2011

SASKATCHEWAN AUTO FUND

ANNUAL REPORT

CHANGING LANDSCAPES

MISSION

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

VISION

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

VALUES

INTEGRITY

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

CARING

- Leading by example and being accountable for our actions.
- Acting in a manner that preserves the dignity of others.
- Valuing and actively supporting diversity.
- Acknowledging and validating the feelings of others.
- Actively seeking and listening to differing points of view.
- Responding to individual differences.

INNOVATION

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

ABOUT THE SASKATCHEWAN AUTO FUND

The Saskatchewan Auto Fund is the province's compulsory auto insurance program, operating the driver's licensing and vehicle registration system. The Auto Fund is designed to be financially self-sustaining over time. It does not receive money from, nor pay dividends to, the government.

TABLE OF CONTENTS

LETTER OF TRANSMITTAL

Regina, Saskatchewan
March, 2012

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

Your Honour,

I am pleased to submit herewith the annual report of the Saskatchewan Auto Fund for the year ended December 31, 2011, including the financial statements in the form required by the Treasury Board and in accordance with *The Saskatchewan Government Insurance Act.*

Respectfully submitted,

Honourable Tim McMillian
Minister Responsible for Saskatchewan Government Insurance

MINISTER'S MESSAGE

There is no doubt that 2011 was a challenging year for the Saskatchewan Auto Fund. However, it's how you respond to challenges that matters. Despite a year of treacherous driving conditions in the winter and hail storms during the warmer months, the Auto Fund is continuing on a path of efficient operations and excellent customer service.

Part of that involved breaking through red tape and increasing customer convenience. The New West Partnership agreement provided the opportunity for the Auto Fund to harmonize transport weight allowances with Alberta and British Columbia, making trade easier and more productive.

The Auto Fund responded to the increasing number of tech-savvy consumers with a solid first year for its online services. It also began a social media presence as a means of connecting and communicating with customers and engaging them in traffic safety.

At the same time, SGI continues to support the diversity of our province by attracting and hiring new talent who reflect the province's shifting population demographic.

It's embracing changes in the insurance industry with employee training and skill development. All of this will ensure a quality employee base into the future.

In 2011 the Auto Fund demonstrated its value to the province today, and into the future.

I am pleased to present the 2011 Saskatchewan Auto Fund Annual Report.

Honourable Tim McMillan
Minister Responsible for Saskatchewan Government Insurance

CHAIR'S MESSAGE

The Saskatchewan Auto Fund remained focused on the customer in 2011 as it continued to tailor its products and services to meet changing consumer needs.

Technology is changing consumer behaviour and expectations. More people are doing more transactions online. Past strategic decisions, such as the vast computer systems platform upgrade completed in 2010, positioned the Auto Fund to handle these service demands with a successful first year offering online services through MySGI and expanding its features. Plans are in place to expand it further by including more transactions and leveraging it for other uses.

Social media is creating new opportunities for the Auto Fund to connect with customers and share insurance and safety tips.

The need for customer services on these fronts has become part of the Board of Director's considerations as it continues its work to guide the Auto Fund to future success. Part of this process will be a comprehensive Auto Fund coverage review in 2012 to ensure high-quality and sustainable products and services continue to be provided.

The Board also saw some changes this past year. We bid farewell to our Vice Chair, Anne M. Lavack, when her term ended in January 2011. I thank her for her contributions over the past three years. The Board also welcomed a new member, Denis Perrault, CEO of Paradise Consulting in Swift Current.

None of the Auto Fund's 2011 accomplishments would have been possible without its employees, motor licence issuers and its management team. On behalf of all of the Board, I thank the staff and issuers for their hard work and commitment to supporting our vision.

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

PRESIDENT'S MESSAGE

Last summer I explored much of Saskatchewan and marveled at how the landscape varies. What appears as flat prairie from a distance, up close offers rolling hills, bluffs of trees and sand dunes. The province's landscape is full of the unexpected, and so was the Auto Fund's horizon in 2011.

A lot can happen over the course of one year. Global financial markets remained unstable. Saskatchewan's population and economy continued on a path of record growth, which means more drivers on our roads, and more customers with high service expectations.

Change also came from within as the Auto Fund delivered the first year of its five-year strategic plan. We had a successful year offering online services through MySGI, attracting and retaining talented and diverse employees, and using innovation to be more efficient and productive, improving SGI's operations.

These changes and our readiness for them helped the Auto Fund stay reliable, responsible and customer driven, while providing the platform to build for the future. These achievements were possible because of our employees, and I thank them for their hard work and dedication to the Auto Fund's vision of being an organization that everyone is proud to do business with.

Traffic safety remains an area of focus for the Auto Fund. The number of fatal collisions and injuries in the province remains far too high. We're working on bringing those numbers down by reviewing our approach to prevention. Not only will this benefit the public, but also the Auto Fund's own bottom line since every claim has a financial cost associated with it.

As anyone familiar with Saskatchewan's landscape knows, bad weather can blow in out of nowhere. Unfortunately, a perfect storm of costs added up this year and the Auto Fund is posting a record loss. This is due to several factors.

Poor winter driving conditions in early 2011 and summer hail storms significantly increased claim costs.

Long-tail injury claim cost estimates also increased as trends showed that the Auto Fund will be paying more on these claims and for a longer period of time.

Global financial market instability was tough on the Auto Fund with investment earnings lower than forecasted. They also had an impact on claim discounting, causing an increase in claim expenses. This is explained in detail in the Management's Discussion and Analysis section.

The Auto Fund's rocky financial landscape was cushioned by the Rate Stabilization Reserve (RSR). Designed for a year like 2011, it absorbs the impact of a poor year. The Auto Fund uses a common industry standard called the Minimum Capital Test (MCT) to make sure it has enough reserves to pay future claims. Our capital management policy looks for the 12-month average MCT to be in a range of 75 to 150%. At 91%, the year-end average was within the range.

In times of change like these, it helps to control what we can. As such, an independent benchmarking survey in 2011 by the Ward Group showed that SGI operates very efficiently when compared to the rest of the industry.

We've capitalized on existing resources by controlling administrative expenses and increasing productivity with initiatives like the Productivity, Efficiencies and Processes (PEP) Squad. The squad supports and encourages staff to find ways to make SGI a more efficient and competitive corporation that exceeds customer expectations.

At the same time, we're keeping our commitment to being there for customers. The Auto Fund's redesigned website is easier to navigate, tablet-friendly and has new social media and user-interface tools.

SGI has joined social media, where its presence offers another customer communication channel and increases awareness of insurance coverage and traffic safety.

We've responded to what customers want with a successful first year for MySGI and expanding its services by adding registration cancellations and driver's licence payments. MySGI will be a primary focus in 2012, with plans to enhance it to offer more services and enable farmers, commercial and group customers to use it.

One thing that hasn't changed is how the Auto Fund continues giving back to customers with programs and support for organizations and activities that benefit Saskatchewan communities and traffic safety. We're making roads safer by working with partners to expand the Report Impaired Drivers (RID) program across the province and the Auto Fund contributed $10,000 worth of children's books to the Saskatchewan Foster Families Association.

As you can see, there was plenty of change on SGI's landscape over the past year, but we still have an eye on where we want to be in the future and how we get there. Recognizing traffic safety's continuing impact on claim costs, we're focusing on collision and injury reduction strategies. SGI will further leverage MySGI and its social media presence. We're also be looking at how we serve customers with a review of the coverage the Auto Fund provides and the rates it charges to ensure they are both fair and sustainable.

Part of a changing landscape is having the capacity to adjust with it. By identifying both the challenges and opportunities 2011 brought, and having a long-term plan for them, SGI remains a part of Saskatchewan's landscape that is reliable, well managed and committed to customers and communities.

Andrew R. Cartmell

SUSTAINABILITY

Corporate Social Responsibility (CSR) is a broader way of assessing a corporation's bottom line. Instead of focusing on financials, CSR examines what kind of corporate citizen a company is; whether it operates in an economically, socially and environmentally sustainable way as it fulfills the interests of its shareholders.

SGI focuses its CSR framework into four main areas: community, employees, corporate governance and environment.

COMMUNITY

Traffic safety is a big part of SGI's community involvement. Its five-year traffic safety strategy was created with a focus on making things safer in seven main areas of concern: preventing impaired driving, wildlife collisions and distracted driving; seatbelt use; intersection safety; speed management and new drivers.

Driver impairment continues to be the number one contributing factor in fatal collisions in Saskatchewan. Driver distraction is also a growing concern.

The following examples are new and continued activities from SGI's Traffic Safety Strategy:

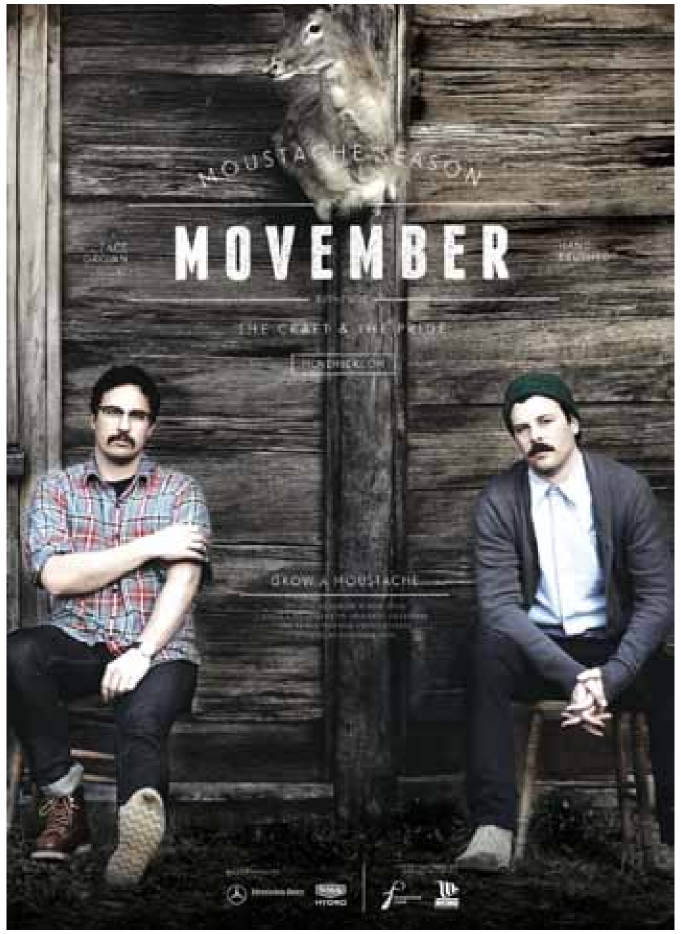
- The Report Impaired Drivers (RID) program is now province-wide. After a successful pilot in Saskatoon, it was expanded to other cities and is now available everywhere.
- A two-year pilot program established traffic safety liaison positions in the File Hills Qu'Appelle Tribal Council and the Saskatoon Tribal Council. Working with elders and youth within the First Nations communities in each tribal council, these two liaisons will identify traffic safety issues in their communities and help come up with solutions.
- The second half of SGI's two-part, youth-targeted, movie-trailer style ad campaign, The Decision, was revealed in April 2011. It showed a possible ending to a story designed to get teens thinking about the issue of drinking and driving. The campaign was a success with 3,500 entries and millions of viewers across Canada and in other countries.
- SGI had continued success with the rural Seatbelt Challenge, a community-driven project designed to improve seatbelt use in rural Saskatchewan. In 2011 the communities of Keeseekoose First Nation and Whitewood came out on top.
- SGI launched the Booster Bear car seat campaign. It features a bright, friendly cartoon bear demonstrating the weight requirements for a booster seat and encouraging children and their parents to use them.
- To help prevent vehicle collisions with moose, SGI partnered with the Saskatchewan Wildlife Federation in a *Moose On The Loose* public awareness campaign. The campaign includes highway billboards, radio and television public service announcements, reflective road-side signs and posters warning the public to watch for moose.

RID encourages the public to report suspected impaired drivers by dialing 911. It's a partnership between SGI, Saskatchewan Liquor and Gaming Authority (SLGA) and the RCMP with support from Students Against Drinking and Driving (SADD) and Mothers Against Drunk Driving (MADD). Police say RID led to over 300 impaired driving charges in 2011.

- SGI implemented the Motorcycle Graduated Driver's Licensing (MGDL) program. MGDL moves new motorcycle drivers through incremental levels of risk as they gain motorcycle driving experience, helping them develop safe skills and reduce collisions.
- SGI worked with municipalities and the Ministry of Highways and Infrastructure to make safety improvements to intersections and roadway corridors.
- SGI is now responsible for driver education funding and administration in Saskatchewan.

SGI also give back to our community in other ways:

- SGI's employee Community Action Team (CAT) donated $10,000 worth of books for children and youth to the Saskatchewan Foster Families Association. CAT also collected more than 2,700 book donations from employees across the province. The books were given to Saskatchewan children and youth in foster care.
- SGI continues its support for local and national events. Employees raised money for the victims of the Japanese tsunami and collected money for Telemiracle, United Way, the Multiple Sclerosis Society of Canada, Movember and the Juvenile Diabetes Research Foundation (JDRF) Ride for Diabetes Research. Staff also participated in the Canadian Blood Services Crown Challenge blood donation drives.



There were a lot of moustaches around SGI during Movember 2011. The month-long prostate cancer awareness drive in November encourages men to collect donations for Prostate Cancer Canada in exchange for growing a moustache. In 2011, SGI held a series of fundraising events and raised more than $14,000.

EMPLOYEES

- SGI is committed to diversity, work-life balance, wellness and community involvement for our employees. We're proud to be recognized across the country.
  - For the fifth straight year SGI was named one of Canada's Top 100 Employers;
  - For the fifth straight year SGI was named one of Canada's Best Diversity Employers;
  - For the third time SGI was named one of Canada's Top Family Friendly Employers; and,
  - For the second time SGI was named a Top Employer for Workers Over 40.
- SGI has a President's Youth Advisory Council made up of 12 members who operate a support network for employees 30 years old and under, and work to increase engagement for all staff.
- Staff were asked for input on corporate direction, whether plans address what SGI is facing and if the corporation is headed down the correct path.
- Several lunch n' learn sessions were held on health and wellness to encourage healthy living and provide those employees with support.
- SGI continues to offer training and development opportunities, classes and support for work-related educational opportunities.
- SGI conducted an employee engagement survey in 2011 and saw increased participation. Engagement scores dropped, consistent with an organization going through change, as we are.

Tweets, status updates, likes and uploading videos are now part of the average day at SGI. By having a presence on websites such as Facebook, Twitter, Flickr and LinkedIn, SGI can reach customers through additional communication channels, increase awareness about the Auto Fund's coverage and traffic safety, and even recruit new employees.

CORPORATE GOVERNANCE

- SGI provides frequent and transparent financial reporting.
- A risk committee of the Board of Directors oversees risk management practices. Work has included developing a policy setting out how SGI manages key business risks on an enterprise basis, and objectives, governance structure and definitions required to support risk management.
- SGI has a risk register that identifies the key financial, operational and strategic risks the Corporation faces (see pg. 32).
- SGI has a detailed code of conduct and ethics that all employees must comply with. It protects the Corporation's reputation by ensuring decision making is in the best interest of all employees and customers.
- SGI adopted a new mandatory Privacy Impact Assessment (PIA) procedure for all new corporate projects and enhancements to existing programs, services and systems. The PIA procedure makes it fast and easy to determine potential impact on privacy data.
- The Board approved SGI's Records Management Policy, which holds all employees accountable for ensuring records are properly classified, useable, complete, accurate, authentic and protected and that they follow the correct archiving practices.
- An ad hoc strategic planning committee of the Board was added in late 2011 to allow enhanced focus on SGI's strategic response to major changes in the business environment.

ENVIRONMENT

- SGI Salvage is a leading automobile recycler. More than 7 million pounds of steel, 82,000 pounds of aluminum and 100,000 parts and assemblies are recycled or reused every year. Salvage also prevents soil and water pollution by collecting various fluids and materials from salvage vehicles.
- The final year of the government's four-year Green Rebate program was 2011. The program rewarded owners of eligible hybrid and fuel efficient vehicles with a rebate of 20% on their 2010 insurance and registration costs. More than 14,000 customers received an average rebate of $210.
- SGI employees had idle-free zone signs installed at head office and all Regina branch drop-off and visitor parking spots. These signs encourage customers and employees not to pollute by idling their vehicle.
- Many SGI employees participated in the Commuter Challenge. Its goal is to encourage the use of environmentally friendly commuting and educate the public about the impact simple changes can make to reduce greenhouse gas emissions. In 2011 SGI employees helped Regina win for most participants in its population category.
- Buildings and offices are regularly renewed, and SGI is committed to green building renovations, upgrading and options chosen for its offices. This year offices in Meadow Lake, Weyburn, Tisdale and the Regina East Claims Centre all underwent building renewal.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis (MD&A) is the responsibility of Saskatchewan Government Insurance (SGI) as the administrator of the Saskatchewan Auto Fund and reflects events known to SGI to February 29, 2012. 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 SGI's website at www.sgi.sk.ca. The Board of Directors approved this MD&A at its meeting on March 1, 2012, after a recommendation to approve was put forth by the Audit and Finance Committee.

OVERVIEW

The MD&A is structured to provide users of the Saskatchewan Auto Fund (the Auto Fund) financial statements with insight into the Auto Fund and the environment in which it operates. This section outlines strategies and the capability to execute the strategies, key performance drivers, capital and liquidity, 2011 results, risk management and an outlook for 2012. Information contained in the MD&A should be read in conjunction with the financial statements and notes to the 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 the Saskatchewan Auto Fund objectives, strategies and capabilities to achieve them. Forward-looking statements are based on estimates and assumptions made by SGI, as the administrator of the Auto Fund, in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances. SGI, as the administrator of the Auto Fund, deems that the assumptions built into the forward-looking statements are plausible; however, all factors should be considered carefully when making decisions with respect to the Auto Fund. Undue reliance should not be placed on the Auto Fund's forward-looking statements, which apply only as of the date of this MD&A document. The Auto Fund does not undertake to update any of the forward-looking statements that may be made from time to time by or on the Auto Fund's or the administrator's behalf.

TABLE OF CONTENTS

THE SASKATCHEWAN AUTO FUND

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. Less than 10% of Saskatchewan licensed vehicles carried any insurance and there was a need for a compensation plan for persons injured in collisions.

In 1946, the government established basic compulsory automobile coverage for Saskatchewan residents under *The Automobile Accident Insurance Act* (AAIA). The Saskatchewan Auto Fund was established effective January 1, 1984, by an amendment to the AAIA, which separated the property and casualty insurance operations of SGI and the compulsory Auto Fund. The administrator of the Saskatchewan Auto Fund is SGI. The role of SGI, as the administrator, is to oversee the operations of the Auto Fund for the Province of Saskatchewan based on the legislative requirements contained in the AAIA.

The Auto Fund, as the compulsory automobile insurance program for Saskatchewan residents, provides vehicle registrations, driver's licences, basic minimum liability insurance required to operate a vehicle and coverage for damage to or loss of an insured's vehicle, subject to a deductible. Liability insurance coverage provides for a specific amount to cover property damage and/or injuries caused to another person. The compulsory insurance also includes injury coverage that provides an option to choose between No Fault Coverage and Tort Coverage. This basic insurance package allows a currently registered vehicle to operate legally anywhere in Canada or the United States of America.

The Auto Fund is governed by legislation contained in the AAIA, *The Traffic Safety Act, The All Terrain Vehicles Act* and *The Snowmobile Act* (the Acts) along with related regulations created by these Acts. The Auto Fund is also subject to legislation contained in *The Crown Corporations Act*, *1993* and Part IX of The Insurance Companies Act (Canada) regarding the investments of the Auto Fund. It is subject to provincial privacy and access to information legislation contained in *The Freedom of Information and Protection of Privacy Act* and *The Health Information Protection Act.* It also has administrative, enforcement and other related duties under other provincial acts and regulations, and under the federal Criminal Code.

The Auto Fund does not receive money from, nor pay dividends to, the Province of Saskatchewan, SGI or Crown Investments Corporation of Saskatchewan (CIC). CIC is SGI's parent corporation. The Auto Fund is operated on a self-sustaining basis viewed over a long-term time frame. Any annual financial excess or deficiencies of the Auto Fund are recorded in its Rate Stabilization Reserve (RSR). The RSR is held on behalf of Saskatchewan's motoring public and cannot be used for any other purpose by the government or the administrator.

Financial results for the Auto Fund are not included in the consolidated financial statements of SGI nor CIC's consolidated financial statements, as the Auto Fund is a fund of the Province of Saskatchewan. Financial results for the Auto Fund are included in the Province of Saskatchewan's summary financial statements using the modified equity accounting method as permitted by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

The Auto Fund, at December 31, 2011, had 400 motor licence issuers[1] in 300 communities across Saskatchewan. It also operates 21 claims centres and five salvage centres in 13 communities across the province along with seven branch licence issuing offices. The Auto Fund's business operation is restricted to the Province of Saskatchewan and is operated from SGI's head office located in Regina, Sask.

The Auto Fund's quarterly and annual reports are available on SGI's website at www.sgi.sk.ca. Navigate to About and then click on Quarterly Reports or Annual Reports.

THE ENVIRONMENT THE AUTO FUND OPERATES IN

The Auto Fund's customers are Saskatchewan residents. It provides all residents with automobile injury coverage and a choice between a no fault or tort product. As the sole provider of vehicle and driver's licensing in Saskatchewan, the Auto Fund operates based on legislative powers granted in the Acts. The Auto Fund is required to submit vehicle insurance rate changes to the Saskatchewan Rate Review Panel (SRRP), whose mandate is to evaluate the rate change and to provide an opinion on the fairness and reasonableness of the requested change. SRRP does not have the authority to implement any of its recommendations; the final decision to approve, change or reject rate changes is at the discretion of the provincial government.

[1] This and other terms are defined in the Glossary of Terms beginning on page 86.

The Auto Fund provides vehicle registrations, driver's licences and related services to approximately 736,000 drivers and approximately one million vehicles and trailers in Saskatchewan. Business partners range from independent motor licence issuers, autobody shops, driver educators and law enforcement agencies, to health-care providers. These business partners are involved in different aspects of the Auto Fund's operations from licensing, road safety and repair of damaged vehicles, to provision of medical care and rehabilitative services for those injured in motor vehicle collisions.

The Auto Fund's philosophy is that all drivers are treated equally unless their driving record shows they are a greater risk for causing a collision. It does not use a driver's age, gender or where they live to determine a vehicle insurance premium or the fee for a driver's licence. It has successfully maintained this philosophy while offering Saskatchewan customers low rates, proving its merit.

While it has been successful at offering residents of Saskatchewan low rates, the Auto Fund does face challenges. Claim costs represented approximately 84.5% of the Auto Fund's costs in 2011. Over the last 10 years, damage claim costs have increased at an average annual rate of 6.1%, while personal injury costs have grown at approximately 4.4% annually.

New and advanced technology means vehicles are more expensive to repair. New vehicles also cost more to repair than older vehicles and part prices, along with labour rates, continue to rise. As a result, claim costs continue to climb as repair costs outpace inflation.

Injury costs also continue to rise annually. Income replacement benefits have been increasing significantly due to increased wages in the province, and other injury benefits under No Fault Coverage are indexed to inflation each year. Tort and out-of-province liability claims, which are generally based on court awards, increase at a rate significantly higher than inflation.

The Auto Fund was able to maintain its rates throughout 2011 and Auto Fund customers continued to benefit from the lowest average personal vehicle insurance rates in Canada, despite the above noted challenges. However, the rising claim costs, compounded by below average investment earnings, has resulted in the Auto Fund submitting an application to the Saskatchewan Rate Review Panel for a 3.7% increase in rates, with rate rebalancing, for the rating year beginning in August 2012.

The Auto Fund continues to offer its Safe Driver Recognition (SDR) and Business Recognition programs. These programs have been in place since 2002 and 2004 respectively. The SDR program places all drivers on a safety rating scale based on their driving history. The Business Recognition program rewards businesses that maintain good loss experience with discounts on their vehicle insurance. The initial maximum discount of 7% under the SDR program has steadily increased and is currently at 20%. The maximum discount available from the Business Recognition program is 10%. The cost to the Auto Fund in 2011 in terms of lower premium revenue was $104,515,000 (2010 – $97,570,000).

In 2011, the Auto Fund delivered the fourth and final year of the Green Rebate program on behalf of the Province of Saskatchewan that returned just under $3.0 million to customers in the form of a green vehicle rebate. Saskatchewan customers that registered an eligible eco-friendly vehicle were granted a 20% rebate on insurance premiums and registration fees paid for 2010.

STRATEGIC DIRECTION

The Auto Fund's mission, vision and values are as follows:

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

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

VALUES

Integrity Conducting ourselves with honesty, trust and fairness.

Caring Acting with empathy, courtesy and respect.

Innovation Implementing creative solutions to achieve our vision.

CORPORATE STRATEGIES

To meet its vision, the Auto Fund's main areas of focus in 2011 were:

- We work with customers to understand and provide the protection they need;
- We make every service experience excellent for everyone doing business with SGI;
- We operate to benefit customers, owners and their communities; and,
- We continually improve how SGI operates.

Within these areas, specific strategies were adopted to help instil a sense of pride in the Auto Fund's customers, employees, owners and business partners. The Auto Fund uses a balanced scorecard approach to monitor performance and results. The objective of a balanced scorecard is to provide a balanced evaluation of key operational and financial results, activities and achievements with both short– and long-term focus.

The following sections discuss strategies 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 the Auto Fund's corporate strategies. Key performance targets are also reviewed and either updated or removed along with new performance targets being added.

WE WORK WITH CUSTOMERS TO UNDERSTAND AND PROVIDE THE PROTECTION THEY NEED

The Auto Fund's focus on understanding and providing the protection customers need concentrated on two strategies: working with customers, so they understand their insurance needs and the company understands their insurance needs, and providing products that are right for customers.

Key performance indicators in the balanced scorecard to monitor the Auto Fund's success with respect to understanding and providing the protection customers need were:

Legend: ● achieved ○ not achieved

Measure	2011 Target	2011 Result	2012 Target
Educating and informing the public	73%	○ 69.2%	n/a
Auto Fund customer satisfaction with rates	72%	○ 60.2%	n/a

EDUCATING AND INFORMING THE PUBLIC

The understanding of insurance among consumers is generally low, leaving some unprepared for the impact of a loss or claim. An improved understanding will help ensure customers know their basic auto coverage, their option to purchase extension auto coverage and the claim process – all of which will better prepare customers to deal with the effects of a loss.

The Auto Fund conducts an annual survey containing a question related to educating and informing the public. In 2011, the Auto Fund aimed to achieve a score of 73% on this question – it was shy of this target with a score of 69.2%. While educating and informing the public continues to be important to the Auto Fund, this measure will not continue on the 2012 balanced scorecard, but will be encompassed within an Auto Fund value index as discussed below.

AUTO FUND CUSTOMER SATISFACTION WITH RATES

Due to the mandatory nature of Auto Fund products, customer acquisition, customer retention and profitability measures can't be used to assess success with respect to understanding customer needs and providing the products they need. Instead, the Auto Fund must ask customers. In 2011, customers were asked to rate their satisfaction with rates. The Auto Fund was under target with a score of 60.2% of customers indicating they were satisfied with rates.

In 2012, a new measure will be used – the Auto Fund value index. This index assesses whether customers believe the Auto Fund provides products that focus on what's best for them and that are a good value for the price. It's a more robust measure that better addresses the intent of 'working with customers to understand and provide the protection they need.' A target of 74% has been established.

WE MAKE EVERY SERVICE EXPERIENCE EXCELLENT FOR EVERYONE DOING BUSINESS WITH SGI

The Auto Fund's success depends on its ability to provide quality service to its customers and business partners. It has developed key strategies to understand and deliver on customer expectations, as well as to empower front-line employees to respond to customer needs when service levels are not being met.

The following table summarizes the key performance indicators in the balanced scorecard to monitor the Auto Fund's service experience:

Legend: ● achieved ○ not achieved

Measure	2011 Target	2011 Result	2012 Target
Claim service satisfaction survey results (consolidated)	90%	● 90%	90%
Auto Fund service satisfaction	72%	○ 61%	56%

CLAIM SERVICE SATISFACTION SURVEY RESULTS (CONSOLIDATED)

When a consumer purchases an insurance policy, they are purchasing security that the insurance company will be there for them in the event of a loss. An important point of contact with policyholders is at the time of a claim, and the claim experience is a key part of customers' perceptions of the company. Therefore, it is essential to know whether the company is providing a positive claim experience. SGI's key measure for claim service is its semi-annual claim customer service surveys. The Auto Fund targets a claim customer satisfaction rating of 90%, which was met in 2011.

AUTO FUND SERVICE SATISFACTION

The Auto Fund has various touch-points with its customers, and these interactions impact customers' overall perception of the company. Therefore, it is critical that customers have a favourable service experience when dealing with the Auto Fund. The Auto Fund's service satisfaction reflects the degree to which customers feel the Auto Fund provides high standards of customer service. This is assessed using an annual survey.

In 2011, the Auto Fund started moving its predominantly telephone–based survey online. The online result for service satisfaction was 55% and the telephone result was 73% for a consolidated score of 61% – below the target of 72%. The Auto Fund is considering moving the survey entirely online in 2012. Since online survey results tend to be less favourable, a target of 56% was established, based on the 2011 online result.

WE OPERATE TO BENEFIT CUSTOMERS, OWNERS AND THEIR COMMUNITIES

SGI was created in 1944 to rectify problems in the Saskatchewan insurance industry. At that time, poor economic conditions had driven many insurers out of the province. Less than 10% of Saskatchewan's licensed vehicles carried any insurance and there was a need for a compensation plan for persons injured in collisions. True to its roots, the Auto Fund continues to operate to benefit the people of Saskatchewan – its customers, owners and their communities. The Auto Fund does this by focusing on three strategies: protecting the future health of the company; helping customers reduce their risk of suffering a loss; and, helping enable vibrant, thriving, safe communities.

The Auto Fund's success with respect to benefiting the people of Saskatchewan is assessed using the following measures:

Legend: ● achieved ○ not achieved

Measure	2011 Target	2011 Result	2012 Target
Capital adequacy (Minimum Capital Test)	75 to 150%	● 91%	75 to 150%
Traffic fatalities and injuries per 100,000 Saskatchewan residents (F – Fatalities; I – Injuries)	F-13.6	● 13.4	F-14.4
	I-671.0	● 552	I-636.9
Green initiatives implemented	Salvage recycling actuals	● Antifreeze 9,252 litres Fuel 78,710 litres	Salvage actuals 2% reduction in CO_2e

CAPITAL ADEQUACY (MINIMUM CAPITAL TEST)

Capital adequacy speaks to the company's financial strength, which is critical to its future health. An adequate balance in the Rate Stabilization Reserve (RSR) gives the Auto Fund a financial resource to draw on when adverse events increase the cost of claims, thereby protecting customers against unpredictable premiums for their auto insurance. The Auto Fund uses a common property and casualty industry measurement called the Minimum Capital Test (MCT) to monitor the adequacy of the RSR. 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.

The Auto Fund's target range for the MCT is between 75% and 150% on a rolling 12-month basis. While the MCT at December 31, 2011, declined to 60%, on a rolling 12-month basis the MCT was 91%, remaining within the target range. The Auto Fund uses a 12-month rolling basis for its MCT to provide stability to the measure, as short-term events can cause significant volatility to the MCT on a month-to-month basis. The Auto Fund continues to have a target range for 2012 of 75% to 150%.

TRAFFIC FATALITIES AND INJURIES PER 100,000 SASKATCHEWAN RESIDENTS

A key way the Auto Fund gives back to the community is through its traffic safety efforts. Customers have come to value the Auto Fund for its role in promoting traffic safety in the province. Over the years, the Auto Fund has evolved into a national leader in the area of road safety programs. The Auto Fund's traffic safety goals are clear – prevent deaths and injuries due to traffic collisions by addressing driver, vehicle and road safety issues. However, fewer collisions also mean lower claim costs, so work in this area also helps protect the future health of the company.

The targets for this measure reflect the Auto Fund's long-term traffic safety strategy, which aims to reduce traffic fatalities and injuries per 100,000 Saskatchewan residents. In 2011, there were 13.4 fatalities per 100,000 Saskatchewan residents and 552 injuries per 100,000 Saskatchewan residents – meeting the Auto Fund's targets of 13.6 fatalities and 671 injuries respectively.

New targets were established for 2012 using four-year fatality and injury averages – 14.4 fatalities per 100,000 Saskatchewan residents and 636.9 injuries per 100,000 Saskatchewan residents.

GREEN INITIATIVES IMPLEMENTED

Environmental stewardship is another way the Auto Fund gives back to its communities. Through its salvage department, the Auto Fund has been a leader in environmental initiatives since shortly after its inception. In the past decade, the Auto Fund has spread its environmental focus to other areas. As initiatives vary widely and do not lend themselves to an overall numerical measure, the Auto Fund has historically tracked actual salvage recovery, and will continue to measure this. In 2011, the company's salvage operations recovered 9,252 litres of antifreeze and 78,710 litres of fuel.

In 2012, the Auto Fund will also track its production of greenhouse gases as a balanced scorecard measure – the goal is a 2% reduction.

WE CONTINUALLY IMPROVE HOW SGI OPERATES

The Auto Fund understands that to be able to meet customer needs and expectations, it must continually improve its operations – from being more efficient to ensuring employees have the tools to be effective in their jobs. To continuously improve, the Auto Fund strives to achieve the following strategies: building an information savvy business; attracting and retaining employees who help achieve goals; creating an environment that encourages employees to be innovative, creative, accountable and strategic; and, improving processes, productivity and efficiency.

For 2011, the Corporation used internally developed balanced scorecard measures related to employee value, leadership and strategic clarity that couldn't be used to benchmark against other companies. For 2012, SGI has adopted a third-party developed measure, an engagement and enablement score, which allows SGI to benchmark against North American corporate and public sector organizations. Research suggests that engagement alone is not sufficient for employees to perform at their best – they must also have an enabling environment. While employee engagement speaks to commitment and discretionary effort, enablement speaks to appropriate roles for employees and a supportive work environment. As leadership and strategic clarity are key drivers of the engagement and enablement score, they will no longer be separately reported balanced scorecard measures in 2012.

The balanced scorecard measures used to monitor the Auto Fund's success with respect to continually improving how the company operates were:

Legend: ● achieved ○ not achieved

Measure	2011 Target	2011 Results	2012 Target
Employee value index result	65%	○ 59.7%	Engagement & enablement score
External diversity hiring	25%	● 35.7%	25%
Training investment compared to financial services industry	+/- 5% of average	● at industry average	+/- 5% of average
Leadership index result	57%	○ 54%	n/a
Strategic clarity index result	75%	○ 70.7%	n/a
Administrative expense ratio	7.7%	● 7.3%	7.0%

EMPLOYEE VALUE INDEX RESULT

Employees derive value from their overall work experience. Maximizing this value is critical to engaging and retaining employees and optimizing both employee and organization performance. The Auto Fund's employee value index measures how involved and committed people feel toward the organization. The 2011 target of 65% was not met, with a score of 59.7%.

In 2012, the Auto Fund is replacing the employee value index with the engagement and enablement score, as discussed above. The target is to be at or above a third-party developed, aggregate, average engagement and enablement score, based on participating North American corporate and public sector organizations.

EXTERNAL DIVERSITY HIRING

Provincial and corporate demographics demonstrate the need to recruit a workforce that is representative of the population. The Auto Fund targeted 25% of new hires to be from designated groups and exceeded this target with 35.7%. The Auto Fund continues to target the recruitment of designated group members in 2012.

TRAINING INVESTMENT COMPARED TO FINANCIAL SERVICES INDUSTRY

Investing in learning and development for employees is critical to maintaining a high-performing, engaged workforce. In 2010, the Auto Fund began measuring corporate training investment against the financial services industry average, based on the Conference Board of Canada's training investment metrics. The Auto Fund's 2011 target was to achieve a training investment within 5% of the financial services industry average and it met this target. The 2012 target continues to be within 5% of the Conference Board of Canada average.

LEADERSHIP INDEX RESULT

Leadership is critical to attracting and retaining employees who help achieve goals, as well as creating an innovative, creative, accountable and strategic environment. The Auto Fund recognizes the importance of leadership and developed an index to measure the extent employees believe the management team is delivering on important attributes such as integrity and empowerment. The 2011 target of 57% was narrowly missed with a score of 54%.

While leadership is critical to the Auto Fund's long-term success, it will no longer appear separately on the balanced scorecard. Instead, leadership is encompassed as a component within the Auto Fund's engagement and enablement score.

STRATEGIC CLARITY INDEX RESULT

Strategic clarity is achieved when employees understand the strategic direction of the Auto Fund, how their work contributes to achieving strategic goals and the progress the Auto Fund is making towards its strategic goals. The strategic clarity index measures how well employees believe the Auto Fund is achieving those goals. At 70.7%, the 2011 score is below the 75% target. While the result is below target, the score remains strong, demonstrating that employees' perceptions of how well they understand the Auto Fund's direction and their alignment to it are high.

The Auto Fund recognizes that a genuine understanding of the corporate direction by employees is important so that everyone is working toward a common outcome. That said, the strategic clarity index will not appear on the Auto Fund's 2012 balanced scorecard, as it is encompassed as a component of the Auto Fund's engagement and enablement score.

ADMINISTRATIVE EXPENSE RATIO

To ensure effective use of resources, all aspects of the business are expected to manage their allocated administrative expense budget such that the Auto Fund remains within its administrative expense ratio. The ratio is total administrative expenses expressed as a percentage of net premiums earned. The actual administrative expense ratio is compared to budgeted ratios within the specified time period. For 2011, the Auto Fund achieved its target with a 7.3% administrative expense ratio. Analysis of the administrative expense ratio is provided in more detail in the following 2011 Financial Results section. The target for 2012 is 7.0%.

CAPABILITY TO EXECUTE STRATEGIES

Fundamental to the capability to execute corporate strategies, manage key performance drivers and deliver results are employees, motor licence issuers, technology and systems, and capital and liquidity. They are discussed further below:

Employees

Auto Fund employees are experienced and knowledgeable about the Saskatchewan automobile insurance market. Many employees have been with the Saskatchewan Auto Fund for a long time, on average approximately 15 years, and the staff turnover rate for the last five years has averaged 6%. Due to this long tenure and low turnover, employees have significant expertise in the core areas of the Auto Fund including licensing and registration, driver and vehicle safety services and claim handling, as well as within the support areas.

SGI, as the administrator of the Auto Fund, is projecting a significant level of retirements in the near future as a large portion of its workforce reaches retirement age. In fact, over 35% of employees are expected to retire or be eligible for retirement by 2020. The challenge is to recruit and retain the best people to ensure the longevity, growth and maintenance of operations. SGI utilizes a workforce-planning model that includes Aboriginal employment, youth employment, management development and expanded performance management strategies. This model assists 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 the Canadian Office and Professional Employees' Union, Local 397 expired. A new four-year agreement was ratified in August 2011. This agreement applies to all in-scope employees at SGI and expires December 31, 2013.

Motor licence issuers

The Auto Fund provides accessibility for its customers by distributing products through a network of 400 independent motor licence issuers in 300 communities across Saskatchewan and seven branch offices throughout the province. Motor licence issuers' interests are represented by the Insurance Brokers' Association of Saskatchewan. The relationship between the Auto Fund and motor licence issuers is governed by an Issuer Accord. The accord is intended to enhance the working relationship resulting in improved service to customers. Included in the accord are 15 agreed upon principles, ranging from fostering better communication between both groups, recognizing the value of each other's roles to provide service to Saskatchewan people, along with partnering on traffic safety programs. The accord was renewed in 2011 for another five years.

Technology and systems

The Auto Fund relies on its technology and information system to deliver products and services to the motoring public. A new system was implemented in 2010 that offers more choices for customers, provides better and more accessible information, allows the Auto Fund to respond more quickly to customers and better positions the Auto Fund for future demands.

Capital and liquidity

As the Auto Fund belongs to the Province of Saskatchewan, its legislation restricts how it can raise capital and mandates the benefits it is to provide to policyholders. The Auto Fund does not pay dividends to or receive money from the province nor from SGI, the administrator of the Auto Fund. The Auto Fund cannot go to public capital markets to issue debt or common shares. Since these traditional avenues for capital are not available to sustain the Auto Fund, it uses premiums and fees from its operations, along with income generated from its investment portfolio, to fund future operations. If premiums, fees and investment income are not sufficient to sustain operations, it must increase rates. The Saskatchewan Rate Review Panel reviews rate changes and then passes on its recommendations to the provincial government, which has the final authority to approve, modify or reject rate changes.

A key operating principle for the Auto Fund is ensuring consistency and stability in rates so that customers are not subject to ongoing price fluctuations or large rate increases. An adequate balance in the Rate Stabilization Reserve (RSR) gives the Auto Fund a financial resource to draw on when adverse events increase the cost of claims or a decrease in capital markets occur, thereby protecting customers against unpredictable premiums for their auto insurance. The Auto Fund uses a common industry measurement called the Minimum Capital Test (MCT) to establish a target for the RSR. 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.

The Auto Fund's capital management policy establishes a target MCT range of 75% to 150%. If the MCT on a 12-month rolling average basis falls below the 75% minimum, the policy requires the Auto Fund to bring to the SGI Board of Directors a proposal to address the shortfall, including consideration of obtaining additional revenue to replenish the RSR. Similarly, if the MCT is above 150% on a rolling 12-month basis, a rebate would be considered.

The MCT at December 31, 2011, was 60%, compared to 124% at December 31, 2010. However, on a rolling 12-month basis, the MCT was 91%, remaining within the target range. The decline in the MCT score during 2011 was due primarily to the reduction to the RSR caused by high claim costs and poor investment returns as discussed in the following section, 2011 Financial Results.

2011 FINANCIAL RESULTS

FOR THE YEAR ENDED DECEMBER 31, 2011

Overview

The Auto Fund experienced a decrease to the Rate Stabilization Reserve (RSR) of $142.9 million in 2011, compared to a $92.7 million increase in 2010, a decrease of $235.6 million year over year. The deterioration in the RSR is primarily a result of considerable claim costs, which increased $202.2 million over the prior year. Essentially, three unrelated events combined to result in the higher claim costs – summer storms, actuarial analysis indicating worsening long-tail injury claim costs, and financial market instability impacting claim discounting.

Investment earnings declined $67.7 million from 2010, consistent with the global investment market declines being experienced. Investment markets experienced significant volatility during the year. Although bond investments performed well in 2011, this is offset largely by the negative impact that lower bond yields had on discounting of unpaid claims. At the same time capital market volatility resulted in negative investment returns on equities, leading to lower investment earnings overall compared to 2010.

After the $142.9 million loss, the RSR at December 31, 2011 is $134.3 million, the Minimum Capital Test (MCT) is 60% and the 12-month rolling average MCT is 91%.

STATEMENT OF OPERATIONS

Premiums written

Overview

Net premiums written for 2011 totalled $744.7 million, representing an increase of 5.1% or $36.4 million, from 2010. The number of vehicle and trailer written exposures in Saskatchewan increased 1.9% to 1,100,261 from 1,080,007 in 2010. This growth in exposures, combined with a mix of newer model year vehicles that cost more to insure, accounts for the increase in vehicle premiums written.

Discount programs

The Safe Driver Recognition and Business Recognition programs continue to return more dollars to Auto Fund customers each year. In 2011, these programs returned $104.5 million to customers through safe driving discounts, compared to $97.6 million in 2010. Expressed as a percentage of vehicle premiums, this equates to an average discount of 12.4% for 2011 (2010 – 12.3%). The maximum discounts available under each program are 20% for the Safe Driver Recognition program and 10% for the Business Recognition program.

Claims incurred

Claims incurred in 2011 were $806.9 million, $202.2 million or 33.4% higher than 2010. The following table details the claim costs by categories:

(thousands of $)	2011	2010	Change
Current year			
Damage claims – current year	$ 391,237	$ 373,329	$ 17,908
Storm claims	32,409	22,249	10,160
Total damage claims	423,646	395,578	28,068
Injury claims – current year	285,707	215,249	70,458
	709,353	610,827	98,526
Development on prior year claims			
Injury claims			
– extending long-term payout period	252,064	–	252,064
– discounting impact	(241,939)	–	(241,939)
Net impact of extending payout period	10,125	–	10,125
Injury claims – other	7,165	30,875	(23,710)
	17,290	30,875	(13,585)
Damage claims	7,361	(44,507)	51,868
	24,651	(13,632)	38,283
Impact of discounting			
Effect of portfolio restructuring	35,562	–	35,562
Change in the discount rate	37,358	7,491	29,867
	72,920	7,491	65,429
Total claims incurred	$ 806,924	$ 604,686	$ 202,238

Current year claims

Current year damage claims are $28.1 million, or 7.1% higher than the prior year. Contributing to this increase was a high number of damage claims in the first quarter resulting from poor winter driving conditions, while the winter driving conditions in the first quarter of 2010 were particularly good. In addition, damage costs related to summer storms compared to 2010 were $10.2 million higher. The storm claim costs experienced in 2011 are significantly higher than typical and represent the highest storm claims over the past 10 years. The five-year average for storm claims is $10.6 million. The volume of damage claims is 108,928, an increase of 10.1% from the prior year, and the damage frequency was 125.2 collisions per 1,000 insured years in 2011, an increase of 8.9% (2010 – 115.0).

Current year injury claim costs have increased by $70.5 million, or 32.7%. The increase is due in large part to certain injury benefits costing more, as claimants are expected to stay on benefits longer than previously thought. As discussed below, a review of the payout period for injury benefits was performed during 2011, and as such has been taken into consideration in costing 2011 injury claims. In addition, there have been significant inflationary increases on income replacement benefits and medical expenses. The average cost per claim has increased 27.5% during 2011, while injury frequency has increased from 6.3 injury claims per 1,000 insured years in 2010 to 6.5 in 2011.

Development on prior year claims

With the assistance of its actuary, the Auto Fund makes provisions for future payments on existing claims and an estimate for claims that have occurred but have not yet been reported. At the end of each year, the actuary recalculates the estimate of the ultimate costs for prior years (along with an estimate for the current year). If the actuary reduces the estimate for prior years, a redundancy exists, resulting in a reduction in claim costs for the year. If the reverse is true and the actuary increases the estimate for prior years, a deficiency exists, resulting in an increase in claim costs for the year.

During 2011, the Auto Fund increased its estimate for prior year injury claims by $17.3 million. The most significant contributing factor to the deficiency was a $10.1 million adjustment to long-term injury reserves resulting from extending the payout period for severely injured claimants. This adjustment resulted from an actuarial review performed in the second quarter that found, on average, these claimants are expected to collect benefits for longer than previously projected. On an undiscounted basis, the impact is $259.2 million, however, because this adjustment is for extending the payout period beyond 40 years, the discounting impact is significant as well, resulting in the net deficiency of $10.1 million. The remaining $7.2 million injury claim deficiency relates primarily to changing assumptions regarding death benefits.

There was also a deficiency related to prior year damage claims of $7.4 million. This reflects the fact that there was a significantly higher number of 2010 collisions reported in the first quarter of 2011 than had been expected in the 2010 year-end valuation.

The Auto Fund has over 16 years of experience since the no-fault injury program was implemented in 1995 to estimate the cost of injuries. However, factors impacting future costs such as inflation, re-occurrence rates, medical innovations and rehabilitation programs are difficult to anticipate. The Auto Fund's objective is to keep the estimate as accurate as possible with minimal changes to prior-year claim estimates; however, given the nature of this program, changes will inevitably occur in the future. The 2011 total prior year deficiency of $24.7 million represented approximately 2.6% of the provision for unpaid claims estimate at December 31, 2010, of $963.9 million.

Impact of discounting

The increase to claims incurred of $72.9 million due to changes in discounting has resulted from two items. The first is a one-time rebalancing of the investment portfolio in the first quarter that changed the rate at which unpaid claims are discounted. This rebalancing was required to better match the bond portfolio with anticipated future claim payments. The remaining variance is attributable primarily to declines in the discount rate, corresponding to the decrease in bond yields experienced. A lower discount rate results in an increase in the provision for unpaid claims and an increase to claims incurred.

EXPENSES EXCLUDING CLAIMS INCURRED

Expenses excluding claims incurred were $148.0 million (2010 – $138.2 million) for the year, $9.8 million higher than 2010.

Issuer fees of $38.2 million in 2011 represented an increase of $3.4 million compared to 2010. This increase reflects growth in the number of transactions by issuers, combined with growth in the premium base, as issuer remuneration is largely commission based and correspondingly increases with the growth in the vehicle premiums. The issuer fee expense ratio was 5.3% in 2011 (2010 – 5.1%).

Premium taxes of $36.5 million were $2.1 million, or 6.2%, higher than the previous year, consistent with the growth in earned premiums. Premium taxes are 5% of direct premiums earned.

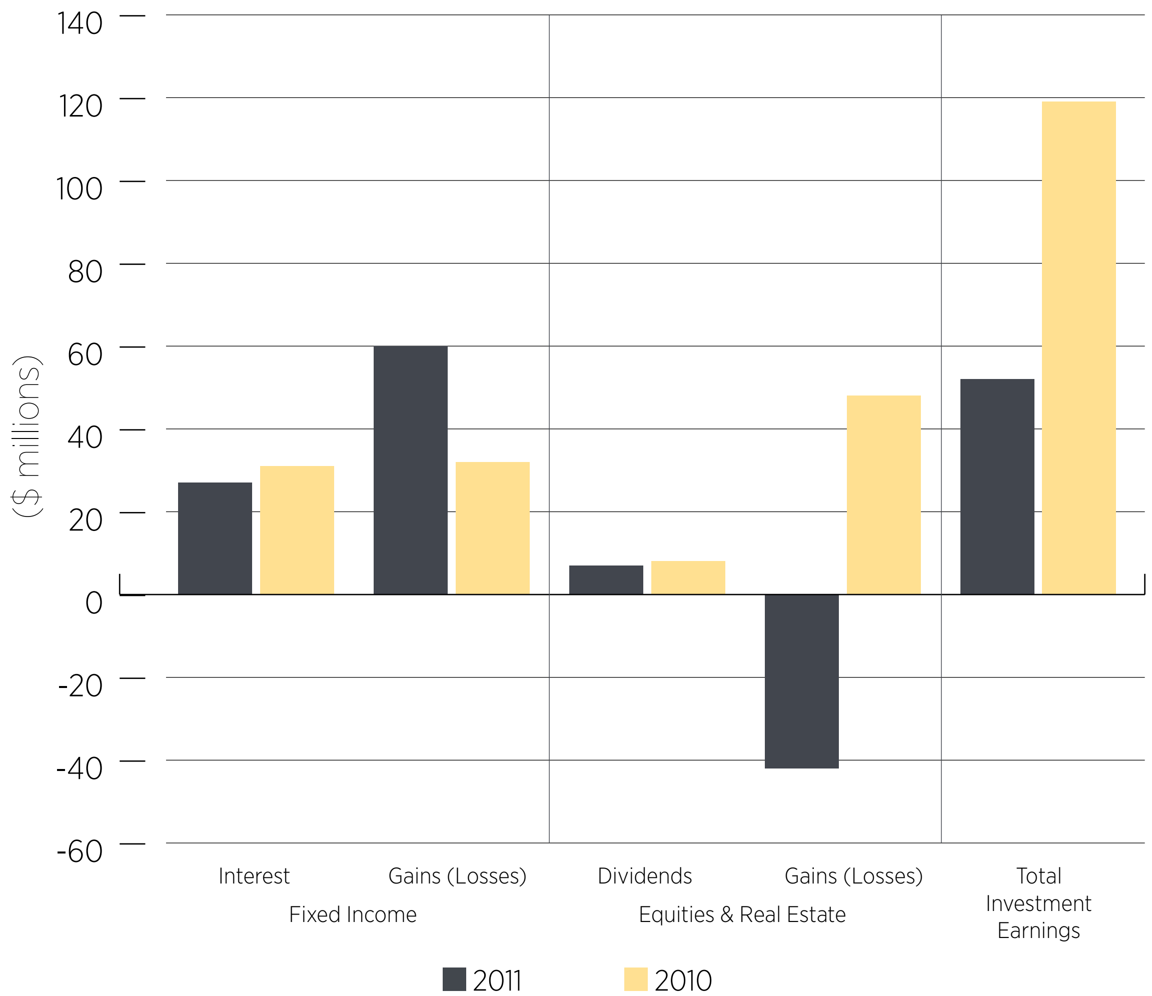
Administrative expenses increased to $52.8 million in 2011, an increase of $1.0 million from 2010. The major contributors to the growth were increases in information technology costs for implementation of the one-part driver's licence and higher issuer credit card charges resulting from increasing customer use of credit cards. Partially offsetting these expenditures were lower salary and benefit costs in the year.

Traffic safety program spending totalled $20.5 million, representing a traffic safety spending ratio of 2.8% of net premiums earned. This was an increase of $3.3 million from 2010, which had a traffic safety spending ratio of 2.5%. The major contributors to the growth were new driver education funding, and salary and benefit costs in the year.

INVESTMENT EARNINGS

As the Auto Fund operates on a self-sustaining basis over time, investment earnings are used to help keep rates stable for vehicle owners. In 2011, investment earnings were $51.7 million and represented 6.4% of total revenues (2010 – $119.4 million or 14.3% of total revenues). Investment earnings are calculated using market-based accounting principles, the components of which are disclosed in note 13 to the financial statements, and include interest, dividends, and both realized and unrealized capital gains and losses on investments. The following chart shows the breakdown of investment earnings between interest and dividends, and capital gains (losses) over the prior two years:

Auto Fund Investment Earnings



Investment markets in 2011 became concerned with economic growth and increasing debt loads in developed economies, causing decreases in equity prices and a flight to the safety of bonds. Central banks continued with easy monetary policy resulting in historically low interest rates generating significant capital gains from the portfolio's fixed income investments.

Asset Class	Benchmark Index	Annual index returns ending December 31 (%) 2011	2010
Canadian equities	S&P/TSX Composite	-8.7	17.6
U.S. equities	S&P 500 ($C)	4.6	9.1
Non-North American equities	MSCI EAFE ($C)	-10.0	2.1
Bonds	DEX Universe Bond	9.7	6.7
Short-term bonds	DEX Short-term Bond	4.7	3.6

Equity markets experienced increased volatility during 2011, beginning the year with positive returns that turned negative during the second quarter. The resource dependent TSX Composite Index finished the year falling 8.7%. The S&P 500 index rose solidly in the fourth quarter resulting in a 2.1% return for the year (4.6% in Canadian dollar terms) while non-North American equities, the EAFE Index, fell 12.1% in aggregate local currency terms (-10.0% in Canadian dollar terms). While foreign equities produced low or negative results during 2011, the corresponding decrease in the Canadian dollar partially limited losses for Canadian investors.

For purposes of portfolio management, a market-based result is calculated that captures all interest and dividend income, as well as the impact of the change in market value of investments, both realized and unrealized. In 2011, the portfolio's market-based return was 3.9% compared to a 9.7% return in 2010. The 2011 return was lower than experienced in 2010 due to poor performance from Canadian and non-North American equities, which detracted from the strong returns generated from the fixed income portfolio.

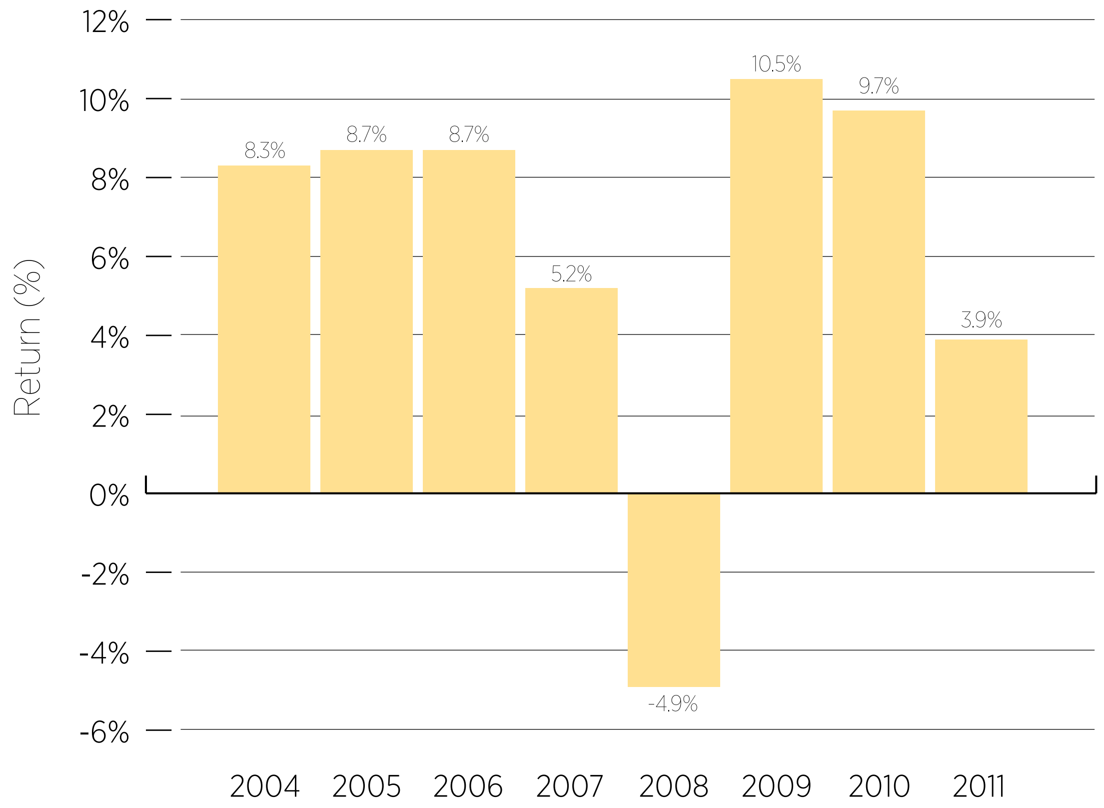
The Auto Fund investment assets are managed as two distinct portfolios – the Matching portfolio and the Return Seeking portfolio. This serves to distinguish between those investment assets that are held to match to the expected unpaid claims liability cash flows and assist in reducing interest rate risk, and those surplus investments assets that are held for growth to provide for longer dated (20+ years) liabilities.

The Matching portfolio holds fixed income investments and a mortgage pooled fund. This portfolio was rebalanced four times during 2011, to keep it properly matched to the expected unpaid claims liability payments from 0 to 20 years. The Matching portfolio is judged on its effectiveness in matching the incoming cash flows from the fixed income assets to the Auto Fund's unpaid claims liabilities.

Any investments not required by the Matching portfolio are held in the Return Seeking portfolio. The Return Seeking portfolio is comprised of equities and real estate. The primary investment performance objective for the Return Seeking 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 SGI's Board of Directors to be consistent with the Auto Fund's overall risk profile when combined with the Matching Portfolio and is reviewed on an annual basis. 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 long-term measure is appropriate as it recognizes that the effectiveness of investment management styles varies depending on the market environment.

Due to increased volatility and the growth-oriented style of the investment manager being out of favour, the Return Seeking portfolio has suffered recent periods of significant under-performance. This has translated into returns that, over the rolling four-year period ended December 2011, are below its objectives. An overall total return for the Auto Fund is shown below.

Annual Market Based Total Fund Return



More information regarding the Auto Fund's Matching and Return Seeking portfolios is provided within the following section related to the Statement of Financial Position, Investments.

OTHER INCOME

Other income consists of fees charged to insureds for utilizing the AutoPay and Short-Term payment option programs, as well as salvage operations income. In 2011, other income of $34.1 million was $2.6 million higher than 2010. Fees earned for using payment option plans totalled $21.8 million, an increase of $1.8 million (2010 – $20.0 million). The increase is due primarily to increases in premiums overall. The overall proportion of premiums financed through the payment option programs remained at 61%, consistent with 2010 (60%). Salvage operations income of $12.3 million (2010 – $9.8 million) is $2.5 million higher than the prior year, a result of higher sales volumes and improved margins due to higher pricing, strong steel prices and improved salvage dismantling processes.

STATEMENT OF OPERATIONS – ACTUAL VERSUS BUDGET

The Auto Fund prepares an annual budget each fall for the upcoming fiscal year. The plan is developed using long-term averages combined with known and expected information for the upcoming year. The Auto Fund's 2011 budget, developed in the fall of 2010, anticipated a decrease to the RSR of $2.2 million. The actual 2011 decrease to the RSR was $142.9 million, an unfavourable variance of $140.7 million. The significant deterioration to the RSR compared to budget was primarily a result of higher than anticipated claim costs and lower than expected equity investment returns.

Claim costs were $162.1 million (25.1%) higher than budgeted. The overall loss ratio was 111.1%, significantly higher than the budgeted loss ratio of 86.9%. Claim costs were higher than expected due to summer storms, the actuarial analysis indicating worsening long-tail injury claim costs, financial market instability impacting claim discounting and generally higher than anticipated medical and income replacement benefits.

Overall investment earnings were $51.7 million, $25.1 million higher than planned. This was due to strong fixed income returns from the Matching portfolio, which were $90.6 million higher than budgeted. However, the strong fixed income returns are offset by the related, negative impact to discounting of unpaid claims. The Return Seeking portfolio, consisting of equities and real estate, experienced a $34.8 million loss compared to a budget of $30.7 million profit, an unfavourable variance of $65.5 million.

STATEMENT OF CASH FLOWS

(thousands of $)	2011	2010	Change
Total operating activities	$ 30,693	$ 84,515	$ (53,822)
Investing activities	(76,913)	(9,962)	(66,951)
Net cash flow	$ (46,220)	$ 74,553	$ (120,773)

Positive operating cash flows of $30.7 million were generated, significantly lower than the $84.5 million positive cash flow generated in 2010. This variance is explained primarily by higher paid claim activity in the current year. The positive cash flow experienced in 2011 was despite a $142.9 million decrease to the RSR during the year, as a large portion of the decrease to the RSR was a result of the non-cash unpaid claim reserve adjustments and claim discounting.

Cash and cash equivalents decreased $46.2 million in 2011, as excess cash and cash flow generated from operating activities of $30.7 million was used to fund investing activities. Investing activities included net investment purchases of $70.1 million and $6.8 million of property and equipment purchases primarily related to building renewal, and furniture and equipment.

The decrease in cash and cash equivalents of $46.2 million during the year resulted in cash and cash equivalents of $34.1 million at the end of 2011. Of this balance, $32.7 million (2010 – $73.5 million) was invested in money market investments with a maturity of 90 days or fewer from the date of acquisition. Money market investments decreased significantly during the year as a result of the investment manager investing the Matching portfolio in longer term liabilities in accordance with the asset liability matching strategy.

STATEMENT OF FINANCIAL POSITION

(thousands of $)	2011	2010	Change
TOTAL ASSETS	**$ 1,711,363**	**$ 1,644,549**	**$ 66,814**
Key asset account changes:			
Investments	1,399,887	1,311,231	88,656
Accounts receivable	174,712	163,573	11,139
Cash and cash equivalents	34,066	80,286	(46,220)
Unpaid claims recoverable from reinsurers	19,764	5,170	14,594
Other assets	14,980	19,939	(4,959)

INVESTMENTS

The carrying value of investments increased by $88.7 million during the year, primarily a result of investing net operating cash flows of $30.7 million in addition to investing $46.2 million in excess cash during the year.

The investment portfolio is held to pay future claims, while the income earned on these investments helps reduce insurance rates for vehicle owners. The portfolio's asset mix strategy is set by the Board of Directors through a detailed assessment of the Auto Fund's risk tolerance. In summary, the Auto Fund's positive cash flows and the presence of the RSR, which serves to buffer the fund from short-term unfavourable investment performance, permits the Auto Fund to maintain a long term investment horizon. 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 Auto Fund 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 2011, volatility again increased and investment earnings retraced some of the positive gains experienced during the recovery of 2009 and 2010. The Auto Fund investment portfolios will continue to hold a diversified asset mix and a longer-term focus, 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 2011.

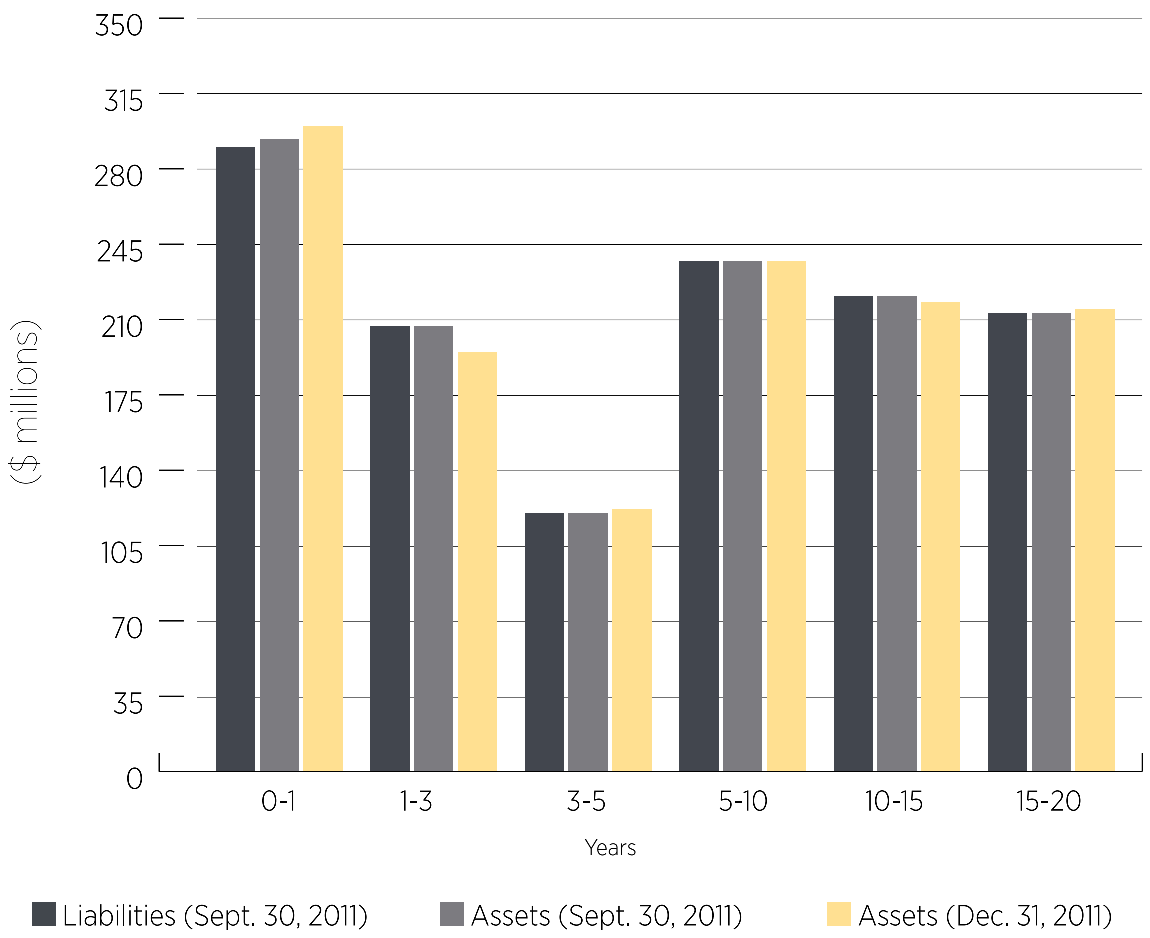
The Auto Fund's investment portfolio is managed by external investment managers. The portfolio is comprised of short-term investments, bonds and debentures, equities, mortgages and real estate. Equities include investments in Canadian and United States common shares as well as an investment in a non-North American pooled equity fund. The Auto Fund's investments in real estate and mortgages are through pooled funds as well. More detail on the investment portfolio categories is provided in note 7 to the financial statements.

The Auto Fund investment portfolio operates as two distinct portfolios – the Matching portfolio and the Return Seeking portfolio. The Matching portfolio holds the fixed income investments including mortgage securities, while the Return Seeking portfolio is comprised of equities and real estate. The investment strategy relies on the Matching portfolio to cover expected liability payments out to 20 years with any remaining long-tail liabilities covered by the Return Seeking portfolio.

The objective of the Matching portfolio is to group claim payments into six buckets based on the expected payment date, and then match the coupon and principal payments from the fixed income assets to each bucket. At initiation, the expected future liability stream and asset stream will demonstrate a close match. However, as bonds mature and actual claim payments vary from projection, the asset liability match will change. In conjunction with the Auto Fund's actuarial valuations, the asset cash flows are realigned to the revised liability cash flows to ensure a close match is maintained. From time to time, the allocation between the Matching portfolio and Return Seeking portfolio may also require rebalancing to maintain the overall risk-return objectives of the combined portfolio.

The liability cash flows for September 30, 2011, and the Matching portfolio asset position as of September 30, 2011, and December 31, 2011, are shown below:

Matching Portfolio Asset Liability Cash Flows

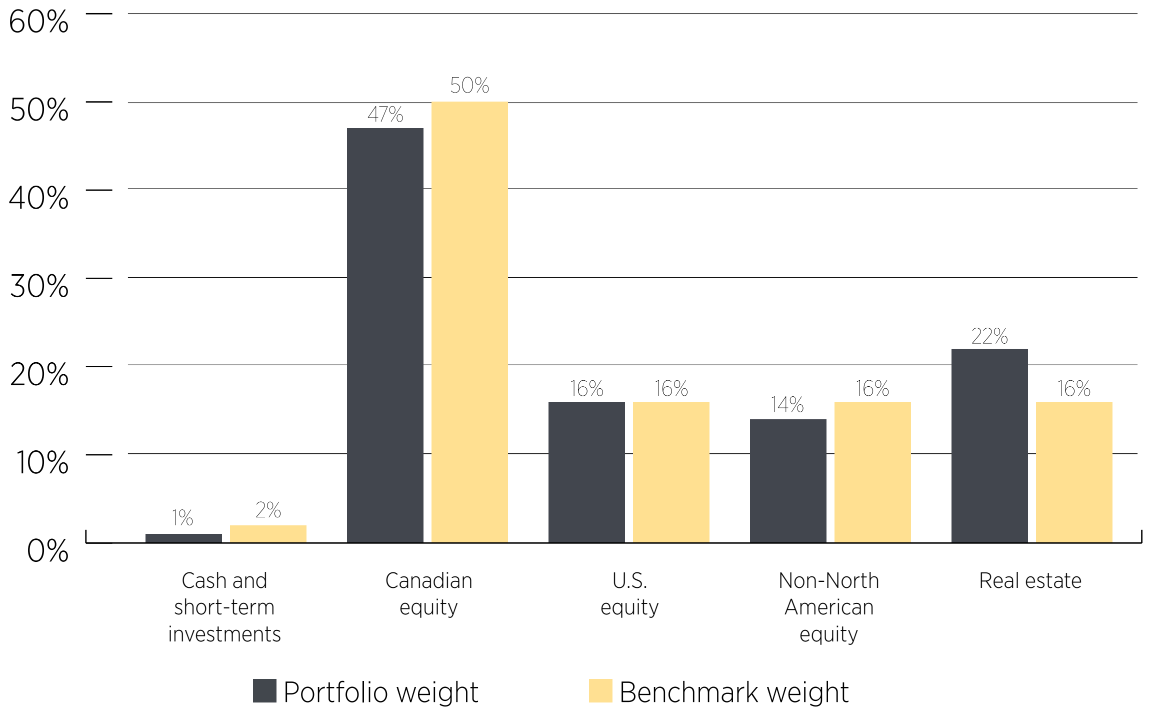


After significant changes were introduced in 2010 creating the Matching portfolio, the asset mix review conducted during 2011 focused on the Return Seeking portfolio. The review identified new optimal portfolios that improve the risk return profile by reducing Canadian equity exposure and introducing two new asset classes. The addition of infrastructure and global small cap equities, which when combined with the other assets in the Return Seeking portfolio, showed a significant reduction in volatility and potential downside for the portfolio without sacrificing returns.

The current portfolio weights within the Return Seeking portfolio are not in line with the long-term benchmark portfolio weights due to the expected transition to the new asset classes during 2012. As the new mandates are funded, the investment managers will be provided new benchmark guidelines to adhere to.

The portfolio asset mix and benchmark weights at December 31, 2011, are shown below:

Return Seeking Portfolio Asset Mix at December 31, 2011



ACCOUNTS RECEIVABLE

Accounts receivable increased $11.1 million, largely a result of the AutoPay financed premiums receivable growing by $10.9 million, or 7.3%, to $160.2 million. The increase is commensurate with the growth in premiums written.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31, 2011, were $34.1 million (2010 – $80.3 million), a decrease of $46.2 million. The sources of the change in cash and cash equivalents for the year are discussed in the above section, Statement of Cash Flows. Cash equivalents consist of money market investments such as treasury bills, banker's acceptances, discount notes or other liquid short-term investments that have a maturity of 90 days or fewer from the date of acquisition.

UNPAID CLAIMS RECOVERABLE FROM REINSURERS

Unpaid claims recoverable from reinsurers increased $14.6 million, due primarily to severe hailstorms in 2011 breaching catastrophe reinsurance coverages.

OTHER ASSETS

Other assets decreased by $5.0 million during the year, due primarily to amortization of the capitalized value of the Auto Fund's redeveloped information system, which is included within intangible assets.

(thousands of $)	2011	2010	Change
TOTAL LIABILITIES	$ 1,567,778	$ 1,358,040	$ 209,738
Key liability account changes:			
Provision for unpaid claims	1,170,687	963,926	206,761
Unearned premium	337,389	318,928	18,461
Accounts payable and accrued liabilities	22,253	39,622	(17,369)

PROVISION FOR UNPAID CLAIMS

The provision for unpaid claims reflects the estimated ultimate cost of claims reported but not settled, along with claims incurred but not reported. The process for determining the provision requires management judgment and estimation as discussed in the following section, Critical Accounting Estimates.

The provision for unpaid claims grew by $206.8 million during 2011 to $1.2 billion (2010 – $963.9 million). This represents an increase of 21.4% from last year. Key components of the change in the provision for unpaid claims are discussed in the preceding section, Claims Incurred. The majority of the increase is in unpaid injury collision benefits and is due to the continuing growth of the no-fault program as an additional year of losses is included in the provision, in addition to the impact of discounting. As the overall discount rate declined in 2011, the provision for unpaid claims increased accordingly.

UNEARNED PREMIUMS

Unearned premiums increased $18.5 million, commensurate with the growth in premiums written.

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities decreased $17.4 million during 2011 to $22.3 million (2010 – $39.6 million). The decrease is due to the timing of year end payments to the Auto Fund's administrator, SGI CANADA, related to the allocation of administrative expenses and to the General Revenue Fund related primarily to interprovincial registrations.

(thousands of $)	2011	2010	Change
EQUITY	$ 143,585	$ 286,509	$ (142,924)
Key equity account changes:			
Rate Stabilization Reserve	134,261	271,856	(137,595)
Redevelopment Reserve	9,324	14,653	(5,329)

Overall, equity decreased $142.9 million during the year, a result of the decrease to the RSR from operations.

RATE STABILIZATION RESERVE (RSR)

The decrease to the RSR was a result of the $142.9 million decrease from operations, combined with a $5.3 million appropriation from the Redevelopment Reserve. The appropriation from the Redevelopment Reserve offsets the redevelopment amortization charged through current year operations.

REDEVELOPMENT RESERVE

The Redevelopment Reserve was established to ensure that adequate funding was available to meet the Auto Fund's commitment to redevelop its information system. During 2011, amortization of capitalized project costs were $5.3 million (2010 – $6.7 million), therefore, the reserve was reduced accordingly with $5.3 million (2010 – $6.7 million) appropriated back to the RSR.

The Redevelopment Reserve was originally established at $35.0 million, as the project cost was not to exceed this amount. The project was completed at the end of 2010. It addressed the antiquity of the previous systems, makes improvements in delivering changes, offers more choices for customers, provides better and more accessible information, and better positions the Auto Fund for future demands. The remaining balance in the Redevelopment Reserve will be reduced and appropriated back to the RSR as the capitalized cost of the project is amortized in the future.

FOR THE THREE MONTHS ENDED DECEMBER 31, 2011

The Auto Fund prepares public quarterly financial reports for the first three quarters of each year. These reports are available on SGI's website at www.sgi.sk.ca. Click on the About link and then click on Quarterly Reports. The following analyzes the fourth quarter of 2011.

The Auto Fund recorded a fourth quarter increase to the RSR of $17.9 million, relatively consistent with the increase of $20.8 million in the fourth quarter of 2010.

The Auto Fund experienced a loss from underwriting in the fourth quarter of 2011, primarily the result of higher claims incurred. Claims incurred for the quarter of $169.2 million were $19.0 million higher than the fourth quarter in 2010 ($150.2 million), a result of 2010 claims incurred being deficient, increasing costs of injury claims and the impact of changes in the discount rate, partially offset by better results in the quarter from damage claims due to improved driving conditions.

Fourth quarter investment earnings of $33.9 million were $9.4 million higher than the fourth quarter of 2010. The increase in investment earnings is due primarily to significant capital gains from investments during the fourth quarter of 2011.

QUARTERLY FINANCIAL HIGHLIGHTS

The following table highlights quarter over quarter results of the Auto Fund:

Quarterly Financial Highlights

(thousands of $)

	2011					2010				
	Q4	Q3	Q2	Q1	**Year**	Q4	Q3	Q2	Q1	Year
Net premiums earned	$184,540	$191,610	$181,262	$168,870	**$726,282**	$176,367	$177,570	$173,499	$157,385	**$684,821**
Claims incurred	169,229	246,749	203,817	187,129	**806,924**	150,191	174,118	147,447	132,930	**604,686**
Increase (decrease) to RSR	17,881	(93,724)	(40,108)	(26,973)	**(142,924)**	20,793	45,985	731	25,238	**92,747**
Cash flow from (used in) operations	11,112	36,294	44,776	(61,489)	**30,693**	18,504	35,770	75,153	(44,912)	**84,515**
Investments	1,399,887	1,305,922	1,323,713	1,293,769		1,311,231	1,322,477	1,220,479	1,182,221	
Provision for unpaid claims	1,170,687	1,150,927	1,038,794	984,854		963,926	973,584	933,541	900,556	
Rate Stabilization Reserve	134,261	115,052	207,442	246,216		271,856	249,923	202,381	200,018	

The following points are intended to assist the reader in analyzing trends in the quarterly financial highlights for 2011:

- Premium earnings generally rise in the spring and summer months, largely a factor of increased premiums related to seasonal vehicles.
- Except for the first quarter, the Auto Fund typically generates positive cash flows from operations each quarter. Cash is usually low in the first quarter as annual premium taxes are paid to the province in March. Premium taxes are based on premiums written and were $36.5 million in 2011.

IMPACT OF NEW ACCOUNTING STANDARDS

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

This is the Auto Fund's first year producing financial statements using International Financial Reporting Standards (IFRS), and IFRS 1, *First-time Adoption of International Financial Reporting Standards*, has been applied. Upon transition, the two main impacts include the accounting for unrealized gains and losses on investments and discounting of unpaid claims. All investments are now designated as fair value through profit and loss rather than designated as available for sale. This results in changes in unrealized gains and losses on investments being recognized in the statement of operations, rather than through other comprehensive income. Previously, the Auto Fund did not discount its provision for unpaid claims for all lines of business. In transitioning to IFRS, the Auto Fund is changing this policy to discount the provision for unpaid claims for all lines of business. These two accounting changes were necessary as part of the Auto Fund's asset liability matching strategy to mitigate interest rate risk.

Financial implications and other impacts of the transition to IFRS are described in detail in note 4 of the notes to the financial statements.

FUTURE ACCOUNTING POLICY CHANGES

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

INSURANCE CONTRACTS

International Accounting Standards Board (IASB) issued exposure draft ED/2010/8 Insurance Contracts (the ED) on July 30, 2010. The ED proposes a new standard on accounting for insurance contracts, which would replace IFRS 4, *Insurance Contracts*. The proposals represent the first comprehensive IFRS accounting model for insurance contracts and are expected to have a significant impact on the financial reporting of insurers. The ED does not propose an effective date for the new standard since the IASB plans additional deliberation on the effective dates of these proposals. The final standard is expected in 2012, with implementation not expected before 2015.

FINANCIAL INSTRUMENTS

IFRS 9, *Financial Instruments*, was issued in November 2009 and modifies previous standard IAS 39, *Financial Instruments: Recognition and Measurement.* The new standard requires financial instruments to be measured at either fair value or amortized cost. Under the new standard, the existing categories for available for sale, held to maturity, and loans and receivables will be eliminated.

Equities will have the option to be designated as fair value through other comprehensive income, similar to the current available for sale designation, except that realized gains or losses would remain in accumulated other comprehensive income and impairment decisions would not be required. A fair value option (fair value through income, same as held for trading) will continue to be available on the condition that accounting mismatches are reduced.

The current standard requires adoption by January 2015, which has been deferred from the original adoption date of January 2013. While early adoption is permitted under the standard, the Office of the Superintendent of Financial Institutions (OSFI) has indicated that early adoption is not allowed. While the Auto Fund is not federally regulated, it generally follows OSFI's guidance in such matters.

FAIR VALUE MEASUREMENT

In May 2011, the IASB published IFRS 13, *Fair Value Measurement*. IFRS 13 replaces the fair value measurement guidance contained in various standards with a single source of fair value measurement guidance. This standard may impact the measurement of fair value for certain assets and liabilities as well as the associated disclosures.

IFRS 13 is applicable prospectively for annual periods beginning on or after January 1, 2013. Earlier application is permitted with disclosure of that fact. The Auto Fund is in the process of assessing the impact of IFRS 13 on its financial statements.

RELATED PARTY TRANSACTIONS

The Saskatchewan Auto Fund 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 are entered into in the normal course of business and are settled at prevailing market prices under normal trade terms. Details of significant related party transactions disclosed in the financial statements follow.

SGI is the administrator of the Saskatchewan Auto Fund on behalf of the Province of Saskatchewan. Administrative and loss adjustment expenses incurred by SGI are allocated to the Auto Fund directly or on the basis of specific allocations. Amounts incurred by SGI and charged to the Auto Fund were $124.1 million (2010 – $119.4 million).

Certain Board members are partners in organizations that provided $99,000 (2010 – $36,000) of professional services to the Auto Fund. In addition, an SGI Board member owns an organization that provides insurance services on behalf of the Auto Fund. Premiums written during the year from this organization amounted to $1.8 million (2010 – $1.8 million) and the associated accounts receivable at December 31, 2011, were $22,000 (2010 – $23,000). Issuer fees related to these premiums were $145,000 (2010 – $148,000). The above noted transactions are routine operating transactions in the normal course of business.

OFF BALANCE SHEET ARRANGEMENTS

The Auto Fund, in its normal course of operations, enters into certain transactions that are not required to be recorded on its statement of financial position – commonly referred to as the balance sheet. These items include litigation, structured settlements and rehabilitation funding commitments. These items are discussed below and in the notes to the financial statements.

The Auto Fund, as is common to other entities that operate in the insurance industry, is subject to litigation arising in the normal course of insurance operations. The Auto Fund is of the opinion that current litigation will not have a material impact on operations, the financial position or cash flows of the Auto Fund.

In the normal course of settling claims, the Auto Fund settles some long-term disability claims by purchasing structured settlements (annuities) from various financial institutions for its claimants. This is a common practice in the property and casualty industry. The net present value of the scheduled payments at December 31, 2011, was $22.9 million (2010 – $21.5 million). The Auto Fund has no recourse to these funds. The Auto Fund 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 likelihood of such default is considered extremely remote.

The Auto Fund has contractual obligations to provide funding to Saskatchewan health organizations to provide for rehabilitative services for those injured in automobile collisions. Funding commitments, which are detailed further in note 19 to the financial statements, range between $16.5 million and $26.3 million per year over the next five years.

CRITICAL ACCOUNTING ESTIMATES

This discussion and analysis of financial condition and results of operations is based upon financial statements as presented in this annual report. These financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and interpretations of the International Reporting Interpretations Committee. Significant accounting policies are described in note 3 to the financial statements. Some of these policies involve critical accounting estimates because they require SGI, as the administrator, 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 using different assumptions.

The development, selection and application of key accounting policies, and the critical accounting estimates and assumptions they involve, have been discussed 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 and unpaid claims recoverable from reinsurers.

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 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, 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 at that time. As well, uncertainty exists for reported claims that are not settled, as all necessary information may not be available. Thus, with the level of uncertainty involved in the claim process, until the final settlement occurs, current reserves may not be sufficient. The provision for unpaid claims has been calculated including the impact of discounting. Any adjustments to these estimates, both positive (a redundancy or excess) and negative (a deficiency) are included in the provision for unpaid claims and are reflected as claims incurred in the current year's Statement of Operations.

UNPAID CLAIMS RECOVERABLE FROM REINSURERS

Unpaid claims recoverable from reinsurers includes amounts for expected recoveries related to unpaid claims liabilities, as well as the portion of the reinsurance premium that has not yet been earned. Amounts recoverable from reinsurers are estimated in a manner consistent with claim and claim adjustment expense reserves, and are reported in the Statement of Financial Position. The ceding of insurance does not discharge the Auto Fund'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. At December 31, 2011, and 2010, there is no allowance for doubtful accounts recorded related to unpaid claims recoverable from reinsurers.

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 the Auto Fund by identifying specific risk events and their potential impact on operations, finances and reputation. Each risk event is rated based on the likelihood of the event occurring and severity of the consequences if it did occur, both before and after the application of potential mitigations.

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

The following risks represent the most serious threat to the Auto Fund. 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.

Significant Privacy Breach

Risk: Personal information held by the Auto Fund for a large number of customers is lost, accessed or disclosed to an unauthorized party, resulting in adverse legal, regulatory and financial consequences, as well as a loss in confidence by customers and the shareholder.

Mitigation: Specific guidelines on how to handle personal information have been developed and, to improve employees' awareness of corporate privacy obligations, online privacy training and an annual sign-off of the Code of Ethics and Conduct and the Confidentiality and Non-Disclosure Agreement is required by all staff. SGI has also implemented payment card standards that do not allow the retention of electronic customer credit card information and minimizes the exposure to paper-based sources. In 2009, the Auto Fund began conducting privacy audits in areas that handle customer information, and continues to work on the development of administrative, physical and technical safeguards to reduce the likelihood and magnitude of a privacy breach.

Catastrophic Claims Loss

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

Mitigation: SGI's reinsurance limits were determined based on independent catastrophe modeling, using a 1-in-250-year event assumption to calculate probable maximum loss. To mitigate the risk of reinsurer failure, SGI and its reinsurance brokers monitor the reinsurer rating provided by AM Best, and Standard and Poor's.

Leadership

Risk: Poor strategic planning, poor communication, or a lack of integrity or ethical behaviour lead to low morale and staff engagement, as well as declining revenue and profitability.

Mitigation: SGI's purpose and ideals are defined clearly in the corporate mission, vision and values statements, and the Auto Fund promotes leadership and customer service in its training programs. The corporate commitment to privacy and ethical behaviour is reinforced through the annual review and sign-off by all employees of the Code of Ethics and Conduct. The 2011-15 strategic plan was developed with the feedback of employees and other stakeholders, and provides a detailed plan for the future of the Auto Fund.

Market Value Losses

Risk: Significant fluctuations in market values or a failure to apply the Investment Policy leads to losses on investment portfolios, reducing investment earnings and capital bases.

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 defined by the Insurance Companies Act (Canada). The SIP&G is reviewed annually by the Investment Committee of SGI's Board of Directors, to ensure portfolio risk is acceptable based on both historical and forward-looking volatility. Portfolios are monitored externally by an investment consultant and custodian to ensure compliance with policy guidelines and investment performance standards.

Responsiveness to Business Needs

Risk: SGI is unable to meet the internal demand for new systems and major enhancements to existing systems, due to increased business expectations, increased compliance requirements and resource limitations.

Mitigation: To meet the business needs of the Auto Fund, the Information Services department has a prioritization and resource allocation process, and continues to work with business units to define and deliver support services. Focus has been given to appropriate training for staff, and the development of common platforms for the internal systems environment, which allows shared resources between services.

Transfer and Acquisition of Expertise

Risk: SGI is unable to build and maintain the knowledge, skill and experience within the organization's workforce needed to thrive now and in the future, resulting in lower productivity, higher operating costs, and higher health and safety concerns from overworked employees. Challenges include retirements, recruitment of qualified personnel in a tight labour market and the need to support an analytical culture.

Mitigation: SGI has implemented a number of programs in this area, including competency-based recruitment, mentoring programs, and monitoring of workplace engagement and strategic clarity through employee surveys. A corporate learning strategy was created in 2008 to grow people talent in support of a high-performing organization, and SGI has devoted additional resources to training and development. SGI's succession planning process focuses on ensuring current senior management positions have backups; and, identifying high-performing staff who have potential for more senior roles.

Systems Security

Risk: The security of SGI's systems is compromised by a virus attack, system breach, or unauthorized access to confidential or sensitive information by internal or external parties, resulting in significant financial and reputational damage.

Mitigation: SGI created an IT Security Policy in 2009 which includes corporate standards for user access (including remote and external vendor access), passwords, physical security and wireless networks. Antivirus, email filtering, firewalls and intrusion monitoring are used, and the Auto Fund has a formal disposal process for all systems hardware. SGI has also developed incident response procedures to decrease the severity of a breach, should one occur.

OUTLOOK FOR 2012

The significant loss experienced in 2011 resulted in a decline in the Auto Fund's capital base and, as a result, the 12-month average Minimum Capital Test (MCT) is expected to drop below its target range during 2012. While portions of the loss have been a result of one-time claim reserving events and the current unstable investment markets, the Auto Fund is also experiencing a general trend towards higher claim costs.

The strong Saskatchewan economy is expected to continue to result in premium growth attributable to a newer vehicle population and growth in vehicle counts. However, claim costs continue to escalate as well. With more vehicles on the roads, the number of claims continues to rise, and newer vehicles generally cost more to repair. In addition, rising wages in the province contribute to increasing labour rates paid to autobody shops and higher income replacement benefits for injured persons. Significant weather events, such as hailstorms, are also occurring more regularly leading to higher damage claim costs in recent years.

It is expected that challenging investment markets will continue until investors regain confidence and measures to improve economic growth and limit debt take hold. The unfavourable investment markets present challenges for the Auto Fund, impacting both investment returns and the long-term cost of claims. With the Auto Fund's change to IFRS, unrealized investment gains/losses are recorded in net income and have resulted in higher investment earnings volatility. While investment earnings are expected to continue to fluctuate, volatility caused by interest rate changes is expected to be offset by the impact on the discounting of claim liabilities.

Management monitors financial results closely with a long-term perspective to maintaining fair rates while ensuring the adequate capitalization of the Auto Fund. However, with the expected cost of Auto Fund claims and expenses outpacing growth in premium and investment income, the Auto Fund has submitted an application to the Saskatchewan Rate Review Panel for a 3.7% increase in rates, with rate rebalancing, for the rating year beginning in August 2012. Even with this rate increase, the Auto Fund continues to provide among the lowest average personal vehicle rates in Canada and remains focused to deliver on its vision to be a company where every customer, employee, owner and business partner across Canada is proud to do business and work with it.

RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

Preparation of financial information is an integral part of Management's broader responsibilities for the ongoing operations of the Auto Fund. 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. 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 Auto Fund 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 Auto Fund and the nature of the insurance policies. The actuary also makes use of Management information provided by the Auto Fund and the work of the external auditors in verifying the data used in the valuation.

The financial statements have been examined and approved by the Board of Directors of Saskatchewan Government Insurance, administrator of the Auto Fund. An Audit and Finance Committee, composed of members of the Board of Directors, meets periodically with financial officers of Saskatchewan Government Insurance 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 Auto Fund's financial position and results of operations as shown in the 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
Saskatchewan Government Insurance
as Administrator of the Saskatchewan Auto Fund

Jeff Stepan
Chief Financial Officer
Saskatchewan Government Insurance
as Administrator of the Saskatchewan Auto Fund

March 1, 2012

ACTUARY'S REPORT

To the Board of Directors of
Saskatchewan Government Insurance

I have valued the policy liabilities of the Saskatchewan Auto Fund for its statement of financial position at December 31, 2011, and their change in the statement of operations for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

I am satisified that the data utilized for the valuation of these liabilities is reliable and sufficient. I verified the consistency of the valuation data with the company's financial records.

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

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

March 1, 2012

INDEPENDENT AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the accompanying financial statements of Saskatchewan Auto Fund ("the Entity"), which comprise the statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the statements of operations, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of Saskatchewan Auto Fund as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants
Regina, Canada

March 1, 2012

STATEMENT OF FINANCIAL POSITION

	December 31 2011	December 31 2010	January 1 2010
	(thousands of Canadian $)		
Assets			
Cash and cash equivalents (note 5)	$ 34,066	$ 80,286	$ 5,733
Accounts receivable (note 6)	174,712	163,573	164,400
Investments under securities lending program (note 7)	309,293	202,729	99,495
Investments (note 7)	1,090,594	1,108,502	1,126,012
Unpaid claims recoverable from reinsurers (note 10)	19,764	5,170	–
Property and equipment (note 8)	41,883	38,748	38,327
Other assets (note 9)	14,980	19,939	23,360
Deferred policy acquisition costs (note 11)	26,071	25,602	23,471
	$ 1,711,363	$ 1,644,549	$ 1,480,798
Liabilities			
Accounts payable and accrued liabilities	$ 22,253	$ 39,622	$ 44,777
Premium taxes payable	37,449	35,564	32,683
Unearned premiums (note 12)	337,389	318,928	295,399
Provision for unpaid claims (note 10)	1,170,687	963,926	914,177
	1,567,778	1,358,040	1,287,036
Equity			
Rate Stabilization Reserve	134,261	271,856	172,418
Redevelopment Reserve	9,324	14,653	21,344
Total equity	143,585	286,509	193,762
	$ 1,711,363	$ 1,644,549	$ 1,480,798

Commitments and contingencies (note 19)

(see accompanying notes)

Approved by the Board of Directors and signed on their behalf on March 1, 2012

Warren Sproule
Chairperson, Board of Directors

Howard Crofts
Director

STATEMENT OF OPERATIONS

year ended December 31	2011	2010
	(thousands of Canadian $)	
Gross premiums written	$ 748,961	$ 711,277
Premiums written ceded to reinsurers	(4,218)	(2,927)
Net premiums written	744,743	708,350
Change in net unearned premiums (note 12)	(18,461)	(23,529)
Net premiums earned	**726,282**	684,821
Claims incurred (note 10)	806,924	604,686
Issuer fees	38,200	34,813
Administrative expenses	52,778	51,770
Premium taxes	36,513	34,376
Traffic safety programs	20,547	17,285
Total claims and expenses	**954,962**	742,930
Underwriting loss	**(228,680)**	(58,109)
Investment earnings (note 13)	51,668	119,367
Other income (note 14)	34,088	31,489
Increase (decrease) to Rate Stabilization Reserve and comprehensive income (loss)	**$ (142,924)**	$ 92,747

(see accompanying notes)

STATEMENT OF CHANGES IN EQUITY

(thousands of Canadian $)	Rate Stabilization Reserve	Redevelopment Reserve	Accumulated Other Comprehensive Income	Total Equity
Balance as at December 31, 2009 (Canadian GAAP)	$ 67,211	$ 21,344	$ 66,505	$ 155,060
First-time adoption of IFRS (note 4)	105,207	–	(66,505)	38,702
Balance as at January 1, 2010 (IFRS)	172,418	21,344	–	193,762
Increase to Rate Stabilization Reserve for the year ended December 31, 2010	92,747	–	–	92,747
Appropriation to Rate Stabilization Reserve (from Redevelopment Reserve)	6,691	(6,691)	–	–
Balance as at December 31, 2010	271,856	14,653	–	286,509
Decrease to Rate Stabilization Reserve for the year ended December 31, 2011	(142,924)	–	–	(142,924)
Appropriation to Rate Stabilization Reserve (from Redevelopment Reserve)	5,329	(5,329)	–	–
Balance as at December 31, 2011	$ 134,261	$ 9,324	$ –	$ 143,585

(see accompanying notes)

STATEMENT OF CASH FLOWS

year ended December 31	**2011**	2010
	(thousands of Canadian $)	
Cash provided by (used for):		
Operating activities		
Increase (decrease) to Rate Stabilization Reserve and comprehensive income (loss)	$ (142,924)	$ 92,747
Non-cash items:		
Bond amortization	(735)	1,647
Depreciation	8,683	7,799
Net realized gain on sale of investments	(3,525)	(62,727)
Net unrealized gain on change in market value of investments	(14,050)	(18,002)
Loss (gain) on sale of property and equipment	70	(1,704)
Change in non-cash operating items (note 17)	183,174	64,755
	30,693	84,515
Investing activities		
Purchases of investments	(1,201,954)	(1,323,018)
Proceeds on sale of investments	1,131,608	1,316,376
Repayment of capital lease	242	920
Purchases of property and equipment	(6,809)	(4,443)
Purchases of intangible assets	–	(2,527)
Proceeds on sale of property and equipment	–	2,730
	(76,913)	(9,962)
Increase (decrease) in cash and cash equivalents	(46,220)	74,553
Cash and cash equivalents, beginning of year	80,286	5,733
Cash and cash equivalents, end of year	$ **34,066**	$ 80,286
Supplemental cash flow information:		
Interest received	$ 23,811	$ 31,500
Dividends received	$ 4,919	$ 5,681

(see accompanying notes)

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

1. STATUS OF THE AUTO FUND

The Saskatchewan Auto Fund (the Auto Fund – 2260–11th Avenue, Regina, Saskatchewan, Canada) was established effective January 1, 1984, by an amendment to *The Automobile Accident Insurance Act*. The Auto Fund is a compulsory vehicle insurance program providing vehicle registrations, driver's licences and related services for Saskatchewan drivers and vehicle owners. In addition to vehicle damage and property liability coverage, the Auto Fund also includes injury coverage that provides a choice between No Fault Coverage or Tort Coverage.

The Auto Fund is a self-sustaining fund, administered by Saskatchewan Government Insurance (SGI). The role of SGI, as administrator, is to oversee the operations of the Auto Fund for the Province of Saskatchewan. Any annual excess or deficiencies of the Auto Fund are recorded in its Rate Stabilization Reserve. The Rate Stabilization Reserve is held on behalf of Saskatchewan's motoring public and is intended to protect motorists from rate increases made necessary by unexpected events and losses arising from catastrophic events. Being a fund of the Province of Saskatchewan, it is exempt from federal and provincial income taxes. The financial results of the Auto Fund are included in the Province of Saskatchewan's summary financial statements and not in SGI's financial statements.

2. BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

The financial statements for the year ended December 31, 2011, have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC). These are the Auto Fund's first annual audited financial statements using IFRS, and IFRS 1, *First-time adoption of International Financial Reporting Standards* has been applied.

The Auto Fund's financial statements were previously prepared in accordance with Canadian generally accepted accounting principles (GAAP). Canadian GAAP differs in some areas from IFRS. In preparing the financial statements, management has amended certain accounting and valuation methods previously applied in the Canadian GAAP financial statements to comply with IFRS. The comparative figures for 2010 have been restated to reflect these adjustments. Any adjustments as a result of differences between Canadian GAAP and IFRS have been reflected in the Auto Fund's opening statement of financial position as of January 1, 2010, the transition date. Certain information that is considered material to the understanding of the Auto Fund's financial statements along with reconciliations and descriptions of how the transition from Canadian GAAP to IFRS has affected the reported financial position, financial performance and cash flows are provided in note 4.

BASIS OF MEASUREMENT

The financial statements have been prepared using the historical cost basis except for financial instruments. The methods used to measure the values of financial instruments are discussed further in note 3.

STATEMENT OF FINANCIAL POSITION CLASSIFICATION

The statement of financial position has been prepared using the liquidity format in which the assets and liabilities are presented broadly in order of liquidity. The assets and liabilities comprise both current and non-current amounts.

FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Canadian dollars, which is the Auto Fund's functional currency and are rounded to the nearest thousand unless otherwise noted.

USE OF ESTIMATES AND JUDGMENT

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation processes are related to the actuarial determination of the provision for unpaid claims (note 10), and the valuation of accounts receivable (note 6) and investments (note 7).

3. SIGNIFICANT ACCOUNTING POLICIES

FINANCIAL ASSETS AND LIABILITIES

The measurement basis for financial assets and financial liabilities depends on whether the financial assets and liabilities have been classified as fair value through profit and loss, available for sale, held to maturity, loans and receivables, or other financial liabilities. Financial assets and liabilities classified as fair value through profit and loss are measured at fair value and changes in fair value are recognized as an increase to the Rate Stabilization Reserve. 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 are recognized as a decrease to the Rate Stabilization Reserve. 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 Auto Fund has no financial assets and liabilities designated as available for sale or held to maturity.

The Auto Fund has designated its cash and cash equivalents and investments as fair value through profit and loss. Accounts receivable are designated as loans and receivables. Accounts payable and premium taxes payable are designated as other financial liabilities. The 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. 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 common shares are level 1 financial assets and the fair value is determined based on quoted market values, based on the latest bid prices. The pooled equity funds are level 1 financial assets, and the fair value is based on the quoted market values of the underlying investments, based on the latest bid prices. Bonds and debentures are level 2 financial assets and the fair value is based on model pricing techniques that effectively discount prospective cash flows to present value taking into consideration duration, credit quality and liquidity. The pooled mortgage fund is a level 2 financial asset and the fair value is determined based on the market values of the underlying mortgage investments, calculated by discounting scheduled cash flows through to the estimated maturity of the mortgage. The pooled real estate fund is a level 2 financial asset and the fair value is determined based on the most recent appraisals of the underlying properties.

The Auto Fund records its investment purchases and sales on a trade-date basis, being the date when the transactions are entered into.

INVESTMENTS UNDER SECURITIES LENDING PROGRAM

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

Securities received from counterparties as collateral are not recorded on the statement of financial position given that the risks and rewards of ownership are not transferred from the counterparties to the Auto Fund in the course of such transactions.

INVESTMENT EARNINGS

The Auto Fund recognizes interest revenue as earned, dividends when declared, pooled fund revenue when a distribution is declared, realized gains and losses on investments when the investment has been sold and unrealized gains and losses based on the changes in market value of the investments held.

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

FOREIGN CURRENCY TRANSLATION

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

PREMIUMS WRITTEN

The Auto Fund's vehicle registrations have all been classified upon inception as insurance contracts. An insurance contract is a contract that transfers significant insurance risk and upon the occurrence of the insured event, causes the insurer to make a benefit payment to the insured party. The sale of vehicle registrations generates premiums written, which 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 to the year-end date. The estimate includes the cost of reported claims, and claims incurred but not reported, and an estimate of adjusting expenses to be incurred on these claims and a provision for adverse deviation in accordance with Canadian Institute of Actuaries standards. The provision has been calculated including the impact of discounting using a discount rate of 4.5% (December 31, 2010 – 5.3%). 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.

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, no longer than 12 months. 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.

REINSURANCE CEDED

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.

CASH AND CASH EQUIVALENTS

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

PROPERTY AND EQUIPMENT

All classes of property and equipment are recorded at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the asset. The Auto Fund has not incurred any borrowing costs attributable to property and equipment and therefore no borrowing costs have been capitalized.

The depreciation method being used, the useful lives of the assets and residual values of the assets are reviewed at each reporting period. Repairs and maintenance are charged to the statement of operations in the period in which they have been incurred.

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

Buildings and improvements	20-40 years
Buildings components	15-30 years
Computer hardware and other equipment	3-5 years

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

REDEVELOPMENT RESERVE

The Redevelopment Reserve was established, through an appropriation from the Rate Stabilization Reserve, to meet the Auto Fund's commitment to redevelop its information system. As redevelopment expenses are incurred and charged against operations, funds are appropriated back to the Rate Stabilization Reserve.

INTANGIBLE ASSETS

Development expenditures incurred are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Auto Fund intends to and has sufficient resources to complete development and to use the asset. The expenditures capitalized include the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditures are recognized in profit or loss as incurred.

Capitalized development expenditures are measured at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized in the statement of operations on a straight-line basis over the estimated useful life of between three to five years.

The capitalized system costs are tested for impairment annually during the period before the system is ready to operate to ensure that the cost does not exceed the expected benefit.

LEASED ASSETS

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

FUTURE ACCOUNTING POLICY CHANGES

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

Insurance Contracts

IASB issued exposure draft ED/2010/8 Insurance Contracts (the ED) on July 30, 2010. The ED proposes a new standard on accounting for insurance contracts, which would replace IFRS 4, *Insurance Contracts*. The proposals represent the first comprehensive IFRS accounting model for insurance contracts and are expected to have a significant impact on the financial reporting of insurers. The ED does not propose an effective date for the new standard since the IASB plans additional deliberation on the effective dates of these proposals. The final standard is expected in 2012, with implementation not expected before 2015.

Financial Instruments

IFRS 9, *Financial Instruments*, was issued in November 2009 and modifies previous standard IAS 39, *Financial Instruments: Recognition and Measurement*. The new standard requires financial instruments to be measured at either fair value or amortized cost. Under the new standard, the existing categories for available for sale, held to maturity, and loans and receivables will be eliminated.

Equities will have the option to be designated as fair value through other comprehensive income, similar to the current available for sale designation, except that realized gains or losses would remain in accumulated other comprehensive income and impairment decisions would not be required. A fair value option (fair value through income, same as held for trading) will continue to be available on the condition that accounting mismatches are reduced.

The current standard requires adoption by January 2015, which has been deferred from the original adoption date of January 2013. While early adoption is permitted under the standard, the Office of the Superintendent of Financial Institutions (OSFI) has indicated that early adoption is not allowed. While the Auto Fund is not federally regulated, it generally follows OSFI's guidance in such matters.

Fair Value Measurement

In May 2011, the IASB published IFRS 13, *Fair Value Measurement*. IFRS 13 replaces the fair value measurement guidance contained in various standards with a single source of fair value measurement guidance. This standard may impact the measurement of fair value for certain assets and liabilities as well as the associated disclosures.

IFRS 13 is applicable prospectively for annual periods beginning on or after January 1, 2013. Earlier application is permitted with disclosure of that fact. The Auto Fund is in the process of assessing the impact of IFRS 13 on its financial statements.

4. FIRST-TIME ADOPTION OF IFRS

Consistent with other Canadian publicly accountable enterprises, the Auto Fund is required to prepare its financial statements for the year ending December 31, 2011, in accordance with IFRS. The Auto Fund has accordingly restated its previously reported 2010 results and financial position.

IFRS 1, *FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS*–EXEMPTIONS

The Auto Fund is required to determine its IFRS accounting policies and apply them retrospectively to establish its opening statement of financial position under IFRS. However, IFRS 1, *First-time Adoption of International Financial Reporting Standards,* provides a number of exemptions upon first-time adoption of IFRS. The Auto Fund has used the following exemptions in preparing the January 1, 2010, statement of financial position and December 31, 2011, financial statements:

DESIGNATION OF PREVIOUSLY RECOGNIZED FINANCIAL INSTRUMENTS

The Auto Fund has elected to use the IFRS 1 exemption available and change the classification of cash and cash equivalents and all investments from available for sale to fair value through profit and loss.

INSURANCE CONTRACTS

The Auto Fund has elected to disclose only five years of data in its loss development tables, consistent with the transitional provision of IFRS 4, *Insurance Contracts*. This will be increased in each subsequent year, until a full 10 years of information is included.

LEASES

The Auto Fund has the option to apply the transitional provisions in IFRIC 4, *Determining whether an Arrangement contains a Lease.* The Auto Fund has applied this option and therefore determined whether arrangements existing at the transition date contain a lease on the basis of facts and circumstances existing at the transition date.

RECONCILIATIONS FROM CANADIAN GAAP TO IFRS

TOTAL EQUITY AS AT JANUARY 1, 2010

(thousands of Canadian $)	Note	Rate Stabilization Reserve	Redevelopment Reserve	Accumulated Other Comprehensive Income	Total Equity
Balance as at December 31, 2009 (Canadian GAAP)		$ 67,211	$ 21,344	$ 66,505	$ 155,060
Auto Fund constructive obligation to SGI CANADA	i)	(5,868)	–	–	(5,868)
Property and equipment	ii)	(2,489)	–	–	(2,489)
Investments – reclassification	iii)	66,505	–	(66,505)	–
Provision for unpaid claims – discounting	iv)	47,059	–	–	47,059
Total adjustments		105,207	–	(66,505)	38,702
Balance as at January 1, 2010 (IFRS)		$ 172,418	$ 21,344	$ –	$ 193,762

TOTAL EQUITY AS AT DECEMBER 31, 2010

(thousands of Canadian $)	Note	Rate Stabilization Reserve	Redevelopment Reserve	Accumulated Other Comprehensive Income	Total Equity
Balance as at December 31, 2010 (Canadian GAAP)		$ 142,254	$ 14,653	$ 85,825	$ 242,732
Auto Fund constructive obligation to SGI CANADA	i)	(5,153)	–	–	(5,153)
Property and equipment	ii)	(3,384)	–	–	(3,384)
Investments – reclassification	iii)	85,825	–	(85,825)	–
Provision for unpaid claims – discounting	iv)	52,314	–	–	52,314
Total adjustments		129,602	–	(85,825)	43,777
Balance as at December 31, 2010 (IFRS)		$ 271,856	$ 14,653	$ –	$ 286,509

COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2010

	Canadian GAAP December 31, 2010	Note	IFRS Adjustments	IFRS December 31, 2010
		(thousands of Canadian $)		
Gross premiums written	$ 711,277		$ –	$ 711,277
Premiums written ceded to reinsurers	(2,927)		–	(2,927)
Net premiums written	708,350		–	708,350
Change in net unearned premiums	(23,529)		–	(23,529)
Net premiums earned	**684,821**		**–**	**684,821**
		(ii)	268	
Claims incurred	609,673	(iv)	(5,255)	604,686
Issuer fees	34,813		–	34,813
		(i)	(715)	
Administrative expenses	51,721	(ii)	764	51,770
Premium taxes	34,376		–	34,376
Traffic safety programs	17,285		–	17,285
Total claims and expenses	**747,868**		(4,938)	**742,930**
Underwriting loss	**(63,047)**		4,938	**(58,109)**
Investment earnings	100,047	(iii)	19,320	119,367
Other income	31,352	(ii)	137	31,489
Increase to Rate Stabilization Reserve	**68,352**		24,395	**92,747**
Other comprehensive income:				
Net unrealized gain on available for sale financial assets arising during the year	80,729	(iii)	(80,729)	–
	80,729		(80,729)	–
Reclassification of net realized gains on sale of investments included in operations	(62,727)	(iii)	62,727	–
Reclassification for investment write-downs included in operations	1,318	(iii)	(1,318)	–
Other comprehensive income	**19,320**		(19,320)	–
Comprehensive income	**$ 87,672**		$ 5,075	**$ 92,747**

i. AUTO FUND CONSTRUCTIVE OBLIGATION TO SGI CANADA

SGI CANADA allocates a portion of its retirement benefit costs associated with its defined benefit pension plan and defined benefit service recognition plans to the Auto Fund for those employees of SGI CANADA who provide service to the Auto Fund. The employee benefit adjustments required in SGI CANADA results in the Auto Fund having a constructive obligation to SGI CANADA. The constructive obligation arises from events and transactions before the date of transition to IFRS and accordingly has been recognized directly in the Rate Stabilization Reserve. The impact to the Auto Fund at January 1, 2010, as a result of revising the allocation due to the employee benefit adjustments, is a decrease to the Rate Stabilization Reserve of $5,868,000 and an increase to accounts payable of $5,868,000.

For the year ended December 31, 2010, this accounting policy difference resulted in a decrease to administrative expenses of $715,000. The total adjustment to the Rate Stabilization Reserve between Canadian GAAP and IFRS at December 31, 2010, was a decrease of $5,153,000.

ii. PROPERTY AND EQUIPMENT

Upon transition to IFRS, the Auto Fund is measuring its property and equipment using cost less depreciation, as if the requirements of IFRS had always been applied.

The cost less depreciation method under IFRS requires that each component of an item of property and equipment, with a cost that is significant compared to the total cost of the item, should be depreciated separately. Under Canadian GAAP, the Auto Fund had capitalized the cost of acquiring its buildings, including all its components, and depreciated them over their useful lives of either 20 or 40 years. Depreciating the significant components of the building separately over their estimated useful lives, as required under IFRS, resulted in a decrease in the Rate Stabilization Reserve and property and equipment of $2,489,000 as at January 1, 2010.

For the year ended December 31, 2010, this accounting policy difference resulted in a decrease to depreciation expense of $24,000. The total adjustment to the Rate Stabilization Reserve at December 31, 2010, was a decrease of $2,465,000.

The Auto Fund has also incurred additional expenses related to the use of the deemed cost exemption in SGI CANADA. The additional depreciation incurred in SGI CANADA is allocated to the Auto Fund based on related space usage of the Auto Fund.

For the year ended December 31, 2010, this accounting policy difference resulted in an increase to administrative expenses of $788,000 and an increase to claims incurred of $268,000. The total adjustment to the Rate Stabilization Reserve at December 31, 2010, was a decrease of $1,056,000.

As a result of IFRS adjustments made at January 1, 2010, which increased the accumulated depreciation of a number of buildings and components in the Auto Fund, the gain or loss on sale was adjusted in accordance with IFRS. For the year ended December 31, 2010, there is an increase in the gain on sale of property and equipment of $137,000 and a corresponding increase in the Rate Stabilization Reserve.

iii. RECLASSIFICATION OF UNREALIZED GAINS ON INVESTMENTS

Upon adoption of IFRS, the Auto Fund has elected to use the IFRS 1 exemption available and change the designation of investments from available for sale to fair value through profit and loss. At January 1, 2010, this reclassification of net unrealized gains resulted in a decrease in accumulated other comprehensive income of $66,505,000 and a corresponding increase in the Rate Stabilization Reserve.

For the period ended December 31, 2010, this accounting policy difference resulted in an increase to investment earnings of $19,320,000 and a decrease to other comprehensive income of $19,320,000. The total adjustment was a decrease to accumulated other comprehensive income of $85,825,000 and a corresponding increase in the Rate Stabilization Reserve.

iv. DISCOUNTING OF PROVISION FOR UNPAID CLAIMS

Under Canadian GAAP, the Auto Fund did not discount its provision for unpaid claims for all lines of business. In transitioning to IFRS, the Auto Fund is changing this policy to discount the provision for unpaid claims, for all lines of business. At January 1, 2010, this change in accounting policy results in a decrease in the provision for unpaid claims of $47,059,000 and an increase in the Rate Stabilization Reserve of $47,059,000.

For the year ended December 31, 2010, this accounting policy difference resulted in a decrease in the provision for unpaid claims of $5,255,000 and a decrease in claims incurred of $5,255,000. The cumulative impact on the Rate Stabilization Reserve was an increase of $52,314,000.

5. CASH AND CASH EQUIVALENTS

	2011	2010
	(thousands of Canadian $)	
Money market investments	$ 32,667	$ 73,520
Cash on hand, net of outstanding cheques	1,399	6,766
Total cash and cash equivalents	$ 34,066	$ 80,286

The average effective interest rate on money market investments is 1.0% (2010 – 1.1%).

6. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	2011	2010
	(thousands of Canadian $)	
Due from insureds	$ 172,718	$ 162,390
Accrued investment income	4,619	4,336
Licence issuers	3,565	3,332
Salvage operations	1,553	1,747
Other	506	1,031
Subtotal	182,961	172,836
Less: Allowance for doubtful accounts (note 15)	(8,249)	(9,263)
Total accounts receivable	$ 174,712	$ 163,573

Included in due from insureds are $160,178,000 (2010 – $149,317,000) 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 income that would have been earned on such premium, had the total amount been collected at the beginning of the policy period (note 14).

7. INVESTMENTS

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

	2011	2010
	(thousands of Canadian $)	
Short-term investments	$ 210,199	$ 157,783
Bonds and debentures	493,404	466,446
Canadian common shares	119,270	190,916
U.S. common shares	54,942	67,443
Pooled funds:		
Non-North American equity	50,310	75,002
Mortgage	84,542	82,369
Real estate	77,927	68,543
	1,090,594	1,108,502
Investments under securities lending program		
Bonds and debentures	256,085	146,256
Canadian common shares	49,523	50,153
U.S. common shares	3,685	6,320
	309,293	202,729
Total investments	$ 1,399,887	$ 1,311,231

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 1.0% (2010 – 1.0%) and an average remaining term to maturity of 79 days (2010 – 70 days). The Auto Fund'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 Auto Fund'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 Auto Fund's investment policy limits its holdings for any one issuer, other than the Government of Canada or a Canadian province, to 10% of the market value of the combined bond and short-term investment portfolios. The holdings for any one province are limited to 20% of the market value of the bond portfolio. No more than 10% of the market value of the bond portfolio shall be invested in bonds 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)	2011 Carrying Value	2011 Average Effective Rates	2010 Carrying Value	2010 Average Effective Rates
	(thousands of Canadian $)			
Government of Canada:				
After one through five	$ 90,244	1.2%	$ 139,789	1.8%
After five	193,430	2.3%	81,481	3.5%
Canadian provincial and municipal:				
After one through five	55,297	1.6%	16,249	2.4%
After five	218,882	3.1%	207,224	3.9%
Canadian corporate:				
One or less	7,296	1.8%	–	–
After one through five	88,231	2.0%	75,420	2.7%
After five	96,109	3.3%	92,539	4.1%
Total bonds and debentures	$ 749,489		$ 612,702	

COMMON SHARES

Common shares have no fixed maturity dates and are generally not exposed to interest rate risk. The average effective dividend rate is 2.3% (2010 – 1.8%).

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

POOLED FUNDS

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

SECURITY LENDING PROGRAM

Through its custodian, the Auto Fund participates in an investment security lending program for the purpose of generating fee income. Non-cash collateral of at least 102% of the market value of the loaned securities is retained by the Auto Fund until the loaned securities have been returned. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value of the loaned securities fluctuates. In addition, the custodian provides indemnification against any potential losses in the securities lending program. While in the possession of counterparties, the loaned securities may be resold or re-pledged by such counterparties.

At December 31, 2011, the Auto Fund held collateral of $324,758,000 (2010 – $212,904,000) for the loaned securities.

FAIR VALUE HIERARCHY

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

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.

	2011 Level 1	2011 Level 2	2011 Total	2010 Level 1	2010 Level 2	2010 Total
	(thousands of Canadian $)					
Short-term investments	$ –	$ 210,199	$ 210,199	$ –	$ 157,783	$ 157,783
Bonds and debentures	–	749,499	749,499	–	612,702	612,702
Canadian common shares	168,793	–	168,793	241,069	–	241,069
U.S. common shares	58,627	–	58,627	73,763	–	73,763
Pooled funds:						
Non-North American equity	50,310	–	50,310	75,002	–	75,002
Mortgage	–	84,542	84,542	–	82,369	82,369
Real estate	–	77,927	77,927	–	68,543	68,543
	$ 277,730	$ 1,122,167	$ 1,399,897	$ 389,834	$ 921,397	$ 1,311,231

During the year, no investments were transferred between levels.

8. PROPERTY AND EQUIPMENT

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

	Land	Buildings	Buildings Components	Computer Hardware	Total
	(thousands of Canadian $)				
Cost:					
At January 1, 2011	$ 6,643	$ 38,618	$ 11,190	$ 32,591	$ 89,042
Additions	–	4,627	64	2,118	6,809
Disposals	–	–	–	(1,295)	(1,295)
At December 31, 2011	6,643	43,245	11,254	33,414	94,556
Depreciation:					
At January 1, 2011	–	16,329	5,147	28,818	50,294
Provided in the year	–	1,274	491	1,839	3,604
Disposals	–	(619)	647	(1,253)	(1,225)
At December 31, 2011	–	16,984	6,285	29,404	52,673
Net book value at December 31, 2011	$ 6,643	$ 26,261	$ 4,969	$ 4,010	$ 41,883

	Land		Buildings		Buildings Components		Computer Hardware		Total
	(thousands of Canadian $)								
Cost:									
At January 1, 2010	$	6,979	$	37,863	$	10,578	$	31,582	$ 87,002
Additions		–		2,079		1,355		1,009	4,443
Disposals		(336)		(1,324)		(743)		–	(2,403)
At December 31, 2010		6,643		38,618		11,190		32,591	89,042
Depreciation:									
At January 1, 2010		–		15,592		5,057		28,026	48,675
Provided in the year		–		1,770		434		792	2,996
Disposals		–		(1,033)		(344)		–	(1,377)
At December 31, 2010		–		16,329		5,147		28,818	50,294
Net book value at December 31, 2010	$	6,643	$	22,289	$	6,043	$	3,773	$ 38,748

Depreciation provided in the year is included in administrative expenses on the Statement of Operations. During 2011, the Auto Fund recognized a gain of $nil (2010 – $1,704,000) on the sale of assets (note 14). When an asset has been disposed its original cost is removed from the financial statements along with any accumulated depreciation related to that asset.

9. OTHER ASSETS

Other assets are comprised of the following:

	2011		2010	
	(thousands of Canadian $)			
Intangible assets	$	9,683	$	14,762
Inventories		3,459		3,336
Prepaid expenses		1,838		1,599
Net investment in capital lease		–		242
Total	$	14,980	$	19,939

INTANGIBLE ASSETS

Intangible assets consist of system development costs and are comprised of the following:

	2011		2010	
	(thousands of Canadian $)			
Cost:				
At January 1	$	25,141	$	22,614
Additions		–		2,527
At December 31		25,141		25,141
Depreciation:				
At January 1		10,379		5,576
Provided in the year		5,079		4,803
At December 31		15,458		10,379
Net book value at December 31	$	9,683	$	14,762

Depreciation provided in the year is included in administrative expenses on the Statement of Operations.

10. CLAIMS INCURRED AND PROVISION FOR UNPAID CLAIMS

CLAIMS INCURRED

	2011		2010	
	(thousands of Canadian $)			
Gross claims incurred	$	824,441	$	611,225
Ceded claims incurred		(17,517)		(6,539)
Net claims incurred	$	806,924	$	604,686

Ceded claims incurred represent an estimate of the recoverable costs of those claims transferred to the Auto Fund's various reinsurers pursuant to reinsurance contracts.

NET PROVISION FOR UNPAID CLAIMS

The change in the estimate for the provision for unpaid claims is as follows:

	2011	2010
	(thousands of Canadian $)	
Net unpaid claims, beginning of year - discounted	$ 958,756	$ 914,177
Discount, beginning of the year	491,396	498,888
Net unpaid claims, beginning of year - undiscounted	1,450,152	1,413,065
Payments made during the year relating to:		
Prior year claims	(223,441)	(192,895)
Deficiency (excess) relating to:		
Prior year estimated unpaid claims	14,526	(13,632)
Extending long-term payout period injury accident benefits	252,064	–
Net unpaid claims, prior years - undiscounted	1,493,301	1,206,538
Provision for claims occurring in the current year	318,038	243,614
Net unpaid claims, end of year - undiscounted	1,811,339	1,450,152
Discount, end of year	(660,416)	(491,396)
Net unpaid claims, end of year - discounted	$ 1,150,923	$ 958,756

The net provision for unpaid claims of $1,150,923,000 (2010 – $958,756,000) consists of the gross provision for unpaid claims of $1,170,687,000 (2010 – $963,926,000) less unpaid claims recoverable from reinsurers of $19,764,000 (2010 – $5,170,000).

Included in the above amount is a provision for adverse development (PFAD) in the amount of $135,080,000 (2010 – $77,818,000). The incorporation of a PFAD within the provision for unpaid claims is in accordance with accepted actuarial practice and the selected PFAD is within the ranges recommended by the Canadian Institute of Actuaries. The PFAD considers the Auto Fund's assumptions concerning claims development, reinsurance recoveries and future investment earnings.

The provision for unpaid claims and unpaid claims recoverable from reinsurers are carried on a discounted basis. The resulting carrying amount is considered to be an indicator of fair value as there is no ready market for trading insurance contract liabilities.

TYPE OF UNPAID CLAIMS

The net provision for unpaid claims is summarized by type of claim as follows:

	Gross		Reinsurance Recoverable		Net	
	2011	2010	2011	2010	2011	2010
			(thousands of Canadian $)			
Injury accident benefits	$ 1,687,182	$ 1,319,928	$ –	$ –	$ 1,687,182	$ 1,319,928
Injury liability	68,232	68,132	–	–	68,232	68,132
Damage	74,928	67,151	19,003	5,059	55,925	62,092
Discount	(659,655)	(491,285)	761	111	(660,416)	(491,396)
Total	$ 1,170,687	$ 963,926	$ 19,764	$ 5,170	$ 1,150,923	$ 958,756

STRUCTURED SETTLEMENTS

The Auto Fund settles some long-term disability claims by purchasing annuities from various financial institutions for its claimants. The settlements legally release the Auto Fund from its obligations to the claimants. Consequently, neither the annuities purchased nor the claim liabilities are recognized on the Statement of Financial Position. However, as part of the settlement, the Auto Fund provides a financial guarantee to the claimants in the event the financial institutions default on the scheduled payments. As at December 31, 2011, no information has come to the Auto Fund's attention that would suggest any weakness or failure in the financial institutions from which it has purchased the annuities. The net present value of the scheduled payments as of the year-end date is $22,879,000 (2010 – $21,505,000).

11. DEFERRED POLICY ACQUISITION COSTS

	2011	2010
	(thousands of Canadian $)	
Deferred policy acquisition costs, beginning of year	$ 25,602	$ 23,471
Acquisition costs deferred during the year	38,665	35,478
Previously deferred acquisition costs charged to operations during the year	(38,196)	(33,347)
Deferred policy acquisition costs, end of year	$ 26,071	$ 25,602

12. UNEARNED PREMIUMS

	Gross Unearned Premiums		Reinsurer's share of Unearned Premiums		Net Unearned Premiums	
	2011	2010	2011	2010	2011	2010
			(thousands of Canadian $)			
Unearned premiums, beginning of the year	$ 319,832	$ 296,082	$ 904	$ 683	$ 318,928	$ 295,399
Premiums written during the year	748,961	711,277	4,218	2,927	744,743	708,350
Premiums earned	(730,247)	(687,527)	(3,965)	(2,706)	(726,282)	(684,821)
Change in net unearned premiums	18,714	23,750	253	221	18,461	23,529
Unearned premiums, end of the year	$ 338,546	$ 319,832	$ 1,157	$ 904	$ 337,389	$ 318,928

13. INVESTMENT EARNINGS

The components of investment earnings are as follows:

	2011	2010
	(thousands of Canadian $)	
Interest	$ 24,766	$ 28,156
Net unrealized gains on change in market value of investments	14,050	18,002
Pooled funds distributions	5,607	5,873
Dividends	5,359	6,110
Net realized gain on sale of investments	3,525	62,727
Interest on net investment in capital lease	87	75
Total investment earnings	53,394	120,943
Investment expenses	(1,726)	(1,576)
Net investment earnings	$ 51,668	$ 119,367

14. OTHER INCOME

The components of other income are as follows:

	2011	2010
	(thousands of Canadian $)	
Payment option fees	$ 21,833	$ 19,961
Net earnings on salvage sales	12,255	9,824
Gain on disposal of property and equipment	–	1,704
Total other income	$ 34,088	$ 31,489

The Auto Fund offers a Short-Term Vehicle Registration and Insurance Plan that allows customers to choose the number of months they wish to insure and register their vehicle. Another payment option, AutoPay, allows customers to have equal monthly withdrawals made from their bank accounts for their vehicle registration and insurance.

The Auto Fund operates a salvage department in order to maximize the derived economic value of salvageable vehicles, vehicle parts and materials available through the claim settlement process. Net earnings on salvage sales is comprised of:

	2011	2010
	(thousands of Canadian $)	
Salvage sales	$ 38,339	$ 32,538
Cost of sales	(21,845)	(18,640)
Gross profit	16,494	13,898
Administrative expenses	(4,547)	(4,378)
Other income	308	304
Net earnings on salvage sales	$ 12,255	$ 9,824

15. INSURANCE AND FINANCIAL RISK MANAGEMENT

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

INSURANCE RISK

Underwriting risk

The Auto Fund manages its insurance risk through its underwriting and reinsurance strategies within an overall strategic planning process. Pricing is based on assumptions with regards to past experiences and trends.

Reinsurance

The Auto Fund also seeks to reduce losses that may arise from catastrophes or other events that cause unfavorable 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 Auto Fund to a maximum amount on any one loss as follows:

	2011	2010
	(thousands of Canadian $)	
Automobile physical damage catastrophe	$ 5,000	$ 5,000
(subject to filling an annual aggregate deductible of)	5,000	5,000
Personal automobile injury	20,000	20,000

The Auto Fund evaluates and monitors the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvency.

ACTUARIAL RISK

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Auto Fund at the year-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists regarding the cost of reported claims that have not been settled, as all the necessary information may not be available at the year-end date. The significant assumptions used to estimate the provision include: the Auto Fund's experience with similar cases, historical claim payment trends and claim development patterns, the characteristics of each class of business, claim severity and claim frequency, the effect of inflation on future claim settlement costs, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim, the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as physical damage or collision claims tend to be more reasonably predictable than long-tail claims such as liability claims.

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

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

	2007	2008	2009	2010	2011	Total
			(thousands of Canadian $)			
Net Ultimate Loss						
At end of accident year	$ 448,227	$ 483,870	$ 503,379	$ 538,979	$ 592,874	
One year later	475,268	478,854	514,421	558,884		
Two years later	472,198	488,578	526,834			
Three years later	481,492	501,237				
Four years later	492,254					
Cumulative loss development	44,027	17,367	23,455	19,905	n/a	
Cumulative loss development as a % of original ultimate loss	9.8%	3.6%	4.7%	3.7%	n/a	
Current estimate of net ultimate loss	$ 492,254	501,237	526,834	558,884	592,874	$ 2,672,083
Cumulative paid	(428,373)	(427,199)	(434,777)	(449,461)	(361,748)	(2,101,558)
Net provision for unpaid claims for the five most recent accident years	$ 63,881	74,038	92,057	109,423	231,126	$ 570,525
Net discounted claims outstanding for accident years 2006 and prior						508,207
Loss adjusting expense reserve						64,746
Other reconciling items						7,445
Net provision for unpaid claims						$ 1,150,923

FINANCIAL RISK

The nature of the Auto Fund'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 Auto Fund's investments. These financial risks are managed by having a Statement of Investment Policies and Goals (SIP&G), which is approved annually by SGI's Board of Directors, based on a recommendation from the Board's Investment Committee. The SIP&G provides guidelines for the Auto Fund's investment manager for the asset mix of the portfolio regarding quality and quantity of fixed income, real estate and equity investments using a prudent person approach. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. SGI receives regular reporting from the investment manager and custodian regarding compliance with the SIP&G. The investment manager's performance is evaluated based on the goals stated in the SIP&G.

CREDIT RISK

The Auto Fund's credit risk arises primarily from two distinct sources: accounts receivable and certain investments. The maximum credit risk to which the Auto Fund is exposed as at December 31, 2011, is limited to the carrying value of those financial assets summarized as follows:

	2011	2010
	(thousands of Canadian $)	
	Carrying Value	Carrying Value
Cash and cash equivalents	$ 34,066	$ 80,286
Accounts receivable	174,712	163,573
Fixed income investments [1]	1,044,230	852,854

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

Cash and cash equivalents include money market investments of $32,667,000 (December 31, 2010 – $73,520,000) that mature within 90 days from the date of acquisition. All short-term investments have a credit rating of R-1.

Accounts receivable relate primarily to financed premiums receivable and amounts recoverable on paid claims. Balances are outstanding from customers, diversified among residential, farm and commercial customers, along with motor licence issuers within Saskatchewan. Accounts receivable consist of balances outstanding for one year or less.

	2011	2010
	(thousands of Canadian $)	
Current	$ 171,236	$ 160,422
30–59 days	2,391	2,199
60–89 days	1,036	1,073
Greater than 90 days	8,298	9,141
Subtotal	182,961	172,835
Allowance for doubtful accounts	(8,249)	(9,263)
Total	$ 174,712	$ 163,572

Provisions for credit losses are maintained in an allowance account and are regularly reviewed by the Auto Fund. Amounts are written off once reasonable collection efforts have been exhausted. An Auto Fund customer cannot complete a driver's licence or vehicle transaction without making arrangements for payment of outstanding balances, including balances previously written off. Details of the allowance account are as follows:

	2011	2010
	(thousands of Canadian $)	
Allowance for doubtful accounts, opening balance	$ 9,263	$ 9,751
Accounts written off	(2,122)	(1,518)
Current period provision	1,108	1,030
Allowance for doubtful accounts, closing balance	$ 8,249	$ 9,263

Credit risk within investments is related primarily to short-term investments, bonds and debentures, and the mortgage pooled fund. It is managed through an 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 bond and debenture investments are as follows:

	2011		2010	
Credit Rating	Carrying Value (thousands of $)	Makeup of Portfolio (%)	Carrying Value (thousands of $)	Makeup of Portfolio (%)
AAA	$ 294,215	39.3	$ 295,888	48.3
AA	296,870	39.6	158,761	25.9
A	111,084	14.8	123,295	20.1
BBB	47,320	6.3	34,758	5.7
Total	$ 749,489	100.0	$ 612,702	100.0

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

The Auto Fund's investment in a mortgage pooled fund is subject to credit risk as its value is impacted by the credit risk of the underlying mortgages. This risk is limited by restrictions within its investment policy, which include single loan limits, and diversification by property type and geographic regions within Canada.

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 impacts the value of the Auto Fund's investments.

Interest rate risk

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

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

	2011	2010	2011	2010
	100 basis point increase		100 basis point decrease	
	(thousands of Canadian $)			
Investment earnings	$ (58,414)	$ (42,307)	$ 65,560	$ 42,307
Claims incurred	(66,667)	(39,906)	75,834	44,103
Net increase (decrease) to RSR	8,253	(2,401)	(10,274)	(1,796)

Foreign exchange risk

The Auto Fund is subject to changes in the U.S./Canadian dollar exchange rate on its U.S. equity investment portfolio and its EAFE (Europe, Australasia and Far East) 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 21% each of the market value of the Auto Fund's Return Seeking portfolio. At December 31, 2011, the Auto Fund's exposure to U.S. equities was 4.2% (2010 – 5.6%) and its exposure to non-North American equities was 3.6% (2010 – 5.7%). The Auto Fund has no foreign exchange exposure within its bonds and debentures.

At December 31, 2011, a 10% appreciation/depreciation in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a $5.9 million (2010 – $7.4 million) decrease/increase in the Rate Stabilization Reserve. A 10% appreciation/depreciation in the Canadian dollar versus EAFE currencies would result in approximately a $5.0 million (2010 – $7.5 million) decrease/increase in the Rate Stabilization Reserve. As the U.S. equity and non-North American pooled fund investments are classified as fair value through profit and loss, unrealized changes due to foreign currency are recorded in the statement of operations.

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

The Auto Fund's exposure to exchange rate risk resulting from the purchase of goods and services is not considered material to the operations of the Auto Fund.

Equity prices

The Auto Fund is exposed to changes in equity prices in Canadian, U.S. and EAFE markets. At December 31, 2011, equities comprise 19.8% (2010 – 29.7%) of the carrying value of the Auto Fund'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 Auto Fund's common share portfolio. As well, no one holding represents more than 10% of the voting shares of any corporation.

The Auto Fund's equity price risk is assessed using Value at Risk (VaR), a statistical technique that measures the potential change in value of an asset class. It is calculated 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	2011	2010
	(thousands of Canadian $)	
Canadian equities	$ +/- 68,192	$ +/- 94,499
U.S. equities	+/- 15,829	+/- 19,236
Non-North American equities	+/- 17,910	+/- 25,950

The Auto Fund's equity investments are classified as fair value through profit and loss and as such, any unrealized changes in their fair value are recorded in the statement of operations.

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

LIQUIDITY RISK

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

The following tables summarize the estimated contractual timing of cash flows arising from the Auto Fund's financial assets and liabilities at December 31.

2011

	Carrying amount	No stated maturity	0-1 Years	1-3 Years	3-5 Years	5-10 Years	More than 10 Years
	(thousands of Canadian $)						
Financial assets							
Accounts receivable	$ 174,712	$ –	$ 174,712	$ –	$ –	$ –	$ –
Investments	1,399,887	440,199	217,495	152,666	81,106	173,336	335,085
Unpaid claims recoverable from reinsurers	19,764	–	16,683	3,077	4	–	–
	$ 1,594,363	$ 440,199	$ 408,890	$ 155,743	$ 81,110	$ 173,336	$ 335,085
Financial liabilities							
Accounts payable and accrued liabilities	$ 22,253	$ –	$ 22,253	$ –	$ –	$ –	$ –
Premium taxes payable	37,449	–	37,449	–	–	–	–
Provision for unpaid claims	1,170,687	–	145,689	100,453	68,957	139,556	716,032
	$ 1,230,389	$ –	$ 205,391	$ 100,453	$ 68,957	$ 139,556	$ 716,032

2010

	Carrying amount	No stated maturity	0-1 Years	1-3 Years	3-5 Years	5-10 Years	More than 10 Years
	(thousands of Canadian $)						
Financial assets							
Accounts receivable	$ 163,573	$ –	$ 163,573	$ –	$ –	$ –	$ –
Investments	1,311,231	540,746	157,782	174,776	56,682	227,963	153,282
Unpaid claims recoverable from reinsurers	5,170	–	4,111	1,059	–	–	–
	$ 1,479,974	$ 540,746	$ 325,466	$ 175,835	$ 56,682	$ 227,963	$ 153,282
Financial liabilities							
Accounts payable and accrued liabilities	$ 39,622	$ –	$ 39,622	$ –	$ –	$ –	$ –
Premium taxes payable	35,564	–	35,564	–	–	–	–
Provision for unpaid claims	963,926	–	144,664	104,834	72,682	141,986	499,760
	$ 1,039,112	$ –	$ 219,850	$ 104,834	$ 72,682	$ 141,986	$ 499,760

16. CAPITAL MANAGEMENT

The primary objectives of capital management for the Auto Fund is to maintain an adequate balance in its Rate Stabilization Reserve to assist in achieving consistency and stability in rates so that customers are not subject to ongoing price fluctuations or large rate increases. The Auto Fund uses a common industry measurement called the Minimum Capital Test (MCT) to establish a target for the Rate Stabilization Reserve. 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. At December 31, 2011, the MCT was 60% (2010 – 124%).

The Auto Fund's legislation restricts how it can raise capital and mandates the benefits it is to provide to policyholders. The Auto Fund does not receive money from the province nor from SGI, the administrator of the Auto Fund, and it does not pay dividends to the province or its administrator. The Auto Fund cannot go to public capital markets to issue debt or common shares. It uses premiums and fees from its operations, along with income generated from its investment portfolio, to fund future operations.

17. CHANGE IN NON-CASH OPERATING ITEMS

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

	2011	2010
	(thousands of Canadian $)	
Accounts receivable	$ (11,139)	$ 827
Deferred policy acquisition costs	(469)	(2,131)
Unpaid claims recoverable from reinsurers	(14,594)	(5,170)
Other assets	(362)	225
Accounts payable and accrued liabilities	(17,369)	(5,155)
Premium taxes payable	1,885	2,881
Unearned premiums	18,461	23,529
Provision for unpaid claims	206,761	49,749
	$ 183,174	$ 64,755

18. RELATED PARTY TRANSACTIONS

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

SGI acts as administrator of the Auto Fund. Administrative and loss adjustment expenses incurred by SGI are allocated to the Auto Fund directly or on the basis of a cost allocation formula. These are operating transactions incurred in the normal course of operations. Amounts incurred by SGI and charged to the Auto Fund were $124,147,000 (2010 – $119,421,000) and accounts payable are $202,000 (2010 – $11,048,000).

Certain board members are partners in organizations that provided $99,000 (2010 – $36,000) of professional services to the Auto Fund. These services were recorded in claims incurred and administrative expenses in the Statement of Operations. In addition, one board member owns an organization that provides insurance services on behalf of the Auto Fund. Premiums written during the year through this organization amounted to $1,773,000 (2010 – $1,758,000) and the associated accounts receivable at December 31, 2011, was $22,000 (2010 – $23,000). Issuer fees related to these premiums were $145,000 (2010 – $148,000). The above noted transactions are routine operating transactions in the normal course of business.

Other related party transactions are described separately in the notes.

19. COMMITMENTS AND CONTINGENCIES

The Auto Fund has contractual obligations to provide funding to Saskatchewan health organizations for costs associated with rehabilitation for those involved in automobile accidents.

The following is the funding anticipated to be provided over the next five years:

	2011
	(thousands of Canadian $)
2012	$ 26,251
2013	18,918
2014	16,500
2015	16,500
2016	16,500

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

20. COMPARATIVE FINANCIAL INFORMATION

For comparative purposes, certain 2010 balances have been reclassified to conform to 2011 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
Composition of the Board 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. He is a partner in a law firm that performs legal services for the corporation, but is subject to a protocol restricting him to a limited, indirect relationship.
Meetings of Independent Directors 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.
Board Mandate 4. The board should adopt a written mandate in which it explicitly acknowledges responsibility for the stewardship of the issuer, including responsibility for:	Yes. The Board has approved Terms of Reference (mandate), which explicitly acknowledge responsibility for the stewardship of the Corporation.
(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.	Yes. The Board has approved the corporate values under which all employees, including the CEO and senior management, are expected to operate.
(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;	Yes. The Board of Directors holds an annual 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 established a Risk 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 Human Resources Committee with responsibility for reviewing the Corporation's succession plan, which includes assessments and development for senior management. 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 that 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	Yes. The Corporation also undertakes research annually on behalf of the Board.
(ii) expectations and responsibilities of directors, including basic duties and responsibilities with respect to attendance at board meetings and advance review of meeting materials. 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.

Guideline	Saskatchewan Government Insurance
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.
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 that provides an 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 that is applicible 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.

NATIONAL POLICY 58-201 CORPORATE GOVERNANCE GUIDELINES

Guideline	Saskatchewan Government Insurance
(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 and under *The Public Interest Disclosure Act.*
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.	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.
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).	Not applicable.
Nomination of Directors 10. The board should appoint a nominating committee composed entirely of independent directors.	Yes. The Board has charged the Governance Committee with the responsibility of the nomination of directors. The committee is comprised entirely of independent directors.

NATIONAL POLICY 58-201 CORPORATE GOVERNANCE GUIDELINES

Guideline	Saskatchewan Government Insurance
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 subcommittees), 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 Governance Committee's charter is contained within the Terms of Reference.
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.	Yes. The Governance Committee undertakes a skills assessment on an annual basis.
(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.	Yes. The Governance Committee undertakes a needs assessment on an annual basis.
The board should also consider the appropriate size of the board, with a view to facilitating effective decision-making.	Yes. The Governance Committee reviews and recommends the size of the Board.
In carrying out each of these functions, the board should consider the advice and input of the nominating committee.	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.

NATIONAL POLICY 58-201 CORPORATE GOVERNANCE GUIDELINES

Guideline	Saskatchewan Government Insurance
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.	Yes. The Governance Committee has a recruitment and selection process that it undertakes prior to making recommendations for appointments to the Board and Crown Investments Corporation.
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;	Yes. The Governance Committee reviews the competencies and skills required for the Board as a whole.
(b) the competencies and skills that the board considers each existing director to possess; and,	Yes. The Governance Committee reviews the competencies and skills of each of the directors.
(c) the competencies and skills each new nominee will bring to the boardroom.	Yes. The Governance Committee reviews the competencies and skills of nominee directors.
(d) 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. 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.
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 comprised 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 subcommittees), 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.

NATIONAL POLICY 58-201 CORPORATE GOVERNANCE GUIDELINES

Guideline	Saskatchewan Government Insurance
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;	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.
(b) making recommendations to the board with respect to non-CEO officer and director compensation, incentive-compensation plans and equity-based plans; and,	Yes. The Human Resources Committee reviews and recommends to the Board and Crown Investments Corporation any changes to compensation.
(c) reviewing executive compensation disclosure before the issuer publicly discloses this information.	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.
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:	Yes. The Board conducts, on a rotational basis, peer assessments and reviews of the Board and the Chair.
(a) in the case of the board or a board committee, its mandate or charter; and,	Yes. The Board and its committees review their terms of reference on an as-needed basis and at least every three years.
(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 has a position description for directors; further, individual director's skills and competencies are reviewed as part of the regular assessments.

National Policy 58-201 Corporate Governance Guidelines

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, two members of the Board of Directors are partners in law firms that performed legal services for the Corporation in 2011, and are 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., and Board member Douglas Richardson, Q.C., are lawyers who are 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.

BOARD OF DIRECTORS

WARREN SPROULE, QC

Partner, Kanuka Thuringer LLP

Mr. Sproule has served as Chair of the SGI Board of Directors since 2008. He is a lawyer with the firm of Kanuka Thuringer LLP in Regina, where he carries on a corporate-commercial practice with a significant concentration of work in the field of banking, insurance and other financial services law. He began his legal career in 1981, has been a partner in his firm since 1986 and was managing partner from 1994-2008. In 2009 he was appointed Queen's Counsel.

Mr. Sproule holds a Bachelor of Commerce (Finance) and Juris Doctorate from the University of Saskatchewan. He is currently a member of the Canadian IT Law Association, the Canadian Petroleum Law Foundation and the Insolvency Institute of Canada. Mr. Sproule also currently serves as a member of the Board of Directors of Access Communications Co-operative and recently completed his term on the board of the South Saskatchewan Community Foundation.

RICHARD M. (RICK) WATSON

President, Watson Tractor & Equipment Ltd.

Mr. Watson has been a member of the SGI Board of Directors since 2008. He has been a member of the Investment committee and presently sits on the Audit and Finance, Governance and Human Resources, and the Ad Hoc Strategic Planning committees. He was appointed Vice Chair of the Board in 2011.

Mr. Watson has been involved in the John Deere Ag and Turf Equipment business since 1965. This family business first opened in Weyburn, followed by Regina in 1978. In 2006 both locations merged into a larger partnership and Mr. Watson passed the "hands on" responsibilities to family and other partner managers. The partnership operates as South Country Equipment Ltd., and with further acquisitions, now has eight locations in southern Saskatchewan. Mr. Watson continues to manage the assets of Watson Tractor & Equipment Ltd., now primarily a holder of commercial real estate, as well as family farmland and other investments.

Mr. Watson also serves on the Board of Security Resource Group Inc. and is a member of the Independent Advisory Committee to the Assiniboia Farmland Corporation. He participates in the CEO Advisory Circle at the University of Regina's Paul J. Hill School of Business, and is a member of both the Regina and Saskatchewan Chambers of Commerce. Mr. Watson is based in Regina.

MERIN D. COUTTS

Independent Management Consultant

Mrs. Coutts joined the SGI Board of Directors in 2004. She has served on the Audit and Finance committee and the Investment committee. Since 2007 she has chaired the Governance and Human Resources committee and was appointed Chair of the Ad Hoc Strategic Planning committee in 2011.

Mrs. Coutts is a Certified Management Accountant and a Chartered Director. She holds a Bachelor of Commerce (honours) from the University of Saskatchewan. Mrs. Coutts has held senior positions in the broadcast and telecommunications industries in Saskatchewan for the past decade. She was Director of Marketing and Community Relations for CTV, followed by Sales Manager and most recently Regional Manager for Shaw Communications Inc. She is now an Independent Management Consultant specializing in transition, operations and talent management strategies. Mrs. Coutts is based in Saskatoon.

HOWARD CROFTS, FCA

Senior Vice President, Assurance Services, MNP LLP

Mr. Crofts was appointed to the SGI Board of Directors in 2008, has served on the Governance and Human Resources committee and currently serves as the Chair of the Audit and Finance committee, a member of the Risk Committee and Ad Hoc Strategic Planning Committee. Mr. Crofts is a Chartered Accountant and holds a Bachelor of Administration from the University of Saskatchewan. He has spent his professional career providing assurance, tax and business advisory services to clients in a variety of industries including insurance, telecommunications, transportation, real estate and construction, aviation, professional services, manufacturing, oil and gas, health care and retail.

Mr. Crofts joined MNP LLP in 2002, and assumed the position of Regional Managing Partner for the firm's South Saskatchewan Region in 2004 before assuming his current role as national Assurance Services leader in 2009. Mr. Crofts has served on numerous community and not-for-profit boards, he currently is Chair of the Board of Group Medical Services and is a member of the boards of directors of Latitude AeroMedical Works Inc., Raven Oil Corporation and Regina Inner City Family Foundation. Mr. Crofts is based in Regina.

G. DWIGHT DUNN

President and Co-Owner, Dunn Realty & Insurance

Mr. Dunn was appointed to the SGI Board of Directors in 2008, has served on the Governance and Human Resources Committee and is currently a member of the Investment Committee. He holds a Bachelor of Education from the University of Saskatchewan, and Canadian Accredited Insurance Broker and Canadian Certified Insurance Broker designations.

Mr. Dunn was a school teacher with CUSO for two years in Zambia, taught school in Saskatchewan for a number of years, and owned and operated the family farm prior to becoming president and co-owner of Dunn Realty and Insurance with his wife, Madeline. Mr. Dunn is a past-president of the Insurance Brokers' Association of Saskatchewan, past chairman of the General Insurance Council and was recipient in 2005 of the Jack Byers award for service to the Insurance Brokers' Association of Saskatchewan.

Mr. Dunn has served on numerous community associations and as a director of the Saskatchewan Chamber of Commerce. He is based in Wolseley.

J. RICHARD KENNEDY

Partner, Brian Mallard and Associates

Mr. Kennedy was appointed to the SGI Board of Directors in 2008 and serves on the Investment Committee. He holds a Chartered Life Underwriter (CLU) and Chartered Financial Consultant (CH.F.C.) designation from Advocis. He has been a licensed insurance and investment professional for 32 years.

Mr. Kennedy is a board member of the Pentecostal Assemblies of Canada Pension Plan. He is also Past President of the Central Saskatchewan Association of Insurance and Investment Advisors. Mr. Kennedy has also served for many other local not-for-profit entities, such as the United Way, Red Cross and his local church board.

Mr. Kennedy joined Brian Mallard and Associates as an insurance and investment advisor in 2010 after building a large Resource Centre for the preceding 20 years as the Regional Director at Great-West Life. He is based in Saskatoon.

TYRONE KLEWCHUK

President, TIK Enterprises and Quatra Holdings

Mr. Klewchuk was appointed to the SGI Board of Directors in 2008 and serves on the Governance and Human Resources committee. Mr. Klewchuk is a University of North Dakota graduate with a Bachelor of Science degree and also a graduate from Oklahoma State University with a Master of Science degree in trade and technology.

Mr. Klewchuk has taught high school and middle years technical, math and science. He also has extensive experience in the building trades. Mr. Klewchuk is currently the president of TIK Enterprises, a business that inspects homes, multi-residential and commercial buildings, along with real estate for Quatra Holdings.

Mr. Klewchuk has volunteered his services to the Multiple Sclerosis Association and Yorkton Housing Authority. He has served on many other local boards in varying capacities of president to treasurer and other positions. In addition, he is past president of a venture capital corporation. Mr. Klewchuk is based in Yorkton.

RICK ORR, AMP

Mortgage Broker

Mr. Orr was appointed to the SGI Board of Directors in 2008. Currently he serves as a member of the Risk Committee. He is a past member of the Governance and Human Resources Committee. Mr. Orr has completed all five modules of the Chartered Director program.

Mr. Orr has worked for the last 12 years as a mortgage broker in Prince Albert, with his wife, Kathy. He is member of the Canadian Association of Accredited Mortgage Professionals (CAAMP) and has worked within the mortgage industry on government regulations and was a founding member of CIMBL (later changed to CAAMP), the only professional mortgage industry association in Canada. He is currently a sitting member of CAAMP's Saskatchewan Brokers Council. Mr. Orr has attained the designation of Accredited Mortgage Professional.

Mr. Orr has been involved in the Prince Albert community for 20 years and has been an active member of local Chamber of Commerce boards, committees and executive. He is past president of Prince Albert Crime Stoppers, Prince Albert Lion's Club and has worked on the Saskatchewan Penitentiary Citizens Advisory Board, Fire Services Committee. Mr. Orr has been an active community volunteer including working for various provincial activities such as visits of the Royal Family, Briars, Tournaments of Hearts, Saskatoon Sports Hall of Fame and many other provincial and local events.

DENIS PERRAULT

President, Paradise Business Consulting and Paradise Properties

Mr. Perrault was appointed to the SGI Board in 2011 and serves on the Audit and Finance Committee. He is a University of Saskatchewan graduate with a Bachelor of Commerce degree, a Chartered Accountant and, in 2011, obtained his Chartered Director designation.

Mr. Perrault is President of his companies, Paradise Business Consulting and Paradise Properties. He has extensive experience in management and corporate financial affairs including audits, budgeting, strategic planning and human resource management. As a Chartered Accountant and business professional he has had the opportunity to work throughout the City of Swift Current, the Province of Saskatchewan and for four years in Bermuda. He has been a part of many organizations through both audit and advisory roles and has gained significant business knowledge. This has included working with not-for-profit organizations, rural municipalities, Aboriginal bands, small businesses, corporate farms and, in Bermuda, publicly traded companies. While in Bermuda, Mr. Perrault worked with many reinsurance/insurance companies as an auditor and for two years as a reinsurance accountant with Aspen Re, a publicly traded reinsurer.

Currently, Mr. Perrault is an elected City of Swift Current Councillor and he serves on many local boards. He is also an Ambassador and active member of the Juvenile Diabetes Research Foundation and the SW Type 1 Sharps.

DOUG RICHARDSON, QC

Senior Partner, McKercher LLP

Mr. Richardson was appointed to the SGI Board of Directors in 2010 and has served on the Investment Committee, and the Governance and Human Resources Committee. He is a senior partner with McKercher law firm in Saskatoon where his practice focuses on small business, corporate governance, land development and commercial and financial issues.

Mr. Richardson earned his law degree from the University of Saskatchewan in 1975. He began his legal career in 1976, has been a partner in his firm since 1979 and was managing partner from 1994 to 2008. In 2009 he was appointed Queen's Counsel. During his career he has been active in professional associations locally and nationally, and has served on many boards including SaskTel, CanadianFund, Historia Board and Trustee as well as the National Chamber of Commerce.

RICHARD H. SMITH

Senior Vice President, Henderson Insurance Inc.

Mr. Smith was appointed to the Board of Directors in 2008. He sits on the Audit and Finance Committee, the Ad Hoc Strategic Planning Committee and chairs the Risk Committee. Mr. Smith holds a Certificate in Risk Management from the University of Toronto and is currently enrolled in the RIMS Fellow Program through the Risk Management Society. He has obtained his Canadian Certified Insurance Broker and Canadian Accredited Insurance Broker designations, and has been a licensed broker for 33 years. Mr. Smith also recently obtained his Chartered Director designation.

Mr. Smith is a Director of Western Agricultural Insurance Corporation and is the Chairman of the Canadian Home Builders Association (Saskatchewan). He is Past President of the Saskatoon & Region Home Builders Association and Past Vice President of the Insurance Brokers' Association of Saskatchewan. Mr. Smith is an Associate Member of the Saskatchewan Risk and Insurance Management Society and an Associate Member of the Risk Management Society, New York.

Mr. Smith joined Henderson Insurance in 1990 and is Senior Vice President and part owner of the business. Prior to joining Henderson Insurance, he worked for a large national insurance company in a variety of roles, including Marketing Representative, Senior Marketing Representative and Marketing Manager. Mr. Smith is based in Moose Jaw.

JEFF A. STERZUK

Vice President, Development & External Relations, Impact Society

Mr. Sterzuk was appointed to the Board of SGI in 2008. He is Chair of the Investment Committee. Mr. Sterzuk has completed the Chartered Director program through the Directors College. He completed the Securities Course and Conducts and Practices program in 2000, and the Certified Financial Planner designation in 1998. Mr. Sterzuk holds a Bachelor of Arts (Public Administration) from the University of Saskatchewan, which he completed in 1989.

Mr. Sterzuk has served on several not-for-profit boards throughout his career, including the Regina and Abbotsford Symphony Orchestras, the Regina and Abbotsford Executive Associations and many church and other charity governance and fundraising committees.

Mr. Sterzuk joined Impact Society in 2007 and is currently Vice President, Development & External Relations. Prior to Impact Society he spent 15 years working in the financial services industry with Investors Group and RBC Dominion Securities where he most recently served as Regional Director for the Calgary-Lethbridge Region for Investors Group until 2007. Mr. Sterzuk is based in Calgary.

COMITTEE MEMBERS AND MEETING FREQUENCY

AUDIT & FINANCE COMMITTEE

- Met five times in 2011
- Howard Crofts, Chair
- Denis Perrault
- Rick Smith
- Rick Watson
- Warren Sproule, ex officio

GOVERNANCE & HUMAN RESOURCES COMMITTEE

- Met four times in 2011
- Merin Coutts, Chair
- Tyrone Klewchuk
- Doug Richardson
- Rick Watson
- Warren Sproule, ex officio

INVESTMENT COMMITTEE

- Met four times in 2011
- Jeff Sterzuk, Chair
- Dwight Dunn
- Rick Kennedy
- Doug Richardson
- Warren Sproule, ex officio

RISK COMMITTEE

- Met four times in 2011
- Rick Smith, Chair
- Howard Crofts
- Rick Orr
- Warren Sproule, ex officio

TERMS OF REFERENCE

AUDIT COMMITTEE

The Audit Committee provides general stewardship and oversight to the Corporation's audit functions and activity, and recommends audit issues to be discussed by the Board, to ensure appropriate internal controls and information systems are in place, and that timely and complete auditing of the Corporation's activities and records is undertaken.

The committee shall be charged with the following advisory functions, duties and responsibilities with respect to **audit:**

1. Review the annual audited financial statements with management and the external auditor prior to their submission to the Board for approval.
2. Review, prior to issue or review by the Board, all continuous disclosure and other documents of the Corporation that include financial statements specifically, without limitation, management discussion and analysis, and annual reports.
3. Review annually the results of the external auditors' audit of the Corporation's financial records, including the management letter, and report to the Board any matter remaining unresolved.
4. Review the work plans and summary reports of the Corporation's internal auditor and report to the Board the nature of any unresolved matter from audit reports.
5. Approve the annual audit work plan of the external auditor. Review the Provincial Auditor's audit involvement letter.
6. Review annually reports of the internal auditor, external auditors and Provincial Auditor with respect to the state of the Corporation's internal control and management information systems, and report to the Board results of the review.
7. Review annually the Corporation's CEO and CFO Certification and assessment of the effectiveness of internal controls and financial reporting.
8. Review quarterly the statement of defalcations.
9. Review and approve the published quarterly reports including unaudited financial statements and management discussion and analysis, and report to the Board.
10. Approve the expense claims of the President and CEO on an annual basis. The committee Chair will approve the specific expense claims of the President and CEO as required, as well as vacation time utilized by the President and CEO.
11. Recommend to the Board the appointment or reappointment of an external auditor.
12. Recommend to the Board the appointed actuary.
13. Review annually external audit fees.
14. Review annually the report of non-audit fees paid to the external auditors.
15. Review quarterly and report to the Board all directors' expenses, retainers and per diems, and refer any concerns or questions to the Chair of the Board for resolution.
16. Review annually the corporate donations report.
17. At least every three years review and recommend to the Board for approval any amendments to the SGI Superannuation Plan based on a three-year actuarial review. Recommend to the Board ad hoc increases as they occur.
18. Review any report from the Provincial Auditor, external auditors or the internal auditor when the Corporation has acted outside of its legislative authority, and make recommendations to the Board as required.
19. Recommend to the Board appointments and terminations of the Chief Financial Officer and Chief Internal Auditor.
20. Review and recommend amendments to the Ex Gratia Payment Policy.
21. Review as required reports to the Whistleblower Hotline involving a financial irregularity.
22. Review at least every three years in conjunction with the committee charged with corporate governance and report to the Board on the adequacy of the committee's terms of reference.

FINANCE COMMITTEE

The Finance Committee provides general stewardship and oversight to the Corporation's financial activity, functions and performance, and recommends financial issues to be discussed by the Board.

The committee shall be charged with the following advisory functions, duties and responsibilities with respect to **finance:**

1. Review and recommend to the Board the Corporation's financial strategy and capital structure and their consistency with the overall strategy of the Corporation.
2. Review and recommend to the Board major investments or divestitures by the Corporation including capital expenditures and major acquisitions or dispositions of significant assets.
3. Review and recommend to the Board management spending authorities.
4. Review and recommend to the Board the dividend policy.
5. Recommend to the Board approval of dividend payments.
6. Review and recommend for approval to the Board the Corporation's annual operating, capital and staffing budget.
7. Review at least every three years and make recommendations to the Board on the corporate donations policy.
8. Review at least every three years in conjunction with the committee charged with corporate governance and report to the Board on the adequacy of the committee's terms of reference.

GOVERNANCE COMMITTEE

The Governance Committee monitors the governance of the Board and committees of the Board, and recommends governance issues to be discussed by the Board and its committees to ensure timely and complete information and decision making at the Board and committee levels.

The committee shall be charged with the following advisory functions, duties and responsibilities with respect to **governance:**

1. Review as required and at least annually the duties and responsibilities of the Board, and recommend to the Board any amendments as deemed necessary or advisable, including identification of committees to whom management should report on specific issues.
2. Review as required and at least every three years the terms of reference of the Board and its committees, and recommend to the Board any amendments as deemed necessary or advisable.
3. Recommend to the Board the size and composition of the Board of Directors, and the expertise of its members to meet the needs of the Corporation.
4. Review, in conjunction with Crown Investments Corporation, the provincial government and the CEO, skills and experience represented on the Board in light of the strategic direction of the Corporation.
5. Review the qualifications of potential candidates for appointment to the Board. During this review, the committee must include in its attendance the Chair of the Board.
6. Recommend to the Board the size, composition, membership and chairs of board committees.
7. Recommend to the Board a process that supplements Crown Investments Corporation's process for evaluating the performance of the Board and its members, and implement the evaluation process approved by the Board.
8. Implement an orientation program for new Board members and an ongoing education program for existing Board members that supplements the Crown Investments Corporation's program, particularly with respect to industry-specific topics.
9. Monitor the effectiveness and group dynamics of the Board and its committees, and assist in the development and implementation of processes to enhance effectiveness and dynamics as required.
10. Assess the adequacy and form of director compensation and make recommendations to Crown Investments Corporation and the provincial government from time to time.
11. Provide counseling support to individual directors on governance issues.
12. Review and report to the Board on conflict of interest matters involving directors as required.
13. Vet situations, where a director's employer or company is engaged in business with the Corporation, any new matters or transactions, other than matters or transactions substantially similar to the existing matters or transactions.
14. Monitor involvement of directors on boards of directors outside the Corporation, to ensure duty of confidentiality and duty of disclosure is observed.
15. Appoint, in consultation with Crown Investments Corporation, the secretary to the Board.
16. Monitor governance of the Boards of Directors and committees of the Boards for subsidiary companies as required.
17. Review at least every three years the adequacy of the committee's terms of reference.

HUMAN RESOURCES

The Human Resources Committee provides general stewardship and oversight to the Corporation's human resources activities, and recommends human resources issues to be discussed by the Board.

The committee shall be charged with the following advisory functions, duties and responsibilities with respect to **human resources:**

1. Review and recommend to the Board the compensation and benefit mandates for management and unionized employees as required, including Collective Bargaining Agreement settlement.
2. At least every three years review and recommend to the Board the compensation philosophy for management.
3. As required, recruit and recommend to the Board appointment or termination of the President and CEO, or establish an ad hoc committee of the Board to recruit and recommend.
4. Annually review and recommend to the Board the compensation package for the President and CEO, and his or her performance objectives.
5. In conjunction with the Chair of the Board, annually conduct and report to the Board the results of a performance appraisal of the President and CEO.
6. With the Risk Committee, and to the extent feasible, ensure the integrity of the CEO and other senior officers, and that the CEO and other senior officers create a culture of integrity throughout the Corporation.
7. Receive regular reports from management on union and other human resource issues.
8. At least every three years or as amended, review and recommend to the Board the Corporation's Code of Ethics and Conduct Policy, Harassment Policy, Information Technology Policy, Whistleblower Policy, Privacy Policy and any other corporate policy that includes the Board of Directors in its scope.
9. Annually receive a compliance report on the Corporation's Code of Ethics and Conduct and Harassment Policy. Quarterly receive a compliance report on the Whistleblower Policy.
10. At least every three years or as amended, review and recommend to the Board the Corporation's health and safety management program. As required, receive reports on identified breaches of related policies or laws.

11. Review the President and CEO's senior management succession plan annually and report to the Board.

12. Review at least every three years in conjunction with the committee charged with corporate governance and report to the Board on the adequacy of the committee's terms of reference.

INVESTMENT COMMITTEE

The Investment Committee provides general stewardship and oversight to the Corporation's investment activity, functions and performance, and recommends investment issues to be discussed by the Board.

The committee shall be charged with the following advisory functions, duties and responsibilities with respect to **investment:**

1. Review and recommend to the Board the Statement of Investment Policies and Goals.

2. Review and recommend to the Board the appointment of investment managers and investment consultants.

3. Review the performance of the corporate investment portfolio.

4. Monitor the performance of the investment manager and investment consultants of the funds.

5. Monitor compliance with the Statement of Investment Policies and Goals, and governing legislation.

6. Review investment portfolio benchmark comparisons.

7. Review, in conjunction with the Risk Committee, and report to the Board on any proposed hedging and derivatives plan for the Corporation.

8. Review at least every three years in conjunction with the committee charged with corporate governance and report to the Board on the adequacy of the committee's terms of reference.

RISK COMMITTEE

The Risk Committee provides general stewardship and oversight of the Corporation's risks and risk management functions and activity, and recommends risk issues to be discussed by the Board, to ensure that timely and complete risk management is undertaken.

The committee shall be charged with the following advisory functions, duties and responsibilities with respect to **risk:**

1. Review annually and recommend to the Board the Corporate Risk Management Policy.

2. Define risk management accountabilities.

3. Review the Corporate Risk Register annually and report to the Board. As part of this process, (i) review processes established by management to identify, assess and manage risk; and, (ii) review the completeness of the list of corporate risks and actively seek new risks that may materially impact the Corporation.

4. Review the status of key corporate risks at every meeting and report to the Board.

5. Review risk assessments of major corporate strategies and report to the Board.

6. Provide direction to the risk manager on risk-related issues, and support the development and continuous improvement of risk management practices.

7. With the Human Resources Committee, and to the extent feasible, ensure the integrity of the CEO and other senior officers, and that the CEO and other senior officers create a culture of integrity throughout the Corporation.

8. Work with the Audit Committee on shared risk issues.

9. Review and report to the Board on the adequacy of the reinsurance protection of the Corporation.

10. Review the Corporation's business continuity plan.

11. Review, in conjunction with the Investment Committee, any proposed hedging and derivatives plan for the Corporation.

12. Review the Corporation's report of outstanding litigation, excluding claims litigation, and report to the Board as appropriate.

13. At least every three years review the Corporation's environmental issues and compliance with applicable laws. Receive any reports of non-compliance as they may occur.

14. Review and report to the Board on corporate liability protection programs for directors and officers. As required, recommend to the Board changes to the programs.

15. Review at least every three years in conjunction with the committee charged with corporate governance and report to the Board on the adequacy of the committee's terms of reference.

SGI EXECUTIVE

ANDREW R. CARTMELL

President and CEO

Mr. Cartmell joined SGI as President and CEO in August 2009. Before joining SGI, he worked for a number of Canadian property and casualty insurance companies in a variety of roles, including underwriting, actuarial, product management and regional/branch operations.

Mr. Cartmell holds a Bachelor of Mathematics (honours) and is a Fellow of the Casualty Actuarial Society (FCAS), Fellow of the Canadian Institute of Actuaries (FCIA), Chartered Insurance Professional (CIP) and LIMRA Leadership Institute Fellow (LLIF). He is a member of the Board of Directors of the Facility Association (previously Chair and Past Chair), and Board Chair for SGI CANADA Insurance Services Ltd., Coachman Insurance Company and the Insurance Company of Prince Edward Island.

EARL G. CAMERON

Vice President, Claims & Salvage

Mr. Cameron began his career with SGI in 1973 as a Clerk in the Underwriting Division, then held various positions as an adjuster in the Claims Division. He became a Senior Marketing Representative in Major Accounts in 1981, returning to Claims in 1984 as a Supervisor, Commercial Claims. He became the Manager of Head Office and Regina Northwest Claims in 1989 and the Assistant Vice President of Urban Claims in 1993. Mr. Cameron was appointed to the position of Vice President of Claims and Salvage in April 1997. From late 2008 to mid-2009, Mr. Cameron also served as Acting President.

Mr. Cameron is a member of the Board of Directors for the Insurance Company of Prince Edward Island, Coachman Insurance Company and SGI CANADA Insurance Services Ltd. Mr. Cameron is a member of the Saskatchewan Adjusters Association, member of the Honourable Order of the Blue Goose, Past President of Regina Crime Stoppers, Past Director of I-CAR Canada and Past Appointed Member of the Regina Crime Prevention Commission.

JOHN DOBIE

Vice President, Canadian Operations

Mr. Dobie began his career at SGI in 1975 in the Finance department, and since then has worked in various divisions. Mr. Dobie was appointed Vice President of Systems in February 1996, Vice President of Finance and Administration in April 1997, Vice President of Finance in March 2001, and to the position of Vice President of Canadian Operations in August 2004.

Mr. Dobie is a Certified Management Accountant (CMA). He is currently on the Board of Directors of Coachman Insurance Company and SGI CANADA Insurance Services Ltd. In the past Mr. Dobie has served on the Board of Directors of Greystone Managed Investments, Palliser Insurance Company, the Insurance Company of Prince Edward Island, Charlie Cooke Insurance Agency Ltd., Atlantic Adjusting & Appraisals Ltd. and the Maritime Finance and Acceptance Corporation.

TAMARA C. ERHARDT

Vice President, Human Resources and Corporate Services

Ms. Erhardt joined SGI in 1995 as the Supervisor, Job Evaluation and Classification. In 1996, she became the Supervisor of Industrial Relations, and then the Manager of Employee Relations in 2000. She was appointed to the position of Assistant Vice President, Human Resources and Corporate Services in 2006. In 2009, she was appointed to her current position of Vice President, Human Resources and Corporate Services.

Ms. Erhardt holds a Bachelor of Commerce, a Masters of Business Administration, is a Certified Human Resources Professional (CHRP) and has a Certificate in Mediation Services and a Certificate in Industrial Relations. She is a member of the Saskatchewan Association of Human Resources Professionals and the Conference Board of Canada's Council for Human Resource Executives, West.

RANDY HEISE

Vice President, Underwriting

Mr. Heise began his career at SGI in 1972 and worked his way through the ranks of the Finance department, becoming an Assistant Vice President in 1985 and the Vice President of Finance and Administration in 1991. Mr. Heise was appointed to his current position in April 1997.

Mr. Heise is a Certified Management Accountant (CMA) and is a member of the Society of Management Accountants. He currently sits on the Board of Directors of Coachman Insurance Company, the Insurance Company of Prince Edward Island and SGI CANADA Insurance Services Ltd.

JEFF STEPAN

Chief Financial Officer

Mr. Stepan joined SGI in August 2008 as Treasurer, and became the Chief Financial Officer in November 2010. Prior to joining SGI, Mr. Stepan spent 17 years as an institutional investment consultant with Hewitt Associates and its predecessor company James P. Marshall, Inc. where he consulted to clients in the pension, endowment and insurance sectors. In addition to his duties as a Senior Consultant, Mr. Stepan managed the Regina office.

Mr. Stepan is a Chartered Accountant (CA) and Chartered Financial Analyst (CFA). He's currently Chair of the Investment Committee for the Capital Pension Plan and is Treasurer of the Financial Executives International Regina Chapter. Mr. Stepan is a member of the Institute of Chartered Accountants of Saskatchewan, the CFA Institute and the Risk and Insurance Management Society, and is an avid volunteer with the Juvenile Diabetes Research Foundation.

DON THOMPSON

Vice President, Product Management

Mr. Thompson joined the Finance department of SGI in August 1989. Mr. Thompson became a Manager in 1995, Corporate Controller in 1999 and Assistant Vice President in 2001. He was appointed Vice President of Finance in 2004, and moved into his current position in 2011.

Mr. Thompson is a Certified Management Accountant (CMA) and is a member of the Society of Management Accountants. He currently sits on the Board of Directors of Coachman Insurance Company, the Insurance Company of Prince Edward Island and SGI CANADA Insurance Services Ltd.

DWAIN WELLS

Vice President, Systems & Facilities

Mr. Wells joined SGI in April 1992. He became the Manager of Systems in 1994, the Assistant Vice President of Systems in 2001, and was appointed Vice President of Systems in 2004.

Mr. Wells holds a Diploma in Applied Arts in Data Processing. Prior to joining SGI, he worked in systems roles with Esso Chemical Canada in Alberta and Ontario, Digital Equipment Canada in Regina, and was a partner in a systems consulting company in Regina.

SHERRY WOLF

Vice President, Auto Fund

Ms. Wolf began her career at SGI in 1982 in the Human Resources department where she held a number of supervisor positions. From 1988 through 1991 Ms. Wolf performed various manager roles in the Auto Fund. In 1991 she became the Assistant Vice President of Communications, then returned to the Auto Fund as Assistant Vice President, Licensing and Registration in September 1993. In 1999, she moved to Claims as Assistant Vice President, Injury Claims and Rehabilitation. Ms. Wolf was appointed to her position as Vice President of the Auto Fund in 2004.

Ms. Wolf has a Bachelor of Administration and a Masters in Public Administration. She is on the Board of Directors of the Canadian Council of Motor Transport Administrators and is a member of the Regina Planning Commission.

GLOSSARY OF TERMS

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.

Claims incurred — The totals for all claims paid and related claim expenses during a specific accounting period(s) plus the changes in the provision for unpaid claims 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.

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

Gross premiums written (GPW) — Total premiums, net of cancellations, on insurance underwritten during a specified period of time before deduction of reinsurance premiums ceded.

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

IFRS — International Financial Reporting Standards. These are defined in the handbook as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

Loss ratio (Claims ratio) — Claims incurred net of reinsurance expressed as a percentage of net premiums earned for a specified period of time.

Motor licence issuer — A person who negotiates driver's licences and vehicle licence/insurance on behalf of the Auto Fund and who receives a fee from the Auto Fund for licences placed and other services rendered.

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.

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 from policyholders and paid to the province. It is calculated as a percentage of gross premiums written.

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

Redundancy & deficiency — Claim 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.

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.

IN MEMORIAM

Tim Beach, Partsperson 3 at Regina Salvage, was a dedicated, hard-working and versatile employee who seemed to get along with everybody and provided his co-workers with leadership and guidance.

Tim was a dedicated family man, devoted to his wife and daughters. He was very involved in their sports, dancing and other activities, never missing a practice, game or rehearsal.

Tim passed away on March 19, 2011.

Len Borbely, an Adjuster 2 at the Regina Northwest Claims Centre, was extraordinarily clever, great with people and had a wonderful sense of humour, part of why he excelled at handling difficult claims and calming upset clients.

Len never let his quadriplegia slow him down. His enthusiasm for life and love of his friends was an inspiration to everyone around him. Len's favourite activities were spending time with friends and family and cheering on the Riders.

Len passed away on Dec. 17, 2011.

Marie Toro, Executive Assistant in the Executive Offices, was an upbeat and dedicated employee who will be fondly remembered after working at SGI for 20 years.

Marie was cheerful with an infectious smile. She shared her fun-loving enthusiasm with friends and family alike. Her husband, nephews and nieces were an important part of her life.

Marie passed away on Jan. 20, 2011.

SGI Head Office 2260 - 11th Ave., Regina, Saskatchewan, Canada S4P 0J9

www.sgi.sk.ca