2012

SGI CANADA

ANNUAL REPORT

MISSION VISION AND VALUES

Mission

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

Vision

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

Values

Integrity

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

Caring

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

Innovation

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

About SGI CANADA

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

Visit SGI CANADA at www.sgicanada.ca.

2012

SGI CANADA

ANNUAL REPORT

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LETTER OF TRANSMITTAL

Regina, Saskatchewan
March 2013

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

Your Honour,

I am pleased to submit herewith the annual report of SGI CANADA for the year ended December 31, 2012, including the financial statements in the form required by the Treasury Board and in accordance with *The Saskatchewan Government Insurance Act*.

Respectfully submitted,

Donna Harpauer
Minister responsible for Saskatchewan Government Insurance

MINISTER'S MESSAGE

Congratulations to everyone at SGI CANADA on a very successful 2012.

Not only did SGI CANADA achieve a record underwriting profit in 2012, allowing it to provide a record dividend to the province, it did so while operating efficiently with administrative costs below the industry average.

The company achieved this success without sacrificing service. In fact, SGI CANADA and its partners in the independent broker network are looking at ways to enhance experience for their customers, offering service how, when and where they want.

There is no doubt that Saskatchewan is in a period of unprecedented growth and opportunity. SGI CANADA is doing its part to foster opportunity, through initiatives such as helping to fund education programs for actuarial science at the University of Regina, and an insurance diploma through SIAST. Not only does this provide opportunities for young people, it's also a savvy business strategy to help develop qualified candidates for the insurance industry. This kind of forward thinking will help ensure SGI CANADA's, and the insurance industry's, continued success in the future.

My gratitude to the Board of Directors for their contributions to the corporation's success in 2012. I'd like to extend special thanks to outgoing Board Chair Warren Sproule, Q.C., for his years of service.

I'm pleased to present the 2012 SGI CANADA Annual Report.

Donna Harpauer
Minister responsible for Saskatchewan Government Insurance

CHAIR'S MESSAGE

I'm very pleased to join SGI's Board of Directors as its Chair, and look forward to the opportunity to provide strategic oversight and guidance to SGI CANADA along with my fellow directors.

The 2012 results certainly show that SGI CANADA is a well-managed and successful company. While 2012 might have been a record year, I know the corporation has a long history of success. SGI CANADA is also well prepared for the future with its comprehensive five-year strategic plan, of which we're currently in the third year. The plan is designed to sustain SGI CANADA's viability in the midst of considerable change in the Canadian insurance industry. In partnership with the independent broker network, SGI CANADA is seeking new and innovative ways to continue to be successful.

On behalf of the Board, I extend our appreciation to SGI CANADA's employees, management and broker partners for their hard work and success in 2012.

Arlene Wiks
Chair, SGI Board of Directors

PRESIDENT'S MESSAGE

2012 was a very successful year for SGI CANADA, with a record underwriting profit, but we're not a company that rests on our laurels.

The key to remaining successful is to keep looking ahead, to ensure we're in a position to capitalize on any new opportunities that arise and mitigate any challenges that might impede our business.

In 2012 we created a new Customer and Distribution Strategy division to help us do just that. Their first order of business was to further solidify and enhance our partnerships with independent brokers, in order to best meet customers' needs while ensuring that both SGI CANADA and the independent broker network continued to thrive.

We believe future success means serving customers how, when and where they want. This naturally includes online services, which was a key focus for us in the past year with enhancements to our auto eQuote tool as well as work on electronic policy distribution, the ability for customers to make policy changes online and the development of quoting tools for small businesses.

We're also providing eServices to the broker network, to help keep their businesses efficient and make it as easy as possible for them to do business with us. One notable example garnered us an award at the Insurance Canada Technology Conference. We were the first insurer in Canada to offer PDF download technology; eDocs allows the download and attachment of policy files to a broker's electronic filing system without any manual intervention. This is a fantastic time-saver for brokers, allowing them to spend their time on other business.

Although SGI CANADA always has a particular focus on our home market of Saskatchewan, one of our key strategies is to grow our out-of-province business in order to spread our geographic risk. In 2012 we saw significant growth in Alberta, and that will continue to be a key market for us in the future.

No matter the market, our primary focus is always our customer. Customer needs and expectations are changing, and SGI CANADA and our partners in the independent broker network will be seeking opportunities to set ourselves apart by looking more at customer 'experience' as opposed to simply customer 'service.' There's opportunity for us to be industry leaders in this area.

I'd like to thank everyone at SGI CANADA for contributing to our success in 2012, including our Board of Directors. In 2012, Doug Richardson left the board and Brynn Boback-Lane joined. I'd like to thank Doug, as well as outgoing Board Chair Warren Sproule, Q.C., for their years of service. We wish them all the best.

Andrew R. Cartmell
President and CEO

FIVE-YEAR REVIEW

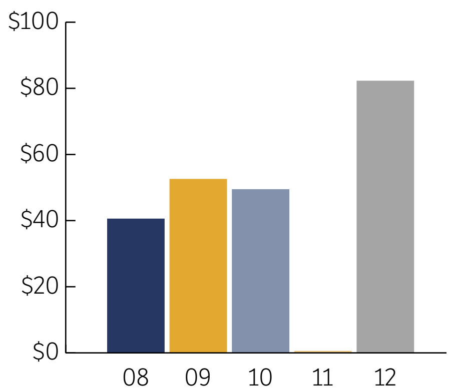
SGI CANADA Consolidated

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

	2008	2009	2010	2011	**2012**
Net premiums written	353.4	393.9	428.3	471.6	**491.8**
Net income	40.4	52.4	49.3	0.4	**82.1**
Total assets	717.3	827.4	905.3	981.8	**1,073.6**
Province of Saskatchewan's equity	177.8	226.3	258.1	253.7	**281.0**
Pre-tax return on equity	23%	27%	19%	0%	**33%**
Loss ratio	55%	51%	61%	65%	**51%**
Expense ratio	39%	40%	38%	37%	**38%**
Combined ratio	95%	91%	98%	102%	**89%**

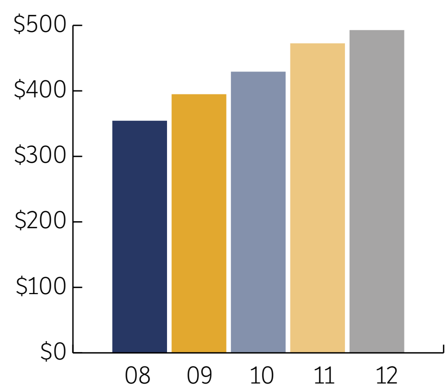
Net Income

millions of dollars



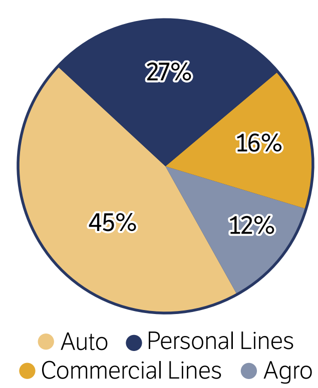
Net Premiums Written

millions of dollars



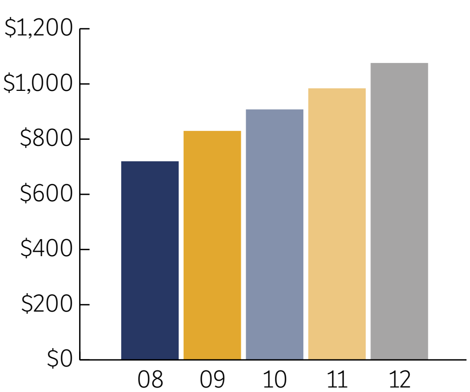
2012 Net Premiums Written

millions of dollars



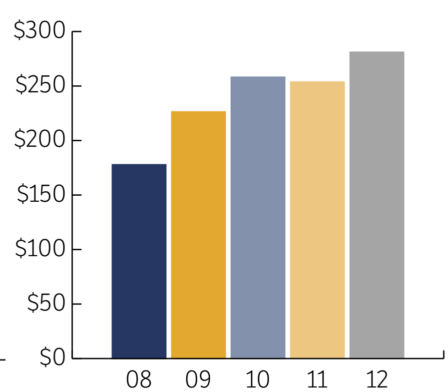
Total Assets

millions of dollars



Province of Saskatchewan's equity

millions of dollars



MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis (MD&A) is the responsibility of management and reflects events known to management to February 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.

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WHERE SGI CANADA CAME FROM

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

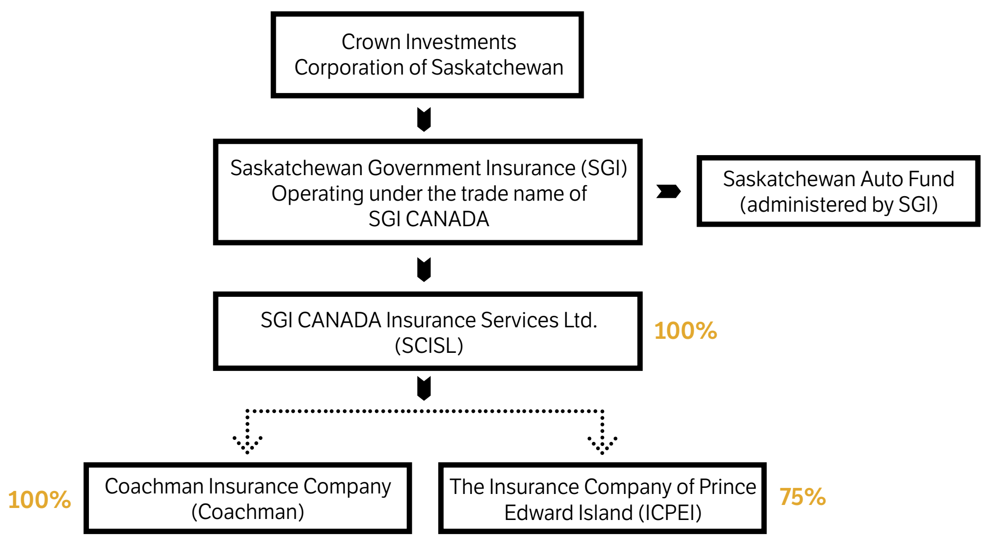
SGI's mandate since its inception has been to provide comprehensive, affordable insurance protection to the people of Saskatchewan. In 1980, legislated changes to *The Saskatchewan Government Insurance Act*, *1980*, and *The Automobile Accident Insurance Act* distinguished between the compulsory vehicle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

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

The 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.

[1] This 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.

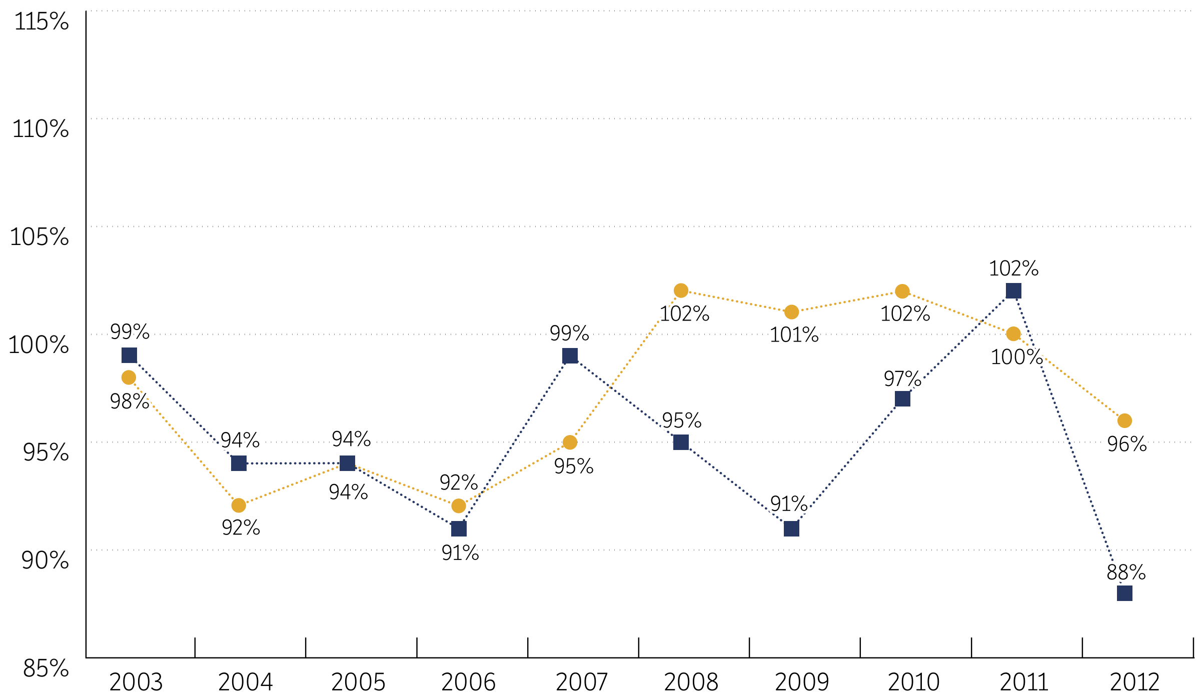
Profitability via SGI CANADA's combined ratio

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%

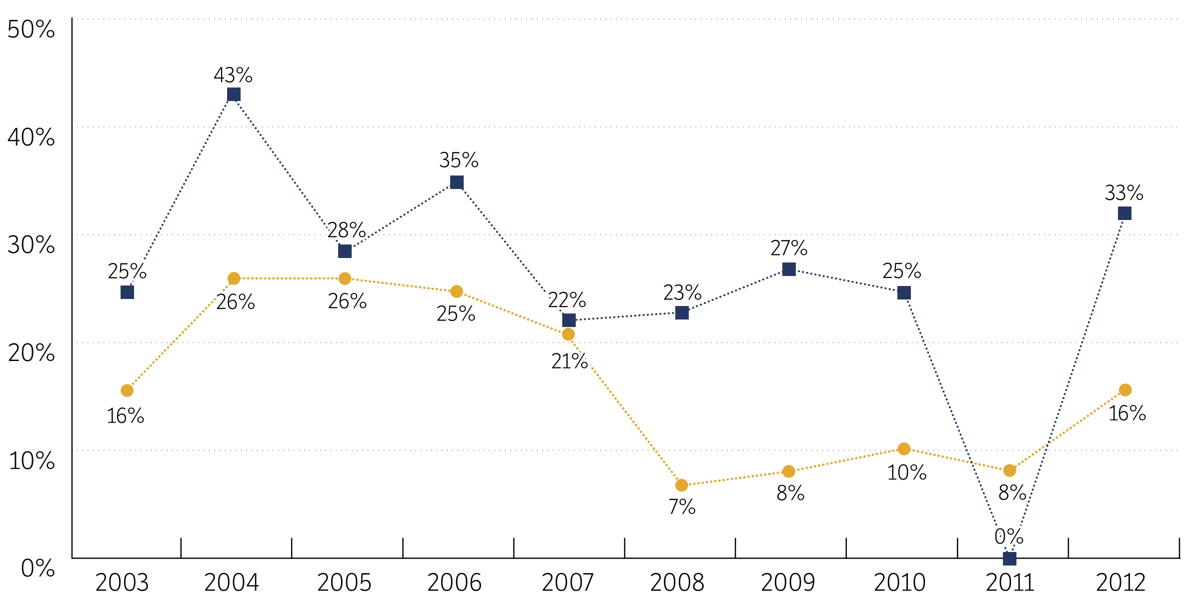
All companies have an MCT above the regulatory supervisory target at the end of 2012. The significant profit earned in 2012 allowed the Corporation to maintain its MCT target of 250%, while declaring a $52.0 million dividend to its parent, Crown Investments Corporation. This is the highest annual dividend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

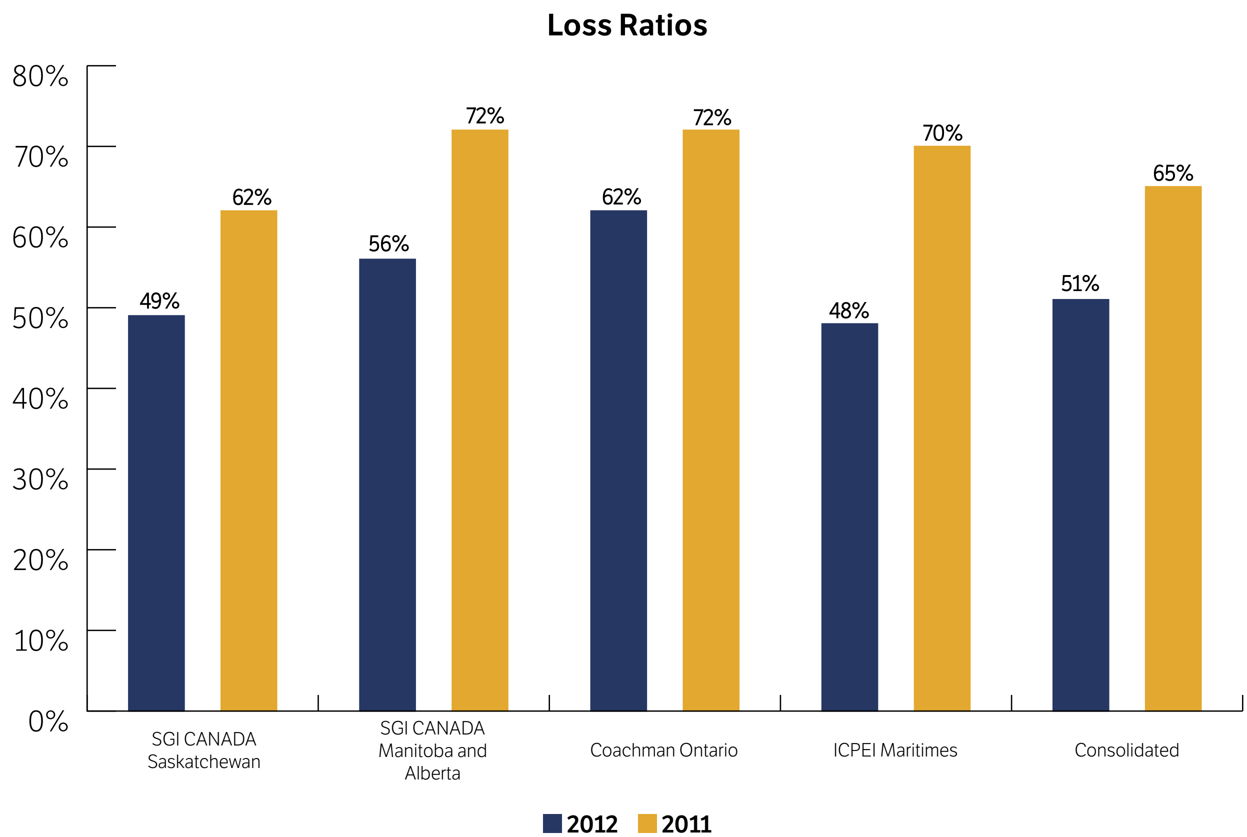
Net premiums written in Saskatchewan increased 5.0% for the year, while out-of-province operations increased written premium by 2.6% compared to the prior year. The growth in Saskatchewan premiums was across all lines of business. Growth in out-of-province premiums was driven by a 25.9% increase from 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.

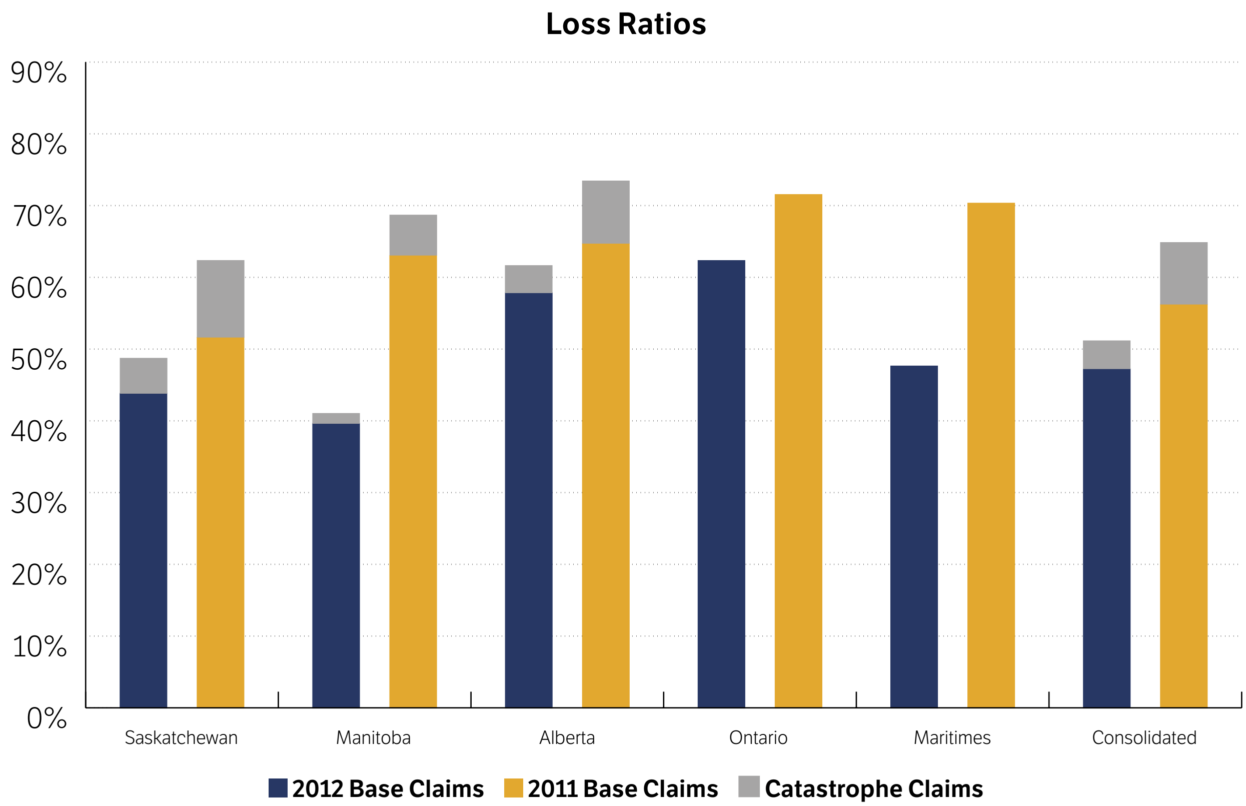
Claims incurred

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:

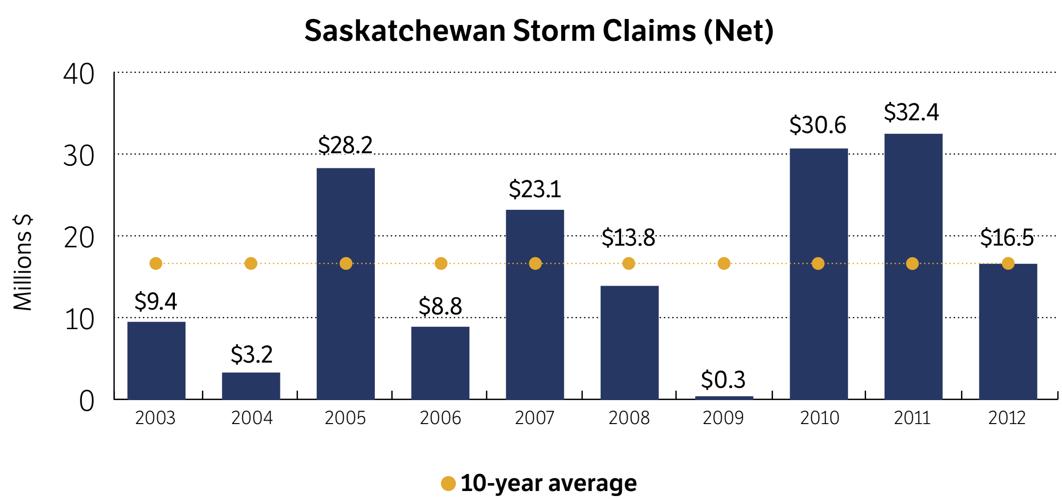


Claim costs related to Saskatchewan operations decreased $34.2 million from $202.0 million to $167.8 million in 2012 with a corresponding improvement in the loss ratio of 13.7% to 48.5%. The improvement was due to a combination of lower personal line claim costs and lower storm costs in 2012. Personal 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).

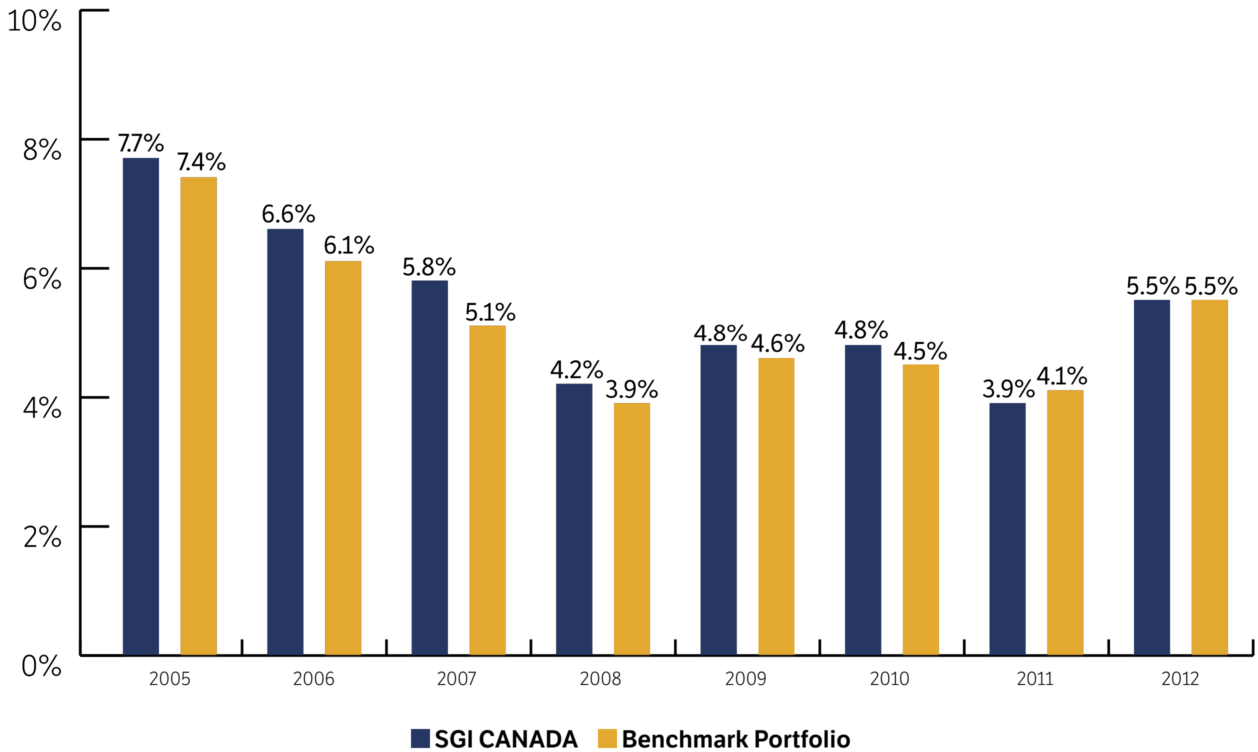
Investment earnings

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:

		Annual index returns ending December 31 (%)	
Asset Class	**Benchmark Index**	**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

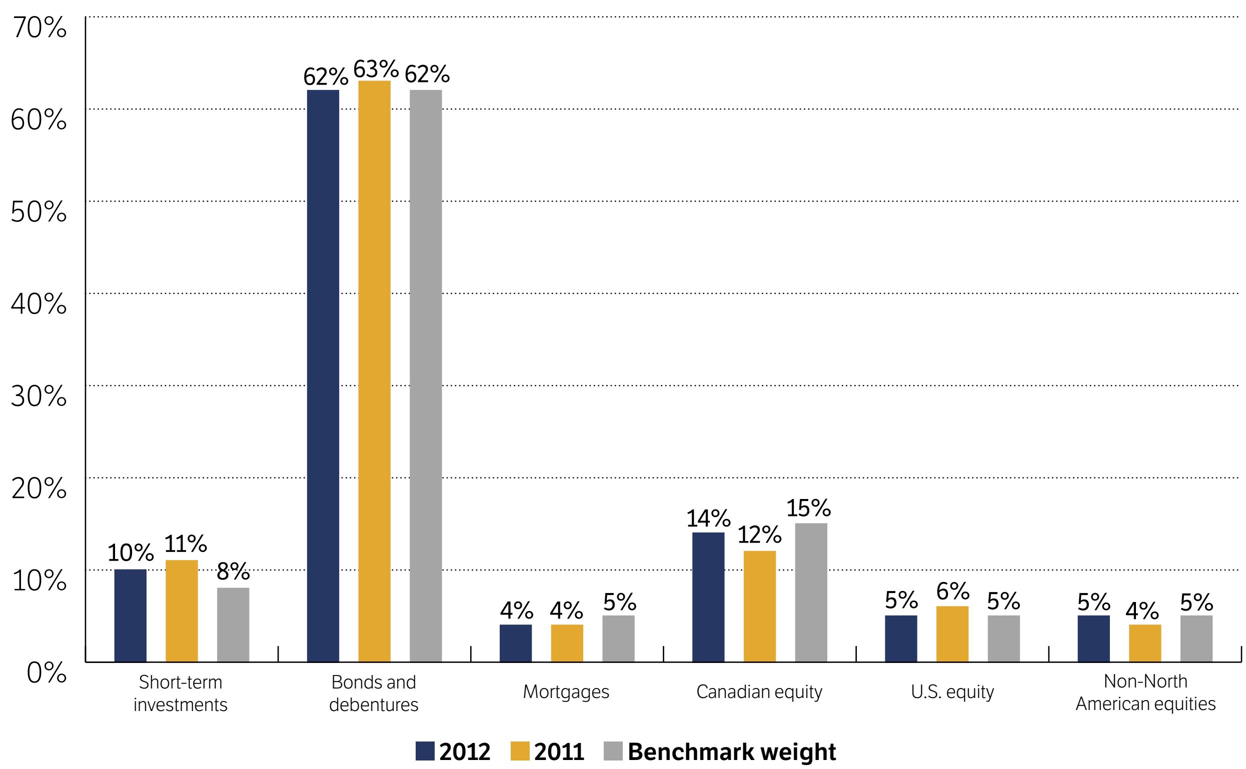
The carrying value of investments increased by $118.8 million during the year, primarily the result of incremental purchases of $109.9 million funded through cash flow from operations in addition to investing excess cash equivalent money market investments.

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:

	2012					2011				
(thousands of $)	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.

RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

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

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

Andrew R. Cartmell	Jeff Stepan
President and Chief Executive Officer	Chief Financial Officer

February 28, 2013

ANNUAL STATEMENT OF MANAGEMENT RESPONSIBILITY

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

a. That we have reviewed the consolidated financial statements included herein. Based on our knowledge, having exercised reasonable diligence, the consolidated financial statements fairly present, in all material respects, the financial condition, results of operations and cash flows, as of December 31, 2012.

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

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

d. That the Corporation conducted its assessment of the effectiveness of its internal controls over financial reporting and, based on the results of this assessment, it can provide reasonable assurance that internal controls over financial reporting as of December 31, 2012, were operating effectively and no material weaknesses were found in the design or operation of the internal controls over financial reporting.

Andrew R. Cartmell
President and Chief Executive Officer

Jeff Stepan
Chief Financial Officer

February 28, 2013

ACTUARY'S REPORT

To the Board of Directors of
Saskatchewan Government Insurance

I have valued the policy liabilities and reinsurance recoverables of SGI CANADA for its consolidated statement of financial position at December 31, 2012, 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.

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

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

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

February 28, 2013

INDEPENDENT AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the accompanying consolidated financial statements of Saskatchewan Government Insurance ("the Entity"), which comprise the consolidated statement of financial position as at December 31, 2012, and the consolidated statements of operations, changes in Province of Saskatchewan's equity, and cash flows for the year then ended, and notes, comprising 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 our 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, we consider 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 in our audit 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 consolidated financial position of Saskatchewan Government Insurance as at December 31, 2012, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants
Regina, Canada
February 28, 2013

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	December 31 2012	December 31 2011
	(thousands of $)	
Assets		
Cash and cash equivalents (note 4)	$ 13,854	$ 39,365
Accounts receivable (note 5)	146,265	145,250
Investments under security lending program (note 6)	75,750	115,451
Investments (note 6)	675,346	516,881
Unpaid claims recoverable from reinsurers (note 9)	45,501	54,600
Reinsurers' share of unearned premiums (note 11)	12,561	11,079
Deferred policy acquisition costs (note 10)	65,357	61,325
Property and equipment (note 7)	32,353	32,087
Other assets (note 8)	1,905	1,662
Deferred tax asset (note 14)	4,706	4,148
	$ 1,073,598	$ 981,848
Liabilities		
Accounts payable and accrued liabilities	$ 68,130	$ 52,671
Dividend payable	41,993	–
Premium taxes payable	20,505	20,061
Amounts due to reinsurers	9,250	9,477
Unearned reinsurance commissions	4,014	3,532
Unearned premiums (note 11)	275,410	264,926
Provision for unpaid claims (note 9)	369,137	374,059
Deferred tax liability (note 14)	1,014	1,062
	789,453	725,788
Equity		
Equity advances (note 12)	80,000	80,000
Retained earnings	200,991	173,710
Province of Saskatchewan's equity	**280,991**	253,710
Non-controlling interest	3,154	2,350
Total equity	**284,145**	256,060
	$ 1,073,598	$ 981,848

Commitments and contingencies (note 22)

(see accompanying notes)

Approved by the Board of Directors and signed on their behalf on February 28, 2013

Rick Watson
Director

Howard Crofts
Director

CONSOLIDATED STATEMENT OF OPERATIONS

year ended December 31	2012	2011
	(thousands of $)	
Gross premiums written	$ 531,115	$ 510,104
Premiums written ceded to reinsurers	(39,297)	(38,458)
Net premiums written	491,818	471,646
Change in net unearned premiums (note 11)	(9,002)	(22,582)
Net premiums earned	**482,816**	449,064
Claims incurred (note 9)	246,236	290,640
Commissions	100,063	91,532
Administrative expenses	58,464	54,045
Premium taxes	22,307	21,021
Facility Association participation (note 20)	127	238
Total claims and expenses	**427,197**	457,476
Underwriting profit (loss)	**55,619**	(8,412)
Investment earnings (note 13)	33,055	9,488
Income before income taxes	**88,674**	1,076
Income tax expense (note 14)	6,572	635
Net income	**82,102**	441
Other comprehensive loss	(2,017)	(4,938)
Comprehensive income (loss)	**$ 80,085**	$ (4,497)
Attributable to:		
The Province of Saskatchewan	79,281	(4,419)
Non-controlling interest	804	(78)
	$ 80,085	$ (4,497)

(see accompanying notes)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

year ended December 31	**2012**	2011
	(thousands of $)	
Equity advances		
Balance, end of year	**$ 80,000**	$ 80,000
Retained earnings		
Balance, beginning of year	$ 173,710	$ 178,129
Net income	81,298	519
Other comprehensive loss	(2,017)	(4,938)
Dividends	(52,000)	–
Balance, end of year	**$ 200,991**	$ 173,710
Total Province of Saskatchewan's equity	**$ 280,991**	$ 253,710
Non-controlling interest		
Balance, beginning of year	$ 2,350	$ 2,428
Comprehensive income (loss)	804	(78)
Balance, end of year	**$ 3,154**	$ 2,350
Total equity	**$ 284,145**	$ 256,060

(see accompanying notes)

CONSOLIDATED STATEMENT OF CASH FLOWS

year ended December 31	2012	2011
	(thousands of $)	
Cash provided by (used for):		
Operating activities		
Net income	$ 82,102	$ 441
Non-cash items:		
Bond amortization	3,322	3,421
Depreciation	4,655	3,358
Net realized gain on sale of investments	(2,143)	(8,941)
Net unrealized loss (gain) on change in market value of investments	(10,005)	19,237
Actuarial loss on employee benefit plans	(2,017)	(4,938)
Deferred income taxes	(606)	(1,304)
Change in non-cash operating items (note 17)	24,047	73,513
	99,355	84,787
Investing activities		
Purchases of investments	(702,939)	(609,895)
Proceeds on sale of investments	593,001	555,177
Repayment of capital lease	–	142
Purchases of property and equipment	(4,921)	(3,193)
	(114,859)	(57,769)
Financing activities		
Dividends paid	**(10,007)**	(15,462)
Increase (decrease) in cash and cash equivalents	**(25,511)**	11,556
Cash and cash equivalents, beginning of year	39,365	27,809
Cash and cash equivalents, end of year	**$ 13,854**	$ 39,365
Supplemental cash flow information:		
Interest received	$ 13,616	$ 14,049
Dividends received	$ 2,309	$ 1,549
Income taxes paid	$ 2,697	$ 3,100

(see accompanying notes)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012

1. NATURE OF OPERATIONS

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

In many provinces in Canada, automobile insurance premium rates are regulated by provincial government authorities. Regulation of premium rates is based on claims and other costs of providing insurance coverage, as well as projected profit margins. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. The Corporation's automobile premiums are subject to rate regulation in Alberta, Ontario, Prince Edward Island, New Brunswick and Nova Scotia and represent approximately 18.1% (December 31, 2011 – 17.1%) of the Corporation's consolidated net premiums earned.

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

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

2. BASIS OF PREPARATION

Statement of compliance

The consolidated financial statements for the year ended December 31, 2012, have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

Basis of measurement

The consolidated financial statements have been prepared using the historical cost basis except for financial instruments and certain items of land, buildings and building components. The methods used to measure the values of financial instruments are discussed further in note 3. The land, building and building components were fair valued upon transition to IFRS, using the deemed cost exemption.

Statement of financial position classification

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

Functional currency and presentation

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

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 deemed cost of certain items of land, buildings and building components (note 7), the valuation of accounts receivable (note 5), investments (note 6) and employee future benefits (note 18).

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the accounts of the Corporation and the consolidated accounts of its 100%-owned subsidiaries, SGI CANADA Insurance Services Ltd. and Coachman and its 75%-owned subsidiary, ICPEI. All inter-company accounts and transactions have been eliminated on consolidation.

Financial assets and liabilities

The measurement basis for financial assets and financial liabilities depends on whether the financial assets and liabilities have been classified as fair value through profit and loss, available for sale, held to maturity, loans and receivables, or other financial liabilities. Financial assets and liabilities classified as fair value through profit and loss are measured at fair value and changes in fair value are recognized in net income. Financial assets classified as available for sale are measured at fair value with unrealized changes in fair value recorded in other comprehensive income; however, unrealized losses considered other than temporary are recognized as a decrease to net income. Financial assets designated as held to maturity, loans and receivables, or other financial liabilities are measured at amortized cost using the effective interest method. The Corporation has no financial assets and liabilities designated as available for sale or held to maturity.

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

Investments

All investments are carried at fair value. The fair value of short-term investments is based on cost, which approximates fair value due to the immediate or short-term nature of these financial instruments. The common shares are level 1 financial assets and the fair value is determined based on quoted market values, based on the latest bid prices. The pooled equity funds are level 1 financial assets and the fair value is based on the quoted market values of the underlying investments, based on the latest bid prices. Bonds and debentures are level 2 financial assets and the fair value is based on model pricing techniques that effectively discount prospective cash flows to present value taking into consideration duration, credit quality and liquidity. The pooled mortgage fund is a level 2 financial asset and the fair value is determined based on the market values of the underlying mortgage investments, calculated by discounting scheduled cash flows through to the estimated maturity of the mortgage.

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

Investments under securities lending program

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

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

Investment earnings

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

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

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

Foreign currency translation

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

Premiums written

The Corporation's policies have all been classified upon inception as insurance contracts. An insurance contract is a contract that transfers significant insurance risk and, upon the occurrence of the insured event, causes the insurer to make a benefit payment to the insured party. The sale of policies generates premiums written, which are taken into income over the terms of the related policies, no longer than 12 months. Unearned premiums represent the portion of the policy premiums relating to the unexpired term of each policy.

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of outstanding claims to the year-end date. The estimate includes the cost of reported claims, and claims incurred but not reported, 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 provision has been calculated including the impact of discounting using a discount rate of 1.97% (December 31, 2011 – 2.32%). The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current year.

Deferred policy acquisition costs

Premium taxes, commissions and certain underwriting and policy issuance costs are charged to expense over the terms of the insurance policies to which such costs relate, no longer than 12 months. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral using a liability adequacy test. The limit is calculated as the amount recoverable from unearned premiums after giving consideration to investment income, as well as claim and adjustment expenses expected to be incurred as the premiums are earned.

Reinsurance ceded

Unpaid claims recoverable from reinsurers, reinsurers' share of unearned premiums and unearned reinsurance commissions are estimated in a manner consistent with the method used for determining the provision for unpaid claims, unearned premiums and deferred policy acquisition costs respectively.

Income taxes

The Corporation uses the asset and liability method of accounting for income taxes. 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.

Employees' future benefits

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

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

For the defined benefit plan:

(i) For the purpose of calculating the expected return on plan assets, those assets are valued at fair value, which approximates market value.

(ii) Pension obligations are determined by an independent actuary using the projected 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 was determined by reference to market interest rates at the measurement date of high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments.

(iv) Unvested past service costs from plan amendments are amortized on a straight-line basis over the period of time until they become vested. Vested 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 Corporation provides defined benefit service recognition plans for both management and in-scope (union) employees for the purpose of providing certain retirement benefits. The cost of the plans is determined using the projected unit credit method prorated on service. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for the defined benefit pension plan. Obligations under these plans are determined annually by an independent actuary.

Cash and cash equivalents

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

Property and equipment

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

The Corporation has not incurred any borrowing costs attributable to property and equipment and therefore no borrowing costs have been capitalized.

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

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	15-40 years
Computer hardware and other equipment	3-5 years

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

Goodwill

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

Goodwill is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the Consolidated Statement of Operations.

Leased assets

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

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 impact 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.

4. CASH AND CASH EQUIVALENTS

	(thousands of $)	
	2012	2011
Money market investments	$ 19,578	$ 46,609
Cash on hand, net of outstanding cheques (bank overdraft)	(5,724)	(7,244)
Total cash and cash equivalents	$ 13,854	$ 39,365

The average effective interest rate on money market investments is 1.0% (2011 – 1.0%).

5. ACCOUNTS RECEIVABLE

	(thousands of $)	
	2012	2011
Due from insureds	$ 91,218	$ 88,148
Due from brokers	43,387	40,519
Amounts recoverable on claims paid	7,256	6,679
Facility Association (note 20)	4,168	4,123
Accrued investment income	2,830	2,353
Due from reinsurers	2,635	1,943
Other	236	44
Computer purchase plan	168	195
Due from Saskatchewan Auto Fund	–	202
Service agreement	–	3,300
Income taxes	–	2,870
	151,898	150,376
Less: Allowance for doubtful accounts (note 15)	(5,633)	(5,126)
Total accounts receivable	$ 146,265	$ 145,250

Included in due from insureds is $85,012,000 (2011 – $82,614,000) of financed premiums receivable, which represents the portion of policyholders' monthly premium payments that are not yet due. The majority of policyholders have the option to pay a portion of the premium when the policy is placed in force and the balance in monthly instalments. The policyholder pays an additional charge for this option, reflecting handling costs and the investment earnings that would have been earned on such premium, had the total amount been collected at the beginning of the policy period. The additional charge is recognized in investment earnings using the effective interest method. The effective interest rate is 8.0% (2011 – 8.0%).

Due from brokers includes loans receivable with a carrying value of $5,953,000 (2011 – $4,277,000). The loans require annual repayments with terms ranging between one to 10 years. The loans accrue interest at rates ranging from 2.25% to 5.75% and are secured by general security agreements. The loans are recorded at their amortized cost, which is considered to be equal to their fair value.

6. INVESTMENTS

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

	(thousands of $) 2012	2011
Short-term investments	$ 79,632	$ 66,803
Bonds and debentures	411,386	302,142
Canadian common shares	58,751	41,244
U.S. common shares	25,845	24,820
Pooled funds:		
Canadian equity	23,595	17,135
United States equity	10,447	9,203
Non-North American equity	37,584	28,359
Mortgage	28,106	27,175
	675,346	516,881
Investments under securities lending program		
Bonds and debentures	53,878	94,296
Canadian common shares	21,423	20,486
U.S. common shares	449	669
	75,750	115,451
Total investments	$ 751,096	$ 632,332

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

Short-term investments

Short-term investments are comprised of money market investments with a maturity of less than one year but greater than 90 days from the date of acquisition. These investments have an average effective interest rate of 1.1% (2011 – 1.0%) and an average remaining term to maturity of 75 days (2011 – 88 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 $)			
	2012		2011	
Term to maturity (years)	Carrying Value	Average Effective Rates	Carrying Value	Average Effective Rates
Government of Canada:				
One or less	$ 32,952	1.1%	$ 43,428	1.1%
After one through five	165,337	1.4%	154,958	1.3%
Canadian provincial and municipal:				
One or less	5,759	1.3%	2,813	1.1%
After one through five	95,548	1.6%	42,567	1.6%
Canadian corporate:				
One or less	–	–	1,248	1.5%
After one through five	146,936	2.0%	115,534	2.3%
After five	18,732	3.7%	35,890	4.0%
Total bonds and debentures	$ 465,264		$ 396,438	

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% (2011 – 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.

Pooled funds

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

Securities lending program

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

At December 31, 2012, the Corporation held collateral of $79,543,000 (2011 – $121,224,000) for the loaned securities.

Fair value hierarchy

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

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

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

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

	(thousands of $)					
	2012			2011		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Short-term investments	$ –	$ 79,632	$ 79,632	$ –	$ 66,803	$ 66,803
Bonds and debentures	–	465,264	465,264	–	396,438	396,438
Canadian common shares	80,174	–	80,174	61,730	–	61,730
U.S. common shares	26,294	–	26,294	25,489	–	25,489
Pooled funds:						
Canadian equity	23,595	–	23,595	17,135	–	17,135
United States equity	10,447	–	10,447	9,203	–	9,203
Non-North American equity	37,584	–	37,584	28,359	–	28,359
Mortgage	–	28,106	28,106	–	27,175	27,175
	$ 178,094	$ 573,002	$ 751,096	$ 141,916	$ 490,416	$ 632,332

During the year, no investments were transferred between levels.

7. PROPERTY AND EQUIPMENT

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

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

	Land	Buildings	Building Components	Computer Hardware	Total
Cost:			(thousands of $)		
At January 1, 2011	$ 3,000	$ 23,298	$ 5,448	$ 19,515	$ 51,261
Additions	–	150	582	2,461	3,193
Disposals	–	–	–	(96)	(96)
At December 31, 2011	3,000	23,448	6,030	21,880	54,358
Depreciation:					
At January 1, 2011	–	2,399	545	16,065	19,009
Provided in the year	–	2,165	510	683	3,358
Disposals	–	–	–	(96)	(96)
At December 31, 2011	–	4,564	1,055	16,652	22,271
Net book value at					
December 31, 2011	$ 3,000	$ 18,884	$ 4,975	$ 5,228	$ 32,087

Depreciation for the year is $4,655,000 (2011 - $3,358,000), of which $1,437,000 (2011 - $1,155,000) is charged to the Saskatchewan Auto Fund for related space usage. Depreciation is included in administrative expenses on the Consolidated Statement of Operations.

8. OTHER ASSETS

Other assets are comprised of the following:

	(thousands of $) 2012	2011
Prepaid expenses	$ 1,424	$ 1,181
Goodwill	481	481
Total	$ 1,905	$ 1,662

Goodwill

The goodwill is attributable to the Corporation's subsidiary, ICPEI, which is a cash generating unit. There have been no impairment losses recognized on goodwill.

9. CLAIMS INCURRED AND PROVISION FOR UNPAID CLAIMS

Claims incurred

	(thousands of $) 2012			2011		
	Current year	Prior years	Total	Current year	Prior years	Total
Gross claims incurred	$ 282,807	$ (13,636)	$ 269,171	$ 338,479	$ (12,820)	$ 325,659
Ceded claims incurred	(20,224)	(2,711)	(22,935)	(32,806)	(2,213)	(35,019)
Net claims incurred	$ 262,583	$ (16,347)	$ 246,236	$ 305,673	$ (15,033)	$ 290,640

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 $)	
	2012	2011
Net unpaid claims, beginning of year - discounted	$ 319,459	$ 271,273
Discount, beginning of the year	(11,636)	(1,029)
Net unpaid claims, beginning of year - undiscounted	307,823	270,244
Payments made during the year relating to:		
Prior year claims	(105,140)	(91,007)
Prior year Facility Association claims	(1,120)	(1,256)
Deficiency (excess) relating to:		
Prior year estimated unpaid claims	(16,347)	(15,033)
Prior year estimated unpaid Facility Association claims	(82)	225
Net unpaid claims, prior years - undiscounted	185,134	163,173
Claims incurred during the current year	124,021	142,856
Provision for Facility Association claims occurring in the current year	2,103	1,794
Net unpaid claims, end of year - undiscounted	311,258	307,823
Discount, end of year	12,378	11,636
Net unpaid claims, end of year - discounted	$ 323,636	$ 319,459

The net provision for unpaid claims of $323,636,000 (2011 – $319,459,000) consists of the gross provision for unpaid claims of $369,137,000 (2011 – $374,059,000) less unpaid claims recoverable from reinsurers of $45,501,000 (2011 – $54,600,000).

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

Structured settlements

The Corporation settles some long-term disability claims by purchasing annuities from various financial institutions. The settlements legally release the Corporation from its obligations to the claimants. Consequently, neither the annuities purchased nor the claim liabilities are recognized on the Consolidated Statement of Financial Position. However, as part of the settlement, the Corporation provides a financial guarantee to the claimants in the event the financial institutions default on the scheduled payments. As at December 31, 2012, no information has come to the Corporation's attention that would suggest any weakness or failure in the financial institutions from which it has purchased annuities. The net present value of the scheduled payments as of the year-end date is $57,896,000 (2011 – $57,549,000).

10. DEFERRED POLICY ACQUISITION COSTS

	(thousands of $)	
	2012	2011
Deferred policy acquisition costs, beginning of the year	$ 61,325	$ 56,204
Increase from liability adequacy test	1,344	162
Acquisition costs deferred during the year	115,586	110,929
Previously deferred acquisition costs charged to operations during the year	(112,898)	(105,970)
Deferred policy acquisition costs, end of the year	$ 65,357	$ 61,325

11. UNEARNED PREMIUMS

(thousands of $)

	Gross Unearned Premiums		Reinsurer's Share of Unearned Premiums		Net Unearned Premiums	
	2012	2011	2012	2011	2012	2011
Unearned premiums, beginning of the year	$ 264,926	$ 241,100	$ 11,079	$ 9,835	$ 253,847	$ 231,265
Premiums written during the year	531,115	510,104	39,297	38,458	491,818	471,646
Premiums earned	(520,631)	(486,278)	(37,815)	(37,214)	(482,816)	(449,064)
Change in net unearned premiums	10,484	23,826	1,482	1,244	9,002	22,582
Unearned premiums, end of the year	$ 275,410	$ 264,926	$ 12,561	$ 11,079	$ 262,849	$ 253,847

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. INVESTMENT EARNINGS

The components of investment earnings are as follows:

(thousands of $)

	2012	2011
Interest	$ 10,978	$ 11,106
Net unrealized gain (loss) on change in market value of investments	10,005	(19,237)
Premium financing	5,534	5,217
Pooled fund distributions	3,083	2,571
Dividends	2,318	1,771
Net realized gain on sale of investments	2,143	8,941
Interest on net investment in capital lease	–	51
Total investment earnings	34,061	10,420
Investment expenses	(1,006)	(932)
Net investment earnings	$ 33,055	$ 9,488

14. INCOME TAXES

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

	(thousands of $) 2012	2011
Current	$ 7,178	$ 1,939
Deferred	(606)	(1,304)
Income tax expense	$ 6,572	$ 635

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

The reasons for the differences are as follows:

	(thousands of $) 2012	2011
Income before income taxes and non-controlling interest	$ 88,674	$ 1,076
Combined federal and provincial tax rate	26.57%	29.31%
Computed tax expense based on combined rate	$ 23,561	$ 315
Increase (decrease) resulting from:		
Changes to enacted tax rates	(12)	188
Non-deductible expenses for tax purposes	31	35
Investment earnings not subject to taxation	(16,956)	110
Other	(52)	(13)
Total income taxes	$ 6,572	$ 635

The combined federal and provincial tax rate is calculated by taking the federal tax rate added to the tax rate of the individual provinces on a pro-rata basis. During 2012 there has been a decrease in the combined tax rates to 26.57% from 29.31%, primarily as a result of federal legislation which decreased the federal rate in 2012.

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

Deferred tax asset		(thousands of $)	
	Provision for unpaid claims	Other	Total
At January 1, 2011	$ 2,668	$ 24	$ 2,692
Credit (charge) reflected in income tax expense	1,457	(1)	1,456
At December 31, 2011	4,125	23	4,148
Credit (charge) reflected in income tax expense	561	(3)	558
At December 31, 2012	$ 4,686	$ 20	$ 4,706

Deferred tax liability	(thousands of $)		
	Unpaid claims recoverable from reinsurers	Investments	Total
At January 1, 2011	$ 577	$ 333	$ 910
Charge (credit) reflected in income tax expense	(358)	510	152
At December 31, 2011	219	843	1,062
Charge (credit) reflected in income tax expense	(73)	25	(48)
At December 31, 2012	$ 146	$ 868	$ 1,014

15. INSURANCE AND FINANCIAL RISK MANAGEMENT

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

Insurance risk

Underwriting risk

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

Diversification

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

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

	(thousands of $)					
	Gross		Reinsurance Recoverable		Net	
	2012	2011	2012	2011	2012	2011
Automobile	$ 193,784	$ 176,325	$ 20,357	$ 19,474	$ 173,427	$ 156,851
Property	88,040	104,503	19,317	30,602	68,723	73,901
Liability	59,274	66,986	3,910	2,702	55,364	64,284
Assumed	7,740	7,735	–	–	7,740	7,735
PFAD and discounting	14,295	13,458	1,917	1,822	12,378	11,636
Facility Association (note 20)	6,004	5,052	–	–	6,004	5,052
Total	$ 369,137	$ 374,059	$ 45,501	$ 54,600	$ 323,636	$ 319,459

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

	(thousands of $)					
	Gross		Reinsurance Recoverable		Net	
	2012	2011	2012	2011	2012	2011
Alberta	$ 31,906	$ 32,458	$ 4,341	$ 8,802	$ 27,565	$ 23,656
Saskatchewan	191,040	207,591	20,365	26,464	170,675	181,127
Manitoba	6,830	8,646	582	155	6,248	8,491
Ontario	120,549	106,501	19,923	18,906	100,626	87,595
Maritimes	18,812	18,863	290	273	18,522	18,590
Total	$ 369,137	$ 374,059	$ 45,501	$ 54,600	$ 323,636	$ 319,459

Reinsurance

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

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

	(thousands of $)	
	2012	2011
Dwelling and farm property	$ 750	$ 750
Unlicensed vehicles	750	750
Commercial property	1,000	1,000
Automobile and general liability	1,500	1,500
(subject to filling an annual aggregate deductible of)	1,500	1,500
Property catastrophe (health care)	7,500	7,500
Property catastrophe (non-health care)	10,000	8,500

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

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

	(thousands of $)	
	2012	2011
Premium earned	$ 37,815	$ 37,214
Claims incurred	22,935	35,019
Commissions and premium taxes	5,176	4,634
Administrative expenses	(999)	(1,116)

Actuarial risk

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

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

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

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

(thousands of $)	2007	2008	2009	2010	2011	2012	Total
Net ultimate loss							
At end of accident year	$ 177,379	$ 184,394	$ 197,049	$ 241,557	$ 272,800	$ 239,569	
One year later	176,137	178,233	188,851	237,473	265,460		
Two years later	171,591	175,654	185,368	234,864			
Three years later	169,744	173,824	181,901				
Four years later	168,734	171,653					
Five years later	166,942						
Cumulative loss development	(10,437)	(12,741)	(15,148)	(6,693)	(7,340)	n/a	
Cumulative loss development as a % of original ultimate loss	-5.9%	-6.9%	-7.7%	-2.8%	-2.7%	n/a	
Current estimate of net ultimate loss	$ 166,942	$ 171,653	$ 181,901	$ 234,864	$ 265,460	$ 239,569	$ 1,260,389
Cumulative paid	(159,392)	(162,490)	(165,690)	(208,643)	(216,271)	(126,173)	(1,038,659)
Net provision for unpaid claims for the six most recent accident years	$ 7,550	$ 9,163	$ 16,211	$ 26,221	$ 49,189	$ 113,396	$ 221,730
Net discounted claims outstanding for accident years 2006 and prior							43,754
Internal reinsurance to subsidiaries							20,705
Provision for adverse deviation and discounting							12,378
Loss adjusting expense reserve							8,706
Gross subrogation recoveries							7,174
Unpaid Facility Association claims							6,004
Other reconciling items							1,672
Health levies							1,513
Net provision for unpaid claims							$ 323,636

Financial risk

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

Significant financial risks are related to the Corporation's investments. These financial risks are managed by having a Statement of Investment Policies and Goals (SIP&G), which is approved annually by the Corporation's Board of Directors. The SIP&G provides guidelines to the investment manager 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 manager and custodian regarding compliance with the SIP&G. The investment manager's performance is evaluated based on return objectives, including realized and unrealized capital gains and losses plus income from all sources, and goals stated in the SIP&G.

Credit risk

The Corporation's credit risk arises primarily from two distinct sources: accounts receivable (from its customers, brokers and reinsurers) and certain investments. The maximum credit risk to which it is exposed at December 31, 2012, is limited to the carrying value of the financial assets summarized as follows:

	(thousands of $)	
	2012	2011
Cash and cash equivalents	$ 13,854	$ 39,365
Accounts receivable	146,265	145,250
Fixed income investments [1]	573,002	490,416
Unpaid claims recoverable from reinsurers	45,501	54,600

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

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

Cash and cash equivalents include money market investments of $19,578,000 less bank overdraft, net of outstanding cheques of $5,724,000 (2011 – money market investments of $46,609,000 less bank overdraft, net of outstanding cheques of $7,244,000). The money market investments mature within 90 days from the date of acquisition and have a credit rating of R-1.

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

	(thousands of $)	
	2012	2011
Current	$ 144,440	$ 143,570
30 - 59 days	834	861
60 - 90 days	188	458
Greater than 90 days	6,436	5,487
Subtotal	151,898	150,376
Allowance for doubtful accounts	(5,633)	(5,126)
Total	$ 146,265	$ 145,250

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

	(thousands of $) 2012	2011
Allowance for doubtful accounts, opening balance	$ 5,126	$ 5,113
Accounts written off	(1,814)	(1,855)
Current period provision	2,321	1,868
Allowance for doubtful accounts, ending balance	$ 5,633	$ 5,126

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

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

	(thousands of $) 2012		2011	
Credit Rating	Fair Value	Makeup of Portfolio	Fair Value	Makeup of Portfolio
AAA	$ 214,126	46.0%	$ 208,283	52.5%
AA	137,751	29.6%	97,891	24.7%
A	91,048	19.6%	67,971	17.2%
BBB	22,339	4.8%	22,293	5.6%
Total	$ 465,264	100.0%	$ 396,438	100.0%

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

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

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

Market risk

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

Interest rate risk

The Corporation is exposed to changes in interest rates in its fixed income investments, including short-term investments, bonds and debentures and the mortgage pooled fund. 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	
	2012	2011	2012	2011
Investment earnings	$ (11,855)	$ (9,984)	$ 11,855	$ 9,984
Claims incurred	(8,265)	(8,643)	8,265	8,643
Net income	(3,590)	(1,341)	3,590	1,341

Foreign exchange risk

The Corporation is subject to changes in the U.S./Canadian dollar exchange rate on its U.S. equity investments, purchases of goods and services that are denominated in U.S. dollars, and a portion of claims and reinsurance receivables and payables denominated in U.S. dollars. Also, the Corporation is exposed to EAFE (Europe, Australasia and Far East) currencies through its investment in the non-North American pooled fund. Exposure to both U.S. equities and non-North American equities is limited to a maximum 7% each of the market value of the total investment portfolio. At December 31, 2012, the Corporation's exposure to U.S. equities was 4.9% (2011 – 5.5%) and its exposure to non-North American equities was 5.0% (2011 – 4.5%).

At December 31, 2012, a 10% appreciation/depreciation in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a $3.7 million (2011 – $3.5 million) decrease/increase in net income and retained earnings. A 10% appreciation/depreciation in the Canadian dollar versus the EAFE currencies would result in approximately a $3.8 million (2011 – $2.8 million) decrease/increase in net income and retained earnings. As common shares, the U.S. equity pooled fund and the non-North American equity pooled fund are classified as fair value through profit and loss, any unrealized changes due to foreign currency are recorded in net income.

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

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

Equity prices

The Corporation is exposed to changes in equity prices in Canadian, U.S. and EAFE markets. Equities comprise 23.7% (2011 – 22.4%) of the carrying value of the Corporation's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. No one investee or related group of investees represents greater than 10% of the market value of the Corporation's common share portfolio. As well, no one holding represents more than 10% of the voting shares of any corporation.

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

Asset class	(thousands of $) 2012			2011		
Canadian pooled equity fund and Canadian common shares	$	+/-	36,319	$	+/-	31,862
U.S. pooled equity fund and U.S. common shares		+/-	8,891		+/-	9,367
Non-North American pooled equity fund		+/-	12,252		+/-	10,096

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

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

Liquidity risk

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

The following summarizes the estimated contractual maturities of the Corporation's financial assets and liabilities at December 31:

(thousands of $)	2012						
	Carrying amount	No stated maturity	0 - 6 months	7 - 12 months	1 - 2 years	3 - 5 years	More than 5 years
Financial assets							
Accounts receivable	$ 146,265	$ –	$ 95,072	$ 45,197	$ 1,516	$ 2,266	$ 2,214
Investments	751,096	206,200	114,351	3,991	47,831	359,991	18,732
Unpaid claims recoverable from reinsurers	45,501	–	15,200	7,684	7,600	10,461	4,556
	$ 942,862	$ 206,200	$ 224,623	$ 56,872	$ 56,947	$ 372,718	$ 25,502
Financial liabilities							
Accounts payable and accrued liabilities	$ 68,130	$ –	$ 68,130	$ –	$ –	$ –	$ –
Dividend payable	41,993	–	41,993	–	–	–	–
Premium taxes payable	20,505	–	20,505	–	–	–	–
Amounts due to reinsurers	9,250	–	9,193	57	–	–	–
Provision for unpaid claims	369,137	–	98,532	51,985	57,327	95,689	65,604
	$ 509,015	$ –	$ 238,353	$ 52,042	$ 57,327	$ 95,689	$ 65,604

(thousands of $)	2011						
	Carrying amount	No stated maturity	0 - 6 months	7 - 12 months	1 - 2 years	3 - 5 years	More than 5 years
Financial assets							
Accounts receivable	$ 145,250	$ –	$ 98,242	$ 43,315	$ 1,156	$ 1,605	$ 932
Investments	632,332	169,091	110,284	4,011	71,460	241,596	35,890
Unpaid claims recoverable from reinsurers	54,600	–	21,030	10,656	9,394	9,536	3,984
	$ 832,182	$ 169,091	$ 229,556	$ 57,982	$ 82,010	$ 252,737	$ 40,806
Financial liabilities							
Accounts payable and accrued liabilities	$ 52,671	$ –	$ 52,671	$ –	$ –	$ –	$ –
Premium taxes payable	20,061	–	20,061	–	–	–	–
Amounts due to reinsurers	9,477	–	9,477	–	–	–	–
Provision for unpaid claims	374,059	–	103,821	55,514	59,010	91,641	64,073
	$ 456,268	$ –	$ 186,030	$ 55,514	$ 59,010	$ 91,641	$ 64,073

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 period.

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

SGI CANADA is not a regulated insurer; however, its subsidiaries, SGI CANADA Insurance Services Ltd., Coachman Insurance Company and the Insurance Company of Prince Edward Island, are subject to rate regulation related to their automobile premiums. Regulators require insurers to maintain a level of capital sufficient to achieve an MCT of 150% or higher based on the risk profile of the insurer and its business. At December 31, 2012, the Corporation's MCT was 250% (2011 – 222%). There have been no changes to the Corporation's capital management processes and measures since the prior year end.

17. CHANGE IN NON-CASH OPERATING ITEMS

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

	(thousands of $) 2012	2011
Accounts receivable	$ (1,015)	$ (6,723)
Unpaid claims recoverable from reinsurers	9,099	(9,965)
Reinsurers' share of unearned premiums	(1,482)	(1,244)
Deferred policy acquisition costs	(4,032)	(5,121)
Other assets	(243)	184
Accounts payable and accrued liabilities	15,459	9,334
Premium taxes payable	444	1,205
Amounts due to reinsurers	(227)	3,517
Unearned reinsurance commissions	482	349
Unearned premiums	10,484	23,826
Provision for unpaid claims	(4,922)	58,151
	$ 24,047	$ 73,513

18. EMPLOYEE SALARIES AND BENEFITS

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

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

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

	(thousands of $) 2012	2011
Salaries	$ 115,192	$ 110,422
Defined contribution pension plan	6,552	6,146
Defined benefit pension plan	(218)	(149)
Defined benefit service recognition plans	1,593	2,351
Other benefits	16,338	14,001
Total salaries and benefits	139,457	132,771
Less: Allocation to Saskatchewan Auto Fund	(85,766)	(82,119)
Salaries and benefits incurred in SGI CANADA	$ 53,691	$ 50,652

Defined contribution pension plan

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

Defined benefit pension plan

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

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.

Results from the latest valuation as at December 31, 2010, projected to December 31, 2012, and the major assumptions used in the valuation, are as follows:

Economic assumptions:	2012	2011	2010
Discount rate - beginning of period	4.20%	4.90%	5.30%
Discount rate - end of period	3.60%	4.20%	4.90%
Expected return on plan assets	5.50%	5.50%	5.50%
Inflation rate	2.50%	2.50%	2.50%
Expected salary increase	2.50%	2.50%	2.50%
Remaining service life of active members in years (EARSL)	2	2	2
Last actuarial valuation	Dec. 31/10	Dec. 31/10	Dec. 31/09

The expected return on plan assets was determined by taking the mean average return over the next 30 years for a portfolio with a similar asset allocation as the pension plan.

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

		Per cent of Plan Assets at December 31		
Asset Category	Target Range	2012	2011	2010
Short-term investments	0 - 8%	1%	4%	4%
Bonds and debentures	55 - 65%	60%	56%	51%
Canadian equities	10 - 20%	16%	15%	18%
U.S. equities	Total foreign 17 - 27%	11%	14%	13%
Non-North American equities		12%	11%	14%

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

	(thousands of $)		
	2012	2011	2010
Accrued benefit obligation			
Accrued benefit obligation, beginning of year	$ 37,307	$ 36,431	$ 36,259
Current service cost	98	116	131
Interest cost	1,503	1,713	1,848
Benefits paid	(3,050)	(2,940)	(2,954)
Change in actuarial assumptions	1,841	2,037	1,147
Net experience loss (gain)	20	(50)	–
Accrued benefit obligation, end of year	$ 37,719	$ 37,307	$ 36,431

	(thousands of $)		
	2012	2011	2010
Plan assets			
Fair value of plan assets, beginning of year	$ 34,067	$ 36,843	$ 36,491
Expected return on plan assets	1,792	1,951	1,929
Experience gain (loss)	630	(1,885)	1,263
Employer contributions	70	70	78
Employee contributions	27	28	36
Benefits paid	(3,050)	(2,940)	(2,954)
Fair value of plan assets, end of year	$ 33,536	$ 34,067	$ 36,843
Funded status - plan surplus (deficiency)	$ (4,183)	$ (3,240)	$ 412
Limit due to asset ceiling	–	–	(271)
Accrued pension asset (liability)	$ (4,183)	$ (3,240)	$ 141

The actual return on plan assets during the year was $2,422,000 (2011 – $66,000) compared to the expected amount of $1,792,000 (2011 – $1,951,000).

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

	(thousands of $)		
	2012	2011	2010
Current service cost	$ 71	$ 89	$ 96
Interest cost	1,503	1,713	1,848
Expected return on pension plan assets	(1,792)	(1,951)	(1,929)
Pension expense (income)	$ (218)	$ (149)	$ 15

During the year, $134,000 of the pension income (2011 – $92,000 of pension income) was allocated to the Saskatchewan Auto Fund. The Corporation has recorded the remaining $84,000 of pension income (2011 – $57,000 of pension income) in administrative expenses on the Consolidated Statement of Operations.

The Corporation expects $46,000 in contributions to be paid to its defined benefit plans in 2013.

Defined benefit service recognition plans

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

	2012	2011	2010
Discount rate	3.2 - 3.3%	3.7 - 3.8%	4.3 - 4.5%
Expected salary increase	3.50%	3.50%	3.50%
Inflation rate	2.50%	2.50%	2.50%
EARSL - management	9	9	10
EARSL - in-scope	9	10	10

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

		(thousands of $)	
	2012	2011	2010
Accrued benefit obligation			
Accrued benefit obligation, beginning of year	$ 21,238	$ 19,998	$ 18,984
Current service cost	226	915	849
Interest cost	776	845	940
Benefits paid	(1,237)	(1,795)	(2,081)
Experience loss	762	1,275	1,306
Accrued benefit obligation, end of year	$ 21,765	$ 21,238	$ 19,998
Unamortized past service cost	(1,470)	(2,061)	(2,652)
Accrued benefit liability, end of year	$ 20,295	$ 19,177	$ 17,346

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

	2012	2011	2010
Current service cost	$ 226	$ 915	$ 849
Interest cost	776	845	940
Amortization of plan changes and past service costs	591	591	591
Pension expense	$ 1,593	$ 2,351	$ 2,380

During the year, $980,000 of the pension expense (2011 – $1,454,000) was allocated to the Saskatchewan Auto Fund. The Corporation has recorded the remaining $613,000 of pension expense (2011 – $897,000) in administrative expenses on the Consolidated Statement of Operations.

Effective December 31, 2011, the defined benefit service recognition plan for the unionized employees was frozen for current employees and closed to new employees.

Effective December 31, 2011, the defined benefit service recognition plan for the management employees was closed to new employees, and the current employees were provided the option to elect to remain in the plan or to receive an annual payout, commencing in 2012.

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

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 at prevailing market prices under normal trade terms. The Corporation has elected to take a partial exemption under IAS 24, *Related Party Disclosures*, which allows government-related entities to limit the extent of disclosures about related party transactions with government or other government-related entities.

The Corporation acts as administrator of the Saskatchewan Auto Fund. Administrative and loss adjustment expenses incurred by the Corporation are allocated to the Saskatchewan Auto Fund directly or on the basis of specific allocations. Amounts incurred by the Corporation and charged to the Saskatchewan Auto Fund were $130,775,000 (2011 – $124,147,000) and accounts payable were $8,580,000 (2011 – accounts receivable $202,000).

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

Key management personnel

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

	(thousands of $)	
	2012	2011
Salaries and benefits	$ 3,263	$ 3,313
Post-employment benefits	39	31
Contributions to defined contribution plan	213	207
	$ 3,515	$ 3,551

During the year, $2,162,000 of the key management personnel expenses (2011 – $2,196,000) was allocated to the Saskatchewan Auto Fund.

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 Consolidated Statement of Operations. In addition, one board member owns an organization that sells insurance policies of the Corporation. Premiums written during the year from this organization amounted to $4,976,000 (2011 – $4,951,000) and the associated accounts receivable at December 31, 2012, was $819,000 (2011 – $834,000). Commissions paid were $1,028,000 (2011 – $937,000). The above noted transactions are routine operating transactions in the normal course of business.

Other related party transactions are described separately in the notes 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 $)	
	2012	2011
Gross premiums written	$ 4,889	$ 4,842
Net premiums earned	$ 4,671	$ 4,442
Claims incurred	3,385	3,298
Commissions	301	245
Premium taxes	146	139
Administrative expenses	1,076	1,077
Total claims and expenses	4,908	4,759
Underwriting loss	(237)	(317)
Investment earnings	110	79
Net loss	$ (127)	$ (238)
Facility Association receivable	$ 4,168	$ 4,123
Unearned premiums	2,016	1,797
Facility Association payable	3,504	3,504
Provision for unpaid claims	6,004	5,052

21. SEGMENTED INFORMATION

The Corporation provides property and casualty insurance through operating segments located across Canada: Saskatchewan, Manitoba and Alberta, Ontario and the Maritimes (where Maritimes represents Prince Edward Island, New Brunswick and Nova Scotia). These operating segments correspond with the geographical regions in which SGI CANADA operates. The performance of each operating segment is reported separately to the Corporation's Board of Directors.

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

(thousands of $)

2012	Saskatchewan	Manitoba and Alberta	Ontario	Maritimes	Consolidation Adjustments	Total
Net premiums written	$ 352,462	$ 60,418	$ 55,715	$ 23,223	–	$ 491,818
Net premiums earned	345,839	55,624	58,880	22,473	–	482,816
Claims incurred	167,822	31,002	36,707	10,705	–	246,236
Other expenses	137,252	19,592	15,969	8,148	–	180,961
Underwriting profit	40,765	5,030	6,204	3,620	–	55,619
Investment earnings	22,661	3,235	6,202	957	–	33,055
Income before the following:	63,426	8,265	12,406	4,577	–	88,674
Income tax expense	–	2,113	3,152	1,307	–	6,572
Net income	$ 63,426	$ 6,152	$ 9,254	$ 3,270	$ –	$ 82,102
Total assets	$ 814,475	$ 210,217	$ 213,910	$ 51,926	$ (216,930)	$ 1,073,598
Total liabilities	$ 533,485	$ 102,007	$ 160,492	$ 37,860	$ (44,391)	$ 789,453
Shareholder's equity	$ 280,989	$ 108,210	$ 53,418	$ 14,066	$ (172,538)	$ 284,145

(thousands of $)

2011	Saskatchewan	Manitoba and Alberta	Ontario	Maritimes	Consolidation Adjustments	Total
Net premiums written	$ 335,838	$ 51,178	$ 63,036	$ 21,594	$ –	$ 471,646
Net premiums earned	325,002	48,411	54,706	20,945	–	449,064
Claims incurred	202,049	34,770	39,099	14,722	–	290,640
Other expenses	127,704	16,701	15,049	7,382	–	166,836
Underwriting profit (loss)	(4,751)	(3,060)	558	(1,159)	–	(8,412)
Investment earnings	4,035	811	3,829	813	–	9,488
Income (loss) before the following:	(716)	(2,249)	4,387	(346)	–	1,076
Income tax expense	–	(645)	1,361	(81)	–	635
Net income (loss)	$ (716)	$ (1,604)	$ 3,026	$ (265)	$ –	$ 441
Total assets	$ 740,220	$ 183,987	$ 194,717	$ 46,280	$ (183,356)	$ 981,848
Total liabilities	$ 486,512	$ 93,649	$ 150,553	$ 35,443	$ (40,369)	$ 725,788
Shareholder's equity	$ 253,708	$ 90,338	$ 44,164	$ 10,837	$ (142,987)	$ 256,060

22. COMMITMENTS AND CONTINGENCIES

The Corporation is committed to a related party until 2015 for telecommunications contracts. At December 31, 2012, the remaining commitment is $2,096,000 (2011 – $790,000).

The Corporation is committed to annual payments under operating leases and other contractual obligations as follows:

	(thousands of $)
2013	$ 2,568
2014	388
2015	375
2016	358
2017	150

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

23. COMPARATIVE FINANCIAL INFORMATION

For comparative purposes, certain 2011 balances have been reclassified to conform to 2012 financial statement presentation.

GLOSSARY OF TERMS

Broker	A person who negotiates insurance policies on behalf of the insurance company, receiving a commission from the insurance company for policies placed and other services rendered.
Casualty insurance	One of the three main groups of insurance products (the others are life insurance and property insurance). This type of insurance is primarily concerned with losses caused by injuries to others than the policyholder and the resulting legal liability imposed on the insured.
Catastrophe reinsurance	A policy purchased by a ceding company that indemnifies that company for the amount of loss in excess of a specified retention amount subject to a maximum specific limit from a covered catastrophic event.
Cede, Cedant, Ceding company	An insurance company that transfers some or all of the risks in active policies to another company cedes its business. The company transferring its risks is known as the cedant or ceding company.
Claims incurred	The totals for all claims paid and related claim expenses during a specific accounting period(s) plus the changes in IBNR reserve for the same period of time.
Combined ratio	A measure of total expenses (claims and administration) in relation to net premiums earned as determined in accordance with GAAP. If this ratio is below 100%, there was a profit from underwriting activities, while over 100% represents a loss from underwriting.
Facility Association	Participation in automobile risk-sharing pools whereby P&C insurance companies share resources to provide insurance coverage to high-risk individuals or businesses.
GAAP	Generally accepted accounting principles. These are defined in the handbook prepared by the Canadian Institute of Chartered Accountants.
Gross premiums written (GPW)	Total premiums, net of cancellations, on insurance underwritten during a specified period of time before deduction of reinsurance premiums ceded.
IBNR reserve	Abbreviation for “incurred but not reported.” A reserve that estimates claims that have been incurred by a policyholder but not reported to the insurance company. It also includes unknown future developments on claims that have been reported.
IFRS	International Financial Reporting Standards. These are global accounting standards issued by the International Accounting Standards Board (IASB), including interpretations of the International Financial Reporting Interpretations Committee (IFRIC).
Loss ratio (Claims ratio)	Claims incurred net of reinsurance expressed as a percentage of net premiums earned for a specified period of time.
Minimum Capital Test (MCT)	A solvency ratio used by regulators to assess a company’s financial strength. This ratio measures capital requirements in relation to the degree of risk undertaken by a particular company. The minimum amount required by this ratio, as determined by the regulators, is 1.5 or 150% of capital available over capital required.

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

GOVERNANCE

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

- governance guidelines

- Board of Directors' photos and bios, committee members, frequency of meetings and terms of reference

- SGI CANADA executives' photos and bios

IN MEMORIAM

Alice Marquette, a Clerk 5 at the Saskatoon West Claims Centre, was an incredibly hard working and efficient employee who always put others first and was quick to joke and put others at ease.

Alice had a love and devotion to her family, especially her daughter and sisters. She had a quick, dry sense of humour and was an unforgettable co-worker and friend.

Judy Millions, a Clerk 3 in Injury Claims at the Saskatoon Central Claims Centre, was a lightning-fast typist, always on top of everything at work and well liked by her co-workers.

Judy was a dedicated wife, mother and grandmother; a talented baker; fun-loving karaoke participant and an avid traveller, enjoying warm beach-front destinations.

Kanda Benaschak, an Adjuster 1 Auto at the Swift Current Claims Centre, was a fast learner and a perfectionist with her work.

Kanda enjoyed going to concerts, reading and had a real passion for spending time with friends and family.

2260 - 11TH AVE. REGINA SK S4P 0J9
PHONE: 306-751-1200 OR 1-800-667-8015
WWW.SGICANADA.CA