

Responsibility for Financial Statements

The consolidated 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 consolidated financial statements fairly reflect the financial position, results of operations and cash flows of Saskatchewan Government Insurance (the Corporation) within reasonable limits of materiality.

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

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

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

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



Earl G. Cameron
Acting President and CEO



Don Thompson
Chief Financial Officer

February 24, 2009

Actuary's Report

To the Board of Directors of Saskatchewan Government Insurance

I have valued the policy liabilities of SGI CANADA for its consolidated statement of financial position at December 31, 2008 and their change in the consolidated 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 consolidated financial statements fairly present the results of the valuation.



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

February 24, 2009

Auditors' Report

To the Members of the Legislative Assembly Province of Saskatchewan

We have audited the consolidated statement of financial position of Saskatchewan Government Insurance as at December 31, 2008 and the consolidated statements of operations, comprehensive income, changes in Province of Saskatchewan's equity and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. 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 consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2008 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, 2009

Consolidated Statement of Financial Position

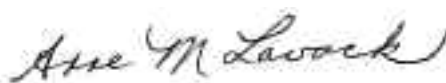
December 31	2008	2007
	(thousands of \$)	
Assets		
Cash and cash equivalents (note 3)	\$ 12,299	\$ 34,994
Accounts receivable (note 4)	98,528	88,372
Deferred policy acquisition costs	47,662	43,347
Future income taxes (note 12)	2,613	1,903
Reinsurers' share of unearned premiums	9,897	8,862
Investments (note 5)	506,114	481,127
Unpaid claims recoverable from reinsurers (note 8)	26,455	33,824
Property, plant and equipment (note 6)	9,336	10,154
Other assets (note 7)	4,441	4,586
	\$ 717,345	\$ 707,169
Liabilities		
Accounts payable and accrued liabilities	\$ 23,287	\$ 21,530
Dividend payable	7,407	10,535
Premium taxes payable	15,908	14,408
Amounts due to reinsurers	5,388	5,330
Unearned reinsurance commissions	3,016	2,449
Unearned premiums	195,541	176,604
Provision for unpaid claims (note 8)	287,103	285,567
	537,650	516,423
Non-controlling interest	1,862	1,709
Province of Saskatchewan's equity		
Equity advances (note 9)	80,000	80,000
Retained earnings	108,151	94,028
Accumulated other comprehensive income (loss)	(10,318)	15,009
	177,833	189,037
	\$ 717,345	\$ 707,169

Commitments and contingencies (note 21)
(see accompanying notes)

On behalf of the Board:



Warren Sproule
Chairperson, Board of Directors



Anne Lavack
Director

Consolidated Statement of Operations

year ended December 31	2008	2007
	(thousands of \$)	
Gross premiums written	\$ 380,824	\$ 339,528
Net premiums written	\$ 353,447	\$ 320,677
Net premiums earned (note 10)	\$ 335,889	\$ 307,862
Claims incurred (note 10)	185,592	186,034
Commissions (note 10)	71,311	63,503
Administrative expenses (note 10)	44,009	40,717
Premium taxes (note 10)	16,056	14,850
Facility Association participation (note 19)	487	(133)
Total claims and expenses	317,455	304,971
Underwriting profit	18,434	2,891
Investment earnings (note 11)	22,541	34,423
Income before income taxes and non-controlling interest	40,975	37,314
Income taxes (note 12)	471	2,055
Income after income taxes and before non-controlling interest	40,504	35,259
Non-controlling interest	153	166
Net income	\$ 40,351	\$ 35,093

(see accompanying notes)

Consolidated Statement of Comprehensive Income

year ended December 31	2008	2007
	(thousands of \$)	
Net income	\$ 40,351	\$ 35,093
Other comprehensive loss, net of income taxes:		
Unrealized loss on available for sale financial assets arising during the year	(28,201)	(1,894)
Future income tax recovery on unrealized losses	1,610	723
	(26,591)	(1,171)
Reclassification of net realized gains on sale of investments included in operations	(4,741)	(9,809)
Reclassification for investment write-downs included in operations	5,665	312
Income tax expense (recovery)	340	(118)
	1,264	(9,615)
Other comprehensive loss	(25,327)	(10,786)
Comprehensive income	\$ 15,024	\$ 24,307

(see accompanying notes)

Consolidated Statement of Changes in Province of Saskatchewan's Equity

year ended December 31	2008	2007
	(thousands of \$)	
Equity advances		
Balance, end of year	\$ 80,000	\$ 80,000
Retained earnings		
Balance, beginning of year	\$ 94,028	\$ 81,599
Change in accounting policy	–	146
Net income	40,351	35,093
Dividend	(26,228)	(22,810)
Balance, end of year	\$108,151	\$ 94,028
Accumulated other comprehensive income (loss)		
Balance, beginning of year	\$ 15,009	\$ –
Change in accounting policy	–	25,795
Other comprehensive loss	(25,327)	(10,786)
Balance, end of year	\$ (10,318)	\$ 15,009
Total Province of Saskatchewan's equity	\$177,833	\$ 189,037

(see accompanying notes)

Consolidated Statement of Cash Flows

year ended December 31	2008	2007
	(thousands of \$)	
Cash provided by (used for):		
Operating activities		
Net income	\$ 40,351	\$ 35,093
Non-cash items:		
Amortization	1,596	1,175
Net realized gain on disposal of investments	(5,345)	(9,809)
Future income taxes	673	1,000
Investment write-downs	5,665	312
Non-controlling interest	153	(83)
Loss (income) from investments accounted for on the equity basis	(187)	788
Change in non-cash operating items (note 15)	16,488	24,946
	59,394	53,422
Investing activities		
Purchases of investments	(616,745)	(822,421)
Proceeds on sale of investments	563,360	809,445
Repayment of capital lease	442	400
Disposals (purchases) of property, plant and equipment	209	(252)
	(52,734)	(12,828)
Financing activities		
Dividends paid	(29,355)	(29,654)
Increase (decrease) in cash and cash equivalents	(22,695)	10,940
Cash and cash equivalents, beginning of year	34,994	24,054
Cash and cash equivalents, end of year	\$ 12,299	\$ 34,994
Supplemental cash flow information:		
Income taxes paid	\$ 1,000	\$ 1,823

(see accompanying notes)

Notes to the Consolidated Financial Statements

December 31, 2008

1. Nature of Operations

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

In many provinces in Canada, automobile insurance premium rates are regulated by provincial government authorities. Regulation of premium rates is based on claims and other costs of providing insurance coverage, as well as projected profit margins. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. The Corporation's automobile premiums are subject to rate regulation in Alberta, Ontario, Prince Edward Island, New Brunswick and Nova Scotia and represent approximately 9.8% (2007 – 8.4 %) of the Corporation's consolidated net premiums earned.

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

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

2. Significant Accounting Policies

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

Change in accounting policies

Effective January 1, 2008, three new presentation and disclosure standards were adopted: Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535, *Capital Disclosures* (Section 1535); Handbook Section 3862, *Financial Instruments – Disclosures* (Section 3862); and Handbook Section 3863, *Financial Instruments – Presentation* (Section 3863).

Section 1535 requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. As this standard only addresses disclosure requirements, there is no impact on the Corporation's operating results.

Sections 3862 and 3863 replaced Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*. The new disclosure standards increase the disclosures related to financial instruments and the nature, extent and management of the Corporation's risks arising from financial instruments. The presentation standards carry forward unchanged the former presentation requirements. As these standards only address disclosure and presentation requirements, there is no impact on the Corporation's operating results.

Consolidation

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

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 and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation processes are related to the actuarial determination of the provision for unpaid claims (note 8), investment valuation (note 5), income taxes (note 12), and employee future benefits (note 16).

Financial assets and liabilities

The CICA Handbook, Section 3855, establishes standards for recognizing and measuring financial assets and financial liabilities. The measurement basis 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 and changes in fair value are recognized in net income. Financial assets classified as available for sale are measured at fair value with unrealized changes in fair value recorded in other comprehensive income, however, unrealized losses considered other than temporary continue to be recognized as a decrease to net income. Financial assets designated as held to maturity, loans and receivables, or other financial liabilities are measured at amortized cost using the effective interest method. The Corporation has no financial assets and liabilities designated as held for trading or held to maturity.

The Corporation has designated its cash and cash equivalents and investments as available for sale, except for investments accounted for on the equity basis, which are exempt from Section 3855. Accounts receivable are designated as loans and receivables. Accounts payable, dividend payable and premium taxes payable are designated as other financial liabilities. The net investment in capital lease, the accrued pension asset, unpaid claims recoverable from reinsurers, amounts due to reinsurers, and the provision for unpaid claims are exempt from Section 3855.

Investments

All investments are carried at fair value, except preferred shares and investments accounted for on the equity basis. 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 based on quoted market values, based on the latest bid prices. The fair value of pooled equity funds 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, calculated by discounting scheduled cash flows through to the estimated maturity of the mortgage using interest rates which reflect the term and credit risk associated with the mortgage.

Preferred shares are carried at cost as the fair value cannot be estimated reliably. Investments accounted for on the equity basis are recorded using the equity method, whereby the Corporation's investment is adjusted for its share of the investee's net earnings or losses and reduced by dividends received.

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

Investment earnings

The Corporation recognizes interest, premium financing 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 at 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 gains and/or losses arising on translation are charged to operations in the current year. 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 to the year-end date. The estimate includes the cost of reported claims, and claims incurred but not reported, and an estimate of adjustment 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.

Reinsurance ceded

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts.

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

Income taxes

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

Employee future benefits

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

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

For the defined benefit plan:

- (i) For the purpose of calculating the expected return on plan assets, those assets are valued at fair value, which approximates market value.
- (ii) Pension obligations are determined by an independent actuary using the projected benefit method prorated on service and management's best estimate assumptions of expected plan investment performance, salary escalation, age at retirement, mortality of members and future pension indexing, based upon the consumer price index.
- (iii) The discount rate used to determine the accrued benefit obligation was determined by reference to market interest rates at the measurement date of high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments.
- (iv) Past service costs from plan amendments and the transitional asset are amortized on a straight-line basis over a period of time which is a blending of the expected average remaining service lifetime of the active members and the future life expectancy of the pensioners.
- (v) The excess of the net actuarial gain (loss) over 10% of the greater of the accrued benefit obligation and the fair value of the plan assets is amortized over a period of time which is a blending of the expected average remaining service lifetime of the active members and the future life expectancy of the pensioners.

The Corporation provides defined benefit service recognition plans for both management and in-scope (union) employees for the purpose of providing certain retirement benefits. The cost of the plans is determined using the projected benefit method prorated on service.

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, commissions and certain underwriting and policy issuance costs are 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 income, 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:

Building	40 years
Computer hardware, system costs and other equipment	3-5 years

Goodwill

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

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

Future accounting policy changes

The CICA issued a new accounting standard that will become effective for the Corporation on January 1, 2009. The standard is Handbook Section 3064, *Goodwill and Intangible Assets* (Section 3064). Section 3064 reinforces that assets are recorded only if they meet the definition and recognition criteria for an asset and clarifies the application of the concept of matching costs with revenues. The standards concerning goodwill are unchanged from former Section 3062. The standard is not expected to have a material impact on the consolidated financial statements.

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises, including the Corporation, will be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian GAAP for interim and annual reporting in fiscal years beginning on or after January 1, 2011, including comparative figures for the prior year. The Corporation has commenced an IFRS conversion project including initiating the development of a high level IFRS implementation plan. An external advisor has been engaged by the Corporation to assist with the development of this plan and to perform a detailed review of major differences between current Canadian GAAP and IFRS. Work is in the early stages and, as a result, the impact on the Corporation's future financial position and results of operations is not reasonably determinable. However, such impact may be material. As part of the IFRS implementation, the Corporation plans to make changes to certain processes and systems before 2010 to ensure transactions are recorded in accordance with IFRS for comparative reporting purposes on the required implementation date.

3. Cash and Cash Equivalents

	(thousands of \$)	
	2008	2007
Money market investments	\$ 18,860	\$ 39,905
Cash on hand, net of outstanding cheques	(6,561)	(4,911)
Total cash and cash equivalents	\$ 12,299	\$ 34,994

The average effective interest rate on money market investments is 1.4% (2007 – 4.3%).

4. Accounts Receivable

Accounts receivable is comprised of the following:

	(thousands of \$)	
	2008	2007
Due from insureds	\$ 51,917	\$ 45,745
Due from brokers	33,666	31,307
Facility Association (note 19)	3,806	3,675
Accrued investment income	3,411	3,620
Income taxes	2,166	949
Due from reinsurers	1,554	911
Amounts recoverable on claims paid	1,351	1,104
Computer purchase plan	377	566
Other	280	495
Total accounts receivable	\$ 98,528	\$ 88,372

Included in due from insureds is \$50,088,000 (2007 – \$43,219,000) of financed premiums receivable, which represents the portion of policyholders' monthly premium payments that are not yet due. The majority of policyholders have the option to pay a portion of the premium when the policy is placed in force and the balance in monthly instalments. The policyholder pays an additional charge for this option, reflecting handling costs and the investment earnings that would have been earned on such premium, had the total amount been collected at the beginning of the policy period. The additional charge is recognized in investment earnings over the period of the policy.

5. Investments

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

	(thousands of \$)	
	2008	2007
Short-term investments	\$ 37,361	\$ 41,863
Bonds and debentures	327,598	325,170
Canadian common shares	51,533	43,750
U.S. common shares	22,171	13,779
Pooled funds:		
Canadian equity	13,809	12,888
United States equity	7,361	4,612
Non-North American equity	22,510	16,813
Mortgage	21,706	19,535
Preferred shares	735	735
Investments accounted for on the equity basis	1,330	1,982
Total investments	\$506,114	\$481,127

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

Short-term investments

Short-term investments are comprised of money market investments with a maturity of less than one year but greater than 90 days from the date of acquisition. These investments have an average effective interest rate of 1.9% (2007 – 4.3%) and an average remaining term to maturity of 69 days (2007 – 109 days). The Corporation's investment policy states that investments must meet minimum investment standards of R-1, as rated by a recognized credit rating service.

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

Bonds and debentures

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

The Corporation's investment policy limits its holdings for any one issuer, other than the Government of Canada or a Canadian province, to 10% of the market value of the combined bond and short-term investment portfolios. The holdings for any one province are limited to 20% of the market value of the bond portfolio. 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 securities of foreign issuers.

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

Term to maturity (years)	(thousands of \$)			
	2008		2007	
	Carrying Value	Average Effective Rates	Carrying Value	Average Effective Rates
Government of Canada:				
One or less	\$ 19,847	4.1%	\$ –	–
After one through five	79,841	3.7%	154,873	4.3%
After five	6,480	4.2%	9,812	4.6%
Canadian provincial and municipal:				
One or less	4,688	5.3%	–	–
After one through five	34,775	5.6%	35,455	5.5%
After five	32,493	5.1%	28,501	5.0%
Canadian corporate:				
One or less	6,190	4.8%	6,427	4.5%
After one through five	94,374	5.0%	49,429	5.0%
After five	48,910	5.0%	40,673	4.7%
Total bonds and debentures	\$ 327,598		\$ 325,170	

Common shares

Common shares have no fixed maturity dates and are generally not exposed to interest rate risk. The average effective dividend rate is 2.5% (2007 – 2.0%).

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

Pooled funds

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

Preferred shares

The preferred share investment is a private placement and is not traded on a listed exchange. It provides for a 6.75% annual dividend payable semi-annually for the first five years. The rights of these shares will allow the holder to convert the preferred shares into that entity's common shares or allows the entity to redeem the preferred shares starting in June 2009. The effective dividend rate is 6.8% (2007 – 6.8%).

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

Investments accounted for on the equity basis

Through a subsidiary, the Corporation has a 21.25% ownership interest in Charlie Cooke Insurance Agency Ltd., and a 25% ownership interest in Atlantic Adjusting & Appraisals Ltd. and Maritime Finance & Acceptance Corporation.

The Corporation had an 8% ownership interest in a crop hail insurance business and the right to receive an additional 16% of the net income or loss from this business through preferred share ownership in other crop hail insurance companies. During the year, the Corporation disposed of these ownership interests for cash consideration of \$1,310,000, resulting in a net gain on sale of \$604,000.

The fair value of investments accounted for on the equity basis is considered to approximate book value.

Unrealized loss positions

The following table presents available for sale investments with unrealized losses where the decline is considered temporary. The unrealized losses are recorded as a component of accumulated other comprehensive income (loss).

	(thousands of \$)			
	2008		2007	
	Carrying Value	Unrealized Losses	Carrying Value	Unrealized Losses
Bonds and debentures:				
Federal	\$ 6,559	\$ (39)	\$ 69,871	\$ (217)
Provincial and municipal	9,145	(196)	29,911	(293)
Corporate	80,443	(3,507)	73,849	(1,417)
Canadian common shares	30,105	(6,066)	9,488	(766)
U.S. common shares	13,336	(1,031)	3,281	(385)
Pooled funds:				
Canadian equity	13,809	(5,707)	-	-
United States equity	7,361	(914)	-	-
Non-North American equity	22,510	(4,909)	-	-
	<u>\$183,268</u>	<u>\$ (22,369)</u>	<u>\$186,400</u>	<u>\$ (3,078)</u>

As at December 31, 2008, the cost of 128 (2007 – 91) available for sale investments exceeded their fair value by \$22,369,000 (2007 – \$3,078,000). The unrealized losses on the bonds and debentures arose primarily from changes in interest rates. For Canadian and U.S. common shares and pooled funds, the unrealized losses are primarily the result of investment-specific business environment factors associated with the underlying equity investments.

The Corporation 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 \$5,665,000 (2007 – \$312,000) (note 11) were recorded related to impairments of Canadian and U.S. common shares that were considered other than temporary.

6. Property, Plant and Equipment

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

	(thousands of \$)			
		2008		2007
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 972	\$ –	\$ 972	\$ 972
Building	23,136	14,861	8,275	9,051
Computer hardware, system costs and other equipment	15,978	15,889	89	131
Total	\$ 40,086	\$ 30,750	\$ 9,336	\$ 10,154

Amortization for the year is \$609,000 (2007 – \$979,000) and is included in administrative expenses on the Consolidated Statement of Operations.

7. Other Assets

Other assets are comprised of the following:

	(thousands of \$)	
	2008	2007
Prepaid expenses	\$ 1,416	\$ 1,866
Accrued pension asset (note 16)	1,375	628
Net investment in capital lease	1,169	1,611
Goodwill	481	481
Total	\$ 4,441	\$ 4,586

Net investment in capital lease

The Corporation, as lessor, has a 37% 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 \$1,311,000 (2007 – \$1,894,000), payable at \$583,000 per year. Unearned income at December 31, 2008 is \$141,000 (2007 – \$283,000).

The fair value of the net investment in the capital lease is \$1,351,000 (2007 – \$1,833,000). 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 Corporation at the year-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists regarding the cost of reported claims that have not been settled, as all the necessary information may not be available at the year-end date.

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

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

Changes in the estimate for the provision for unpaid claims are as follows:

	(thousands of \$)	
	2008	2007
Net unpaid claims, beginning of year	\$ 251,743	\$ 231,241
Change in accounting policies	–	(146)
Payments made during the year relating to:		
Prior year claims	(76,165)	(65,871)
Prior year service agreement claims	(1,383)	(3,215)
Prior year Facility Association claims	(988)	(624)
Deficiency (excess) relating to:		
Prior year estimated unpaid claims	(13,233)	(3,846)
Prior year estimated unpaid service agreement claims	(93)	(1,532)
Prior year estimated unpaid Facility Association claims	52	63
Net unpaid for claims of prior years	159,933	156,070
Provision for claims occurring in the current year	99,778	95,186
Provision for Facility Association claims occurring in the current year	937	487
Net unpaid claims, end of year	\$ 260,648	\$ 251,743

The fair value of the provision for unpaid claims and unpaid claims recoverable from reinsurers has not been provided because it is not practicable to determine fair value with sufficient reliability.

Type of unpaid claims

The provision for unpaid claims is summarized by line of business as follows:

	2008			2007		
	Gross	Reinsurance Recoverable	Net	Gross	Reinsurance Recoverable	Net
Automobile	\$ 137,823	\$ 18,252	\$ 119,571	\$ 136,545	\$ 23,913	\$ 112,632
Property	58,910	2,703	56,207	61,205	4,410	56,795
Liability	75,696	5,500	70,196	72,256	5,501	66,755
Assumed	7,942	–	7,942	8,313	–	8,313
Service agreement	3,041	–	3,041	4,518	–	4,518
Facility Association (note 19)	3,691	–	3,691	2,730	–	2,730
Total	\$ 287,103	\$ 26,455	\$ 260,648	\$ 285,567	\$ 33,824	\$ 251,743

Included in the provision for unpaid claims are discounted amounts for certain injury accident benefits in the amount of \$10,944,000 (2007 – \$12,746,000). These claims have been discounted using a rate of 6% (2007 – 6%) which reflects the expected claim settlement patterns and SGI's projected rate of return on its investment portfolio.

Included in the above amount is a provision for adverse development in the amount of \$954,000 (2007 – \$953,000).

Assumed claims

The provision for unpaid claims includes a provision for unpaid reinsurance assumed claims of \$7,942,000 (2007 – \$8,313,000). The Corporation discontinued its practice of underwriting reinsurance assumed business in 1985, but remains financially responsible for claims run-off on assumed contracts.

Service agreement

During 1998, a subsidiary of the Corporation, Coachman, issued an insurance policy to a vehicle rental company (the rental company). The policy provided bodily injury liability coverage on the rental company's vehicles being driven by its customers. The rental company paid Coachman an annual premium under this policy between \$100,000 and \$120,000. At the same time, Coachman made an agreement that allowed the rental company to settle and pay all claims submitted by its customers. Because the insurance coverage was in the name of Coachman, the rental company was required to report to Coachman quarterly on the status of all reported claims and the provision for unpaid claims. As security to guarantee the provision for unpaid claims, a trust account was to be maintained in an amount that would meet the funding of the outstanding liabilities related to the policy.

The agreement with the rental company expired on March 31, 2005. Subsequent to the expiration of the contract, the rental company filed for voluntary receivership. During the receivership proceedings, it was determined that the rental company had not reported claims correctly to Coachman, nor had it deposited the correct amounts in the trust account. Coachman has since collected the balance held in the trust account of \$1,235,000.

Coachman is continuing legal action against certain of the parties involved to recover the shortfall related to this service agreement. Any recovery will be accounted for in the year of receipt.

Structured settlements

The Corporation settles some long-term disability claims by purchasing annuities from various financial institutions. The settlements legally release the Corporation from its obligations to the claimants. Consequently, neither the annuities purchased nor the claim liabilities are recognized on the Consolidated Statement of Financial Position. However, as part of the settlement, the Corporation provides a financial guarantee to the claimants in the event the financial institutions default on the scheduled payments. As at December 31, 2008, no information has come to the Corporation's attention that would suggest any weakness or failure in the financial institutions from which it has purchased annuities. The net present value of the scheduled payments as of the year-end date is \$50,660,000 (2007 – \$48,222,000).

9. Equity Advances

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

10. Underwriting Policy and Reinsurance Ceded

The Corporation seeks to reduce losses that may arise from catastrophes or other events that cause unfavourable underwriting results by reinsuring certain levels of risk with other insurers. The policy of underwriting and reinsuring contracts of insurance limits the liability of the Corporation to a maximum amount on any one loss as follows:

	(thousands of \$)	
	2008	2007
Dwelling and farm property	\$ 500	\$ 500
Unlicensed vehicles	500	500
Commercial property	1,000	1,000
Automobile and general liability	1,000	1,000
(subject to filling an annual aggregate deductible of)		
	1,500	1,500
Property catastrophe (health care)	7,500	7,500
Property catastrophe (non-health care)	8,500	8,500

The Corporation evaluates and monitors the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvency. The following table sets out the amount by which reinsurance ceded has reduced (increased) the premiums earned, claims incurred, commissions, premium taxes and administrative expenses:

	(thousands of \$)	
	2008	2007
Premium earned	\$ 26,338	\$ 24,168
Claims incurred	1,066	11,070
Commissions and premium taxes	3,014	2,524
Administrative expenses	(1,200)	1,230

11. Investment Earnings

The components of investment earnings are as follows:

	(thousands of \$)	
	2008	2007
Interest	\$ 15,826	\$ 17,425
Net realized gain on sale of investments	5,345	9,809
Premium financing	3,113	2,819
Pooled fund distributions	2,499	4,164
Dividends	1,094	937
Investments accounted for on the equity basis	187	(602)
Interest on net investment in capital lease	142	183
Investment write-downs	(5,665)	(312)
Total investment earnings	\$ 22,541	\$ 34,423

Investment write-downs by category are as follows:

	(thousands of \$)	
	2008	2007
Canadian common shares	\$ (4,825)	\$ (64)
U.S. common shares	(840)	(248)
Total investment write-downs	\$ (5,665)	\$ (312)

12. Income Taxes

The Corporation's provision for (recovery of) income taxes is as follows:

	(thousands of \$)	
	2008	2007
Current	\$ (202)	\$ 1,055
Future	673	1,000
Total income taxes	\$ 471	\$ 2,055

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

The reasons for the differences are as follows:

	(thousands of \$)	
	2008	2007
Income before income taxes and non-controlling interest	\$ 40,975	\$ 37,314
Combined federal and provincial tax rate	35.78%	36.01%
Computed tax expense based on combined rate	\$ 14,661	\$ 13,437
Increase (decrease) resulting from:		
Changes to enacted tax rates	52	29
Non-deductible expenses for tax purposes	33	30
Earnings not subject to taxation	(14,252)	(9,569)
Valuation allowance	-	(1,896)
Other	(23)	24
Total income taxes	\$ 471	\$ 2,055

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

	(thousands of \$)	
	2008	2007
Future income tax assets		
Tax loss carryforward	\$ 1,620	\$ 1,993
Provision for unpaid claims	2,074	1,836
Other	26	29
Total future income tax assets	3,720	3,858
Future income tax liabilities		
Investments	655	1,158
Unpaid claims recoverable from reinsurers	452	797
Total future income tax liabilities	1,107	1,955
Net future income tax assets	\$ 2,613	\$ 1,903

The Corporation has non-capital loss carry-forwards of approximately \$5,492,000 that expire in 2018 (2007 – \$5,949,000 that expire in 2015).

13. Financial Risk Management

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

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

Credit risk

The Corporation's credit risk arises primarily from two distinct sources: accounts receivable (from its customers, brokers and reinsurers) and certain investments. The maximum credit risk to which it is exposed at December 31, 2008 is limited to the carrying value of the financial assets summarized as follows:

	(thousands of \$)	
	2008	2007
	Carrying Value	Carrying Value
Cash and cash equivalents	\$ 12,299	\$ 34,994
Accounts receivable	98,528	88,372
Fixed income investments ¹	386,665	386,568
Unpaid claims recoverable from reinsurers	26,455	33,824

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

Cash and cash equivalents include money market investments of \$18,860,000 less cash on hand, net of outstanding cheques of \$6,561,000 (2007 – money market investments of \$39,905,000 less cash on hand, net of outstanding cheques of \$4,911,000). The money market investments mature within 90 days from the date of acquisition and have a credit rating of R-1.

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

	(thousands of \$)	
	2008	2007
Current	\$ 98,410	\$ 88,004
30-59 days	542	410
60-89 days	281	216
Greater than 90 days	4,195	4,679
Subtotal	103,428	93,309
Allowance for doubtful accounts	(4,900)	(4,937)
Total	\$ 98,528	\$ 88,372

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

	(thousands of \$)	
	2008	2007
Allowance for doubtful accounts,		
opening balance	\$ 4,937	\$ 4,593
Accounts written off	(1,912)	(1,223)
Current period provision	1,875	1,567
Allowance for doubtful accounts,		
ending balance	\$ 4,900	\$ 4,937

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

Credit Rating	(thousands of \$)			
	2008		2007	
	Fair Value	Makeup of Portfolio	Fair Value	Makeup of Portfolio
AAA	\$ 143,326	43.8%	\$ 202,995	62.4%
AA	88,265	26.9%	65,640	20.2%
A	85,422	26.1%	55,111	17.0%
BBB	10,585	3.2%	1,424	0.4%
Total	\$ 327,598	100.0%	\$ 325,170	100.0%

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

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

Through its custodian, the Corporation 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, 2008 the Corporation had \$47,636,000 (2007 – \$64,338,000) of securities loaned under the program and held collateral of \$50,638,000 (2007 – \$69,165,000).

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

Market risk

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

Interest rate risk

The Corporation is exposed to changes in interest rates in its fixed income investments, including short-term investments, bonds and debentures, and the mortgage pooled fund. 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 \$14.0 million at December 31, 2008, representing 3.6% of the \$386.7 million fair value of fixed income investments.

Foreign exchange risk

The Corporation is subject to changes in the U.S./Canadian dollar exchange rate on its U.S. equity investments, purchases of goods and services that are denominated in U.S. dollars, and a portion of claims and reinsurance receivables and payables denominated in U.S. dollars. Also, the Corporation is exposed to EAFE (Europe, Australasia and Far East) currencies through its investment in the non-North American Pooled Fund. Exposure to both U.S. equities and non-North American equities is limited to a maximum 7% each of the market value of the total investment portfolio, excluding investments accounted for on the equity basis and preferred shares. At December 31, 2008, the Corporation's exposure to U.S. equities was 5.9% (2007 – 3.8%) and its exposure to non-North American equities was 4.5% (2007 – 3.5%).

At December 31, 2008, a 10% appreciation/depreciation in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a \$3.0 million decrease/increase in other comprehensive income and accumulated other comprehensive income. A 10% appreciation/depreciation in the Canadian dollar versus the EAFE currencies would result in approximately a \$2.3 million decrease/increase in other comprehensive income and accumulated other comprehensive income. As U.S. common shares, the U.S. equity pooled fund and the non-North American equity pooled fund 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 Corporation'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 Corporation's exposure to exchange rate risk resulting from the purchase of goods and services, and claims and reinsurance receivables and payables, are not considered material to the operations of the Corporation.

Equity prices

The Corporation is exposed to changes in equity prices in Canadian, U.S. and EAFE markets. Equities comprise 23.5% (2007 – 19.2%) of the carrying value of the Corporation's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. No one investee or related group of investees represents greater than 10% of the market value of the Corporation's common share portfolio. As well, no one holding represents more than 10% of the voting shares of any corporation.

The following table indicates the approximate change that would be expected to both other comprehensive income and accumulated other comprehensive income based on changes in the Corporation's benchmark indices at December 31, 2008:

Change in Equity Benchmarks	(Change in thousands of \$)	
	10% increase	10% decrease
S&P/TSX Composite Index	\$ 6,534	\$ (6,534)
S&P 500 Index	2,953	(2,953)
MSCI EAFE Index	2,251	(2,251)

Liquidity risk

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

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

(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	\$ 23,287	\$ 23,287	\$ –	\$ –	\$ –	\$ –
Dividend payable	7,407	7,407	–	–	–	–
Premium taxes payable	15,908	15,908	–	–	–	–
Amounts due to reinsurers	5,388	5,033	140	215	–	–
Provision for unpaid claims	287,103	78,436	40,468	42,756	65,341	60,102
	\$ 339,093	\$ 130,071	\$ 40,608	\$ 42,971	\$ 65,341	\$ 60,102

(thousands of \$)	2007					
	Carrying amount	0-6 months	7-12 months	1-2 years	3-5 years	More than 5 years
Accounts payable and accrued liabilities	\$ 21,530	\$ 21,530	\$ –	\$ –	\$ –	\$ –
Dividend payable	10,535	10,535	–	–	–	–
Premium taxes payable	14,408	14,408	–	–	–	–
Amounts due to reinsurers	5,330	4,435	895	–	–	–
Provision for unpaid claims	285,567	78,016	40,251	45,527	64,992	59,781
	\$ 337,370	\$ 128,924	\$ 41,146	\$ 45,527	\$ 64,992	\$ 59,781

14. Capital Management

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

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

SGI CANADA is not a regulated insurer, however, its subsidiaries, SGI CANADA Insurance Services Ltd., Coachman Insurance Company and the Insurance Company of Prince Edward Island, are subject to rate regulation related to their automobile premiums. Regulators require insurers to maintain a level of capital sufficient to achieve an MCT of 150%. The Corporation's objective is to maintain capital sufficient to achieve the industry average MCT, a level in excess of the regulatory minimum. The Corporation has established an objective to maintain its MCT at a level based upon the Canadian insurance industry. For 2008 that target was an MCT level of 316% (2007 – 307%). At December 31, 2008, the Corporation's MCT was 228% (2007 – 266%). There have been no changes to the Corporation's capital management processes and measures since the prior year end.

15. Change in Non-Cash Operating Items

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

	(thousands of \$)	
	2008	2007
Accounts receivable	\$ (10,014)	\$ 7,938
Deferred policy acquisition costs	(4,315)	(3,993)
Reinsurers' share of unearned premiums	(1,035)	(689)
Unpaid claims recoverable from reinsurers	7,369	(1,551)
Other assets	(297)	(953)
Accounts payable and accrued liabilities	2,182	(13,166)
Premium taxes payable	1,500	969
Amounts due to reinsurers	58	438
Unearned reinsurance commissions	567	145
Unearned premiums	18,937	13,755
Provision for unpaid claims	1,536	22,053
	<u>\$ 16,488</u>	<u>\$ 24,946</u>

16. Employee Future Benefits

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

Defined benefit pension plan

The Corporation has a defined benefit pension plan for certain of its employees that has been closed to new membership since 1980. Current service costs of this plan are charged to operations on the basis of actuarial valuations, the most recent valuation being as of December 31, 2007. The next valuation is anticipated to have a valuation date of December 31, 2010.

The actuarial valuation includes a provision for uncommitted and ad hoc benefit increases, and is measured using management's best estimates based on assumptions that reflect the most probable set of economic circumstances and planned courses of action. The estimate, therefore, involves risks that the actual amount may differ materially from the estimate. Results from the latest valuation as at December 31, 2007, projected to December 31, 2008, and the major assumptions used in the valuation, are as follows:

	2008	2007
Economic assumptions:		
Discount rate – beginning of period	5.50%	5.00%
Discount rate – end of period	7.50%	5.50%
Expected return on plan assets	6.25%	6.25%
Inflation rate	2.50%	2.50%
Expected salary increase	3.50%	3.50%
Post-retirement index	50% of CPI	50% of CPI
Remaining service life of active members in years (EARSL)	3	3

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

	(thousands of \$)	
	2008	2007
Accrued benefit obligation		
Accrued benefit obligation, beginning of year	\$ 41,242	\$ 45,215
Current service cost	235	220
Interest cost	2,205	2,159
Benefits paid	(3,040)	(4,458)
Change in actuarial assumptions	(5,691)	(1,817)
Experience loss (gain)	580	(77)
Accrued benefit obligation, end of year	\$ 35,531	\$ 41,242

	(thousands of \$)	
	2008	2007
Plan assets		
Fair value of plan assets, beginning of year	\$ 42,724	\$ 45,740
Actual return on plan assets	(4,349)	1,273
Employer contributions	133	113
Employee contributions	65	56
Benefits paid	(3,040)	(4,458)
Fair value of plan assets, end of year	\$ 35,533	\$ 42,724

Funded status – plan surplus	\$ 2	\$ 1,482
Unamortized transitional asset	(611)	(1,219)
Unamortized net actuarial losses	4,759	2,724
Valuation allowance	–	(964)
Accrued pension asset	\$ 4,150	\$ 2,023

As at December 31, 2008, \$1,375,000 (2007 – \$628,000) of the accrued pension asset has been recorded by the Corporation (note 7) and \$2,775,000 (2007 – \$1,395,000) has been allocated to the Saskatchewan Auto Fund.

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

Asset Category	Target Range	Per cent of Plan Assets at December 31	
		2008	2007
Short-term investments	3 - 20%	5%	9%
Bonds and debentures	40 - 70%	54%	52%
Canadian equities	10 - 30%	15%	15%
U.S. equities	Total foreign	15%	12%
Non-North American equities		18 - 30%	11%

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

	(thousands of \$)	
	2008	2007
Current service cost	\$ (170)	\$ (164)
Interest cost	(2,205)	(2,159)
Expected return on pension plan assets	2,591	2,725
Amortization of net transitional asset	608	608
Amortization of actuarial gains	205	205
Valuation allowance	957	(964)
Pension income	\$ 1,986	\$ 251

During the year, \$1,330,000 (2007 – \$173,000) of the pension income was allocated to the Saskatchewan Auto Fund. The Corporation has recorded the remaining \$656,000 (2007 – \$78,000) of pension income in administrative expenses on the Consolidated Statement of Operations.

Defined contribution pension plan

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

Pension expense for the defined contribution pension plan is \$5,272,000 (2007 – \$4,867,000). During the year, \$3,730,000 (2007 – \$3,218,000) of pension expense was allocated to the Saskatchewan Auto Fund. The Corporation has recorded the remaining \$1,542,000 (2007 – \$1,649,000) of pension expense in administrative expenses on the Consolidated Statement of Operations.

Defined benefit service recognition plans

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

	2008	2007
Discount rate	7.40%	5.25%
Expected salary increase	6.00 - 8.00% in 2009 3.5% thereafter	6.00 - 8.00% in 2008 and 2009 3.5% thereafter
EARSL – management	12	12
EARSL – in-scope	12	12

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

	(thousands of \$)	
	2008	2007
Benefit expense	\$ 3,218	\$ 3,035
Accrued benefit obligation	\$ 15,445	\$ 17,950
Unamortized past service costs, net actuarial losses and transitional asset	(6,122)	(10,103)
Accrued benefit liability	\$ 9,323	\$ 7,847

As at December 31, 2008, \$6,243,000 (2007 – \$5,411,000) of the accrued benefit liability was allocated to the Saskatchewan Auto Fund. The Corporation has recorded the remaining \$3,080,000 (2007 – \$2,436,000) of accrued benefit liability in accounts payable and accrued liabilities on the Consolidated Statement of Financial Position.

17. Related Party Transactions

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

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:

Category	(thousands of \$)	
	2008	2007
Accounts receivable	\$ 644	\$ 595
Deferred policy acquisition costs	7,598	7,072
Investments	6,741	4,035
Accounts payable and accrued liabilities	71	117
Dividends payable	7,407	10,535
Premium taxes payable	14,807	13,764
Unearned premiums	2,019	1,974
Provision for unpaid claims	1,544	1,357
Gross premiums written	4,514	4,707
Gross premiums earned	4,511	4,499
Claims incurred	1,781	1,463
Administrative expenses	2,137	1,961
Premium taxes	14,280	13,367
Investment earnings	290	268

The Corporation acts as administrator of the Saskatchewan Auto Fund. Administrative and loss adjustment expenses incurred by the Corporation are allocated to the Corporation and the Saskatchewan Auto Fund directly or on the basis of specific distributions. Amounts incurred by the Corporation and charged to the Saskatchewan Auto Fund were \$104,699,000 (2007 – \$96,657,000) and accounts payable were \$2,635,000 (2007 – \$3,007,000).

The Corporation has direct premiums that are brokered through Charlie Cooke Insurance Agency Ltd. (CCIA), pays claim adjusting fees to Atlantic Adjusting & Appraisals Ltd. (AAA) and has premiums financed for policyholders by Maritime Finance & Acceptance Corporation (MFAC). These companies are affiliated with the minority shareholder of ICPEI, who is a member of ICPEI's senior management. The policies written and the claim adjusting expenses paid are routine operating transactions in the normal course of business.

In 2007, the Corporation provided CCIA a \$450,000 loan for the purpose of purchasing a brokerage. The terms of the agreement provide for repayment in six annual instalments of \$75,000 and require CCIA to maintain minimum premium limits. The loan was originally recorded at its fair value of \$381,000, calculated by discounting the scheduled instalments at an interest rate that reflects the term and credit risk associated with the loan. At December 31, 2008 the loan is recorded at its amortized cost of \$326,000. During the year, \$75,000 was repaid and interest revenue of \$20,000 was recorded through investment earnings.

Transactions and amounts outstanding between the Corporation and CCIA, AAA and MFAC at year-end are as follows:

Category	(thousands of \$)	
	2008	2007
Accounts receivable	\$ 978	\$ 928
Accounts payable and accrued liabilities	107	648
Premiums written	10,737	8,651
Claims incurred	–	387
Commissions	2,468	1,838
Premiums financed	3,841	3,471

During the year, board members were appointed who are partners in organizations that provided \$19,000 of professional services to the Corporation. In addition, one board member was appointed during the year who owns an organization that sells insurance policies of the Corporation. Premiums written during the year from this organization amounted to \$4,190,000 and the associated accounts receivable at December 31, 2008 was \$932,000. Commissions related to these premiums were \$843,000. The above noted transactions are routine operating transactions in the normal course of business.

One of the Corporation's subsidiaries, ICPEI, has a director who is the owner of an organization that provided professional services to ICPEI. During the current year, these services amounted to \$16,000 (2007 – \$21,000). These transactions are routine operating transactions in the normal course of operations.

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

18. Fair Values

The fair value of financial assets and liabilities, other than investments (note 5), net investment in capital lease (note 7), unpaid claims and unpaid claims recoverable from reinsurers (note 8 and 10) approximate carrying value due to their immediate or short-term nature.

19. Facility Association Participation

Through its subsidiaries, the Corporation is a participant in automobile residual market and risk-sharing pools, whereby companies in the industry are required by regulation to provide automobile insurance coverage to high-risk insureds.

Facility Association transactions recorded in the Corporation's financial results are as follows:

	(thousands of \$)	
	2008	2007
Gross premiums written	\$ 3,052	\$ 1,006
Net premiums earned	\$ 2,706	\$ 1,094
Claims incurred	2,464	831
Commissions	118	100
Premium taxes	87	36
Administrative expenses	684	199
Total claims and expenses	3,353	1,166
Underwriting loss	(647)	(72)
Investment earnings	160	205
Net income (loss)	\$ (487)	\$ 133
Facility Association receivable	\$ 3,806	\$ 3,675
Unearned premiums	797	462
Provision for unpaid claims	3,691	2,730
Facility Association payable	3,504	3,526

20. Segmented Information

The Corporation provides property and casualty insurance through four operating segments: Saskatchewan, Manitoba and Alberta, Ontario and the Maritimes (where Maritimes represents Prince Edward Island, New Brunswick and Nova Scotia). These operating segments correspond with the legal entities that make up the Corporation, as discussed in note 1. The performance of each operating segment is reported separately to the Corporation's Board of Directors.

(thousands of \$)						
2008	Saskatchewan	Manitoba and Alberta	Ontario	Maritimes	Consolidation Adjustments	Total
Net premiums written	\$ 283,779	\$ 31,715	\$ 23,693	\$ 14,260	\$ –	\$ 353,447
Net premiums earned	\$ 273,874	\$ 26,441	\$ 23,169	\$ 12,405	\$ –	\$ 335,889
Claims incurred	145,006	21,291	12,670	6,625	–	185,592
Other expenses	106,791	10,880	8,346	5,846	–	131,863
Underwriting profit (loss)	22,077	(5,730)	2,153	(66)	–	18,434
Investment earnings	14,768	2,456	4,370	947	–	22,541
Income (loss)						
before the following:	36,845	(3,274)	6,523	881	–	40,975
Income taxes (recovery)	–	(1,564)	1,841	194	–	471
Non-controlling interest	–	–	–	–	153	153
Net income (loss)	\$ 36,845	\$ (1,710)	\$ 4,682	\$ 687	\$ (153)	\$ 40,351
Total assets	\$ 513,631	\$ 98,487	\$ 116,284	\$ 34,211	\$ (45,268)	\$ 717,345
Shareholder's equity	\$ 103,531	\$ 28,798	\$ 38,654	\$ 8,712	\$ (1,862)	\$ 177,833

(thousands of \$)						
2007	Saskatchewan	Manitoba and Alberta	Ontario	Maritimes	Consolidation Adjustments	Total
Net premiums written	\$ 264,892	\$ 21,859	\$ 23,182	\$ 10,744	\$ –	\$ 320,677
Net premiums earned	\$ 257,384	\$ 18,162	\$ 22,836	\$ 9,480	\$ –	\$ 307,862
Claims incurred	158,137	11,380	11,287	5,230	–	186,034
Other expenses	99,563	7,776	7,734	3,864	–	118,937
Underwriting profit (loss)	(316)	(994)	3,815	386	–	2,891
Investment earnings	26,690	2,530	4,391	812	–	34,423
Income before the following:	26,374	1,536	8,206	1,198	–	37,314
Income taxes	–	407	1,189	459	–	2,055
Non-controlling interest	–	–	–	–	166	166
Net income	\$ 26,374	\$ 1,129	\$ 7,017	\$ 739	\$ (166)	\$ 35,093
Total assets	\$ 518,389	\$ 94,496	\$ 117,355	\$ 32,511	\$ (55,582)	\$ 707,169
Shareholder's equity	\$ 113,824	\$ 33,744	\$ 34,816	\$ 8,362	\$ (1,709)	\$ 189,037

21. Commitments and Contingencies

The Corporation is committed to a related party until 2011 for a telecommunications contract. At December 31, 2008, the remaining commitment is \$243,000 (2007 – \$556,000).

The Corporation is committed to annual payments under operating leases for buildings as follows:

	(thousands of \$)
2009	\$ 399
2010	400
2011	380
2012	294
2013	242
Thereafter	22

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

22. Comparative Financial Information

For comparative purposes, certain 2007 balances have been reclassified to conform to 2008 financial statement presentation.