# Putting people first

2009 Saskatchewan Auto Fund annual report

# 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

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# Letter of Transmittal

Regina, Saskatchewan
March 2010

To His Honour,
The Honourable Dr. Gordon L. Barnhart, S.O.M., PhD
Lieutenant Governor of the Province of Saskatchewan

Your Honour,

I am pleased to submit herewith the annual report of the Saskatchewan Auto Fund for the year ended December 31, 2009, including the financial statements in the form required by the Treasury Board and in accordance with *The Automobile Accident Insurance Act*.

Respectfully submitted,

June Draude

Honourable June Draude
Minister Responsible for Saskatchewan Government Insurance

# Minister's Message

The Saskatchewan Auto Fund is a prime example of how Crown corporations benefit the people of our province.

Saskatchewan vehicle owners continue to enjoy the lowest average personal automobile insurance rates in Canada. This holds true even after the Auto Fund implemented its first overall rate increase since 2000.

However, it's not just low rates. SGI strives to be customer driven. They put people first! Nowhere is this more evident than through SGI's commitment to traffic safety and reducing the number of injuries and fatalities on Saskatchewan roads. SGI's traffic safety programming impacts everyone in our province, from newborns travelling in their car seats to keeping aging drivers mobile and safe.

The Auto Fund is being impacted by the growth in our economy and population, as it continues to see an increase in revenue as more and more vehicles are registered in Saskatchewan.

The Auto Fund is just one of our many strong Crown corporations, here to meet the needs of a growing province.

I am proud to present the 2009 Saskatchewan Auto Fund Annual Report.

June Draude

Honourable June Draude
Minister Responsible for Saskatchewan Government Insurance

# Chair's Message

In 2009, SGI's Board of Directors was very pleased to welcome its newest President and CEO, Andrew Cartmell, to the Corporation. Andrew brings with him more than 25 years of industry expertise, and we are confident Andrew is the right person to lead SGI and its team forward.

The Board recognizes and thanks Earl Cameron for his leadership and counsel during his term as Acting President and CEO. For 36 years, Earl has made an invaluable contribution to the Corporation and his service as Acting President and CEO is a further example of this.

No leader can succeed without a great team. SGI's employees are the key drivers in our vision of being the best customer-driven and affordable insurance plan in Canada. In 2009, employee commitment to improving productivity and reducing administrative costs moved us closer to that vision.

Another key factor in helping us achieve our vision is the Auto Fund system redevelopment project. While the largest release in the project thus far did not occur until early 2010, the bulk of the preparations took place throughout 2009. This project is a critical component in readying the Auto Fund to meet future customer and business needs.

Although there were still challenges in 2009, the gradual recovery of the financial markets was evident. Despite a second consecutive loss of more than $40 million, investment markets did bounce back as evidenced by the significant increase in the market value of the Auto Fund's investment portfolio. In the coming year, the Board intends to review the strategic plan for the Auto Fund to ensure it continues moving towards its vision.

On behalf of all the Board, let me thank SGI employees and motor licence issuers for their work and contributions throughout 2009 and into the future.

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

We connect with people at every stage of their life.

Andrew R. Cartmell

# President's Message

Since joining SGI in August 2009, I have been getting to know our experienced, dedicated and talented staff. One of the things that really resonates with me is the tremendous impact that the Saskatchewan Auto Fund has on people in the province throughout their lifetime.

We connect with people at every stage of their life. We protect children through our child restraint clinics, assist learner drivers through our Graduated Driver's Licensing Program, help all drivers deal with collisions and improve their skills with our Driver Improvement Program, and work with aging drivers to keep them mobile and on the road safely.

This is possible with the dedication of our employees. You will see examples of this dedication throughout this report, as we have included some messages employees have received from our customers about their excellent customer service and the positive impact we've had on their lives. Our employees put people first, and that's what truly makes SGI a customer-driven company.

## Our Financial Results

From an underwriting perspective, 2009 was very similar to 2008. The Auto Fund again saw an increase in premium revenue as we continue to serve a growing province, and as expected this was accompanied by higher claims costs. This resulted in the Rate Stabilization Reserve (RSR) being drawn down to $67.2 million.

While the RSR declined, the total capital of the company increased thanks to a strong recovery on investment values in 2009. The net result at year end was a Minimum Capital Test (MCT) of 83%, compared to 61% at the end of 2008. This brought the Auto Fund closer to its 2009 target MCT range of between 100% and 125%.



## Our Business

In 2009, SGI submitted a proposal for a 4.2% Auto Fund rate increase, with rate rebalancing, which was approved and became effective Nov. 1. This was the Auto Fund's first overall rate increase since 2000 – a fact that I, as someone new to SGI, was extremely impressed by. I can't think of another insurance company that has held the line on its rates for that length of time, and I congratulate the team at SGI for this accomplishment.

The rate increase in 2009 was necessary because costs continued to outpace premium growth and investment income, which is explained in detail in the Management's Discussion and Analysis section.

Despite these increased costs, SGI remains committed to its vision of being the most affordable automobile insurance plan in Canada. Even after the 2009 rate increase, the Auto Fund continues to have the lowest average personal auto insurance rates in Canada.

SGI strives to be customer driven, meaning we try to anticipate and exceed our customers' expectations.

## Our Customers

The other aspect of our vision is to be customer driven, meaning we try to anticipate and exceed our customers' expectations. SGI continues to build on the belief that providing quality customer service, and putting people first, is what sets us apart in this industry.

SGI polls customers every year to see how it's doing, and, this year achieved 81% on the corporate image rating, the second highest result ever.

Here are just a few examples of initiatives that demonstrate why we're highly valued by our customers:

- SGI allocated $125,000 to assist refugees and immigrants who have taken up permanent residency in Saskatchewan in obtaining their driver's licence.
- The government and SGI again rewarded "green vehicle" owners in 2009. Owners of eligible hybrid and fuel-efficient vehicles received a 20% rebate on their 2008 insurance and registration costs. Almost 7,500 customers received an average rebate of about $177.
- SGI announced that, beginning in 2011, Saskatchewan will move to a one-part, five-year driver's licence and identification card to increase security and enhance convenience for customers.
- SGI continued work on its five-year, $35 million Auto Fund system redevelopment project. The work done in 2009 has prepared us for the home stretch as the project comes to completion, following a major release in February and the gradual introduction of Internet transactions later in the year. The system redevelopment will make it easier for our customers to do business with us. I'd like to thank our network of more than 400 motor licence issuers throughout the province for their patience and support during the redevelopment project.



Our employees put people first, both by providing excellent customer service and giving back to our community - like donating hundreds of teddy bears to sick and injured children (above centre).

## Our Employees

Employee engagement is a priority at SGI. Each year we conduct two surveys to measure the engagement of our people and our progress in delivering on our vision and values. The latest overall score was 65.2% – lower than what we would like. But the survey provides us with very valuable insight into what our employees are thinking, what they want and what we can do to get our engagement to where we'd like it to be.

Although there is still work to do, it's clear that SGI is doing many things right. SGI's commitment to diversity, work-life balance, wellness and community involvement, among other things, continues to be recognized nationally and provincially.

- For the third straight year, SGI was named one of Canada's Top 100 Employers.
- For the fourth straight year, SGI was named one of Saskatchewan's Top Employers.
- For the third straight year, SGI was named one of Canada's Best Diversity Employers.
- SGI was also named one of Canada's Top Family-Friendly Employers in 2009 for the first time ever.

## Our Community

SGI's commitment to being a caring corporate citizen is evident in our community relations activities, donations and sponsorships, which you'll see in more detail in the "Sustainability" section of this report.

What I'm truly touched by is our staff's commitment to the community and to putting people first – not only our customers, but our fellow citizens. SGI's Community Action Team (CAT) is a staff committee that guides the employee philanthropy program and reviews, investigates and creates opportunities for SGI to give back to the Saskatchewan communities where we do business.

In 2009, CAT made financial contributions to a number of organizations, including the Battleford's Union Hospital, Alzheimer Society of Saskatchewan, Juvenile Walk for Diabetes and Hospitals of Regina Foundation.

In addition, our staff throughout the province stepped up to the plate in fundraising events for worthy causes by raising over $100,000 for the United Way and over $26,000 for Telemiracle. And it wasn't just about dollars – staff also gave generously by donating hundreds of gently used teddy bears for sick or injured children being transported by ambulance, and thousands of travel-sized personal care items for families in temporary need at shelters and outreach programs. These are just a handful of examples of the caring and generosity of our staff.



## Traffic Safety

SGI continues to focus on the six key components of the traffic safety strategy it introduced in 2006: impaired driving, human factors, occupant protection, roadway-based solutions, intersection safety and speed management.

SGI has a comprehensive traffic safety strategy, designed to save lives and prevent injuries.

While there was work done in each of these areas in 2009, SGI continues to focus on its top traffic safety priorities. Drinking and driving continues to be the number one contributing factor in fatal collisions in Saskatchewan and, as such, continues to be a top priority for SGI.

Driver distraction is also a major contributing factor to collisions in Saskatchewan. With growing evidence around the world that using cellphones while driving contributes to collisions, the Saskatchewan government introduced legislation banning the use of hand-held cellphones while driving. The legislation became effective on January 1, 2010.

SGI continues to seek new and innovative solutions to traffic safety issues. One of the ways we're doing this is by donating $100,000 over a four-year period to the University of Regina to renew the SGI Graduate Student Traffic Safety Research Scholarship. The scholarship is intended to create opportunities for graduate students to produce thesis-based research on engineering or human factor issues related to traffic safety.

You can find more information on SGI's traffic safety initiatives in the "Traffic Safety" section of this report.

## Looking behind, looking ahead…

There is a lot for SGI to be proud of in 2009, and much of the credit for that goes to my predecessor. I thank Earl Cameron for all his hard work, guidance and leadership while serving as interim President and CEO. It made it much easier for me to come into a new position with a company that had been in such capable hands.

I am very excited about 2010 and look forward to all the opportunities my first full year at SGI will bring.

Andrew R. Cartmell

Three Regina employees teamed up to help a customer who had a complicated situation regarding a driver's licence. **Richelle Lubkiwski**, Licence Issuer 1, **Leigh McKnight**, Licence Issuer 1 and **Darlene Lott**, Supervisor, Branch & IRP Issuing Services, received the following note from the grateful customer:

*We were very thankful that the staff helped us out at the last minute and stayed beyond their normal working hours to resolve a very frustrating situation. Not many people would stay beyond 5 p.m. on a Friday to help a person.*

*Thank you very much for your wonderful staff and their above par service.*


Driving while fatigued is an impairment and can be as dangerous as driving after drinking. SGI partnered with the Saskatchewan Trucking Association to roll out that message - literally - onto Saskatchewan highways (above right).

# Traffic Safety

In 2006, SGI developed a comprehensive traffic safety strategy in an effort to save lives and prevent injuries. The strategy was also part of our commitment to Canada's Road Safety Vision 2010 – a national effort toward making Canada's roads the safest in the world.

Work continued on that strategy in 2009, focusing on the strategy's six key components: human factors, impaired driving, intersection safety, occupant protection, speed management and roadway-based solutions.

New initiatives and projects that SGI introduced in 2009 include:

## Human factors

- Announced in 2009 and starting in 2011, new motorcycle drivers will be subject to graduated driver's licensing (GDL). SGI continues to work with the private sector on expanding access to motorcycle training to meet the needs of the GDL program.
- Announced in 2009 and effective on January 1, 2010, hand-held cellphones are banned while driving.
- SGI partnered with the Alzheimer Society of Saskatchewan to develop and distribute educational resources on driving and dementia. In 2009, SGI funded the SGI Driving and Dementia Forum.
- SGI allocated $125,000 to assist refugees and immigrants who have taken permanent residency in Saskatchewan in obtaining their driver's licence by facilitating access to driver education.
- SGI partnered with MD Ambulance, Saskatoon Police Service, Saskatoon Fire and Protective Services, Saskatoon Health Region and the Saskatoon Community Clinic on the "Head's Up" campaign to remind drivers to pay more attention to pedestrians, and to remind pedestrians to be aware of vehicles.
- SGI partnered with the Saskatchewan Trucking Association (STA) to create a "rolling billboard" on an STA trailer that promoted awareness of the dangers of drowsy driving.

## Impaired driving

- SGI provided about $200,000 for the purchase of new breath analyzing equipment for provincial law enforcement.
- SGI sent a strong message to the province's high-risk drivers in 2009 by introducing a policy change to the Safe Driver Recognition program, increasing the financial penalty for any Criminal Code driving-related offence resulting in injury or death from $500 to $2,500.

Wearing a seatbelt can decrease your chances of sustaining a serious injury in a collision by up to 50%. The town of Wadena (above centre) and Muscowpetung First Nation (above right) were rewarded for increasing the seatbelt use in their communities during SGI's 2009 Seatbelt Challenges.

## Intersection safety

- SGI worked with municipalities to improve the safety of high-collision intersections throughout the year. In Regina, we assisted with the installation of advanced warning signals at 4th Avenue and Lewvan Drive. In Saskatoon, we funded safety improvements at Preston Avenue and College Drive.

## Occupant protection

- The Seatbelt Challenge is a community-driven project designed to improve seatbelt use in rural Saskatchewan. SGI partners with health regions, First Nations, municipalities, law enforcement agencies, fire departments, emergency medical service providers and student organizations in participating communities to conduct the challenge. The Seatbelt Challenge continued in 2009 with eight communities from the File Hills Qu'Appelle Tribal Council and four communities from the Saskatoon Health Region competing in their own challenges.

## Speed management

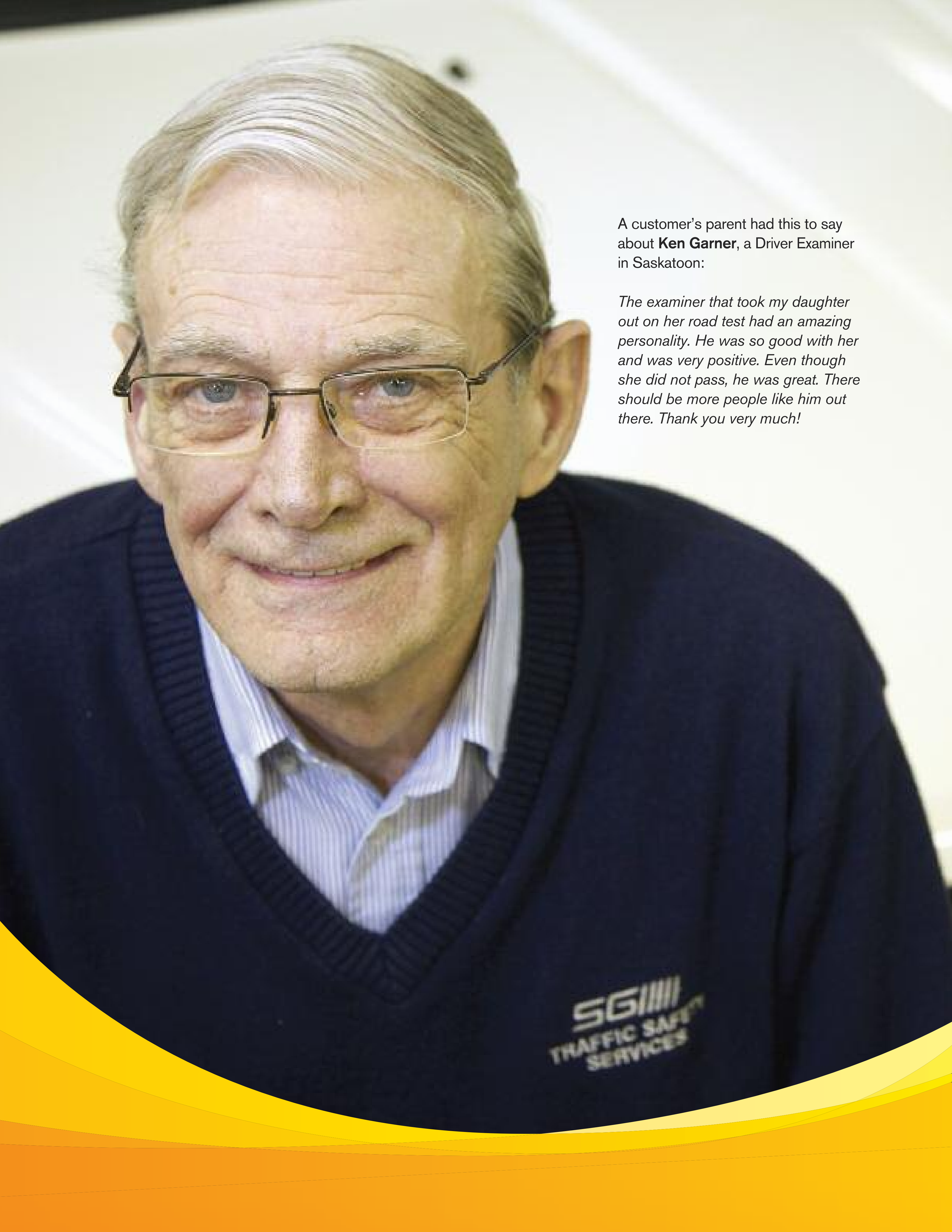
- SGI provided financial support to Saskatoon's Air Support Unit to help them catch speeding drivers on Saskatoon's Circle Drive. SGI also provided funding for a thermal-imaging camera for the Air Support Unit that enables them to see what is happening on the ground at night.

## Roadway-based solutions

- SGI works with the Ministry of Highways and Infrastructure on projects such as shoulder rumble strips, advance intersection warning lights and safety audits.
- SGI provided funding to add a sanding truck/snow plow to the winter road maintenance fleet in Regina that is specifically for high-speed roadways.

# 2010 and beyond

Traffic safety continues to be a top priority at SGI, and staff are currently developing a new long-term traffic safety strategy that will be rolled out later this year.



A customer's parent had this to say about **Ken Garner**, a Driver Examiner in Saskatoon:

*The examiner that took my daughter out on her road test had an amazing personality. He was so good with her and was very positive. Even though she did not pass, he was great. There should be more people like him out there. Thank you very much!*


SGI takes pride in being a caring corporate citizen and being involved in the community. SGI took its traffic safety messaging to Regina's Summer Invasion festival (above centre) and employees helped serve a hot lunch to kids at Christmas (above right).

# Sustainability

SGI understands that the key to the long-term success and sustainability of our business is a strong commitment to our community, employees, the environment and strong corporate governance, just to name a few examples.

## Community

Our investments as a corporate citizen go beyond simply providing donations and sponsorships to hundreds of community events.

SGI has a strong presence in communities across the province promoting traffic safety, beginning with making sure babies come home safely from the hospital. Our bicycle, pedestrian and school bus safety education reaches nearly every Saskatchewan student. We support our future drivers through our driver education programs and our partnership with Students Against Drinking and Driving (SADD).

Other examples of how SGI supports communities include:

- Red Cross Babysitting Course – SGI sponsored the Red Cross Babysitting Course, which offers young people a training certificate in babysitting, so parents can rest assured and babysitters can feel confident in their abilities. Through its sponsorship, SGI is able to get its traffic safety messaging (i.e., bicycle safety) to young people.
- Summer Invasion Festival – SGI sponsored Summer Invasion, a festival organized by young people for young people, that features extreme sports and live music. Through its sponsorship, SGI reached over 15,000 young people with its drinking and driving messaging.

We're also committed to empowering the youth of Saskatchewan by supporting groups that encourage positive attitudes and behaviours, such as the Prince Albert Youth Centre, Blasting through Stereotypes and the Saskatchewan 4-H Foundation.

SGI also supports cultural diversity by providing funding to the Mokum and Kokum Project, Stardale Women's Group in Melfort and multicultural celebrations in Regina, Saskatoon and Moose Jaw.

In total, SGI provided funding through sponsorships and donations to 381 organizations throughout the province:

- 55% to provincial organizations
- 31% to organizations in Regina and Saskatoon
- 14% to rural organizations



# Employees

SGI believes that an investment in its staff is an investment in the success of the organization. In addition to comprehensive insurance plans for health, vision and dental care, SGI also provides staff with other benefits to help them both professionally and personally.

- SGI offers comprehensive training and development and provides employees with financial assistance for post-secondary education to help achieve their career goals.
- Wellness is a priority at SGI. Employees have access to free seasonal flu vaccine each year, receive help quitting smoking and finding information on how to care for aging family members.
- In 2009, SGI secured a new service provider for its Employee Assistance Program, giving employees who may be facing personal or professional challenges access to around-the-clock assistance.
- SGI strives to offer an employee-friendly work environment through vacation time that increases with years of service, job-share opportunities and flex-time.
- SGI helps employees prepare for their futures by matching pension contributions and offering a group RRSP plan.

Rewarding and challenging careers, an employee-friendly work environment and a diverse, supportive culture with a great community of people – these are just some of the things SGI has to offer.

SGI wants to do its part to contribute to a cleaner, healthier environment.

## Environment

SGI is committed to a greener future for everyone. On an ongoing basis, SGI strives to find environmentally friendly options wherever feasible. Some of these options include:

- energy-efficient glass on the head office's main floor
- high-efficiency furnaces installed at several locations
- new heating/cooling rooftop units and air conditioning units are energy efficient
- installing energy-efficient boilers in several locations
- some locations use light sensors that dim or brighten depending on how much sunlight comes through the windows
- rain sensors used on some underground sprinkler systems so the sprinklers don't activate when they aren't needed
- touchless plumbing fixtures and hand dryers at some locations
- online car pool registry
- recycling a wide array of materials: paper, batteries, carpet, drywall, office supplies, computer equipment, paint, fluorescent bulbs, licence plates and more

In addition, SGI continues to take pride in the environmental stewardship demonstrated by its Salvage department. SGI Salvage is a leader in automobile recycling in Canada, focusing on the introduction of new and innovative ways to help create a cleaner, healthier environment. Each year SGI recycles seven million pounds of steel, 100,000 used car parts, 3,400 tires, 300 grams of mercury, 1,400 pounds of refrigerants and 95,000 litres of oil and other fluids.

SGI also partners with the Government of Saskatchewan for a Green Rebate. The rebate is part of the government's "Go Green" plan, designed to encourage Saskatchewan residents to be more environmentally friendly at home, work and on the road. The government, through SGI, provides owners of qualifying environmentally friendly vehicles with a 20% rebate on their insurance premium and registration fees.

## Corporate Governance

SGI is committed to be open and accountable to the people of our province.

- SGI publicly releases the Auto Fund's financial results every quarter.
- SGI has been actively identifying, managing and prioritizing its risks for several years, and is reviewing its current risk management process.
- SGI has an internal audit department that provides independent and objective assurance and advisory services designed to help ensure that the financial and business risks of SGI and its subsidiaries are appropriately managed. To maintain the independence of this department, the Chief Internal Auditor reports functionally to the Audit and Finance Committee of SGI's Board of Directors.
- SGI follows the corporate governance guidelines implemented by the Canadian Securities Administrators for publicly traded companies. Although the Auto Fund is not publicly traded, the guidelines are a benchmark for good governance practices. You can find complete information on SGI's governance in the "Corporate Governance" section of this report.

**Michelle Mayo**, Personal Injury Representative 1, Regina Injury Claims Centre, received the following note from a satisfied customer:

*I just wanted to say thank you for all your help. You have a really kind and thoughtful way about you that made me feel really taken care of whenever we spoke on the phone. I appreciated all the times you called to check on me too!*

This letter was sent to **Jaime Warnecke**, Adjuster 1 at the North Battleford Claims Centre, from a satisfied customer.

*Any car accident can be wrought with tension and anxiety. During my first conversation with Jaime, I felt comforted and reassured that I had an exceptional and caring adjuster working to resolve my claim with competence. Jaime kept me well informed and she communicated details of my claim as they became available. She gave me options and great advice when decisions had to be made. This employee reflects the quality of service that the North Battleford branch of SGI strives to deliver to the people of Saskatchewan.*

*Keep up the fantastic work and again, thank you.*

# Management's Discussion and Analysis

The following management's discussion and analysis (MD&A) is the responsibility of Saskatchewan Government Insurance (SGI) as the administrator of the Saskatchewan Auto Fund and reflects events known to SGI to February 24, 2010. The Board of Directors carries out its responsibility for review of this disclosure principally through its Audit and Finance Committee, comprised exclusively of independent directors. The Audit and Finance Committee's mandate can be found on SGI's website at www.sgi.sk.ca under About SGI. The Board of Directors approved this MD&A at its meeting on February 25, 2010, after a recommendation to approve was put forth by the Audit and Finance Committee.

## Overview

The MD&A is structured to provide users of the Saskatchewan Auto Fund (denoted as the Auto Fund or the Fund) financial statements with insight into the Fund and the environment in which it operates. This section outlines strategies and the capability to execute the strategies, key performance drivers, capital and liquidity, 2009 results, risk management and an outlook for 2010. Information contained in the MD&A should be read in conjunction with the financial statements and notes to the financial statements, along with other sections in this annual report. All dollar amounts are in Canadian dollars.

## Caution Regarding Forward-Looking Statements

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

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# The Saskatchewan Auto Fund

In 1944, the Government of Saskatchewan passed *The Saskatchewan Government Insurance Act*, creating the provincial Crown corporation that is known today as SGI. SGI was created to rectify problems in the Saskatchewan insurance industry. At that point in time, poor economic conditions had driven many insurers out of the province. Less than 10% of Saskatchewan licensed vehicles carried any insurance and there was a need for a compensation plan for persons injured in collisions.

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

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

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

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

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

The Auto Fund, at December 31, 2009, had 411 motor licence issuers[1] in 302 communities across Saskatchewan. It also operates 21 claims centres and five salvage centres in 13 communities across the province along with seven branch licence issuing offices. The Auto Fund business operation is restricted to the Province of Saskatchewan and is operated from SGI's head office located in Regina, Saskatchewan.

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

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[1]This and other terms are defined in the Glossary of Terms beginning on page 82.

## The Environment the Auto Fund Operates In

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

The Auto Fund provides vehicle registrations, driver's licences and related services to approximately 711,000 drivers and approximately 995,000 vehicles and trailers in Saskatchewan. Business partners range from independent motor licence issuers, autobody shops and law enforcement agencies, to health care providers. These business partners are involved in different aspects of the operations of the Auto Fund from licensing, road safety and repair of damaged vehicles, to provision of medical care and rehabilitative services to those injured in motor vehicle collisions.

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

While it has been successful at offering residents of Saskatchewan low rates, the Auto Fund does face challenges. Claim costs represented approximately 83% of the Auto Fund's costs in 2009. Over the last 10 years, damage claim costs have increased at an average annual rate of 6.0%, while personal injury has grown at approximately 1.2% annually. Adding to the challenge in 2009 was the uncertain investment climate experienced, as the investment portfolio is a significant source of capital and revenue for the Auto Fund.

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

Injury costs also rise on a yearly basis as injury benefits under No Fault Coverage are indexed to inflation each year. Tort and out-of-province liability claims, which are generally based on court awards, increase at a rate significantly higher than inflation.

In light of the challenges from rising claims costs, the Auto Fund implemented a 4.2% general rate increase effective November 1, 2009. The Auto Fund had not implemented a general rate increase since 2000 and Auto Fund customers continue to benefit from the lowest average private vehicle insurance rates in Canada.

The Auto Fund continues to offer its Safe Driver Recognition (SDR) and Business Recognition programs. These programs have been in place since 2002 and 2004 respectively. The SDR program places all drivers on a safety rating scale based on their driving history. The Business Recognition program rewards businesses that maintain good loss experience with discounts on their vehicle insurance. The initial maximum discount of 7% under the SDR program has steadily increased and is currently at 20%. The maximum discount available in the Business Recognition program is 10%. The cost to the Auto Fund in 2009 in terms of lower premium revenue was $89,383,000 (2008 – $81,597,000).

In 2009, the Auto Fund administered a program that returned just under $1.3 million to customers in the form of a green vehicle rebate, whereby eligible customers that owned an eco-friendly vehicle were granted a 20% rebate on their 2008 insurance premiums and registration. The rebate was funded by the Ministry of Environment and has been offered again in 2010.

## Strategic Direction

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

### 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 |

## Corporate Strategies

To meet its overriding strategic goals, the Auto Fund's main areas of focus are:

- Customers;
- People; and,
- Business Infrastructure.

Within these areas, specific strategic initiatives and key targets measure performance towards being a customer-driven insurance program that anticipates expectations of its customers while maintaining affordability. The Auto Fund uses a balanced scorecard approach to monitor performance and results. The objective of a balanced scorecard is to provide a balanced evaluation of key operational and financial results, activities and achievements with both a short and long-term focus. The following discusses key initiatives in each area of strategic focus as well as related key performance indicators from the balanced scorecard.

### Customers

The Auto Fund's success is measured against a goal of being the best customer-driven and affordable automobile insurance plan in Canada. It has developed key objectives to achieve this, including: delivering the lowest average private vehicle rates in Canada, anticipating and exceeding customer expectations, operating a business that is valued by its customers, fairness in rating and working to reduce motor vehicle crashes and resulting fatalities and injuries.

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

One of the key strategies to help the Auto Fund become the best customer-driven and affordable automobile insurance plan in Canada pertains to road safety. Customers value the Auto Fund for its role in promoting road safety in the province. The Auto Fund is always looking at new and innovative ways to improve road safety. Over the years, SGI has evolved into a national leader in the area of road safety programs, education and legislation. The Auto Fund has a long-term traffic safety strategy, which was implemented to help save lives, reduce injuries and lower claim costs. This strategy focuses on six key areas – impaired driving, occupant protection, intersection safety, speed management, roadway-based solutions and human factors.

The following table summarizes the key performance indicators in the balanced scorecard to monitor customer-related initiatives:

| Measure | 2009 Target | 2009 Results | 2010 Target |
|---|---|---|---|
| Cross-Canada rate comparison | Lowest average private vehicle rates in Canada | ● Saskatchewan has the lowest private vehicle rates in Canada | Lowest average private vehicle rates in Canada |
| Customer Value Index survey (out of 5) | 3.71 | ● 3.81 | 3.72 |
| Claims customer service survey | 91% satisfaction rating | O 88% satisfaction rating | 90% satisfaction rating |
| Corporate image rating | Maintain a three-year rolling average of 75% | ● 81% | Maintain a rating of 75% |
| Maintain an adequate RSR | MCT between 100% and 125% | O 83% | MCT between 75% and 150% |
| Fairness in rating | 79% of light vehicle rates within 10% of CLEAR | ● 86% of light vehicle rates within 10% of CLEAR | n/a |
| By 2010, reduce the number of fatalities by 30%, injuries by 20% and property-damage-only (PDO) collisions by 10% | By 2010:<br>Fatalities: 158 to 110<br>Injuries: 7,500 to 6,000<br>PDOs: 37,500 to 33,750 | O Fatalities: 156<br>Injuries: 6,369<br>PDOs: 46,429 | Fatalities: 14.3/100,000<br>Injuries: 684.8/100,000 |

Legend: ● achieved O did not achieve

## Cross-Canada rate comparison

SGI's cross-Canada rate comparison considers Saskatchewan's 34 most frequently registered vehicles and compares rates to those of public insurers in British Columbia, Manitoba and Quebec. For provinces with private insurance, quotes are obtained from an independent rate quotation service that collects information directly from private insurers across Canada. The rate comparison is subject to audit by an independent accounting firm.

In 2009, the rate comparison concluded that Auto Fund customers benefited from the lowest average private vehicle insurance rates in Canada. For 2010, the Auto Fund's target is again to have the lowest average private vehicle rates in Canada.

## Customer Value Index

The customer value index (CVI) is a comprehensive measure for tracking customer satisfaction. The CVI tracks seven key areas of importance: overall management; listening to the concerns of customers; having well-trained, experienced staff; educating and informing the public; behaving in an ethical, responsible manner; maintaining low rates relative to other parts of Canada; and, providing high standards of customer service. Based on the results of regular customer surveys, the CVI takes these seven areas of importance and calculates an overall score for the Auto Fund out of five. The Auto Fund exceeded its target of 3.71 out of 5.00 in 2009, with a score of 3.81, the second highest level it has achieved. As the 2009 result may be difficult to maintain in 2010, due to the rate increase introduced on November 1, 2009, the 2010 target was established at 3.72 out of 5.00.

## Claims customer service survey

The Auto Fund conducts semi-annual surveys with claims customers to ensure it is meeting their needs. The target is a 91% approval rating. The latest survey results indicate an 88% satisfaction level, a 1% decline from 2008 and slightly below the target of 91%. While survey results fell short of the target, they stayed stable in spite of an increase in claims volumes in 2009. The target for 2010 is a 90% satisfaction level.

### Corporate image rating

The corporate image rating measures overall customer perceptions by asking a representative sample whether they have a positive or negative image of the Auto Fund. The Auto Fund's corporate image rating as of 2009 was a three-year rolling average of 81%, which exceeded the target of 75%. The target for 2010 is maintaining a rating of 75%.

### Maintain an adequate RSR

The Auto Fund establishes its target capital level based on a property and casualty industry measurement of capital adequacy called the Minimum Capital Test (MCT). The Auto Fund's target range for the MCT is between 100% and 125%, which equated to approximately $100.8 million to $151.6 million at December 31, 2009. The MCT and RSR balance at December 31, 2009 were 83% and $67.2 million, respectively.

While below its target range, the MCT of 83% represents an improvement from the 61% at December 2008, which reflected deterioration of the capital markets that occurred in the last half of 2008. A significant driver of the increase in the Auto Fund's MCT from 2008 was unrealized gains within the investment portfolio. The improving investment markets in 2009 led to unrealized gains of $66.5 million at December 31, 2009, compared to unrealized losses of $21.1 million at December 31, 2008, an $87.6 million turnaround.

The investment volatility in recent years demonstrated the Auto Fund's MCT range may be too narrow. The Auto Fund will continue to use the MCT as a benchmark for capital adequacy in 2010; however, the target range has been changed to between 75% and 150%.

### Fairness in rating

To ensure fair rating for light passenger vehicles, the Auto Fund utilizes Canadian Loss Experience Automobile Rating (CLEAR) to review and rebalance rates. CLEAR is administered by the Insurance Bureau of Canada and captures Canada-wide loss experience for light passenger vehicles 15 years of age or newer. If rates are not reviewed and rebalanced regularly, over time the rates for some vehicles will be too high, while those for others will be too low. The Auto Fund's objective is to achieve rates for light vehicles in Saskatchewan within 10% of CLEAR. Its target for 2009 was for 79% of light vehicle rates to be within 10% of CLEAR, and it surpassed this target following a rebalancing of rates, which saw the percentage of vehicles within 10% of CLEAR grow from 79% in 2008 to 86% in 2009.

The Auto Fund continues to focus on rating vehicles within 10% of CLEAR, and in 2010 the focus will broaden to include all classes of vehicles. While fairness in rating remains a priority through annual rate rebalancing, it will not appear as a measure on the balanced scorecard in 2010.

### Reducing fatalities and serious injuries

The Auto Fund's traffic safety goals are simple and clear – prevent traffic deaths and prevent serious injuries due to traffic collisions. However, fewer collisions also mean lower claim costs, so work in this area also supports the goal of maintaining low rates. The targets for this objective reflect the Auto Fund's long-term traffic safety strategy.

The traffic safety strategy has six key areas of focus: reducing impaired driving; improving use of occupant protection; improving intersection safety; better speed management; implementing additional roadway-based solutions; and, addressing human factors such as new drivers, aging drivers and distracted drivers.

The targets were set for a three-year period from 2007 to 2010. The target was, by 2010, to reduce the number of traffic deaths by 30%, injuries due to traffic collisions by 20% and property-damage-only collisions by 10% when compared to the averages between 1996 and 2004. Recent population growth has been an obstacle in reducing averages.

The 2010 target takes into account Saskatchewan's increasing population and moves from a fixed percentage decrease in fatalities and injuries to a per capita decrease represented per 100,000 Saskatchewan residents.

## People

The Auto Fund's people strategies for 2009 focused on four areas: becoming a high-performance organization in which employees understand the strategic direction and how they contribute to it; employees achieve their objectives and are recognized for their efforts; building employee engagement; and, growing its people talent.

In 2010, the Auto Fund restructured its focus on people around two key strategies: building the right culture in the corporation to deliver on the strategic plan; and, attracting and keeping the right people, and ensuring they're in the right jobs for their skills and abilities.

Key performance indicators in the balanced scorecard to monitor the above initiatives are:

| Measure | 2009 Target | 2009 Results | 2010 Target |
| --- | --- | --- | --- |
| Strategic clarity index result | 77.5% | ○ 75.3% | 78.5% |
| Recognition index result | 54.0% | ● 53.8% | 55.0% |
| Employee value index | 72.0% | ○ 65.2% | 73.0% |
| Grow people talent - new hires who are designated group members | 25.0% | ● 26.4% | 25.0% |

Legend: ● achieved ○ did not achieve

### Strategic clarity index

Strategic clarity is achieved when employees understand the strategic direction of the Auto Fund, understand how their work contributes to achieving its strategic goals and understand the progress the Auto Fund is making towards its strategic goals. The strategic clarity index measures how well employees believe the Auto Fund is achieving those three goals. Results from the 2008 employee survey were used to tabulate a benchmark strategic clarity index score. At 75.3%, the 2009 score was just under its target of 77.5%.

While the result is under target, the score remains strong, demonstrating that employees' perceptions of how well they understand the Auto Fund's direction and their alignment to it are high. However, a genuine understanding of the corporate direction is important to ensure everyone in the Auto Fund is working toward a common outcome. This will be a key focus in 2010.

The target for 2010 is a score of 78.5%.

### Recognition index result

The Auto Fund recognizes that the achievements and efforts of employees is a key part of achieving high performance. The recognition index measures how well employees believe the Auto Fund is recognizing their efforts and achievements. Results from the 2008 employee survey were used to tabulate a benchmark recognition index score of 52.9%. With an index score of 53.8%, the 54.0% recognition target was considered achieved.

The goal for 2010 is a score of 55.0%.

### Employee engagement

The Auto Fund recognizes that the key to achieving its goals is employing the right people and giving them a good environment to work in. Therefore, it puts emphasis on building employee engagement. Beginning in December 2006, the

Auto Fund began measuring employee engagement through an employee value index survey. The result for 2009 was under target with an employee value index score of 65.2%.

In early 2010, SGI will facilitate targeted employee focus sessions to explore the survey results. The intent is to assist management with the development and implementation of specific strategies to identify and address concerns in their respective areas.

The goal for 2010 is a score of 73.0%.

### Grow people talent

Provincial and corporate demographics demonstrate the need to recruit a workforce representative of the population. The Auto Fund targeted 25% of new hires to be from designated groups and exceeded the target with 26.4%. The Auto Fund continues to target the recruitment of designated group members in 2010.

## Business Infrastructure

A common pillar supporting many of the Auto Fund's strategies and initiatives is business infrastructure. To build on success and deliver on goals, SGI's employees need the right infrastructure in place to support their work. To work efficiently and effectively, and to be able to deliver what the business needs when the business needs it, they need the right computer systems, facilities and business processes. The strategies supporting "Business Infrastructure" aim to meet those needs. The key performance indicators in the balanced scorecard to monitor business infrastructure initiatives are:

| Measure | 2009 Target | 2009 Results | 2010 Target |
|---|---|---|---|
| Availability of business systems | 99.5% of designated hours of operation and implementation of a business prioritization process | ● 99.7% of designated hours of operation and prioritization process completed | n/a |
| Redevelopment project implementation versus plan | Complete releases 3.0 and 4.0 | ○ Release 3.0 discontinued, priorities redistributed; Release 4.0 shifted to February 2010 | Complete releases 4.0 and 5.0 |
| Manage administrative expenses | 8.0% | ● 7.3% | 7.3% |
| Enhance enterprise risk management process | Implement the action plan | ● Approval of first phase of ERM | Implement first phase of ERM |

Legend: ● achieved ○ did not achieve

### Availability of business systems

The Auto Fund needs its computer systems available in order to operate its business. This measures the Auto Fund's success in having its computer business systems available for use by staff and motor licence issuers during specific hours of the day and for specific days of the week. For 2009, the target was exceeded. While business systems availability continues to be of high importance to maintaining operations, it will not be a measure on the 2010 balanced scorecard.

In addition, in 2009, the Auto Fund targeted implementing a business prioritization process. The Auto Fund has many important initiatives ongoing, and most require systems resources. This was an important initiative towards ensuring systems resources are deployed effectively. The business prioritization process was implemented in 2009, and will continue to be used to allocate systems resources.

### Auto Fund redevelopment project

The Auto Fund redevelopment project was initiated in 2005 to update computer infrastructure to help improve operations and deliver enhanced products and services to customers. The five-year, $35 million project will result in a system that is completely integrated, provides real-time processing and facilitates Internet transactions. The project had two significant releases scheduled for 2009. Release 3.0, which supported the delivery of the enhanced driver's licence (EDL) program, was discontinued when the Government of Saskatchewan chose not to move forward with the EDL program. Other priorities scheduled for release 3.0 were redistributed to other releases. Release 4.0 was moved to February 2010 to allocate resources to implementing the Auto Fund rate program in 2009. The project is tracking on time and on budget to the revised plan, with releases 4.0 and 5.0 targeted for completion in 2010.

### Manage administrative expenses

To ensure effective use of resources, the Auto Fund is expected to manage its allocated administrative expense budget such that the Auto Fund remains within its targeted administrative expense ratio. The ratio is total administrative expenses expressed as a percentage of net premiums earned. The actual administrative expense ratio is compared to budgeted ratios within the specified time period. For 2009, the Auto Fund exceeded its target with a 7.3% administrative expense ratio. The target for 2010 is 7.3%.

### Enhance enterprise risk management process

Given the nature of the insurance business, risk management is a particularly important objective. The Auto Fund has been actively identifying, managing and prioritizing its risks for several years. Issues such as quantifying risks using actuarial modelling techniques will be explored to determine the benefits of this evolving process in risk management. In 2008, the Auto Fund completed a gap analysis on the current process. In 2009, it developed an action plan for ERM, including components and a timetable for the first implementation phase.

Implementation of this first phase is targeted for 2010.

## Capability to Execute Strategies

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

## Employees

Auto Fund employees are experienced and knowledgeable about the Saskatchewan automobile insurance market. Many employees have been with the Saskatchewan Auto Fund for a long time, on average 16 years; and the staff turnover rate for the last five years has averaged 6%. Due to this long tenure and low turnover, employees have significant expertise in the core areas of the Auto Fund including licensing and registration, driver and vehicle safety services, and claims handling, as well as within the support areas.

SGI, as the administrator of the Auto Fund, is projecting a significant level of retirements in the near future as a large portion of its workforce reaches retirement age. In fact, over 31% of employees are expected to retire or be eligible for retirement by 2017. The challenge is to recruit and retain the best people to ensure the longevity, growth and maintenance of operations. SGI utilizes a workforce-planning model that includes Aboriginal employment, youth employment, management development and expanded performance management strategies. This model assists in transitioning expertise as retirements occur.

On December 31, 2009, the three-year Collective Bargaining Agreement (CBA) between SGI and SGI CANADA Insurance Services Ltd., and Office and Professional Employees' Union, Local 397 (COPE 397) expired. The bargaining committee is currently in negotiations with respect to reaching an agreement. This agreement applies to all in-scope employees at SGI. SGI has not had a work stoppage since 1948, and it will continue to work with COPE 397 to ensure that this record continues into the future.

## Motor licence issuers

The Auto Fund provides accessibility for its customers by distributing products through a network of 411 independent motor licence issuers in 302 communities across Saskatchewan and seven branch offices throughout the province. Motor licence issuers' interests are represented by the Insurance Brokers' Association of Saskatchewan. The relationship between the Auto Fund and motor licence issuers is governed by an Issuer Accord. The accord is intended to enhance the working relationship resulting in improved service to customers. Included in the accord are 15 agreed upon principles, ranging from fostering better communication between both groups, recognizing the value of each other's roles to provide service to Saskatchewan people, along with partnering on traffic safety programs.

## Technology and systems

The Auto Fund relies on its technology and information system to deliver products and services to the motoring public. The current system is antiquated and it is becoming increasingly difficult to make changes to meet growing business demands. The Auto Fund has a major project to redevelop the Auto Fund information system. The new system will address the antiquity of the current system, 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. The cost of the project is not to exceed $35 million and will be completed by the end of 2010.

## Capital and liquidity

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

A key operating principle for the Auto Fund is ensuring consistency and stability in rates so that customers are not subject to ongoing price fluctuations or large rate increases. An adequate balance in the Rate Stabilization Reserve (RSR) gives the Auto Fund a financial resource to draw on when adverse events increase the cost of claims or a decrease in capital markets occur, thereby protecting customers against unpredictable premiums for their auto insurance. The Auto Fund uses a common industry measurement called the Minimum Capital Test (MCT) to establish a target for the RSR. The MCT is a risk-based capital adequacy formula that assesses risks to assets, policy liabilities and off-balance sheet exposures by applying various factors to determine a ratio of capital available over capital required. The target for 2009 was a range between 100% and 125%, which equated to approximately $100.8 million to $151.6 million at December 31, 2009. The balance in the RSR at December 31, 2009 was $67.2 million.

While below its target range of 100% to 125%, the 2009 MCT of 83% represents an improvement from the 61% at the end of 2008. The improvement in the MCT score is largely reflective of an improving investment climate, as a significant portion of an insurance company's asset base is held in investments. The net unrealized gains in the investment portfolio at December 31, 2009 were $66.5 million, compared to net unrealized losses of $21.1 million at December 31, 2008.

# 2009 Financial Results

For the year ended December 31, 2009

## Overview

The Auto Fund generated a deficit of $40.8 million in 2009, compared to a $42.7 million deficit in 2008. Both years were very similar from an underwriting perspective. While premiums grew significantly due to more vehicles and a mix of newer vehicles, growth was accompanied as expected by higher claim costs. The result is loss ratios for both years being within 1% of each other. Investment returns were also very similar on a book value return basis with a return of 2.8% in 2009 versus 2.7% last year. However, on a market value basis, the portfolio returns were considerably different with a market value return in 2009 of 10.5% compared to a negative return of 4.9% in 2008, a 15.4% change year over year.

With the $40.8 million deficit in 2009 the Rate Stabilization Reserve (RSR) has been drawn down to $67.2 million. While the RSR declined, the total capital of the Auto Fund increased due to the significant market return on the investment portfolio, which is reflected within equity as Accumulated Other Comprehensive Income (AOCI). The balance in AOCI at the end of 2008 was a deficit of $21.1 million and by year end 2009 was a surplus of $66.5 million, an $87.6 million improvement. The deficit in 2009 offset by the improvement in AOCI has resulted in a Minimum Capital Test (MCT) at year end of 83%, compared to 61% at the end of 2008.

## Statement of Operations

### Premiums written

*Overview*

Net premiums written for 2009 totalled $651.4 million, representing an increase of 6.7% or $40.9 million, from 2008. The increase to vehicle premiums in 2009 reflects the strong Saskatchewan economy and is attributable to a newer vehicle base, in addition to continued positive growth in vehicle counts. The number of vehicle written exposures increased to 882,699 from 862,079 in 2008, which accounts for approximately $15.1 million or 2.5% of the 6.7% increase in vehicle premiums. The 4.2% general rate increase was implemented effective November 1, 2009, and accounts for 0.7%, and the remaining 3.5% is primarily attributable to the mix of newer vehicles.

*Rate program*

In May 2009, the Auto Fund applied to the Saskatchewan Rate Review Panel for an average 4.2% rate increase to be effective November 1, 2009. This represents the first general rate increase since 2000. The 4.2% increase was required to offset higher than anticipated damage and injury claim costs and achieve the Auto Fund's goal of obtaining adequate premium rates to break even. In addition to the general rate increase, the application proposed a rebalancing of rates among rate groups. The rebalancing moves the Auto Fund closer to its target for fairness in rating, essentially having each vehicle owner pay the premium that best reflects the costs associated with their specific rate group. Both the general rate increase and the rate rebalancing were approved by the Saskatchewan Rate Review Panel and Cabinet, and were implemented November 1, 2009. While the new rates were effective November 1, the increase takes effect only when vehicle owners renew their insurance policy.

*Discount programs*

The Safe Driver Recognition and Business Recognition programs continue to return more dollars to Auto Fund customers each year. In 2009, these programs returned $89.4 million to customers through safe driving discounts, compared to $81.6 million in 2008. Expressed as a percentage of vehicle premiums, this equates to an average discount of 12.1% for 2009 (2008 – 11.8%). The maximum discounts available under each program are 20% for the Safe Driver Recognition program and 10% for the Business Recognition program.

## Claims incurred

Claims incurred in 2009 were $600.4 million, $36.5 million or 6.5% higher than 2008. The following table details the claim costs by categories:

| | 2009 | 2008 | Change |
|---|---|---|---|
| Damage claims (current year) | $ 385,197 | $ 351,668 | $ 33,529 |
| Injury claims (current year) | 193,130 | 195,369 | (2,239) |
| Pre-1995 injury claims | 2,322 | 1,506 | 816 |
| Injury - prior year redundancy | (3,112) | (9,520) | 6,408 |
| Damage - prior year deficiency | 3,432 | 7,038 | (3,606) |
| Indexing of prior year injury claims | 19,463 | 17,904 | 1,559 |
| Total claims incurred | $ 600,432 | $ 563,965 | $ 36,467 |
| | | | |
| Loss ratio (current year) | 91.7% | 93.0% | -1.3% |
| Total loss ratio | 95.2% | 95.9% | -0.7% |

*Current year claim costs*

Current year damage claims have grown by $33.5 million, or 9.5%, largely a result of inflationary cost increases and growth in the number of insured vehicles resulting in more collisions. This inflationary growth is due to an increase in the labour rate autobody shops are allowed to charge for repairing Auto Fund-insured vehicles. The volume of damage claims is 94,496, up 2.8% from the prior year. However, when compared to the number of insured vehicles in the province, the collision frequency remains consistent. The number of damage claims per 1,000 insured years is 111.8 in 2009 compared to 111.4 in 2008.

Current year injury claim costs are $193.1 million, or 1.1%, lower than the prior year due to a 4.8% decrease in the volume of injury claims, partially offset by inflationary increases on income replacement benefits. Although the injury frequency per 1,000 insured years has decreased slightly, from 6.8 in 2008 to 6.4 in 2009, the average cost per injury claim has increased by 3.8%.

*Development on prior year claims estimates*

With the assistance of its actuary, the Auto Fund makes provisions for future payments on existing claims and an estimate for claims that have occurred but have not yet been reported. At the end of each year, the actuary recalculates the estimate of the ultimate costs for prior years (along with an estimate for the current year). If the actuary reduces the estimate for prior years, a redundancy exists, resulting in a reduction in claim costs for the year. If the reverse is true and the actuary increases the estimate for prior years, a deficiency exists, resulting in an increase in claim costs for the year. During 2009, the Auto Fund decreased its estimate for prior year injury claims by $3.1 million (2008 – $9.5 million) and increased its reserves for damage claims by $3.4 million (2008 – $7.0 million). The 2009 overall deficiency recorded represented approximately 0.3% of the provision estimate at December 31, 2008 of $899.4 million.

The Auto Fund has over 14 years of experience since the no-fault injury program was implemented in 1995 to estimate the cost of injuries. However, factors impacting future costs such as inflation, re-occurrence rates, medical innovations and rehabilitation programs are difficult to anticipate. The Auto Fund's objective is to keep the estimate as accurate as possible with minimal changes to prior year claim estimates; however, given the nature of this program, changes will inevitably occur in the future.

## Expenses excluding claims incurred

Expenses excluding claims incurred were $126.7 million (2008 – $117.3 million) for the year, $9.4 million higher than 2008.

Issuer fees of $31.4 million in 2009 increased by $2.2 million compared to 2008. This increase reflects 5.5% growth in the number of transactions by issuers, combined with a negotiated rate increase for issuer remuneration.

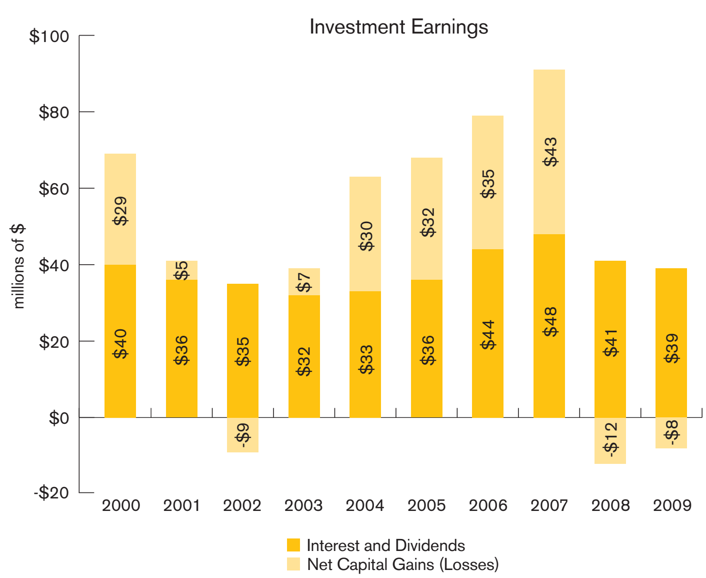
Premium taxes of $31.6 million were $2.1 million, or 7.2%, higher than the previous year, consistent with the growth in earned premiums. Premium taxes are 5% of direct premiums earned.

Administrative expenses increased to $46.3 million in 2009, an increase of $4.0 million from 2008. The major contributors to the growth were increased costs related to the redevelopment of the Auto Fund information system, salaries and benefits, and issuer bank charges related to the reimbursement of issuer credit card charges.

Traffic safety program spending totalled $17.4 million, representing a traffic safety spending ratio of 2.8% of net premiums earned. This was an increase of $1.1 million from 2008, which also had a traffic safety spending ratio of 2.8%.

## Investment earnings

As the Auto Fund operates on a self-sustaining basis over time, investment earnings are used to help keep rates stable for vehicle owners. In 2009, investment earnings were $31.1 million and represented 4.5% of total revenues (2008 – $29.4 million; 4.6% of total revenues). These investment earnings are calculated using cost-based accounting principles, the components of which are disclosed in Note 9 to the financial statements, and include interest, dividends, net realized capital gains and investment write-downs. The following chart shows the breakdown of investment earnings between interest and dividends and net capital gains (losses) over the last 10 years.




The downturn in worldwide capital markets in the last half of 2008 continued into early 2009, resulting in significant unrealized loss positions in the investment portfolio to the end of the first quarter. Given the size of the losses at that time and the time necessary to recoup the losses, investment write-downs were taken which totalled $10.2 million in 2009 (2008 – $22.7 million).

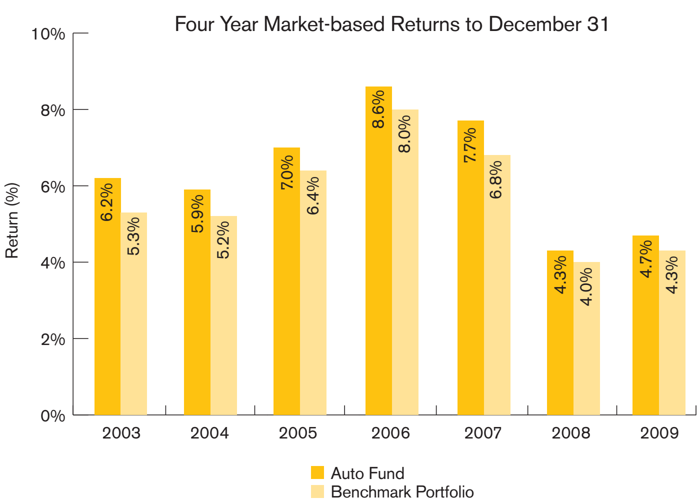
The market recovery that ensued for the remainder of 2009 provided a strong reversal for the Auto Fund's equity position with unrealized capital gains increasing by $87.6 million for the full year. Capital gains are dependent on investment market conditions, trading activity of the investment manager and initiatives of the Auto Fund. In 2009, equity markets around the globe anticipated an economic recovery and generated large gains while falling bond yields increased bond prices, producing solid gains.

| Asset Class | Benchmark Index | Annual index returns ending December 31 (%) 2009 | 2008 |
|---|---|---|---|
| Canadian equities | S&P/TSX Composite | 35.1 | -33.0 |
| U.S. equities | S&P 500 ($C) | 7.4 | -21.2 |
| Non-North American equities | MSCI EAFE ($C) | 11.9 | -29.2 |
| Bonds | DEX Universe Bond | 5.4 | 6.4 |
| Short-term bonds | DEX Short-term Bond | 4.5 | 8.6 |

Equity market gains in 2009 were widespread with the TSX Composite Index increasing 35%, the S&P 500 rising 26% (7% in Canadian dollar terms) and non-North American equities, the EAFE Index, rising 25% in aggregate local currency terms (12% in Canadian dollar terms). While foreign equity markets were strong over the last nine months of 2009, the corresponding increase in the Canadian dollar limited gains for Canadian investors.

For purposes of portfolio management, a market-based return is calculated that captures all interest and dividend income, as well as the impact of the change in market value of securities, both realized and unrealized. In 2009, the portfolio's market-based return was 10.5% compared to a negative 4.9% return in 2008. In addition, the 2009 return was ahead of the benchmark portfolio return of 9.6% by 0.9% (2008 – underperformed the benchmark by 0.9%). The increase in 2009 from 2008 was a result of large positive returns in each of the Canadian, U.S. and non-North American equity markets. Value added over the benchmark in 2009 of 0.9% was due to strong relative Canadian and non-North American equity returns.

The primary investment performance objective for the Auto Fund 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 the Auto Fund's risk profile and is reviewed on an annual basis. The investment manager is permitted to vary the actual asset class weights around the benchmark portfolio, within the policy asset mix guidelines. The benchmark portfolio return is calculated by applying the benchmark portfolio weights to capital market index returns. While the portfolio's rate of return is compared to the benchmark portfolio return on a quarterly basis, the performance measure is expected to be met over four years, a long enough period to capture a full market cycle. This long-term measure is appropriate as it recognizes that the effectiveness of investment management styles varies depending on the market environment. Performance relative to the benchmark portfolio varies from year to year, but over rolling four-year periods, investment performance remains satisfactory as illustrated in the following graph.




## Other income

Other income consists of fees charged to insureds for utilizing the AutoPay and Short-Term payment option programs, as well as net income from the Salvage department. In 2009, fees earned for using payment option plans totalled $17.4 million, $1.4 million or 8.6% higher than 2008 driven by higher customer participation in the AutoPay monthly registration program. Overall, 60% of 2009 vehicle premiums were financed through payment option programs (44% from AutoPay and 16% using Short Term). In 2008, 57% of 2008 vehicle premiums were financed (41% from AutoPay and 16% using Short Term).

Salvage income of $7.5 million (2008 – $5.3 million) is $2.1 million higher than the prior year, primarily a result of higher whole vehicle sales in 2009.

## Statement of Operations – Actual versus Budget

The Auto Fund prepares an annual budget each fall for the upcoming fiscal year. The plan is developed using long-term averages combined with known and expected information for the upcoming year.

The Auto Fund's 2009 budget, developed in the fall of 2008, anticipated a deficit of $25.4 million. The actual 2009 deficit was $40.8 million, $15.4 million higher than budgeted. The most significant contributing factor was lower than budgeted investment earnings, which were adversely impacted in the first quarter of 2009 due to market volatility that carried over from the credit crisis that developed in the second half of 2008.

Premiums written of $651.4 million in 2009 were $8.6 million lower than budgeted and premiums earned of $630.6 million were $5.4 million lower than budgeted. This is primarily a result of the general rate increase of 4.2% budgeted for July 2009 not being implemented until November 2009.

Claim costs were only $1.4 million (0.2%) lower than budgeted. The overall loss ratio of 95.2% is comparable to the budgeted loss ratio of 94.6%.

The investment portfolio provided earnings of $31.1 million, which was $19.6 million lower than budgeted. The budget anticipated a 4.5% overall rate of return compared to the actual book value rate of return of 2.7%. The difference was primarily a result of realized losses on equities as well as investment write-downs of $10.2 million, slightly offset by gains on bonds and real estate. Realized gains and losses, as well as pooled equity fund revenue, are dependent on trading activity of the investment manager as well as capital market performance and are typically difficult to budget accurately.

## Statement of Comprehensive Income (Loss)

| (thousands of $) | 2009 | 2008 | Change |
|---|---|---|---|
| Decrease to Rate Stabilization Reserve | $ (40,754) | $ (42,691) | $ 1,937 |
| Other comprehensive income (loss) | 87,627 | (89,422) | 177,049 |
| **Total comprehensive income (loss)** | **$ 46,873** | **$ (132,113)** | **$ 178,986** |

Comprehensive income is the sum of net income and other items that must bypass the statement of operations because they have not been realized (other comprehensive income or loss). For the Auto Fund, this includes unrealized gains and losses from available for sale investments. These unrealized gains and losses are not part of net income, yet are important enough to be included in comprehensive income, giving the user a more comprehensive picture of the organization as a whole.

Operations during 2009 resulted in a decrease to the RSR of $40.8 million; however, comprehensive income was $46.9 million, due to an $87.6 million increase in unrealized gains on investments. This was a significant turnaround compared to the comprehensive loss of $132.1 million in 2008. The turnaround was a result of the market recovery that occurred during 2009, which resulted in a significant increase in the market value of the investment portfolio.

## Statement of Cash Flows

| (thousands of $) | 2009 | 2008 | Change |
|---|---|---|---|
| Total operating activities | $ 55,000 | $ 64,517 | $ (9,517) |
| | | | |
| Investing activities | (50,828) | (93,905) | 43,077 |
| | | | |
| Net cash flow | $ 4,172 | $ (29,388) | $ 33,560 |

Operations contributed $9.5 million less cash than the prior year, a result of growing accounts receivable. The growth in accounts receivable is primarily due from insureds, or financed premiums, which continue to grow each year, increasing $13.7 million during 2009.

During the year, $50.8 million of the cash generated from operations was used for investing activities, primarily for the purchase of investments ($40.9 million). In addition, $6.3 million was used for capitalized development costs for the Auto Fund redevelopment project and $4.5 million was used to purchase items of property, plant and equipment.

## Statement of Financial Position

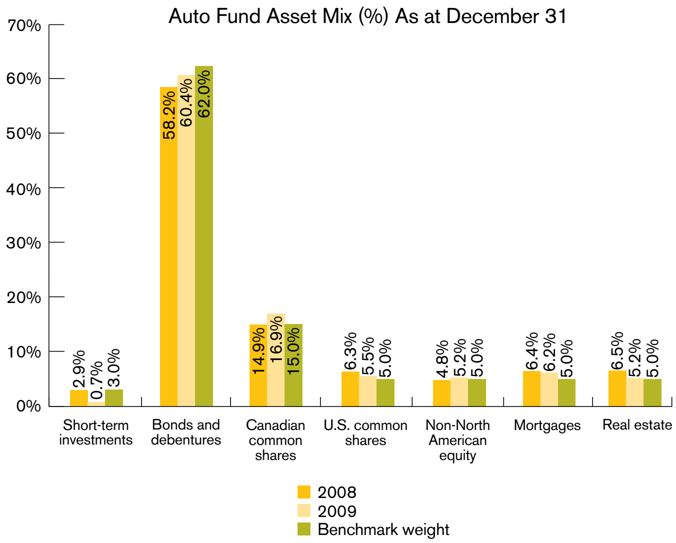
| (thousands of $) | 2009 | 2008 | Change |
|---|---|---|---|
| **Total assets** | **$ 1,496,125** | **$ 1,342,663** | **$ 153,462** |
| | | | |
| Key asset account changes: | | | |
| Investments | 1,225,507 | 1,108,007 | 117,500 |
| Accounts receivable | 174,282 | 149,473 | 24,809 |
| Cash and cash equivalents | 5,733 | 1,561 | 4,172 |
| Other assets | 26,316 | 22,830 | 3,486 |

### Investments

The carrying value of investments increased by $117.5 million during the year, primarily a result of investing positive operating cash flows of $55.0 million during the year and growth in net unrealized gains of $73.3 million. At December 31, 2009, investments include net unrealized gains of $66.5 million. This consists of investments with unrealized gains of $82.6 million, less investments with unrealized losses of $16.1 million. The unrealized gains at December 31, 2009, are primarily related to common shares, pooled real estate and bonds, while the largest unrealized loss was related to the non-North American pooled equity fund.

The investment portfolio is held to pay future claims while the income earned on these investments helps reduce insurance rates for vehicle owners. The portfolio's asset mix strategy is set by the Board through a detailed assessment of the Auto Fund's risk tolerance. In summary, the Auto Fund's positive cash flows and the presence of the Rate Stabilization Reserve, which serves to buffer the Fund from short-term unfavourable investment performance, permits the Auto Fund to maintain a long-term investment horizon. The asset mix strategy takes into consideration the current and expected conditions of the capital markets and the historic return and risk profile of various asset classes. In order to achieve the long-term investment goals, the Fund must invest in asset classes that provide an attractive risk-return profile over the medium to long term. Over shorter periods, however, performance of these asset classes can be volatile. In 2009, volatility continued, with strong gains reversing some of the losses experienced in 2008. The 2009 returns demonstrated that the 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 2009.




The Auto Fund's investments are comprised of short-term investments, bonds and debentures, equities, mortgages and real estate. Equities include investments in Canadian and United States common shares as well as an investment in a non-North American pooled equity fund. Real estate includes investment in a pooled real estate fund. More detail on the investment portfolio categories is provided in Note 5 to the financial statements.

The investment policy review in 2009 resulted in no changes to the policy asset mix guidelines or the benchmark portfolio weights.

## Accounts receivable

Accounts receivable increased $24.8 million, largely a result of the AutoPay receivable growing by $13.4 million, or 11%. The increase was due to the increase in premiums written and increased customer participation in the AutoPay payment program. In addition, there are investment proceeds receivable of $9.4 million related to investment transactions in progress at year-end.

## Cash and cash equivalents

Cash and cash equivalents at December 31, 2009 were $5.7 million (2008 – $1.6 million), an increase of $4.1 million. The sources of the change in cash and cash equivalents for the year are discussed in the above section, Statement of Cash Flows. Cash equivalents consist of money market investments such as treasury bills, banker's acceptances, discount notes or other liquid short-term investments that have a maturity of 90 days or less from the date of acquisition.

## Other assets

Other assets increased $3.5 million during the year. The primary contributor to the increase is capitalized development costs for the new Auto Fund system.

| (thousands of $) | 2009 | 2008 | Change |
|---|---|---|---|
| **Total liabilities** | **$ 1,341,065** | **$ 1,234,476** | **$ 106,589** |
| | | | |
| Key liability account changes: | | | |
| Provision for unpaid claims | 971,118 | 899,390 | 71,728 |
| Unearned premium | 305,893 | 282,467 | 23,426 |
| Accounts payable and accrued charges | 31,371 | 21,982 | 9,389 |

## Provision for unpaid claims

The provision for unpaid claims grew by $71.7 million during 2009 to $971.1 million (2008 – $899.4 million). This represents an increase of 8.0% from last year. Key components of the change in the provision for unpaid claims are discussed in the previous section, Claims Incurred. The majority of the increase is in unpaid injury accident benefits and is due to the continuing growth of the no-fault program as an additional year of losses is included in the provision.

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

## Unearned premiums

Unearned premiums increased $23.4 million (8.3%), slightly higher than the overall increase in premiums written (6.7%). This is primarily due to the highest growth in premiums written being experienced in the fourth quarter.

## Accounts payable and accrued charges

Accounts payable increased by $9.4 million in 2009, primarily a result of investment transactions in progress at year end.

| (thousands of $) | 2009 | 2008 | Change |
|---|---|---|---|
| **Equity** | **$ 155,060** | **$ 108,187** | **$ 46,873** |
| | | | |
| Key equity account changes: | | | |
| Accumulated other comprehensive income (loss) | 66,505 | (21,122) | 87,627 |
| Rate Stabilization Reserve | 67,211 | 102,535 | (35,324) |
| Redevelopment Reserve | 21,344 | 26,774 | (5,430) |

Overall, equity increased $46.9 million during the year. The increase in equity resulted from an increase in accumulated other comprehensive income of $87.6 million.

## Accumulated other comprehensive income (AOCI)

AOCI reflects the unrealized gains or losses related to financial assets designated as available for sale. For the Auto Fund, this includes its entire investment portfolio at year-end. Accumulated other comprehensive income (loss) increased as a result of the capital market recovery over the course of 2009.

## Rate Stabilization Reserve (RSR)

The RSR decreased $35.3 million in 2009 primarily due to operations resulting in a decrease of $40.8 million, partially offset by an appropriation from the Redevelopment Reserve as described below.

## Redevelopment Reserve

A Redevelopment Reserve (the reserve) is in place to ensure that adequate funding is available to meet the Auto Fund's commitment to redevelop its information system. During 2009, costs were incurred relating to the project of $5.4 million (2008 – $4.3 million); therefore, the reserve was reduced accordingly with $5.4 million (2008 – $4.3 million) appropriated back to the RSR.

The Redevelopment Reserve was originally established at $35.0 million, as the project cost is not to exceed this amount. The project is anticipated to be complete by the end of 2010. It is required to address the antiquity of current systems, make improvements in delivering changes, offer more choices for customers, provide better and more accessible information, and better position the Auto Fund for future demands.

## For the three months ended December 31, 2009

The Auto Fund prepares public quarterly financial reports for the first three quarters of each year. These reports are available on SGI's website at www.sgi.sk.ca. Click on the About SGI link and then click on Quarterly Reports. The following analyzes the fourth quarter of 2009:

The Auto Fund recorded a fourth quarter decrease to the RSR of $17.1 million compared to a decrease of $28.7 million in the fourth quarter of 2008. The decline in the fourth quarter of 2009 was the result of a $43.2 million underwriting loss partially offset by investment earnings of $19.2 million, whereas during the fourth quarter of 2008 a $16.5 million underwriting loss and investment losses of $16.9 million were recorded.

The decline in underwriting results in the fourth quarter of 2009 was primarily the result of an increase in claims incurred. Claims incurred for the quarter of $173.0 million were $35.4 million higher than the fourth quarter in 2008 ($137.6 million), primarily due to the number of damage claim counts being significantly higher (11.4%) than the budgeted number of damage claim counts, a result of bad driving conditions in December. In addition, the year-end actuarial valuation increased current loss year claims reserves by $7.5 million to reflect expected future development on 2009 losses.

Investment earnings of $19.2 million were substantially higher than the investment loss of $16.9 million in the fourth quarter of 2008. The increase in investment earnings is primarily due to lower investment write-downs of $600,000 recorded during the fourth quarter of 2009 (2008 – $20.7 million), higher gains on common shares of $43,000 (2008 – losses on sale of $9.0 million) and a gain on the sale of real estate of $5.9 million in 2009.

## Quarterly financial highlights

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

### Quarterly financial highlights

| (thousands of $) | 2009 | | | | | 2008 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Q4 | Q3 | Q2 | Q1 | **Year** | Q4 | Q3 | Q2 | Q1 | Year |
| Net premiums earned | $162,298 | $166,150 | $155,802 | $146,309 | **$630,559** | $151,998 | $155,155 | $146,144 | $134,621 | **$587,918** |
| Claims incurred | 173,022 | 152,932 | 126,388 | 148,090 | **600,432** | 137,618 | 150,420 | 141,962 | 133,965 | **563,965** |
| Increase/(decrease) to RSR | (17,114) | (3,222) | 14,604 | (35,022) | **(40,754)** | (28,694) | (9,369) | 632 | (5,260) | **(42,691)** |
| Cash flow from (used in) operations | 19,234 | 34,915 | 42,381 | (41,530) | **55,000** | 16,448 | 36,274 | 42,164 | (30,369) | **64,517** |
| Investments | 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 | 971,118 | 936,766 | 906,080 | 911,495 | | 899,390 | 887,315 | 849,471 | 830,151 | |
| Rate Stabilization Reserve | 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 2009:

- Premium earnings generally rise in the spring and summer months, largely a factor of increased premiums related to seasonal vehicles.
- Except for the first quarter, the Auto Fund typically generates positive cash flows from operations each quarter. Cash is usually low in the first quarter as annual premium taxes are paid to the province in March. Premium taxes are based on premiums written and were $31.6 million in 2009.

# Impact of New Accounting Standards

## Current year accounting standard changes

### Goodwill and Intangible Assets

Effective January 1, 2009, the Auto Fund adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064, Goodwill and Intangible Assets, which establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. Certain internally generated system development costs associated with the redevelopment of the Auto Fund's information systems, previously recorded as property, plant and equipment, have been reclassified as intangible assets. This accounting policy change results in no impact to the Auto Fund's financial position, as described in Note 2 of the notes to the financial statements.

### Determination of Fair Value disclosure

During the year, the CICA expanded required disclosures related to the reliability of fair value measures. The new disclosure introduces a three-level fair value hierarchy that demonstrates the reliability of information used in estimating the fair value of financial instruments.

The fair values for the three levels are based on:

- Level 1 – quoted prices in active markets.
- Level 2 – models using observable inputs other than quoted market prices.
- Level 3 – models using inputs that are not based on observable market data.

Note 5 of the financial statements discloses the fair value hierarchy for the Auto Fund. All of the investments held by the Auto Fund at year-end, except the mortgage pooled fund and the real estate pooled fund, are measured at fair value using quoted market prices from active markets, which is the highest level of reliability of fair values.

The mortgage pooled fund does not have quoted market prices to base fair value on. Its fair value is based on the market values of the underlying mortgage investments, calculated by discounting scheduled cash flows through to the estimated maturity of the mortgage using interest rates that reflect the term and credit risk associated with the mortgage. The real estate pooled fund is valued based on the most recent appraisals of the underlying properties. Both of these investments are considered level 2 reliability in the fair value hierarchy.

## 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 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 and 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.

## Related-Party Transactions

The Saskatchewan Auto Fund is related in terms of common ownership to all Government of Saskatchewan ministries, agencies, boards, commissions, Crown corporations and jointly controlled and significantly influenced corporations and enterprises. Transactions with these entities are entered into in the normal course of business and are settled at prevailing market prices under normal trade terms. See Note 14 to the financial statements for the details of these transactions. Details of other significant related-party transactions disclosed in the financial statements follow.

SGI is the administrator of the Saskatchewan Auto Fund on behalf of the Province of Saskatchewan. Administrative and loss adjustment expenses incurred by SGI are allocated to the Auto Fund directly or on the basis of specific distributions. Amounts incurred by SGI and charged to the Auto Fund were $112.4 million (2008 – $104.7 million).

The Auto Fund, as the lessor, has an interest in a capital lease in Prince Albert, Saskatchewan with the Ministry of Government Services, a provincial government ministry. This lease expires in April 2011. Further details of this lease are provided in Note 7 to the financial statements.

An SGI Board member owns an organization that provides insurance services on behalf of the Auto Fund. Premiums written during the year from this organization amounted to $1.7 million (2008 – $1.6 million) and the associated accounts receivable at December 31, 2009. was $5,000 (2008 – $3,000). Issuer fees related to these premiums were $109,000 (2008 – $107,000). The above noted transactions are routine operating transactions in the normal course of business.

## Off-Balance Sheet Arrangements

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

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

In the normal course of settling claims, the Auto Fund settles some long-term disability claims by purchasing structured settlements (annuities) from various financial institutions for its claimants. This is a common practice in the property and casualty industry. The net present value of the scheduled payments at December 31, 2009, was $21.6 million (2008 – $22.1 million). The Auto Fund has no recourse to these funds. The Auto Fund provides a financial guarantee to the claimant in the event of default by the financial institution on the payment schedule to the claimant. No default has occurred in the past on these payment schedules and the likelihood of such default is considered as being extremely remote.

The Auto Fund has contractual obligations to provide funding to Saskatchewan health organizations to provide for rehabilitative services for those injured in automobile collisions. Funding commitments, which are detailed further in Note 16 to the financial statements, range between $10.5 million and $13.3 million per year over the next five years.

The Auto Fund has contracted with consulting firms to manage and consult on a project to redevelop its information systems. The remaining commitment for services to be provided from 2010 to 2011 is $3.9 million (2008 – $7.5 million).

## Critical Accounting Estimates

This discussion and analysis of financial condition and results of operations is based upon financial statements as presented in this annual report. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) as recommended by the Canadian Institute of Chartered Accountants. Significant accounting policies are described in Note 2 to the financial statements. Some of these policies involve critical accounting estimates because they require SGI as the administrator to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions.

The development, selection and application of key accounting policies, and the critical accounting estimates and assumptions they involve, have been discussed with the Audit and Finance Committee of the Board of Directors, and the Audit and Finance Committee has reviewed the disclosures described in this section. The most significant critical accounting estimates involve the provision for unpaid claims and impairment of investments.

### 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, experience with similar claims, historical trends involving claim payments, claim severity, the effect of inflation on reported and future claims, court decisions and the time frame anticipated to settle and pay the claim.

This provision is refined on a continual basis as prior fiscal year claims are settled and additional claims are reported and settled. There may be significant time delays from the occurrence of the insured event and when it is reported. If this occurs near the year-end date, estimates are made as to the value of these claims based on information known at that time. As well, uncertainty exists for reported claims that are not settled, as all necessary information may not be available.

Thus, with the level of uncertainty involved in the claim process, until the final settlement occurs, current reserves may not be sufficient. As permitted by Canadian GAAP, only long-term disability claims included in this provision are discounted. Any adjustments to these estimates, both positive (a redundancy or excess) and negative (a deficiency) are included in the provision for unpaid claims and are reflected as claims incurred in the current year's Statement of Operations.

### Impairment of investments

When the market value of an investment falls below its cost, accounting standards require an assessment of whether the impairment in value is temporary or other than temporary. If it is determined that the impairment is other than temporary, the investment must be written down to market value. Management performs a quarterly analysis of investment holdings to determine if declines in market value of a particular investment are other than temporary. This analysis includes:

- Identifying all security holdings in an unrealized loss position that have existed for at least 12 months.
- Evaluating the size of the loss, both in percentage and absolute dollar terms relative to the market outlook for the security.
- For debt securities, evaluating the credit ratings from third-party security rating agencies or evaluating any change in payments on the security.

Investments are written down to market value if it is determined that the loss is other than temporary, or if the investment manager has plans for disposition of the security in the near term.

# Risk Management

Risk management is a process for recognizing and addressing risks that could affect the achievement of corporate objectives. On an annual basis, management reviews the key risks faced by the Auto Fund by identifying specific risk events and their potential impact on the Auto Fund's operations, finances and reputation. Each risk event is rated based on the likelihood of the event occurring, in the absence of any controls, and severity of the consequences if it did occur. Mitigating factors for each risk are then identified.

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

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

## Regulatory environment

Risk: The Auto Fund is unable to get approval for appropriate rate changes in a timely manner, resulting in operating losses and an unbalanced rate structure. Correcting for an accumulation of losses and lack of rebalancing may ultimately require larger rate increases that are unacceptable to customers or SGI's shareholder.

Mitigation: The Auto Fund operates on a self-sustaining basis over the long term, with short-term losses funded using the Rate Stabilization Reserve (RSR). However, investment losses in late 2008 and early 2009 reduced the RSR below its minimum target range, thus limiting the RSR's ability to absorb further losses.

The Auto Fund will submit a rate adequacy analysis to the shareholder annually, and confer with the shareholder regarding the need for balanced rates. Should a large rate increase be required to rebuild financial strength and rebalance rates, the Auto Fund will attempt to minimize customer rate shock by phasing in this increase over time.

## Claims provisions

Risk: Large adjustments to the claim provision (redundancies or deficiencies) can lead to a need for large rate increases or refunds from an excess balance in the RSR. Further, the use of inaccurate data in determining the claim provision can lead to the misstatement of financial results.

Mitigation: In-house actuarial claims valuations are conducted and reviewed with senior management three times per year. Actuarial claims valuations are reviewed annually by an independent actuary as part of the external audit process.

## Financial markets

Risk: The market value of the investment portfolio fluctuates widely, negatively impacting investment earnings and the capital base.

Mitigation: Investment portfolio management is governed by the Statement of Investment Policies and Goals (SIP&G), which sets out specific investment quality and quantity guidelines that are in line with industry standards as defined by the *Insurance Companies Act (Canada)*. The SIP&G is reviewed annually by the Investment Committee of SGI's Board of Directors, to ensure portfolio risk is acceptable based on both historical and forward-looking volatility. Portfolios are monitored externally by the investment consultant and custodians to ensure compliance with the policy guidelines and investment performance standards.

## Recruitment, retention and engagement

Risk: Without a talented, experienced and motivated workforce, the Auto Fund will not be able to meet its business objectives.

Mitigation: SGI has implemented many programs in this area, including competency-based recruitment, support for training and succession planning. Workplace engagement is monitored through an employee value index and support is provided for employee recognition through training and funding. Competitors' salaries and benefits are monitored and employee turnover is analyzed using exit interviews.

## Privacy

Risk: The Auto Fund is unable to safeguard the personal, financial and medical information of its customers. Inappropriate or unauthorized use of data by employees, entities with approved access to certain SGI systems or third parties would likely result in adverse legal and financial consequences, as well as a loss of confidence by customers and the shareholder.

Mitigation: To safeguard data, SGI screens employees who handle sensitive data, tracks employee use of information and restricts access to systems. SGI has also implemented industry standards for handling payment card information. SGI is also developing a framework for storage, retention and disposal of all electronic and paper-based data.

## Responsiveness to business needs

Risk: The Auto Fund is unable to make timely changes to business systems (software, policies and procedures, and controls) resulting in a loss of competitiveness or an inability to meet the increasing requirements of customers or SGI's shareholder.

Mitigation: The Auto Fund's business systems are operated by an experienced, capable workforce, and a planning and project prioritization process is in place to improve response times. Completion of the Auto Fund redevelopment project will provide a flexible, responsive platform to support the development of new programs and products. In addition, beginning in 2010, SGI will be undertaking a Business Intelligence project designed to access corporate data more effectively.

## System availability and integrity

Risk: The Auto Fund is unable to access critical systems and data, resulting in lost revenue, delayed services and unhappy customers. System unavailability can result from power, equipment or application failures. Data can be corrupted by system failures, or internal or external sabotage.

Mitigation: SGI's Corporate Information Security Policy provides the security principles applicable to the use of corporate information system assets, and security standards have been developed based on these principles to guide day-to-day operations. To deal with major system disruptions, disaster recovery plans are in place and are tested regularly. To facilitate disaster recovery, SGI operates two production computing sites; each of these sites has the capability to run SGI's entire computing environment should the other site become unavailable.

## Auto Fund system redevelopment

Risk: Implementation of the new Auto Fund system is delayed, costs more than expected and/or does not perform to specifications, resulting in operational disruptions, increased costs and unhappy customers, issuers and staff.

Mitigation: System redevelopment is scheduled to end in mid-2010, with the rollout of the new vehicle registration module and Internet module. The success of this project to date has resulted from a modular approach to implementation; oversight and guidance provided by the Steering Committee; detailed implementation plans that are reviewed continuously; and, the availability and commitment of experienced technical resources. Contingency plans have also been developed and implemented as required to deal with unforeseen circumstances.

## Outlook for 2010

With the ongoing expansion in the Saskatchewan economy, the Auto Fund continues to experience strong premium growth attributable to a newer vehicle base, in addition to continued positive growth in vehicle counts. However, at the same time, the strong economy is impacting costs for the Auto Fund. Higher than average wage growth throughout the province impacts the labour rate paid to autobody shops to repair vehicles, along with income replacement benefits for those not able to work due to injuries suffered in automobile collisions. These costs have been outpacing the growth in premiums, resulting in the Auto Fund implementing a 4.2% general rate increase effective November 1, 2009. The Auto Fund had not implemented a general rate increase since 2000 and Auto Fund customers continue to have the lowest average private vehicle insurance rates in Canada.

One of the primary objectives of the Auto Fund is fairness in rating, which ensures that vehicle owners are paying the appropriate premium to cover the anticipated claim costs associated with their vehicle. To move closer to this target of fairness in rating, the Auto Fund plans to submit regular rate adjustment applications to the Saskatchewan Rate Review Panel for rate rebalancing.

Following the significant downturn in worldwide capital markets in 2008, the Auto Fund realized a strong recovery in 2009. The impact for the Auto Fund is an increase in its capital base in 2009 and, as a result, the Auto Fund's Minimum Capital Test (MCT) moved closer to its target range. In late 2009, the Auto Fund conducted a review of its capital management policy, which indicated that the Auto Fund's MCT target range was too narrow. A new capital management policy with a revised target range will be implemented in 2010. While continued market volatility is likely in 2010, the Auto Fund plans to maintain its well diversified portfolio with exposure to equities, bonds, mortgages and short-term investments.

The Auto Fund remains focused on delivering on its vision of being the best customer-driven and affordable automobile insurance plan in Canada. The vision to be customer driven means the Auto Fund wants to anticipate the expectations of its customers and exceed them. Some of the important initiatives the Auto Fund will be focusing on in 2010 include traffic safety, environmental stewardship, the one-part driver's licence project and the Auto Fund redevelopment project.

Promoting traffic safety remains a priority in 2010 as it saves lives and prevents injuries. Fewer collisions also mean lower claim costs, so work in this area also supports the Auto Fund's goal of maintaining affordable rates and protecting its financial sustainability. The Auto Fund's traffic safety initiatives have been driven by a traffic safety strategy developed in 2007. While this strategy has served the Auto Fund well, a new long-term traffic safety strategy is being developed in 2010. A significant initiative implemented in 2010 relates to driver distraction. Effective January 1, 2010, new legislation was introduced banning the use of hand-held cellphones while driving. This new legislation was based on growing evidence around the world that using cellphones while driving contributes to collisions.

The Auto Fund is continuing to focus on environmental stewardship in 2010. Initiatives for 2010 will include improvements to buildings to increase their energy efficiency, continued automobile recycling initiatives by SGI Salvage and other corporate recycling initiatives, and the Green Rebate. The rebate of 20% on insurance and registration fees rewards hybrid vehicle owners, as well as those who own qualifying fuel-efficient vehicles identified by the Government of Canada's ecoAUTO program for model years 2006 and newer. The Green Rebate is funded by the Ministry of Environment and administered by the Auto Fund. In 2009, 7,474 vehicle owners were rewarded an average $177 rebate, with these numbers expected to increase in 2010.

During 2010, the Auto Fund will be working on a project to move to a one-part, five-year driver's licence and identification card. A one-part licence will make Saskatchewan's driver's licence consistent with other jurisdictions in North America and ensure that Saskatchewan driver's licences continue to be accepted as valid identification by law enforcement and other agencies outside of the province. In addition, the one-part licence will have added security features that reduce the chance of identity theft. The switch to a one-part driver's licence is planned for implementation at the beginning of 2011.

In 2010, the Auto Fund redevelopment project will roll out its largest and most complex update, Release 4. It includes new applications for processing vehicle registration transactions, a new AutoPay system, a new Traffic Accident Information System (TAIS) and a data warehouse for providing information to help with traffic safety programs and determining insurance rates. The five-year project remains on target for completion in 2010 at a cost of $35 million. The Auto Fund redevelopment project replaces an outdated information system developed in the 1970s 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.

# Responsibility for Financial Statements

The financial statements are the responsibility of Management and have been prepared in conformity with accounting principles generally accepted in Canada. In the opinion of Management, the financial statements fairly reflect the financial position, results of operations and cash flows of the Saskatchewan Auto Fund (the Auto Fund) within reasonable limits of materiality.

Preparation of financial information is an integral part of Management's broader responsibilities for the ongoing operations of the Auto Fund. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

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

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

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

Andrew R. Cartmell
President and Chief Executive Officer
Saskatchewan Government Insurance
as Administrator of the
Saskatchewan Auto Fund

Don Thompson
Chief Financial Officer
Saskatchewan Government Insurance
as Administrator of the
Saskatchewan Auto Fund

February 24, 2010

# Actuary's Report

To the Board of Directors of
Saskatchewan Government Insurance

I have valued the policy liabilities of the Saskatchewan Auto Fund for its statement of financial position at December 31, 2009 and their change in the statement of operations for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods, except as described in the following paragraph.

In accepted actuarial practice, the valuation of policy liabilities reflects the time value of money. Management required that the valuation of some policy liabilities not reflect the time value of money, which is permissible under Canadian generally accepted accounting principles for financial reporting purposes. My valuation complies with that practice.

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

Cara Low

Cara Low
Assistant Vice President, Corporate Actuary
Saskatchewan Government Insurance
Fellow, Canadian Institute of Actuaries

February 24, 2010

# Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of the Saskatchewan Auto Fund as at December 31, 2009 and the statements of operations, comprehensive income, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the management of Saskatchewan Government Insurance as administrators of the Fund. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Regina, Canada

February 24, 2010

# Statement of Financial Position

| December 31 | | **2009** | | 2008 |
|---|---|---|---|---|
| | | (thousands of $) | | |
| **Assets** | | | | |
| Cash and cash equivalents (note 3) | $ | 5,733 | $ | 1,561 |
| Accounts receivable (note 4) | | 174,282 | | 149,473 |
| Deferred policy acquisition costs | | 23,471 | | 21,608 |
| Investments (note 5) | | 1,225,507 | | 1,108,007 |
| Property, plant and equipment (note 6) | | 40,816 | | 39,184 |
| Other assets (note 7) | | 26,316 | | 22,830 |
| | **$** | **1,496,125** | $ | 1,342,663 |
| **Liabilities** | | | | |
| Accounts payable and accrued liabilities | $ | 31,371 | $ | 21,982 |
| Premium taxes payable | | 32,683 | | 30,637 |
| Unearned premiums | | 305,893 | | 282,467 |
| Provision for unpaid claims (note 8) | | 971,118 | | 899,390 |
| | | **1,341,065** | | 1,234,476 |
| **Equity** | | | | |
| Rate Stabilization Reserve | | 67,211 | | 102,535 |
| Redevelopment Reserve | | 21,344 | | 26,774 |
| Accumulated other comprehensive income (loss) | | 66,505 | | (21,122) |
| | | **155,060** | | 108,187 |
| | **$** | **1,496,125** | $ | 1,342,663 |
| Commitments and contingencies (note 16) | | | | |

(see accompanying notes)

On behalf of the Board:

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

Anne M. Lavack
Director

# Statement of Operations

| year ended December 31 | 2009 | 2008 |
|---|---|---|
| | (thousands of $) | |
| Gross premiums written | $ 653,671 | $ 612,743 |
| Net premiums written | $ 651,418 | $ 610,492 |
| **Net premiums earned** | **$ 630,559** | $ 587,918 |
| Claims incurred | 600,432 | 563,965 |
| Issuer fees | 31,355 | 29,145 |
| Administrative expenses | 46,346 | 42,332 |
| Premium taxes | 31,640 | 29,510 |
| Traffic safety programs | 17,405 | 16,345 |
| **Total claims and expenses** | **727,178** | 681,297 |
| **Underwriting loss** | **(96,619)** | (93,379) |
| Investment earnings (note 9) | 31,050 | 29,405 |
| Other income (note 10) | 24,834 | 21,351 |
| **Decrease to Rate Stabilization Reserve before rebate to policyholders** | **(40,735)** | (42,623) |
| Rebate to policyholders | (19) | (68) |
| **Decrease to Rate Stabilization Reserve** | **$ (40,754)** | $ (42,691) |

(see accompanying notes)

# Statement of Comprehensive Income

| year ended December 31 | 2009 | 2008 |
|---|---|---|
| | (thousands of $) | |
| **Decrease to Rate Stabilization Reserve** | **$ (40,754)** | $ (42,691) |
| **Other comprehensive income (loss)** | | |
| Net unrealized gain (loss) on available for sale financial assets arising during the year | 73,267 | (101,080) |
| Reclassification of net realized losses (gains) on sale of investments included in operations | 4,180 | (11,034) |
| Reclassification for investment write-downs included in operations | 10,180 | 22,692 |
| **Other comprehensive income (loss)** | **87,627** | (89,422) |
| **Comprehensive income (loss)** | **$ 46,873** | $ (132,113) |

(see accompanying notes)

# Statement of Changes in Equity

| year ended December 31 | 2009 | 2008 |
|---|---|---|
| | (thousands of $) | |
| **Rate Stabilization Reserve** | | |
| Balance, beginning of year | $ 102,535 | $ 140,975 |
| Decrease to Rate Stabilization Reserve | (40,754) | (42,691) |
| Appropriation from Redevelopment Reserve | 5,430 | 4,251 |
| **Balance, end of year** | **$ 67,211** | $ 102,535 |
| **Redevelopment Reserve** | | |
| Balance, beginning of year | $ 26,774 | $ 31,025 |
| Appropriation to Rate Stabilization Reserve | (5,430) | (4,251) |
| **Balance, end of year** | **$ 21,344** | $ 26,774 |
| **Accumulated other comprehensive income (loss)** | | |
| Balance, beginning of year | $ (21,122) | $ 68,300 |
| Other comprehensive income (loss) | 87,627 | (89,422) |
| **Balance, end of year** | **$ 66,505** | $ (21,122) |
| **Total Equity** | **$ 155,060** | $ 108,187 |

(see accompanying notes)

# Statement of Cash Flows

| year ended December 31 | 2009 | 2008 |
|---|---|---|
| | (thousands of $) | |
| **Cash provided by (used for):** | | |
| | | |
| **Operating activities** | | |
| Decrease to Rate Stabilization Reserve | $ (40,754) | $ (42,691) |
| Non-cash items: | | |
| Amortization | 8,366 | 6,186 |
| Net realized gain on sale of investments | (1,739) | (11,034) |
| Investment write-downs | 10,180 | 22,692 |
| Change in non-cash operating items (note 13) | 78,947 | 89,364 |
| | | |
| | **55,000** | 64,517 |
| | | |
| **Investing activities** | | |
| Purchases of investments | (801,332) | (1,204,029) |
| Proceeds on sale of investments | 760,477 | 1,120,288 |
| Repayment of capital lease | 832 | 753 |
| Purchases of property, plant and equipment | (4,462) | (4,944) |
| Purchases of intangible assets | (6,343) | (5,973) |
| | | |
| | **(50,828)** | (93,905) |
| | | |
| **Increase (decrease) in cash and cash equivalents** | **4,172** | (29,388) |
| | | |
| Cash and cash equivalents, beginning of year | 1,561 | 30,949 |
| | | |
| **Cash and cash equivalents, end of year** | **$ 5,733** | $ 1,561 |

(see accompanying notes)

# Notes to the Financial Statements

December 31, 2009

## 1. Status of the Auto Fund

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

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

## 2. Significant Accounting Policies

The accounting policies of the Auto Fund are in accordance with Canadian generally accepted accounting principles (GAAP). The following are considered to be the Auto Fund's significant accounting policies:

### Change in accounting policies

Effective January 1, 2009, the Auto Fund adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064, *Goodwill and Intangible Assets*, which establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. Certain internally generated system development costs associated with the redevelopment of the Auto Fund's information systems, previously recorded as property, plant and equipment, have been identified as intangible assets. This has resulted in a reclassification of system development costs, net of accumulated amortization of $17,038,000 (December 31, 2008 – $13,690,000) from property, plant and equipment to intangible assets, included in other assets (note 7). Amortization of the system development costs are recorded on a straight-line basis, commencing in the period the assets are placed in service, over their estimated useful lives between 3-5 years.

In June 2009, the Canadian Institute of Chartered Accountants (CICA) issued amendments to its Financial Instruments – Disclosure standard to expand disclosures of financial instruments consistent with new disclosure requirements made under International Financial Reporting Standards. These amendments were effective for the Auto Fund commencing January 1, 2009 and introduces a three-level fair value hierarchy that prioritizes the quality and reliability of information used in estimating the fair value of financial instruments. The fair values for the three levels are based on:

- Level 1 – quoted prices in active markets.
- Level 2 – models using observable inputs other than quoted market prices.
- Level 3 – models using inputs that are not based on observable market data.

These additional disclosures are included in note 5.

## Measurement uncertainty

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, 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. 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 8) and investment valuation (note 5).

## 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 held for trading, available for sale, held to maturity, loans and receivables or other financial liabilities. Financial assets and liabilities classified as held for trading are measured at fair value. Those changes in fair value are recognized as an increase to the Rate Stabilization Reserve. Financial assets classified as available for sale are measured at fair value with unrealized changes in fair value recorded in other comprehensive income; however, unrealized losses considered other than temporary continue to be recognized as a decrease to the Rate Stabilization Reserve. Financial assets and liabilities designated as held to maturity, loans and receivables or other financial liabilities are measured at amortized cost using the effective interest method. The Auto Fund has no financial assets and liabilities designated as held for trading or held to maturity.

The Auto Fund has designated its cash and cash equivalents and its investments as available for sale, except for its income-producing property, which is not considered a financial asset. Accounts receivable are designated as loans and receivables. Accounts payable and premium taxes payable are designated as other financial liabilities. The net investment in capital lease, the accrued pension asset and the provision for unpaid claims are exempt from the above requirement.

## Investments

All investments are carried at fair value, except the income-producing property. 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 fair value of bonds and debentures and common shares is determined using quoted market values based on the latest bid prices. The fair value of the non-North American pooled equity fund is based on the quoted market values of the underlying investments, based on the latest bid prices. The fair value of the pooled mortgage fund is based on the market values of the underlying mortgage investments, which is calculated by discounting scheduled cash flows through to the estimated maturity of the mortgage using interest rates that reflect the term and credit risk associated with the mortgage. The fair value of the pooled real estate fund is based on the most recent appraisals of the underlying properties.

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

## Investment earnings

The Auto Fund recognizes interest and capital lease revenue as earned, dividends when declared, pooled fund revenue when a distribution is declared, and investment gains and losses when realized.

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

When the fair value of an investment falls below its cost, and the decline is determined to be other than temporary, a loss equivalent to the difference between cost and fair value is recorded in investment earnings as an investment write-down.

## 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 investments designated as available for sale are included in other comprehensive income until realized, at which time they are reclassified from accumulated other comprehensive income to investment earnings. Translation gains and/or losses related to other financial assets and liabilities are charged to operations in the current year.

## Premiums

Premiums written 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 at the year-end date. The estimate includes the cost of reported claims, and claims incurred but not reported, and an estimate of adjusting expenses to be incurred on these claims. The provision is calculated without discounting except for long-term disability claims. The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current period.

## 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.

## Deferred policy acquisition costs

Premium taxes and issuer fees are deferred and then charged to expense over the terms of the insurance policies to which such costs relate. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums after giving consideration to investment earnings, as well as claim and adjustment expenses expected to be incurred as the premiums are earned.

## Net investment in capital lease

Investment earnings related to the direct financing lease are recognized in a manner that produces a constant rate of return on the investment in the lease. The net investment in the lease is composed of net minimum lease payments less unearned finance income.

## Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis, commencing in the year in which the assets are placed in service, over their estimated useful lives as follows:

| | |
|---|---|
| Buildings and improvements | 20-40 years |
| Computer hardware and other equipment | 3-5 years |

### Redevelopment Reserve

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

### Future accounting policy changes

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. In September 2009, the Public Sector Accounting Board (PSAB) approved an amendment to the introduction to the Public Sector Accounting Handbook that requires any Government Business Enterprise (GBE) to adopt IFRS. The Auto Fund falls into the category of a GBE and is proceeding with the adoption of IFRS.

The Auto Fund's administrator, SGI, commenced an IFRS conversion project in 2008 for the Auto Fund to assess the potential impacts of the transition and developed a detailed project plan to ensure compliance with the new standards. The conversion project is progressing according to the project plan. At this time, the impact on the Auto Fund's future financial position and results of operations is not reasonably determinable.

## 3. Cash and Cash Equivalents

(thousands of $)

| | 2009 | 2008 |
|---|---|---|
| Money market investments | $ 5,600 | $ 800 |
| Cash on hand, net of outstanding cheques | 133 | 761 |
| Total cash and cash equivalents | $ 5,733 | $ 1,561 |

The average effective interest rate on money market investments is 0.2% (2008 – 1.5%).

## 4. Accounts Receivable

Accounts receivable is comprised of the following:

(thousands of $)

| | 2009 | 2008 |
|---|---|---|
| Due from insureds | $ 140,756 | $ 127,067 |
| Investment proceeds receivable | 9,895 | 713 |
| Amounts recoverable on paid claims | 9,882 | 7,685 |
| Accrued investment income | 5,903 | 6,399 |
| Licence issuers | 4,312 | 3,401 |
| Other | 1,821 | 148 |
| Salvage operations | 1,713 | 1,425 |
| Due from SGI | - | 2,635 |
| Total accounts receivable | $ 174,282 | $ 149,473 |

Included in due from insureds are $137,294,000 (2008 – $123,911,000) of financed premiums receivable, which represents the portion of policyholders' monthly premium payments that are not yet due. The majority of policyholders have the option to pay a portion of the premium when the policy is placed in force and the balance in monthly instalments. The policyholder pays an additional charge for this option, reflecting handling costs and the investment income that would have been earned on such premium, had the total amount been collected at the beginning of the policy period. The additional charge is recognized as other income over the period of the policy.

## 5. Investments

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

(thousands of $)

| | 2009 | 2008 |
|---|---|---|
| Short-term investments | $ 8,693 | $ 31,629 |
| Bonds and debentures | 740,249 | 644,352 |
| Canadian common shares | 207,685 | 164,886 |
| U.S. common shares | 66,833 | 70,243 |
| Pooled funds: | | |
| Non-North American equity | 63,352 | 53,363 |
| Mortgage | 75,535 | 71,078 |
| Real estate | 63,160 | 64,215 |
| Income-producing property | - | 8,241 |
| Total investments | $ 1,225,507 | $ 1,108,007 |

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 0.2% (2008 – 2.9%) and an average remaining term to maturity of 54 days (2008 – 62 days). The Auto Fund's investment policy states that investments must meet minimum investment standards of R-1, as rated by a recognized credit rating service.

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

### Bonds and debentures

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

The Auto Fund's investment policy limits its holdings for any one issuer, other than the Government of Canada or a Canadian province, to 10% of the market value of the combined bond and short-term investment portfolios. The holdings for any one province are limited to 20% of the market value of the bond portfolio. Foreign currency exposure is limited to 5% of the market value of the bond portfolio, and no more than 10% of the market value of the bond portfolio shall be invested in bonds of foreign issuers.

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

(thousands of $)

| | 2009 | | 2008 | |
|---|---|---|---|---|
| Term to maturity (years) | Carrying Value | Average Effective Rates | Carrying Value | Average Effective Rates |
| Government of Canada: | | | | |
| One or less | $ - | - | $ 61,708 | 3.9% |
| After one through five | 142,544 | 3.1% | 91,402 | 3.7% |
| After five | 90,419 | 3.1% | 27,224 | 4.3% |
| Canadian provincial and municipal: | | | | |
| After one through five | 13,383 | 5.1% | 19,642 | 5.5% |
| After five | 180,564 | 5.1% | 166,943 | 5.1% |
| Canadian corporate: | | | | |
| One or less | 8,827 | 5.0% | 1,629 | 4.4% |
| After one through five | 168,264 | 4.9% | 119,522 | 5.0% |
| After five | 136,248 | 5.5% | 156,282 | 5.3% |
| Total bonds and debentures | $ 740,249 | | $ 644,352 | |

## Common shares

Common shares have no fixed maturity dates and are generally not exposed to interest rate risk. The average effective dividend rate is 2.2% (2008 – 2.4%).

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

## Pooled funds

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

## Income-producing property

The Auto Fund held a one-third interest in a real estate joint venture, which it sold during the year. The investment had been accounted for using proportionate consolidation. It consisted primarily of land and building in Regina, Saskatchewan, which as of the sale date, had costs of $1,451,000 (2008 – $1,451,000) and $8,764,000 (2008 – $8,754,000) respectively and accumulated amortization of $2,192,000 (2008 – $1,964,000) on the building. The Auto Fund disposed of this investment for cash consideration of $13,882,000, which, after considering negative working capital adjustments of $60,000 resulted in a net gain on sale of $5,919,000.

## Unrealized loss positions

The following tables present available for sale investments with unrealized losses where the decline is considered temporary. Unrealized losses are recorded as a component of accumulated other comprehensive income.

(thousands of $)

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Carrying Value | Unrealized Losses | Carrying Value | Unrealized Losses |
| Bonds and debentures: | | | | |
| Federal | $ 144,961 | $ (1,257) | $ 12,211 | $ (72) |
| Provincial and municipal | 53,403 | (1,207) | 57,040 | (1,242) |
| Corporate | 81,258 | (2,002) | 186,214 | (13,524) |
| Canadian common shares | 28,291 | (2,720) | 94,581 | (24,249) |
| U.S. common shares | 21,481 | (1,497) | 40,004 | (4,784) |
| Non-North American pooled equity fund | 63,352 | (7,424) | 53,363 | (16,713) |
| | $ 392,746 | $ (16,107) | $ 443,413 | $ (60,584) |

As at December 31, 2009, the cost of 61 (2008 – 124) available for sale investments exceeded their carrying value by $16,107,000 (2008 – $60,584,000). 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.

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 year, investment write-downs of $10,180,000 (2008 – $22,692,000) (note 9) were recorded related to impairments in Canadian and U.S. common shares that were considered other than temporary.

## 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 judgement 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 $)

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Total | Level 1 | Level 2 | Total |
| Short-term investments | $ 8,693 | $ - | $ 8,693 | $ 31,629 | $ - | $ 31,629 |
| Bonds and debentures | 740,249 | - | 740,249 | 644,352 | - | 644,352 |
| Canadian common shares | 207,685 | - | 207,685 | 164,886 | - | 164,886 |
| U.S. common shares | 66,833 | - | 66,833 | 70,243 | - | 70,243 |
| Pooled funds: | | | | | | |
| Non-North American equity | 63,352 | - | 63,352 | 53,363 | - | 53,363 |
| Mortgage | - | 75,535 | 75,535 | - | 71,078 | 71,078 |
| Real estate | - | 63,160 | 63,160 | - | 64,215 | 64,215 |
| | $ 1,086,812 | $ 138,695 | $ 1,225,507 | $ 964,473 | $ 135,293 | $ 1,099,766 |

## 6. Property, Plant and Equipment

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

(thousands of $)

| | 2009 | | | 2008 |
|---|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value | Net Book Value |
| Land | $ 6,979 | $ - | $ 6,979 | $ 6,979 |
| Buildings and improvements | 50,263 | 19,982 | 30,281 | 29,452 |
| Computer hardware and other equipment | 31,582 | 28,026 | 3,556 | 2,753 |
| | | | | |
| Total | $ 88,824 | $ 48,008 | $ 40,816 | $ 39,184 |

Amortization for the year is $2,830,000 (2008 – $3,141,000) and is included in administrative expenses on the Statement of Operations.

## 7. Other Assets

Other assets are comprised of the following:

(thousands of $)

| | 2009 | 2008 |
|---|---|---|
| Intangible assets | $ 17,038 | $ 13,690 |
| Inventories | 3,302 | 3,585 |
| Accrued pension asset | 2,955 | 2,775 |
| Prepaid expenses | 1,859 | 786 |
| Net investment in capital lease | 1,162 | 1,994 |
| | | |
| Total | $ 26,316 | $ 22,830 |

## Intangible assets

Intangible assets are comprised of the following:

(thousands of $)

| | 2009 | | | 2008 |
|---|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value | Net Book Value |
| System development costs | $ 22,614 | $ 5,576 | $ 17,038 | $ 13,690 |

Amortization for the year is $2,995,000 (2008 – $1,656,000) and is included in administrative expenses on the Statement of Operations. During the year, $6,343,000 (2008 – $5,973,000) of internally generated system development costs were capitalized.

Included in system development costs are unamortized costs of $7,734,000 (2008 – $1,391,000).

## Net investment in capital lease

The Auto Fund, as lessor, has a 63% interest in a lease agreement with the Ministry of Government Services, a related party, for a term of 30 years (expiring April 2011) on property in Prince Albert, Saskatchewan. The lease transfers substantially all benefits and risks associated with the ownership of the property to the lessee. The total minimum lease payments receivable under the lease agreement are $1,241,000 (2008 – $2,235,000), payable at $995,000 per year. Unearned income at December 31, 2009, is $79,000 (2008 – $241,000).

The fair value of the net investment in the capital lease is $1,268,000 (2008 – $2,305,000). The fair value is calculated by discounting scheduled cash flows through to the estimated expiration of the lease using current interest rates.

# 8. Provision for Unpaid Claims

## Nature of unpaid claims

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

Factors used to estimate the provision include the Auto Fund's experience with similar cases, historical claim payment trends, the characteristics of each class of business, claim severity and claim frequency such as those caused by natural disasters, the effect of inflation on the cost of future claims, 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 damage claims tend to be more reasonably predictable than long-tail claims such as long-term disability and liability claims.

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

## Type of unpaid claims

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

| (thousands of $) | 2009 | 2008 |
|---|---|---|
| Injury accident benefits | $ 776,406 | $ 688,958 |
| Injury liability | 82,198 | 107,935 |
| Damage | 112,514 | 102,497 |
| Total | $ 971,118 | $ 899,390 |

Included in the provision for unpaid claims are discounted amounts for certain injury accident benefits in the amount of $492,663,000 (2008 – $420,615,000). These claims have been discounted using a rate of 6.0% which reflects the expected claim settlement patterns and the Auto Fund's projected rate of return on its investment portfolio.

Included in the above amount is a provision for adverse development (PFAD) in the amount of $65,710,000 (2008 – $36,445,000). The incorporation of a PFAD on benefits is in accordance with accepted actuarial practice and the selected PFAD is within the ranges recommended by the Canadian Institute of Actuaries. The PFAD considers the Auto Fund's assumptions concerning claims development, reinsurance recoveries and future investment earnings.

The fair value of the provision for unpaid claims has not been determined because it is not practicable to do so with sufficient reliability.

## Change in the estimate for the provision for unpaid claims

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

| (thousands of $) | 2009 | 2008 |
|---|---|---|
| Net unpaid claims, beginning of year | $ 899,390 | $ 824,086 |
| Payments made during the year relating to prior year claims | (183,513) | (208,171) |
| Deficiency (excess) relating to prior year: | | |
| Ultimate losses | 2,642 | (976) |
| Discounting | 19,463 | 17,904 |
| Net unpaid for claims of prior years | 737,982 | 632,843 |
| Provision for claims occurring in the current year | 233,136 | 266,547 |
| Net unpaid claims, end of year | $ 971,118 | $ 899,390 |

## Structured settlements

The Auto Fund settles some long-term disability claims by purchasing annuities from various financial institutions for its claimants. The settlements legally release the Auto Fund from its obligations to the claimants. Consequently, neither the annuities purchased nor the claim liabilities are recognized on the Statement of Financial Position. However, as part of the settlement, the Auto Fund provides a financial guarantee to the claimants in the event the financial institutions default on the scheduled payments. As at December 31, 2009, no information has come to the Auto Fund's attention that would suggest any weakness or failure in the financial institutions from which it has purchased the annuities. The net present value of the scheduled payments as of the year-end date is $21,633,000 (2008 – $22,099,000).

## 9. Investment Earnings

The components of investment earnings are as follows:

(thousands of $)

| | 2009 | 2008 |
|---|---|---|
| Interest | $ 28,903 | $ 32,754 |
| Pooled funds | 5,597 | 4,747 |
| Dividends | 5,567 | 3,968 |
| Net realized gain on sale of investments | 1,739 | 11,034 |
| Income-producing property, net of operating costs of $937,000 (2008 – $979,000) | 609 | 656 |
| Interest on net investment in capital lease | 163 | 242 |
| Investment write-downs (note 5) | (10,180) | (22,692) |
| | | |
| Total investment earnings | 32,398 | 30,709 |
| Investment expenses | 1,348 | 1,304 |
| Net investment earnings | $ 31,050 | $ 29,405 |

Cash inflows from the income-producing property are $770,000 (2008 – $715,000). Investment write-downs by category are as follows:

(thousands of $)

| | 2009 | 2008 |
|---|---|---|
| Canadian common shares | $ (8,288) | $ (19,263) |
| U.S. common shares | (1,892) | (3,429) |
| | | |
| Total investment write-downs | $ (10,180) | $ (22,692) |

## 10. Other Income

The components of other income are as follows:

| | (thousands of $) 2009 | 2008 |
|---|---|---|
| Payment option fees | $ 17,380 | $ 16,006 |
| Net earnings on salvage sales | 7,454 | 5,345 |
| Total other income | $ 24,834 | $ 21,351 |

The Auto Fund operates a salvage division in order to maximize the derived economic value of salvageable vehicles, vehicle parts and materials available through the claim settlement process. Total salvage sales in 2009 are $28,863,000 (2008 – $25,949,000).

The Auto Fund offers a Short-Term Vehicle Registration and Insurance Plan that allows customers to choose the number of months they wish to insure and register their vehicle. Another payment option, AutoPay, allows customers to have equal monthly withdrawals made from their bank accounts for their vehicle registration and insurance (note 4).

## 11. 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 arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

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

### Credit risk

The Auto Fund's credit risk arises primarily from two distinct sources: accounts receivable and certain investments. The maximum credit risk to which the Auto Fund is exposed as at December 31, 2009, is limited to the carrying value of those financial assets summarized as follows:

| | (thousands of $) 2009 Carrying Value | 2008 Carrying Value |
|---|---|---|
| Cash and cash equivalents | $ 5,733 | $ 1,561 |
| Accounts receivable | 174,282 | 149,473 |
| Fixed income investments[1] | 824,477 | 747,059 |

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

In addition, the Auto Fund is exposed to credit risk associated with its structured settlements and securities lending program as described separately in the notes to the financial statements.

Cash and cash equivalents include money market investments of $5,600,000 (December 31, 2008 – $800,000) that mature within 90 days from the date of acquisition. All short-term investments have a credit rating of R-1.

Accounts receivable relate primarily to financed premiums receivable and amounts recoverable on paid claims. Balances are outstanding from customers, diversified among residential, farm and commercial customers, along with motor licence issuers within Saskatchewan. Accounts receivable consist of balances outstanding for one year or less. 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 $) | |
|---|---|---|
| | 2009 | 2008 |
| Allowance for doubtful accounts, opening balance | $ 44,979 | $ 40,359 |
| Accounts written off | (9,456) | (9,368) |
| Current period provision | 18,126 | 13,988 |
| Allowance for doubtful accounts, closing balance | $ 53,649 | $ 44,979 |

The allowance for doubtful accounts includes $43,898,000 (2008 – $36,823,000) 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 related primarily to short-term investments, bonds and debentures, and the mortgage pooled fund. It is managed through an investment policy that limits debt instruments to those of high credit quality (minimum rating for bonds and debentures is BBB and for short-term investments is R-1), along with limits to the maximum notional amount of exposure with respect to any one issuer.

Credit ratings for bonds and debentures are as follows:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Carrying Value (thousands of $) | Makeup of Portfolio (%) | Carrying Value (thousands of $) | Makeup of Portfolio (%) |
| AAA | $ 335,716 | 45.4 | $ 275,766 | 42.8 |
| AA | 194,850 | 26.3 | 187,102 | 29.0 |
| A | 172,731 | 23.3 | 153,610 | 23.9 |
| BBB | 36,952 | 5.0 | 27,874 | 4.3 |
| Total | $ 740,249 | 100.0 | $ 644,352 | 100.0 |

Within bonds and debentures, there are no holdings from one issuer, other than the Government of Canada or a Canadian province, over 10% of the market value of the combined bond and short-term investment portfolios. No single 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 December 31, 2009, the Auto Fund had $99,495,000 (2008 – $164,925,000) of securities loaned under the program and held collateral of $104,469,000 (2008 – $175,318,000).

## 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 short-term investments, bonds and debentures, and the mortgage pooled fund. 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 $51.0 million at December 31, 2009 (2008 – $42.0 million), representing 6.2% of the $824.5 million (2008 – 5.6%, $747.0 million) of fixed income investments.

### Foreign exchange risk

The Auto Fund is subject to changes in the U.S./Canadian dollar exchange rate on its U.S. equity investment portfolio and its 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 December 31, 2009, the Auto Fund's exposure to U.S. equities was 5.5% (2008 – 6.3%) and its exposure to non-North American equities was 5.2% (2008 – 4.8%). The Auto Fund has no foreign exchange exposure within its bonds and debentures.

At December 31, 2009, a 10% appreciation/depreciation in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a $6.7 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 $6.3 million decrease/increase in other comprehensive income and accumulated other comprehensive income. As the U.S. equity and non-North American 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 debenture portfolio. As well, no more than 10% of the market value of the bond portfolio shall be invested in bonds of foreign issuers.

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

### Equity prices

The Auto Fund is exposed to changes in equity prices in Canadian, U.S. and EAFE markets. Equities comprise 27.6% (2008 – 26.0%) of the carrying value of the Auto Fund's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. No one investee or related group of investees represents greater than 10% of the market value of the Auto Fund's common share portfolio. As well, no one holding represents more than 10% of the voting shares of any corporation.

The Auto Fund's equity price risk is assessed using Value at Risk (VaR), a statistical technique that measures the potential change in 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 | 2009 | 2008 |
|---|---|---|
| Canadian equities | $ +/– 80,166,000 | $ +/– 60,678,000 |
| U.S. equities | +/– 16,708,000 | +/– 16,577,000 |
| Non-North American pooled equity fund | +/– 21,667,000 | +/– 16,222,000 |

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 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.

The following summarizes the estimated contractual maturities of the Auto Fund's financial liabilities at December 31:

(thousands of $)

| | 2009 | | | | | |
|---|---|---|---|---|---|---|
| | Carrying amount | 0-6 months | 7-12 months | 1-2 years | 3-5 years | More than 5 years |
| Accounts payable and accrued liabilities | $ 31,371 | $ 31,371 | $ - | $ - | $ - | $ - |
| Premium taxes payable | 32,683 | 32,683 | - | - | - | - |
| Provision for unpaid claims | 971,118 | 156,896 | 77,489 | 119,786 | 228,608 | 388,339 |
| | $ 1,035,172 | $ 220,950 | $ 77,489 | $ 119,786 | $ 228,608 | $ 388,339 |

(thousands of $)

| | 2008 | | | | | |
|---|---|---|---|---|---|---|
| | Carrying amount | 0-6 months | 7-12 months | 1-2 years | 3-5 years | More than 5 years |
| Accounts payable and accrued liabilities | $ 21,982 | $ 21,982 | $ - | $ - | $ - | $ - |
| Premium taxes payable | 30,637 | 30,637 | - | - | - | - |
| Provision for unpaid claims | 899,390 | 147,729 | 72,233 | 86,713 | 159,839 | 432,876 |
| | $ 952,009 | $ 200,348 | $ 72,233 | $ 86,713 | $ 159,839 | $ 432,876 |

## 12. 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 for 2009 was a range between 100% and 125%. At December 31, 2009, the MCT was 83% (2008 – 61%).

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.

## 13. Change in Non-cash Operating Items

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

(thousands of $)

| | 2009 | 2008 |
|---|---|---|
| Accounts receivable | $ (24,809) | $ (11,418) |
| Deferred policy acquisition costs | (1,863) | (1,338) |
| Other assets | (970) | (950) |
| Accounts payable and accrued liabilities | 9,389 | 3,278 |
| Premium taxes payable | 2,046 | 2,559 |
| Unearned premiums | 23,426 | 21,929 |
| Provision for unpaid claims | 71,728 | 75,304 |
| | $ 78,947 | $ 89,364 |

## 14. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Auto Fund by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Transactions and amounts outstanding at year-end are as follows:

| | (thousands of $) | |
|---|---|---|
| **Category** | 2009 | 2008 |
| Accounts receivable | $ 1,873 | $ 202 |
| Deferred policy acquisition costs | 14,834 | 13,791 |
| Investments | 16,983 | 16,978 |
| Accounts payable and accrued liabilities | 176 | 1,626 |
| Premium taxes payable | 32,684 | 30,637 |
| Unearned premiums | 3,456 | 3,331 |
| Provision for unpaid claims | 1,543 | 50 |
| Gross premiums written | 7,630 | 7,417 |
| Net premiums earned | 7,387 | 7,144 |
| Claims incurred | 24,797 | 22,842 |
| Administrative expenses | 3,877 | 3,813 |
| Premium taxes | 31,641 | 29,510 |
| Traffic safety programs | 2,390 | 3,032 |
| Investment earnings | 759 | 677 |

SGI acts as administrator of the Auto Fund. Administrative and loss adjustment expenses incurred by SGI are allocated to the Auto Fund directly or on the basis of specific distributions. Amounts incurred by SGI and charged to the Auto Fund were $112,382,000 (2008 – $104,699,000) and accounts payable are $133,000 (2008 – accounts receivable of $2,635,000).

Certain board members are partners in organizations that provided $16,000 (2008 – $46,000) of professional services to the Auto Fund. These services were recorded in claims incurred and administrative expenses in the Statement of Operations. In addition, one board member owns an organization that provides insurance services on behalf of the Auto Fund. Premiums written during the year from this organization amounted to $1,653,000 (2008 – $1,636,000) and the associated accounts receivable at December 31, 2009, was $5,000 (2008 – $3,000). Issuer fees related to these premiums were $109,000 (2008 – $107,000). The above noted transactions are routine operating transactions in the normal course of business.

Other related party transactions are described separately in the notes.

## 15. Fair Value of Financial Assets and Liabilities

The fair value of financial assets and liabilities, other than investments (note 5), net investment in capital lease (note 7) and unpaid claims (note 8) approximate carrying value due to their immediate or short-term nature.

## 16. Commitments and Contingencies

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

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

| | (thousands of $) |
|---|---|
| 2010 | $ 13,327 |
| 2011 | 10,500 |
| 2012 | 10,500 |
| 2013 | 10,500 |
| 2014 | 10,500 |

The Auto Fund has contracted with consulting firms to manage and consult on a project to redevelop its information systems. The remaining commitment for services to be provided in 2010 and 2011 is $3,913,000 (2008 – $7,468,000).

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

## 17. Comparative Financial Information

For comparative purposes, certain 2008 balances have been reclassified to conform to 2009 financial statement presentation.

# Corporate Governance

The Canadian Securities Administrators and securities regulators across Canada have implemented governance policies for publicly traded companies. National Policy 58-201 and National Instrument 58-101 came into effect on June 30, 2005. While Saskatchewan Government Insurance is not publicly traded and therefore not required to comply with these guidelines, they provide an excellent benchmark to measure good governance practices.

## National Policy 58-201 Corporate Governance Guidelines

| Guideline | Saskatchewan Government Insurance |
|---|---|
| **Composition of the Board**<br>1. The board should have a majority of independent directors. | Yes. The Board of Directors is constituted of a majority of independent directors. |
| 2. The chair of the board should be an independent director. Where this is not appropriate, an independent director should be appointed to act as "lead director." However, either an independent chair or an independent lead director should act as the effective leader of the board and ensure that the board's agenda will enable it to successfully carry out its duties. | Yes. The Chair of the Board is an independent director. |
| **Meetings of Independent Directors**<br>3. The independent directors should hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance. | Yes. The Board of Directors has meetings in-camera, during which no management is in attendance, at every Board and committee meeting, as well as on an as-required basis. There are no non-independent directors on the current Board. |
| **Board Mandate**<br>4. The board should adopt a written mandate in which it explicitly acknowledges responsibility for the stewardship of the issuer, including responsibility for: | Yes. The Board has approved Terms of Reference (mandate) which explicitly acknowledge responsibility for the stewardship of the Corporation. |
| (a) to the extent feasible, satisfying itself as to the integrity of the chief executive officer (the CEO) and other executive officers and that the CEO and other executive officers create a culture of integrity throughout the organization; | Yes. The Board has approved the corporate values to which all employees, including the CEO and senior management, are expected to operate. |
| (b) adopting a strategic planning process and approving, on at least an annual basis, a strategic plan which takes into account, among other things, the opportunities and risks of the business; | Yes. The Board of Directors holds an annual multi-day strategic planning session. This session provides the basis of the Corporation's strategic plan and initiatives, as well as direction to management in the formation of the Corporation's operating budget and goals. Further, the Board is provided with quarterly updates during the year on the progress of the corporate strategic initiatives. |

## National Policy 58-201 Corporate Governance Guidelines

| Guideline | Saskatchewan Government Insurance |
|---|---|
| (c) the identification of the principal risks of the issuer's business, and ensuring the implementation of appropriate systems to manage these risks; | Yes. The Board of Directors undertakes a process to identify the principal risks of the business, to achieve a proper balance between risks incurred and potential returns, and to oversee the implementation of appropriate systems to manage the risks. The Board of Directors has charged the Audit and Finance committee with responsibility for this function and it reports to the Board on those risks on at least an annual basis. |
| (d) succession planning (including appointing, training and monitoring senior management); | Yes. The Board of Directors has charged the Governance and Human Resources committee with responsibility for reviewing the Corporation's succession plan. The committee reviews the plan on an annual basis and reports its findings to the Board. |
| (e) adopting a communication policy for the issuer; | Yes. The Corporation has a formal communications policy which has been approved by the Board of Directors. |
| (f ) the issuer's internal control and management information systems; and | Yes. |
| (g) developing the issuer's approach to corporate governance, including developing a set of corporate governance principles and guidelines that are specifically applicable to the issuer. | Yes. |
| The written mandate of the board should also set out:<br>(i) measures for receiving feedback from stakeholders (e.g., the board may wish to establish a process to permit stakeholders to directly contact the independent directors), and | Yes. The Corporation also undertakes research annually on behalf of the Board. |
| (ii) expectations and responsibilities of directors, including basic duties and responsibilities with respect to attendance at board meetings and advance review of meeting materials. | Yes. Position descriptions for directors were developed and approved. |
| In developing an effective communication policy for the issuer, issuers should refer to the guidance set out in *National Policy 51-201 Disclosure Standards*. | |

## National Policy 58-201 Corporate Governance Guidelines

| Guideline | Saskatchewan Government Insurance |
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| **Position Descriptions**<br>5. The board should develop clear position descriptions for the chair of the board and the chair of each board committee. In addition, the board, together with the CEO, should develop a clear position description for the CEO, which includes delineating management's responsibilities. The board should also develop or approve the corporate goals and objectives that the CEO is responsible for meeting. | Yes. Position descriptions for directors were developed and approved. A position description for the CEO has been developed and approved. The Board has developed and approved corporate goals and objectives. |
| **Orientation and Continuing Education**<br>6. The board should ensure that all new directors receive a comprehensive orientation. All new directors should fully understand the role of the board and its committees, as well as the contribution individual directors are expected to make (including, in particular, the commitment of time and resources that the issuer expects from its directors). All new directors should also understand the nature and operation of the issuer's business. | Yes. The Terms of Reference for the Board specify the responsibility for director training, which has been delegated to the Governance committee. New directors receive an orientation which provides a overview of the Corporation, its operations and its industry. Further, directors are educated on the role of the Board, its committees and the expectation of directors. The director position description describes a director's responsibilities. |
| 7. The board should provide continuing education opportunities for all directors, so that individuals may maintain or enhance their skills and abilities as directors, as well as to ensure their knowledge and understanding of the issuer's business remains current. | Yes. The Board provides opportunities for all directors to increase their knowledge of issues and subjects facing the Corporation. Further, Crown Investments Corporation provides annual director training opportunities to all Crown corporation directors. |
| **Code of Business Conduct and Ethics**<br>8. The board should adopt a written code of business conduct and ethics (a code). The code should be applicable to directors, officers and employees of the issuer. The code should constitute written standards that are reasonably designed to promote integrity and to deter wrongdoing. In particular, it should address the following issues: | Yes. The Board has adopted a written Code of Conduct for Directors and a Corporate Code of Ethics and Conduct which is applicible to directors, officers and employees. |
| (a) conflicts of interest, including transactions and agreements in respect of which a director or executive officer has a material interest; | Yes. Conflicts of interest are addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct. |
| (b) protection and proper use of corporate assets and opportunities; | Yes. The protection and proper use of corporate assets and opportunities are addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct. |

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| Guideline | Saskatchewan Government Insurance |
|---|---|
| (c) confidentiality of corporate information; | Yes. The confidentiality of corporate information is addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct. |
| (d) fair dealing with the issuer's security holders, customers, suppliers, competitors and employees; | Yes. The fair dealing with customers, suppliers, competitors and employees is addressed in the Corporate Code of Ethics and Conduct. |
| (e) compliance with laws, rules and regulations; and, | Yes. The compliance with laws, rules and regulations is addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct. |
| (f) reporting of any illegal or unethical behaviour. | Yes. The reporting of any illegal or unethical behaviour is addressed in the Corporate Code of Ethics and Conduct, and more specifically in the Whistleblower Policy. |
| 9. The board should be responsible for monitoring compliance with the code. Any waivers from the code that are granted for the benefit of the issuer's directors or executive officers should be granted by the board (or a board committee) only. | Yes. The Human Resources committee receives an annual report concerning compliance with the code. On an as-required basis, the Human Resources committee may grant a waiver from the code. |
| Although issuers must exercise their own judgment in making materiality determinations, the Canadian securities regulatory authorities consider that conduct by a director or executive officer which constitutes a material departure from the code will likely constitute a "material change" within the meaning of National Instrument 51-102 Continuous Disclosure Obligations. National Instrument 51-102 requires every material change report to include a full description of the material change. Where a material departure from the code constitutes a material change to the issuer, we expect that the material change report will disclose, among other things:<br>• the date of the departure(s),<br>• the party(ies) involved in the departure(s),<br>• the reason why the board has or has not sanctioned the departure(s), and<br>• any measures the board has taken to address or remedy the departure(s). | Not applicable. |
| **Nomination of Directors**<br>10. The board should appoint a nominating committee composed entirely of independent directors. | Yes. The Board has charged the Governance committee with the responsibility of the nomination of directors. The committee is comprised entirely of independent directors. |

## National Policy 58-201 Corporate Governance Guidelines

| Guideline | Saskatchewan Government Insurance |
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| 11. The nominating committee should have a written charter that clearly establishes the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure and operations (including any authority to delegate to individual members and subcommittees), and manner of reporting to the board. In addition, the nominating committee should be given authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties. If an issuer is legally required by contract or otherwise to provide third parties with the right to nominate directors, the selection and nomination of those directors need not involve the approval of an independent nominating committee. | Yes. The Governance committee's charter is contained within the Terms of Reference. |
| 12. Prior to nominating or appointing individuals as directors, the board should adopt a process involving the following steps: | |
| (a) Consider what competencies and skills the board, as a whole, should possess. In doing so, the board should recognize that the particular competencies and skills required for one issuer may not be the same as those required for another. | Yes. The Governance committee undertakes a skills assessment on an annual basis. |
| (b) Assess what competencies and skills each existing director possesses. It is unlikely that any one director will have all the competencies and skills required by the board. Instead, the board should be considered as a group, with each individual making his or her own contribution. Attention should also be paid to the personality and other qualities of each director, as these may ultimately determine the boardroom dynamic. | Yes. The Governance committee undertakes a needs assessment on an annual basis. |
| The board should also consider the appropriate size of the board, with a view to facilitating effective decision-making. | Yes. The Governance committee reviews and recommends the size of the Board. |
| In carrying out each of these functions, the board should consider the advice and input of the nominating committee. | Yes. The Governance committee reports regularly to the Board and when required makes recommendations. It should be noted that director appointments are made by Order-in-Council. |

## National Policy 58-201 Corporate Governance Guidelines

| Guideline | Saskatchewan Government Insurance |
|---|---|
| 13. The nominating committee should be responsible for identifying individuals qualified to become new board members and recommending to the board the new director nominees for the next annual meeting of shareholders. | Yes. The Governance committee has a recruitment and selection process that it undertakes prior to making recommendations for appointments to the Board and Crown Investments Corporation. |
| 14. In making its recommendations, the nominating committee should consider: | |
| (a) the competencies and skills that the board considers to be necessary for the board, as a whole, to possess; | Yes. The Governance committee reviews the competencies and skills required for the Board as a whole. |
| (b) the competencies and skills that the board considers each existing director to possess; and, | Yes. The Governance committee reviews the competencies and skills of each of the directors. |
| (c) the competencies and skills each new nominee will bring to the boardroom. | Yes. The Governance committee reviews the competencies and skills of nominee directors. |
| The nominating committee should also consider whether or not each new nominee can devote sufficient time and resources to his or her duties as a board member. | Yes. During the recruitment and selection process, the Governance committee ensures that potential nominees understand the requirements and have sufficient time and resources to devote to the Board member responsibilities. |
| **Compensation** | |
| 15. The board should appoint a compensation committee composed entirely of independent directors. | Yes. The Board has delegated the responsibilities for compensation to the Human Resources committee. The committee is comprised entirely of the independent directors. |
| 16. The compensation committee should have a written charter that establishes the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure and operations (including any authority to delegate to individual members or subcommittees), and the manner of reporting to the board. In addition, the compensation committee should be given authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties. | Yes. The Human Resources committee's charter is contained within the Terms of Reference. The committee has the authority to engage and compensate any outside advisor it may determine is necessary to carry out its duties. |

## National Policy 58-201 Corporate Governance Guidelines

| Guideline | Saskatchewan Government Insurance |
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| 17. The compensation committee should be responsible for: | |
| (a) reviewing and approving corporate goals and objectives relevant to CEO compensation, evaluating the CEO's performance in light of those corporate goals and objectives, and determining (or making recommendations to the board with respect to) the CEO's compensation level based on this evaluation; | Yes. The Human Resources committee undertakes a detailed CEO evaluation on an annual basis. As part of that evaluation, the committee reviews corporate goals and objectives, and evaluates the CEO's performance against those goals and objectives. The findings of the evaluation and any compensation changes resulting from the review are recommended to the Board. |
| (b) making recommendations to the board with respect to non-CEO officer and director compensation, incentive-compensation plans and equity-based plans; and, | Yes. The Human Resources committee reviews and recommends to the Board and Crown Investments Corporation any changes to compensation. |
| (c) reviewing executive compensation disclosure before the issuer publicly discloses this information. | Not applicable. Individuals reporting to the CEO, which includes all executive members, are required by legislation to file and report any changes in their compensation to the Clerk of the Saskatchewan Legislature within a 14-day period of time. Further, by policy of the Crown and Central Agencies committee of the Legislature, the Corporation is required to file an annual payee list which also contains the compensation of all members of the executive. |
| **Regular Board Assessments** | |
| 18. The board, its committees and each individual director should be regularly assessed regarding his, her or its effectiveness and contribution. An assessment should consider: | Yes. The Board conducts, on a rotational basis, peer assessments and reviews of the Board and the Chair. |
| (a) in the case of the board or a board committee, its mandate or charter; and, | Yes. The Board and its committees review their terms of reference on an as-needed basis and at least every three years. |
| (b) in the case of an individual director, the applicable position description(s), as well as the competencies and skills each individual director is expected to bring to the board. | Yes. The Board has a position description for directors; further, individual director's skills and competencies are reviewed as part of the regular assessments. |

## National Policy 58-201 Corporate Governance Guidelines

| Independence |
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| The matter of "independence from management" is based upon the definition set by the Canadian Securities Administrators (CSA) and utilized by publicly traded companies in the industry. None of the directors have worked with or for the Corporation, or have direct material contracts or relationships with the Corporation, or have received remuneration from the Corporation in excess of the fees and compensation as directors and committee members or as directors of subsidiaries of the Corporation. However, the Chair of the Board of Directors is a partner in a law firm that has performed legal services for the Corporation in 2008, and is thereby deemed to have a material indirect relationship with the Corporation under the above standard. The Corporation's owner has managed this issue through the development of a protocol regarding lawyers serving on Crown Investments Corporation subsidiary Crown corporation Boards of Directors. Although not in strict compliance with the CSA standards, this protocol adopts the principle that directors must be free from any material relationship that may interfere with the director's ability to exercise independent judgment in the best interests of the Corporation or to influence the choice of law firms. Given the smaller local market in Saskatchewan for legal services, the protocol restricts directors from any direct material relationship, but allows a limited indirect relationship subject to the qualifications of the protocol, such as pre-approval of legal services by an independent Board committee, declarations of conflict, no direct benefit to the director and restriction of information to that director. The Corporation's General Counsel reviews all charges related to the provision of legal services by external counsel. The General Counsel in turn reports to the Governance committee of the Board on any new matters undertaken by the director's law firm, other than those that are substantially similar to matters previously performed by the law firm in question. The Board Chair, Warren Sproule, Q.C., is a lawyer who is subject to this protocol. All other directors, including the Vice-Chair of the Board, are independent of management. At each Board and committee meeting, the directors meet in-camera without the presence of management. |

# Glossary of Terms

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| **Catastrophe reinsurance** | A policy purchased by a ceding company that indemnifies that company for the amount of loss in excess of a specified retention amount subject to a maximum specific limit from a covered catastrophic event. |
| **Claims incurred** | The totals for all claims paid and related claim expenses during a specific accounting period(s) plus the changes in the provision for unpaid claims for the same period of time. |
| **Combined ratio** | A measure of total expenses (claims and administration) in relation to net premiums earned as determined in accordance with GAAP. If this ratio is below 100% there was a profit from underwriting activities, while over 100% represents a loss from underwriting. |
| **GAAP** | Generally accepted accounting principles. These are defined in the handbook prepared by the Canadian Institute of Chartered Accountants. |
| **Gross premiums written (GPW)** | Total premiums, net of cancellations, on insurance underwritten during a specified period of time before deduction of reinsurance premiums ceded. |
| **IBNR reserve** | Abbreviation for 'incurred but not reported'. A reserve that estimates claims that have been incurred by a policyholder but not reported to the insurance company. It also includes unknown future developments on claims that have been reported. |
| **Loss ratio (Claims ratio)** | Claims incurred net of reinsurance expressed as a percentage of net premiums earned for a specified period of time. |
| **Motor licence issuer** | A person who negotiates driver's licences and vehicle licence/insurance on behalf of the Auto Fund and who receives a fee from the Auto Fund for licences placed and other services rendered. |
| **Net premiums earned (NPE)** | The portion of net premiums written that is recognized for accounting purposes as revenue during a period. |
| **Net premiums written (NPW)** | Gross premiums written for a given period of time less premiums ceded to reinsurers during such period. |
| **Premium** | The dollars that a policyholder pays today to insure a specific set of risk(s). In theory, this reflects the current value of the claims that a pool of policyholders can be expected to make in the future, as well as the costs of administering those potential claims. |
| **Premium tax** | A tax collected from policyholders and paid to the province. It is calculated as a percentage of gross premiums written. |
| **Prudent person** | A common law standard against which those investing the money of others are judged against. |

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| **Redundancy & deficiency** | Claim reserves are constantly re-evaluated. An increase in a reserve from the original estimate is a deficiency while a decrease to the original reserve is called a redundancy. |
| **Underwriting profit/loss** | The difference between net premiums earned and the sum of net claims incurred, commissions, premium taxes and all general and administrative expenses. |
| **Unearned premiums** | The difference between net premiums written and net premiums earned. It reflects the net premiums written for that portion of the term of its insurance policies that are deferred to subsequent accounting periods. |

# Board of Directors

**Warren Sproule** (Chair), Q.C.
Partner, Kanuka Thuringer LLP
Regina, Sask.

**Anne M. Lavack** (Vice-Chair)
Dean, Faculty of Business Administration
Paul J. Hill School of Business
Kenneth Levene Graduate School of Business
University of Regina
Regina, Sask.

**Merin Coutts**
Regional Manager, Shaw Cable, Saskatchewan Division
Saskatoon, Sask.

**Howard Crofts**
Vice-President Business Assurance Services,
Meyers Norris Penny
Regina, Sask.

**Dwight Dunn**
Manager, Western Financial Group
Wolseley, Sask.

**W.J.A. (Bill) Heidt**
Retired insurance professional
Kelowna, B.C.

**Rick Kennedy**
Regional Director, Great-West Life
Saskatoon, Sask.

**Tyrone Klewchuk**
Businessman
Yorkton, Sask.

**Rick Orr**
Mortgage Broker
Prince Albert, Sask.

**Rick Smith**
Senior Vice-President, Henderson Insurance
Moose Jaw, Sask.

**Jeff Sterzuk**
Chief Operations Officer, Impact Society
Calgary, Alta.

**Rick Watson**
Watson Tractor
Regina, Sask.

# Vice-Presidents

**Earl G. Cameron**
Vice-President
Claims and Salvage

**John Dobie**
Vice-President
Canadian Operations

**Tamara Erhardt**
Vice-President
Human Resources and Corporate Services

**Randy Heise**
Vice-President
Underwriting

**Don Thompson**
Chief Financial Officer

**Dwain Wells**
Vice-President
Systems and Facilities

**Sherry Wolf**
Vice-President
Auto Fund

# In Memoriam

**Marlene Elliott**, a Clerk 5 in Driver Records, was a dedicated employee who worked for SGI for almost three decades.

Many will remember Marlene for her generous nature and kind heart. She was known for her ability to listen, understand and show compassion to her friends and co-workers.

Marlene also enjoyed taking care of many SGI extracurricular activities and attending Roughrider games.

Marlene passed away on Aug. 29, 2009 in Germany.

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**Christopher Holowka**, an Appraiser in Appraisal Services, joined the SGI family on Aug. 8, 2006.

Chris was well respected by his co-workers and known for his great work ethic.

Chris celebrated life by fixing cars, going fishing and hunting as well as listening to country and western music. He also enjoying sports such as hockey, baseball and swimming.

His boys were his pride and joy and he loved to watch them participate in many of the sports that he enjoyed playing.

Chris left us on Jan. 3, 2009 at the age of 48.

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**Maureen Legare**, a Clerk 4 in the Auto Fund, worked at SGI for more than 40 years and her passing was felt by many friends and colleagues throughout the organization.

Maureen, an avid Roughrider fan, will always be remembered for her warm smile, passion for gardening and her love of cats.

Though small in stature, her positive outlook and sense of humour put her on a level all her own.

Maureen passed away on Feb. 9, 2009 at the age of 62.

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**Bob Pawelko**, an Admin Analyst 3 in Personal Lines Policy Support, was a long-time SGI employee.

Bob was regarded by his peers as dedicated and loyal. He will be remembered as a skilled professional and for the great pride he took in his work.

Friends and colleagues always enjoyed Bob's sharp wit, generosity and unwavering commitment to his family.

Bob left us on Feb. 14, 2009. He was 56.

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**Christene Pelletier**, a Data Control Co-ordinator in Production Services, will be remembered by family, friends and co-workers as a very generous and kind person.

She was devoted to her children and very passionate about sports, especially baseball and figure skating.

Christene always found time to share her fond memories of the outdoors and her kids with others.

Christene passed away Feb. 10, 2009 at the age of 47.

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