

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis (MD&A) is the responsibility of management and reflects events known to management to February 27, 2013. The Board of Directors carries out its responsibility for review of this disclosure principally through its Audit and Finance Committee, comprised exclusively of independent directors. The Audit and Finance Committee's mandate can be found on the Corporation's website at www.sgi.sk.ca. The Board of Directors approved this MD&A at its meeting on February 28, 2013, after a recommendation to approve was put forth by the Audit and Finance Committee.

Overview

The MD&A is structured to provide users of SGI CANADA's financial statements with insight into SGI CANADA (denoted as the Corporation) and the industry in which it operates. This section contains discussion on its strategies and its capability to execute the strategies, key performance drivers, financial capital, 2012 financial results, risk management and an outlook for 2013. Information contained in the MD&A should be read in conjunction with the consolidated financial statements and the notes to the consolidated financial statements, along with other sections in this annual report. All dollar amounts are in Canadian dollars.

Caution Regarding Forward-Looking Statements

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

TABLE OF CONTENTS

Where SGI CANADA Came From.....	8
The Property and Casualty Insurance Business Environment.....	9
Strategic Direction.....	10
Corporate Strategies.....	10
Capability to Execute Strategies.....	16
2012 Financial Results	18
Impact of New Accounting Standards.....	27
Related Party Transactions.....	29
Off Balance Sheet Arrangements.....	29
Critical Accounting Estimates.....	30
Risk Management	31
Outlook for 2013	33

WHERE SGI CANADA CAME FROM

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

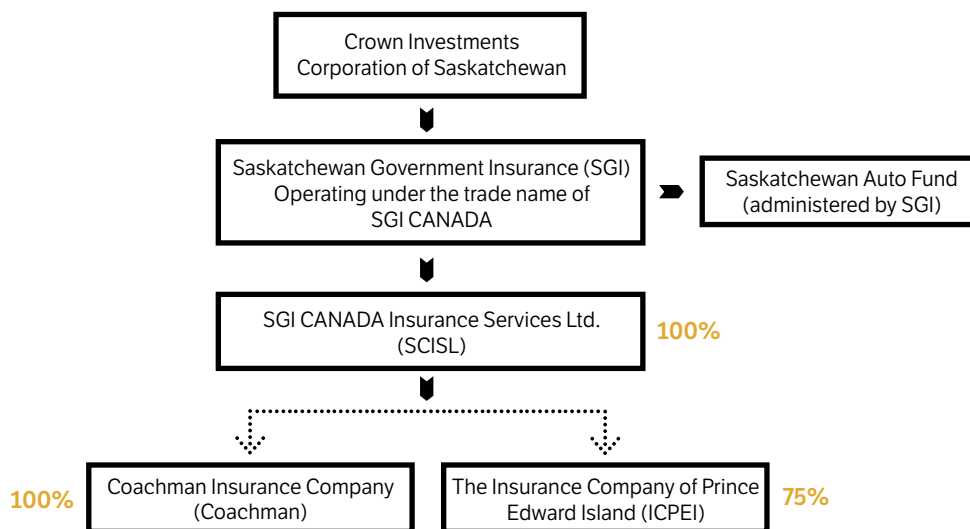
SGI's mandate since its inception has been to provide comprehensive, affordable insurance protection to the people of Saskatchewan. In 1980, legislated changes to *The Saskatchewan Government Insurance Act, 1980*, and *The Automobile Accident Insurance Act* distinguished between the compulsory vehicle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

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

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

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

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



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

At December 31, 2012, the Corporation employed over 1,800 people, including those employees who work directly for the Saskatchewan Auto Fund. SGI CANADA operates with a network of 237 independent brokers throughout Saskatchewan, as well as 259 brokers operating in Manitoba, Alberta, Ontario, Prince Edward Island, New Brunswick and Nova Scotia. SGI CANADA's corporate head office is located in Regina, Saskatchewan.

THE PROPERTY AND CASUALTY INSURANCE BUSINESS ENVIRONMENT

Canada's highly competitive P&C industry consists of approximately 220 private and government-owned insurers. The P&C industry covers all types of insurance other than life and health insurance. The automobile insurance sector continues to be the largest contributor to gross premium volume at half of all premiums. Property insurance ranks second, followed by liability insurance and other insurance.

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

Insurance can be considered a large pool into which policyholders place their premiums.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, is responsible for the solvency and stability of P&C insurance companies registered federally. Provincial authorities supervise the terms and conditions of insurance contracts and the licensing of companies, agents, brokers and adjusters, along with monitoring the solvency and stability of provincially registered companies. SGI CANADA's subsidiaries are provincially regulated insurance companies.

Since automobile insurance is compulsory in Canada, unlike home and business insurance, it is the most regulated area that P&C companies operate within. Regulation of premium rates is based on claims and other costs of providing insurance coverage, as well as projected profit margins. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. The Corporation's automobile premiums are subject to rate regulation in Alberta, Ontario, Prince Edward Island, New Brunswick and Nova Scotia, which represents approximately 18.1% of the consolidated net premiums earned in 2012.

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

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

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

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

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

STRATEGIC DIRECTION

SGI CANADA's mission, vision and values are:

Mission

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

Vision

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

Values

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

CORPORATE STRATEGIES

To meet its vision, SGI CANADA's main areas of focus in 2012 were:

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

Within these areas, specific strategies were adopted to ensure SGI CANADA delivered on its vision. To monitor performance and results, SGI CANADA uses a balanced scorecard approach, which provides a balanced evaluation of key operational and financial results. The following sections discuss strategies in each area of focus, as well as related key performance indicators from the balanced scorecard.

SGI CANADA reviews its balanced scorecard annually to ensure its continued alignment with SGI CANADA's corporate strategies. Key performance targets are also reviewed and either updated or removed along with new performance targets being added.

We work with customers to understand and provide the protection they need

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

The key performance indicators in the balanced scorecard used to monitor SGI CANADA's success with respect to understanding and providing the protection customers need were:

Legend: ● achieved ○ not achieved

Measure	2012 Target	2012 Result	2013 Target
Growth (SGI CANADA gross premium written - \$M)	\$568.5	○ \$531.1	Maintain SK market share; Book of business outside SK
Profitability (SGI CANADA combined ratio)	97.6%	● 88.4%	After-tax return on equity

Growth in SGI CANADA's gross premium written

SGI CANADA's ability to successfully understand the needs of its customers and provide the right products for their needs should result in gross premium written growth. Targets for growth are set in the budget each year. The Corporation's gross written premium in 2012 was \$37.4 million under its target. The unfavourable variance was due to a decline in Ontario auto business in the Coachman Insurance Company operation. Ontario gross premiums were \$39.7 million lower than planned, due largely to a decline in auto policies. The reduction in auto policies is a result of rate increases used to improve the profitability of the Ontario auto book of business. At the same time, standard auto insurers were increasing their risk appetite for new auto business as a result of product reforms.

In 2013, the Corporation is replacing its gross premium written target with two new targets: maintaining its Saskatchewan market share; and, geographic diversification outside Saskatchewan. Maintaining its Saskatchewan market share is a priority due to competitive pressures in the Saskatchewan marketplace. The 2013 target is to maintain the 2012 market share of 39.1%. Geographic distribution of premiums continues to be an important objective because it is essential to financial stability, as losses in one jurisdiction can be offset by profits in other jurisdictions. The Corporation believes the optimal spread of risk is roughly 50/50 of business inside/outside Saskatchewan. However, growing the spread of risk outside the province is made difficult as the Saskatchewan marketplace has been experiencing strong growth itself. The 2013 target is for 30% of business from outside Saskatchewan.

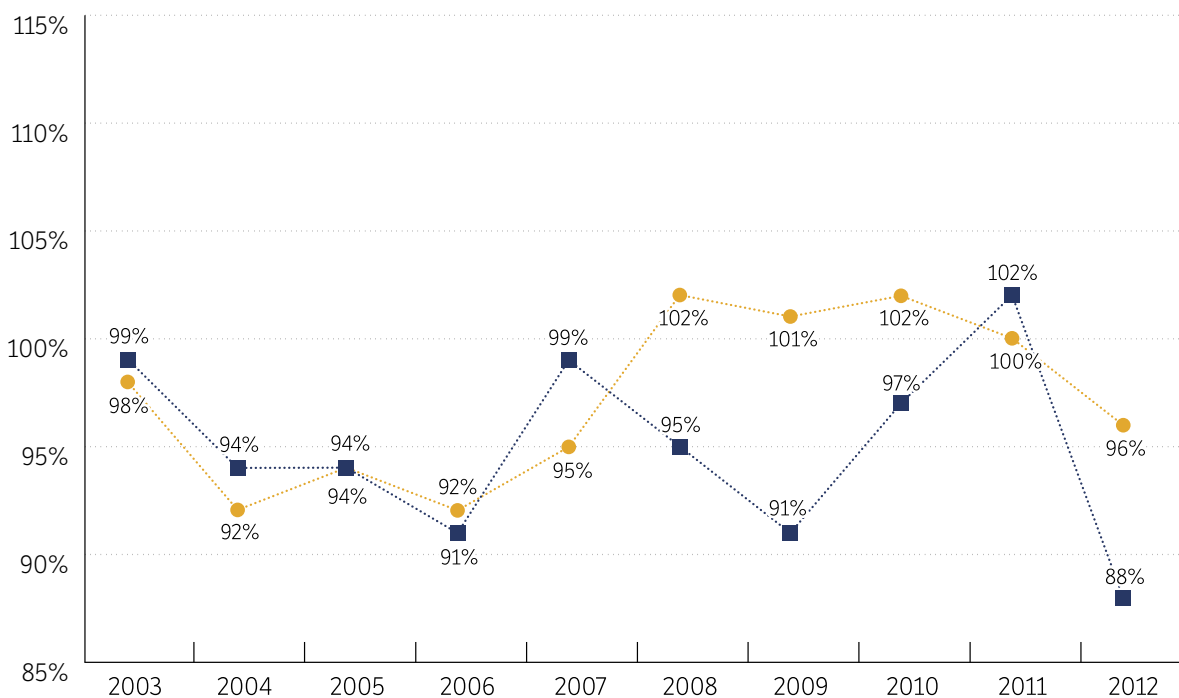
Profitability via SGI CANADA's combined ratio

At its most basic level of operation, an insurance company collects premiums from policyholders to pay for claim and operating expenses. Comparing total claim and operating expenses to net premiums earned is an indicator of the soundness of underwriting practices (writing profitable business). When an insurance company's combined ratio is less than 100%, it has an underwriting profit. SGI CANADA's ability to successfully understand the needs of its customers and provide the right products for their needs should increase profitability.

SGI CANADA targeted a consolidated combined ratio of 97.6% in 2012, and exceeded that target with an actual consolidated combined ratio of 88.4%. In 2012, all operating jurisdictions posted better than planned underwriting results due primarily to fewer than anticipated claim costs. Saskatchewan benefited from both a lower number of claims than expected and more favourable summer storm costs than anticipated.

The Corporation's average combined ratio over the previous 10-year period was 95%, compared to the industry average of 97%.

P&C Industry vs. SGI CANADA Consolidated Combined Ratio



Source: SGI CANADA and MSA Research

*2012 - Industry Estimate

● Industry Average ■ SGI CANADA Consolidated

In 2013, SGI CANADA will measure profitability on the balanced scorecard using its after-tax return on equity, which measures profit in relation to the investment in the Corporation. A target of 12.6% has been established as discussed below.

We make every service experience excellent for everyone doing business with SGI

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

The following table summarizes the key performance indicators in the balanced scorecard to monitor customer and broker service:

Legend: ● achieved ○ not achieved

Measure	2012 Target	2012 Result	2013 Target
Broker service satisfaction	90% rate as same or better	● 92.9%	Policy renewal rate
Claim service satisfaction survey result (consolidated)	90%	● 91%	

Broker service satisfaction

SGI CANADA does not interact directly with consumers at the time of purchase. Instead, it relies on independent broker partners, who hold contracts with multiple insurance companies. Therefore, successful relationships with independent brokers are essential to the Corporation's success, as they have direct experience with the service each company provides. SGI CANADA aims for 90% of its brokers to rate the Corporation the same or better than its competition. This target was met in 2012 with 92.9% of brokers rating the Corporation the same or better than its competition.

In 2013, SGI CANADA will assess its ability to deliver on broker expectations using the Corporation's policy renewal rate. If SGI CANADA is providing excellent service and products, it is anticipated that brokers will continue to place existing business with the Corporation. SGI CANADA will continue to monitor broker satisfaction in 2013, but separately from the balanced scorecard.

Claim service satisfaction survey results (consolidated)

When a consumer purchases an insurance policy, they are purchasing security that the insurance company will be there for them in the event of a loss. An insurance company's main point of contact with policyholders is at the time of a claim, and the claim experience is a key part of customers' perceptions of the company. Therefore, it is essential to know whether SGI is providing a positive claim experience. Its key measure for claim service is semi-annual claim customer service surveys. The Corporation targets a claim customer satisfaction rating of 90%, which was met in 2012.

In 2013, SGI CANADA will assess its ability to deliver on customer expectations using the Corporation's policy renewal rate. If customers receive excellent service and products from SGI CANADA, it is anticipated that they will renew their existing policies. SGI CANADA will continue to monitor claims experience using customer surveys in 2013, but separately from the balanced scorecard.

We operate to benefit customers, owners and their communities

SGI was created in the mid-1940s to respond to the insurance needs of Saskatchewan residents. At that time, many insurance companies had left Saskatchewan, and those remaining were not always providing adequate service or fair prices to customers. Since then the needs of Saskatchewan customers have evolved, and the Corporation has evolved to meet these needs. SGI CANADA's operations have also expanded beyond Saskatchewan – requiring the Corporation to also evolve to meet the needs of out-of-province customers.

While SGI is focused on customers, as an insurance company, this first requires financial stability. Adequate capitalization is key to supporting all of SGI CANADA's objectives, but, in particular, its goal to optimize geographic diversification. At the same time, the Corporation is conscious of the need to provide an appropriate return on investment to its shareholder.

SGI CANADA's success with respect to benefiting the people of Saskatchewan is assessed using the following measures:

Legend: ● achieved ○ not achieved

Measure	2012 Target	2012 Result	2013 Target
Capital adequacy (Minimum Capital Test)	250%	● 250%	250%
SGI CANADA after-tax return on equity	11.6%	● 30.7%	12.6%

Capital adequacy (Minimum Capital Test)

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

The following table shows MCT results by legal entity:

Company	December 31, 2012	December 31, 2011
SGI CANADA (consolidated)	250%	222%
SGI CANADA Insurance Services Ltd. (consolidated)	345%	295%
Coachman	314%	268%
ICPEI	347%	269%

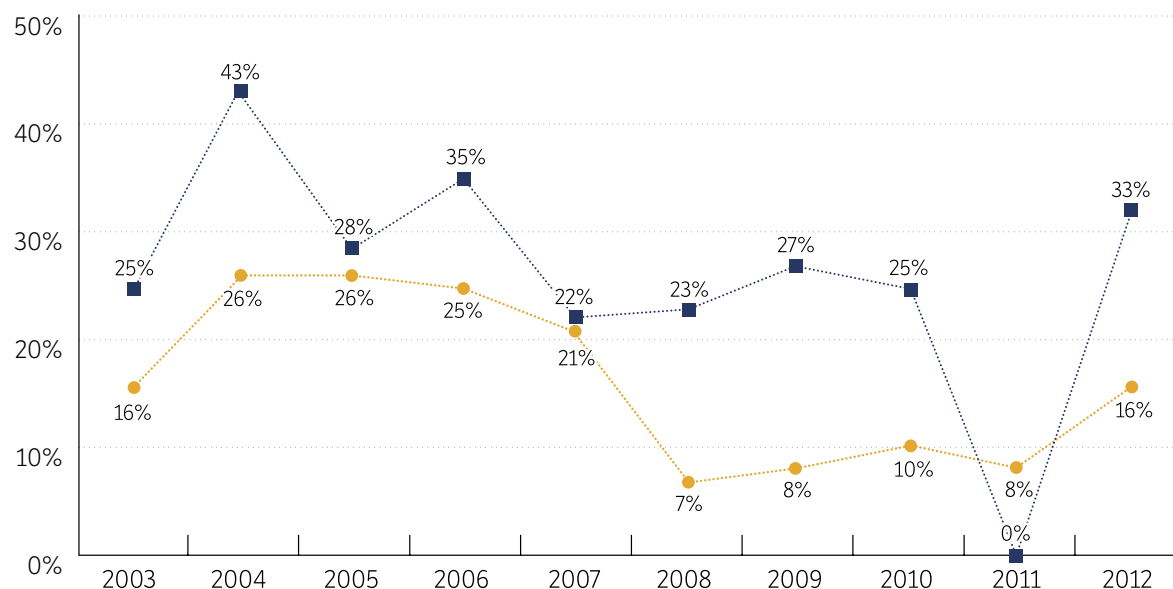
All companies have an MCT above the regulatory supervisory target at the end of 2012. The significant profit earned in 2012 allowed the Corporation to maintain its MCT target of 250%, while declaring a \$52.0 million dividend to its parent, Crown Investments Corporation. This is the highest annual dividend in the Corporation's history.

SGI CANADA after-tax return on equity

Return on equity (ROE) indicates the annual return on the investment made by SGI CANADA's shareholder, which is one of the benefits the Corporation provides to its owners and the people of Saskatchewan. It is calculated as the ratio of net income after income taxes to the average equity for the year.

SGI CANADA's significant net income of \$82.1 million resulted in a strong 30.7% after-tax return on equity in 2012, well above the 11.6% target. SGI CANADA's ROE has been favourable compared to the industry over the years. The Corporation's 10-year average pre-tax ROE is 26%, while the industry averaged 16% for the same time period. Note that because SGI CANADA does not pay income tax on its Saskatchewan operations, the most relevant ROE comparison to the industry is pre-tax.

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



Source: SGI CANADA and MSA Research

*2012 - Industry Estimate

● Industry Average ■ SGI CANADA Consolidated

For 2013, the target is to achieve a consolidated after-tax ROE of 12.6%, based on the Corporation's consolidated 2013 budget.

We continually improve how SGI operates

SGI CANADA understands that to be able to meet customer needs and expectations, it must continually improve its operations – from being more efficient to ensuring employees have the tools to be effective in their jobs. To continuously improve, SGI CANADA strives to achieve the following strategies: building an information savvy business; attracting and retaining employees who help achieve goals; creating an environment that encourages employees to be innovative, creative, accountable and strategic; and, improving processes, productivity and efficiency. The balanced scorecard measures used to monitor SGI CANADA's success with respect to continually improving how the Corporation operates were:

Legend: ● achieved ○ not achieved

Measure	2012 Target	2012 Results	2013 Target
Engagement and enablement score compared to the North American average	At or above average	○ Three points below average	Two points below average
External diversity hiring	25%	● 35.4%	n/a
Administrative expense ratio	12.1%	● 12.1%	12.9%
Implement Business Intelligence	Phase 2	On target	n/a

Engagement and enablement score

To continually improve its operations, SGI CANADA needs the support of dedicated and engaged employees. It also needs to provide an environment that enables employees to do their best work. An employee engagement and enablement score, derived from the Corporation's annual employee survey, is used to measure whether employees are engaged and whether they have the environment they need to execute the strategic plan. SGI CANADA was under target in 2012, but aims to reduce this gap in 2013. This balanced scorecard measure was new in 2012, and, therefore, the Corporation now has a baseline to measure progress. The 2013 target is to be two points below the average engagement and enablement score, based on participating North American corporate and public sector organizations.

External diversity hiring

Provincial and corporate demographics demonstrate the need to recruit a workforce that is representative of the population. SGI CANADA targeted 25% of new hires to be from designated groups and met this target with 35.4%. The Corporation continues to target 25% recruitment of designated group members in 2013, but will monitor its success separately from the balanced scorecard.

Administrative expense ratio

To ensure effective use of resources, all aspects of the business are expected to manage their allocated administrative expense budget such that the Corporation remains within its administrative expense ratio. The ratio is total administrative expenses expressed as a percentage of net premiums earned. The actual administrative expense ratio is compared to budgeted ratios within the specified time period. SGI CANADA met its target for 2012 with a 12.1% administrative expense ratio. Analysis of administrative expenses and the administrative expense ratio is provided in the following 2012 Financial Results section. The target for 2013 is 12.9%.

Implementation of business intelligence

The Corporation has accumulated a large database of customer information in its insurance system that provides valuable information in assessing insurable risks. However, much of the Corporation's data can be difficult to access. Data collection and reporting is not always consistent, and the existing reporting environment can be rigid, making data difficult to view and analyze. This ultimately reduces the speed at which information can be produced and decisions can be made.

In 2012, SGI CANADA continued the implementation of its business intelligence project to more effectively use the data its insurance system stores in order to improve data analysis and make better strategic decisions. Project progress is measured against timelines and budget, and the project is currently on target. Work on the business intelligence project will continue in 2013; however, progress will be monitored at a project level, rather than on the balanced scorecard.

CAPABILITY TO EXECUTE STRATEGIES

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

Employees

SGI CANADA's management team is experienced and knowledgeable about the Canadian P&C insurance market. Many of the Corporation's employees are long-term with an average term of approximately 15 years of employment, and the staff turnover rate for the last five years has averaged 6%. Due to this long tenure and low turnover, the Corporation has significant expertise in the core underwriting and 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. This expertise is also crucial to its success in markets outside Saskatchewan. Maintaining this expertise is key to meeting the challenges that will present themselves in the future.

SGI CANADA is projecting a significant level of retirements in the near future as a large portion of its workforce reaches retirement age. In fact, nearly 33% of the Corporation's employees are expected to retire, or be eligible for retirement, by 2020. The challenge is to recruit and retain the best people to ensure the longevity, growth and maintenance of SGI CANADA's competitive position for the future. The Corporation has developed a workforce-planning model that includes Aboriginal employment, youth employment, management development and expanded performance management strategies. This model will assist in transitioning expertise as retirements occur.

SGI CANADA's succession planning process focuses on (i) ensuring current senior management positions have backups; and (ii) identifying high-performing staff who have potential for more senior roles. The corporate diversity/recruitment strategy was updated in 2012 to enhance partnerships with outreach agencies and educational institutions, and the Corporation's visibility as a preferred employer.

SGI and SGI CANADA Insurance Services Ltd., and the Canadian Office and Professional Employees' Union, Local 397, are within a four-year Collective Bargaining Agreement, running from January 1, 2010, to December 31, 2013.

Brokers

SGI CANADA sells its products through a network of 237 independent brokers who conduct business from 371 offices throughout Saskatchewan, and 259 brokers who operate 607 offices throughout the rest of Canada. In order to continue delivering insurance products that customers desire, SGI CANADA works closely with brokers to obtain input and advice on the changing needs of customers. With the assistance of brokers, SGI CANADA is able to take a lead in delivering innovative insurance products to customers.

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

Technology

SGI CANADA relies on technology and systems to maintain its in-house insurance system. The Corporation has developed a large database in this system that provides valuable information in assessing insurable risks. Management reporting systems are utilized to ensure management receives timely information regarding operations and to provide complete and accurate reporting to stakeholders and regulators. The Corporation monitors and responds to changes in technology to ensure that key areas are upgraded in a timely manner.

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

As discussed previously, the Corporation's business intelligence project further leverages the data in the Corporation's insurance system in order to produce timely, sophisticated and consistent information for the decision-making support required to succeed in a competitive environment. This project is being phased in, and is expected to be completed in 2015.

Financial Capital

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

The Corporation's main sources of capital are retained earnings and cash injections in the form of equity advances from its parent, CIC. These equity advances form the Corporation's equity capitalization. There were no new equity advances to SGI from its parent in 2012 and there were no changes to the capital of the Corporation's subsidiaries during the same time period.

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

The significant profit earned in 2012 allowed the Corporation to declare a dividend of \$52.0 million in 2012 (2011 – nil). This represents the highest annual dividend in the Corporation's history. The Corporation's dividend policy is structured to allow the Corporation to maintain its target MCT of 250%.

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 2012, SGI CANADA generated consolidated operating cash flows of \$99.4 million. This cash flow is invested so that it is available to pay claims as they come due and to meet any dividend requirements to its parent, CIC.

For the cash flow the Corporation retains, its enabling legislation requires it to follow the same investment criterion that federally regulated P&C companies must follow. This means the majority of the Corporation's investments are in highly liquid securities that can be sold in a timely manner in order to satisfy financial commitments. As at December 31, 2012, 50.5% (2011 – 49%) of the investment portfolio was in treasury bills and highly liquid bonds and debentures issued by the federal and provincial governments. The Corporation also invests in corporate bonds, a pooled mortgage fund, publicly traded North American equities and a non-North American pooled equity fund.

2012 FINANCIAL RESULTS

For the Year Ended December 31, 2012

Overview of operations

SGI CANADA's consolidated net income before income taxes and non-controlling interest of \$88.7 million in 2012 provided a strong pre-tax return on equity of 33.0%, compared to the \$1.1 million profit earned in 2011. Strong underwriting results from all jurisdictions, in combination with improved investment earnings, contributed to the successful results, with the 2012 underwriting profit of \$55.6 million being the highest in SGI CANADA's history. This a significant turnaround from the weak return in 2011, which suffered from poor underwriting results stemming from significant summer storm claim costs and a high number of large property losses out of province.

Investment earnings increased \$23.6 million from 2011, consistent with the improvement in global investment markets. Equities generated strong returns, particularly in the U.S. and international markets. While stable interest rates resulted in relatively constant interest income, capital gains decreased resulting in lower overall fixed income returns as compared to the 2011 period.

Pre-tax profit (loss) by operating segment

(thousands of \$)

	2012	2011	Change
SGI CANADA - Saskatchewan	\$ 63,426	\$ (716)	\$ 64,142
Coachman - Ontario	12,406	4,387	8,019
SGI CANADA - Alberta	4,584	(1,216)	5,800
ICPEI - Maritimes	4,577	(346)	4,923
SGI CANADA - Manitoba	3,681	(1,033)	4,714
Pre-tax profit	\$ 88,674	\$ 1,076	\$ 87,598

All operating segments were profitable in 2012. Saskatchewan operations provided 71.5% of the pre-tax profit in 2012, with out-of-province business contributing 28.5%. All operating segments had profitable combined ratios less than 100%, and improved investment earnings.

Premium revenue

Consolidated net premiums written in 2012 increased by \$20.1 million or 4.3% compared to 2011.

Net premiums written by operating segment

(thousands of \$)

	2012	% of net premium written	2011	% of net premium written
SGI CANADA - Saskatchewan	\$ 352,462	71.7%	\$ 335,838	71.2%
SGI CANADA - Manitoba and Alberta	60,418	12.3%	51,178	10.8%
Coachman - Ontario	55,715	11.3%	63,036	13.4%
ICPEI - Maritimes	23,223	4.7%	21,594	4.6%
Net premiums written	\$ 491,818	100.0%	\$ 471,646	100.0%

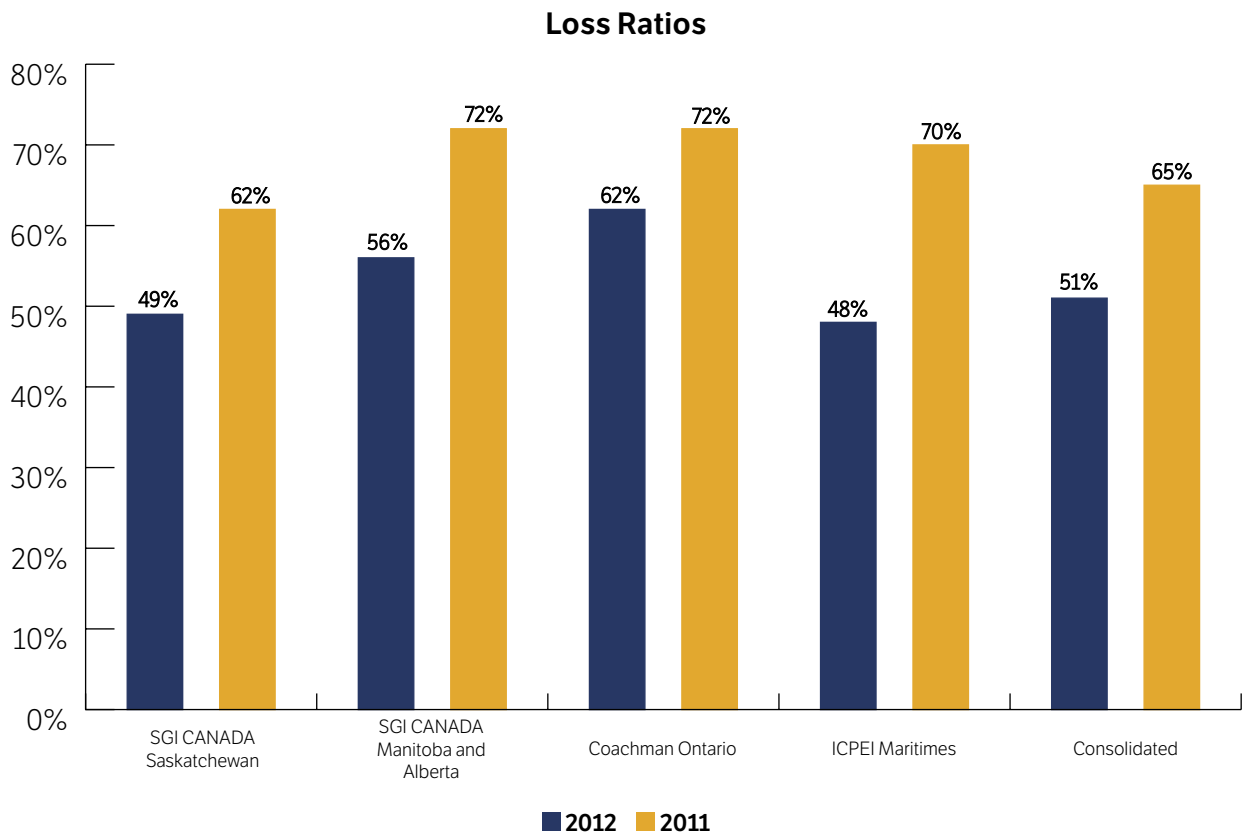
Net premiums written in Saskatchewan increased 5.0% for the year, while out-of-province operations increased written premium by 2.6% compared to the prior year. The growth in Saskatchewan premiums was across all lines of business. Growth in out-of-province premiums was driven by a 25.9% increase from Alberta (primarily from auto), Nova Scotia (12.3% growth) and New Brunswick (10.2% growth).

Overall, out-of-province growth was significantly lower than experienced in previous years, due to a decline in Ontario premiums of 11.6%. Coachman experienced a decline in auto policies in force throughout 2012. This was due primarily to rate increases meant to improve the profitability of what had been a poor performing product line, and slow the significant growth being experienced in prior years. In addition, competition in Ontario auto increased during the year as other insurers were getting more experience with the new auto reforms put in place in late 2010 and experiencing improved profitability. While premium levels declined at Coachman, underwriting profitability of the operating segment has improved.

When viewed from a consolidated line of business basis, the Corporation's split of business in 2012 was approximately 56% property and 44% auto, consistent with 2011.

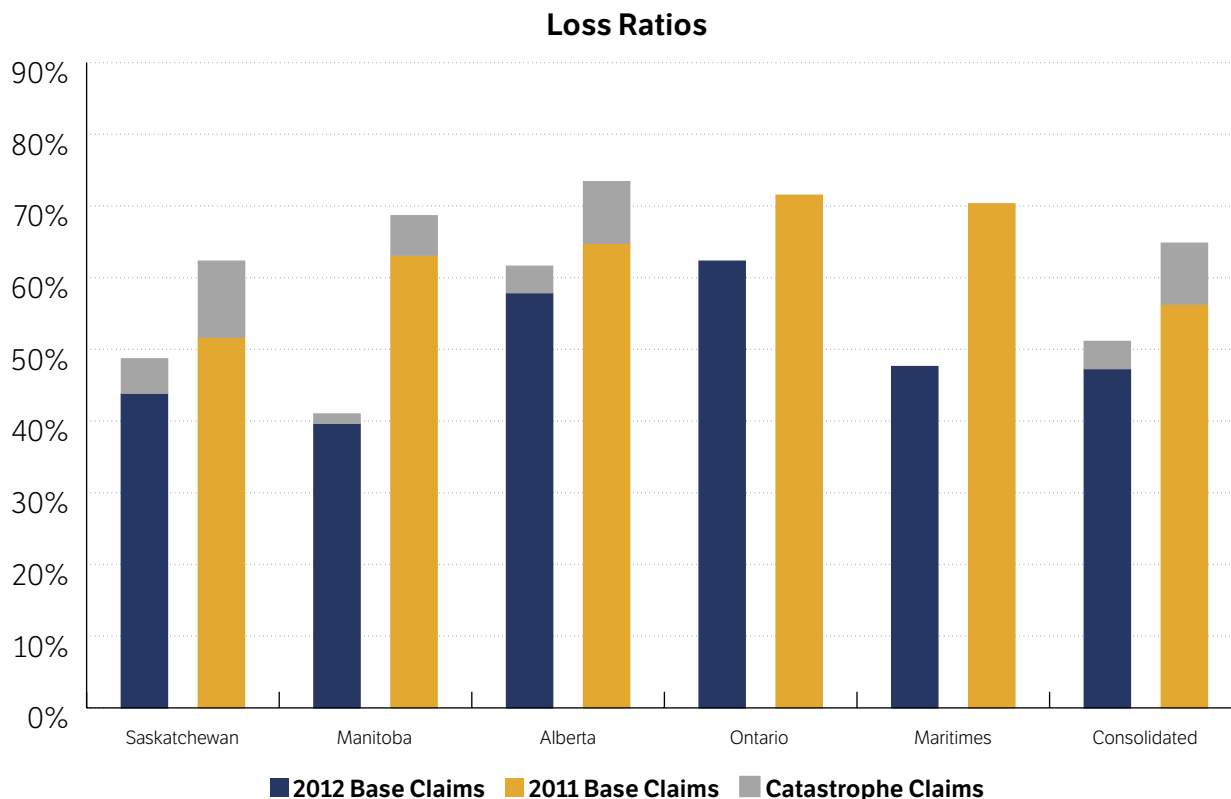
Claims incurred

Consolidated claims incurred totalled \$246.2 million, a decrease of \$44.4 million, or 15.3%, from 2011. Each operating segment had a lower loss ratio than in 2011, resulting in the consolidated loss ratio decreasing to 51.0%, compared to 64.7% in 2011. The following chart summarizes the loss ratios by jurisdiction:

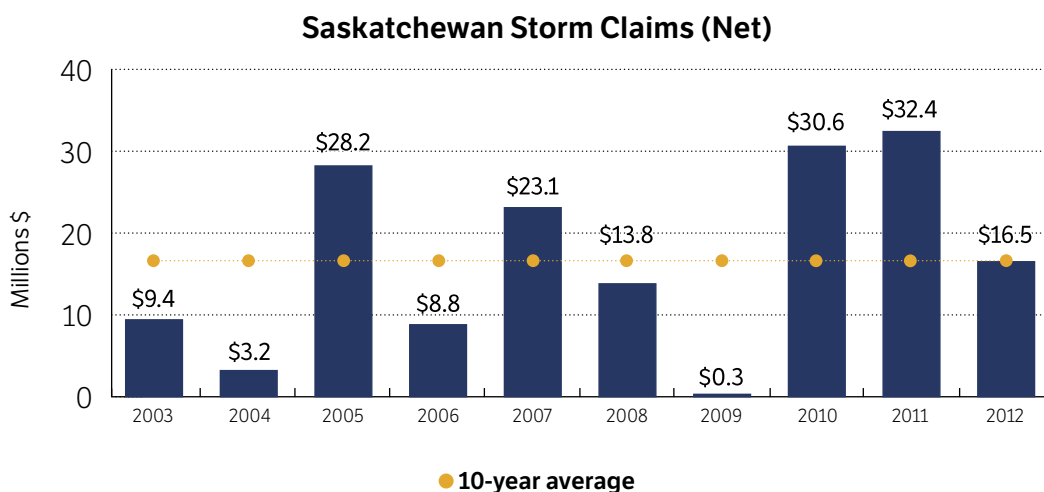


Claim costs related to Saskatchewan operations decreased \$34.2 million from \$202.0 million to \$167.8 million in 2012 with a corresponding improvement in the loss ratio of 13.7% to 48.5%. The improvement was due to a combination of lower personal line claim costs and lower storm costs in 2012. Personal lines improved due to a lower number of claims and fewer large losses, while storm activity in 2012 resulted in an estimated \$16.5 million of claims, compared to \$32.4 million in 2011.

The impact of storm costs is further illustrated in the table below, detailing components of the 2012 loss ratio between storm and non-storm claim costs:



The cost of the 2012 storms in Saskatchewan is estimated at \$16.5 million, compared with the 10-year average of \$16.6 million. After removing catastrophe claims, the loss ratio in 2012 is 43.8% compared to 51.6% in 2011. The following graph shows the significance of storm claims over the past 10 years and demonstrates the increasing unpredictability:



Manitoba's loss ratio decreased to 40.9% from 68.5% in 2011, due primarily to lower claim counts and fewer large losses in personal and agro lines.

Alberta's loss ratio is 11.8% lower than the prior year at 61.5% compared to 73.3% in 2011. This was due to favourable development on prior year claims and lower storm claims.

Ontario's loss ratio decreased to 62.3% in 2012 (2011 – 71.5%), with improvements in loss ratios across all lines of business. Personal and commercial lines improved due to a lower number of claims and fewer large losses. While auto claim costs increased, the improvement in the loss ratio was due to higher premium earnings.

The loss ratio for the Maritimes operations decreased to 47.6% in 2012 (2011 – 70.3%), as all lines experienced fewer large losses.

Expenses excluding claims incurred

Expenses excluding claims incurred were \$181.0 million (2011 – \$166.8 million) for the year, an increase of \$14.2 million or 8.5%. The increase was primarily attributable to higher broker commissions and premium taxes, due to higher premiums, as the commission and premium tax ratio of 25.4% remained similar to the prior year (2011 – 25.0%). The small increase in the ratio is attributable to higher broker bonuses being accrued in 2012, resulting from the strong underwriting profit during the year. While administrative expenses increased \$4.4 million, or 8.2%, in 2012, the administrative expense ratio remained relatively consistent, growing slightly to 12.1% from 12.0% in 2011. The growth in administrative expenses was due primarily to higher salaries and benefit costs. Also included in the 2012 underwriting results is a \$127,000 loss related to participation in the Facility Association (2011 – loss of \$238,000).

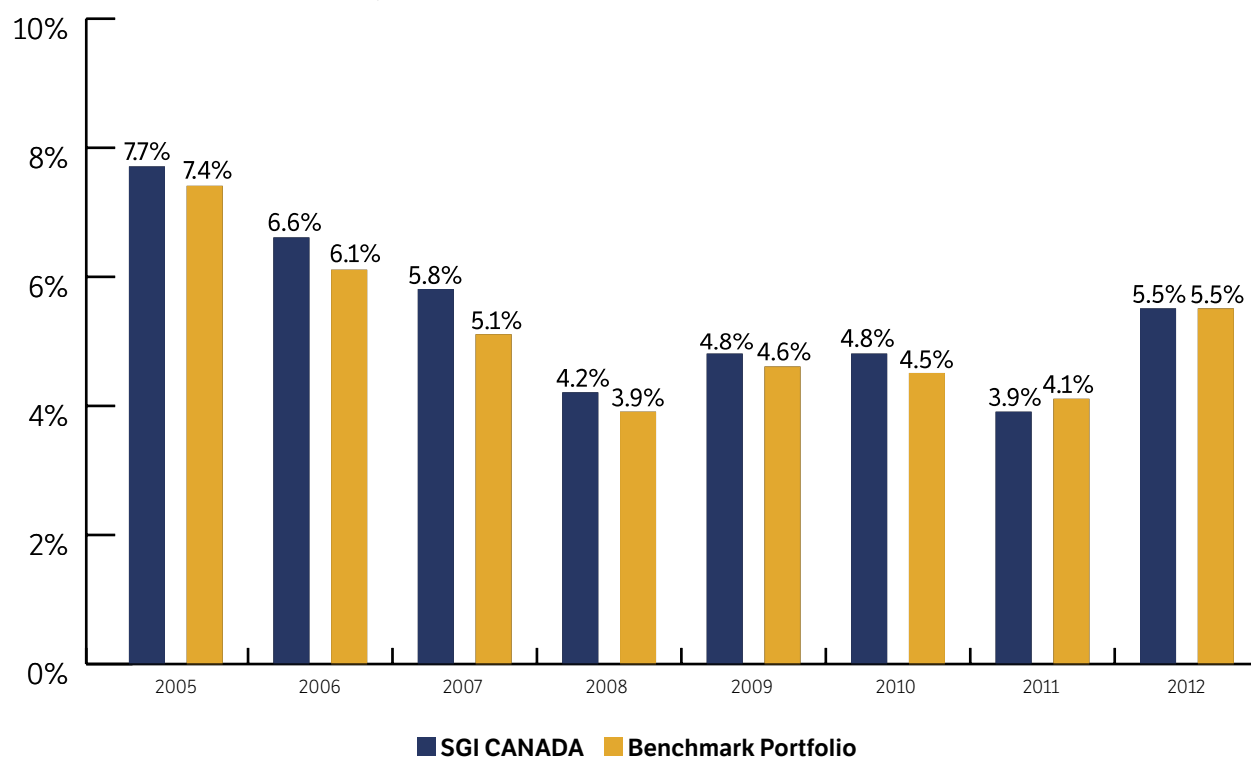
Investment earnings

In 2012, investment earnings were \$33.1 million and represented 6.4% of total revenues (2011 – \$9.5 million or 2.1% 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, pooled fund distributions and both realized and unrealized capital gains and losses on investments.

The primary investment performance objective of the portfolio is to earn a market-based return in excess of a benchmark portfolio return. The asset mix for the benchmark portfolio is set by the Board to be consistent with SGI CANADA's risk profile and is reviewed on an annual basis. In addition, each subsidiary has its own investment portfolio with a policy consistent with its risk profile. The investment manager is permitted to vary the actual asset class weights around the benchmark portfolio, within the policy asset mix guidelines. The benchmark portfolio return is calculated by applying the benchmark portfolio weights to capital market index returns. While the portfolio's rate of return is compared to the benchmark portfolio return on a quarterly basis, the performance measure is expected to be met over four years, a long enough period to capture a full market cycle. This longer-term measure is appropriate as it recognizes that the effectiveness of investment management styles vary depending on the market environment.

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

Four-year Market-Based Returns to December 31



For purposes of portfolio management, a market-based result is calculated that captures all interest and dividend income, as well as the impact of the change in market value of investments, both realized and unrealized. In 2012, the portfolio's market-based return was 4.3% compared to a 0.5% return in 2011. The 2012 return was higher than experienced in 2011 due to strong equity performance, particularly from U.S. and non-North American equities, which added to the positive returns generated from the fixed income portfolio. Similar performance trends were seen in the portfolios for each operating segment.

The following table shows the index returns for the asset classes in which the various portfolios are invested:

Asset Class	Benchmark Index	Annual index returns ending December 31 (%)	
		2012	2011
Canadian equities	S&P/TSX Composite	7.2	-8.7
U.S. equities	S&P 500 (\$C)	13.4	4.6
Non-North American equities	MSCI EAFE (\$C)	14.7	-10.0
Short-term bonds	DEX Short-term Bond	2.0	4.7

The volatile environment for equity markets continued into 2012. After a volatile first half of 2012, equity markets recovered generating strong returns for the year. The year began with persistent worries about low growth in Europe and the U.S., a slowing Chinese economy and high consumer debt levels in Canada. Developed world central banks were forced to affirm their monetary policy backstops through continued low interest rates. This created a positive climate for equity markets, despite contentious U.S. elections, the U.S. "fiscal cliff" and yet another debt ceiling debate. Improved economic fundamentals, such as a growing U.S. housing market and the growth in cheap domestic energy, helped spur equity prices further during the second half of 2012.

Interest rates in Canada remained relatively stable over the course of 2012. Short-term rates rose while long-term rates fell slightly resulting in a flatter yield curve. Overall, interest rates remained at multi-generational lows in 2012.

Income taxes

The Corporation's out-of-province legal entities, SGI CANADA Insurance Services Ltd., Coachman and ICPEI, are subject to corporate income tax, while SGI CANADA is not. On a consolidated basis, SGI CANADA recorded a tax expense of \$6.6 million in 2012 compared to an expense of \$635,000 in 2011. Excluding Saskatchewan operations, which are non-taxable, this results in a tax rate of 26.0%, compared to the expected tax rate of 26.6%. The primary reason for the difference is Canadian dividend revenue that is not subject to tax.

Consolidated Statement of Cash Flows

(thousands of \$)	2012	2011	Change
Operating activities	\$ 99,355	\$ 84,787	\$ 14,568
Investing activities	(114,859)	(57,769)	(57,090)
Financing activities	(10,007)	(15,462)	5,455
Change in cash and cash equivalents	\$ (25,511)	\$ 11,556	\$ (37,067)

Operating activities

Cash from operations contributed \$99.4 million in 2012 compared to \$84.8 million in 2011. The strong operating cash flow is largely from continued growth in policies written.

Investing activities

Each legal entity's excess cash from operating activities is invested in its own investment portfolio. The investment manager actively trades each investment portfolio in the capital markets following the restrictions set out in each legal entity's Statement of Investment Policies and Goals. For 2012, the investment manager, on a consolidated basis, generated cash through proceeds from the sale of investments of \$593.0 million (2011 – \$555.2 million), and reinvested into investments \$702.9 million (2011 – \$609.9 million). The additional funds for reinvestment in 2012 were from the cash generated from operations and the investment of excess cash equivalent money market investments into longer term investments. In addition, there were \$4.9 million in purchases of property and equipment in 2012.

Financing activities

Financing activities related solely to dividends paid during the year of \$10.0 million (2011 – \$15.5 million). While the 2012 dividend was \$52.0 million, a large portion remained unpaid at the end of the year.

Cash and cash equivalents

Cash and cash equivalents decreased by \$25.5 million, due to a decrease of \$27.0 million in cash equivalent money market investments used to fund purchases of longer term investments, property and equipment and payment of dividends during the year.

Consolidated Statement of Financial Position

(thousands of \$)	2012	2011	Change
Total assets	\$ 1,073,598	\$ 981,848	\$ 91,750
Key asset account changes:			
Investments	751,096	632,332	118,764
Deferred policy acquisition costs	65,357	61,325	4,032
Unpaid claims recoverable from reinsurers	45,501	54,600	(9,099)
Cash and cash equivalents	13,854	39,365	(25,511)

Investments

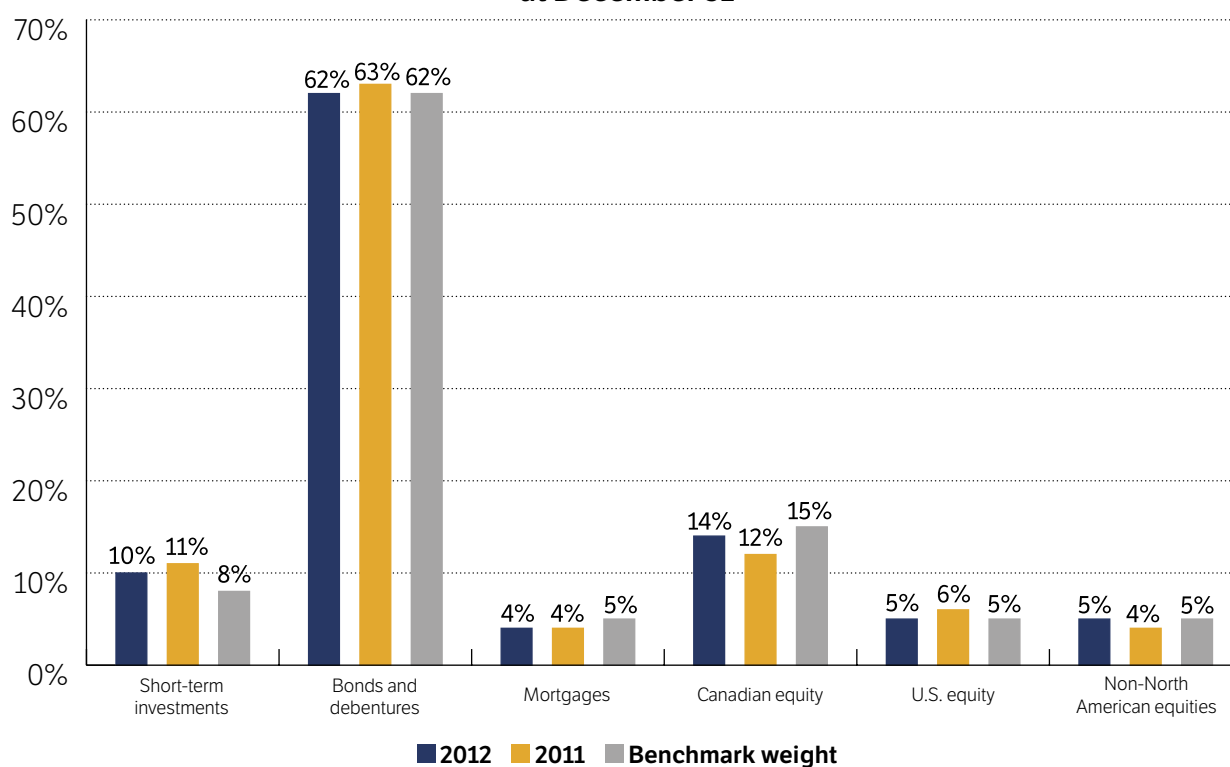
The carrying value of investments increased by \$118.8 million during the year, primarily the result of incremental purchases of \$109.9 million funded through cash flow from operations in addition to investing excess cash equivalent money market investments.

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

The asset mix strategy is formally documented in the Statement of Investment Policies and Goals. In addition to capturing the asset mix strategy, this document provides guidance on permissible investments, quality and quantity guidelines, conflicts of interest, related party transactions and investment performance expectations, among others. Management monitors and enforces compliance with the investment policy. No material compliance deviations were noted in 2012.

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

**SGI CANADA Asset Mix (%)
at December 31**



The investment policy review in 2012 resulted in no changes to the policy asset mix guidelines and benchmark portfolio weights for the SGI CANADA, SCISL, Coachman and ICPEI investment portfolios. The Corporation continues to monitor its fixed income investments to ensure the assets are relatively well matched to their associated liabilities. As the low yield environment is expected to continue, the Corporation is examining additional exposure to mortgages within the investment portfolios. Mortgages provide additional yield with only a small increase in downside risk while also maintaining a relatively low duration in the event yields begin to rise.

Deferred policy acquisition costs

Deferred policy acquisition costs increased \$4.0 million during the year. The increase is due to an increase in prepaid commissions and prepaid premiums, a direct result of increased premium volume. There was also a \$1.4 million elimination of a previous premium deficiency related to Ontario auto products that contributes to the increase.

Unpaid claims recoverable from reinsurers

Unpaid claims recoverable from reinsurers decreased \$9.1 million in 2012, due primarily to lower storm claim costs to recover from reinsurers than in 2011.

Cash and cash equivalents

Cash and cash equivalents at December 31, 2012, was \$13.9 million (2011 – \$39.4 million), a decrease of \$25.5 million. The sources of the change in cash and cash equivalents for the year are discussed in the above section Consolidated Statement of Cash Flows. Cash equivalents consist of money market investments such as treasury bills, banker's acceptances, discount notes or other liquid short-term investments that have a maturity of 90 days or fewer from the date of acquisition.

(thousands of \$)	2012	2011	Change
Total liabilities	\$ 789,453	\$ 725,788	\$ 63,665
Key liability account changes:			
Dividend payable	41,993	–	41,993
Accounts payable and accrued liabilities	68,130	52,671	15,459
Unearned premiums	275,410	264,926	10,484
Provision for unpaid claims	369,137	374,059	(4,922)

Dividends payable

Dividends payable to Crown Investments Corporation (CIC) are \$42.0 million at the end of 2012. As a result of the strong net income in the year, the Corporation will pay a record \$52.0 million dividend to its shareholder for 2012. This reduces its Minimum Capital Test ratio to 250%, consistent with its dividend policy.

Accounts payable and accrued liabilities

The \$15.5 million increase in accounts payable in the current year is largely the result of an additional \$3.8 million in broker bonus accruals made in 2012 and an additional \$4.5 million in income tax payable, resulting from better financial results. In addition, there is an \$8.6 million payable to the Auto Fund that cleared in January 2013.

Unearned premiums

Unearned premiums increased \$10.5 million, a direct result of growth in premiums written.

Provision for unpaid claims

This liability reflects the estimated ultimate cost of claims reported but not settled, along with claims incurred but not reported. The December 31, 2012, provision for unpaid claims decreased \$4.9 million, or 1.3%, from the end of the previous year. The 2011 provision was higher due to unpaid claims related to storm claims and other large property losses experienced. This was partially offset by additional exposure related to the Corporation's continued auto policy growth, particularly outside Saskatchewan.

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

(thousands of \$)	2012	2011	Change
Total equity	\$ 284,145	\$ 256,060	\$ 28,085
Key equity account changes:			
Retained earnings	200,991	173,710	27,281
Non-controlling interest	3,154	2,350	804

Retained earnings

The \$27.2 million increase in retained earnings is attributable to the \$81.2 million consolidated net income less dividends declared of \$52.0 million less the other comprehensive loss of \$2.0 million. The other comprehensive loss represents actuarial losses associated with the Corporation's defined benefit pension and service recognition plans, related primarily to lower than anticipated investment returns.

Non-controlling interest

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

For the three months ended December 31, 2012

SGI CANADA prepares public quarterly financial reports for the first three quarters of each year. These reports are available on its website at www.sgicanada.ca. Click on the About link and follow the links in the Publications section. The following is the Corporation's analysis of the 2012 fourth quarter results:

SGI CANADA recorded consolidated net income of \$24.1 million for the fourth quarter, consistent with net income of \$24.6 million in 2011.

Consolidated net premiums earned increased \$6.1 million, or 5.2%, compared to the fourth quarter of 2011. All jurisdictions except for Ontario generated increases in premium earnings compared to 2011, with out-of-province business contributing \$1.9 million and Saskatchewan operations contributing \$4.2 million. Out-of-province business growth was driven by the Alberta market.

Claims incurred were \$54.4 million for the fourth quarter of 2012, \$2.0 million or 3.6% lower than 2011 (\$56.4 million). The decrease in the quarter was due primarily to favourable development on prior year commercial line claims. Overall, the consolidated loss ratio of 43.7% in the quarter improved from 47.7% in 2011.

Other expenses for the fourth quarter of 2012, excluding claims incurred, were \$49.4 million, compared to \$43.6 million in 2011. The most significant contributor to the increase was commissions and premium taxes of \$33.8 million (2011 – \$28.4 million) for the quarter. The increase corresponds with the growth in premiums written and the higher accrued broker bonuses in 2012.

Quarterly Consolidated Financial Highlights

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

(thousands of \$)	2012					2011				
	Q 4	Q 3	Q 2	Q 1	Year	Q 4	Q 3	Q 2	Q 1	Year
Net premiums earned	124,280	121,540	119,290	117,706	482,816	118,161	114,512	109,338	107,053	449,064
Claims incurred	54,371	75,677	68,250	47,938	246,236	56,420	102,204	76,710	55,306	290,640
Net income (loss)	24,065	14,851	3,497	39,689	82,102	24,633	(40,543)	(4,591)	20,942	441
Cash flow from (used in) operations	33,187	41,542	41,170	(16,544)	99,355	24,759	38,204	22,720	(896)	84,787
Investments	751,096	723,889	669,056	651,538		632,332	603,970	612,336	585,076	
Provision for unpaid claims	369,137	384,501	371,603	358,790		374,059	388,784	334,388	312,852	
Minimum Capital Test	250%	268%	269%	280%		222%	180%	232%	258%	

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

- Net premiums earned generally increases each quarter during the year, as can be seen in the quarterly results for both 2012 and 2011.
- Claims incurred typically peak in both the second and third quarters due to summer hail storms and flooding that can occur. In 2012, there was \$16.5 million in storm claims compared to 2011 storm costs of \$32.4 million.
- The Corporation typically generates positive cash flows from operations each quarter, except for the first. In the first quarter of each year, there is a negative cash flow that is a result of the payment of the Corporation's annual premium taxes and generally more claims paid out during the quarter.

IMPACT OF NEW ACCOUNTING STANDARDS

Future accounting policy changes

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

Insurance Contracts

IASB issued exposure draft ED/2010/8 Insurance Contracts (the ED) on July 30, 2010. The ED proposes a new standard on accounting for insurance contracts, which would replace IFRS 4, *Insurance Contracts*. The proposals represent the first comprehensive IFRS accounting model for insurance contracts and are expected to have a significant impact on the financial reporting of insurers. The IASB plans to issue a re-exposure document in the first half of 2013. A final standard is expected in 2014 with implementation not expected before 2017.

Financial Instruments

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

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

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

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

This standard is effective for annual periods beginning on or after January 1, 2015. While early adoption is permitted under the standard, the Office of the Superintendent of Financial Institutions (OSFI) has indicated that early adoption is not allowed. While the Corporation is not federally regulated, it generally follows OSFI's guidance in such matters.

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

Consolidated Financial Statements

IFRS 10, *Consolidated Financial Statements*, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard establishes control as the basis for consolidation and defines control as existing when an entity has power over the investee, is exposed to variable returns from its involvement with the investee, and has the ability to use its power over the investee to affect the returns. This standard is effective for annual periods beginning on or after January 1, 2013. The new standard is not expected to have a material impact on the Corporation's consolidated financial statements.

Disclosure of Interests in Other Entities

IFRS 12, *Disclosure of Interests in Other Entities*, is a new standard that specifies the minimum disclosures that must be provided for all forms of relationships with others including disclosures to be made in consolidated financial statements. This standard is effective for annual periods beginning on or after January 1, 2013. The new standard is not expected to have a material impact on the Corporation's consolidated financial statements.

Fair Value Measurement

IFRS 13, *Fair Value Measurement*, was issued by the IASB in May 2011. IFRS 13 replaces the fair value measurement guidance contained in various standards with a single source of fair value measurement guidance. This standard may impact the measurement of fair value for certain assets and liabilities as well as the associated disclosures. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The new standard is not expected to have a material impact on the Corporation's consolidated financial statements.

Employee Benefits

IAS 19, *Employee Benefits*, was issued by the IASB in September 2011. The revised IAS 19 eliminates the option to defer the recognition of actuarial gains and losses, requires immediate recognition of such gains and losses in other comprehensive income and includes requirements for additional disclosures. IAS 19 is effective for annual periods beginning on or after January 1, 2013. The new standard is not expected to have a material impact on the Corporation's consolidated financial statements.

Separate Financial Statements

IAS 27, *Separate Financial Statements*, was issued by the IASB in May 2011. The standard has been revised to remove the requirements relating to consolidated financial statements due to the issuance of IFRS 10. IAS 27 contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates to create one standard to deal with separate financial statements. IAS 27 is effective for annual periods beginning on or after January 1, 2013. The new standard is not expected to have a material impact on the Corporation's consolidated financial statements.

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 CANADA acts as the administrator of the Saskatchewan Auto Fund on behalf of the Province of Saskatchewan. SGI CANADA incurs administrative and claim adjustment expenses on behalf of the Auto Fund, which are charged to the Auto Fund directly or on the basis of specific distributions. Amounts incurred by SGI CANADA and charged to the Auto Fund were \$130.8 million (2011 – \$124.1 million).

Certain Board members are partners in organizations that provided \$11,000 (2011 – \$76,000) of professional services to the Corporation. These services were recorded in claims incurred and administrative expenses in the Statement of Operations. In addition, one Board member owns an organization that sells insurance policies of the Corporation. Premiums written during the year from this organization amounted to \$5.0 million (2011 – \$5.0 million) and the associated accounts receivable at December 31, 2012, were \$819,000 (2011 – \$834,000). Commissions related to these premiums were \$1.0 million (2011 – \$937,000). 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 22 to the consolidated financial statements.

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

Also, the Corporation and its subsidiaries, in the normal course of settling claims, settle some long-term disability claims by purchasing structured settlements (annuities) from various financial institutions for its claimants. This is a common practice in the P&C industry. The net present value of the scheduled payments at December 31, 2012, was \$57.9 million (2011 – \$57.5 million). The Corporation provides a financial guarantee to the claimant in the event of default by the financial institution on the payment schedule to the claimant. No default has occurred in the past on these payment schedules and the Corporation considers the likelihood of such default as being remote.

The Corporation has secured a long-term telecommunications contract with a related provincial Crown corporation that is scheduled to end in 2015. At December 31, 2012, the remaining commitment under this contract was \$2.1 million (2011 – \$790,000). 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 \$2.6 million in 2013 to \$150,000 in 2017.

CRITICAL ACCOUNTING ESTIMATES

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

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

Provision for unpaid claims

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

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

Unpaid claims recoverable from reinsurers

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

Income taxes

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

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

Employee future benefits

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

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

Further details of the Corporation's defined benefit plans are contained in note 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.

Mitigation: SGI CANADA monitors market developments closely, particularly in Saskatchewan, and has expanded its broker network in areas outside Saskatchewan where competitors have acquired brokers who sell SGI CANADA policies. The Corporation introduced new products into the personal and commercial markets, has developed eServices to improve the speed, accuracy and ease with which brokers and consumers do business with the Corporation, and continues to build on consumer-facing technologies.

Distribution Channel

Risk: The independent broker network, through which SGI CANADA distributes its products, is adversely affected as brokers are acquired by larger brokers or networks, financial institutions and other insurance companies.

Mitigation: SGI CANADA continues to work to understand broker and policyholder needs, and consults with the broker community when developing new products or services. In 2012, the Corporation launched an industry awareness program to help brokers understand the changes in the marketplace and to start the dialogue for how the Corporation and the broker can work better together to protect shared interests. The Corporation also implemented a broker concentration of risk policy, and regularly monitors the trends and activity of selected brokerages.

Leadership/Strategy

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

Mitigation: SGI CANADA's purpose and ideals are defined clearly in the corporate mission, vision and values statements, and the Corporation promotes leadership and customer service in its training programs. The corporate commitment to privacy and ethical behaviour is reinforced through the annual review and sign-off by all employees of the Code of Ethics and Conduct. The Corporation's five-year strategic plan was developed with the feedback of employees and other stakeholders, and provides a detailed plan for the future of the Corporation. The strategic plan is formally reviewed and updated annually, and recently a 90-day prioritization process was developed to help focus corporate resources.

Significant Privacy Breach

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

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

Product Design and Pricing

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

Mitigation: To ensure its products are designed and priced appropriately, SGI CANADA monitors rate adequacy, competitor pricing and product offerings, as well as insurance market developments, legal decisions and societal trends. Pricing and product design are reviewed in detail annually.

Business Intelligence

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

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

Catastrophic Claims Loss

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

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

Transfer and Acquisition of Expertise

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

Mitigation: SGI CANADA has implemented a number of programs in this area, including competency-based recruitment, training and mentoring programs, knowledge management solutions, and the monitoring of workplace engagement and strategic clarity through employee surveys. A corporate learning strategy was created in 2008 and updated in 2012 to grow talent, and SGI CANADA has devoted additional resources and technology to training and development. SGI CANADA's succession planning process focuses on (i) ensuring current senior management positions have backups; and (ii) identifying high-performing staff who have potential for more senior roles. The corporate diversity/recruitment strategy was updated in 2012 to enhance partnerships with outreach agencies and educational institutions, and the Corporation's visibility as a preferred employer.

Systems Security

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

Mitigation: SGI CANADA created an Information Security Policy in 2009 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 Systems division has implemented many mechanisms (such as firewalls, intrusion prevention, antivirus, etc.) to protect the environment and is continually monitoring systems for potential threat activity. SGI CANADA has developed incident response procedures to decrease the severity of a breach, should one occur.

OUTLOOK FOR 2013

As is the case in most industries, technology and the Internet are dramatically impacting the insurance industry, changing how insurance companies interact with their customers and brokers. Technology is also being used to allow insurers sophisticated access to data, supporting business intelligence systems and predictive modeling for more accurate and competitive pricing. Technological enhancements also improve productivity and efficiency, allowing better expense ratios while improving customer experience.

In this environment, size to support economies of scale and critical mass in markets is becoming essential, and insurance companies are consolidating, with the big players exerting more and more influence over the marketplace. Brokers are also consolidating into networks, and insurance companies are buying brokerages and broker networks to lock up market share. The Saskatchewan property and casualty insurance market has been relatively immune to these changes. But with the strong provincial economy and technology that allows businesses to more easily penetrate new markets, that is changing.

Heading into 2013, SGI CANADA is focused on two critical priorities: protecting its Saskatchewan book of business, and evolving the Corporation to a customer-centric business model. That will mean effectively implementing new methods of interacting with consumers, and successfully integrating those methods with the existing independent broker channel.

The Corporation is also working to fully leverage internal and external data, with projects ongoing related to business intelligence to build further sophistication into policy rating and claim management. It also aims to keep expense ratios as low as possible by leveraging technology where possible to achieve productivity and efficiency improvements.

To protect SGI CANADA's financial viability, it has long focused on achieving a better spread of risk geographically. Alberta and Ontario are two key markets for meeting geographic diversification goals, and in 2013 the Corporation will focus on continuing to build on the success experienced in these markets in 2012.

Outside of Saskatchewan, Ontario is the Corporation's largest operating segment and the Corporation has had significant focus on its Ontario automobile business in recent years. The Ontario auto marketplace is challenging, not only for SGI CANADA, but for the insurance industry in general. New automobile insurance reforms became effective in Ontario in September 2010, and while there has been short-term improvement for insurers, the impact the reforms will have longer term remains unclear. The Corporation remains focused on disciplined underwriting in this important operating segment.

Considering the Corporation has been operating in Alberta only since mid-2006, it has grown quickly to be an important operating segment. The Corporation plans to continue to work on growing a balanced, profitable premium base in Alberta with a continuing focus on broker management and providing excellent service to brokers.

Financially, the Corporation is following on a very strong year in 2012. In the short term, the Corporation is challenged to continue to implement an ambitious strategic plan, while remaining focused on its expense ratios, one key to maintaining competitiveness. While investment markets improved through 2012, challenges both domestically and internationally remain due to low growth, high debt loads and a lack of investor confidence. Measures to address these issues may provide for a market environment with more positive, sustained global growth. While equity market volatility is likely to continue, volatility caused by interest rate changes is expected to be offset by the impact on the discounting of claim liabilities. The Corporation remains vigilant in monitoring the investment portfolio and continues to maintain its well diversified, high-quality investment portfolio and prudent investment management policies and processes.

The Corporation's expectations are ambitious given the highly competitive, ever-changing insurance industry it operates in. Competitors continue to become more sophisticated and competition from new sources, such as direct writers, is becoming more prevalent. Heading into 2013, SGI CANADA has confidence in the expertise of its employees and a clear strategic direction to guide the Corporation to continued success in the competitive Canadian insurance marketplace.