



SGI CANADA Quarterly Report

December 2016

Management's Discussion and Analysis

Corporate Profile

Mission

We're your insurance company, protecting you, your family and your community.

Vision

Accelerate growth through great customer experiences.

Values

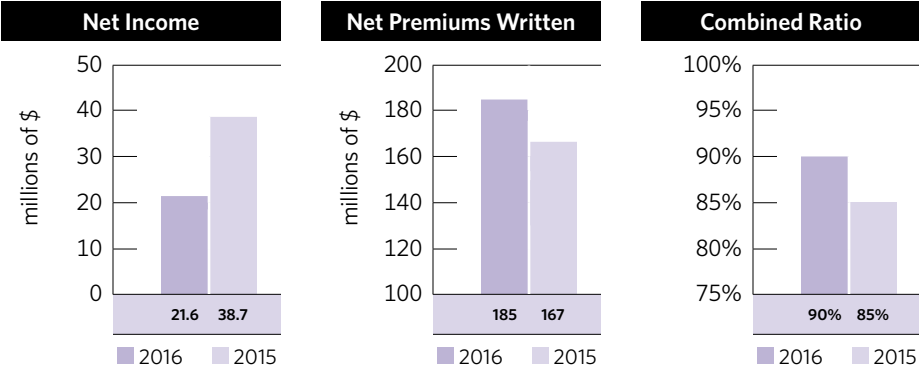
- Integrity** Doing the right thing (by being accountable, honest, trustworthy and fair)
- Caring** Understanding that empathy, courtesy and respect make an impact
- Innovation** Transforming how we do things today for an even more successful tomorrow

About SGI CANADA

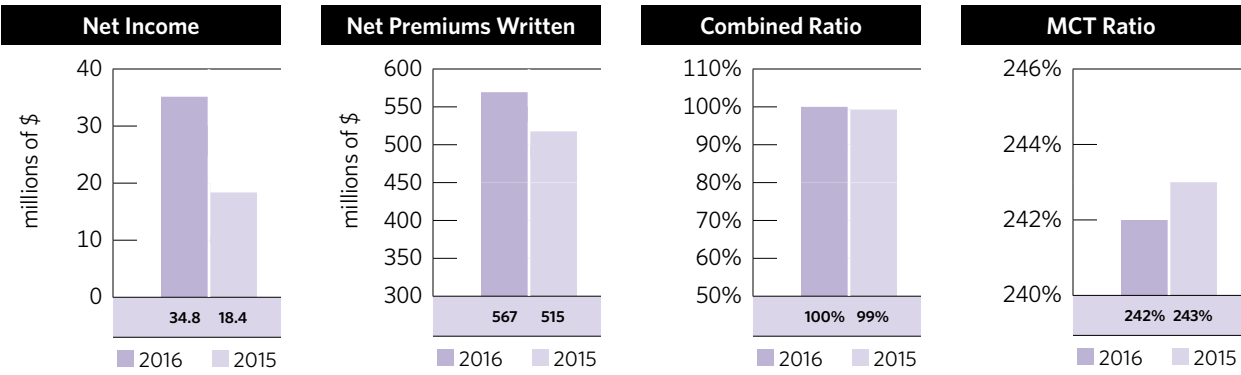
Saskatchewan Government Insurance (SGI) operates a property and casualty insurance business in the Province of Saskatchewan, and in other provinces of Canada through its wholly owned subsidiary SGI CANADA Insurance Services Ltd. (SCISL). SCISL operates directly in Alberta, Manitoba, British Columbia and Ontario. SCISL also has a wholly owned subsidiary, Coachman Insurance Company, that operates in Ontario. The Corporation employs about 2,000 people and its head office is located in Regina, Saskatchewan. Products are sold through a network of independent insurance brokers.

Financial Highlights

For the three months ended December 31



For the nine months ended December 31



Management's Discussion and Analysis

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. and Coachman Insurance Company, collectively referred to as SGI CANADA or the Corporation. 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 three and nine-month periods ended December 31, 2016, and the SGI CANADA MD&A and audited financial statements and supporting notes as at and for the 15 months ended March 31, 2016. All dollar amounts are in Canadian dollars. This MD&A reflects all information known to management up to February 23, 2017.

Overview

	(thousands of \$)					
	three months ended December 31			nine months ended December 31		
	2016	2015	Change	2016	2015	Change
Net premiums written	184,688	166,957	17,731	567,021	515,009	52,012
Net income	21,604	38,735	(17,131)	34,796	18,371	16,425
Combined ratio	90%	85%	5%	100%	99%	1%
Minimum Capital Test				242%	243%	-1%

The Corporation's results for the nine months ended December 31 were significantly better than the prior year as higher investment earnings offset the small underwriting loss. The Corporation continues to experience strong premium growth, with increases coming from all jurisdictions.

Investment earnings were \$35.7 million year-to-date, a significant increase over the \$16.4 million earned in the same period last year. The increase was due to stronger returns from both Canadian and global equities as well as more favourable results from real estate. Fixed income results remained fairly constant year-over-year, despite a more volatile interest rate environment.

Capitalization remains adequate to support the premium growth, with a Minimum Capital Test (MCT) score of 242% at December 31, 2016.

Outlook

Strong investment earnings have positioned SGI CANADA well going into the winter months. The Corporation remains focused on underwriting fundamentals, including maintaining adequate pricing and diligent claim management, as well as providing outstanding service.

Investment markets remain driven by highly accommodative global monetary policy, despite recent increases in interest rates. The interest rate volatility experienced in recent periods is expected to persist until macroeconomic factors normalize and is likely to cause continued variability in investment results. As interest rates begin to normalize over the next few years, subdued performance can be expected from fixed income investments. However, the relatively short duration of the Corporation's bond portfolio should help protect against losses on fixed income investments. The Corporation continues to maintain a well diversified, high-quality investment portfolio governed by prudent investment management policies and processes.

Revenue

	(thousands of \$)					
	three months ended December 31			nine months ended December 31		
	2016	2015	Change	2016	2015	Change
Net premiums earned	168,502	152,952	15,550	487,742	445,498	42,244
Net investment earnings	6,562	17,606	(11,044)	35,748	16,352	19,396

Premiums written by operating segment are noted below.

	(thousands of \$)					
	three months ended December 31			nine months ended December 31		
	2016	2015	Change	2016	2015	Change
Saskatchewan	127,091	120,921	6,170	396,272	373,786	22,486
Alberta	32,669	26,506	6,163	101,364	85,000	16,364
Ontario	19,404	16,689	2,715	55,924	50,369	5,555
Manitoba	6,551	5,805	746	20,579	17,862	2,717
British Columbia	1,824	534	1,290	4,494	732	3,762
Gross premiums written	187,539	170,455	17,084	578,633	527,749	50,884
Premiums ceded to reinsurers	(2,851)	(3,498)	647	(11,612)	(12,740)	1,128
Change in net unearned premiums	(16,186)	(14,005)	(2,181)	(79,279)	(69,511)	(9,768)
Net premiums earned	168,502	152,952	15,550	487,742	445,498	42,244

Gross premiums written in Saskatchewan increased 6.0% in the first nine months of 2016-17, due primarily to rate initiatives and inflationary increases in personal lines and agro.

Alberta operations experienced growth of 19.3% in the first nine months of the fiscal year, with personal lines and personal auto contributing the majority of the increase. All products in Alberta have had year-over-year premium growth despite the continued economic downturn.

The increase in Ontario premiums written of 11.0% is attributed primarily to increased personal auto sales volumes.

The increase in Manitoba premiums written of 15.2% is attributed primarily to increased sales volumes in personal lines.

The Corporation started selling commercial property products in British Columbia in July 2015 and personal property products in January 2016. In total, British Columbia has contributed \$4.5 million in premium year-to-date.

Investment earnings

Investment earnings in the third quarter were \$11.0 million lower than the same period in 2015 due to lower equity and fixed income returns. Increases in equity prices resulted in capital gains but at levels lower than experienced during the same period last year. While interest income on fixed income investments remained relatively constant, increases in interest rates generated capital losses as opposed to capital gains experienced during the same period last year.

Year-to-date investment earnings were significantly higher than the comparable period in 2015 due to strong equity returns as opposed to capital losses experienced in the same period last year. The year-to-date market value rate of return at December 31, 2016 was 3.7%, compared to the 1.3% return for the same period to December 31, 2015.

Expenses

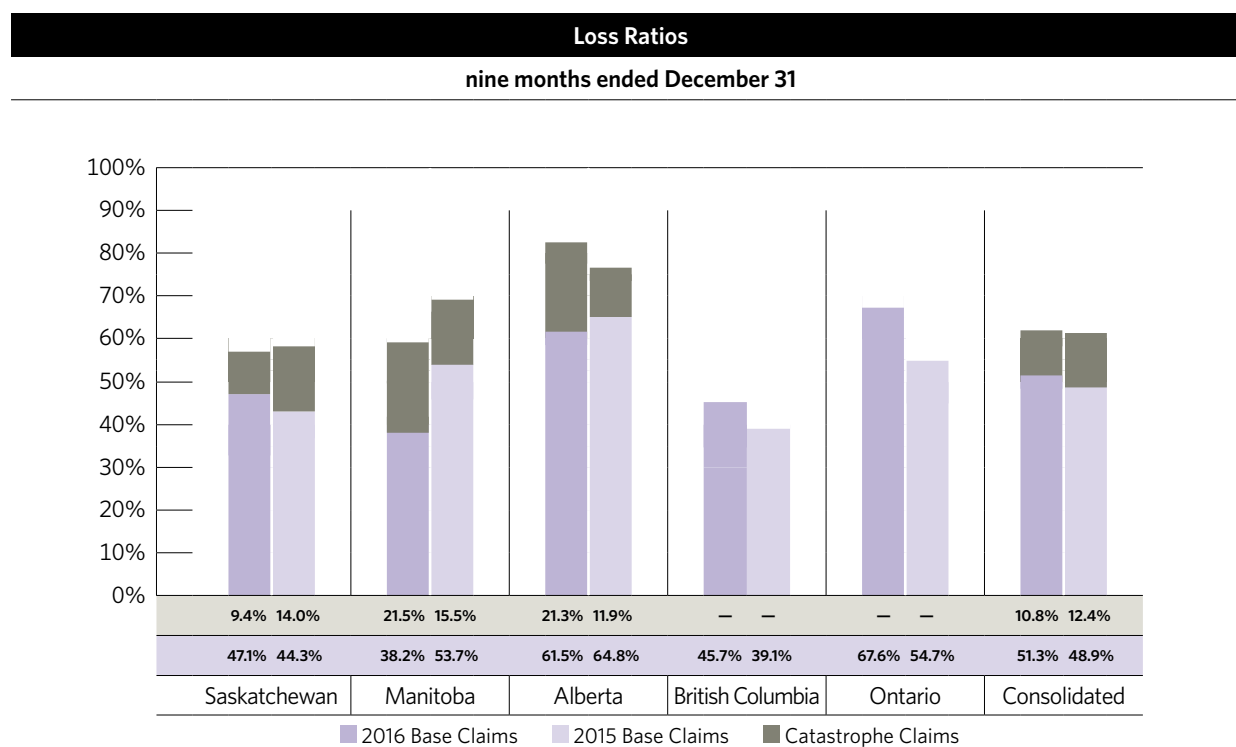
	(thousands of \$)					
	three months ended December 31			nine months ended December 31		
	2016	2015	Change	2016	2015	Change
Net claims incurred	87,020	71,002	16,018	302,946	272,940	30,006
Other expenses	64,389	59,035	5,354	185,579	169,537	16,042
	151,409	130,037	21,372	488,525	442,477	46,048
Combined ratio	89.9%	85.0%	4.9%	100.2%	99.3%	0.9%
Loss ratio	51.6%	46.4%	5.2%	62.1%	61.3%	0.8%

Expenses are comprised of net claims incurred and other expenses, which include commissions, administrative expenses and premium taxes.

Net claims incurred

The consolidated loss ratio was 0.8% higher than 2015, despite an 11.0% increase in claims incurred. The stability in the loss ratio can be attributed to the strong Saskatchewan results.

The following chart summarizes third quarter loss ratios by jurisdiction:



Saskatchewan's loss ratio of 56.5% is lower than last year's nine-month ratio of 58.3%, due primarily to lower catastrophic storm claims. There were \$31.6 million in storm claims in the nine months ended December 31, 2016, while the same period in 2015 had \$44.3 million.

Manitoba's loss ratio decreased from 69.2% in 2015 to 59.7% in 2016. During the nine months ended December 31, 2016, storm claims were \$1.3 million higher than the same period in 2015, however this was offset by strong agro and personal lines results.

The Alberta loss ratio increased from 76.7% in 2015 to 82.8% in 2016 due largely to an increase in catastrophic storm claims. Storm activity resulted in \$17.8 million in claims, compared to \$8.6 million in the same period in 2015.

The British Columbia book of business continues to grow rapidly, with a loss ratio of 45.7%, compared to 39.1% in 2015, being driven by strong commercial lines results.

Ontario's loss ratio of 67.6% is higher than last year's nine-month ratio of 54.7%, due primarily to increases in both the frequency and severity of auto claims.

Other expenses

For the first nine months, other expenses increased \$16.0 million compared to the same period in 2015. This was due largely to a higher contingent profit commission, higher commissions and premium taxes, which is consistent with the premium growth.

Statement of Financial Position Review

	(thousands of \$)		
	December 31 2016	March 31 2016	Change
Total assets	1,335,046	1,213,200	121,846
Key asset account changes:			
Accounts receivable	198,052	167,044	31,008
Investments	945,890	858,342	87,548
Unpaid claims recoverable from reinsurers	44,925	31,316	13,609
Reinsurers' share of unearned premiums	6,300	27,592	(21,292)
Deferred policy acquisition costs	88,979	75,144	13,835

Accounts receivable increased as a result of growth in amounts due from customers and brokers, a result of higher premium volumes in the quarter ended December 31, 2016 compared to the quarter ended March 31, 2016. The carrying value of investments increased by \$87.5 million, reflecting increasing market values and purchases of long-term investments. Unpaid claims recoverable from reinsurers increased due to recoveries on current year storm claims. Reinsurers' share of unearned premiums is lower than March 31, 2016 as most annual reinsurance contracts are written in January and earned over the remainder of the year. Deferred policy acquisition costs increased as a result of the increase in premium written for the trailing 12-month period ending December 31 compared to the 12-month period ending March 31.

	(thousands of \$)		
	December 31 2016	March 31 2016	Change
Total liabilities	978,022	873,242	104,780
Key liability account changes:			
Accounts payable	42,144	33,657	8,487
Dividend payable	6,250	22,250	(16,000)
Premium taxes payable	29,875	5,651	24,224
Amounts due to reinsurers	4,817	24,605	(19,788)
Unearned premiums	377,968	319,981	57,987
Provision for unpaid claims	491,842	440,754	51,088

Accounts payable are higher than at March 31, 2016 due to the accrual for contingent profit commission being at its highest at December 31 and then paid out in the fourth quarter. The decrease in dividends payable is the result of a large year-end accrual, which was paid during the first quarter. Premium taxes payable are higher than at March 31, 2016, as premium taxes are paid annually in March. Amounts due to reinsurers decreased as most reinsurance agreements are written in January, but paid throughout the year. The increase in unearned premiums is the result of the increase in premium written for the trailing 12-month period ending December 31 compared to the 12-month period ending March 31. Key components of the change in the provision for unpaid claims are outlined in the preceding section, net claims incurred.

	(thousands of \$)		
	December 31 2016	March 31 2016	Change
Total equity	357,024	339,958	17,066
Key equity account changes:			
Retained earnings	277,024	259,958	17,066

The increase in retained earnings is attributable to the \$34.8 million consolidated net income and other comprehensive income of \$1.0 million, offset by dividends declared of \$18.8 million. The other comprehensive income represents actuarial gains associated with the Corporation's defined benefit pension and service recognition plans.

Cash Flow and Liquidity

	(thousands of \$)		
	nine months ended December 31		
	2016	2015	Change
Operating activities	110,638	87,065	23,573
Investing activities	(77,472)	(68,350)	(9,122)
Financing activities	(34,750)	(18,750)	(16,000)
Net cash flow	(1,584)	(35)	(1,549)

Cash flows from operating activities of \$110.6 million were used to purchase long-term investments of \$74.3 million, property and equipment of \$3.2 million and fund the \$34.8 million in dividend payments.

Capital

	As at December 31	
	2016	2015
Minimum Capital Test	242%	243%

The Corporation uses a common industry measurement, the Minimum Capital Test (MCT), to monitor its capital adequacy. At December 31, 2016, the Corporation's MCT was 242% (December 31, 2015 - 243%), which is in excess of the 213% internal target used as a minimum for regulatory purposes. For further information on capital management, refer to note 7 of the notes to the unaudited consolidated financial statements for the quarter.

Quarterly Consolidated Financial Highlights

The following table highlights quarter-over-quarter results for SGI CANADA:

	(thousands of \$)							
	three months ended							
	2016-17			2015-16				
	Dec 31	Sept 30	June 30	March 31	Dec 31	Sept 30	June 30	March 31
Net premiums written	184,688	190,965	191,368	109,143	166,957	173,563	174,489	105,831
Net premiums earned	168,502	161,827	157,413	153,114	152,952	148,134	144,412	138,157
Net claims incurred	87,020	134,604	81,322	69,746	71,002	117,160	84,778	72,346
Net income (loss)	21,604	(16,649)	29,841	22,832	38,735	(28,588)	8,224	43,324
Cash flow from (used in) operations	41,463	40,229	28,946	1,465	33,035	25,878	28,152	(18,380)
Investments	945,890	916,575	875,188	858,342	894,353	863,145	824,655	833,161
Provision for unpaid claims	491,842	500,976	437,050	440,754	453,287	479,164	442,485	442,727
Minimum Capital Test	242%	229%	262%	249%	243%	224%	258%	252%

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

- Net premiums earned generally increase on a quarter-over-quarter basis during the year.
- Claims incurred typically peak during the quarter ended September 30 due to storms that can occur over the warm summer months.
- With the exception of the quarter ended March 31, the Corporation generates positive cash flow from operations. Cash is typically low during that quarter as the Corporation pays its annual premium taxes to the province in March. Operating cash flows are generally strong throughout the remainder of the year and during this time excess cash generated is directed to investments.

Risk Management

Understanding and managing risk is fundamental to the Corporation's success. Risks that the Corporation manages in order to reduce the impact on its operations and profitability include competition, scale, privacy breaches, catastrophic claim losses, product design and pricing, strategy, systems security, transfer and acquisition of expertise, and employee engagement and productivity. These risks are described in detail in the Corporation's 2015-16 Annual Report.

Accounting Matters

Critical accounting estimates and assumptions

There are no new critical accounting estimates or assumptions as compared to those discussed in the Corporation's 2015-16 Annual Report.

Related party transactions

There have been no material changes to the Corporation's related party arrangements during the quarter. For further details on the Corporation's related party arrangements, refer to the 2015-16 Annual Report.

Off balance sheet arrangements

SGI CANADA, in its normal course of operations, enters into certain transactions that are not required to be recorded on its Consolidated Statement of Financial Position, commonly referred to as the balance sheet. These items include litigation, structured settlements and a long-term telecommunications contract. There have been no new off balance sheet arrangements during the quarter. For further details on off balance sheet arrangements, refer to the 2015-16 Annual Report.

Future accounting policy changes

The following future changes to accounting standards will have applicability to the Corporation:

Insurance Contracts

In June 2013, the International Accounting Standards Board (IASB) published a revised exposure draft (ED) (2013 ED) on the accounting for insurance contracts that builds on the consultations undertaken in 2007 and 2010. The 2013 ED is the result of deliberations at the IASB using comments received from constituents. The ED continues to propose a new standard on accounting for insurance contracts, which would replace International Financial Reporting Standards (IFRS) 4, *Insurance Contracts*. Proposals represent a comprehensive IFRS accounting model for insurance contracts and are expected to have a significant impact on the financial reporting of insurers. A final standard is expected in 2017 with implementation not expected before 2020.

In July 2015, the IASB amended the existing IFRS 4 to mitigate accounting mismatches from the adoption of IFRS 9, *Financial Instruments*, before the new insurance contracts standard is issued. Insurers that meet certain criteria will be permitted to exclude from net income and recognize in other comprehensive income the difference between the amounts that would be recognized in net income in accordance with IFRS 9 and the amounts recognized in net income in accordance with International Accounting Standards (IAS) 39, *Financial Instruments: Recognition and Measurement*.

The Corporation is in the process of assessing the impact of the new proposed standard.

Financial Instruments: Disclosures

IFRS 7 was amended in December 2011 to require additional financial instrument disclosures upon transition from IAS 39, *Financial Instruments: Recognition and Measurement* to IFRS 9, *Financial Instruments*. The amendments are effective on adoption of IFRS 9. The amendments issued are permitted to be early adopted where IFRS 9 is also early adopted. The Office of the Superintendent of Financial Institutions (OSFI) has indicated that it will not allow early adoption of IFRS 9 for federally regulated financial institutions. While the Corporation is not federally regulated, it generally follows OSFI's guidance in such matters.

The Corporation is evaluating the impact this amendment will have on the consolidated financial statements.

Financial Instruments

In July 2014, the IASB issued a final version of IFRS 9, *Financial Instruments*, as part of its plan to replace IAS 39, *Financial Instruments: Recognition and Measurement*.

The new standard requires financial assets to be measured at either fair value or amortized cost, on the basis of the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. A financial asset that is held by an entity for the purpose of collecting contractual cash flows on specified dates per contractual terms should be measured at amortized cost. All other financial assets should be measured at fair value.

For equity instruments, management has an option on initial recognition to irrevocably designate on an instrument-by-instrument basis to present the changes in their fair value directly in equity. There is no subsequent recycling of fair value gains and losses from equity to the Consolidated Statement of Operations. However, dividends from such equity investments will continue to be recognized in profit or loss.

The standard includes introduction of a fair value through other comprehensive income measurement category for simple debt instruments. In this measurement category, the Consolidated Statement of Financial Position will reflect the fair value carrying amount while amortized cost information is presented in the Consolidated Statement of Operations. The difference between the fair value and amortized cost information will be recognized in other comprehensive income.

This standard is effective for annual periods beginning on or after January 1, 2018. While early adoption is permitted under the standard, OSFI has indicated that early adoption is not allowed. While the Corporation is not federally regulated, it generally follows OSFI's guidance in such matters.

The IASB has proposed temporary deferral and overlay approaches for insurers, as detailed in their December 2015 Exposure Draft Applying IFRS 9, *Financial Instruments* with IFRS 4, *Insurance Contracts* (Proposed amendments to IFRS 4). The exposure draft was approved September 2016 and provides a temporary exemption from applying IFRS 9 for entities, where the liabilities are predominately arising from insurance contracts within the scope of IFRS 4, to defer IFRS 9 until the new insurance contracts standard is issued, or 2021 at the latest.

The Corporation is in the process of assessing the impact of the new standard and changes proposed in the exposure draft.

Income Taxes

In January 2016, IAS 12 was amended to clarify guidance in the standard related to the measurement of deductible temporary differences for unrealized losses on debt instruments measured at fair value, the estimation of probable future taxable income, and the assessment of deferred tax assets in combination with other deferred tax assets. These amendments are effective for annual periods beginning on or after January 1, 2017. The Corporation is evaluating the impact this amendment will have on the consolidated financial statements.

Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and is intended to replace IAS 18, *Revenue*, IAS 11, *Construction Contracts* and related International Financial Reporting Interpretations Committee (IFRICs). The standard was issued as a result of an ongoing project to align revenue recognition between IFRS and U.S. generally accepted accounting principles. This standard is effective for annual periods beginning on or after January 1, 2017. Early application is permitted. IFRS 15 contains a scope exception that excludes insurance contracts within the scope of IFRS 4, *Insurance Contracts*, therefore this standard will have a limited impact on the Corporation.

Leases

IFRS 16 was issued in January 2016 and is intended to replace IAS 17, *Leases*, and related IFRICs. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less, or the underlying asset has a low value. This standard is effective for annual periods beginning on or after January 1, 2019. The Corporation is evaluating the impact this standard will have on the consolidated financial statements.

Caution Regarding Forward-Looking Statements

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

Condensed Consolidated Statement of Financial Position

	(thousands of \$)	
	December 31 2016 (unaudited)	March 31 2016 (audited)
Assets		
Cash and cash equivalents	\$ 25,269	\$ 26,853
Accounts receivable	198,052	167,044
Investments under security lending program (note 4)	122,018	158,057
Investments (note 4)	823,872	700,285
Unpaid claims recoverable from reinsurers	44,925	31,316
Reinsurers' share of unearned premiums	6,300	27,592
Deferred policy acquisition costs	88,979	75,144
Property and equipment	22,191	23,861
Deferred income tax asset	3,440	3,048
	\$ 1,335,046	\$ 1,213,200
Liabilities		
Accounts payable and accrued liabilities	\$ 42,144	\$ 33,657
Dividend payable	6,250	22,250
Premium taxes payable	29,875	5,651
Amounts due to reinsurers	4,817	24,605
Unearned reinsurance commissions	3,251	2,714
Unearned premiums	377,968	319,981
Accrued pension liability	20,936	22,736
Provision for unpaid claims	491,842	440,754
Deferred income tax liability	939	894
	978,022	873,242
Equity		
Equity advances	80,000	80,000
Retained earnings	277,024	259,958
Province of Saskatchewan's equity	357,024	339,958
	\$ 1,335,046	\$ 1,213,200

Contingencies (note 12)

The accompanying notes are an integral part of these consolidated financial statements.

Condensed Consolidated Statement of Operations

For the periods ended December 31	(thousands of \$)			
	three months ended		nine months ended	
	2016 (unaudited)	2015 (unaudited)	2016 (unaudited)	2015 (unaudited)
Gross premiums written	\$ 187,539	\$ 170,455	\$ 578,633	\$ 527,749
Premiums ceded to reinsurers	(2,851)	(3,498)	(11,612)	(12,740)
Net premiums written	184,688	166,957	567,021	515,009
Change in net unearned premiums	(16,186)	(14,005)	(79,279)	(69,511)
Net premiums earned	168,502	152,952	487,742	445,498
Net claims incurred	87,020	71,002	302,946	272,940
Commissions	38,367	33,538	110,048	95,813
Administrative expenses	18,178	18,658	52,827	53,291
Premium taxes	7,844	6,839	22,704	20,433
Total claims and expenses	151,409	130,037	488,525	442,477
Underwriting income (loss)	17,093	22,915	(783)	3,021
Net investment earnings (note 5)	6,562	17,606	35,748	16,352
Income before income taxes	23,655	40,521	34,965	19,373
Income tax expense	2,051	1,786	169	1,002
Net income	21,604	38,735	34,796	18,371
Other comprehensive income (loss)	738	(760)	1,020	94
Comprehensive income	\$ 22,342	\$ 37,975	\$ 35,816	\$ 18,465

The accompanying notes are an integral part of these consolidated financial statements.

Condensed Consolidated Statement of Changes in Equity

For the periods ended December 31	(thousands of \$)	
	nine months ended	
	2016 (unaudited)	2015 (unaudited)
Equity advances		
Balance, end of period	\$ 80,000	\$ 80,000
Retained earnings		
Balance, beginning of period	\$ 259,958	\$ 260,859
Net income	34,796	18,371
Other comprehensive income	1,020	94
Dividends	(18,750)	(18,750)
Balance, end of period	\$ 277,024	\$ 260,574
Total Province of Saskatchewan's equity	\$ 357,024	\$ 340,574

The accompanying notes are an integral part of these consolidated financial statements.

Condensed Consolidated Statement of Cash Flows

For the periods ended December 31	(thousands of \$)	
	nine months ended	
	2016 (unaudited)	2015 (unaudited)
Cash provided by (used for):		
Operating activities		
Net income	\$ 34,796	\$ 18,371
Non-cash items:		
Bond amortization	3,270	2,719
Depreciation	4,835	4,897
Net realized gains on sale of investments	(4,346)	(32,990)
Net unrealized losses (gains) on change in market value of investments	(12,165)	36,237
Actuarial gain on employee benefit plans	1,020	94
Deferred income taxes	(347)	(249)
Change in non-cash operating items (note 8)	83,575	57,986
	110,638	87,065
Investing activities		
Purchases of investments	(660,085)	(808,903)
Proceeds on sale of investments	585,778	741,745
Purchases of property and equipment, net of proceeds from disposals	(3,165)	(1,192)
	(77,472)	(68,350)
Financing activities		
Dividends paid	(34,750)	(18,750)
	(34,750)	(18,750)
Decrease in cash and cash equivalents	(1,584)	(35)
Cash and cash equivalents, beginning of period	26,853	3,213
Cash and cash equivalents, end of period	\$ 25,269	\$ 3,178
Supplemental cash flow information:		
Interest received	\$ 9,376	\$ 8,635
Dividends received	\$ 819	\$ 1,027
Income taxes paid	\$ 2,353	\$ 3,873

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements (unaudited)

December 31, 2016

1. Nature of Operations

Saskatchewan Government Insurance (the Corporation or SGI), which operates under the trade name of SGI CANADA, is incorporated, registered and 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. (SCISL). SCISL operates directly in Alberta, Manitoba, British Columbia and Ontario. SCISL also has a wholly owned subsidiary, Coachman Insurance Company (Coachman), that operates in Ontario. The address of the Corporation's registered head office is 2260-11th Avenue, Regina, SK, Canada.

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 and Ontario, and represent approximately 16.3% (December 31, 2015 - 15.7%) of the Corporation's consolidated gross premiums written.

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, SCISL and Coachman 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. CIC is ultimately owned by the Government of Saskatchewan.

2. Basis of Preparation

The unaudited interim consolidated financial statements for the three and nine-month period ended December 31, 2016, have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including International Accounting Standard 34, *Interim Financial Reporting*, and interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

These unaudited interim consolidated financial statements do not include all of the note disclosures normally included in the annual financial statements. Accordingly, these interim financial statements are to be read in conjunction with the March 31, 2016 Annual Report. Full disclosures will be included in the consolidated annual financial statements.

In December 2015, the Corporation was directed by the provincial government to change its fiscal year end from December 31 to March 31 to coincide with the Government of Saskatchewan.

Basis of measurement

The unaudited interim consolidated financial statements have been prepared using the historical cost basis, except for financial instruments and the provision for unpaid claims and unpaid claims recoverable from reinsurers. The methods used to measure the values of financial instruments are discussed further in note 3. The provision for unpaid claims and unpaid claims recoverable from reinsurers are measured on a discounted basis in accordance with accepted actuarial practice (which in the absence of an active market provides a reasonable proxy of fair value).

Statement of Financial Position classification

The Consolidated Statement of Financial Position has been prepared on a non-classified basis in order of liquidity, with a distinction based on expectations regarding recovery or settlement within 12 months after the balance sheet date (current) and more than 12 months after the balance sheet (non-current) presented in the notes.

Functional and presentation currency

These unaudited interim consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional and presentation currency.

Use of estimates and judgment

The preparation of the unaudited interim consolidated financial statements in accordance with IFRS 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 and the valuation of investments classified as Level 3.

3. Significant Accounting Policies

Basis of consolidation

The unaudited interim consolidated financial statements include the accounts of the Corporation and the consolidated accounts of its 100%-owned subsidiaries, SCISL and Coachman. All inter-company accounts and transactions have been eliminated on consolidation. While Coachman and SCISL's year ends are both December 31, their financial accounting records have been consolidated using the same fiscal period as the Corporation. The financial accounting records of the Corporation and its subsidiaries are prepared using consistent accounting policies.

Financial assets and liabilities

The measurement basis for financial assets and financial liabilities depends on whether the financial assets and liabilities have been classified as fair value through profit and loss, available for sale, held to maturity, loans and receivables, or other financial liabilities. Financial assets and liabilities classified as fair value through profit and loss 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 (OCI); however, unrealized losses on investments that show objective evidence of impairment are recognized as a decrease to net income. Financial assets designated as held to maturity, or loans and receivables, are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment losses, if any. Other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. The Corporation has no financial assets and liabilities designated as available for sale or held to maturity.

The Corporation has designated its cash and cash equivalents and investments as fair value through profit and loss. Accounts receivable are designated as loans and receivables. Accounts payable and accrued liabilities, dividend payable and premium taxes payable are designated as other financial liabilities. Unpaid claims recoverable from reinsurers, amounts due to reinsurers and the provision for unpaid claims are exempt from the above requirement.

Financial assets and financial liabilities are offset, and the net amount reported in the Consolidated Statement of Financial Position, only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and liabilities simultaneously. Income and expenses are not offset in the Consolidated Statement of Operations unless required or permitted by an accounting standard or interpretation, as specifically disclosed in the accounting policies of the Corporation. There are no financial assets and financial liabilities reported as offset in these consolidated financial statements.

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. All fair value measurements relate to recurring measurements. Fair value measurements for investments are categorized into levels within a fair value hierarchy based on the nature of the valuation inputs (Level 1, 2 or 3).

The three levels are based on the priority of inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset's or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation.

The input levels are defined as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities

The Corporation defines active markets based on the frequency of valuation and any restrictions or illiquidity on disposition of the underlying investment and trading volumes. Assets measured at fair value and classified as Level 1 include Canadian common shares and equity investment funds. Fair value is based on market price data for identical assets obtained from the investment custodian, investment managers or dealer markets. The Corporation does not adjust the quoted price for such investments.

Level 2: Quoted prices in markets that are not active or inputs that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Level 2 inputs include observable market information, including quoted prices for assets in markets that are considered less active. Assets measured at fair value and classified as Level 2 include short-term investments and bonds and debentures. Fair value for short-term investments and bonds and debentures is based on, or derived from, market price data for same or similar instruments obtained from the investment custodian, investment managers or dealer markets.

Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities

Level 3 assets and liabilities include financial instruments whose values are determined using internal pricing models, discounted cash flow methodologies, or similar techniques that are not based on observable market data, as well as instruments for which the determination of estimated fair value requires significant management judgment or estimation. Assets classified as Level 3 include the mortgage investment fund and real estate investment fund. The fair value of these investments is based on the Corporation's shares of the net asset value of the respective fund, as determined by its investment manager, and used to value purchases and sales of units in the investments. The primary valuation methods used by the investment managers are as follows:

- The fair value for the mortgage investment fund is determined based on market values of the underlying mortgage investments, calculated by discounting scheduled cash flows through to the estimated maturity of the mortgages (using spread-based pricing over Government of Canada bonds with a similar term to maturity), subject to adjustments for liquidity and credit risk.
- The fair value of the real estate investment fund is determined based on the most recent appraisals of the underlying properties. Real estate properties are appraised semi-annually by external, independent professional real estate appraisers who are accredited through the Appraisal Institute of Canada. Real estate appraisals are performed in accordance with generally accepted appraisal standards and procedures, and are based primarily on the discounted cash flow and income capitalization methods.

The fair value of other financial assets and financial liabilities is considered to be the carrying value when they are of short duration or when the investment's interest rate approximates current observable market rates. Where other financial assets and financial liabilities are of longer duration, fair value is determined using the discounted cash flow method using discount rates based on adjusted observable market rates. The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividend payable and premium taxes payable approximate their carrying values due to their short-term nature.

Investments

The Corporation records its investment purchases and sales on a trade-date basis, being the date when the transactions are entered into. Financial assets are derecognized when the rights to receive cash flows from them have expired, or when the Corporation has transferred substantially all risks and rewards of ownership.

Investments under securities lending program

Securities lending transactions are entered into on a collateralized basis. The securities lent are not de-recognized on the Consolidated Statement of Financial Position given that the risks and rewards of ownership are not transferred from the Corporation to the counterparties in the course of such transactions. The securities are reported separately on the Consolidated Statement of Financial Position on the basis that the counterparties may resell or re-pledge the securities during the time that the securities are in their possession.

Securities received from counterparties as collateral are not recorded on the Consolidated Statement of Financial Position given that the risks and rewards of ownership are not transferred from the counterparties to the Corporation in the course of such transactions.

Investment earnings

The Corporation recognizes interest and premium financing as earned, dividends when declared, investment fund revenue when a distribution is declared, realized gains and losses on investments when the investment has been sold, and unrealized gains and losses based on changes in market value of the investments held at the period-end date. Realized gains and losses represent the difference between the amounts received through the sale of investments and their respective cost base.

Interest revenue includes amortization of any premium or discount recognized at the date of purchase of the security. Amortization is calculated using the effective interest method. Interest is generally receivable on a semi-annual basis.

Direct investment expenses, such as external custodial, investment management and investment consultant expenses, are recorded against investment earnings.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate in effect at the period-end date. Revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized foreign exchange gains and/or losses arising on monetary and non-monetary investments designated as fair value through profit and loss are recognized in investment earnings. Unrealized gains and/or losses arising on translation are charged to operations in the current period. Translation gains and/or losses related to other financial assets and liabilities are charged to operations in the current period.

Premiums written

The Corporation's policies have all been classified upon inception as insurance contracts. An insurance contract transfers significant risk and, upon the occurrence of the insured event, causes the insurer to make a benefit payment to the insured party. The sale of policies generates premiums written that are taken into income as net premiums earned over the terms of the related policies, no longer than 12 months. The portion of the premiums relating to the unexpired term of each policy is recorded as an unearned premium liability on the Consolidated Statement of Financial Position.

At the end of each reporting period, a liability adequacy test is performed, in accordance with IFRS, to validate the adequacy of unearned premiums and deferred policy acquisition costs. A premium deficiency would exist if unearned premiums are deemed insufficient to cover the estimated future costs associated with the unexpired portion of written insurance policies. A premium deficiency would be recognized immediately as a reduction of deferred policy acquisition costs to the extent that unearned premiums plus anticipated investment income is not considered adequate to cover all deferred policy acquisition costs and related insurance claims and expenses. If the premium deficiency is greater than the unamortized deferred policy acquisition costs, a liability is accrued for the excess deficiency.

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of outstanding claims to the period-end date. The estimate includes the cost of reported claims, claims incurred but not reported, and an estimate of adjustment expenses to be incurred on these claims and a provision for adverse deviation (PFAD) in accordance with Canadian Institute of Actuaries standards. The estimates are 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.

Deferred policy acquisition costs

Premium taxes, commissions and certain underwriting and policy issuance costs are deferred, to the extent they are recoverable, and charged to expense over the terms of the insurance policies to which such costs relate, no longer than 12 months.

Reinsurance ceded

The Corporation uses various types of reinsurance to limit its maximum insurance risk exposure. Estimates of amounts recoverable from reinsurers in respect of insurance contract liabilities and their share of unearned premiums are recorded as reinsurance assets on a gross basis in the Consolidated Statement of Financial Position. 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. Insurance ceded does not relieve the Corporation of its primary obligation to policyholders.

Income taxes

The Corporation uses the asset and liability method of accounting for income taxes. Income taxes are comprised of both current and deferred taxes. Income taxes are recognized in the Consolidated Statement of Operations.

Current income taxes are recognized as estimated income taxes for the current year. Deferred 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 deferred 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 deferred income tax asset if it is probable that the asset will not be realized, probable being defined as more likely than not.

Employees' future benefits

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

For 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.

The Corporation's defined benefit pension plan is available to certain of its employees and has been closed to new membership since 1980. The plan provides a full pension at retirement calculated as 2% of a member's average earnings during the five years of highest earnings, multiplied by the total number of years of service to a maximum of 35 years. The plan may be indexed at the discretion of the Board of Directors. The plan is pre-funded by payments from employee and employer contributions that are made to a separately administered fund and are determined by periodic actuarial calculations taking into account the recommendations of a qualified actuary.

Responsibility for governance of the plan lies with the Corporation. The Corporation has a Pension Committee to assist in the management of the plan and has also appointed experienced, independent professional experts such as investment managers, an actuary, and a custodian.

Plan assets consist primarily of fixed income and equity investment funds and are carried at fair value. Plan assets are not available to creditors of the Corporation nor can they be paid directly to the Corporation.

For the defined benefit plan:

- (i) Net interest on the accrued pension liability is recognized in income.
- (ii) Pension obligations are determined by an independent actuary using the projected unit credit 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 and the expected return on plan assets was determined by reference to market interest rates at the measurement date of high-quality debt instruments that are denominated in the currency in which the benefits will be paid, with cash flows that match the timing and amount of expected benefit payments.
- (iv) Past service costs are expensed immediately.
- (v) Actuarial gains and losses are recognized in other comprehensive income in the period in which they arise.

The accrued benefit asset (liability) is the fair value of plan assets out of which the obligation is to be settled directly, less the present value of the defined benefit obligation. It is restricted to the present value of the economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

By design, the plan exposes the Corporation to the typical risks faced by defined benefit pension plans such as investment performance, changes to the discount rate used to value the obligation, longevity of plan members, and future price inflation. Pension risk is managed by established policies, regular monitoring, re-evaluation and potential adjustments of these policies as future events unfold.

The Corporation provides defined benefit service recognition plans for certain management and in-scope (union) employees for the purpose of providing retirement benefits. Employees in the plans are eligible for benefits at the earlier of age plus service equal to or greater than 75, or age 50. Upon retirement, employees meeting the eligibility criteria receive a lump sum payment of five days for management and three days for in-scope (union) employees for each year of continuous service, less ineligible time and ineligible partial service time. A participant who dies while a member of either plan is deemed to satisfy the eligibility requirements. The member's beneficiary or estate will receive the same benefit payment based on the calculation. Effective December 31, 2011, the defined benefit service recognition plan for unionized employees was frozen for current employees and closed to new employees. Effective December 31, 2011, the defined benefit service recognition plan for the management employees was closed to new employees, and current employees were provided the option to elect to remain in the plan or to receive an annual payout, commencing in 2012.

The accrued benefit obligation of the service recognition plans is funded by the Corporation as eligible employees terminate employment. The cost of the plans is determined using the projected unit credit method prorated on service. Expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for the defined benefit pension plan. Obligations under these plans are determined annually by an independent actuary.

By design, the service recognition plans expose the Corporation to risks such as changes to the discount rate used to value the obligation, expected salary increases and duration of employee service. These risks are managed by established policies, regular monitoring, re-evaluation and potential adjustments of these policies as future events unfold.

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.

Property and equipment

All classes of property and equipment are recorded at cost less accumulated depreciation and accumulated impairment, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset.

The Corporation has not incurred any borrowing costs attributable to property and equipment, and therefore no borrowing costs have been capitalized. Subsequent costs are included in the assets' carrying value when it is probable that future economic benefits associated with the item will flow to the Corporation, and the cost of the item can be reliably measured. Repairs and maintenance are charged to the Consolidated Statement of Operations in the period in which they have been incurred.

The depreciation method being used, the useful lives of the assets and the residual values of the assets are reviewed at each reporting date.

Depreciation is recorded in operations on a straight-line basis, commencing in the year the asset is available to be placed in service, over the estimated useful lives as follows:

Building	40 years
Building components	15-30 years
Computer hardware and other equipment	3-5 years

Building components consists of heating and cooling systems, elevators, roofs and parking lots. Land is not subject to amortization and is carried at cost.

Impairment reviews are performed when there are indicators that the carrying value of an asset may exceed its recoverable amount.

Leased assets

Leases where the Corporation does not assume substantially all of the risks and reward of ownership are classified as operating leases. The payments are expensed as they are incurred.

Provisions and contingent liabilities

Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

Structured settlements

In the normal course of claims adjudication, the Corporation settles certain long-term claims losses through the purchase of annuities under structured settlement arrangements with life insurance companies. As the Corporation does not retain any interest in the related insurance contract and obtains a legal release from the claimant, any gain or loss on the purchase of the annuity is recognized in the Consolidated Statement of Operations at the date of the purchase and the related claim liabilities are de-recognized. However, the Corporation remains exposed to the credit risk that the life insurance companies may fail to fulfil their obligations.

Comprehensive income

Comprehensive income consists of net income and OCI. OCI includes net actuarial gains (losses) on the employee defined benefit pension plan and service recognition plans. These items of OCI are not reclassified subsequently to net income.

Future accounting policy changes

The following future changes to accounting standards will have applicability to the Corporation:

IFRS 4 – Insurance Contracts

In June 2013, the IASB published a revised exposure draft (2013 ED) on the accounting for insurance contracts which builds on the previous consultations undertaken in 2007 and 2010. The 2013 ED is the result of deliberations at the IASB using comments received from constituents. The ED continues to propose a new standard on accounting for insurance contracts, which would replace IFRS 4, *Insurance Contracts*. Proposals represent a comprehensive IFRS accounting model for insurance contracts and are expected to have a significant impact on the financial reporting of insurers. A final standard is expected in 2017 with implementation not expected before 2020. The Corporation is in the process of assessing the impact of the new proposed standard.

In July 2015, the IASB amended the existing IFRS 4 to mitigate accounting mismatches from the adoption of IFRS 9, *Financial Instruments*, before the new insurance contracts standard is issued. Insurers who meet certain criteria will be permitted to exclude from net income and recognize in other comprehensive income the difference between the amounts that would be recognized in net income in accordance with IFRS 9 and the amounts recognized in net income in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*.

IFRS 7 – Financial Instruments: Disclosures

IFRS 7 was amended in December 2011 to require additional financial instrument disclosures upon transition from IAS 39, *Financial Instruments: Recognition and Measurement* to IFRS 9, *Financial Instruments*. The amendments are effective on adoption of IFRS 9. The amendments issued are permitted to be early adopted where IFRS 9 is also early adopted. The Office of the Superintendent of Financial Institutions (OSFI) has indicated that it will not allow early adoption of IFRS 9 for federally regulated financial institutions. While the Corporation is not federally regulated, it generally follows OSFI's guidance in such matters. The Corporation is evaluating the impact this amendment will have on the consolidated financial statements.

IFRS 9 – Financial Instruments

In July 2014, the IASB issued a final version of IFRS 9, *Financial Instruments*, as part of its plan to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The new standard requires financial assets to be measured at either fair value or amortized cost, on the basis of the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. A financial asset that is held by an entity for the purpose of collecting contractual cash flows on specified dates per contractual terms should be measured at amortized cost. All other financial assets should be measured at fair value.

For equity instruments, management has an option on initial recognition to irrevocably designate on an instrument-by-instrument basis to present the changes in their fair value directly in equity. There is no subsequent recycling of fair value gains and losses from equity to the Consolidated Statement of Operations; however, dividends from such equity investments will continue to be recognized in profit or loss.

The standard includes introduction of a fair value through other comprehensive income measurement category for simple debt instruments. In this measurement category, the Consolidated Statement of Financial Position will reflect the fair value carrying amount while amortized cost information is presented in the Consolidated Statement of Operations. The difference between the fair value and amortized cost information will be recognized in other comprehensive income.

This standard is effective for annual periods beginning on or after January 1, 2018. While early adoption is permitted under the standard, OSFI has indicated that early adoption is not allowed. While the Corporation is not federally regulated, it generally follows OSFI's guidance in such matters.

The IASB has proposed temporary deferral and overlay approaches for insurers, as detailed in their December 2015 Exposure Draft Applying IFRS 9, *Financial Instruments* with IFRS 4, *Insurance Contracts* (proposed amendments to IFRS 4). The exposure draft was approved September 2016 and provides a temporary exemption from applying IFRS 9 for entities where the liabilities are predominately arising from insurance contracts within the scope of IFRS 4, to defer IFRS 9 until the new insurance contracts standard is issued, or 2021 at the latest.

The Corporation is in the process of assessing the impact of the new standard and changes proposed in the Exposure Draft.

IAS 12 – Income Taxes

In January 2016, IAS 12 was amended to clarify guidance in the standard related to the measurement of deductible temporary differences for unrealized losses on debt instruments measured at fair value, the estimation of probable future taxable income, and the assessment of deferred tax assets in combination with other deferred tax assets. These amendments are effective for annual periods beginning on or after January 1, 2017. The Corporation is evaluating the impact this amendment will have on the consolidated financial statements.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and is intended to replace IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. The standard was issued as a result of an ongoing project to align revenue recognition between IFRS and U.S. generally accepted accounting principles. This standard is effective for annual periods beginning on or after January 1, 2018. Early application is permitted. IFRS 15 contains a scope exception which excludes insurance contracts within the scope of IFRS 4 *Insurance Contracts*, therefore, this standard will have a limited impact on the Corporation.

IFRS 16 – Leases

IFRS 16 was issued in January 2016 and is intended to replace IAS 17, *Leases*, and related IFRICs. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. This standard is effective for annual periods beginning on or after January 1, 2019. The Corporation is evaluating the impact this standard will have on the consolidated financial statements.

4. Investments

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

	(thousands of \$)	
	December 31 2016	March 31 2016
Short-term investments	\$ 115,815	\$ 104,867
Bonds and debentures	369,970	287,933
Canadian common shares	31,557	30,648
Investment funds:		
Canadian equity	13,303	17,395
Global equity	119,017	107,491
Global small cap equity	22,792	20,606
Mortgage	116,026	113,225
Real estate	35,392	18,120
	823,872	700,285
Investments under securities lending program		
Bonds and debentures	109,973	141,398
Canadian common shares	12,045	16,659
	122,018	158,057
Total investments	\$ 945,890	\$ 858,342

Securities lending program

Through its custodian, the Corporation participates in an investment securities lending program for the purpose of generating fee income. When securities are loaned, the Corporation is exposed to counterparty risk, which is the risk that the borrower will not return the loaned securities or, if the collateral is liquidated, it may be for less than the value of the loan. The Corporation mitigates this risk through non-cash collateral and a guarantee provided by its custodian. Non-cash collateral of at least 105% of the market value of the loaned securities is retained by the Corporation until the loaned securities have been returned. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value of the loaned securities fluctuates. In addition, the custodian provides indemnification against any potential losses in the securities lending program. While in the possession of counterparties, the loaned securities may be resold or re-pledged by such counterparties.

At December 31, 2016, the Corporation held collateral of \$128,122,000 (March 31, 2016 - \$165,961,000) for the loaned securities.

Fair value hierarchy

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

(thousands of \$)				
December 31, 2016				
	Level 1	Level 2	Level 3	Total
Short-term investments	\$ -	\$ 115,815	\$ -	\$ 115,815
Bonds and debentures	-	479,943	-	479,943
Canadian common shares	43,602	-	-	43,602
Investment funds:				
Canadian equity	13,303	-	-	13,303
Global equity	119,017	-	-	119,017
Global small cap equity	22,792	-	-	22,792
Mortgage	-	-	116,026	116,026
Real estate	-	-	35,392	35,392
	\$ 198,714	\$ 595,758	\$ 151,418	\$ 945,890

(thousands of \$)				
March 31, 2016				
	Level 1	Level 2	Level 3	Total
Short-term investments	\$ -	\$ 104,867	\$ -	\$ 104,867
Bonds and debentures	-	429,331	-	429,331
Canadian common shares	47,307	-	-	47,307
Investment funds:				
Canadian equity	17,395	-	-	17,395
Global equity	107,491	-	-	107,491
Global small cap equity	20,606	-	-	20,606
Mortgage	-	-	113,225	113,225
Real estate	-	-	18,120	18,120
	\$ 192,799	\$ 534,198	\$ 131,345	\$ 858,342

The Corporation's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

A reconciliation of Level 3 investments is as follows:

	(thousands of \$)	
	nine months ended	15 months ended
	December 31 2016	March 31 2016
Balance, beginning of the period	\$ 131,345	\$ 97,998
Additions during the period		
Mortgage investment fund	4,371	14,029
Real estate investment fund	15,203	17,731
Net unrealized gains	499	1,587
Balance, end of period	\$ 151,418	\$ 131,345

Investment in the mortgage investment fund and the real estate investment fund are valued using the Corporation's share of the net asset value of the respective fund as at the period end date.

During the periods ended December 31, 2016 and March 31, 2016, no investments were transferred between levels.

5. Net Investment Earnings

Components of net investment earnings are as follows:

	(thousands of \$)			
	three months ended December 31		nine months ended December 31	
	2016	2015	2016	2015
Net unrealized gains (losses) on change in market value of investments	\$ (6,377)	\$ 3,923	\$ 12,165	\$ (36,237)
Investment fund distributions	8,292	8,282	8,841	9,129
Interest	1,975	1,866	5,767	5,942
Premium financing	1,749	1,732	5,205	5,009
Net realized gains on sale of investments	1,144	2,009	4,346	32,990
Dividends	270	338	855	1,001
Total investment earnings	7,053	18,150	37,179	17,834
Investment expenses	(491)	(544)	(1,431)	(1,482)
Net investment earnings	\$ 6,562	\$ 17,606	\$ 35,748	\$ 16,352

Details of the net unrealized gains (losses) on change in market value of investments is as follows:

	(thousands of \$)			
	three months ended December 31		nine months ended December 31	
	2016	2015	2016	2015
Bonds and debentures	\$ (2,651)	\$ (99)	\$ (1,698)	\$ (3,694)
Canadian common shares	(213)	(687)	2,646	(6,449)
U.S. common shares	-	-	-	(17,132)
Investment funds:				
Canadian equity	(86)	(1,056)	1,080	(3,099)
Global equity	757	7,720	8,771	7,909
Global small cap equity	(677)	803	867	408
Mortgage	(4,819)	(2,930)	(1,570)	(1,676)
Real estate	1,312	172	2,069	272
U.S. equity	-	-	-	(5,498)
Non-North American equity	-	-	-	(7,278)
	\$ (6,377)	\$ 3,923	\$ 12,165	\$ (36,237)

6. Insurance and Financial Risk Management

The Corporation has established an enterprise risk management policy. The Board of Directors approved this policy, and management is responsible for ensuring it is properly maintained and implemented. The Board of Directors receives confirmation that the risks are being appropriately managed through regular reporting from management.

Insurance risk arises with respect to the adequacy of the Corporation's insurance premium rates and provision for unpaid claims (consisting of underwriting and actuarial risks). The nature of insurance operations also results in significant financial risks, as the Corporation's Statement of Financial Position consists primarily of financial instruments. Financial risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Insurance risk

Underwriting risk

The Corporation manages its insurance risk through its underwriting and reinsurance strategies within an overall strategic planning process. Pricing is based on assumptions with regards to past experiences and trends. Exposures are managed by having documented underwriting limits and criteria, product and geographic diversification and reinsurance.

Diversification

The Corporation writes property, liability and motor risks over a 12-month period. The most significant risks arise from weather-related events, such as severe summer storms. The Corporation attempts to mitigate risk by conducting business in a number of provinces across Canada and by offering different lines of insurance products.

The concentration of insurance risk by region and line of business is summarized below by reference to gross premiums written:

(thousands of \$)					
three months ended December 31, 2016					
	Automobile	Personal Property	Commercial Property	Liability	Total
Saskatchewan	\$ 38,717	\$ 64,524	\$ 14,690	\$ 9,160	\$ 127,091
Manitoba	–	3,682	1,994	874	6,550
Alberta	17,447	10,219	2,811	2,192	32,669
Ontario	14,393	2,089	1,850	1,073	19,405
British Columbia	–	428	1,036	360	1,824
Total	\$ 70,557	\$ 80,942	\$ 22,381	\$ 13,659	\$ 187,539

(thousands of \$)					
three months ended December 31, 2015					
	Automobile	Personal Property	Commercial Property	Liability	Total
Saskatchewan	\$ 38,991	\$ 57,986	\$ 14,664	\$ 9,281	\$ 120,922
Manitoba	–	3,220	1,764	821	5,805
Alberta	14,004	8,338	2,263	1,901	26,506
Ontario	12,213	1,746	1,698	1,031	16,688
British Columbia	–	–	347	187	534
Total	\$ 65,208	\$ 71,290	\$ 20,736	\$ 13,221	\$ 170,455

(thousands of \$)					
nine months ended December 31, 2016					
	Automobile	Personal Property	Commercial Property	Liability	Total
Saskatchewan	\$ 122,853	\$ 204,387	\$ 40,793	\$ 28,239	\$ 396,272
Manitoba	–	12,101	5,623	2,855	20,579
Alberta	53,739	33,259	7,867	6,499	101,364
Ontario	40,757	6,310	5,650	3,207	55,924
British Columbia	–	1,263	2,322	909	4,494
Total	\$ 217,349	\$ 257,320	\$ 62,255	\$ 41,709	\$ 578,633

(thousands of \$)					
nine months ended December 31, 2015					
	Automobile	Personal Property	Commercial Property	Liability	Total
Saskatchewan	\$ 122,667	\$ 181,592	\$ 40,588	\$ 28,939	\$ 373,786
Manitoba	–	10,281	4,954	2,627	17,862
Alberta	46,582	26,082	6,540	5,796	85,000
Ontario	36,483	5,437	5,344	3,105	50,369
British Columbia	–	–	468	264	732
Total	\$ 205,732	\$ 223,392	\$ 57,894	\$ 40,731	\$ 527,749

The concentration of insurance risk by line of business is summarized below by reference to unpaid claims liabilities:

	(thousands of \$)					
	Gross		Reinsurance Recoverable		Net	
	December 31 2016	March 31 2016	December 31 2016	March 31 2016	December 31 2016	March 31 2016
Automobile	\$ 226,695	\$ 219,106	\$ 15,110	\$ 13,755	\$ 211,585	\$ 205,351
Personal property	128,639	102,083	18,475	8,056	110,164	94,027
Commercial property	32,779	28,882	6,172	5,249	26,607	23,633
Liability	68,234	58,328	3,051	2,671	65,183	55,657
Assumed	4,273	4,318	-	-	4,273	4,318
PFAD and discounting	24,610	22,399	2,117	1,585	22,493	20,814
Facility Association	6,612	5,638	-	-	6,612	5,638
Total	\$ 491,842	\$ 440,754	\$ 44,925	\$ 31,316	\$ 446,917	\$ 409,438

The concentration of insurance risk by region is summarized below by reference to unpaid claims liabilities:

	(thousands of \$)					
	Gross		Reinsurance Recoverable		Net	
	December 31 2016	March 31 2016	December 31 2016	March 31 2016	December 31 2016	March 31 2016
Saskatchewan	\$ 253,808	\$ 231,641	\$ 26,987	\$ 14,767	\$ 226,821	\$ 216,874
Ontario	132,798	127,534	13,617	12,226	119,181	115,308
Alberta	93,125	70,554	4,248	4,226	88,877	66,328
Manitoba	9,332	8,895	64	97	9,268	8,798
British Columbia	847	145	9	-	838	145
Maritimes	1,932	1,985	-	-	1,932	1,985
Total	\$ 491,842	\$ 440,754	\$ 44,925	\$ 31,316	\$ 446,917	\$ 409,438

Reinsurance

The Corporation also 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 \$)	
	December 31 2016	March 31 2016
Dwelling and farm property	\$ 1,000	\$ 1,000
Unlicensed vehicles	1,000	1,000
Commercial property	1,000	1,000
Automobile and general liability	1,500	1,500

In addition, the Corporation carries property and auto physical damage catastrophe reinsurance limiting combined exposure to \$12,500,000 per event (subject to an annual aggregate deductible of \$12,500,000).

While the Corporation utilizes reinsurance, it is still exposed to reinsurance risk. Reinsurance risk is the risk of financial loss due to inadequacies in reinsurance coverage or the default of a reinsurer. The Corporation evaluates and monitors the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvency.

Actuarial risk

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 period-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 period-end date.

The significant assumptions used to estimate the provision include: the Corporation's experience with similar cases, historical claim payment trends and claim development patterns, 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, which necessarily involves risk that actual results may differ materially from the estimates.

Financial risk

The nature of the Corporation's operations result in a Consolidated Statement of Financial Position that consists primarily of financial instruments. The risks that arise are credit risk, market 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 Corporation's Board of Directors. The SIP&G provides guidelines to the investment managers for the asset mix of the portfolio regarding quality and quantity of debt and equity investments using a prudent person approach. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. The Corporation receives regular reporting from the investment managers and custodian regarding compliance with the SIP&G. The investment managers' performance is evaluated based on return objectives, including realized and unrealized capital gains and losses plus income from all sources, and goals stated in the SIP&G.

Credit risk

The Corporation's credit risk arises primarily from two distinct sources: accounts receivable (from customers, brokers and reinsurers) and certain investments.

The maximum credit risk to which the Corporation is exposed is limited to the carrying value of the financial assets summarized as follows:

	(thousands of \$)	
	December 31 2016	March 31 2016
Cash and cash equivalents	\$ 25,269	\$ 26,853
Accounts receivable	198,052	167,044
Fixed income investments ¹	711,784	647,423
Unpaid claims recoverable from reinsurers	44,925	31,316

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

In addition, the Corporation is exposed to credit risk associated with its structured settlements as described separately in the notes to the annual consolidated financial statements.

Cash and cash equivalents include money market investments of \$36,371,000 less bank overdraft, net of outstanding cheques of \$11,102,000 (March 31, 2016 – money market investments of \$24,516,000 plus cash, net of outstanding cheques of \$2,337,000). 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 the Corporation operates in. Accounts receivable generally consist of balances outstanding for one year or less.

	(thousands of \$)	
	December 31 2016	March 31 2016
Current	\$ 196,703	\$ 164,864
30 - 59 days	1,114	1,189
60 - 90 days	850	524
Greater than 90 days	9,757	9,979
Subtotal	208,424	176,556
Allowance for doubtful accounts	(10,372)	(9,512)
Total	\$ 198,052	\$ 167,044

Provisions for credit losses are maintained in an allowance account and are 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 \$)	
	nine months ended	15 months ended
	December 31 2016	March 31 2016
Balance, beginning of period	\$ 9,512	\$ 7,250
Accounts written off	(1,675)	(2,678)
Current period provision	2,535	4,940
Balance, end of period	\$ 10,372	\$ 9,512

Concentrations of credit risk for insurance contracts can arise from reinsurance ceded contracts as insurance ceded does not relieve the Corporation of its primary obligation to the policyholder. Reinsurers are typically required to have a minimum financial strength rating of A- at the inception of the treaty; rating agencies used are A.M. Best and Standard & Poor's. Guidelines are also in place to establish the maximum amount of business that can be placed with a single reinsurer.

Credit risk within investments is related primarily to short-term investments, bonds and debentures, and the mortgage investment 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 bond and debenture investments are as follows:

Credit Rating	December 31, 2016		March 31, 2016	
	Fair Value (thousands of \$)	Makeup of Portfolio (%)	Fair Value (thousands of \$)	Makeup of Portfolio (%)
AAA	\$ 151,412	31.6	\$ 120,591	28.1
AA	135,526	28.2	113,978	26.6
A	124,455	25.9	129,354	30.1
BBB	68,550	14.3	65,408	15.2
Total	\$ 479,943	100.0	\$ 429,331	100.0

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

The unit value of the mortgage investment 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. Each underlying mortgage is secured by real estate and related contracts.

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 investment fund. Changes in interest rates also impact the provision for unpaid claims and unpaid claims recoverable from reinsurers. The impact that a change in interest rates has on investment income will be partially offset by the impact the change in interest rates has on discounting of claims incurred.

It is estimated that a 100 basis point increase/decrease in interest rates would have the following impact:

	(thousands of \$)			
	100 basis point increase		100 basis point decrease	
	December 31 2016	December 31 2015	December 31 2016	December 31 2015
Net investment earnings	\$ (15,641)	\$ (11,980)	\$ 15,641	\$ 11,980
Net claims incurred	(11,540)	(10,268)	11,540	10,268
Income (loss) before income taxes	(4,101)	(1,712)	4,101	1,712

Foreign exchange risk

The investment policy defines maximum limits to exchange rate sensitive assets within the investment portfolio. The following table indicates the exposure to exchange rate sensitive assets and provides the sensitivity to a 10% appreciation/depreciation in the Canadian dollar and the corresponding decrease/increase in net income and retained earnings:

Asset Class	%		(thousands of \$)		
	Maximum Exposure	Current Exposure		10% change in exchange rates	
		December 31 2016	December 31 2015	December 31 2016	December 31 2015
Global equities	16.0	12.6	12.7	\$ 11,902	\$ 11,387
Global small cap equities	4.0	2.4	2.4	2,279	2,186

As the global equity funds are classified as fair value through profit and loss, any unrealized changes due to foreign currency are recorded in net income. There is no exposure to foreign exchange risk within the Corporation's 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 and global markets. Equities comprise 21.0% (March 31, 2016 - 22.5%) 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 Corporation's equity price risk is assessed using Value at Risk (VaR), a statistical technique that measures the potential change in the value of an asset class. The VaR has been calculated based on volatility over a four-year period, using a 95% confidence level. It is expected that the annual change in the portfolio market value will fall within the range outlined in the following table 95% of the time (19 times out of 20 years).

Asset Class	(thousands of \$)			
	December 31, 2016		March 31, 2016	
Canadian equities	\$ +/-	9,583	\$ +/-	10,896
Global equities	+/-	25,589	+/-	23,111
Global small cap equities	+/-	4,996	+/-	4,162

The Corporation's equity investments are classified as fair value through profit and loss and any unrealized changes in their fair value are recorded in the Consolidated Statement of Operations.

No derivative financial instruments have been used to alter the effects of market changes and fluctuations.

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 investing activities.

7. Capital Management

The Corporation's primary objectives when managing capital are 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.

SGL CANADA is not a regulated insurer; however, its subsidiaries, SGL CANADA Insurance Services Ltd., and Coachman Insurance Company, are subject to rate regulation related to their automobile premiums. Although not federally regulated, SGL CANADA has chosen to follow the guidance provided by the OSFI in determining and monitoring capital targets.

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.

The Board of Directors has approved Capital Management policies for the Corporation, and each of its subsidiaries, prepared in accordance with Guideline A-4, *Regulatory Capital and Internal Capital Targets*, which OSFI issued in January 2014. The policies establish internal MCT targets, in excess of 150%, which are used by the regulators as minimum targets for supervisory purposes. The policies also establish operating MCT targets that provide for an operating cushion above the internal targets. The Corporation and its subsidiaries maintain MCTs in excess of their internal targets.

8. Change in Non-Cash Operating Items

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

	(thousands of \$)	
	nine months ended December 31	
	2016	2015
Accounts receivable	\$ (31,008)	\$ (25,838)
Unpaid claims recoverable from reinsurers	(13,609)	10,023
Reinsurers' share of unearned premiums	21,292	18,087
Deferred policy acquisition costs	(13,835)	(11,680)
Accounts payable and accrued liabilities	8,487	(744)
Premium taxes payable	24,224	21,018
Amounts due to reinsurers	(19,788)	(14,790)
Unearned reinsurance commissions	537	727
Unearned premiums	57,987	51,222
Accrued pension liability	(1,800)	(599)
Provision for unpaid claims	51,088	10,560
	\$ 83,575	\$ 57,986

9. Employee Salaries and Benefits

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

The Corporation allocates expenses incurred to the various operating functions. The Corporation includes employee salaries and benefits in the claims incurred and administrative expense line on the Consolidated Statement of Operations.

The total salary and benefits expenses incurred during the period are as follows:

	(thousands of \$)			
	three months ended December 31		nine months ended December 31	
	2016	2015	2016	2015
Salaries	\$ 34,098	\$ 34,639	\$ 100,655	\$ 97,945
Defined contribution pension plan	1,987	1,848	5,969	5,507
Defined benefit pension plan	15	22	51	77
Defined benefit service recognition plans	267	266	653	657
Other benefits	5,951	5,974	14,658	14,389
Total salaries and benefits	42,318	42,749	121,986	118,575
Less: Allocation to Saskatchewan Auto Fund	(26,227)	(24,598)	(75,948)	(74,643)
Salaries and benefits incurred in SGI CANADA	\$ 16,091	\$ 18,151	\$ 46,038	\$ 43,932

Defined contribution pension plan

The Corporation has employees who are members of the Public Employees Pension Plan, which is a defined contribution pension plan. The Corporation's financial obligation is limited to those contributions made on behalf of the employees for their current service.

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, 2013. The next valuation is anticipated to have a valuation date of December 31, 2016.

The actuarial valuation 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.

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

	(thousands of \$)			
	three months ended December 31		nine months ended December 31	
	2016	2015	2016	2015
Interest cost	\$ 15	\$ 22	\$ 51	\$ 77
Pension expense	\$ 15	\$ 22	\$ 51	\$ 77

Defined benefit service recognition plans

Pension expense for the defined benefit service recognition plan is as follows

	(thousands of \$)			
	three months ended December 31		nine months ended December 31	
	2016	2015	2016	2015
Current service cost	\$ 48	\$ 53	\$ 146	\$ 161
Interest cost	219	213	507	496
Pension expense	\$ 267	\$ 266	\$ 653	\$ 657

Actuarial (gains) losses recognized in other comprehensive income (loss)

Other comprehensive income (loss) results from changes to actuarial assumptions used to calculate the liabilities of the employee benefit plans and differences in the actual return on employee benefit plan assets versus estimated returns on these assets. The discount rate is the only key assumption that changed during the period, as follows:

Discount Rate	Defined Benefit Pension Plan	Defined Benefit Service Recognition Plans
March 31, 2015	3.10%	2.60% – 2.80%
December 31, 2015	3.60%	3.20% – 3.30%
March 31, 2016	3.40%	3.10% – 3.20%
December 31, 2016	3.50%	3.20% – 3.30%

Cumulative actuarial (gains) losses are as follows:

	(thousands of \$)	
	nine months ended December 31	
	2016	2015
Cumulative actuarial losses, beginning of period	\$ 7,051	\$ 5,947
Gain recognized during the first quarter	(890)	(784)
Loss (gain) recognized during the second quarter	608	(70)
Loss (gain) recognized during the third quarter	(738)	760
Cumulative actuarial losses, end of period	\$ 6,031	\$ 5,853

Key management personnel

Key management personnel are those persons having authority over the planning, directing and controlling activities of the Corporation, and include Board members, President and Chief Executive Officer and Executive Vice Presidents of the Corporation.

Key management personnel compensation is comprised of:

	(thousands of \$)			
	three months ended December 31		nine months ended December 31	
	2016	2015	2016	2015
Salaries and benefits	\$ 612	\$ 324	\$ 2,285	\$ 2,625
Post-employee benefits	8	9	25	30
Contributions to defined contribution plan	22	27	130	159
	\$ 642	\$ 360	\$ 2,440	\$ 2,814

10. 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 \$)			
	three months ended December 31		nine months ended December 31	
	2016	2015	2016	2015
Gross premiums written	\$ 984	\$ 718	\$ 4,290	\$ 3,649
Net premiums earned	\$ 1,035	\$ 897	\$ 3,605	\$ 3,414
Net claims incurred	1,097	717	3,623	2,517
Commissions	(33)	2	127	72
Premium taxes	34	27	122	94
Administrative expenses	264	170	1,108	852
Total claims and expenses	1,362	916	4,980	3,535
Underwriting loss	(327)	(19)	(1,375)	(121)
Net investment earnings (loss)	-	-	17	(10)
Net loss	\$ (327)	\$ (19)	\$ (1,358)	\$ (131)

11. Select Operating Information

The Corporation provides property and casualty insurance directly in Saskatchewan, and through its subsidiaries, SGI CANADA Insurance Services Ltd. operating in Alberta, Manitoba, Ontario and British Columbia, and Coachman Insurance Company operating in Ontario. The performance of each subsidiary is reported separately to the Corporation's Board of Directors.

The product offerings vary across the jurisdictions, but all products offered are considered property and casualty insurance.

	(thousands of \$)			
	three months ended December 31, 2016			
	Saskatchewan	SCISL	Coachman	Total
Net premiums written	\$ 124,688	\$ 40,937	\$ 19,063	\$ 184,688
Net premiums earned	117,941	35,256	15,305	168,502
Net claims incurred	57,882	20,056	9,082	87,020
Other expenses	47,411	11,756	5,222	64,389
Underwriting income	12,648	3,444	1,001	17,093
Net investment earnings	4,507	954	1,101	6,562
Income before income taxes	17,155	4,398	2,102	23,655
Income tax expense	-	1,420	631	2,051
Net income	\$ 17,155	\$ 2,978	\$ 1,471	\$ 21,604

	(thousands of \$)			
	three months ended December 31, 2015			
	Saskatchewan	SCISL	Coachman	Total
Net premiums written	\$ 117,882	\$ 32,684	\$ 16,391	\$ 166,957
Net premiums earned	110,180	29,199	13,573	152,952
Net claims incurred	44,342	19,796	6,864	71,002
Other expenses	44,642	9,637	4,756	59,035
Underwriting income (loss)	21,196	(234)	1,953	22,915
Net investment earnings	11,850	2,700	3,056	17,606
Income before income taxes	33,046	2,466	5,009	40,521
Income tax expense	-	507	1,279	1,786
Net income	\$ 33,046	\$ 1,959	\$ 3,730	\$ 38,735

(thousands of \$)					
nine months ended December 31, 2016					
	Saskatchewan	SCISL	Coachman	Consolidation Adjustments	Total
Net premiums written	\$ 386,039	\$ 125,706	\$ 55,276	\$ -	\$ 567,021
Net premiums earned	344,433	98,861	44,448	-	487,742
Net claims incurred	197,709	74,392	30,845	-	302,946
Other expenses	137,003	34,337	14,239	-	185,579
Underwriting income (loss)	9,721	(9,868)	(636)	-	(783)
Net investment earnings	24,212	5,400	6,136	-	35,748
Income (loss) before income taxes	33,933	(4,468)	5,500	-	34,965
Income tax expense (recovery)	-	(1,242)	1,411	-	169
Net income (loss)	\$ 33,933	\$ (3,226)	\$ 4,089	\$ -	\$ 34,796
Total assets	\$ 986,884	\$ 368,750	\$ 252,176	\$ (272,764)	\$ 1,335,046
Total liabilities	\$ 629,860	\$ 222,460	\$ 175,031	\$ (49,329)	\$ 978,022
Shareholder's equity	\$ 357,024	\$ 146,290	\$ 77,145	\$ (223,435)	\$ 357,024

(thousands of \$)					
nine months ended December 31, 2015					
	Saskatchewan	SCISL	Coachman	Consolidation Adjustments	Total
Net premiums written	\$ 363,451	\$ 101,989	\$ 49,569	\$ -	\$ 515,009
Net premiums earned	322,660	83,138	39,700	-	445,498
Net claims incurred	189,593	61,788	21,559	-	272,940
Other expenses	128,101	28,472	12,964	-	169,537
Underwriting income (loss)	4,966	(7,122)	5,177	-	3,021
Net investment earnings	10,226	2,643	3,483	-	16,352
Income (loss) before income taxes	15,192	(4,479)	8,660	-	19,373
Income tax expense (recovery)	-	(1,269)	2,271	-	1,002
Net income (loss)	\$ 15,192	\$ (3,210)	\$ 6,389	\$ -	\$ 18,371
Total assets	\$ 933,994	\$ 329,454	\$ 239,216	\$ (269,491)	\$ 1,233,173
Total liabilities	\$ 593,420	\$ 185,328	\$ 166,148	\$ (52,297)	\$ 892,599
Shareholder's equity	\$ 340,574	\$ 144,126	\$ 73,068	\$ (217,194)	\$ 340,574

12. Contingencies

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.

During 2014, the Corporation sold the shares of its 75%-owned subsidiary, ICPEI, for a purchase price equal to ICPEI's book value as at the transaction closing date, June 30, 2014. As part of the sale agreement, 54 months after the closing date, the purchaser shall deliver to the Corporation a report of the ultimate losses prior to June 30, 2014, certified by the purchaser's appointed actuary. If the amount of the final closing date ultimate loss is greater than the initial closing date ultimate loss, a deficiency, the Corporation shall pay to the purchaser an amount equal to the lesser of \$1,500,000 or 75% of the deficiency. Conversely, if the amount of the final closing date ultimate loss is less than the initial closing date ultimate loss, a surplus, the purchaser shall pay to the Corporation an amount equal to the lesser of \$1,500,000 or 75% of the surplus. The purchaser is required to provide the Corporation with an estimate of the amount annually. As at December 31, 2016, the date of the last actuarial valuation report, a surplus of \$1,500,000 (December 31, 2015 - \$1,370,000) was estimated which has not been recorded in these Consolidated Financial Statements.

