2017-18 Annual Report

SGI CANADA

sgicanada.ca

Mission

We're your insurance company, protecting you, your family and your community

Vision

Accelerate growth through great customer experiences

Values

Integrity – doing the right thing (by being accountable, honest, trustworthy and fair)

Caring – understanding that empathy, courtesy and respect make an impact

Innovation – transforming how we do things today for an even more successful tomorrow

About SGI CANADA

SGI offers competitive property and casualty insurance products under the trade name SGI CANADA in Saskatchewan, Alberta, Manitoba and British Columbia, and under SGI CANADA and Coachman Insurance Company in Ontario. Operations outside Saskatchewan are held by the subsidiary company, SGI CANADA Insurance Services Ltd.

Visit www.sgicanada.ca for more information.

2017-18 SGI CANADA Annual Report

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Letter of Transmittal

Regina, Saskatchewan
July, 2018

The Honourable W. Thomas Molloy, O.C., S.O.M.
Lieutenant Governor of Saskatchewan

Your Honour,

I am pleased to submit herewith the annual report of SGI CANADA for the 12-month period ended March 31, 2018, including the financial statements in the form required by the Treasury Board and in accordance with *The Saskatchewan Government Insurance Act*.

Respectfully submitted,

Joe Hargrave
Minister Responsible for Saskatchewan Government Insurance

Minister's Message

I am pleased to report that SGI CANADA achieved another profitable year, generating a dividend of $35.8 million to the people of Saskatchewan. The company is on track to continue on its growth trajectory, gaining customers and partnering with brokers throughout the country. It is in a position to provide profitable returns into the future.

The insurance industry is a major part of the social and economic fabric of Canada, and insurance brokerages are among the most active and influential businesses within the communities they serve. They work with their customers to ensure the right protection is in place should something go wrong. If it does go wrong, they're among the first there, along with insurers like SGI CANADA, to help those recovering from large disasters as well as smaller scale losses. SGI CANADA's commitment to independent insurance brokers is unwavering.

Brokers also provide employment, engagement and financial support to their communities through local sponsorships and donations. In the same spirit, SGI CANADA continues to support communities through sponsorships, including minor hockey and flag football teams across Saskatchewan, partnering with brokers to sponsor events outside of Saskatchewan, and timely donations to the Red Cross assisting communities in crisis. In the past year this included supplies for evacuation centres established in Prince Albert and Saskatoon to assist people fleeing northern forest fires.

SGI CANADA is committed to its values of integrity, caring and innovation. As Minister responsible, I thank the company's staff and broker partners for their continued dedication, and the Board of Directors for their thoughtful oversight over the past fiscal year.

I am pleased to submit the 2017-18 SGI CANADA Annual Report.

Joe Hargrave
Minister Responsible for Saskatchewan Government Insurance

Chair’s Message

It’s an honour to reflect on another profitable year at SGI CANADA.

This past year, the Board of Directors and staff moved the company closer to its goals of $1 billion in direct premium written by 2020, with a healthy geographic spread of business. We achieved this through focus on markets and customer segments that offer the greatest opportunities for profitable growth. Critical to achieving those goals are strong partnerships with independent brokers, including leveraging technology to streamline business processes and offer great service to policyholders, and we’ve made excellent progress in all those areas too.

Capitalizing on innovation and strong partnerships with independent insurance brokers has positioned SGI CANADA well to remain successful through industry change, extreme weather events and economic highs and lows.

I thank the management and staff of SGI CANADA and our brokers throughout Saskatchewan, B.C., Alberta, Manitoba and Ontario for your hard work and dedication to SGI CANADA’s success. I also thank my fellow directors for their commitment and leadership throughout 2017-18.

Arlene Wiks
Chair, SGI Board of Directors

President’s Message

Robust growth was the highlight of SGI CANADA’s 2017-18 fiscal year, as the company expanded in scale, increased direct premium written and broadened the spread of risk across five provinces – making substantial gains towards our goal to achieve $1 billion in direct written premium by 2020.

Premium growth, combined with an underwriting profit of $10.9 million and strong investment earnings, resulted in a net profit of $59.4 million for SGI CANADA for the year.

SGI CANADA’s year-over-year growth rate of 9.2% is significantly higher than industry standard, and resulted in $810.9 million in direct premium written, providing insurance for over 890,000 customers in B.C, Alberta, Saskatchewan, Manitoba and Ontario.

Notably, 35.2% of the company’s premium was written outside of Saskatchewan. This reflects a growth strategy to spread risk across the country, so that losses in one province can be offset by profits in another. Geographic diversification is critical to SGI CANADA’s continued success, and remains a priority as extreme weather events continue to escalate and contribute to claims losses.

With growth in mind, SGI CANADA launched home, condo, tenant and personal auto insurance in July 2017 in Ontario. This market was previously served by SGI CANADA’s subsidiary company, Coachman Insurance, which specializes in insurance for high-risk drivers. Coachman continues to focus on those customers, while SGI CANADA now serves the standard personal auto and property market in Ontario. We are excited to see positive results in Ontario and look forward to future growth in the province.

SGI CANADA worked with insurance brokers to develop new technology in 2017-18, to provide better service to consumers who want to research and purchase insurance online. The Application Program Interfaces (APIs) we’re developing will enable real-time data exchange between SGI CANADA, brokers and customers, resulting in fast and efficient online transactions. This new technology will be available to our broker partners in 2018, ensuring SGI CANADA and the brokers we partner with remain competitive and meet the expectations of online consumers.

A highlight in 2017-18 was the creation of SGI CANADA’s Farm Business Unit. Striving to be the insurer of choice for agricultural insurance customers across the Prairie provinces, we’ve brought together a team of product developers, underwriters, claims adjustors and technical advisors with specialized knowledge in farming and ranching operations, livestock and equipment. This team is providing improved service for existing customers and helping to attract new farming and ranching customers to SGI CANADA throughout Saskatchewan, Alberta and Manitoba.

SGI CANADA partnered with 413 insurance brokers in 2017-18, operating out of approximately 1,300 offices across Canada. The company’s success is a direct result of the positive partnerships that have been built with these independent business owners. Our 2017 broker survey results reveal 93% of them are satisfied with SGI CANADA and proud to do business with us. We are also proud of those partnerships and remain committed to selling our products exclusively through insurance brokers – caring for, covering and connecting with the people they serve.

Andrew Cartmell
President and CEO

Management's Discussion and Analysis

The following management's discussion and analysis (MD&A) is the responsibility of management and reflects events known to management to May 30, 2018. The Board of Directors carries out its responsibility for review of this disclosure principally through its Audit, Finance and Conduct Review Committee, comprised exclusively of independent directors. The Audit, Finance and Conduct Review Committee's mandate can be found on the Corporation's website at www.sgi.sk.ca. The Board of Directors approved this MD&A at its meeting on May 31, 2018, after a recommendation to approve was put forth by the Audit, Finance and Conduct Review Committee.

Overview

The MD&A is structured to provide users of SGI CANADA's financial statements with insight into SGI CANADA (denoted as the "Corporation") and the industry in which it operates. This section contains discussion on its strategies and its capability to execute the strategies, key performance drivers, financial capital, March 31, 2018 financial results, risk management and an outlook for 2018–19. Information contained in the MD&A should be read in conjunction with the consolidated financial statements and the notes to the consolidated financial statements, along with other sections in this annual report. All dollar amounts are in Canadian dollars. SGI CANADA annual and quarterly reports are available on its website at www.sgicanada.ca.

Caution Regarding Forward–Looking Statements

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

Where SGI CANADA Came From

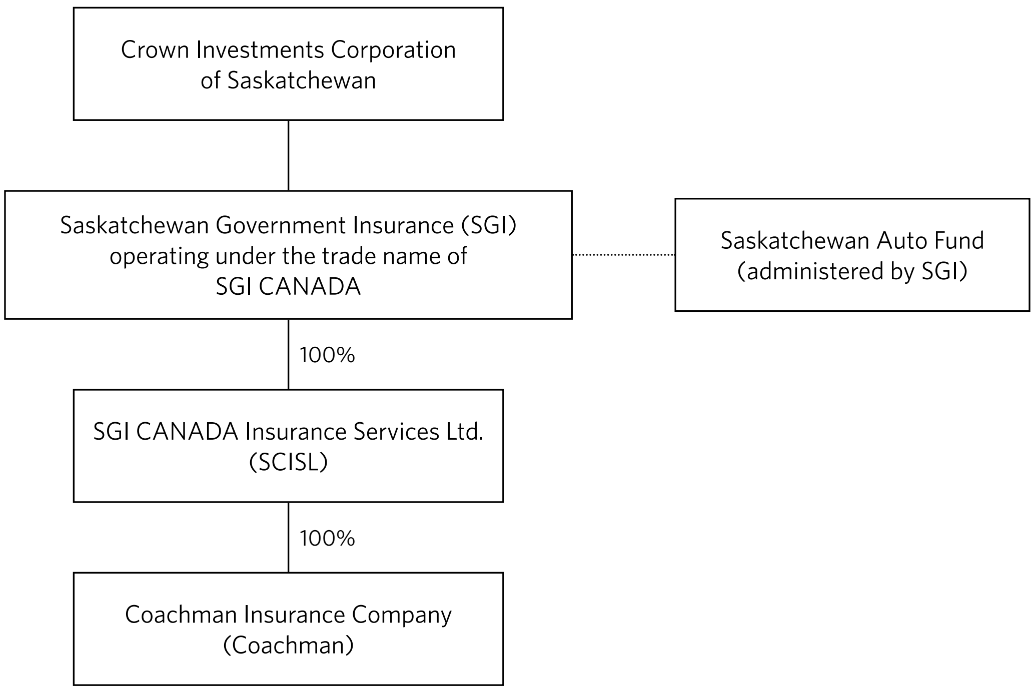
In 1944, the Government of Saskatchewan passed *The Saskatchewan Government Insurance Act*, creating the provincial Crown corporation that is known today as SGI. It was created to rectify problems in the Saskatchewan insurance industry. At that point in time, poor economic conditions had driven many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

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

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

The operations in provinces outside Saskatchewan are important to the Corporation to spread risk and increase economic returns for SGI CANADA's shareholder, Crown Investments Corporation of Saskatchewan (CIC). In 1993, SCISL began offering P&C insurance in Manitoba. In 2001, SCISL purchased 100% of the shares of Coachman Insurance Company (Coachman) operating in Ontario. SCISL has been operating in Alberta since 2006 and began writing commercial property products in British Columbia in July 2015 and personal property in January 2016. SCISL entered the standard market in Ontario in July 2017 offering personal property products, including auto.

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



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

As of March 31, 2018, the Corporation employed more than 2,000 people, including employees who work directly for the Saskatchewan Auto Fund. SGI CANADA operates with a network of 184 independent brokers throughout Saskatchewan, as well as 229 brokers operating in Manitoba, Alberta, British Columbia and Ontario. SGI CANADA's corporate head office is located in Regina, Saskatchewan.

The Property and Casualty Insurance Business Environment

Canada's highly competitive P&C industry consists of more than 200 private and government–owned insurers. The P&C industry covers all types of insurance except life and health insurance. The automobile insurance sector continues to be the largest contributor to gross premium volume, with half of all premiums. Property insurance ranks second, followed by liability and other insurance.

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

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

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

Since automobile insurance is compulsory in Canada – unlike home and business insurance – it is the most regulated area that P&C companies operate within. Regulation of premium rates is based on claims and other costs of providing insurance coverage, as well as projected profit margins. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. The Corporation's automobile premiums are subject to rate regulation in Alberta and Ontario, which represent approximately 18% of consolidated gross premiums written as of the end of March 31, 2018.

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

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

The Property and Casualty Insurance Compensation Corporation (PACICC), a non–profit entity, was formed in 1988 to provide a reasonable level of recovery for policyholders and claimants under most policies issued by P&C companies in Canada in the unlikely event a Canadian P&C company fails. The maximum amount a policyholder could recover from PACICC is $250,000 for auto and commercial policies and $300,000 for home policies with respect to all claims arising from each policy issued by the insolvent insurer and arising from a single occurrence. Policyholders may also claim 70% of unearned premiums that have been paid in advance, to a maximum of $700 per policy.

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

[1] *This and other terms are defined in the glossary included in this annual report. The glossary begins on page 77.*

Strategic Direction

SGI CANADA's mission, vision and values are:

Mission

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Vision

Accelerate growth through great customer experiences

Values

Integrity	Doing the right thing (by being accountable, honest, trustworthy and fair)
Caring	Understanding that empathy, courtesy and respect make an impact
Innovation	Transforming how we do things today for an even more successful tomorrow

Corporate Goals and Measures

SGI CANADA continues to face numerous challenges and opportunities as the property and casualty (P&C) insurance industry in Canada is undergoing significant change. Industry disruptors and new innovations are reshaping the way insurers do business. Consumer preferences are shifting toward digital, and the demand for a more customer–centric approach to service is high. Canadian P&C insurance companies need to keep pace with the speed of technology in order to stay competitive.

SGI CANADA had three key goals in 2017–18:

- accelerate sustainable, profitable growth that protects the company's competitiveness and financial viability;
- develop a deeper understanding of how to increase value for customers and strengthen the ability to deliver that value; and,
- enhance foundational business structures and processes, and develop employees to optimize delivery of the strategic plan.

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

Financial

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

Measure	2017-18 Target	2017-18 Result	2018-19 Target
Growth			
Direct premium written	$800.0M	● $810.9M	$895.0M
Spread of risk outside Saskatchewan	33.0%	● 35.2%	37.0%
Profitability			
Combined ratio	98.7%	● 98.5%	96.3%
Return on equity	10.0%	● 14.5%	16.4%

Legend: ● achieved ○ not achieved

Growth

In 2017–18, growth was measured through SGI CANADA's consolidated direct premium written and the portion of its book of business held outside of Saskatchewan.

In a market where competitors' increased scale gives them access to more data, greater administrative efficiencies, better spread of risk and the ability to make greater investments in research and development, achieving growth is critical to SGI CANADA's ongoing financial sustainability. SGI CANADA experienced strong premium growth in 2017–18, with a year–over–year increase of 9.2% resulting in $810.9 million in direct premium written. The Corporation achieved its 2017–18 target of $800.0 million in direct premium, and the 2018–19 target of $895.0 million continues to move the company towards its long–term goal of achieving $1 billion in direct premium written by 2020.

For SGI CANADA, geographic diversification is achieved by spreading risk outside of Saskatchewan. It is an important objective essential to SGI CANADA's financial stability, as losses in one jurisdiction can be offset by profits in other jurisdictions. SGI CANADA wrote $285.6 million in direct premium in markets outside of Saskatchewan for the 12 months ended March 31, 2018. This translated into a 35.2% share of premiums from outside Saskatchewan, above its target for the period of 33.0%. The Corporation continues to strive for geographic diversification, targeting to write 37.0% of its book of business outside of Saskatchewan in 2018–19.

Profitability

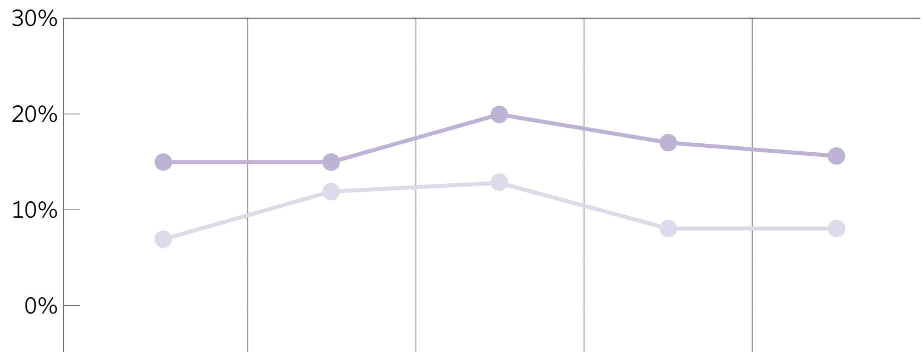
In 2017–18, SGI CANADA measured profitability through its combined ratio and pre–tax return on equity (ROE).

SGI CANADA is seeking aggressive growth targets, but intends to achieve them through disciplined growth that is sustainable. As a result, a combined ratio measure is included in the balanced scorecard as an indicator of profitability and to reinforce the concept of sustainable growth. A combined ratio below 100% indicates that the company is making an underwriting profit, while a ratio above 100% means that it is paying out more money in claims and expenses than it is receiving from premiums. To ensure growth is sustainable and reasonably profitable, the company's long–term goal is to operate at a combined ratio of 98.0% or less. The Corporation realized an underwriting profit with a 98.5% combined ratio, achieving its 2017–18 target. In 2018–19, SGI CANADA is targeting a combined ratio of 96.3% as it focuses on improved profitability.

ROE is another measure of profitability, which compares profit to the investment in the Corporation. SGI CANADA's 2017–18 target was to achieve a minimum pre–tax ROE of 10.0%. The Corporation exceeded this target, earning a pre–tax ROE of 14.5%. This result was driven by strong investment returns, which were significantly better than budgeted.

SGI CANADA's ROE has been favourable compared to the rest of the Canadian insurance industry over the past several years. Based on December 31, 2017 industry data, the Canadian P&C industry earned an 8.3% result for the year, whereas SGI CANADA earned a 16.2% result for the same period. From 2013 to 2017, the Corporation's five-year average, pre-tax ROE is 16.7%, while the industry averaged 9.5% for the same period.

P&C Industry vs SGI CANADA Consolidated Pre-Tax ROE



	2013	2014	2015	2016	2017
SGI CANADA	15%	15%	20%	17%	16%
Industry Average	7%	12%	13%	8%	8%

Source: SGI CANADA and MSA Research

SGI CANADA is targeting a pre-tax ROE of 16.4% in 2018-19. The target is based on the Corporation's budget, which is focused on sustainable growth and profitability.

Customer

SGI CANADA assesses success with customers by its ability to provide them with a positive customer experience.

Measure	2017-18 Target	2017-18 Result	2018-19 Target
Customer experience			
Customer experince index score	76	● 74	77
Number of customers	897,998	● 891,637	954,000

Legend: ● achieved ○ not achieved

Customer experience

SGI CANADA used two measures to evaluate customer experience: the customer experience index and growth in its customer base.

With a focus on enhancing the overall experience being provided to customers, the company uses a customer experience index to assess what customers think of their interactions and relationship with the company. A combined SGI CANADA and Saskatchewan Auto Fund score is used, as Saskatchewan customers do not differentiate between the two companies. A score of 74 was achieved, in effect meeting the 2017-18 target of 76. The 2018-19 target is 77, continuing to move towards the long-term goal of achieving an index score of 80.

Growing SGI CANADA's customer base speaks to attracting and retaining customers, both of which are a reflection of the experience SGI CANADA provides to customers. Both are also critical to achieving the aggressive premium growth SGI CANADA is seeking. SGI CANADA's long-term goal is to grow its customer base across Canada to one million by 2020. The company in effect met its 2017-18 target with 891,637 customers. The target for 2018-19 is 954,000 customers.

Internal processes

Efficiency and productivity are key to assessing the success of SGI CANADA's internal processes:

Measure	2017-18 Target	2017-18 Result	2018-19 Target
Efficiency and productivity			
Administrative expense ratio	11.6%	● 10.8%	11.6%

Legend: ● achieved ○ not achieved

Efficiency and productivity

Efficiency and productivity are assessed based on SGI CANADA's administrative expense ratio. The ratio is total administrative expenses expressed as a percentage of net premiums earned. SGI CANADA achieved its 2017-18 target, realizing a 10.8% administrative expense ratio, which is lower than the target of 11.6%. Analysis of administrative expenses and the administrative expense ratio is provided in the following 2017-18 Financial Results section. In 2018-19, SGI CANADA is continuing to target an administrative expense ratio of 11.6%, as it focuses on resourcing growth initiatives. The Corporation's long-term goal is to achieve an administrative expense ratio of 11.0% or less.

Organizational Capacity

SGI CANADA's ability to deliver on its corporate strategy is dependent on its employees and maintaining an adequate level of capital. As such, organizational capacity is measured based on employee engagement and capital adequacy.

Measure	2017-18 Target	2017-18 Result	2018-19 Target
Employee engagement			
Engagement score compared to the Canadian public sector norm	Non-reporting year	Non-reporting year	1-point improvement
Capital adequacy			
Minimum Capital Test (MCT)	242%	● 242%	242%

Legend: ● achieved ○ not achieved

Employee engagement

A positive employee experience is essential to achieving SGI CANADA's corporate objectives. One way to measure this is through employee engagement, using a biennial employee survey conducted by an external vendor. The survey includes employees performing work for both SGI CANADA and Saskatchewan Auto Fund. An employee engagement score, derived from SGI's employee survey, is used to measure an employee's emotional and intellectual commitment to the Corporation. The employee survey was not conducted in 2017-18, but will be conducted in 2018-19. The long-term goal continues to be a score at or above the Canadian public sector norm.

Capital adequacy

Capital adequacy speaks to the Corporation's ability to honour its financial obligations. The industry measurement developed by insurance regulators for capital adequacy is the Minimum Capital Test (MCT). The MCT is a risk–based capital adequacy framework that assesses the riskiness of assets, policy liabilities and off balance sheet exposures by applying varying factors. From these calculations comes a ratio of capital available to capital required. As discussed in the "Capability to Execute Strategies, Financial Capital" section that follows, the Corporation has established internal MCT targets that provincial regulators have adopted as minimum targets for regulatory purposes.

The following table shows MCT results by legal entity:

Company	March 31, 2018	March 31, 2017
SGI CANADA (consolidated)	242%	243%
SGI CANADA Insurance Services Ltd. (consolidated)	261%	285%
Coachman Insurance Company	290%	315%

SGI CANADA's consolidated MCT of 242% is consistent with the 2017–18 target and long–term goal of 242%.

Capability to Execute Strategies

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

Employees

SGI CANADA's management team is experienced and knowledgeable about the Canadian P&C insurance market. With many long–term employees and a low staff turnover rate, the Corporation has significant expertise in the core underwriting and claim handling areas of its business, as well as within its support areas. This expertise has contributed to strong underwriting results in the Saskatchewan market, compared to the insurance industry overall, and is crucial to success in markets outside Saskatchewan. Maintaining this expertise through effective recruitment, development and retention efforts is key to meeting the challenges that will present themselves in the future.

The Corporation has implemented a number of programs including competency–based recruitment, training and leadership development programs and knowledge transfer plans. As well, it assists employees in understanding and adapting to change, with a focus on employee engagement and empowerment. SGI's succession planning process focuses on: (i) ensuring current senior management positions have succession plans; (ii) identifying high performing staff who have potential for more senior roles; and, (iii) ensuring high–potential staff and the leadership team have ongoing development and support.

On December 31, 2017, the collective bargaining agreement between SGI and the Canadian Office and Professional Employees' Union, Local 397 (COPE 397), expired. Negotiations are currently underway to reach a new agreement. SGI has not had a work stoppage since 1948 and it will continue to work with COPE 397 to ensure that this record continues into the future.

Brokers

SGI CANADA sells products through a network of 184 independent Saskatchewan brokers who conduct business from 346 locations throughout the province, and 229 brokers who operate in 1,006 locations throughout the rest of Canada. To continue delivering insurance products that customers desire, SGI CANADA works closely with brokers to obtain input and advice on the changing needs of customers. With their assistance, SGI CANADA is able to take a lead in delivering innovative insurance products to customers.

SGI CANADA's brokers are well-known in the communities in which they operate and they actively promote the Corporation's products and services. The Corporation is committed to providing brokers with a stable, sophisticated market that they can feel confident placing their business with, and to be a leader in enabling broker technology that supports ease of doing business for both brokers and their clients.

SGI CANADA's success is built on long-standing and successful relationships with broker partners. It has a reputation for excellent service to brokers and, if it is to keep that reputation in the rapidly evolving insurance marketplace, it needs to remain innovative in its approaches to support brokers' success. Broker eServices have been an SGI CANADA focus for a number of years, and will continue to be expanded.

Technology

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

The Corporation continues to build business intelligence capabilities to leverage the data in the system to produce timely, sophisticated and consistent information to support the decision-making required to succeed in a competitive environment.

SGI CANADA is also a technology leader when it comes to dealing with broker partners, and recognizes that continued technological integration with brokers is key to ongoing success. The Corporation continually works to understand and leverage the technologies preferred by brokers, and has begun development to deliver application programming interfaces (APIs) to connect into broker partner's online platforms.

Financial Capital

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

The Corporation's main sources of capital are retained earnings and cash injections in the form of equity advances from its parent, CIC. These advances form the Corporation's equity capitalization. There were no new equity advances to SGI from its parent in 2017-18. In March 2018, SGI CANADA injected $30 million of equity into its wholly owned subsidiary SCISL. This equity will support ongoing growth initiatives outside of Saskatchewan.

In Canada, either the Office of the Superintendent of Financial Institutions (OSFI) or provincial regulators regulate P&C insurers. Regulators require insurers to operate with a level of capital above their internal MCT target. SGI CANADA's Board of Directors has approved capital management policies for the Corporation and each of its subsidiaries, prepared in accordance with Guideline A-4, Regulatory Capital and Internal Capital Targets, which OSFI issued in January 2014. The policies establish internal MCT targets that are used as minimum targets for regulatory purposes. The internal targets require that capital available be significantly more than capital required. The cushion provides the ability for insurers to cope with volatility in markets and economic conditions, innovations in the industry, consolidation trends and international developments, and to provide for risks not explicitly addressed, including those related to systems, data, fraud and legal matters. The policies also establish operating MCT targets that provide for an operating cushion above the internal targets.

The following table compares the actual MCTs of the Corporation and its subsidiaries with their internal and operating targets.

Company	March 31, 2018	Internal Target	Operating Target
SGI CANADA (consolidated)	242%	213%	242%
SGI CANADA Insurance Services Ltd. (consolidated)	261%	215%	260%
Coachman Insurance Company	290%	275%	335%

Financial liquidity represents the ability of SGI CANADA's companies to fund future operations, pay claims in a timely manner and grow. A main indicator of liquidity is the cash flow generated from operating activities, as reported on the Consolidated Statement of Cash Flows.

For 2017–18, SGI CANADA generated consolidated operating cash flows of $93.0 million. This cash flow is invested so that it is available to pay claims as they come due and to meet dividend requirements to its parent, CIC.

For the cash flow the Corporation retains, its enabling legislation requires it to follow the same investment criterion that federally regulated P&C companies must follow. This means the majority of the Corporation's investments are in highly liquid securities that can be sold in a timely manner in order to satisfy financial commitments. As at March 31, 2018, 41% (March 31, 2017 – 40%) of the investment portfolio was in treasury bills and highly liquid bonds and debentures issued by the federal and provincial governments.

2017–18 Financial Results

For the year ended March 31, 2018

Overview of operations

SGI CANADA's operating results for the year ended March 31, 2018 were strong, achieving a consolidated net income of $59.4 million, and an annualized return on equity of 15.8%.

The Corporation's solid financial results were due largely to investment earnings of $43.5 million, which were driven by strong equity returns. Underwriting profitability improved due to strong Saskatchewan results, with a consolidated underwriting income of $10.9 million.

Statement of Operations

Premium revenue

	(thousands of $)		
	2018	2017	Change
Saskatchewan	525,365	500,198	25,167
Alberta	157,465	132,603	24,862
Ontario	78,874	74,262	4,612
Manitoba	29,499	25,489	4,010
British Columbia	11,583	6,310	5,273
Gross premiums written	802,786	738,862	63,924
Premiums ceded to reinsurers	(57,596)	(45,248)	(12,348)
Change in unearned premiums	(18,884)	(37,182)	18,298
Net premiums earned	726,306	656,432	69,874

Consolidated gross premiums written grew $63.9 million, or 8.7%, with growth occurring in all jurisdictions. The Corporation's split of business in 2018 was 62.1% property and 37.9% auto, consistent with 2017. Geographically, 34.6% of gross premiums written were outside of Saskatchewan (2017 – 32.3%).

Gross premiums written in Saskatchewan increased 5.0% over the 12–month period, due primarily to the introduction of flood premium as well as inflation and rate increases in personal lines and agro.

Alberta operations experienced growth of 18.7% over the 12–month period, with personal lines, personal auto and commercial auto business contributing the majority of the increase. All products in Alberta have experienced more than 10.0% premium growth year–over–year.

The increase in Ontario premiums written of 6.2% over the 12–month period can be attributed primarily to increased personal auto sales volumes in the non–standard market. As well, SGI CANADA started selling personal lines and personal auto insurance in the Ontario standard market under the SGI CANADA brand beginning in July 2017, contributing $17.8 million in premium written year to date.

The increase in Manitoba premiums written of 15.7% over the 12–month period is due primarily to increased sales volumes in personal lines.

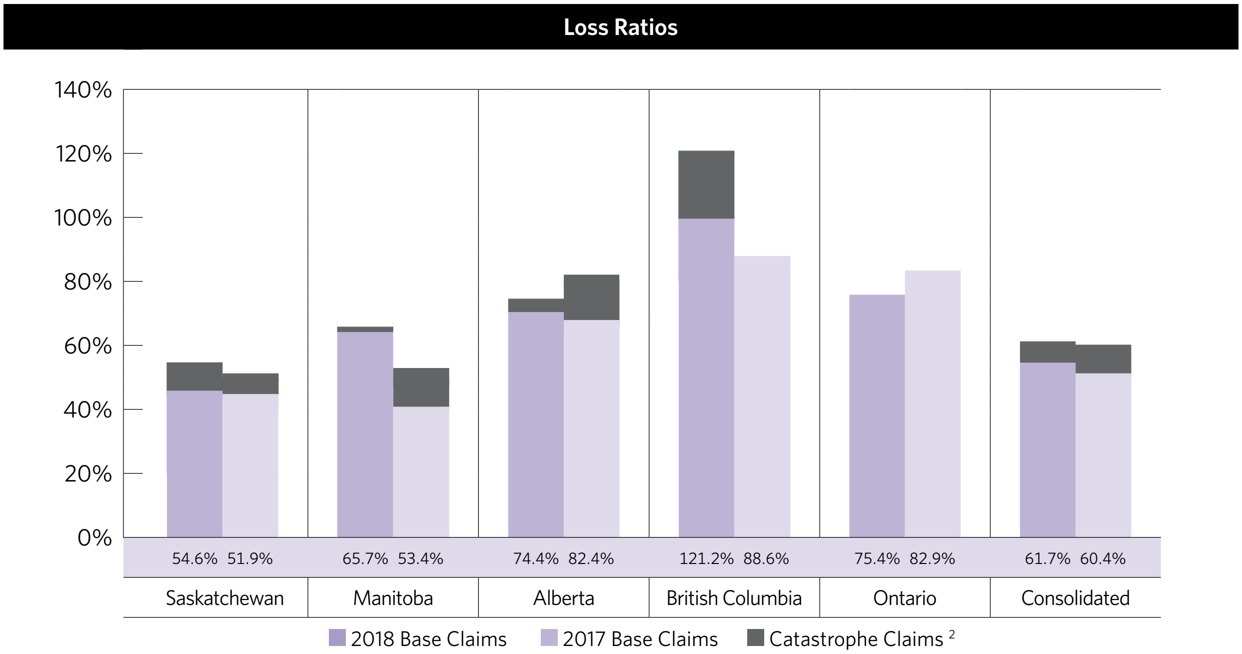
The Corporation started selling commercial property products in British Columbia in July 2015 and personal property products in January 2016. Significant policy growth is continuing in this relatively new market.

Claims incurred

	(thousands of $)		
	2018	2017	Change
Net claims incurred	447,830	396,679	51,151
Consolidated loss ratio	61.7%	60.4%	1.3%

The consolidated loss ratio was 1.3% higher than the prior year, while claims incurred increased by 12.9%. The stability in loss ratio can be attributed to strong premium growth and favourable Saskatchewan results.

The following chart summarizes the loss ratios by jurisdiction, detailing components of the loss ratio between catastrophe and non–catastrophe claim costs:



Saskatchewan's loss ratio of 54.6% increased from the prior year loss ratio of 51.9% due primarily to higher catastrophic storm costs. Catastrophes resulted in $41.1 million in claims, compared to $31.9 million in the previous year.

Manitoba's loss ratio increased to 65.7% from 53.4% in the previous year, despite a decrease in storm claim costs. The increase is due to large losses incurred in the period, primarily in personal lines. Storm activity resulted in $373,000 in claims, compared to $2.7 million incurred during the prior year.

Alberta's loss ratio decreased to 74.4% from 82.4% in the prior year largely due to a decrease in catastrophic storm claims. Storm activity resulted in $6.9 million in claims, compared to $17.0 million incurred in the prior year. The improvement in storm claims was partly offset by unfavourable auto results.

British Columbia's loss ratio increased to 121.2% from 88.6% last year due to an increase in claim volumes, including catastrophic claims resulting from wildfires. During the year there were catastrophic claims of $1.9 million, compared to none in the prior year. Overall, both personal and commercial lines have experienced increases in frequency of claims, including a number of large losses.

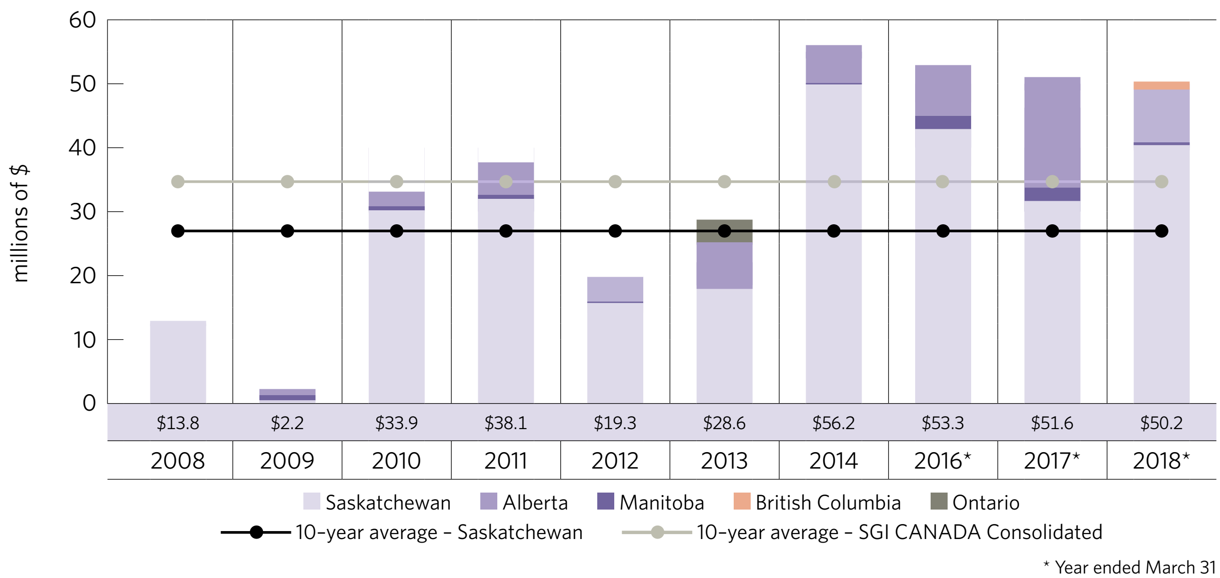
Ontario's loss ratio decreased to 75.4% from 82.9% in the previous period, due to improved commercial lines results, partly offset by poor auto results.

[2] *Catastrophe claims, also referred to as storm claims, represent claims occurring from a single event, limited to a period between 96 and 168 hours, with an estimated cost greater than $2.5 million (Saskatchewan) or $1 million (other jurisdictions). Catastrophic events for the Corporation generally relate to summer wind, rain and hail storms, forest fires and winter ice storms.*

Storm claim costs

The following graph shows the significance of storm claims over the past 10 years, demonstrating their unpredictability and the impact they can have on the Corporation's financial results. Storm costs have been extremely high in the last four years, with estimated net storm costs being greater than $50 million, compared with the 10-year average of $34.7 million. Storm costs are highest in Saskatchewan, due to the Corporation's significant exposure in the province; however, as can be seen over the past eight years, the Corporation has been subject to more significant and regular storm events in Alberta, as it continues to grow its Alberta book of business.

Storm Claims (Net)



Expenses excluding claims incurred

	(thousands of $)		
	2018	2017	Change
Other expenses	267,585	252,899	14,686

Expenses excluding claims incurred were $267.6 million (2017 – $252.9 million) for the year, an increase of $14.7 million or 5.8%. The commission and premium tax ratio of 26.0% decreased by 1.1%, due to lower variable commission payments. Administrative expenses increased $3.4 million, or 4.5%, in 2018, while the administrative expense ratio dropped to 10.8% from 11.4% in 2017. The increase in administrative expenses was due largely to increased costs associated with growth.

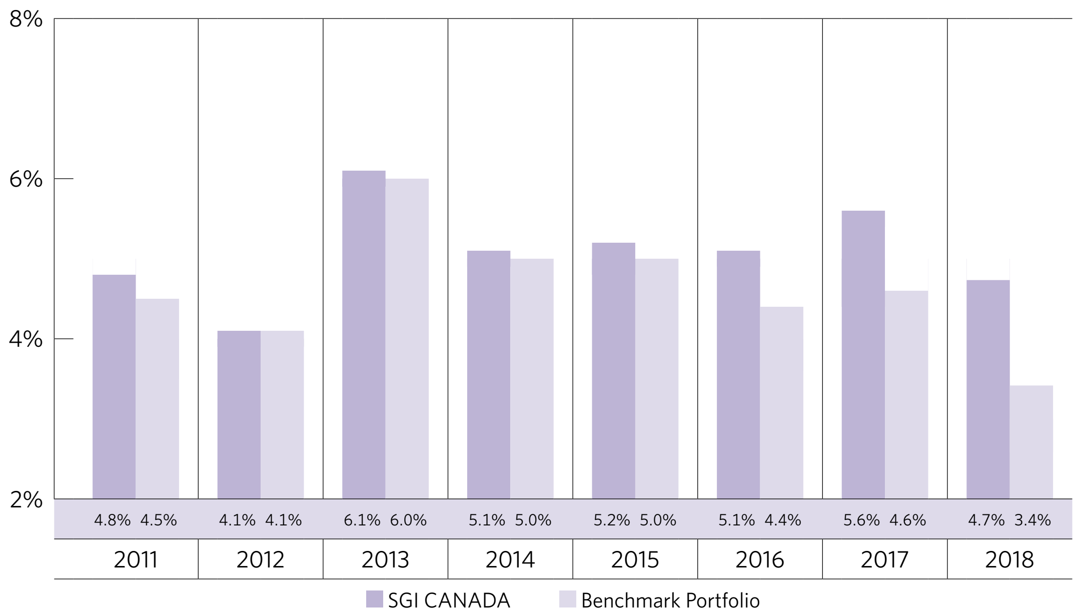
Investment earnings

	(thousands of $)		
	2018	2017	Change
Net investment earnings	43,503	55,988	(12,485)

Investment earnings were $43.5 million and represented 5.7% of total revenues (2017 – $56.0 million or 7.9% 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, investment fund distributions, and both realized and unrealized capital gains and losses on investments.

For purposes of portfolio management, market–based returns are calculated capturing all interest, dividends and investment fund distributions, as well as the impact of the change in market value of investments, both realized and unrealized. While these returns are compared to the benchmark returns on a quarterly basis, the performance measures are 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. Performance relative to the benchmark portfolio varies from year–to–year but, as illustrated in the following graph, over rolling four–year periods investment performance remains satisfactory with actual performance meeting or exceeding the benchmark in each of the last eight four–year periods.

Four-year Market-based Returns to March 31



For the 12 months ended March 31, 2018, SGI CANADA's portfolio market–based return was 4.1% compared to a 6.0% return in 2017. The 2018 returns were driven by strong foreign equity returns, although not at the levels generated in the 2017 period.

The following table illustrates the investment portfolio's actual performance by asset class for 2018 compared to the index and 2017 actual returns.

		Annual Returns (%)		
		Actual	Index	Actual
Asset Class	Benchmark Index	2018		2017
Short-term bonds	FTSE TMX Short-term Bond	0.2	−0.4	1.6
Mortgages	FTSE TMX Short & Mid-term Bonds	3.9	0.1	3.8
Canadian equities	S&P/TSX Composite	3.8	1.7	17.4
Global equities	MSCI ACWI ($C)	15.4	11.0	20.4
Global small cap equities	MSCI ACWSCI ($C)	17.1	12.3	19.7
Real estate	Investment Property Databank	12.0	7.0	8.2

Income taxes

The Corporation's out–of–province legal entities, SCISL and Coachman, are subject to corporate income tax, while SGI CANADA is not. On a consolidated basis, SGI CANADA recorded an income tax recovery of $5.0 million in year ended March 31, 2018. Excluding Saskatchewan operations, which are non–taxable, this results in a tax rate of 26.1% (compared to 26.9% in 2017) with the decrease resulting from premium growth in Ontario and British Columbia, which have a lower provincial tax rate.

Consolidated Statement of Cash Flows

	(thousands of $)		
	2018	2017	Change
Operating activities	92,981	90,222	2,759
Investing activities	(53,064)	(49,751)	(3,313)
Financing activities	(43,000)	(41,000)	(2,000)
Net cash flow	(3,083)	(529)	(2,554)

Operating activities

Operating cash flow was consistent year–over–year, with the Corporation's positive cash flow used to fund investment purchases and dividend payments.

Investing activities

Each legal entity's excess cash from operating activities is invested in its own investment portfolio. The investment managers actively trade each investment portfolio in the capital markets following the restrictions set out in each legal entity's Statement of Investment Policies and Goals. Over the 12 months ended March 31, 2018, the investment managers, on a consolidated basis, generated cash through proceeds from the sale of investments of $825.5 million and reinvested $876.0 million. The additional funds for reinvestment during the year were from cash generated from operations.

Financing activities

Financing activities relate solely to dividend payments made to the Corporation's parent.

Consolidated Statement of Financial Position

	(thousands of $)		
	March 31 2018	March 31 2017	Change
Total assets	**$ 1,438,426**	**$ 1,335,616**	**$ 102,810**
Key asset account changes:			
Investments	990,998	932,286	58,712
Accounts receivable	226,388	194,239	32,149
Reinsurers' share of unearned premiums	37,493	29,607	7,886
Deferred policy acquisition costs	90,044	84,362	5,682

Investments

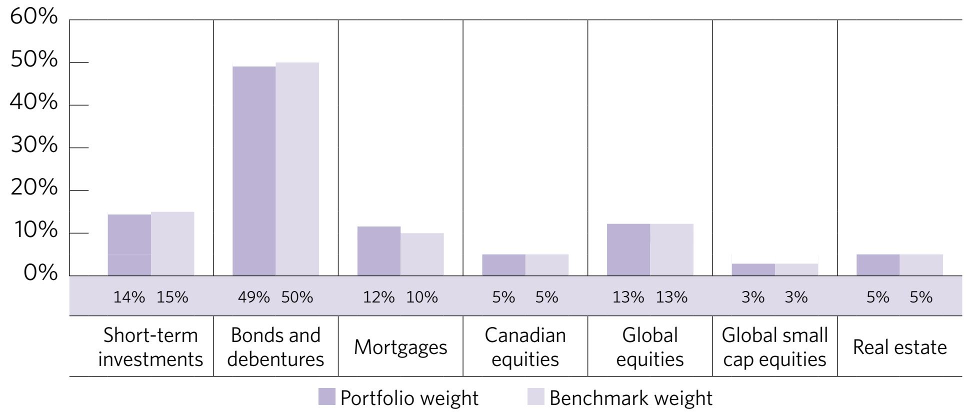
The carrying value of investments increased by $58.7 million during the year, due to the investment of operating cash flows and strong equity returns.

The Corporation's investment strategy is based on prudence, regulatory guidelines and claim settlement patterns, with a view to maximizing long–term returns by utilizing a conservative investment portfolio. The Board of Directors reviews SGI CANADA's and each subsidiary's asset mix strategy annually through a detailed assessment of each portfolio's risk tolerance. The asset mix strategy takes into consideration the current and expected condition of the capital markets, and the historic return and risk profile of various asset classes. To achieve the long–term investment goals, the portfolio must invest in asset classes that provide an attractive risk–return profile over the medium to long term. Over shorter periods, however, performance of these asset classes can be volatile. The Corporation believes a diversified asset mix and longer–term focus remains appropriate, balancing the need for capital preservation in the short term with the desire for portfolio growth over the longer term.

The asset mix strategy is formally documented in the Statement of Investment Policies and Goals. In addition to capturing the asset mix strategy, this document provides guidance on permissible investments, quality and quantity guidelines, conflicts of interest, related party transactions and investment performance expectations, among others. Management monitors and enforces compliance with the investment policy. No material compliance deviations were noted during the 12 months ending March 31, 2018.

The Corporation's investment portfolio is managed by external investment managers. The portfolio is invested in short–term investments, bonds, mortgages, equities and Canadian commercial real estate. Equities consist of Canadian, global and global small capitalization mandates. Except for segregated equity mandates in the SGI CANADA portfolio, all other equity and real estate investments are held through investment funds.

SGI CANADA Consolidated Asset Mix as at March 31, 2018



There were no significant changes to the investment policy during the annual review. The Corporation continues to monitor its fixed income investments to ensure they remain relatively well matched to their associated liabilities.

Accounts receivable

Accounts receivable increased $32.1 million, largely due to an increase in the amounts due from customers and brokers, a direct result of the increase in premium written.

Reinsurers' share of unearned premiums

The $7.9 million increase in reinsurers' share of unearned premiums is consistent with the increase in premiums ceded to reinsurers, which was driven by exposure growth as well as changes to reinsurance program limits.

Deferred policy acquisition costs

Deferred policy acquisition costs increased $5.7 million, consistent with the increase in unearned premiums year–over–year.

	(thousands of $)		
	March 31 2018	March 31 2017	Change
Total liabilities	**$ 1,049,007**	**$ 972,568**	**$ 76,439**
Key liability account changes:			
Provision for unpaid claims	543,421	494,045	49,376
Unearned premiums	385,948	359,178	26,770
Amounts due to reinsurers	35,385	28,376	7,009
Dividend payable	17,000	24,250	(7,250)

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 increased $49.4 million, or 10.0%, from the end of the previous 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 due to additional exposure related to growth.

Unearned premiums

The $26.8 million increase in unearned premiums is the result of the increase in premium volume in the year.

Amounts due to reinsurers

The $7.0 million increase in amounts due to reinsurers is the result of the increase in premiums ceded to reinsurers.

Dividend payable

The $7.3 million decrease in dividend payable is the result of a lower dividend declared than the prior year.

	(thousands of $)		
	March 31 2018	March 31 2017	Change
Total equity	**$ 389,419**	**$ 363,048**	**$ 26,371**
Key equity account changes:			
Retained earnings	309,419	283,048	26,371

Retained earnings

The $26.4 million increase in retained earnings is attributable to the $59.4 million consolidated net income, less dividends declared of $35.7 million and other comprehensive income of $2.7 million. The other comprehensive income represents actuarial gains associated with the Corporation's defined benefit pension and service recognition plans.

Quarterly Consolidated Financial Highlights

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

	(thousands of $)									
	2017-18					2016-17				
	Q 4	Q 3	Q 2	Q 1	**2018**	Q 4	Q 3	Q 2	Q 1	**2017**
Net premiums written	126,779	195,953	211,772	210,686	**745,190**	126,593	184,688	190,965	191,368	**693,614**
Net premiums earned	182,904	185,078	183,359	174,965	**726,306**	168,690	168,502	161,827	157,413	**656,432**
Claims incurred	101,056	104,085	130,446	112,243	**447,830**	93,733	87,020	134,604	81,322	**396,679**
Net income (loss)	22,687	33,342	(223)	3,629	**59,435**	30,376	21,604	(16,649)	29,841	**65,172**
Cash flow from (used in) operating activities	(16,657)	36,316	39,513	33,809	**92,981**	(20,416)	41,463	40,229	28,946	**90,222**
Investments	990,998	992,898	962,231	942,121		932,286	945,890	916,575	875,188	
Provision for unpaid claims	543,421	540,395	545,058	519,908		494,045	491,842	500,976	437,050	
Minimum Capital Test	242%	237%	216%	229%		243%	242%	229%	262%	

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

- Net premiums earned generally increase on a quarter–over–quarter basis during the year.
- Claims incurred typically peak in the second quarter due to hail storms, flooding and forest fires that can occur. In 2017–18, there was $50.2 million in net storm claims compared to 2016–17 storm costs of $51.6 million.
- With the exception of the fourth quarter, the Corporation generates positive cash flow from operations. Cash is typically low during that quarter as the Corporation pays its annual premium taxes to the province in March. Operating cash flows are generally strong throughout the remaining nine months of the year and during these months excess cash generated is directed to investments.

Related Party Transactions

The Corporation is related in terms of common ownership to all Government of Saskatchewan ministries, agencies, boards, commissions, Crown corporations, and jointly controlled and significantly influenced corporations and enterprises. Transactions with these entities were entered into in the normal course of business and are settled at prevailing market prices under normal trade terms. Further details regarding these related party transactions are disclosed in note 19 of the consolidated financial statements. Details of other significant related party transactions disclosed in the consolidated financial statements follow.

SGI acts as the administrator of the Saskatchewan Auto Fund on behalf of the Province of Saskatchewan. SGI incurs administrative and claim adjustment expenses on behalf of the Auto Fund, which are charged to the Auto Fund directly or on the basis of specific distributions. Amounts incurred by SGI and charged to the Auto Fund were $143.0 million (2017 – $147.6 million).

Certain Board members are partners in organizations that provided $193,000 (2017 – $73,000) of professional services to the Corporation. These services were recorded in claims incurred and administrative expenses in the Consolidated Statement of Operations. The above noted transactions are routine operating transactions in the normal course of business.

Off Balance Sheet Arrangements

SGI CANADA, in its normal course of operations, enters into certain transactions that are not required to be recorded on its Consolidated Statement of Financial Position – commonly referred to as the balance sheet. These items include litigation, structured settlements and a long–term telecommunications contract. These items are discussed below and in notes 9 and 15 to the audited consolidated financial statements.

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

Also, the Corporation and its subsidiaries, in the normal course of settling claims, settle some long–term disability claims by purchasing structured settlements (annuities) from various financial institutions for its claimants. This is a common practice in the P&C industry. The net present value of the scheduled payments was $61.5 million (2017 – $61.4 million). The Corporation provides a financial guarantee to the claimant in the event of default by the financial institution on the payment schedule to the claimant. No default has occurred in the past on these payment schedules and the Corporation considers the likelihood of such default remote.

The Corporation has secured a long–term telecommunications contract with a related provincial Crown corporation that is scheduled to end in 2019. At March 31, 2018, the remaining commitment under this contract was $4.1 million (2017 – $4.5 million). The Corporation and its subsidiaries are committed to leases on their office premises and other contractual obligations. Annual commitments related to these obligations over the next five years range from $1.7 million in 2019 to $1.4 million in 2023.

Critical Accounting Estimates

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

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

Provision for unpaid claims

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

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

Unpaid claims recoverable from reinsurers

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

Income taxes

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

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

Employee future benefits

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

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

Further details of the Corporation's defined benefit plans are contained in note 18 to the consolidated financial statements.

Risk Management

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

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

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

Competition

Risk: Large competitors pursue market share through aggressive pricing or the purchase of independent brokers, leading to reduced margins and/or loss of market share for SGI CANADA. The broker distribution channel shrinks as more insurers transition to selling products directly to consumers.

Mitigation: SGI CANADA continues to provide superior service and support to brokers to attract new business and retain the existing book of business, and has enhanced pricing with more sophisticated use of data. The Corporation monitors market developments closely, particularly in Saskatchewan, and has expanded its broker network in areas outside Saskatchewan to include areas where competitors have acquired brokers who sell SGI CANADA policies. The Corporation continues to introduce new products in the personal and commercial markets, and is developing online services to improve the speed, accuracy and ease with which brokers and consumers do business with the Corporation.

Distribution Channel

Risk: SGI CANADA's commitment to selling products solely via the independent broker channel leads to vulnerability to competitors using direct distribution and new companies disrupting segments of the insurance industry.

Mitigation: SGI CANADA believes that distributing its policies through independent brokers provides the best value to its policyholders, and supports its broker partners through continuous communication, product and technology training, and competitive compensation programs. The Corporation also consults with the broker community when developing new products or services, including working with brokers to provide online services to consumers. The Corporation has begun developing application programming interfaces (APIs) to connect into broker partners' online platforms, enabling the digital consumer. As well, having a direct connection into the broker's management system will enable efficiencies for both the broker and the Corporation.

Responsiveness to Business Needs

Risk: SGI CANADA is unable to meet the speed–to–market targets for products and services due to its complex internal system architecture. Increased business expectations and limited information technology (IT) resources have contributed to a slower responsiveness to business needs.

Mitigation: To better meet the business needs of SGI CANADA, the Information Services division has restructured to provide dedicated teams to work with business units to understand the problem the business areas are trying to solve through technology. An assessment of all technologies has been completed to inform application deficiencies and to develop an IT roadmap for modernization. An IT strategy is being developed to outline the steps required to move to an open architecture, which will allow SGI CANADA to increase its flexibility in partnering with experts in specific niche applications versus building its own and in improving its speed–to–market capabilities.

Catastrophic Claim Loss

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

Mitigation: SGI CANADA determines reinsurance limits using independent catastrophe modeling, including scenario tests that overlay hypothetical events on high–exposure concentrations. To mitigate the risk of reinsurer failure, SGI CANADA and its reinsurance broker monitor reinsurer solvency through independent assessment as well as through ratings provided by AM Best and Standard & Poor's.

Acquisition and Development of Expertise

Risk: SGI CANADA faces challenges in building a workforce that has the expertise to build and maintain a digital, data–savvy, customer–centric culture to meet customer demands and compete with other insurers. Challenges include recruitment of qualified people with the requisite knowledge, skills and experience, creation of training and development programs to build employee business acumen, and the need to support an analytical and customer–centric culture.

Mitigation: SGI CANADA has implemented or is working on a number of programs in this area, including competency–based recruitment, training and mentoring programs, knowledge management solutions, succession planning, and monitoring workplace engagement and enablement through employee surveys. A corporate learning strategy is in place to grow talent, and SGI CANADA has devoted additional resources and technology to training and development. SGI CANADA's succession planning process focuses on: ensuring current senior management positions have succession plans; identifying high performing staff who have potential for more senior roles plus ensuring high–potential staff and the leadership team have ongoing development and support. A corporate leadership strategy has been developed. Initially applicable to senior leadership, the program is now applicable to all management personnel in the Corporation. The objective of this program is to develop individual abilities in areas such as strategic leadership, business acumen and leading a culture of change.

Strategy

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

Mitigation: SGI CANADA's purpose and ideals are defined in the corporate mission, vision and values statements. These statements were revised in 2016 with input from employees and other stakeholders, and provided the base for the development of the 2016–2020 strategic plan, which provides direction on how the Corporation will achieve its vision. SGI CANADA's strategic plan is formally reviewed and updated annually, and revisited in detail every five years.

System Security

Risk: The potential harm to SGI CANADA from threats (e.g., system breach, unauthorized access) that can have adverse effects on organizational operations and result in significant financial and reputational damage.

Mitigation: SGI CANADA maintains a security policy which includes corporate standards for user access (including remote and external vendor access), passwords, physical security, mobile devices, wireless networks and acceptable use of SGI CANADA systems. The Corporation has implemented many mechanisms (such as firewalls, intrusion prevention, anti–virus, etc.) to protect its data environment and continually monitors systems for potential threat activity. Should an event occur, SGI CANADA has developed incident response procedures to decrease the severity of the breach. Additionally, a Chief Security Officer role has been established for dedicated focus on the increased complexity that cyber security brings to SGI CANADA.

Privacy Breach

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

Mitigation: Specific guidelines on handling personal information have been implemented, and are updated regularly to be consistent with industry recommended best practices. SGI CANADA uses the American Institute of Certified Public Accountants/Chartered Professional Accountants of Canada Privacy Maturity Model to assess and measure its privacy program. The Corporation conducts targeted privacy audits in areas that handle customer information, and uses a Privacy Impact Assessment process for reviewing business changes to ensure privacy concerns are addressed at the design level. To promote awareness of privacy obligations, new staff must complete online privacy training, and all staff are required to complete an annual sign–off of the Code of Ethics and Conduct, and the Confidentiality and Non–Disclosure Agreement.

Employee Change Agility

Risk: SGI CANADA's business strategy involves substantive transformation with a critical mass of the organization's employees grappling with significant change. Employee engagement, change capacity and productivity will, to a large extent, determine SGI CANADA's ability to successfully meet its objectives.

Mitigation: SGI CANADA has a large number of initiatives dedicated to assisting employees in understanding and adapting to change, plus a focus on employee engagement and empowerment. An enhanced change management process, a high performance competency model, and knowledge transfer programs, plus support for performance development and employee training applicable to all employees, help mitigate this risk.

Outlook for 2018–19

The Canadian property and casualty (P&C) industry is highly competitive and continues to experience rapid change driven by technology and other innovations. Technology is leading the way for new and innovative production channels, mobile services, and data–driven processes that can better assess and respond to continuously changing customer expectations. However, in the race to take advantage of digital initiatives, the industry is being challenged by industry disruptors and restrained by regulatory and compliance burdens. SGI CANADA needs to achieve aggressive growth to capitalize on the opportunities in this ever–changing market.

SGI CANADA aims to accelerate growth through great customer experiences. The company's goal is to achieve $1 billion in direct premium written by 2020 – with customer–centricity serving as the primary strategy for achieving growth over the longer term. To achieve this, SGI CANADA will focus on three key areas in 2018–19:

- sustainable growth;
- customer centricity; and,
- operational excellence.

Sustainable growth – SGI CANADA needs to achieve aggressive organic growth to remain competitive and drive efficiencies. Growth must be balanced with a reasonable level of profitability to ensure it is sustainable over the long term, as well as to ensure a stable annual dividend. The Corporation is focused on strategies for growth in the Ontario, Manitoba and British Columbia markets, working closely with brokers that support strong customer experiences, omni–channel delivery and eServices.

Customer centricity – Consistent with previous years, customer centricity remains a strategic area of focus for SGI CANADA. It aims to develop a deeper understanding of how to increase value for customers and strengthen the ability to deliver that value. SGI CANADA is committed to building a foundation of consistent and reliable customer experiences, and to continuously improve these experiences. A review of claim processes is ongoing, with a focus on enhancing the overall experience provided to customers. As well, the Corporation is developing application programming interfaces (APIs), providing direct connection into the broker's management system and enabling the digital consumer.

Operational excellence – SGI CANADA must ensure that its foundational business structures and processes support sustainable and profitable growth, as well as providing a quality customer experience. It is focused on continuous employee development through numerous programs, including leadership development and knowledge transfer plans, and supports employees to grow their change agility. This employee development, combined with technology and processes that optimize productivity and efficiencies, will ensure strategic priorities are delivered and administrative costs are low enough to support competitive pricing. In 2018–19, the Corporation will continue work on rating engines, enhancing broker connectivity and customer feedback management tools.

Responsibility for Financial Statements

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

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

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

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

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

Andrew R. Cartmell
President and Chief Executive Officer

Jeff Stepan
Chief Financial Officer

May 31, 2018

Annual Statement of Management Responsibility

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

(a) That we have reviewed the consolidated financial statements included herein. Based on our knowledge, having exercised reasonable diligence, the consolidated financial statements fairly present, in all material respects, the financial condition, results of operations and cash flows, as of March 31, 2018.

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

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

(d) That the Corporation conducted its assessment of the effectiveness of its internal controls over financial reporting and, based on the results of this assessment, it can provide reasonable assurance that internal controls over financial reporting as of March 31, 2018, were operating effectively and no material weaknesses were found in the design or operation of the internal controls over financial reporting.

Andrew R. Cartmell
President and Chief Executive Officer

Jeff Stepan
Chief Financial Officer

May 31, 2018

Actuary's Report

To the Board of Directors of Saskatchewan Government Insurance

I have valued the policy liabilities and reinsurance recoverables of SGI CANADA for its consolidated statement of financial position at March 31, 2018, and their change in the consolidated statement of operations for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

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

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

May 31, 2018

Independent Auditor's Report

May 31, 2018

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the accompanying consolidated financial statements of Saskatchewan Government Insurance and its subsidiaries, which comprise the consolidated statement of financial position as at March 31, 2018 and the consolidated statements of operations, changes in equity and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Saskatchewan Government Insurance and its subsidiaries as at March 31, 2018 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Consolidated Statement of Financial Position

	(thousands of $)	
	March 31 2018	March 31 2017
Assets		
Cash and cash equivalents (note 5)	$ 23,241	$ 26,324
Accounts receivable (note 6)	226,388	194,239
Investments under securities lending program (note 7)	257,112	222,956
Investments (note 7)	733,886	709,330
Unpaid claims recoverable from reinsurers (note 9)	45,489	43,320
Reinsurers' share of unearned premiums (note 11)	37,493	29,607
Deferred policy acquisition costs (note 10)	90,044	84,362
Property and equipment (note 8)	18,253	21,839
Deferred income tax asset (note 14)	6,520	3,639
	$ 1,438,426	$ 1,335,616
Liabilities		
Accounts payable and accrued liabilities	$ 38,810	$ 35,515
Dividend payable	17,000	24,250
Premium taxes payable	7,278	6,706
Amounts due to reinsurers	35,385	28,376
Unearned reinsurance commissions	4,271	3,155
Unearned premiums (note 11)	385,948	359,178
Accrued pension liabilities (note 18)	15,495	20,396
Provision for unpaid claims (note 9)	543,421	494,045
Deferred income tax liability (note 14)	1,399	947
	1,049,007	972,568
Equity		
Equity advances (note 12)	80,000	80,000
Retained earnings	309,419	283,048
Province of Saskatchewan's equity	**389,419**	363,048
	$ 1,438,426	$ 1,335,616

Contingencies (note 22)
The accompanying notes are an integral part of these consolidated financial statements.
Approved by the Board of Directors and signed on their behalf on May 31, 2018.

Arlene Wiks
Director

Mark Borgares
Director

Consolidated Statement of Operations

For the years ended March 31	(thousands of $) 2018	2017
Gross premiums written	$ 802,786	$ 738,862
Premiums ceded to reinsurers	(57,596)	(45,248)
Net premiums written	745,190	693,614
Change in net unearned premiums (note 11)	(18,884)	(37,182)
Net premiums earned	**726,306**	656,432
Gross claims incurred	469,126	418,576
Ceded claims incurred	(21,296)	(21,897)
Net claims incurred (note 9)	447,830	396,679
Commissions	154,911	147,330
Administrative expenses	78,446	75,075
Premium taxes	34,228	30,494
Total claims and expenses	**715,415**	649,578
Underwriting income	**10,891**	6,854
Net investment earnings (note 13)	43,503	55,988
Income before income taxes	**54,394**	62,842
Income tax recovery (note 14)	(5,041)	(2,330)
Net income	**59,435**	65,172
Other comprehensive income	2,686	918
Comprehensive income	**$ 62,121**	$ 66,090

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

Consolidated Statement of Changes in Equity

For the years ended March 31	(thousands of $) 2018	2017
Equity advances		
Balance, end of period	**$ 80,000**	$ 80,000
Retained earnings		
Balance, beginning of period	$ 283,048	$ 259,958
Net income	59,435	65,172
Other comprehensive income	2,686	918
Dividends	(35,750)	(43,000)
Balance, end of period	**$ 309,419**	$ 283,048
Total Province of Saskatchewan's equity	**$ 389,419**	$ 363,048

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

Consolidated Statement of Cash Flows

	(thousands of $)	
For the years ended March 31	2018	2017
Cash provided by (used for):		
Operating activities		
Net income	$ 59,435	$ 65,172
Non-cash items:		
Bond amortization	3,709	4,372
Depreciation	6,164	6,374
Net realized gains on sale of investments	(4,088)	(4,548)
Net unrealized gains on change in market value of investments	(7,847)	(28,369)
Actuarial gain on employee benefit plans	2,686	918
Deferred income taxes	(2,429)	(538)
Change in non-cash operating items (note 17)	35,351	46,841
	92,981	90,222
Investing activities		
Purchases of investments	(876,035)	(888,293)
Proceeds on sale of investments	825,549	842,894
Purchases of property and equipment, net of proceeds from disposals	(2,578)	(4,352)
	(53,064)	(49,751)
Financing activities		
Dividends paid	(43,000)	(41,000)
	(43,000)	(41,000)
Decrease in cash and cash equivalents	**(3,083)**	(529)
Cash and cash equivalents, beginning of period	26,324	26,853
Cash and cash equivalents, end of period	**$ 23,241**	$ 26,324
Supplemental cash flow information:		
Interest received	$ 12,997	$ 11,096
Dividends received	$ 921	$ 1,095
Income taxes paid	$ 504	$ 3,261

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

Notes to the Consolidated Financial Statements

March 31, 2018

1. Nature of Operations

Saskatchewan Government Insurance (the Corporation or SGI), which operates under the trade name of SGI CANADA, is incorporated, registered and conducts a property and casualty insurance business in the Province of Saskatchewan, and in other provinces of Canada through its wholly-owned subsidiary SGI CANADA Insurance Services Ltd. (SCISL). SCISL operates directly in Alberta, Manitoba, British Columbia and Ontario. SCISL also has a wholly-owned subsidiary, Coachman Insurance Company (Coachman), that operates in Ontario. The address of the Corporation's registered head office is 2260-11th Avenue, Regina, SK, Canada.

In many provinces in Canada, automobile insurance premium rates are regulated by provincial government authorities. Regulation of premium rates is based on claims and other costs of providing insurance coverage, as well as projected profit margins. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. The Corporation's automobile premiums are subject to rate regulation in Alberta and Ontario, and represent approximately 17.7% (2017 – 17.0%) of the Corporation's consolidated gross premiums written.

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

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

2. Basis of Preparation

Statement of compliance

The consolidated financial statements for the years ended March 31, 2018, and March 31, 2017, have been prepared in accordance with International Financial Reporting Standards (IFRS). References to IFRS are based on Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises as set out in Part 1 of the CPA Canada handbook. Part 1 of the CPA Canada handbook incorporates IFRS as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee.

Basis of measurement

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

Statement of Financial Position classification

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

Functional and presentation currency

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

Use of estimates and judgment

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation processes are related to the actuarial determination of the provision for unpaid claims (note 9), the valuation of accounts receivable (note 6), employee future benefits (note 18), and the valuation of investments classified as Level 3 (note 7).

The Corporation uses the simplified approach of the expected credit loss model for trade receivables with no significant financing component, which requires measuring the loss allowance at an amount equal to the lifetime expected credit losses at initial recognition and throughout its life.

3. Significant Accounting Policies

Basis of consolidation

The consolidated financial statements include the accounts of the Corporation and the consolidated accounts of its 100%-owned subsidiaries, SCISL and Coachman. All inter-company accounts and transactions have been eliminated on consolidation. While Coachman and SCISL's year ends are both December 31, their financial accounting records have been consolidated using the same fiscal period as the Corporation, that being, as at and for periods ending March 31, 2018 and March 31, 2017. The financial accounting records of the Corporation and its subsidiaries are prepared using consistent accounting policies.

Financial assets and liabilities

The measurement basis for financial assets depends on whether the financial assets have been classified as amortized cost, fair value through other comprehensive income (FVOCI), or fair value through profit or loss (FVPL). The classification requirements for financial asset debt and equity instruments are described as follows:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables. Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at amortized cost using the effective interest method, less provision for impairment losses, if any. Financial assets that are held for collection of cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are classified as FVOCI. Financial assets classified as FVOCI are measured at fair value with changes in fair value recorded in other comprehensive income (OCI); except for the recognition of impairment gains or losses, interest revenue, and foreign exchange gains and losses on the instrument's amortized cost which are recognized in net income. Financial assets not measured at amortized cost or at FVOCI must be classified as FVPL. Financial assets classified as FVPL are measured at fair value and changes in fair value are recognized in net income.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective, such as common shares. All equity investments are classified as FVPL, except where the Corporation has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. When this election is used, changes in fair value are recorded in OCI and are not subsequently reclassified to net income, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, are recognized in net income when declared.

The measurement basis for financial liabilities depends on whether the financial liabilities have been classified as amortized cost or FVPL. Financial liabilities are classified as FVPL when they meet the definition of held for trading or when they are designated as such at initial recognition. Financial liabilities classified as FVPL are measured at fair value and changes in fair value are presented partially in OCI (the amount attributable to changes in credit risk of the liability) and partially in net income (the remaining amount of change in fair value of the liability). Financial liabilities not classified as FVPL are measured at amortized cost using the effective interest method, less provision for impairment losses, if any.

The Corporation has designated cash and cash equivalents and investments as FVPL. Accounts receivable are designated as amortized cost. Accounts payable and accrued liabilities, dividend payable and premium taxes payable are designated as amortized cost. Unpaid claims recoverable from reinsurers, amounts due to reinsurers and the provision for unpaid claims are exempt from the above requirement.

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

Fair value of financial instruments

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

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

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities

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

Level 2: Quoted prices in markets that are not active or inputs that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Level 2 inputs include observable market information, including quoted prices for assets in markets that are considered less active. Assets measured at fair value and classified as Level 2 include short-term investments and bonds and debentures. Fair value for short-term investments and bonds and debentures is based on, or derived from, market price data for same or similar instruments obtained from the investment custodian, investment managers or dealer markets.

Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities

Level 3 assets and liabilities include financial instruments whose values are determined using internal pricing models, discounted cash flow methodologies, or similar techniques that are not based on observable market data, as well as instruments for which the determination of estimated fair value requires significant management judgment or estimation. Assets classified as Level 3 include the mortgage investment fund and real estate investment fund. The fair value of these investments is based on the Corporation's shares of the net asset value of the respective fund, as determined by its investment manager, and used to value purchases and sales of units in the investments. The primary valuation methods used by the investment managers are as follows:

- The fair value for the mortgage investment fund is determined based on market values of the underlying mortgage investments, calculated by discounting scheduled cash flows through to the estimated maturity of the mortgages (using spread-based pricing over Government of Canada bonds with a similar term to maturity), subject to adjustments for liquidity and credit risk.
- The fair value of the real estate investment fund is determined based on the most recent appraisals of the underlying properties. Real estate properties are appraised semi-annually by external, independent professional real estate appraisers who are accredited through the Appraisal Institute of Canada. Real estate appraisals are performed in accordance with generally accepted appraisal standards and procedures, and are based primarily on the discounted cash flow and income capitalization methods.

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

Impairment of financial assets

The Corporation's trade receivables are subject to the expected credit loss model under IFRS 9. For trade receivables, the Corporation applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables. In estimating the lifetime expected loss provision, the Corporation considered historical default rates of past customers.

Investments

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

Investments under securities lending program

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

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

Investment earnings

The Corporation recognizes interest and premium financing as earned, dividends when declared, investment 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 changes in market value of the investments held at the year-end date. Realized gains and losses represent the difference between the amounts received through the sale of investments and their respective cost base.

Interest revenue includes amortization of any premium or discount recognized at the date of purchase of the security. Amortization is calculated using the effective interest method. Interest is generally receivable on a semi-annual basis.

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

Foreign currency translation

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

Premiums written

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

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

Provision for unpaid claims

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

In accordance with IFRS 4, the Corporation is required to disclose actual claims experience with previous estimates for the past 10 years as at the reporting date. Historically, the Corporation's accident year for valuation purposes was on a calendar year basis and has been aligned with the Corporation's fiscal reporting year end. As previously disclosed, in December 2015 the Corporation was directed to change its fiscal year end to March 31, commencing March 31, 2016.

As a result, the Corporation has elected to continue to disclose for financial reporting purposes the development of its estimated net provision for unpaid claims on the same basis of the Corporation's valuation period, being a calendar year end, as at December 31 for the fiscal years 2008 - 2016. The current year loss development is shown on a 15-month basis for financial reporting purposes.

The Corporation believes that while this disclosure is not aligned with the Corporation's financial reporting period, it does provide the user of the financial statements adequate information to assess the Corporation's development of the estimated net provision for unpaid claims.

Deferred policy acquisition costs

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

Reinsurance ceded

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

Income taxes

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

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

Employees' future benefits

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

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

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

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

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

For the defined benefit plan:

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

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

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

(iv) Past service costs are expensed immediately.

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

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

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

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

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

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

Cash and cash equivalents

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

Property and equipment

All classes of property and equipment are recorded at cost less accumulated depreciation and accumulated impairment, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset.

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

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

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

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

Building components consist of heating and cooling systems, elevators, roofs and parking lots. Land is not subject to amortization and is carried at cost.

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

Leased assets

Leases where the Corporation 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.

Provisions and contingent liabilities

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

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

Structured settlements

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

Comprehensive income

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

Future accounting policy changes

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

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and is intended to replace IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. The standard was issued as a result of an ongoing project to align revenue recognition between IFRS and U.S. generally accepted accounting principles. This standard is effective for annual periods beginning on or after January 1, 2018. Early application is permitted. IFRS 15 contains a scope exception that excludes insurance contracts within the scope of IFRS 4 *Insurance Contracts*, and financial instruments within the scope of IFRS 9, *Financial Instruments*, therefore, this standard will have a limited impact on the Corporation.

IFRS 16 – Leases

IFRS 16 was issued in January 2016 and is intended to replace IAS 17, *Leases*, and related interpretations. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. This standard is effective for annual periods beginning on or after January 1, 2019. The Corporation is evaluating the impact this standard will have on the consolidated financial statements.

IFRS 17 – Insurance Contracts

IFRS 17 was issued in May 2017 and will replace IFRS 4. The intent of the standard is to establish consistent recognition, measurement, presentation and disclosure principles to provide relevant and comparable reporting of insurance contracts across jurisdictions.

The standard requires entities to measure insurance contract liabilities as the risk-adjusted present value of the cash flows plus the contractual service margin, which represents the unearned profit the entity will recognize as future service is provided. This is referred to as the general model. Expedients are specified, provided the insurance contracts meet certain conditions. If, at initial recognition or subsequently, the contractual service margin becomes negative, the contract is considered onerous and the excess is recognized immediately in the Consolidated Statement of Operations. The standard also includes significant changes to the presentation and disclosure of insurance contracts within entities' financial statements.

IFRS 17 applies to annual periods beginning on or after January 1, 2021, with earlier application permitted if IFRS 15 and IFRS 9 are also adopted. The standard is to be applied retrospectively unless impracticable, in which case a modified retrospective approach or fair value approach is to be used for transition. While early adoption is permitted under the standard, OSFI has indicated that early adoption is not allowed. While the Corporation is not federally regulated, it generally follows OSFI's guidance in such matters. The standard represents a comprehensive IFRS accounting model for insurance contracts and is expected to have a significant impact on financial reporting of insurers. The Corporation is evaluating the impact this standard will have on the consolidated financial statements.

IFRIC 23 – Uncertainty over Income Tax Treatments

IFRIC 23 was issued in June 2017 and is intended to clarify the accounting for uncertainties in income taxes. The interpretation addresses the determination of taxable income (loss), tax bases, unused tax losses, unused tax credits and tax rates, where there is uncertainty over income tax treatments under IAS 12. It specifically considers whether tax treatments should be considered collectively; assumptions for taxation authorities' examinations; the determination of taxable income (loss), tax bases, unused tax losses, unused tax credits and tax rates; and the effect of changes in facts and circumstances. The interpretation is effective for annual periods beginning on or after January 1, 2019. The Corporation is evaluating the impact this interpretation will have on the consolidated financial statements.

Annual Improvements for 2015-2017 Cycle

In December, the IASB issued Annual Improvements Cycle 2015-2017, and included minor amendments to IFRS 3, *Business Combinations*, IFRS 11, *Joint Arrangements*, IAS 12, *Income Taxes*, and IAS 23, *Borrowing Costs*. The annual improvements process is used to make necessary but non-urgent changes to IFRS that are not included in other projects. The amendments issued are all effective for annual periods beginning on or after January 1, 2019. The Corporation is evaluating the impact these amendments will have on the consolidated financial statements.

4. Change in Accounting Policy

The Corporation adopted IFRS 9, *Financial Instruments* and IFRS 7, *Disclosures*, with a date of transition of April 1, 2017. The Corporation did not early adopt any of IFRS 9 in previous periods. As permitted by the transitional provisions of IFRS 9, the Corporation elected not to restate comparative figures. Adjustments to the carrying amounts of financial assets and liabilities at the date of transition were determined to be immaterial and were therefore recognized in net income in the current period. For notes disclosures, the consequential amendments to IFRS 7, *Disclosures*, have also only been applied to the current period. The comparative period note disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 resulted in no changes in the accounting policies for classification and measurement of financial assets and liabilities. There were immaterial changes related to the impairment of financial assets as the prior period's closing impairment allowance was measured in accordance with the IAS 39 incurred loss model and the new impairment allowance is measured in accordance with the IFRS expected loss model commencing on April 1, 2017.

5. Cash and Cash Equivalents

	(thousands of $)	
	2018	**2017**
Money market investments	$ 35,813	$ 40,705
Bank overdraft, net of outstanding cheques	(12,572)	(14,381)
Total cash and cash equivalents	$ 23,241	$ 26,324

The average effective interest rate on money market investments is 1.3% (2017 – 0.6%).

6. Accounts Receivable

Accounts receivable is comprised of the following:

	(thousands of $)	
	2018	2017
Due from insureds	$ 149,380	$ 130,893
Due from brokers	49,564	43,463
Amounts recoverable on claims paid	18,768	12,936
Income tax receivable (note 14)	6,407	5,796
Accrued investment income	3,948	3,414
Other	3,733	2,237
Due from reinsurers	3,139	2,181
Due from Auto Fund (note 19)	3,080	1,060
Facility Association (note 20)	2,399	3,141
	240,418	205,121
Less: Allowance for doubtful accounts (note 15)	(14,030)	(10,882)
Total accounts receivable	$ 226,388	$ 194,239
Current	210,127	186,089
Non-current	16,261	8,150
	$ 226,388	$ 194,239

Included in due from insureds is $139,606,000 (2017 – $123,274,000) of financed premiums receivable, which represents the portion of policyholders' monthly premium payments that are not yet due. The majority of policyholders have the option to pay a portion of the premium when the policy is placed in force and the balance in monthly instalments. The policyholder pays an additional charge for this option, reflecting handling costs and the investment earnings that would have been earned on such premium, had the total amount been collected at the beginning of the policy period. The additional charge is recognized in investment earnings using the effective interest method. The effective interest rate for Ontario automobile policies is 3.5% (2017 – 3.5%), all other premiums have an interest rate of 8.0% (2017 – 8.0%).

Due from brokers includes loans receivable with a carrying value of $14,386,000 (2017 – $9,110,000). The loans require monthly, semi-annual, or annual repayments with terms ranging between one to 10 years. The loans accrue interest at rates ranging from 0.0% to 6.0% (2017 – 0.0% to 6.0%) and are secured by general security agreements. The loans are recorded at their amortized cost, which is considered to be equal to their fair value.

The Corporation applies the simplified approach to providing for expected credit losses as prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables.

7. Investments

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

	(thousands of $)	
	2018	2017
Short-term investments	$ 102,423	$ 108,033
Bonds and debentures	259,497	247,493
Canadian common shares	25,754	30,705
Investment funds:		
Canadian equity	16,553	13,599
Global equity	128,665	129,494
Global small cap equity	29,641	24,750
Mortgage	122,067	117,514
Real estate	49,286	37,742
	733,886	709,330
Investments under securities lending program		
Bonds and debentures	245,769	211,177
Canadian common shares	11,343	11,779
	257,112	222,956
Total investments	$ 990,998	$ 932,286

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

Short-term investments

Short-term investments are comprised of money market investments with a maturity of less than one year but greater than 90 days from the date of acquisition. These investments have an average effective interest rate of 1.4% (2017 – 0.7%) and an average remaining term to maturity of 78 days (2017 – 104 days). The Corporation's investment policy states that investments must meet minimum investment standards of R-1, as rated by a recognized credit rating service.

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

Bonds and debentures

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

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

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

	(thousands of $)			
	2018		2017	
Term to maturity (years)	Carrying Value	Average Effective Rates (%)	Carrying Value	Average Effective Rates (%)
Government of Canada:				
After one through five	$ 188,239	2.0	$ 130,723	1.2
After five	–	–	6,697	1.6
Canadian provincial and municipal:				
One or less	–	–	13,629	1.1
After one through five	104,745	2.0	109,330	1.3
Canadian corporate:				
One or less	73,341	1.9	51,987	1.1
After one through five	113,653	2.6	133,283	1.6
After five	25,288	2.9	13,021	3.0
Total bonds and debentures	$ 505,266		$ 458,670	

Canadian common shares

Common shares have no fixed maturity dates and are generally not exposed to interest rate risk. The average effective dividend rate is 2.4% (2017 – 2.3%).

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

Investment funds

The Corporation owns units in equity funds, a mortgage investment fund and a real estate investment fund. These investment funds have no fixed distribution rate. Fund returns are based on the success of the fund managers.

Securities lending program

Through its custodian, the Corporation participates in an investment securities lending program for the purpose of generating fee income. When securities are loaned, the Corporation is exposed to counterparty risk, which is the risk that the borrower will not return the loaned securities or, if the collateral is liquidated, it may be for less than the value of the loan. The Corporation mitigates this risk through non-cash collateral and a guarantee provided by its custodian. Non-cash collateral of at least 105% of the market value of the loaned securities is retained by the Corporation until the loaned securities have been returned. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value of the loaned securities fluctuates. In addition, the custodian provides indemnification against any potential losses in the securities lending program. While in the possession of counterparties, the loaned securities may be resold or re-pledged by such counterparties.

At March 31, 2018, the Corporation held collateral of $269,969,000 (2017 – $234,106,000) for the loaned securities.

Fair value hierarchy

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

	(thousands of $)			
	2018			
	Level 1	Level 2	Level 3	Total
Short-term investments	$ –	$ 102,423	$ –	$ 102,423
Bonds and debentures	–	505,266	–	505,266
Canadian common shares	37,097	–	–	37,097
Investment funds:				
Canadian equity	16,553	–	–	16,553
Global equity	128,665	–	–	128,665
Global small cap equity	29,641	–	–	29,641
Mortgage	–	–	122,067	122,067
Real estate	–	–	49,286	49,286
	$ 211,956	$ 607,689	$ 171,353	$ 990,998

	(thousands of $)			
	2017			
	Level 1	Level 2	Level 3	Total
Short-term investments	$ –	$ 108,033	$ –	$ 108,033
Bonds and debentures	–	458,670	–	458,670
Canadian common shares	42,484	–	–	42,484
Investment funds:				
Canadian equity	13,599	–	–	13,599
Global equity	129,494	–	–	129,494
Global small cap equity	24,750	–	–	24,750
Mortgage	–	–	117,514	117,514
Real estate	–	–	37,742	37,742
	$ 210,327	$ 566,703	$ 155,256	$ 932,286

The Corporation's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

A reconciliation of Level 3 investments is as follows:

	(thousands of $)	
	2018	2017
Level 3 investments, beginning of the year	$ 155,256	$ 131,345
Add: Additions during the year		
Mortgage investment fund	4,785	4,371
Real estate investment fund	6,466	17,203
Net unrealized gains	4,846	2,337
Level 3 investments, end of year	$ 171,353	$ 155,256

Investment in the mortgage investment fund and the real estate investment fund are valued using the Corporation's share of the net asset value of the respective fund as at March 31, 2018 and March 31, 2017.

During the years ended March 31, 2018, and March 31, 2017, no investments were transferred between levels.

8. Property and Equipment

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

	(thousands of $)				
	Land	Buildings	Building Components	Computer Hardware & Other Equipment	Total
Cost:					
Beginning of the year	$ 3,000	$ 23,771	$ 12,509	$ 35,209	$ 74,489
Additions	–	114	–	2,469	2,583
Disposals	–	–	(5)	–	(5)
At March 31, 2018	3,000	23,885	12,504	37,678	77,067
Accumulated depreciation:					
Beginning of the year	–	17,074	5,363	30,213	52,650
Depreciation	–	2,452	1,259	2,453	6,164
Disposals	–	–	–	–	–
At March 31, 2018	–	19,526	6,622	32,666	58,814
Net book value at March 31, 2018	$ 3,000	$ 4,359	$ 5,882	$ 5,012	$ 18,253

	(thousands of $)				
	Land	Buildings	Building Components	Computer Hardware & Other Equipment	Total
Cost:					
Beginning of the year	$ 3,000	$ 23,687	$ 9,654	$ 33,799	$ 70,140
Additions	–	84	2,855	1,413	4,352
Disposals	–	–	–	(3)	(3)
At March 31, 2017	3,000	23,771	12,509	35,209	74,489
Accumulated depreciation:					
Beginning of the year	–	14,650	4,309	27,320	46,279
Depreciation	–	2,424	1,054	2,896	6,374
Disposals	–	–	–	(3)	(3)
At March 31, 2017	–	17,074	5,363	30,213	52,650
Net book value at March 31, 2017	$ 3,000	$ 6,697	$ 7,146	$ 4,996	$ 21,839

Depreciation for the year is $6,164,000 (2017 – $6,374,000), of which $2,150,000 (2017 – $2,413,000) is charged to the Saskatchewan Auto Fund for related space usage. Depreciation is included in administrative expenses on the Consolidated Statement of Operations. When an asset has been disposed, its original cost is removed from the consolidated financial statements along with any accumulated depreciation related to that asset.

9. Claims Incurred and Provision for Unpaid Claims

Net claims incurred

	(thousands of $)					
	2018			2017		
	Current year	Prior years	Total	Current year	Prior years	Total
Gross claims incurred	$ 496,044	$ (26,918)	$ 469,126	$ 450,500	$ (31,924)	$ 418,576
Ceded claims incurred	(23,203)	1,907	(21,296)	(24,036)	2,139	(21,897)
Net claims incurred	$ 472,841	$ (25,011)	$ 447,830	$ 426,464	$ (29,785)	$ 396,679

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

Ceded claims incurred represent an estimate of the recoverable cost of those claims transferred to the Corporation's various reinsurers pursuant to reinsurance contracts (note 15).

Net provision for unpaid claims

	(thousands of $)	
	2018	2017
Beginning of year:		
Net unpaid claims – discounted	$ 450,725	$ 409,438
PFAD and discount	(22,630)	(20,814)
Net unpaid claims – undiscounted	428,095	388,624
Net unpaid claims, preceding accident year – undiscounted	(76,153)	(67,467)
Net unpaid claims, prior years, beginning of year – undiscounted	351,942	321,157
Payments made during the year relating to prior year claims	(106,499)	(96,307)
Excess relating to prior year estimated unpaid claims	(25,011)	(29,785)
Net unpaid claims, prior years – undiscounted	220,432	195,065
Net unpaid claims, current year		
Preceding accident year	181,190	156,877
Current accident year	80,942	76,153
Net unpaid claims, end of year – undiscounted	482,564	428,095
PFAD and discount, end of year	15,368	22,630
Net unpaid claims, end of year – discounted	$ 497,932	$ 450,725

The net provision for unpaid claims of $497,932,000 (2017 – $450,725,000) consists of the gross provision for unpaid claims of $543,421,000 (2017 – $494,045,000) less unpaid claims recoverable from reinsurers of $45,489,000 (2017 – $43,320,000).

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

The provision for unpaid claims and unpaid claims recoverable from reinsurers are carried on a discounted basis to reflect the time value of money. In that respect, the Corporation determines the discount rate based upon the expected return of the bond investments that approximates the cash flow requirements of the unpaid claims. The discount rate applied was 2.21% (2017 – 1.54%). The resulting carrying amount is considered to be an indicator of fair value as there is no ready market for trading insurance contract liabilities.

Net unpaid claims

	(thousands of $)					
	Gross Unpaid Claims		Reinsurance Recoverable		Net Unpaid Claims	
	2018	2017	2018	2017	2018	2017
Provision for reported claims, undiscounted	$ 371,102	$ 324,527	$ 38,018	$ 38,364	$ 333,084	$ 286,163
Provision for claims incurred but not reported	155,281	145,189	5,801	3,257	149,480	141,932
PFAD	45,890	42,309	3,275	2,769	42,615	39,540
Effects of discounting	(28,852)	(17,980)	(1,605)	(1,070)	(27,247)	(16,910)
	$ 543,421	$ 494,045	$ 45,489	$ 43,320	$ 497,932	$ 450,725

Structured settlements

The Corporation settles some long-term disability claims by purchasing annuities for its claimants from various life insurers. The settlements legally release the Corporation from its obligations to the claimants. Consequently, neither the annuities purchased nor the claim liabilities are recognized on the Consolidated Statement of Financial Position. However, as part of the settlement, the Corporation provides a financial guarantee to the claimants in the event the life insurers' default on the scheduled payments and is thus exposed to credit risk to the extent any of the life insurers fail to fulfil their obligations. As at March 31, 2018, no information has come to the Corporation's attention that would suggest any weakness or failure in the life insurers from which it has purchased annuities. The net present value of the scheduled payments as of the year-end date is $61,546,000 (2017 – $61,386,000). The net risk to the Corporation is the credit risk related to the life insurance companies that the annuities are purchased from. No defaults have occurred, and the Corporation considers the possibility of default to be remote.

10. Deferred Policy Acquisition Costs

	(thousands of $)	
	2018	2017
Deferred policy acquisition costs, beginning of the year	$ 84,362	$ 75,144
Acquisition costs deferred during the year	175,950	161,827
Amortization of deferred acquisition costs	(170,213)	(152,553)
Change in premium deficiency	(55)	(56)
Deferred policy acquisition costs, end of the year	$ 90,044	$ 84,362

11. Unearned Premiums

	(thousands of $)					
	Gross Unearned Premiums		Reinsurers' Share of Unearned Premiums		Net Unearned Premiums	
	2018	2017	2018	2017	2018	2017
Unearned premiums, beginning of the year	$ 359,178	$ 319,981	$ 29,607	$ 27,592	$ 329,571	$ 292,389
Premiums written	802,786	738,862	57,596	45,248	745,190	693,614
Premiums earned	(776,016)	(699,665)	(49,710)	(43,233)	(726,306)	(656,432)
Change in net unearned premiums	26,770	39,197	7,886	2,015	18,884	37,182
Unearned premiums, end of the year	$ 385,948	$ 359,178	$ 37,493	$ 29,607	$ 348,455	$ 329,571

12. Equity Advances

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

13. Net Investment Earnings

Components of investment earnings are as follows:

	(thousands of $)	
	2018	2017
Investment fund distributions	$ 15,080	$ 9,139
Interest	10,259	7,843
Net unrealized gains on change in market value of investments	7,847	28,369
Premium financing	7,529	6,969
Net realized gains on sale of investments	4,088	4,548
Dividends	904	1,104
Total investment earnings	45,707	57,972
Investment expenses	(2,204)	(1,984)
Net investment earnings	$ 43,503	$ 55,988

Details of the net unrealized gains (losses) on change in market value of investments are as follows:

	(thousands of $)	
	2018	2017
Bonds and debentures	$ (4,343)	$ (284)
Canadian common shares	(717)	3,165
Investment funds:		
Canadian equity	(284)	1,377
Global equity	6,386	18,949
Global small cap equity	1,959	2,825
Mortgage	(232)	(82)
Real estate	5,078	2,419
	$ 7,847	$ 28,369

14. Income Taxes

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

	(thousands of $)	
	2018	2017
Current	$ (2,612)	$ (1,792)
Deferred	(2,429)	(538)
Income tax recovery	$ (5,041)	$ (2,330)

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

The reasons for the differences are as follows:

	(thousands of $)	
	2018	2017
Income before income taxes	$ 54,394	$ 62,842
Combined federal and provincial tax rate	26.14%	26.94%
Computed tax expense based on combined rate	$ 14,219	$ 16,930
Decrease resulting from:		
Investment earnings not subject to taxation	(19,245)	(19,222)
Other	(15)	(38)
Income tax recovery	$ (5,041)	$ (2,330)

The combined federal and provincial tax rate is calculated by taking the federal tax rate added to the tax rate of the individual provinces on the basis of the pro rata share of premiums written from each jurisdiction. During the year ended March 31, 2018, there has been a decrease in the combined tax rate to 26.14% from 26.94%, a result of premium growth in Ontario and British Columbia, which have a lower provincial tax rate.

All income taxes payable and/or receivable are due within one year. Income taxes receivable of $6,407,000 (2017 – $5,796,000) are included in accounts receivable on the Consolidated Statement of Financial Position.

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

Deferred tax asset	**(thousands of $)**			
	Provision for Unpaid Claims	**Other**	**Tax Loss Carryforward**	**Total**
At March 31, 2016	$ 3,043	$ 5	$ –	$ 3,048
Credit reflected in income tax expense	588	3	–	591
At March 31, 2017	3,631	8	–	3,639
Credit (charge) reflected in income tax expense	488	(3)	2,396	2,881
At March 31, 2018	$ 4,119	$ 5	$ 2,396	$ 6,520

Deferred tax liability	**(thousands of $)**			
	Deferred Policy Acquisition Costs	**Unpaid Claims Recoverable from Reinsurers**	**Investments**	**Total**
At March 31, 2016	$ –	$ 841	$ 53	$ 894
Charge (credit) reflected in income tax expense	–	58	(5)	53
At March 31, 2017	–	899	48	947
Charge (credit) reflected in income tax expense	574	(114)	(8)	452
At March 31, 2018	$ 574	$ 785	$ 40	$ 1,399

The Corporation expects that the deferred tax asset will be realized in the normal course of operations. Tax loss carryforwards expire in 2037.

15. Insurance and Financial Risk Management

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

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

Insurance risk

Underwriting risk

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

Diversification

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

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

	(thousands of $)				
March 31, 2018	**Automobile**	**Personal Property**	**Commercial Property**	**Liability**	**Total**
Saskatchewan	$ 162,328	$ 270,905	$ 54,152	$ 37,980	$ 525,365
Ontario	58,247	8,966	7,386	4,275	78,874
Alberta	84,063	50,471	12,951	9,980	157,465
Manitoba	–	17,835	7,652	4,012	29,499
British Columbia	–	5,206	4,368	2,009	11,583
Total	$ 304,638	$ 353,383	$ 86,509	$ 58,256	$ 802,786

	(thousands of $)				
March 31, 2017	**Automobile**	**Personal Property**	**Commercial Property**	**Liability**	**Total**
Saskatchewan	$ 159,150	$ 250,058	$ 54,090	$ 36,899	$ 500,197
Ontario	54,741	8,055	7,341	4,125	74,262
Alberta	71,075	41,671	11,005	8,853	132,604
Manitoba	–	14,552	7,219	3,718	25,489
British Columbia	–	1,846	3,205	1,259	6,310
Total	$ 284,966	$ 316,182	$ 82,860	$ 54,854	$ 738,862

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

	(thousands of $)					
	Gross		Reinsurance Recoverable		Net	
	2018	2017	2018	2017	2018	2017
Automobile	$ 273,501	$ 232,637	$ 20,274	$ 16,116	$ 253,227	$ 216,521
Personal property	127,938	122,239	15,146	17,512	112,792	104,727
Commercial property	39,952	34,688	7,732	5,477	32,220	29,211
Liability	72,800	69,563	667	2,516	72,133	67,047
Assumed	4,214	4,033	–	–	4,214	4,033
PFAD and discounting	17,038	24,329	1,670	1,699	15,368	22,630
Facility Association (note 20)	7,978	6,556	–	–	7,978	6,556
Total	$ 543,421	$ 494,045	$ 45,489	$ 43,320	$ 497,932	$ 450,725

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

	(thousands of $)					
	Gross		Reinsurance Recoverable		Net	
	2018	2017	2018	2017	2018	2017
Saskatchewan	$ 249,315	$ 241,941	$ 21,619	$ 24,988	$ 227,696	$ 216,953
Ontario	155,440	144,277	18,326	14,678	137,114	129,599
Alberta	112,558	94,370	2,481	3,535	110,077	90,835
Manitoba	13,850	9,303	28	99	13,822	9,204
British Columbia	10,180	2,251	3,035	20	7,145	2,231
Maritimes	2,078	1,903	–	–	2,078	1,903
Total	$ 543,421	$ 494,045	$ 45,489	$ 43,320	$ 497,932	$ 450,725

Reinsurance

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

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

	(thousands of $)	
	2018	2017
Dwelling and farm property	$ 1,250	$ 1,000
Unlicensed vehicles	1,250	1,000
Commercial property	1,250	1,000
Automobile and general liability	1,500	1,500

In addition, the Corporation carries property and auto physical damage catastrophe reinsurance limiting combined exposure to $15,000,000 per event (subject to an annual aggregate deductible of $15,000,000).

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

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

	(thousands of $)	
	2018	2017
Premiums earned	$ 49,710	$ 43,233
Claims incurred	21,296	21,897
Commissions, administrative expenses and premium taxes	4,265	4,052

Actuarial risk

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

The significant assumptions used to estimate the provision include: the Corporation's experience with similar cases, historical claim payment trends and claim development patterns, the characteristics of each class of business, claim severity and 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 tables show the development of the estimated net provision for unpaid claims relative to the current estimate of ultimate claims costs for the 10 most recent accident years as estimated at each reporting date.

	(thousands of $)									
	January 1 – December 31									Jan 1, 2017 – Mar 31,
Accident Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2018
Net Ultimate Loss										
At end of accident year	$ 175,967	$ 185,961	$ 230,112	$ 258,366	$ 228,674	$ 293,023	$ 314,683	$ 345,276	$ 365,571	$ 533,798
One year later	171,351	178,983	226,820	251,481	222,271	282,681	295,363	326,329	342,990	
Two years later	169,027	176,134	224,536	245,906	214,131	274,536	289,673	319,654		
Three years later	167,273	173,258	224,283	241,873	210,624	272,049	287,944			
Four years later	165,109	172,483	222,718	240,756	208,699	271,193				
Five years later	165,349	172,447	223,065	239,437	208,883					
Six years later	165,528	172,669	223,057	238,618						
Seven years later	165,810	172,619	222,471							
Eight years later	165,071	172,295								
Nine years later	164,990									
Cumulative loss development	$ (10,977)	$ (13,666)	$ (7,641)	$ (19,748)	$ (19,791)	$ (21,830)	$ (26,739)	$ (25,622)	$ (22,581)	n/a
Cumulative loss development as a % of original ultimate loss	(6.2%)	(7.3%)	(3.3%)	(7.6%)	(8.7%)	(7.4%)	(8.5%)	(7.4%)	(6.2%)	n/a

The Corporation has a March 31 fiscal year end, however actuarial valuations are performed using a January 1 – December 31 accident year. As such, the shaded net ultimate losses are as at December 31 and the non-shaded net ultimate losses are as at March 31.

	(thousands of $)										
	January 1 – December 31									Jan 1, 2017 – Mar 31,	
Accident Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2018	Total
Estimate of net ultimate loss	$164,990	$172,295	$222,471	$238,618	$208,883	$271,193	$287,944	$319,654	$342,990	$533,798	$2,762,836
Cumulative paid	(163,409)	(167,871)	(218,267)	(231,479)	(199,712)	(257,888)	(261,779)	(290,894)	(286,187)	(293,356)	(2,370,842)
Net provision for unpaid claims for the 10 most recent accident years	$ 1,581	$ 4,424	$ 4,204	$ 7,139	$ 9,171	$ 13,305	$ 26,165	$ 28,760	$ 56,803	$ 240,442	$ 391,994
Net undiscounted claims outstanding for accident years 2007 and prior											24,661
Internal reinsurance to subsidiaries											17,740
Provision for adverse deviation and discounting											15,368
Loss adjusting expense reserve											14,134
Subrogation recoveries											18,111
Unpaid Facility Association claims											7,978
Assumed from ICPEI											2,078
Health levies											830
Other reconciling items											5,038
Net provision for unpaid claims											$ 497,932

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

		(thousands of $)			
		Change to Net Provision for Unpaid Claims		Change to Income before Income Taxes	
Assumption	Sensitivity	2018	2017	2018	2017
Discount rate	+100 bps	$ (12,704)	$ (11,928)	$ (2,808)	$ (2,846)
Discount rate	- 100 bps	12,704	11,928	2,808	2,846
Net loss ratio	+ 10%	75,444	68,424	(75,444)	(68,424)
Misestimate	1% deficiency	4,673	4,290	(4,673)	(4,290)

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

Financial risk

The nature of the Corporation's operations result in a Consolidated Statement of Financial Position that consists primarily of financial instruments. The risks that arise are credit risk, market risk and liquidity risk.

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

Credit risk

The Corporation's credit risk arises primarily from two distinct sources: accounts receivable (from customers, brokers and reinsurers) and certain investments.

The maximum credit risk to which the Corporation is exposed is limited to the carrying value of the financial assets summarized as follows:

	(thousands of $)	
	2018	2017
Cash and cash equivalents	$ 23,241	$ 26,324
Accounts receivable	226,388	194,239
Fixed income investments[1]	729,756	684,217
Unpaid claims recoverable from reinsurers	45,489	43,320

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

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

Cash and cash equivalents include money market investments of $35,813,000 less bank overdraft, net of outstanding cheques of $12,572,000 (2017 – money market investments of $40,705,000 less bank overdraft, net of outstanding cheques of $14,381,000). The money market investments mature within 90 days from the date of acquisition and have a credit rating of R-1.

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

	(thousands of $)	
	2018	2017
Current	$ 222,353	$ 192,802
30 – 59 days	1,777	1,255
60 – 90 days	928	723
Greater than 90 days	15,360	10,341
Subtotal	240,418	205,121
Allowance for doubtful accounts	(14,030)	(10,882)
Total	$ 226,388	$ 194,239

The Corporation applies the simplified approach to providing for expected credit losses as prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. Provisions for credit losses are maintained in an allowance account and are regularly reviewed by the Corporation. Amounts are written off once reasonable collection efforts have been exhausted. The allowance mainly relates to amounts outstanding greater than 90 days.

Details of the allowance account are as follows:

	(thousands of $)	
	2018	2017
Allowance for doubtful accounts, beginning of year	$ 10,882	$ 9,512
Accounts written off	(2,813)	(2,325)
Current period provision	5,961	3,695
Allowance for doubtful accounts, end of year	$ 14,030	$ 10,882

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

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

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

	2018		2017	
Credit Rating	Fair Value (thousands of $)	Makeup of Portfolio (%)	Fair Value (thousands of $)	Makeup of Portfolio (%)
AAA	$ 193,484	38.3	$ 153,506	33.5
AA	136,620	27.0	136,972	29.9
A	121,496	24.1	113,817	24.8
BBB	53,666	10.6	54,375	11.8
Total	$ 505,266	100.0	$ 458,670	100.0

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

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

Market risk

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

Interest rate risk

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

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

	(thousands of $)			
	100 basis point increase		100 basis point decrease	
	2018	2017	2018	2017
Net investment earnings	$ (15,512)	$ (14,774)	$ 15,512	$ 14,774
Net claims incurred	(12,704)	(11,928)	12,704	11,928
Income (loss) before income taxes	(2,808)	(2,846)	2,808	2,846

Foreign exchange risk

The investment policy defines maximum limits to exchange rate sensitive assets within the investment portfolio. The following table indicates the exposure to exchange rate sensitive assets and provides the sensitivity to a 10% appreciation/depreciation in the Canadian dollar and the corresponding decrease/increase in net income and retained earnings:

	2018		
Asset Class	**Maximum Exposure (%)**	**Current Exposure (%)**	**10% change in exchange rates (thousands of $)**
Global equities	16.0	13.0	$ 12,866
Global small cap equities	4.0	3.0	2,964

	2017		
Asset Class	**Maximum Exposure (%)**	**Current Exposure (%)**	**10% change in exchange rates (thousands of $)**
Global equities	16.0	13.9	$ 12,949
Global small cap equities	4.0	2.7	2,475

As the global equity funds are classified as fair value through profit and loss, any unrealized changes due to foreign currency are recorded in net income. There is no exposure to foreign exchange risk within the Corporation's bond and debenture portfolio. As well, no more than 10% of the market value of the bond portfolio shall be invested in bonds of foreign issuers. The Corporation's exposure to exchange rate risk resulting from the purchase of goods and services, and claims and reinsurance receivables and payables, are not considered material to the operations of the Corporation.

Equity prices

The Corporation is exposed to changes in equity prices in Canadian and global markets. Equities comprise 21.4% (2017 – 22.6%) of the carrying value of the Corporation's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. No one investee or related group of investees represents greater than 10% of the market value of the Corporation's common share portfolio. As well, no one holding represents more than 10% of the voting shares of any corporation.

The Corporation's equity price risk is assessed using Value at Risk (VaR), a statistical technique that measures the potential change in the value of an asset class. The VaR has been calculated based on volatility over a four-year period, using a 95% confidence level. 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).

	(thousands of $)	
Asset Class	**2018**	**2017**
Canadian equities	$ +/- 8,477	$ +/- 10,207
Global equities	+/- 25,218	+/- 29,007
Global small cap equities	+/- 6,391	+/- 5,386

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

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

Liquidity risk

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

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

	(thousands of $)					
	March 31, 2018					
	No stated maturity	0 - 6 months	7 - 12 months	1 - 2 years	3 - 5 years	More than 5 years
Financial assets						
Cash and cash equivalents	$ (12,572)	$ 35,813	$ –	$ –	$ –	$ –
Accounts receivable	–	170,586	39,541	7,573	3,716	4,972
Investments	383,309	100,767	74,997	120,396	286,241	25,288
Unpaid claims recoverable from reinsurers	–	14,971	8,214	7,816	8,689	4,129
	$ 370,737	$ 322,137	$ 122,752	$ 135,785	$ 298,646	$ 34,389
Financial liabilities						
Accounts payable and accrued liabilities	$ 16,935	$ 21,875	$ –	$ –	$ –	$ –
Dividend payable	–	17,000	–	–	–	–
Premium taxes payable	–	7,278	–	–	–	–
Amounts due to reinsurers	–	35,354	31	–	–	–
Accrued pension liabilities	15,495	–	–	–	–	–
Provision for unpaid claims	–	156,496	82,400	79,115	116,453	91,919
	32,430	238,003	82,431	79,115	116,453	91,919
Finance lease commitments	–	3,271	1,028	1,930	4,506	4,791
	$ 32,430	$ 241,274	$ 83,459	$ 81,045	$ 120,959	$ 96,710

	(thousands of $)					
	March 31, 2017					
	No stated maturity	**0 – 6 months**	**7 – 12 months**	**1 – 2 years**	**3 – 5 years**	**More than 5 years**
Financial assets						
Cash and cash equivalents	$ (14,381)	$ 40,705	$ –	$ –	$ –	$ –
Accounts receivable	–	151,321	34,768	2,006	3,177	2,967
Investments	365,583	114,127	59,522	109,720	263,616	19,718
Unpaid claims recoverable from reinsurers	–	14,009	8,406	7,753	7,505	3,948
	$ 351,202	$ 320,162	$ 102,696	$ 119,479	$ 274,298	$ 26,633
Financial liabilities						
Accounts payable and accrued liabilities	$ 16,549	$ 18,966	$ –	$ –	$ –	$ –
Dividend payable	–	24,250	–	–	–	–
Premium taxes payable	–	6,706	–	–	–	–
Amounts due to reinsurers	–	28,336	40	–	–	–
Accrued pension liabilities	20,396	–	–	–	–	–
Provision for unpaid claims	–	136,555	74,765	72,603	103,470	82,323
	36,945	214,813	74,805	72,603	103,470	82,323
Finance lease commitments	–	7,111	645	1,023	882	–
	$ 36,945	$ 221,924	$ 75,450	$ 73,626	$ 104,352	$ 82,323

The estimated contractual maturities related to the unpaid claims recoverable from reinsurers excludes the net effect of discounting and PFAD of $1,670,000 (2017 – $1,699,000) (note 9). The estimated contractual maturities related to the provision for unpaid claims excludes the net effect of discounting and PFAD of $17,038,000 (2017 – $24,329,000) (note 9).

16. Capital Management

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

SGI CANADA is not a regulated insurer; however, its subsidiaries, SGI CANADA Insurance Services Ltd. and Coachman Insurance Company, are subject to rate regulation related to their automobile premiums. Although not federally regulated, SGI CANADA has chosen to follow the guidance provided by OSFI in determining and monitoring capital targets.

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

The Board of Directors approved capital management policies for the Corporation, and each of its subsidiaries, prepared in accordance with Guideline A-4, *Regulatory Capital* and *Internal Capital Targets*, which OSFI issued in January 2014. The policies establish internal MCT targets, in excess of 150%, which are used by the regulators as minimum targets for supervisory purposes. The policies also establish operating MCT targets that provide for an operating cushion above the internal targets. The Corporation and its subsidiaries maintain MCTs in excess of their internal targets.

17. Change in Non-Cash Operating Items

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

	(thousands of $)	
	2018	**2017**
Accounts receivable	$ (32,149)	$ (27,195)
Unpaid claims recoverable from reinsurers	(2,169)	(12,004)
Reinsurers' share of unearned premiums	(7,886)	(2,015)
Deferred policy acquisition costs	(5,682)	(9,218)
Accounts payable and accrued liabilities	3,295	1,858
Premium taxes payable	572	1,055
Amounts due to reinsurers	7,009	3,771
Unearned reinsurance commissions	1,116	441
Unearned premiums	26,770	39,197
Accrued pension liabilities	(4,901)	(2,340)
Provision for unpaid claims	49,376	53,291
	$ 35,351	$ 46,841

18. Employee Salaries and Benefits

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

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

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

	(thousands of $)	
	2018	2017
Salaries	$ 139,222	$ 139,166
Defined contribution pension plan	8,090	7,968
Defined benefit pension plan	107	68
Defined benefit service recognition plans	765	826
Other benefits	18,825	18,516
Total salaries and benefits	167,009	166,544
Less: Allocation to Saskatchewan Auto Fund	(96,944)	(102,642)
Salaries and benefits SGI CANADA	$ 70,065	$ 63,902

Defined contribution pension plan

The Corporation has employees who are members of the Public Employees Pension Plan, which is a defined contribution pension plan. The Corporation's financial obligation is limited to contributions made on behalf of employees for their current service.

Defined benefit pension plan

The Corporation has a defined benefit pension plan for certain of its employees that has been closed to new membership since 1980. Current service costs of this plan are charged to operations on the basis of actuarial valuations, the most recent valuation being as of December 31, 2016. The next valuation is anticipated to have a valuation date of December 31, 2019.

Results from the last actuarial valuation have been projected to March 31, 2018. The actuarial valuation is measured using management's best estimates based on assumptions that reflect the most probable set of economic circumstances and planned courses of action. The estimate, therefore, involves risks that the actual amount may differ materially from the estimate.

The major assumptions used in the projection are as follows:

Economic assumptions:	2018	2017
Discount rate – beginning of year	3.30%	3.40%
Discount rate – end of year	3.40%	3.30%
Inflation rate	2.25%	2.00%
Expected salary increase	n/a	n/a
Remaining service life of active members, in years (EARSL)	n/a	n/a
Last actuarial valuation	Dec. 31/16	Dec. 31/13

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

	(thousands of $)			
	1% Increase		1% Decrease	
	2018	2017	2018	2017
Discount rate	(2,594)	(2,711)	3,066	3,224
Post-retirement indexing	626	691	n/a	n/a

The weighted average duration of the accrued benefit obligation is 9.3 years (2017 – 9.2 years). An increase in the average life expectancy of a pensioner by one year is estimated to increase the accrued benefit obligation by approximately $1,384,000 (2017 – $1,362,000).

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

		Percent of Plan Assets at	
Asset Category	Target Range	2018	2017
Short-term investments	0 – 8%	3%	2%
Bonds and debentures	55 – 65%	66%	56%
Canadian equities	10 – 20%	12%	20%
U.S. equities	Total foreign	9%	11%
Non-North American equities	17 – 27%	10%	11%

The movements in the defined benefit obligation are as follows:

	(thousands of $)	
Accrued benefit obligation	2018	2017
Accrued benefit obligation, beginning of year	$ 32,569	$ 34,313
Employee contributions	2	2
Interest cost	1,052	1,142
Benefits paid	(2,535)	(2,674)
Actuarial gain on discount rate assumption changes	(1,458)	(214)
Accrued benefit obligation, end of year	$ 29,630	$ 32,569

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

	(thousands of $)	
Plan assets	**2018**	**2017**
Fair value of plan assets, at beginning of year	$ 31,588	$ 32,218
Interest income	945	1,074
Return on plan assets, excluding interest income	875	968
Employee contributions	2	2
Benefits paid	(2,535)	(2,674)
Fair value of plan assets, at end of year	$ 30,875	$ 31,588
Accrued pension asset (liability)	$ 1,245	$ (981)

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

	(thousands of $)	
	2018	**2017**
Interest cost	$ 107	$ 68
Pension expense	$ 107	$ 68

During the year, $72,000 of the pension expense (2017 – $47,000 of pension expense) was allocated to the Saskatchewan Auto Fund. The Corporation has recorded the remaining $35,000 of pension expense (2017 – $21,000 of pension expense) in administrative expenses on the Consolidated Statement of Operations. The Corporation expects no contributions to be paid to its defined benefit plans in 2019.

Defined benefit service recognition plans

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

	2018	**2017**
Discount rate	3.20 – 3.30%	3.00 - 3.20%
Expected salary increase	2.10 – 2.20%	2.30 - 2.75%
Inflation rate	2.25%	2.25%
Termination rate	0.50 - 0.60%	0.60 - 0.70%
EARSL – management	10	10
EARSL – in-scope	10	11

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

	(thousands of $)			
	1% Increase		1% Decrease	
	2018	2017	2018	2017
Discount rate	(1,013)	(1,049)	1,171	1,210
Expected salary rate	1,017	1,049	(899)	(930)
Inflation rate	31	(137)	133	140
Termination rate	(1,054)	(1,098)	652	778

The weighted average duration of the accrued benefit obligation is 5.8 years (2017 – 5.7 years).

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

	(thousands of $)	
Accrued benefit obligation	2018	2017
Accrued benefit obligation, beginning of year	$ 19,415	$ 20,641
Current service cost	172	162
Interest cost	593	664
Benefits paid	(3,087)	(2,314)
Experience (gain) loss	(353)	262
Accrued benefit obligation, end of year	$ 16,740	$ 19,415
Pension expense for the defined benefit service recognition plan is as follows:		
Current service cost	$ 172	$ 162
Interest cost	593	664
Pension expense	$ 765	$ 826

During the year ended March 31, $519,000 of the pension expense (2017 – $579,000) was allocated to the Saskatchewan Auto Fund. The Corporation has recorded the remaining $246,000 of pension expense (2017 – $247,000) in administrative expenses on the Consolidated Statement of Operations.

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

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

19. Related Party Transactions

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

The Corporation acts as administrator of the Saskatchewan Auto Fund. Administrative and loss adjustment expenses incurred by the Corporation are allocated to the Saskatchewan Auto Fund directly or on the basis of specific allocations. Amounts incurred by the Corporation and charged to the Saskatchewan Auto Fund were $142,986,000 (2017 – $147,595,000) and accounts receivable were $3,080,000 (2017 – $1,060,000).

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

Key management personnel

Key management personnel are those persons having authority over the planning, directing and controlling activities of the Corporation, and include the Board of Directors, the President and Chief Executive Officer and Executive Vice Presidents of the Corporation.

Key management personnel compensation is comprised of:

	(thousands of $)	
	2018	2017
Salaries and benefits	$ 3,727	$ 3,508
Post-employment benefits	33	341
Contributions to defined contribution plan	188	185
	$ 3,948	$ 4,034

During the year, $2,337,000 of the key management personnel expenses (2017 – $2,072,000) was allocated to the Saskatchewan Auto Fund.

Certain Board members are partners in organizations that provided $193,000 (2017 – $73,000) of professional services to the Corporation. These services were recorded in claims incurred and administrative expenses in the Consolidated Statement of Operations.

The Corporation is committed to a related party until 2019 for telecommunications contracts. At March 31, 2018, the remaining commitment is $4,083,000 (2017 – $4,470,000).

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

20. Facility Association Participation

Through its subsidiaries, the Corporation is a participant in automobile residual market and risk-sharing pools, whereby companies in the industry are required by regulation to provide automobile insurance coverage to high-risk insureds. Facility Association transactions recorded in the Corporation's financial results are as follows:

	(thousands of $)	
	2018	2017
Gross premiums written	$ 5,828	$ 5,147
Net premiums earned	$ 5,455	$ 4,620
Net claims incurred	5,295	4,476
Commissions	176	176
Premium taxes	238	155
Administrative expenses	1,517	1,333
Total claims and expenses	7,226	6,140
Underwriting loss	(1,771)	(1,520)
Investment earnings	20	26
Net loss	$ (1,751)	$ (1,494)
Facility Association receivable	$ 2,399	$ 3,141
Unearned premiums	2,387	2,014
Facility Association payable	1,524	1,524
Provision for unpaid claims	7,978	6,556

21. Select Operating Information

The Corporation provides property and casualty insurance directly in Saskatchewan, and through its subsidiaries, SGI CANADA insurance Services Ltd. operating in Alberta, Manitoba, Ontario and British Columbia, and Coachman Insurance Company operating in Ontario. The performance of each subsidiary is reported separately to the Corporation's Board of Directors.

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

	(thousands of $) March 31, 2018				
	Saskatchewan	SCISL	Coachman	Consolidation Adjustments	Total
Net premiums written	$ 488,803	$ 200,282	$ 56,105	$ –	$ 745,190
Net premiums earned	483,970	174,472	67,864	–	726,306
Net claims incurred	259,551	133,785	54,494	–	447,830
Other expenses	180,354	63,313	26,060	(2,142)	267,585
Underwriting income (loss)	44,065	(22,626)	(12,690)	2,142	10,891
Net investment earnings	28,757	7,314	7,432	–	43,503
Income (loss) before income taxes	72,822	(15,312)	(5,258)	2,142	54,394
Income tax expense (recovery)	–	(4,147)	(1,468)	574	(5,041)
Net income (loss)	$ 72,822	$ (11,165)	$ (3,790)	$ 1,568	$ 59,435
Total assets	$1,002,784	$ 447,182	$ 255,353	$ (266,893)	$1,438,426
Total liabilities	$ 614,933	$ 292,738	$ 186,092	$ (44,756)	$1,049,007
Shareholder's Equity	$ 387,851	$ 154,444	$ 69,261	$ (222,137)	$ 389,419

	(thousands of $) March 31, 2017				
	Saskatchewan	SCISL	Coachman	Consolidation Adjustments	Total
Net premiums written	$ 470,462	$ 153,932	$ 69,220	$ –	$ 693,614
Net premiums earned	460,071	135,400	60,961	–	656,432
Net claims incurred	242,993	102,787	50,899	–	396,679
Other expenses	183,530	49,652	19,717	–	252,899
Underwriting income (loss)	33,548	(17,039)	(9,655)	–	6,854
Net investment earnings	37,654	8,744	9,590	–	55,988
Income (loss) before income taxes	71,202	(8,295)	(65)	–	62,842
Income tax recovery	–	(2,272)	(58)	–	(2,330)
Net income (loss)	$ 71,202	$ (6,023)	$ (7)	$ –	$ 65,172
Total assets	$ 974,138	$ 369,985	$ 263,644	$ (272,151)	$1,335,616
Total liabilities	$ 611,090	$ 230,587	$ 190,594	$ (59,703)	$ 972,568
Shareholder's Equity	$ 363,048	$ 139,398	$ 73,050	$ (212,448)	$ 363,048

22. Contingencies

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

During 2014, the Corporation sold the shares of its 75%-owned subsidiary, ICPEI, for a purchase price equal to ICPEI's book value as at the transaction closing date, June 30, 2014. As part of the sale agreement, 54 months after the closing date, the purchaser shall deliver to the Corporation a report of the ultimate losses prior to June 30, 2014, certified by the purchaser's appointed actuary. If the amount of the final closing date ultimate loss is greater than the initial closing date ultimate loss, a deficiency, the Corporation shall pay to the purchaser an amount equal to the lesser of $1,500,000 or 75% of the deficiency. Conversely, if the amount of the final closing date ultimate loss is less than the initial closing date ultimate loss, a surplus, the purchaser shall pay to the Corporation an amount equal to the lesser of $1,500,000 or 75% of the surplus. As at December 31, 2017, a surplus of $2,500,000 (2016 – $2,280,000) was estimated. The estimated $1,500,000 receivable has not been recorded in these Consolidated Financial Statements.

Glossary of Terms

Broker	A person who negotiates insurance policies on behalf of the insurance company, receiving a commission from the insurance company for policies placed and other services rendered.
Casualty insurance	One of the three main groups of insurance products (the others are life insurance and property insurance). This type of insurance is primarily concerned with losses caused by injuries to others than the policyholder and the resulting legal liability imposed on the insured.
Catastrophe reinsurance	A policy purchased by a ceding company that indemnifies that company for the amount of loss in excess of a specified retention amount subject to a maximum specific limit from a covered catastrophic event.
Cede, Cedant, Ceding company	An insurance company that transfers some or all of the risks in active policies to another company cedes its business. The company transferring its risks is known as the cedant or ceding company.
Claims incurred	The totals for all claims paid and related claim expenses during a specific accounting period(s) plus the changes in IBNR reserve for the same period of time.
Combined ratio	A measure of total expenses (claims and administration) in relation to net premiums earned as determined in accordance with GAAP. If this ratio is below 100%, there was a profit from underwriting activities, while over 100% represents a loss from underwriting.
Facility Association	Participation in automobile risk-sharing pools whereby P&C insurance companies share resources to provide insurance coverage to high-risk individuals or businesses.
GAAP	Generally accepted accounting principles. These are defined in the handbook prepared by the Canadian Institute of Chartered Accountants.
Gross premiums written (GPW)	Total premiums, net of cancellations, on insurance underwritten during a specified period of time before deduction of reinsurance premiums ceded.
IBNR reserve	Abbreviation for "incurred but not reported." A reserve that estimates claims that have been incurred by a policyholder but not reported to the insurance company. It also includes unknown future developments on claims that have been reported.
IFRS	International Financial Reporting Standards. These are global accounting standards issued by the International Accounting Standards Board (IASB), including interpretations of the International Financial Reporting Interpretations Committee (IFRIC).
Loss ratio (Claims ratio)	Claims incurred net of reinsurance expressed as a percentage of net premiums earned for a specified period of time.
Minimum Capital Test (MCT)	A solvency ratio used by regulators to assess a company's financial strength. This ratio measures capital requirements in relation to the degree of risk undertaken by a particular company.

Net premiums earned (NPE)	The portion of net premiums written that is recognized for accounting purposes as revenue during a period.
Net premiums written (NPW)	Gross premiums written for a given period of time less premiums ceded to reinsurers during such period.
Net risk ratio (NRR)	A ratio of net premiums written to equity. This ratio indicates the ability of a company's financial resources to withstand adverse underwriting results. The regulatory guideline is a ratio of 3.0 or lower.
Premium	The dollars that a policyholder pays today to insure a specific set of risk(s). In theory, this reflects the current value of the claims that a pool of policyholders can be expected to make in the future, as well as the costs of administering those potential claims.
Premium tax	A tax collected by insurance companies from policyholders and paid to various provincial and territorial governments. It is calculated as a percentage of gross premiums written.
Property insurance	One of the three main groups of insurance products (the others are life insurance and casualty insurance). This type of insurance provides coverage to a policyholder for an insurable interest in tangible property for property loss, damage or loss of use.
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.
Reinsurance	In its simplest form, insurance for an insurance company. It is an agreement where the reinsurer agrees to indemnify the ceding company against all or a portion of the insurance or reinsurance risk underwritten by the ceding company under one or more policies.
Reinsurer	A company that purchases the cedant risk in the reinsurance contract.
Underwriting	The process of reviewing applications submitted for insurance coverage, deciding whether to insure all or part of the coverage requested and calculating the related premium for the coverage offered.
Underwriting capacity	The maximum amount that a company can underwrite. It is based on retained earnings and investment capital held by the company. Using reinsurance allows a company to increase its underwriting capacity as it reduces the company's exposure to particular risks.
Underwriting profit/loss	The difference between net premiums earned and the sum of net claims incurred, commissions, premium taxes and all general and administrative expenses.
Unearned premiums	The difference between net premiums written and net premiums earned. It reflects the net premiums written for that portion of the term of its insurance policies that are deferred to subsequent accounting periods.

Governance

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

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