

SASKATCHEWAN AUTO FUND
QUARTERLY REPORT
MARCH 2010



CORPORATE PROFILE

Vision

We will be the best customer-driven and affordable automobile insurance plan in Canada.

Values

Integrity – Conducting ourselves with honesty, trust and fairness

Caring – Acting with empathy, courtesy and respect

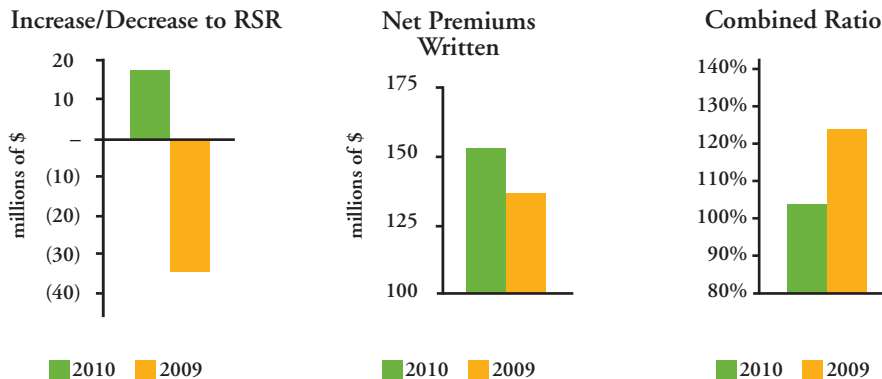
Innovation – Implementing creative solutions to achieve our vision

About the Auto Fund

In 1946, the government established basic compulsory automobile coverage for Saskatchewan residents under *The Automobile Accident Insurance Act* (AAIA). The Saskatchewan Auto Fund was established effective January 1, 1984 by an amendment to the AAIA, which separated the property and casualty insurance operations of SGI and the compulsory Auto Fund. The administrator of the Saskatchewan Auto Fund is SGI. The Auto Fund provides vehicle registrations, driver’s licences, basic minimum liability insurance required to operate a vehicle and coverage for damage to or loss of an insured’s vehicle, subject to a deductible. Automobile products are sold through a network of motor licence issuers across Saskatchewan.

Financial Highlights

For the three months to March 31



MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A) provides a review of the results of the operations of the Saskatchewan Auto Fund (the Auto Fund). This discussion and analysis should be read in conjunction with the unaudited financial statements and supporting notes as at and for the three-month period ended March 31, 2010 along with the annual MD&A, annual audited financial statements and supporting notes as at and for the year ended December 31, 2009. All dollar amounts are in Canadian dollars. This MD&A reflects all information known to SGI, the administrator of the Saskatchewan Auto Fund, up to May 11, 2010.

Overview

(thousands of \$)	three months to March 31		
	2010	2009	Change
Net premiums written	151,767	135,828	15,939
Increase (decrease) to RSR*	17,073	(35,022)	52,095
Combined ratio	103.9%	123.5%	-19.6%

*Rate Stabilization Reserve

The Auto Fund continues to see strong premium growth consistent with a growing Saskatchewan economy, resulting in more and newer vehicles in the province. In addition, a 4.2% general rate increase approved by the Saskatchewan Rate Review Panel effective November 1, 2009 contributed to the growth in premium.

The \$52.1 million improvement in results for the quarter was a combination of favourable driving conditions in the first three months of 2010 and an improvement in returns from the Auto Fund's investment portfolio as compared to the prior year.

Outlook

With the strong Saskatchewan economy, the Auto Fund is experiencing continued premium growth attributable to a newer vehicle population and growth in vehicle counts. However, claim costs continue to escalate as well. With more vehicles, the number of claims is expected to rise. In addition, rising wages in the province have led to increasing labour rates paid to autobody shops and higher income replacement benefits for injured persons. The 4.2% general rate increase effective November 1, 2009 was necessary, in part, to address rising claim costs, and will assist the Auto Fund in maintaining a healthy financial position through 2010.

In the first quarter of 2010, the Auto Fund implemented the fourth release for its system redevelopment project. The project is on target to be completed this year and will offer more choices for customers, provide better and more accessible information, allow the Auto Fund to respond more quickly to its customers and better position the Auto Fund for future demands.

Investment markets continue to improve through the first quarter of 2010. Although investment earnings have recovered over 2009 levels, the Auto Fund is experiencing lower investment earnings compared to previous years. Uncertainty in investment markets is expected to continue for the remainder of 2010. Despite the possible short-term volatility, the Auto Fund will stay the course, as it maintains a well-diversified and high-quality investment portfolio, and follows prudent investment management policies and processes.

While increasing costs and uncertain investment markets present challenges for the Auto Fund, it remains focused on delivering on its vision of being the best customer-driven and affordable automobile insurance plan in Canada.

Revenue

(thousands of \$)	three months to March 31		
	2010	2009	Change
Net premiums earned	157,385	146,309	11,076
Investment earnings (loss)	16,103	(6,262)	22,365
Other income	7,115	5,588	1,527

The growth in premium earnings is a result of an increase in the number of vehicles being insured, a mix towards newer vehicles which cost more to insure, and the 4.2% general rate increase that was effective November 1, 2009. The number of vehicle insured years increased to 848,279 from 831,100 at March 31, 2009, representing growth of 2.1%.

Investment earnings in the first quarter were significantly higher than the same period in 2009. Equity markets were positive in the first quarter, helping recover from weakness in previous quarters and generating capital gains on the sale of equities. There were no investment write-downs recorded in the first quarter of 2010, compared to \$9.6 million in write-downs recorded during the same period of 2009. While interest income remained relatively stable over the 2009 period, capital gains on the sale of bonds decreased.

Other income is comprised of fees charged for vehicle registration payment options and net earnings from salvage sales. Other income for the first quarter has increased 27.3% compared to the same quarter last year, a result of increased income from salvage operations and increased customer usage of the premium financing plans.

SASKATCHEWAN AUTO FUND

Expenses

(thousands of \$)	three months to March 31		
	2010	2009	Change
Claims incurred	132,688	148,090	(15,402)
Other expenses	<u>30,842</u>	<u>32,567</u>	<u>(1,725)</u>
	<u>163,530</u>	<u>180,657</u>	<u>(17,127)</u>
Loss ratio	84.3%	101.2%	-16.9%

Expenses are comprised of claims incurred and other expenses, which include issuer fees, premium taxes, administrative expenses and traffic safety program costs.

Claims incurred

Year-to-date claims incurred were \$132.7 million, a 10.4% decrease over the same period in 2009, which resulted in a 16.9% decrease in the overall loss ratio. The lower loss ratio was primarily due to a lower accident frequency, due to generally good road conditions throughout the quarter. Damage frequency decreased from 28.2 accidents per 1,000 insured years in 2009 to 25.0 in 2010. Injury frequency decreased from 1.7 injury claims per 1,000 insured years in 2009 to 1.5 in 2010.

The breakdown of claim costs by category to the end of March is as follows:

(thousands of \$)	three months to March 31		
	2010	2009	Change
Damage claims	88,991	96,118	(7,127)
Injury claims	<u>43,697</u>	<u>51,972</u>	<u>(8,275)</u>
Total claims incurred	<u>132,688</u>	<u>148,090</u>	<u>(15,402)</u>

Other expenses

For the first quarter, other expenses, excluding claims incurred, decreased \$1.7 million compared to the same period for 2009.

The decrease was primarily a result of lower issuer remuneration costs in the quarter, as the Auto Fund transitioned to a commission based remuneration system for its issuers in 2010. This was primarily a result of a lump sum payment made to issuers in the first quarter of 2009 as part of the transition. This was somewhat offset by higher administrative expenses, primarily a result of salaries and amortization expenses associated with the Auto Fund system redevelopment project, as a significant implementation occurred in the first quarter of 2010.

Balance Sheet Review

Assets

(thousands of \$)	March 31 <u>2010</u>	December 31 <u>2009</u>	<u>Change</u>
Total assets	1,463,853	1,496,125	(32,272)
Key asset account changes:			
Cash and cash equivalents	17,906	5,733	12,173
Investments	1,182,221	1,225,507	(43,286)

Total assets decreased \$32.3 million in the first three months of the year. Cash and cash equivalents are discussed in the Cash Flow and Liquidity section that follows. The carrying value of investments decreased by \$43.3 million, reflecting investment sales made to fund negative cash flows from operations.

Liabilities and equity

(thousands of \$)	March 31 <u>2010</u>	December 31 <u>2009</u>	<u>Change</u>
Total liabilities	1,283,236	1,341,065	(57,829)
Key liability account changes:			
Accounts payable and accrued liabilities	18,499	31,371	(12,872)
Premium taxes payable	7,588	32,683	(25,095)
Unearned premium	298,808	305,893	(7,085)
Provision for unpaid claims	958,341	971,118	(12,777)
Total equity	180,617	155,060	25,557
Key equity account changes:			
Rate Stabilization Reserve	86,646	67,211	19,435
Accumulated other comprehensive income	74,989	66,505	8,484

Total liabilities decreased \$57.8 million in the first three months of the year, with all liability categories decreasing in the quarter. Accounts payable and accrued liabilities decreased primarily due to payments made during the quarter for amounts payable at year-end. Premium taxes payable decreased as a result of the Auto Fund's 2009 premium tax payment of \$32.7 million to the province in March 2010. Unearned premiums decreased as the first quarter historically generates lower premiums written compared to the previous three quarters. The provision for unpaid claims decreased by \$12.9 million, or 1.3%, due to favourable claims experience in the first quarter of 2010.

Equity increased \$25.6 million in the first three months of 2010. The Rate Stabilization Reserve (RSR) increased by \$19.4 million, largely driven by favourable underwriting results and strong investment earnings. Accumulated other comprehensive income increased by \$8.5 million, a result of increasing investment market values during the first three months of 2010.

Cash Flow and Liquidity

(thousands of \$)	three months to March 31		
	2010	2009	Change
Operating activities	(44,912)	(41,530)	(3,382)
Investment activities	<u>57,085</u>	<u>43,151</u>	<u>13,934</u>
Net cash flow	<u>12,173</u>	<u>1,621</u>	<u>10,552</u>

While operations resulted in an increase to the RSR of \$17.1 million for the first quarter, a negative cash flow from operations of \$44.9 million occurred. The negative cash flow occurs in the first quarter of each year due to higher claim outflows from winter driving and the annual premium tax payment to the province.

Over the first three months of 2010, the Auto Fund generated positive cash flows from investing activities through the sale of equity and bond investments to fund the negative operating cash flows.

Capital

	as at March 31	
	2010	2009
Minimum Capital Test	<u>99%</u>	<u>43%</u>

The Auto Fund uses a common property and casualty industry measurement called the Minimum Capital Test (MCT) to monitor the adequacy of the RSR. The Auto Fund's MCT target range is between 75% and 150%. At March 31, 2010 the Auto Fund was within its target range. The increase, compared to 2009, was largely driven by improvements in the market value of the Auto Fund's investment portfolio, a reflection of the improvement in worldwide capital markets. For further information on capital management, refer to note 7 of the notes to the financial statements for the quarter.

Quarterly Financial Highlights

The following table highlights quarter-over-quarter results for the Auto Fund:

(thousands of \$)	2010	2009				2008			
	Q 1	Q 4	Q 3	Q 2	Q 1	Q 4	Q 3	Q 2	Q 1
Net premiums earned	157,385	162,298	166,150	155,802	146,309	151,998	155,155	146,144	134,621
Claims incurred	132,688	173,022	152,932	126,388	148,090	137,618	150,420	141,962	133,965
Surplus/(deficit)	17,073	(17,114)	(3,222)	14,604	(35,022)	(28,694)	(9,369)	632	(5,260)
Cash flow from (used in) operations	(44,912)	19,234	34,915	42,381	(41,530)	16,448	36,274	42,164	(30,369)
Investments	1,182,221	1,225,507	1,195,214	1,124,574	1,049,213	1,108,007	1,125,795	1,155,389	1,092,924
Provision for unpaid claims	958,341	971,118	936,766	906,080	911,495	899,390	887,315	849,471	830,151
Rate Stabilization Reserve	86,646	67,211	82,644	84,392	68,706	102,535	129,598	138,072	136,518

The following points are intended to assist the reader in analyzing trends in the quarterly financial highlights for 2010:

- Premium earnings generally rise in the spring and summer months (quarters two and three), largely a factor of increased premiums related to seasonal vehicles.
- With the exception of the first quarter, the Auto Fund generates positive cash flow from operations. Cash is typically low in the first quarter as the Auto Fund pays its annual premium taxes to the province in March and there are higher claim outflows from the winter driving season. Operating cash flows are generally strong throughout the remaining nine months of the year and during these months excess cash generated is reinvested into investments.

Risk Management

Understanding and managing risk is important to the Auto Fund's success. Risks that the Auto Fund manages in order to reduce the impact on its operations and profitability include claims provision risk, regulatory environment risk, financial markets risk, privacy risk, recruitment, retention and engagement risk, system availability and integrity risk, responsiveness to business needs risk and Auto Fund computer system redevelopment risk. These risks are described in further detail in the Auto Fund's 2009 Annual Report.

Accounting Matters

Critical accounting estimates and assumptions

There are no new critical accounting estimates or assumptions as compared to those discussed in the Auto Fund's 2009 Annual Report.

New accounting standards

There are no new accounting standards as compared to those discussed in the Auto Fund's 2009 Annual Report.

Related party transactions

There have been no material changes to the Auto Fund's related party arrangements during the quarter. For further details on the Auto Fund's related party arrangements, refer to the 2009 Annual Report.

Off-balance sheet arrangements

The Auto Fund, in its normal course of operations, enters into certain transactions that are not required to be recorded on its Statement of Financial Position, commonly referred to as the balance sheet. These items include litigation, structured settlements and rehabilitation funding commitments. There have been no new off-balance sheet arrangements during the quarter. For further details on off-balance sheet arrangements, refer to the 2009 Annual Report.

Future accounting standard changes

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

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

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

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

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

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

Employee benefits

While the Auto Fund does not have its own pension plan, SGI allocates a portion of its retirement benefit costs associated with its defined benefit pension plan and defined benefit service recognition plans to the Auto Fund for those employees of SGI who provide service to it.

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

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

Financial instruments

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

Insurance contracts

The Auto Fund plans to utilize the IFRS 1 exemption which allows the Auto Fund to disclose only five years of data in its loss development tables, consistent with the transitional provision of IFRS 4, Insurance Contracts. The disclosure will be increased in each subsequent year, until a full ten years of information is included.

Leases

The Auto Fund plans to utilize the IFRS 1 exemption available with regards to determining if an arrangement contains a lease. This exemption eliminates the requirement for the Auto Fund to reassess the determination of whether an arrangement contains a lease at the date of transition if the conclusion reached under Canadian GAAP is the same as the conclusion that would have been reached under IFRS.

Property, Plant and Equipment

An IFRS 1 exemption is available which allows property, plant and equipment, upon transition, to be recorded at fair value. Property, plant and equipment would otherwise be restated at cost less depreciation under IFRS. The exemption can be applied on an asset-by-asset basis. The Auto Fund is currently analyzing the applicability of this exemption.

Caution Regarding Forward-Looking Statements

Forward-looking statements include statements regarding the Saskatchewan Auto Fund's objectives, strategies and capabilities to achieve them. Forward-looking statements are based on estimates and assumptions made by SGI, as administrator of the Auto Fund, in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors that it believes are relevant in the circumstances. SGI, as the administrator of the Auto Fund, deems that the assumptions built into the forward-looking statements are plausible; however, undue reliance should not be placed on the Auto Fund's forward-looking statements, which only apply as of the date of this MD&A document.

STATEMENT OF FINANCIAL POSITION

as at March 31, 2010 and December 31, 2009

	March 31 2010 <u>(unaudited)</u>	December 31 2009 <u>(audited)</u>
	(thousands of \$)	
Assets		
Cash and cash equivalents	\$ 17,906	\$ 5,733
Accounts receivable	174,221	174,282
Deferred policy acquisition costs	23,321	23,471
Investments (note 2)	1,182,221	1,225,507
Property, plant and equipment	40,385	40,816
Other assets (note 3)	<u>25,799</u>	<u>26,316</u>
	<u>\$1,463,853</u>	<u>\$1,496,125</u>
Liabilities		
Accounts payable and accrued liabilities	\$ 18,499	\$31,371
Premium taxes payable	7,588	32,683
Unearned premiums	298,808	305,893
Provision for unpaid claims	<u>958,341</u>	<u>971,118</u>
	<u>1,283,236</u>	<u>1,341,065</u>
Equity		
Rate Stabilization Reserve	86,646	67,211
Redevelopment Reserve	18,982	21,344
Accumulated other comprehensive income	<u>74,989</u>	<u>66,505</u>
	<u>180,617</u>	<u>155,060</u>
	<u>\$1,463,853</u>	<u>\$1,496,125</u>

Commitments (note 9)

(see accompanying notes)

STATEMENT OF OPERATIONS

for the periods ended March 31, 2010 and 2009

	three months to March 31	
	2010	2009
	<u>(unaudited)</u>	<u>(unaudited)</u>
	(thousands of \$)	
Gross premiums written	\$ 151,767	\$ 135,828
Net premiums written	<u>\$ 151,767</u>	<u>\$ 135,828</u>
Net premiums earned	<u>\$ 157,385</u>	<u>\$ 146,309</u>
Claims incurred	132,688	148,090
Issuer fees	7,171	10,406
Administrative expenses	12,380	11,125
Premium taxes	7,897	7,343
Traffic safety programs	<u>3,394</u>	<u>3,693</u>
Total claims and expenses	<u>163,530</u>	<u>180,657</u>
Underwriting loss	(6,145)	(34,348)
Investment earnings (loss) (note 4)	16,103	(6,262)
Other income (note 5)	<u>7,115</u>	<u>5,588</u>
Increase (decrease) to Rate Stabilization Reserve	<u>\$ 17,073</u>	<u>\$ (35,022)</u>

(see accompanying notes)

STATEMENT OF COMPREHENSIVE INCOME (LOSS)

for the periods ended March 31, 2010 and 2009

	three months to March 31	
	2010	2009
	<u>(unaudited)</u>	<u>(unaudited)</u>
	(thousands of \$)	
Increase (decrease) to Rate Stabilization Reserve	<u>\$ 17,073</u>	<u>\$ (35,022)</u>
Other comprehensive income		
Net unrealized gains (losses) on available for sale financial assets arising during the period	15,469	(13,851)
Reclassification of net realized losses (gains) on sale of investments included in operations	(6,985)	6,272
Reclassification for investment write-downs included in operations	<u>—</u>	<u>9,604</u>
Other comprehensive income	<u>8,484</u>	<u>2,025</u>
Comprehensive income (loss)	<u>\$ 25,557</u>	<u>\$ (32,997)</u>

(see accompanying notes)

STATEMENT OF CHANGES IN EQUITY

for the periods ended March 31, 2010 and 2009

	three months to March 31	
	2010	2009
	<u>(unaudited)</u>	<u>(unaudited)</u>
	(thousands of \$)	
Rate Stabilization Reserve		
Balance, beginning of period	\$ 67,211	\$ 102,535
Increase (decrease) to Rate Stabilization Reserve	17,073	(35,022)
Appropriation from Redevelopment Reserve	<u>2,362</u>	<u>1,193</u>
Balance, end of period	<u>\$ 86,646</u>	<u>\$ 68,706</u>
Redevelopment Reserve		
Balance, beginning of period	\$ 21,344	\$ 26,774
Appropriation to Rate Stabilization Reserve	<u>(2,362)</u>	<u>(1,193)</u>
Balance, end of period	<u>\$ 18,982</u>	<u>\$ 25,581</u>
Accumulated other comprehensive income (loss)		
Balance, beginning of period	\$ 66,505	\$ (21,122)
Other comprehensive income	<u>8,484</u>	<u>2,025</u>
Balance, end of period	<u>\$ 74,989</u>	<u>\$ (19,097)</u>
Total Equity	<u>\$ 180,617</u>	<u>\$ 75,190</u>

(see accompanying notes)

STATEMENT OF CASH FLOWS

for the periods ended March 31, 2010 and 2009

	three months to March 31	
	2010	2009
	<u>(unaudited)</u>	<u>(unaudited)</u>
	(thousands of \$)	
Cash provided by (used for):		
Operating activities		
Increase (decrease) to Rate Stabilization Reserve	\$ 17,073	\$ (35,022)
Non-cash items:		
Amortization	2,311	2,117
Realized net loss (gain) on disposal of investments	(6,985)	6,272
Investment write-downs	–	9,604
Change in non-cash operating items (note 8)	<u>(57,311)</u>	<u>(24,501)</u>
	<u>(44,912)</u>	<u>(41,530)</u>
Investing activities		
Purchases of investments	(192,977)	(175,610)
Proceeds on sale of investments	251,188	219,904
Repayment of capital lease	221	200
Purchases of property, plant and equipment	(294)	(308)
Purchases of intangible assets	<u>(1,053)</u>	<u>(1,035)</u>
	<u>57,085</u>	<u>43,151</u>
Increase in cash and cash equivalents	12,173	1,621
Cash and cash equivalents, beginning of period	<u>5,733</u>	<u>1,561</u>
Cash and cash equivalents, end of period	<u>\$ 17,906</u>	<u>\$ 3,182</u>

(see accompanying notes)

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2010

1. SIGNIFICANT ACCOUNTING POLICIES

These unaudited financial statements do not include all of the disclosures included in the Auto Fund's annual audited financial statements. The accounting policies used in the preparation of these interim financial statements are in accordance with Canadian generally accepted accounting principles (GAAP) and are consistent with those used in the preparation of the Auto Fund's 2009 annual audited financial statements. Accordingly, these interim financial statements should be read in conjunction with the audited financial statements included in the Auto Fund's 2009 Annual Report.

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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 and investment valuation.

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises, including the Auto Fund, will be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian GAAP for interim and annual reporting in fiscal years beginning on or after January 1, 2011, including comparative figures for the prior year. The Auto Fund's administrator, SGI, commenced an IFRS conversion project in 2008. The project is on schedule and work is currently taking place to finalize the impact that the adoption of IFRS will have on the Auto Fund's financial statements.

2. INVESTMENTS

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

	(thousands of \$)	
	March 31 2010	December 31 2009
Short-term investments	\$ 200	\$ 8,693
Bonds and debentures	711,128	740,249
Canadian common shares	198,432	207,685
U.S. common shares	65,471	66,833
Pooled funds:		
Non-North American equity	65,245	63,352
Mortgage	77,787	75,535
Real estate	63,958	63,160
Total investments	<u>\$1,182,221</u>	<u>\$1,225,507</u>

The following table presents available for sale investments with unrealized losses at March 31, 2010 where the decline is considered temporary. Unrealized losses are recorded as a component of accumulated other comprehensive income.

	(thousands of \$)			
	as at March 31, 2010		as at December 31, 2009	
	Carrying Value	Gross Unrealized Losses	Carrying Value	Gross Unrealized Losses
Bonds and debentures:				
Federal	\$ 173,204	\$ (836)	\$ 144,961	\$ (1,257)
Provincial and municipal	65,710	(1,139)	53,403	(1,207)
Corporate	62,228	(939)	81,258	(2,002)
Canadian common shares	29,344	(3,158)	28,291	(2,720)
U.S. common shares	13,668	(1,228)	21,481	(1,497)
Non-North American pooled equity fund	65,245	(9,032)	63,352	(7,424)
	<u>\$ 409,399</u>	<u>\$ (16,332)</u>	<u>\$ 392,746</u>	<u>\$ (16,107)</u>

As at March 31, 2010, the cost of 49 (December 31, 2009 – 61) available for sale investments exceeded their carrying value by \$16,332,000 (December 31, 2009 – \$16,107,000). The unrealized losses on the bonds and debentures arose primarily from changes in interest rates. For common shares and the non-North American pooled equity fund, unrealized losses are primarily the result of investment-specific business environment factors related to the underlying equity investments.

SASKATCHEWAN AUTO FUND

The Auto Fund conducts a quarterly review to identify and evaluate investments that show indications of impairment. An investment is considered impaired if its fair value falls below its cost, and a write-down is recorded in investment earnings when the decline is considered other than temporary. Factors considered in determining whether a loss is temporary include: the length of time and extent to which fair value has been below cost; financial condition and near-term prospects of the issuer; and the ability to hold the investment for a period of time sufficient to allow for any anticipated recovery. During the quarter, there were no investment write-downs recorded related to impairments that were considered other than temporary (March 31, 2009 – \$9,604,000).

Determination of fair value

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

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

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

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

	(thousands of \$)					
	March 31, 2010			December 31, 2009		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Short-term investments	\$ 200	\$ –	\$ 200	\$ 8,693	\$ –	\$ 8,693
Bonds and debentures	711,128	–	711,128	740,249	–	740,249
Canadian common shares	198,432	–	198,432	207,685	–	207,685
U.S. common shares	65,471	–	65,471	66,833	–	66,833
Pooled funds:						
Non-North American equity	65,245	–	65,245	63,352	–	63,352
Mortgage	–	77,787	77,787	–	75,535	75,535
Real estate	–	63,958	63,958	–	63,160	63,160
	<u>\$1,040,476</u>	<u>\$ 141,745</u>	<u>\$1,182,221</u>	<u>\$1,086,812</u>	<u>\$ 138,695</u>	<u>\$1,225,507</u>

3. OTHER ASSETS

Other assets are comprised of the following:

	(thousands of \$)	
	March 31 2010	December 31 2009
Intangible assets	\$ 17,049	\$ 17,038
Inventories	3,093	3,302
Accrued pension asset	2,956	2,955
Prepaid expenses	1,761	1,859
Net investment in capital lease	<u>940</u>	<u>1,162</u>
Total	<u>\$ 25,799</u>	<u>\$ 26,316</u>

Intangible assets are comprised of the following:

	(thousands of \$)			December 31
	March 31 2010	Accumulated Amortization	Net Book Value	2009 Net Book Value
System development costs	<u>\$ 23,667</u>	<u>\$ 6,618</u>	<u>\$ 17,049</u>	<u>\$ 17,038</u>

Included in administrative expenses on the Statement of Operations is amortization of the system development costs, which for the three months ended March 31, 2010 is \$1,042,000 (March 31, 2009 – \$749,000). During the period, \$1,053,000 (March 31, 2009 – \$1,035,000) of internally generated system development costs were capitalized.

4. INVESTMENT EARNINGS (LOSS)

The components of investment earnings (loss) are as follows:

	(thousands of \$)	
	three months to March 31	
	2010	2009
Interest	\$ 7,341	\$ 7,208
Net realized gain (loss) on sale of investments	6,985	(6,272)
Dividends	1,092	1,525
Pooled fund distributions	1,033	1,001
Interest on net investment in capital lease	27	48
Income producing property	-	146
Investment write-downs	<u>-</u>	<u>(9,604)</u>
Total investment earnings	\$ 16,478	\$ (5,948)
Investment expenses	<u>(375)</u>	<u>(314)</u>
Net investment earnings (loss)	<u>\$ 16,103</u>	<u>\$ (6,262)</u>

5. OTHER INCOME

The components of other income are as follows:

	(thousands of \$)	
	three months to March 31	
	<u>2010</u>	<u>2009</u>
Payment option fees	\$ 4,625	\$ 3,841
Net earnings on salvage sales	<u>2,490</u>	<u>1,747</u>
Total other income	<u>\$ 7,115</u>	<u>\$ 5,588</u>

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

6. FINANCIAL RISK MANAGEMENT

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

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

Credit risk

The Auto Fund's credit risk arises primarily from two distinct sources: accounts receivable and certain investments. The maximum credit risk to which the Auto Fund is exposed as at March 31, 2010 is limited primarily to the carrying value of those financial assets summarized as follows:

	(thousands of \$)	
	March 31	December 31
	<u>2010</u>	<u>2009</u>
	<u>Carrying Value</u>	<u>Carrying Value</u>
Cash and cash equivalents	\$ 17,906	\$ 5,733
Accounts receivable	174,221	174,282
Fixed income investments ¹	789,115	824,477

Cash and cash equivalents include money market investments of \$18,000,000 less cash on hand, net of outstanding cheques of \$94,000 (December 31, 2009 – money market investments of \$5,600,000 and cash on hand, net of outstanding cheques of \$133,000). The money market investments mature within 90 days from the date of acquisition and have a credit rating of R-1.

Accounts receivable primarily relate to financed premiums receivable and amounts recoverable on paid claims. Balances are outstanding from customers, diversified among residential, farm and commercial customers, along with motor licence issuers within Saskatchewan. Accounts receivable consist of balances outstanding for one year or less. Provisions for credit losses are maintained in an allowance account and are regularly reviewed by the Auto Fund. Amounts are written off once reasonable collection efforts have been exhausted. An Auto Fund customer cannot complete a driver’s licence or vehicle transaction without making arrangements for payment of outstanding balances, including balances previously written off.

Details of the allowance account are as follows:

	(thousands of \$)	
	three months ended March 31 <u>2010</u>	twelve months ended December 31 <u>2009</u>
Allowance for doubtful accounts, opening balance	\$ 53,649	\$ 44,979
Accounts written off	(1,663)	(9,456)
Current period provision	<u>2,078</u>	<u>18,126</u>
Allowance for doubtful accounts, closing balance	<u>\$ 54,064</u>	<u>\$ 53,649</u>

The allowance for doubtful accounts includes \$44,383,000 (December 31, 2009 – \$43,898,000) related to amounts recoverable on paid claims from uninsured motorists, motorists in breach of their coverage or other insurance companies.

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

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Credit ratings for bond and debenture investments are as follows:

Credit Rating	March 31, 2010		December 31, 2009	
	Carrying Value (thousands of \$)	Makeup of Portfolio (%)	Carrying Value (thousands of \$)	Makeup of Portfolio (%)
AAA	\$ 321,892	45.3%	\$ 335,716	45.4%
AA	183,162	25.8%	194,850	26.3%
A	168,754	23.7%	172,731	23.3%
BBB	37,320	5.2%	36,952	5.0%
Total	<u>\$ 711,128</u>	<u>100.0%</u>	<u>\$ 740,249</u>	<u>100.0%</u>

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

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

Through its custodian, the Auto Fund participates in an investment security lending program. Collateral of at least 102% of the market value of the loaned securities is held for the loan. This collateral is marked to market on a daily basis. In addition, the custodian provides indemnification against any potential losses in the securities lending program. At March 31, 2010, the Auto Fund had \$129,700,000 (December 31, 2009 – \$99,495,000) of securities loaned under the program and held collateral of \$136,200,000 (December 31, 2009 – \$104,469,000).

Market risk

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

Interest rate risk

The Auto Fund is exposed to changes in interest rates in its fixed income investments, including bonds and debentures and the mortgage pooled fund. Duration is a measure used to estimate the extent market values of fixed income instruments change with changes in interest rates. Using this measure, it is estimated that a 100 basis point increase/decrease in interest rates would decrease/increase other comprehensive income and accumulated other comprehensive income by approximately \$49.4 million at March 31, 2010 (December 31, 2009 – \$51.0 million), representing 6.3% of the \$789.1 million (December 31, 2009 – 6.2%, \$824.5 million) of fixed income investments.

Foreign exchange

The Auto Fund is subject to changes in the U.S./Canadian dollar exchange rate on its U.S. equity investment portfolio and its Europe, Australasia and Far East (EAFE) currencies through its investment in the non-North American pooled fund. Exposure to both U.S. equities and non-North American equities is limited to a maximum 7% each of the market value of the total investment portfolio. At March 31, 2010, the Auto Fund's exposure to U.S. equities was 5.5% (December 31, 2009 – 5.5%) and its exposure to non-North American equities was 5.5% (December 31, 2009 – 5.2%).

At March 31, 2010, a 10% appreciation/depreciation in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a \$6.5 million decrease/increase in other comprehensive income and accumulated other comprehensive income. A 10% appreciation/depreciation in the Canadian dollar versus EAFE currencies would result in approximately a \$6.5 million decrease/increase in other comprehensive income and accumulated other comprehensive income. As U.S. common shares and non-North American equity pooled fund investments are classified as available for sale, any unrealized changes due to foreign currency are recorded as other comprehensive income and do not directly impact net income until the investment is sold.

The Auto Fund's exposure to foreign exchange risk within its bond and debenture portfolio is limited to a maximum 5% of the market value of the bond and debentures portfolio. As well, no more than 10% of the market value of the bond portfolio shall be invested in bonds of foreign issuers.

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

Equity prices

The Auto Fund is exposed to changes in equity prices in Canadian, U.S. and EAFE markets. At March 31, 2010, equities comprise 27.8% (December 31, 2009 – 27.6%) of the carrying value of the Auto Fund's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. No one investee or related group of investees represents greater than 10% of the market value of the Auto Fund's common share portfolio, and no one holding represents more than 10% of the voting shares of any corporation.

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The Auto Fund'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 \$)	
	March 31 2010	December 31 2009
Canadian equities	\$ +/- 76,198	\$ +/- 80,166
U.S. equities	+/- 16,368	+/- 16,708
Non-North American pooled equity fund	+/- 22,053	+/- 21,667

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

Liquidity risk

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

7. CAPITAL MANAGEMENT

The primary objectives of capital management for the Auto Fund is to maintain an adequate balance in its Rate Stabilization Reserve (RSR) to assist in achieving consistency and stability in rates so that customers are not subject to ongoing price fluctuations or large rate increases. The Auto Fund uses a common industry measurement called the Minimum Capital Test (MCT) to establish a target for the RSR. The MCT is a risk-based capital adequacy formula that assesses risks to assets, policy liabilities and off-balance sheet exposures by applying various factors to determine a ratio of capital available over capital required. The Auto Fund's target is a range between 75% and 150%. At March 31, 2010, the MCT is 99% (December 31, 2009 – 83%).

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

8. CHANGE IN NON-CASH OPERATING ITEMS

	(thousands of \$)	
	three months to March 31	
	<u>2010</u>	<u>2009</u>
Accounts receivable	\$ 61	\$ (1,168)
Deferred policy acquisition costs	150	1,124
Other assets	307	(554)
Accounts payable and accrued liabilities	(12,872)	(6,191)
Premium taxes payable	(25,095)	(23,846)
Unearned premiums	(7,085)	(5,971)
Provision for unpaid claims	<u>(12,777)</u>	<u>12,105</u>
	<u>\$ (57,311)</u>	<u>\$ (24,501)</u>

9. COMMITMENTS

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

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

	(thousands of \$)
2010	\$ 16,134
2011	15,453
2012	15,554
2013	11,744
2014	10,500

10. COMPARATIVE FINANCIAL INFORMATION

For comparative purposes, certain 2009 balances have been reclassified to conform to 2010 financial statement presentation.