

SGI CANADA
Quarterly Report
September 2004



Management Discussion and Analysis

For the Period Ended September 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 nine month period ended September 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 a consolidated net profit of \$7.2 million for the 2004 third quarter, \$6.0 million more than the same period in 2003. Strong underwriting performance experienced in the first half of 2004 continued in the third quarter, resulting in third quarter underwriting income of \$933,000, versus an underwriting loss of \$4.8 million for the third quarter of 2003.

SGI CANADA's 2004 net income for the nine months ended September is \$35.6 million, \$20.6 million more than the same period in 2003. SGI CANADA and all of its subsidiaries are profitable in 2004, with the exception of Coachman, who recorded a small loss of \$79,000 to the end of September. Underwriting income for the first nine months of 2004 is \$16.2 million, an increase of \$15.6 million in comparison to underwriting income for the same period in 2003. SGI CANADA's improved underwriting results are attributable to product changes implemented in 2003, combined with lower losses from summer storms to the end of September. Improved investment returns have also contributed to the strong profit for the year.

Premium Revenue

Net premiums earned for the third quarter of 2004 increased by over 10 per cent compared to the third quarter of 2003, mainly from continued growth in Saskatchewan premiums.

Net premiums earned at the end of September increased by \$20.3 million (over 11 per cent) compared to the same period in 2003, predominantly from Saskatchewan auto extension and commercial lines premiums. Coachman Ontario premiums earned declined slightly from \$21.7 million at the end of September in 2003 to \$20.3 million for the same period in 2004. The decrease is due to a decline in automobile policies, which is partially offset by growth in property business that is expected to continue as additional brokers have been added to sell Ontario property products.

Claims Incurred

Claims incurred of \$42.6 million for the third quarter of 2004 are \$1.6 million lower than the third quarter of 2003. A decline in claim costs, combined with growth in premiums, resulted in a third quarter loss ratio of 62.4 per cent (2003 – 71.7 per cent).

Claim costs to the end of September 2004 are \$110.4 million, \$2.0 million lower than claim costs for the same period in 2003. Contributing to the lower claim costs is summer storm catastrophes to the end of September, which are \$2.9 million in 2004 (2003 – \$7.8 million). The consolidated loss ratio to the end of September 2004 declined to 55.8 per cent from 63.4 per cent in 2003. The loss ratio improved for all companies with significant improvement for both SCISL and ICPEI.

Expenses Excluding Claims Incurred

Third quarter expenses excluding claims incurred for 2004 are \$24.7 million, an increase of \$2.4 million from 2003. Expenses to the end of September, excluding claims incurred, are \$71.2 million in 2004, \$6.8 million more than 2003. The increase is mainly from commissions and taxes associated with growth in the premium base. Consequently, the ratio of expenses in relation to premiums in 2004 is essentially unchanged from 2003.

Investments

Investment earnings for the third quarter of 2004 are \$514,000 more than the same period in 2003, primarily due to gains on the sale of investments. Investment earnings for the nine months ending September of 2004 are \$20.7 million, \$6.1 million more than 2003. The majority of the increase (\$5.6 million) is from gains on the sale of investments (net of write-downs), predominately from equity gains. The annualized return on the investment portfolio for the nine months ended September of 2004 is 7.3 per cent (2003 – 5.6 per cent).

Outlook

Income from insurance operations again proved profitable in the third quarter of 2004. The Corporation continues to report strong underwriting results and experienced minimal losses from catastrophic summer storms. Investment earnings have also contributed to better financial results in 2004. With continued profitability in the fourth quarter, the Corporation is on track to produce a substantial profit in 2004.

Consolidated Statement of Financial Position

as at September 30, 2004 and December 31, 2003

	September 30 2004 (unaudited)	December 31 2003 (audited)
	(thousands of \$)	
Assets		
Cash and treasury bills	\$ 36,327	\$ 41,789
Accounts receivable	73,704	67,366
Deferred policy acquisition costs	34,922	32,854
Future income taxes	1,397	1,180
Unpaid claims recoverable from reinsurers	27,502	24,782
Reinsurers' share of unearned premiums	13,101	7,296
Investments (note 3)	327,257	293,628
Net investment in capital lease	2,777	2,996
Goodwill	481	481
Capital assets	<u>9,035</u>	<u>9,967</u>
	<u>\$ 526,503</u>	<u>\$ 482,339</u>
Liabilities		
Accounts payable and accrued charges	\$ 11,352	\$ 14,168
Dividends payable	13,341	5,664
Future income taxes	2,247	1,007
Premium taxes payable	9,336	11,637
Amounts due to reinsurers	9,918	5,218
Provision for unpaid claims	222,086	211,128
Unearned reinsurance commissions	1,498	1,442
Unearned premiums	<u>149,686</u>	<u>137,366</u>
	<u>419,464</u>	<u>387,630</u>
Non-Controlling Interest	<u>1,179</u>	<u>2,205</u>
Province of Saskatchewan's Equity		
Equity advances	55,000	55,000
Retained earnings	<u>50,860</u>	<u>37,504</u>
	<u>105,860</u>	<u>92,504</u>
	<u>\$ 526,503</u>	<u>\$ 482,339</u>

(see accompanying notes)

Consolidated Statement of Operations and Retained Earnings

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

	three months to September 30		nine months to September 30	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
	(thousands of \$)		(thousands of \$)	
Gross premiums written	\$ 78,589	\$ 74,892	\$224,524	\$200,573
Net premiums written	\$ 72,045	\$ 67,290	\$204,685	\$180,044
Net premiums earned	\$ 68,242	\$ 61,684	\$197,699	\$177,373
Claims incurred	42,566	44,221	110,351	112,386
Commissions	14,311	11,598	40,109	33,671
Premium taxes	3,306	2,987	9,569	8,578
Administrative expenses	7,464	7,260	21,896	21,105
Facility association participation (note 5)	(338)	441	(390)	1,024
Total claims and expenses	67,309	66,507	181,535	176,764
Underwriting profit (loss)	933	(4,823)	16,164	609
Investment earnings	6,424	5,910	20,667	14,591
Income before taxes and non-controlling interest	7,357	1,087	36,831	15,200
Future income tax expense (recovery)	147	(152)	1,023	55
Capital taxes	(89)	8	(25)	29
Income after taxes and before non-controlling interest	7,299	1,231	35,833	15,116
Non-controlling interest	107	61	266	95
Net income	7,192	1,170	35,567	15,021
Retained earnings, beginning balance	57,009	41,302	37,504	30,084
Dividend	(13,341)	(2,608)	(21,162)	(5,241)
Related party transaction (note 6)	—	—	(1,049)	—
Retained earnings, ending balance	<u>\$ 50,860</u>	<u>\$ 39,864</u>	<u>\$ 50,860</u>	<u>\$ 39,864</u>

(see accompanying notes)

Consolidated Statement of Cash Flows

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

	three months to September 30		nine months to September 30	
	2004	2003	2004	2003
	(thousands of \$)		(thousands of \$)	
Cash provided by (used for):				
Operating activities				
Net income	\$ 7,192	\$ 1,170	\$ 35,567	\$ 15,021
Non-cash items:				
Amortization	701	845	2,520	2,254
Realized gain on disposal of investments and capital assets	(2,761)	(1,737)	(9,520)	(4,137)
Income from equity investment	(34)	(71)	(142)	(192)
Investment write downs	450	225	450	675
Loss attributable to non-controlling interest	107	60	266	94
Change in non-cash operating items (note 4)	<u>18,241</u>	<u>13,098</u>	<u>7,007</u>	<u>14,985</u>
	<u>23,896</u>	<u>13,590</u>	<u>36,148</u>	<u>28,700</u>
Investing activities				
Purchases of investments	(223,907)	(77,446)	(453,624)	(407,108)
Proceeds on sale of investments	200,845	69,080	417,381	395,679
Repayment of capital lease	76	68	220	199
Purchases of capital assets	<u>(23)</u>	<u>27</u>	<u>(270)</u>	<u>(560)</u>
	<u>(23,009)</u>	<u>(8,271)</u>	<u>(36,293)</u>	<u>(11,790)</u>
Financing activities				
Dividends paid	<u>(4,961)</u>	<u>(2,608)</u>	<u>(14,535)</u>	<u>(5,241)</u>
Increase (decrease) in cash and cash equivalents	<u>(4,074)</u>	<u>2,711</u>	<u>(14,680)</u>	<u>11,669</u>
Cash and cash equivalents:				
Balance, beginning of year	<u>35,127</u>	<u>35,159</u>	<u>29,090</u>	<u>16,763</u>
Balance, end of year	\$ 31,053	\$ 37,870	\$ 14,410	\$ 28,432
Plus treasury bills greater than 91 days to maturity from acquisition date	<u>5,274</u>	<u>1,924</u>	<u>21,917</u>	<u>11,362</u>
Cash and treasury bills per statement of financial position	<u>\$ 36,327</u>	<u>\$ 39,794</u>	<u>\$ 36,327</u>	<u>\$ 39,794</u>

(see accompanying notes)

Notes to the Consolidated Financial Statements (unaudited)

September 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 \$)			
	<u>September 30, 2004</u>		<u>December 31, 2003</u>	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Bonds and debentures	\$ 260,976	\$ 263,544	\$ 218,481	\$ 223,092
Common shares	39,124	49,254	45,332	60,070
Preferred shares	290	290	343	344
Pooled equity fund	9,964	9,647	11,677	11,613
Mortgages	<u>13,528</u>	<u>14,307</u>	<u>14,430</u>	<u>14,947</u>
	323,882	337,042	290,263	310,066
Investments accounted for on an equity basis	<u>3,375</u>	<u>3,375</u>	<u>3,365</u>	<u>3,365</u>
Total investments	<u>\$ 327,257</u>	<u>\$ 340,417</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 September 30</u>	(thousands of \$)	
	<u>2004</u>	<u>2003</u>
Change in non-cash operating items:		
Accounts receivable	\$ 9,860	(9,366)
Deferred policy acquisition costs	(1,062)	(1,663)
Unpaid claims recoverable from reinsurers	(804)	2,429
Reinsurers' share of unearned premiums	(2,466)	(2,891)
Future income taxes	147	(152)
Accounts payable and accrued charges	(6,620)	5,132
Premium taxes payable	3,269	3,168
Amounts due to reinsurers	1,426	2,433
Provision for unpaid claims	8,391	5,821
Unearned reinsurance commissions	(52)	4
Unearned premiums	<u>6,152</u>	<u>8,153</u>
	<u>\$ 18,241</u>	<u>\$ 13,098</u>

Notes to the Consolidated Financial Statements (unaudited)

<u>nine months to September 30</u>	(thousands of \$)	
	<u>2004</u>	<u>2003</u>
Change in non-cash operating items:		
Accounts receivable	\$ (6,338)	\$ (6,476)
Deferred policy acquisition costs	(2,068)	(2,591)
Unpaid claims recoverable from reinsurers	(2,720)	1,188
Reinsurers' share of unearned premiums	(5,806)	(5,735)
Future income taxes	1,022	55
Accounts payable and accrued charges	(2,817)	5,109
Premium taxes payable	(2,301)	(1,408)
Amounts due to reinsurers	4,701	3,964
Provision for unpaid claims	10,958	11,990
Unearned reinsurance commissions	56	158
Unearned premiums	<u>12,320</u>	<u>8,731</u>
	<u>\$ 7,007</u>	<u>\$ 14,985</u>

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:

<u>three months to September 30</u>	(thousands of \$)	
	<u>2004</u>	<u>2003</u>
Gross premiums written	<u>\$ 654</u>	<u>\$1,272</u>
Net premiums written	<u>\$ 654</u>	<u>\$1,272</u>
Net premiums earned	<u>\$ 769</u>	<u>\$ 912</u>
Claims incurred	334	1,041
Commissions	6	132
Premium taxes	25	20
Administrative expenses	<u>100</u>	<u>173</u>
Total claims and expenses	<u>465</u>	<u>1,366</u>
Underwriting profit (loss)	304	(454)
Investment earnings	<u>34</u>	<u>13</u>
Net profit (loss)	<u>\$ 338</u>	<u>\$ (441)</u>

Notes to the Consolidated Financial Statements (unaudited)

<u>nine months to September 30</u>	(thousands of \$)	
	<u>2004</u>	<u>2003</u>
Gross premiums written	\$1,817	\$2,810
Net premiums written	<u>\$1,817</u>	<u>\$2,810</u>
Net premiums earned	\$2,288	\$2,177
Claims incurred	1,585	2,590
Commissions	95	299
Premium taxes	75	65
Administrative expenses	<u>287</u>	<u>285</u>
Total claims and expenses	<u>2,042</u>	<u>3,239</u>
Underwriting profit (loss)	246	(1,062)
Investment earnings	<u>144</u>	<u>38</u>
Net profit (loss)	<u>\$ 390</u>	<u>\$(1,024)</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 September 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	\$ 64,321	\$ 3,586	\$ 8,155	\$ 2,527	\$ 78,589
Net premiums earned	\$ 56,137	\$ 2,671	\$ 7,230	\$ 2,204	\$ 68,242
Claims and expenses	53,664	3,148	8,800	1,697	67,309
Underwriting profit (loss)	2,473	(477)	(1,570)	507	933
Investment earnings	4,970	226	1,037	191	6,424
	7,443	(251)	(533)	698	7,357
Income taxes	-	(88)	(124)	270	58
Non-controlling interest					107
Net profit (loss)	<u>\$ 7,443</u>	<u>\$ (163)</u>	<u>\$ (409)</u>	<u>\$ 428</u>	<u>\$ 7,192</u>
Loss ratio	58.6%	72.8%	89.8%	55.4%	62.4%
Expense ratio	37.0%	45.0%	31.9%	21.6%	36.3%
Combined ratio	95.6%	117.8%	121.7%	77.0%	98.7%
Total assets	\$383,501	\$ 23,842	\$ 94,407	\$ 24,753	\$526,503

<u>2003</u>	<u>SGI CANADA</u>	<u>SCISL</u>	<u>Coachman</u>	<u>ICPEI</u>	<u>Total</u>
Gross premiums written	\$ 60,667	\$ 4,671	\$ 6,743	\$ 2,811	\$ 74,892
Net premiums earned	\$ 50,296	\$ 2,355	\$ 6,717	\$ 2,316	\$ 61,684
Claims and expenses	53,702	2,386	7,593	2,826	66,507
Underwriting loss	(3,406)	(31)	(876)	(510)	(4,823)
Investment earnings	3,832	213	1,719	146	5,910
	426	182	843	(364)	1,087
Income taxes	-	(45)	2	(101)	(144)
Non-controlling interest					61
Net profit	<u>\$ 426</u>	<u>\$ 227</u>	<u>\$ 841</u>	<u>\$ (263)</u>	<u>\$ 1,170</u>
Loss ratio	69.8%	62.3%	81.3%	94.5%	71.7%
Expense ratio	37.0%	39.0%	31.8%	27.5%	36.1%
Combined ratio	106.8%	101.3%	113.1%	122.0%	107.8%
Total assets	\$364,305	\$ 19,256	\$ 83,841	\$ 21,361	\$488,763

SGI CANADA

nine months to September 30

(thousands of \$)

2004	SGI CANADA	SCISL	Coachman	ICPEI	Total
Gross premiums written	\$ 184,671	\$ 8,847	\$ 24,062	\$ 6,944	\$ 224,524
Net premiums earned	\$ 162,949	\$ 7,726	\$ 20,329	\$ 6,695	\$ 197,699
Claims and expenses	145,476	7,546	23,005	5,508	181,535
Underwriting profit (loss)	17,473	180	(2,676)	1,187	16,164
Investment earnings	16,655	1,000	2,473	539	20,667
	34,128	1,180	(203)	1,726	36,831
Income taxes	-	462	(124)	660	998
Non-controlling interest					266
Net profit (loss)	\$ 34,128	\$ 718	\$ (79)	\$ 1,066	\$ 35,567
Loss ratio	52.2%	57.2%	82.7%	59.7%	55.8%
Expense ratio	37.1%	40.5%	30.4%	22.5%	36.0%
Combined ratio	89.3%	97.7%	113.1%	82.2%	91.8%
Total assets	\$ 383,501	\$ 23,842	\$ 94,407	\$ 24,753	\$ 526,503

2003	SGI CANADA	SCISL	Coachman	ICPEI	Total
Gross premiums written	\$ 168,543	\$ 8,027	\$ 16,425	\$ 7,578	\$ 200,573
Net premiums earned	\$ 142,458	\$ 6,627	\$ 21,728	\$ 6,560	\$ 177,373
Claims and expenses	137,971	7,241	24,866	6,686	176,764
Underwriting profit (loss)	4,487	(614)	(3,138)	(126)	609
Investment earnings	10,273	550	3,240	528	14,591
	14,760	(64)	102	402	15,200
Income taxes	-	(97)	12	169	84
Non-controlling interest					95
Net profit	\$ 14,760	\$ 33	\$ 90	\$ 233	\$ 15,021
Loss ratio	58.8%	70.9%	87.8%	74.0%	63.4%
Expense ratio	38.1%	38.3%	26.6%	27.8%	36.3%
Combined ratio	96.9%	109.2%	114.4%	101.8%	99.7%
Total assets	\$ 364,305	\$ 19,256	\$ 83,841	\$ 21,361	\$ 488,763