

SGI CANADA
QUARTERLY REPORT
JUNE 2004



MANAGEMENT DISCUSSION AND ANALYSIS

For the Period Ended June 30, 2004 and 2003

Management's discussion and analysis (MD&A) provides a review of the results of the operations of SGI CANADA and its subsidiaries, SGI CANADA Insurance Services Ltd. (SCISL), the Insurance Company of Prince Edward Island (ICPEI) and Coachman Insurance Company (Coachman). This discussion and analysis should be read in conjunction with the SGI CANADA unaudited consolidated financial statements and supporting notes as at and for the period ended June 30, 2004 and the SGI CANADA MD&A and annual audited consolidated financial statements and supporting notes as at and for the year ended December 31, 2003. Throughout this discussion, "SGI CANADA" refers to SGI CANADA and all of its consolidated subsidiaries.

Overview of Operations

SGI CANADA recorded consolidated net profit of \$12.1 million for the 2004 second quarter, essentially double the profit for the same period in 2003. Strong underwriting performance experienced in the first quarter of 2004 continued in the second quarter, resulting in underwriting income in the second quarter of \$7.6 million (2003 – \$2.5 million).

SGI CANADA's net income for the six months ended June of 2004 is \$28.4 million, \$14.5 million more than the same period in 2003. SGI CANADA and all of its subsidiaries were profitable in the first half of 2004. Underwriting income for the first six months of 2004 is \$15.2 million, an increase of \$9.8 million in comparison to 2003 underwriting income for the same period. SGI CANADA's improved underwriting results are a continuation of the turnaround that SGI CANADA experienced in 2003, through product changes implemented in all jurisdictions in which it operates. Improved investment returns also contributed to better results.

Premium Revenue

Net premiums earned for the second quarter of 2004 increased by over 11 per cent compared to the second quarter of 2003, mainly from continued second quarter growth in Saskatchewan premiums.

Net premiums earned at the end of June increased by 12 per cent compared to the same period in 2003, predominantly from Saskatchewan auto extension and commercial lines premiums. Coachman Ontario premiums earned declined from \$15.0 million in the first half of 2003 to \$13.1 million in the first half of 2004. The decrease is due to a decline in automobile policies resulting from a revised underwriting focus implemented in 2003. The decline in Ontario automobile premium revenue is partially offset by growth in Ontario property insurance premiums, which the Corporation only began selling in the second half of 2002. This growth is expected to continue as additional brokers are added to sell Ontario property products.

Claims Incurred

Claims incurred of \$34.4 million for the second quarter of 2004 are slightly lower than the second quarter of 2003. No increase in claim costs, combined with growth in premiums, results in a second quarter loss ratio of 52.5 per cent (2003 – 59.5 per cent).

Claim costs to the end of June 2004 are \$67.8 million, also slightly lower than 2003 claim costs of \$68.2 million for the same period. The loss ratio to the end of June 2004 declined to 52.4 per cent from 58.9 per cent in 2003. The loss ratio improved for all companies with significant improvement in SCISL's loss ratio, which declined from 75.6 per cent in the first half of 2003 to 48.9 per cent in 2004. The loss ratio for Coachman also improved substantially, declining by 12.0 per cent compared to the June 2003 loss ratio.

Expenses Excluding Claims Incurred

Second quarter expenses excluding claims incurred for 2004 are \$23.6 million, an increase of \$2.2 million from 2003, mainly from commissions and taxes associated with growth in the premium base. Expenses for the first half of 2004 excluding claims incurred are \$46.4 million, \$4.3 million more than 2003. However, 2004 expenses in relation to premiums earned declined slightly to 35.9 per cent in 2004 from 36.3 per cent in 2003.

Investments

Investment earnings for the second quarter of 2004 are \$4.9 million, compared to \$3.7 million in 2003. The increase is mainly due to gains on the sale of investments, particularly equity sales. Investment earnings for the first six months of 2004 are \$14.2 million, \$5.5 million more than 2003, also mainly due to gains on the sale of investments (predominantly from equity sales). The annualized return on the investment portfolio for the first half of 2004 is 7.7 per cent (2003 – 5.4 per cent).

Outlook

Results in the first half of 2004 are encouraging, with continued strong underwriting results and improved investment earnings. The Corporation will continue to focus on disciplined underwriting practices and to grow the Ontario property book of business. Large losses and catastrophic summer storms in the last half of the year may significantly impact the financial results of SGI CANADA; however, given the positive results to the end of June, the Corporation is expecting to record a sound profit in 2004.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at June 30, 2004 and December 31, 2003

	June 30 2004 (unaudited)	December 31 2003 (audited)
	(thousands of \$)	
Assets		
Cash and treasury bills	\$ 35,127	\$ 41,789
Accounts receivable	83,564	67,366
Deferred policy acquisition costs	33,860	32,854
Future income taxes	1,184	1,180
Unpaid claims recoverable from reinsurers	26,698	24,782
Reinsurer's share of unearned premiums	10,636	7,296
Investments (note 3)	306,378	293,628
Net investment in capital lease	2,851	2,996
Goodwill	481	481
Capital assets	<u>9,409</u>	<u>9,967</u>
	<u>\$ 510,188</u>	<u>\$ 482,339</u>
Liabilities		
Accounts payable and accrued charges	\$ 17,971	\$ 14,168
Dividends payable	3,911	5,664
Future income taxes	1,886	1,007
Premium taxes payable	6,067	11,637
Amounts due to reinsurers	8,493	5,218
Provision for unpaid claims	213,695	211,128
Unearned reinsurance commissions	1,550	1,442
Unearned premiums	<u>143,534</u>	<u>137,366</u>
	<u>397,107</u>	<u>387,630</u>
Non-Controlling Interest	<u>1,072</u>	<u>2,205</u>
Province of Saskatchewan's Equity		
Equity advances	55,000	55,000
Retained earnings	<u>57,009</u>	<u>37,504</u>
	<u>112,009</u>	<u>92,504</u>
	<u>\$ 510,188</u>	<u>\$ 482,339</u>

(see accompanying notes)

SGI CANADA

CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS

For the periods ended June 30, 2004 and 2003
(unaudited)

	three months to June 30		six months to June 30	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
	(thousands of \$)		(thousands of \$)	
Gross premiums written	\$ 85,425	\$ 73,636	\$145,935	\$125,681
Net premiums written	\$ 80,898	\$ 69,913	\$132,640	\$112,754
Net premiums earned	\$ 65,571	\$ 59,006	\$129,457	\$115,689
Claims incurred	34,447	35,102	67,785	68,165
Commissions	13,129	11,086	25,798	22,073
Premium taxes	3,155	2,860	6,263	5,591
Administrative expenses	7,399	7,153	14,432	13,845
Facility association participation (note 5)	<u>(129)</u>	<u>290</u>	<u>(52)</u>	<u>583</u>
Total claims and expenses	58,001	56,491	114,226	110,257
Underwriting profit	7,570	2,515	15,231	5,432
Investment earnings	<u>4,896</u>	<u>3,740</u>	<u>14,243</u>	<u>8,681</u>
Income before taxes and non-controlling interest	12,466	6,255	29,474	14,113
Future income tax expense	355	205	876	207
Capital taxes	<u>64</u>	<u>15</u>	<u>64</u>	<u>21</u>
Income after taxes and before non-controlling interest	12,047	6,035	28,534	13,885
Non-controlling interest	<u>(43)</u>	<u>146</u>	<u>159</u>	<u>34</u>
Net income	12,090	5,889	28,375	13,851
Retained earnings, beginning balance	49,879	35,413	37,504	30,084
Dividend	(3,911)	—	(7,821)	(2,633)
Related party transaction (note 6)	<u>(1,049)</u>	<u>—</u>	<u>(1,049)</u>	<u>—</u>
Retained earnings, ending balance	<u>\$ 57,009</u>	<u>\$ 41,302</u>	<u>\$ 57,009</u>	<u>\$ 41,302</u>

(see accompanying notes)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the periods ended June 30, 2004 and 2003
(unaudited)

	<u>three months to June 30</u>		<u>six months to June 30</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
	(thousands of \$)		(thousands of \$)	
Cash provided by (used for):				
Operating activities				
Net income	\$ 12,090	\$ 5,889	\$ 28,375	\$ 13,851
Non-cash items:				
Amortization	1,006	392	1,819	1,409
Realized gain on disposal of investments and capital assets	(1,142)	(611)	(6,759)	(2,400)
Income from equity investment	(108)	(48)	(108)	(121)
Investment write downs	—	225	—	450
Income (loss) attributable to non-controlling interest	(43)	146	159	34
Change in non-cash operating items (note 4)	<u>1,831</u>	<u>14,133</u>	<u>(11,234)</u>	<u>1,887</u>
	<u>13,634</u>	<u>20,126</u>	<u>12,252</u>	<u>15,110</u>
Investing activities				
Purchases of investments	(133,759)	(166,410)	(229,717)	(329,662)
Proceeds on sale of investments	122,332	163,263	216,536	326,599
Repayment of capital lease	73	66	144	131
Purchases of capital assets	<u>(285)</u>	<u>133</u>	<u>(247)</u>	<u>(587)</u>
	<u>(11,639)</u>	<u>(2,948)</u>	<u>(13,284)</u>	<u>(3,519)</u>
Financing activities				
Dividends paid	<u>(3,910)</u>	<u>(2,633)</u>	<u>(9,574)</u>	<u>(2,633)</u>
Decrease in cash and cash equivalents	<u>(1,915)</u>	<u>14,545</u>	<u>(10,606)</u>	<u>8,958</u>
Cash and cash equivalents:				
Balance, beginning of year	<u>34,392</u>	<u>23,007</u>	<u>29,090</u>	<u>16,763</u>
Balance, end of year	\$ 32,477	\$ 37,552	\$ 18,484	\$ 25,721
Plus treasury bills greater than 91 days to maturity from acquisition date	<u>2,650</u>	<u>(2,393)</u>	<u>16,643</u>	<u>9,438</u>
Cash and treasury bills per statement of financial position	<u>\$ 35,127</u>	<u>\$ 35,159</u>	<u>\$ 35,127</u>	<u>\$ 35,159</u>

(see accompanying notes)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2004

1. STATUS OF THE CORPORATION

The status of Saskatchewan Government Insurance (the Corporation) is substantially the same as the last year-end with the exception of a related party transaction outlined in note 6. Refer to the annual statements.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Corporation are in accordance with Canadian generally accepted accounting principles. The accounting policies used in the preparation of these financial statements are consistent with, and should be read in conjunction with, the Corporation's audited financial statements for the year ended December 31, 2003.

3. INVESTMENTS

The components of the Corporation's investments are as follows:

	(thousands of \$)			
	June 30, 2004		December 31, 2003	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Bonds and debentures	\$237,962	\$239,175	\$218,481	\$223,092
Common shares	39,932	50,114	45,332	60,070
Preferred shares	343	338	343	344
Pooled equity fund	9,964	10,285	11,677	11,613
Mortgages	<u>14,819</u>	<u>15,279</u>	<u>14,430</u>	<u>14,947</u>
	303,020	315,191	290,263	310,066
Investments accounted for on an equity basis	<u>3,358</u>	<u>3,358</u>	<u>3,365</u>	<u>3,365</u>
Total investments	<u>\$306,378</u>	<u>\$318,549</u>	<u>\$293,628</u>	<u>\$313,431</u>

4. CASH FLOWS

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

<u>three months to June 30</u>	(thousands of \$)	
	2004	2003
Change in non-cash operating items:		
Accounts receivable	\$ (19,501)	(421)
Deferred policy acquisition costs	(3,064)	(2,738)
Unpaid claims recoverable from reinsurers	749	(297)
Reinsurers' share of unearned premiums	1,896	1,146
Future income taxes	354	207
Accounts payable and accrued charges	4,999	1,447
Premium taxes payable	3,477	3260
Amounts due to reinsurers	(1,781)	(1,628)
Provision for unpaid claims	953	3,097
Unearned reinsurance commissions	158	104
Unearned premiums	<u>13,591</u>	<u>9,956</u>
	<u>\$ 1,831</u>	<u>\$ 14,133</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

six months to June 30	(thousands of \$)	
	2004	2003
Change in non-cash operating items:		
Accounts receivable	\$ (16,198)	\$ 2,860
Deferred policy acquisition costs	(1,006)	(928)
Unpaid claims recoverable from reinsurers	(1,916)	(1,241)
Reinsurers' share of unearned premiums	(1,340)	(2,844)
Future income taxes	875	207
Accounts payable and accrued charges	3,803	(23)
Premium taxes payable	(5,570)	(4,576)
Amounts due to reinsurers	3,275	1,531
Provision for unpaid claims	2,567	6,169
Unearned reinsurance commissions	108	154
Unearned premiums	6,168	578
	\$ (11,234)	\$ 1,887

5. FACILITY ASSOCIATION

Through its subsidiaries, the Corporation is a participant in various risk sharing pools whereby most companies in the industry share resources to provide insurance for high risks.

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

three months to June 30	(thousands of \$)	
	2004	2003
Gross premiums written	\$ 833	\$ 948
Net premiums written	<u>\$ 833</u>	<u>\$ 948</u>
Net premiums earned	<u>\$ 675</u>	<u>\$ 755</u>
Claims incurred	428	861
Commissions	24	107
Premium taxes	23	31
Administrative expenses	101	57
Total claims and expenses	576	1,056
Underwriting profit (loss)	99	(301)
Investment earnings	30	11
Net profit (loss)	<u>\$ 129</u>	<u>\$ (290)</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

<u>six months to June 30</u>	(thousands of \$)	
	<u>2004</u>	<u>2003</u>
Gross premiums written	\$1,163	\$1,538
Net premiums written	<u>\$1,163</u>	<u>\$1,538</u>
Net premiums earned	<u>\$1,519</u>	<u>\$1,265</u>
Claims incurred	1,251	1,548
Commissions	89	167
Premium taxes	50	46
Administrative expenses	<u>187</u>	<u>112</u>
Total claims and expenses	<u>1,577</u>	<u>1,873</u>
Underwriting loss	(58)	(608)
Investment earnings	<u>110</u>	<u>25</u>
Net profit (loss)	<u>\$ 52</u>	<u>\$ (583)</u>

6. RELATED PARTY TRANSACTIONS

During the year, the Corporation acquired the remaining shares of its subsidiary, SCISL, from the Saskatchewan Auto Fund and Crown Management Board effective Jan. 1, 2004 for cash consideration of \$2,340,000. The difference between this cash consideration and the carrying value of \$1,291,000 is an adjustment to retained earnings in 2004.

7. SEGMENTED INFORMATION

The Corporation's operating segments are managed as separate legal entities, with the performance of each entity reported separately to the Corporation's Board.

The Corporation's operating segments sell property and casualty insurance in various jurisdictions as follows:

- (i) SGI CANADA in Saskatchewan;
- (ii) SGI CANADA Insurance Services Ltd. (SCISL) in Manitoba;
- (iii) Coachman Insurance Company (Coachman) in Ontario; and
- (iv) The Insurance Company of Prince Edward Island (ICPEI) in Prince Edward Island and New Brunswick.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

three months to June 30

(thousands of \$)

<u>2004</u>	<u>SGI CANADA</u>	<u>SCISL</u>	<u>Coachman</u>	<u>ICPEI</u>	<u>Total</u>
Gross premiums written	\$ 70,573	\$ 3,246	\$ 9,010	\$ 2,596	\$ 85,425
Net premiums earned	\$ 54,137	\$ 2,559	\$ 6,661	\$ 2,214	\$ 65,571
Claims and expenses	46,502	2,320	7,035	2,144	58,001
Underwriting profit (loss)	7,635	239	(374)	70	7,570
Investment earnings	3,554	622	566	154	4,896
	11,189	861	192	224	12,466
Income taxes	–	336	–	83	419
Non-controlling interest					(43)
Net profit	<u>\$ 11,189</u>	<u>\$ 525</u>	<u>\$ 192</u>	<u>\$ 141</u>	<u>\$ 12,090</u>
Loss ratio	48.7%	52.7%	76.5%	73.6%	52.5%
Expense ratio	37.2%	38.0%	29.1%	23.2%	35.9%
Combined ratio	85.9%	90.7%	105.6%	96.8%	88.4%
Total assets	\$375,662	\$ 22,800	\$ 88,240	\$ 23,486	\$510,188

<u>2003</u>	<u>SGI CANADA</u>	<u>SCISL</u>	<u>Coachman</u>	<u>ICPEI</u>	<u>Total</u>
Gross premiums written	\$ 63,177	\$ 1,563	\$ 5,895	\$ 3,001	\$ 73,636
Net premiums earned	\$ 47,263	\$ 2,193	\$ 7,362	\$ 2,188	\$ 59,006
Claims and expenses	44,138	2,172	8,173	2,008	56,491
Underwriting profit (loss)	3,125	21	(811)	180	2,515
Investment earnings	2,395	270	827	248	3,740
	5,520	291	16	428	6,255
Income taxes	–	81	10	129	220
Non-controlling interest					146
Net profit	<u>\$ 5,520</u>	<u>\$ 210</u>	<u>\$ 6</u>	<u>\$ 299</u>	<u>\$ 5,889</u>
Loss ratio	54.6%	60.4%	89.1%	64.6%	59.5%
Expense ratio	38.8%	38.7%	21.9%	27.2%	36.3%
Combined ratio	93.4%	99.1%	111.0%	91.8%	95.8%
Total assets	\$350,315	\$ 19,290	\$ 75,820	\$ 19,902	\$465,327

SGI CANADA

six months to June 30

(thousands of \$)

2004	SGI CANADA	SCISL	Coachman	ICPEI	Total
Gross premiums written	\$120,350	\$ 5,261	\$ 15,907	\$ 4,417	\$145,935
Net premiums earned	\$106,812	\$ 5,055	\$ 13,099	\$ 4,491	\$129,457
Claims and expenses	91,812	4,398	14,205	3,811	114,226
Underwriting profit (loss)	15,000	657	(1,106)	680	15,231
Investment earnings	11,685	774	1,436	348	14,243
	26,685	1,431	330	1,028	29,474
Income taxes	–	550	–	390	940
Non-controlling interest					159
Net profit	\$ 26,685	\$ 881	\$ 330	\$ 638	\$ 28,375
Loss ratio	48.9%	48.9%	78.8%	61.8%	52.4%
Expense ratio	37.1%	38.1%	29.6%	23.1%	35.9%
Combined ratio	86.0%	87.0%	108.4%	84.9%	88.3%
Total assets	\$375,662	\$ 22,800	\$ 88,240	\$ 23,486	\$510,188

2003	SGI CANADA	SCISL	Coachman	ICPEI	Total
Gross premiums written	\$107,876	\$ 3,356	\$ 9,682	\$ 4,767	\$125,681
Net premiums earned	\$ 92,162	\$ 4,272	\$ 15,011	\$ 4,244	\$115,689
Claims and expenses	84,269	4,855	17,273	3,860	110,257
Underwriting profit (loss)	7,893	(583)	(2,262)	384	5,432
Investment earnings	6,441	337	1,521	382	8,681
	14,334	(246)	(741)	766	14,113
Income taxes	–	(52)	10	270	228
Non-controlling interest					34
Net profit	\$ 14,334	\$ (194)	\$ (751)	\$ 496	\$ 13,851
Loss ratio	52.8%	75.6%	90.8%	62.9%	58.9%
Expense ratio	38.7%	38.0%	24.3%	28.1%	36.4%
Combined ratio	91.5%	113.6%	115.1%	91.0%	95.3%
Total assets	\$350,315	\$ 19,290	\$ 75,820	\$ 19,902	\$465,327