and employees;

Yes. The fair dealing with customers, suppliers, competitors and employees is addressed in the Corporate Code of Ethics and Conduct.

(e) compliance with laws, rules and regulations; and

Yes. The compliance with laws, rules and regulations is addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct.

(f) reporting of any illegal or unethical behaviour.

Yes. The reporting of any illegal or unethical behaviour is addressed in the Corporate Code of Ethics and Conduct, and more specifically in the Whistleblower Policy.

## National Policy 58-201 Corporate Governance Guidelines

### Guideline

### Saskatchewan Government Insurance

9. The board should be responsible for monitoring compliance with the code. Any waivers from the code that are granted for the benefit of the issuer's directors or executive officers should be granted by the board (or a board committee) only.

Although issuers must exercise their own judgment in making materiality determinations, the Canadian securities regulatory authorities consider that conduct by a director or executive officer which constitutes a material departure from the code will likely constitute a "material change" within the meaning of National Instrument 51-102 Continuous Disclosure Obligations. National Instrument 51-102 requires every material change report to include a full description of the material change. Where a material departure from the code constitutes a material change to the issuer, we expect that the material change report will disclose, among other things:

- the date of the departure(s),
- the party(ies) involved in the departure(s),
- the reason why the board has or has not sanctioned the departure(s), and
- any measures the board has taken to address or remedy the departure(s).

#### Nomination of Directors

10. The board should appoint a nominating committee composed entirely of independent directors.

11. The nominating committee should have a written charter that clearly establishes the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure and operations (including any authority to delegate to individual members and sub-committees), and manner of reporting to the board. In addition, the nominating committee should be given authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties. If an issuer is legally required by contract or otherwise to provide third parties with the right to nominate directors, the selection and nomination of those directors need not involve the approval of an independent nominating committee.

Yes. The Human Resources committee receives an annual report concerning compliance with the code. On an as-required basis, the Human Resources committee may grant a waiver from the code.

Not applicable.

Yes. The Board has charged the Governance committee with the responsibility of the nomination of directors. The committee is comprised entirely of independent directors.

Yes. The Governance committee's charter is contained within the Terms of Reference.



## National Policy 58-201 Corporate Governance Guidelines

### Guideline

### Saskatchewan Government Insurance

12. Prior to nominating or appointing individuals as directors, the board should adopt a process involving the following steps:

- (a) Consider what competencies and skills the board, as a whole, should possess. In doing so, the board should recognize that the particular competencies and skills required for one issuer may not be the same as those required for another.
- (b) Assess what competencies and skills each existing director possesses. It is unlikely that any one director will have all the competencies and skills required by the board. Instead, the board should be considered as a group, with each individual making his or her own contribution. Attention should also be paid to the personality and other qualities of each director, as these may ultimately determine the boardroom dynamic.

The board should also consider the appropriate size of the board, with a view to facilitating effective decision-making.

In carrying out each of these functions, the board should consider the advice and input of the nominating committee.

13. The nominating committee should be responsible for identifying individuals qualified to become new board members and recommending to the board the new director nominees for the next annual meeting of shareholders.

14. In making its recommendations, the nominating committee should consider:

- (a) the competencies and skills that the board considers to be necessary for the board, as a whole, to possess;
- (b) the competencies and skills that the board considers each existing director to possess; and
- (c) the competencies and skills each new nominee will bring to the boardroom.

The nominating committee should also consider whether or not each new nominee can devote sufficient time and resources to his or her duties as a board member.

Yes. The Governance committee undertakes a skills assessment on an annual basis.

Yes. The Governance committee undertakes a needs assessment on an annual basis.

Yes. The Governance committee reviews and recommends the size of the Board.

Yes. The Governance committee reports regularly to the Board and when required makes recommendations. It should be noted that director appointments are made by Order-in-Council.

Yes. The Governance committee has a recruitment and selection process which it undertakes prior to making recommendations for appointments to the Board and Crown Investments Corporation.

Yes. The Governance committee reviews the competencies and skills required for the Board as a whole.

Yes. The Governance committee reviews the competencies and skills of each of the directors.

Yes. The Governance committee reviews the competencies and skills of nominee directors.

Yes. During the recruitment and selection process, the Governance committee ensures that potential nominees understand the requirements and have sufficient time and resources to devote to the Board member responsibilities.

## National Policy 58-201 Corporate Governance Guidelines

### Guideline

### Saskatchewan Government Insurance

#### Compensation

15. The board should appoint a compensation committee composed entirely of independent directors.

Yes. The Board has delegated the responsibilities for compensation to the Human Resources committee. The committee is composed entirely of the independent directors.

16. The compensation committee should have a written charter that establishes the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure and operations (including any authority to delegate to individual members or sub-committees), and the manner of reporting to the board. In addition, the compensation committee should be given authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties.

Yes. The Human Resources committee's charter is contained within the Terms of Reference. The committee has the authority to engage and compensate any outside advisor it may determine is necessary to carry out its duties.

17. The compensation committee should be responsible for:

- (a) reviewing and approving corporate goals and objectives relevant to CEO compensation, evaluating the CEO's performance in light of those corporate goals and objectives, and determining (or making recommendations to the board with respect to) the CEO's compensation level based on this evaluation;
- (b) making recommendations to the board with respect to non-CEO officer and director compensation, incentive-compensation plans and equity-based plans; and,
- (c) reviewing executive compensation disclosure before the issuer publicly discloses this information.

Yes. The Human Resources committee undertakes a detailed CEO evaluation on an annual basis. As part of that evaluation, the committee reviews corporate goals and objectives and evaluates the CEO's performance against those goals and objectives. The findings of the evaluation and any compensation changes resulting from the review are recommended to the Board.

Yes. The Human Resources committee reviews and recommends to the Board and Crown Investments Corporation any changes to compensation.

Not applicable. Individuals reporting to the CEO, which includes all executive members, are required by legislation to file and report any changes in their compensation to the Clerk of the Saskatchewan Legislature within a 14-day period of time. Further, by policy of the Crown and Central Agencies committee of the Legislature, the Corporation is required to file an annual payee list which also contains the compensation of all members of the executive.

## National Policy 58-201 Corporate Governance Guidelines

### Guideline

### Saskatchewan Government Insurance

#### Regular Board Assessments

18. The board, its committees and each individual director should be regularly assessed regarding his, her or its effectiveness and contribution. An assessment should consider:

- (a) in the case of the board or a board committee, its mandate or charter; and
- (b) in the case of an individual director, the applicable position description(s), as well as the competencies and skills each individual director is expected to bring to the board.

Yes. The Board conducts on a rotational basis peer assessments and reviews of the Board and the Chair.

Yes. The Board and its committees review their terms of reference on an as-needed basis and at least every three years.

Yes. The Board has a position description for directors; further, individual director's skills and competencies are reviewed as part of the regular assessments.

#### Independence

The matter of "independence from management" is based upon the definition set by the Canadian Securities Administrators (CSA) and utilized by publicly traded companies in the industry. None of the directors have worked with or for the Corporation, or have direct material contracts or relationships with the Corporation, or have received remuneration from the Corporation in excess of the fees and compensation as directors and committee members or as directors of subsidiaries of the Corporation. However, the Chair of the Board of Directors is a partner in a law firm that has performed legal services for the Corporation in 2008, and is thereby deemed to have a material indirect relationship with the Corporation under the above standard. The Corporation's owner has managed this issue through the development of a protocol regarding lawyers serving on Crown Investments Corporation subsidiary Crown corporation Boards of Directors. Although not in strict compliance with the CSA standards, this protocol adopts the principle that directors must be free from any material relationship that may interfere with the director's ability to exercise independent judgment in the best interests of the Corporation or to influence the choice of law firms. Given the smaller local market in Saskatchewan for legal services, the protocol restricts directors from any direct material relationship, but allows a limited indirect relationship subject to the qualifications of the protocol, such as pre-approval of legal services by an independent Board committee, declarations of conflict, no direct benefit to the director and restriction of information to that director. The Corporation's General Counsel reviews all charges related to the provision of legal services by external counsel. The General Counsel in turn reports to the Governance committee of the Board on any new matters undertaken by the director's law firm, other than those that are substantially similar to matters previously performed by the law firm in question. The Board Chair, Warren Sproule, Q.C., is a lawyer who is subject to this protocol. All other directors, including the Vice-Chair of the Board, are independent of management. At each Board and committee meeting, the directors meet in-camera without the presence of management.

# 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 other 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.

## **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.

## Board of Directors

**Warren Sproule, Q.C. (Chair)**

Partner, Kanuka Thuringer LLP  
Regina, SK

**Anne M. Lavack (Vice-Chair)**

Dean, Faculty of Business Administration  
Paul J. Hill School of Business  
Kenneth Levene Graduate School of Business  
University of Regina  
Regina, SK

**Merin Coutts**

Regional Manager, Shaw Cable, Saskatchewan Division  
Saskatoon, SK

**Howard Crofts**

Vice-President Business Assurance Services  
Meyers Norris Penny  
Regina, SK

**Dwight Dunn**

Manager, Western Financial Group  
Wolseley, SK

**W.J.A. (Bill) Heidt**

Retired insurance professional  
Kelowna, BC

**Rick Kennedy**

Regional Director, Great-West Life  
Saskatoon, SK

**Tyrone Klewchuk**

Businessman  
Yorkton, SK

**Rick Orr**

Mortgage Broker  
Prince Albert, SK

**Rick Smith**

Senior Vice-President, Henderson Insurance  
Moose Jaw, SK

**Jeff Sterzuk**

Chief Operations Officer, Impact Society  
Calgary, AB

**Rick Watson**

Watson Tractor  
Regina, SK

## Vice-Presidents

**Earl G. Cameron**

Vice-President  
Claims and Salvage

**John Dobie**

Vice-President  
Canadian Operations

**Tamara Erhardt**

Vice-President  
Human Resources and Corporate Services

**Randy Heise**

Vice-President  
Underwriting

**Don Thompson**

Chief Financial Officer

**Dwain Wells**

Vice-President  
Systems and Facilities

**Sherry Wolf**

Vice-President  
Auto Fund

## In memoriam:

**Marlene Elliott**, a Clerk 5 in Driver Records, was a dedicated employee who worked for SGI for almost three decades.

Many will remember Marlene for her generous nature and kind heart. She was known for her ability to listen, understand and show compassion to her friends and co-workers.

Marlene also enjoyed taking part in many SGI extracurricular activities and attending Roughrider games.

Marlene passed away on Aug. 29, 2009, in Germany.

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**Christopher Holowka**, an Appraiser in Appraisal Services, joined the SGI family on Aug. 8, 2006.

Chris was well respected by his co-workers and known for his great work ethic.

Chris celebrated life by fixing cars, going fishing and hunting as well as listening to country and western music. He also enjoyed hockey, baseball and swimming.

His boys were his pride and joy and he loved to watch them participate in many of the sports that he enjoyed playing.

Chris left us on Jan. 3, 2009, at the age of 48.

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**Maureen Legare**, a Clerk 4 in the Auto Fund, worked at SGI for more than 40 years and her passing was felt by many friends and colleagues throughout the organization.

Maureen, an avid Roughrider fan, will always be remembered for her warm smile, passion for gardening and her love of cats.

Though small in stature, her positive outlook and sense of humour put her on a level all her own.

Maureen passed away on Feb. 9, 2009, at the age of 62.

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**Bob Pawelko**, an Admin Analyst 3 in Personal Lines Policy Support, was a long-time SGI employee.

Bob was regarded by his peers as dedicated and loyal. He will be remembered as a skilled professional and for the great pride he took in his work.

Friends and colleagues always enjoyed Bob's sharp wit, generosity and unwavering commitment to his family.

Bob left us on Feb. 14, 2009. He was 56.

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**Christene Pelletier**, a Data Control Co-ordinator in Production Services, will be remembered by family, friends and co-workers as a very generous and kind person.

She was devoted to her children and very passionate about sports, especially baseball and figure skating.

Christene always found time to share her fond memories of the outdoors and her kids with others.

Christene passed away Feb. 10, 2009, at the age of 47.

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