



# 2021 SGI CANADA Insurance Services Ltd. annual report

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# Responsibility for Financial Statements

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The consolidated financial statements are the responsibility of Management and have been prepared in conformity with International Financial Reporting Standards. In the opinion of Management, the consolidated financial statements fairly reflect the financial position, results of operations and cash flows of SGI CANADA Insurance Services Ltd. (the Corporation) within reasonable limits of materiality.

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

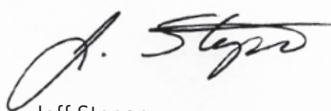
An actuary has been appointed by the Corporation to carry out a valuation of the policy liabilities and to issue a report thereon to the shareholder and regulatory authorities. The valuation is carried out in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements.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

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

KPMG have been appointed external auditors. Their responsibility is to report to the shareholder and regulatory authorities regarding the fairness of presentation of the Corporation's financial position and results of operations as shown in the consolidated financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and his report on the policy liabilities. The Auditor's Report outlines the scope of their examination and their opinion.



Andrew R. Cartmell  
President and Chief Executive Officer



Jeff Stepan  
Chief Financial Officer

February 24, 2022

# Actuary's Report

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To the policyholders and shareholder of SGI CANADA Insurance Services Ltd.

I have valued the policy liabilities and reinsurance recoverables of SGI CANADA Insurance Services Ltd. for its consolidated statement of financial position at December 31, 2021 and their changes in the consolidated statement of operations for the year then ended in accordance with accepted actuarial practice in Canada including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities net of reinsurance recoverables makes appropriate provision for all policy obligations and the consolidated financial statements fairly present the results of the valuation.

*Chris McCulloch*

Chris McCulloch  
SGI CANADA  
Fellow, Canadian Institute of Actuaries  
Fellow, Casualty Actuarial Society

February 24, 2022  
Winnipeg, Manitoba

# Independent Auditor's Report

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To the Shareholder of SGI CANADA Insurance Services Ltd.

## Opinion

We have audited the consolidated financial statements of SGI CANADA Insurance Services Ltd. (the "Entity"), which comprise:

- the consolidated statement of financial position as at December 31, 2021
- the consolidated statement of operations for the year then ended
- the consolidated statement of changes in shareholder's equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

## Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

## **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

The logo for KPMG LLP, featuring the letters 'KPMG' in a large, bold, sans-serif font, with 'LLP' in a smaller font to the right. A horizontal line is drawn underneath the letters.

Chartered Professional Accountants

Regina, Canada  
February 24, 2022


# Consolidated Statement of Financial Position

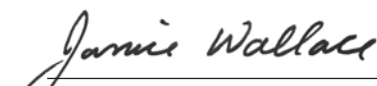
	(thousands of \$)	
	December 31 2021	December 31 2020
<b>Assets</b>		
Cash and cash equivalents (note 4)	\$ 27,442	\$ 23,136
Accounts receivable (note 5)	131,383	132,607
Investments under securities lending program (note 6)	147,979	153,943
Investments (note 6)	616,432	519,075
Reinsurers' share of unearned premiums (note 11)	2,974	2,516
Unpaid claims recoverable from reinsurers (note 9)	29,855	28,946
Right-of-use assets (note 7)	5,115	5,988
Other assets (note 8)	1,879	1,756
Deferred policy acquisition costs (note 10)	57,744	54,424
Deferred income tax asset (note 14)	5,181	5,043
	<b>\$ 1,025,984</b>	<b>\$ 927,434</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 34,900	\$ 31,935
Income taxes payable	12,792	967
Premium taxes payable	11,011	11,195
Amounts due to reinsurers	339	301
Unearned reinsurance commissions	2,955	2,968
Unearned premiums (note 11)	239,285	229,642
Provision for unpaid claims (note 9)	393,266	371,696
Lease liability (note 7)	5,595	6,444
Deferred income tax liability (note 14)	504	509
	<b>700,647</b>	<b>655,657</b>
<b>Shareholder's equity</b>		
Share capital (note 12)	27,254	27,254
Contributed surplus	152,498	152,498
Retained earnings	145,585	92,025
	<b>325,337</b>	<b>271,777</b>
	<b>\$ 1,025,984</b>	<b>\$ 927,434</b>

Contingencies (note 22)

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

Approved by the Board of Directors and signed on their behalf on February 24, 2022

  
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 Denis Perrault  
 Director

  
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 Janice Wallace  
 Director

# Consolidated Statement of Operations

For the years ended December 31	(thousands of \$)	
	2021	2020
Gross premiums written	\$ 458,426	\$ 443,195
Premiums ceded to reinsurers	(24,421)	(24,805)
Net premiums written	434,005	418,390
Change in net unearned premiums (note 11)	(9,185)	(16,797)
<b>Net premiums earned</b>	<b>424,820</b>	401,593
Gross claims incurred (note 9)	233,550	238,666
Ceded claims incurred (note 9)	(7,880)	(13,118)
Net claims incurred (note 9)	225,670	225,548
Commissions	91,688	82,930
Administrative expenses	54,723	49,587
Premium taxes	17,033	16,071
<b>Total claims and expenses</b>	<b>389,114</b>	374,136
<b>Underwriting income</b>	<b>35,706</b>	27,457
Net investment earnings (note 13)	35,825	44,006
<b>Income before income taxes</b>	<b>71,531</b>	71,463
Income tax expense (note 14)	17,971	17,760
<b>Net income and comprehensive income</b>	<b>\$ 53,560</b>	\$ 53,703

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



# Consolidated Statement of Changes in Shareholder's Equity

For the years ended December 31	(thousands of \$)	
	2021	2020
<b>Share capital</b>		
<b>Balance, end of the year</b>	\$ 27,254	\$ 27,254
<b>Contributed surplus</b>		
Balance, beginning of the year	\$ 152,498	\$ 92,487
Contribution from SGI CANADA	–	60,011
<b>Balance, end of the year</b>	\$ 152,498	\$ 152,498
<b>Retained earnings</b>		
Balance, beginning of the year	\$ 92,025	\$ 38,322
Net income and comprehensive income	53,560	53,703
<b>Balance, end of the year</b>	\$ 145,585	\$ 92,025
<b>Total shareholder's equity</b>	\$ 325,337	\$ 271,777

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

# Consolidated Statement of Cash Flows

For the years ended December 31	(thousands of \$)	
	2021	2020
<b>Cash provided by (used for):</b>		
<b>Operating activities</b>		
Net income and comprehensive income	\$ 53,560	\$ 53,703
Non-cash items:		
Bond amortization	3,180	2,445
Depreciation	1,327	1,173
Net realized gains on sale of investments (note 13)	(6,274)	(4,033)
Net unrealized loss (gains) on change in market value of investments (note 13)	482	(18,270)
Interest revenue from investments	(9,223)	(9,637)
Interest expense from right-of-use assets (note 7)	134	59
Income tax expense (note 14)	17,971	17,760
Change in non-cash operating items (note 17)	30,312	6,029
Income taxes paid	(6,155)	(9,209)
	<b>85,314</b>	40,020
<b>Investing activities</b>		
Interest received	9,352	9,702
Purchases of investments	(610,136)	(552,860)
Proceeds on sale of investments	521,355	492,216
Purchases of property and equipment	(596)	(41)
	<b>(80,025)</b>	(50,983)
<b>Financing activities</b>		
Interest paid (note 7)	(134)	(59)
Lease liability payments (note 7)	(849)	(430)
	<b>(983)</b>	(489)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>4,306</b>	(11,452)
Cash and cash equivalents, beginning of the year	23,136	34,588
<b>Cash and cash equivalents, end of the year</b>	<b>\$ 27,442</b>	<b>\$ 23,136</b>

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

# Notes to the Consolidated Financial Statements

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December 31, 2021

## 1. Nature of Operations

SGI CANADA Insurance Services Ltd. (the Corporation) was incorporated on July 18, 1990, under *The Business Corporations Act* (Saskatchewan). The Corporation holds a Saskatchewan provincial insurers' licence under *The Saskatchewan Insurance Act* and is licensed and conducts business directly in Alberta, Manitoba, British Columbia and Ontario. The Corporation also has a wholly owned subsidiary, Coachman Insurance Company (Coachman), that operates in Ontario. The address of the Corporation's head office is 2260-11th Avenue, Regina, SK, Canada.

The Corporation's 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 40.3% (December 31, 2020 - 44.5%) of the Corporation's consolidated gross premiums written.

As a wholly-owned subsidiary of Saskatchewan Government Insurance (SGI CANADA), the consolidated financial results of the Corporation are included in its consolidated financial results and ultimately consolidated into the financial statements of Crown Investments Corporation of Saskatchewan.

## 2. Basis of Preparation

### **Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). References to IFRS are based on Canadian generally accepted accounting principles for publicly accountable enterprises as set out in Part 1 of the CPA Canada handbook. Part 1 of the CPA Canada handbook incorporates IFRS as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee.

### **Basis of measurement**

The 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 is 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 broadly in order of liquidity.

### **Functional and presentation currency**

These 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 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 consolidated 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 unpaid claims recoverable from reinsurers (note 9), along with the valuation of deferred income taxes (note 14) and investments classified as Level 3 (note 6).

### **COVID-19 pandemic**

On March 11, 2020, COVID-19 was declared a pandemic by the World Health Organization, followed closely by state of emergency declarations in all provinces where the Corporation sells insurance. Governments at all levels reacted with stimulus to support businesses and the economy, triggering a rebound in the financial markets.

As the pandemic continues to evolve, the extent of the continued impact on the Corporation's operating results is dependent on the effectiveness of impact mitigation strategies that have been implemented by various levels of government (vaccination and other public health orders) and the transmissibility and severity of new variants. As a result, the Corporation's financial results will be subject to continued volatility. This additional volatility and economic uncertainty has impacted the valuation of the Corporation's investments (note 6) and the provision for unpaid claims liabilities and unpaid claims recoverable from reinsurers (note 9).

## **3. Significant Accounting Policies**

### **Basis of consolidation**

The consolidated financial statements include the accounts of the Corporation, and its 100%-owned subsidiary, Coachman. All inter-company accounts and transactions have been eliminated on consolidation. The financial accounting records of the subsidiary are prepared for the same reporting year as the Corporation, 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 (FVPL), available for sale, held to maturity, loans and receivables, or other financial liabilities. Financial assets and liabilities classified as FVPL are measured at fair value and changes in fair value are recognized in net income. Financial assets classified as available for sale are measured at fair value with unrealized changes in fair value recorded in other comprehensive income; however, unrealized losses 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 FVPL. Accounts receivable are designated as loans and receivables. Accounts payable and accrued liabilities, premium taxes payable, and lease liabilities 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 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 Corporation's investment in the mortgage investment fund and real estate investment fund. The fair value of these investments is based on the Corporation's share 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 are 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, and premium taxes payable approximate their carrying values due to their short-term nature.

## **Investments**

The Corporation records investment purchases and sales on a trade-date basis, being the date when the transactions are entered into. Financial assets are de-recognized 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, 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 year-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 year-end date. Revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized foreign exchange gains and/or losses arising on 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 year. Translation gains and/or losses related to other financial assets and liabilities are charged to operations in the current year.

### **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 premiums relating to the unexpired term of each policy is recorded as an unearned premium liability on the Consolidated Statement of Financial Position.

A liability adequacy test is performed annually, in accordance with IFRS, to validate the adequacy of unearned premiums and deferred policy acquisition costs (DPAC). 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 DPAC to the extent that unearned premiums plus anticipated investment income is not considered adequate to cover all DPAC and related insurance claims and expenses. If the premium deficiency is greater than the unamortized DPAC, 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 year-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 year.

### **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 DPAC 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 basis 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.

### **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 asset's 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 its estimated useful life as follows:

Furniture & equipment	5 years
Leasehold improvements	lease term

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

## Leases

The Corporation recognizes all leases to which it is a lessee in the Consolidated Statement of Financial Position as a lease liability with a corresponding right-of-use asset, subject to recognition exemptions for certain short-term and low value leases.

On the lease commencement date, a right-of-use asset and a lease liability are recognized. The lease liability is initially measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Corporation uses its incremental borrowing rate for similar terms at the start date of the lease term. The lease term includes the non-cancellable period of the lease along with any periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option and any periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. Lease payments included in the measurement of the lease liability comprise fixed payments, reduced by any incentives receivable, and exclude operational costs and variable lease payments. The lease liability is subsequently measured at amortized cost using the effective interest method.

The right-of-use asset is initially measured at cost, which corresponds to the value of the lease liability adjusted for any lease payments made or initial direct costs incurred at or before the commencement date, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term.

The Corporation does not recognize right-of-use assets and lease liabilities for leases of low value assets and short-term leases. The Corporation recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

## 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 claim 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 fulfill their obligations.

## Future accounting policy changes

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

### *IFRS 9 – Financial Instruments*

IFRS 9 will replace IAS 39, and 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.

The standard introduces a forward looking impairment model. IFRS 9 replaces the incurred loss model under IAS 39 with an expected credit loss model. This standard is generally effective for annual periods beginning on or after January 1, 2018. However, in September 2016, IFRS 4 was amended to provide an option of a temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing insurance contracts within the scope of IFRS 4. Therefore, qualifying entities will have the option to adopt IFRS 9 upon the adoption of IFRS 17. The Corporation qualifies for the temporary exemption as the liabilities were predominately connected with insurance as at December 31, 2015, the prescribed date of assessment. Additionally, the Corporation has not previously applied any version of IFRS 9. Therefore, IFRS 9 is effective for annual periods beginning on or after January 1, 2023, which aligns with the effective date of IFRS 17.

### *IFRS 17 - Insurance Contracts*

IFRS 17 was issued in May 2017 and will replace IFRS 4. The intent of the standard is to establish consistent recognition, measurement, presentation and disclosure principles to provide relevant and comparable reporting of insurance contracts across jurisdictions.

The standard requires entities to measure insurance contract liabilities as the risk-adjusted present value of the cash flows plus the contractual service margin, which represents the unearned profit the entity will recognize as future service is provided. This is referred to as the general model. Expedients are specified, provided the insurance contracts meet certain conditions. If, at initial recognition or subsequently, the contractual service margin becomes negative, the contract is considered onerous and the excess is recognized immediately in the Consolidated Statement of Operations. The standard also includes significant changes to the presentation and disclosure of insurance contracts within entities' financial statements.

The primary features of the standard that would be applicable to property and casualty insurance contracts include the following:

- The concept of portfolio, which is composed of groups of contracts covering similar risks and managed together as a single pool;
- The concept of group, which is composed of sets of contracts with similar profitability issued within the same year;
- The loss component of onerous contracts measured based on projected profitability will be recognized in net income as soon as insurance contracts are issued;
- Insurance liabilities will be discounted at a rate that reflects the characteristics of the liabilities (as opposed to a rate based on asset returns) and the duration of each portfolio. The effect of the changes in discount rates will be recorded either in net income or in other comprehensive income, according to the accounting policy choice made by the Corporation;
- Changes in balance sheet presentation will result in premiums receivable, deferred acquisition costs, claims liabilities, unearned premiums and other related assets and liabilities being presented together by portfolio on a single line called insurance contract assets or liabilities. Reinsurance assets, reinsurance receivables, deferred acquisition costs ceded, and other reinsurance related assets and liabilities will be presented together by portfolio on a single line called reinsurance contract assets or liabilities;
- Gross premiums written will no longer be presented in the Consolidated Statement of Operations. The new insurance revenue will reflect services that have been provided during the period (similar to the current earned premiums);
- Insurance results will be presented without the impact of discounting. Amounts relating to financing and changes in discount rates will be shown separately; and
- Additional disclosures will provide information on the recognized amounts from insurance contracts and the nature and extend of risks arising from these contracts.

IFRS 17 applies to annual periods beginning on or after January 1, 2023. The standard is to be applied retrospectively unless impracticable, in which case a modified retrospective approach or fair value approach is to be used for transition. The standard represents a comprehensive IFRS accounting model for insurance contracts and is expected to have a significant impact on financial reporting of insurers. The Corporation is evaluating the impact this standard will have on the consolidated financial statements.

## 4. Cash and Cash Equivalents

	(thousands of \$)	
	2021	2020
Money market investments	\$ 5,598	\$ 9,141
Cash on hand, net of outstanding cheques	21,844	13,995
Total cash and cash equivalents	\$ 27,442	\$ 23,136

The average effective interest rate on the money market investments is 0.2% (2020 - 0.2%).

## 5. Accounts Receivable

Accounts receivable is comprised of the following:

	(thousands of \$)	
	2021	2020
Due from insureds	\$ 101,591	\$ 101,745
Due from brokers	13,479	11,543
Amounts recoverable on claims paid	9,601	10,011
Other receivables	8,193	7,869
Facility Association (note 20)	5,189	4,265
Accrued investment income	1,690	1,819
Due from reinsurers	1,120	3,056
Due from SGI CANADA (note 19)	217	2,339
Income taxes receivable	-	132
	141,080	142,779
Less: Allowance for doubtful accounts (note 15)	(9,697)	(10,172)
Total accounts receivable	\$ 131,383	\$ 132,607

Included in due from insureds is \$94.8 million (2020 - \$95.3 million) of financed premiums receivable, which represents the portion of the policyholders' monthly premium payments that are not yet due. The majority of policyholders have the option to pay a portion of the premium when the policy is placed in force and the balance in monthly instalments. The policyholder pays an additional charge for this option, reflecting handling costs and the investment earnings that would have been earned on such premium, had the total amount been collected at the beginning of the policy period. The additional charge is recognized in investment earnings using the effective interest method. The effective interest rate for Ontario automobile policies is 3.5% (2020 - 3.5%), all other premiums have an effective interest rate of 8.0% (2020 - 8.0%).

## 6. Investments

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

	(thousands of \$)	
	2021	2020
Short-term investments	\$ 96,955	\$ 96,611
Bonds and debentures	267,045	210,750
Investment funds:		
Canadian equity	34,847	29,167
Global equity	84,381	64,968
Global small cap equity	15,223	12,694
Mortgage	86,590	77,496
Real estate	31,391	27,389
	616,432	519,075
Investments under securities lending program		
Bonds and debentures	147,979	153,943
<b>Total investments</b>	<b>\$ 764,411</b>	<b>\$ 673,018</b>

Details of significant terms and conditions are as follows:

### Short-term investments

Short-term investments are comprised of money market investments with a maturity of less than one year but greater than 90 days from the date of acquisition. These investments have an average effective interest rate of 0.2% (2020 - 0.3%) and an average remaining term to maturity of 67 days (2020 - 67 days).

### Bonds and debentures

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

Term to maturity (years)	(thousands of \$)			
	2021		2020	
	Carrying Value	Average Effective Rates (%)	Carrying Value	Average Effective Rates (%)
Government of Canada:				
After one through five	\$ 150,278	1.2	\$ 103,170	0.4
Canadian provincial:				
One or less	15,366	0.4	43,957	0.2
After one through five	49,351	1.4	36,311	0.5
Canadian corporate:				
One or less	25,468	1.0	20,769	0.7
After one through five	134,132	1.5	126,535	0.9
After five	40,429	2.5	33,951	1.8
<b>Total bonds and debentures</b>	<b>\$ 415,024</b>		<b>\$ 364,693</b>	

## Investment funds

The Corporation owns units in equity investment funds, a mortgage investment fund and a real estate investment fund. These investment funds have no fixed distribution rate. Fund returns are based on the success of the fund managers.

## Securities lending program

Through its custodian, the Corporation participates in an investment securities lending program for the purpose of generating fee income. While in the possession of counterparties, the loaned securities may be resold or re-pledged by such counterparties.

At December 31, 2021, the Corporation held collateral of \$155.4 million (2020 – \$161.6 million) 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, 2021			
	Level 1	Level 2	Level 3	Total
Short-term investments	\$ –	\$ 96,955	\$ –	\$ 96,955
Bonds and debentures	–	415,024	–	415,024
Investment funds:				
Canadian equity	34,847	–	–	34,847
Global equity	84,381	–	–	84,381
Global small cap equity	15,223	–	–	15,223
Mortgage	–	–	86,590	86,590
Real estate	–	–	31,391	31,391
Total investments	\$ 134,451	\$ 511,979	\$ 117,981	\$ 764,411

	(thousands of \$)			
	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Short-term investments	\$ –	\$ 96,611	\$ –	\$ 96,611
Bonds and debentures	–	364,693	–	364,693
Investment funds:				
Canadian equity	29,167	–	–	29,167
Global equity	64,968	–	–	64,968
Global small cap equity	12,694	–	–	12,694
Mortgage	–	–	77,496	77,496
Real estate	–	–	27,389	27,389
Total investments	\$ 106,829	\$ 461,304	\$ 104,885	\$ 673,018

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 \$)	
	2021	2020
Level 3 investments, beginning of the year	\$ 104,885	\$ 78,601
Add: Additions during the year		
Mortgage investment fund	12,287	20,797
Real estate investment fund	2,055	8,165
Less: Disposals during the year		
Mortgage investment fund	(2,509)	(3,492)
Real estate investment fund	(1,468)	-
Net unrealized gains	2,731	814
Level 3 investments, end of the year	\$ 117,981	\$ 104,885

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 December 31, 2021.

During the year ended December 31, 2021 no investments were transferred between levels.

The impact of COVID-19 has been reflected in the valuation of Level 3 investments through adjustments to the discount rate and expected cash flows.

## 7. Leases

The Corporation has leases for office space in Winnipeg, Edmonton and Toronto. The Winnipeg lease expires in August 2028 and the Edmonton lease expires in January 2031. There are two leases in Toronto, the first expires in December 2023 and the second in October 2030.

Information about the leases is presented below:

### Right-of-use assets

	(thousands of \$)	
	2021	2020
Balance, beginning of the year	\$ 5,988	\$ 5,466
Additions to right-of-use assets	-	1,288
Depreciation charge for the year	(873)	(766)
Balance, end of the year	\$ 5,115	\$ 5,988

## Lease liabilities

	(thousands of \$)	
	2021	2020
Contractual undiscounted cash flows		
One year or less	\$ 966	\$ 966
Between one and five years	3,459	3,795
Greater than five years	1,667	2,312
Total undiscounted lease liabilities	\$ 6,092	\$ 7,073
Discounted lease liabilities included in the Consolidated Statement of Financial Position	\$ 5,595	\$ 6,444

## Amounts recognized in income or loss

	(thousands of \$)	
	2021	2020
Interest on lease liabilities	\$ 134	\$ 59
Variable lease payment expenses	1,147	799
Expenses related to low value leases	9	10
	\$ 1,290	\$ 868

## Amounts recognized in the statement of cash flows

	(thousands of \$)	
	2021	2020
Interest paid on lease liabilities	\$ 134	\$ 59
Lease liability principal payments	849	430
Total cash outflow for leases	\$ 983	\$ 489

The Corporation's leases contain extension options exercisable by the Corporation. Where practicable, the Corporation seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Corporation and not by the lessors. The Corporation assesses at lease commencement date whether it is reasonably certain to exercise extension options. The Corporation reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in the circumstances within its control.

## 8. Other Assets

Other assets are comprised of the following:

	(thousands of \$)	
	2021	2020
Property and equipment	\$ 1,790	\$ 1,648
Prepaid expenses	89	108
Total	\$ 1,879	\$ 1,756

## 9. Claims Incurred and Provision for Unpaid Claims

### Net claims incurred

	(thousands of \$)					
	2021			2020		
	Current Year	Prior Years	Total	Current Year	Prior Years	Total
Gross claims incurred	\$ 232,844	\$ 706	\$ 233,550	\$ 242,266	\$ (3,600)	\$ 238,666
Ceded claims incurred	(3,257)	(4,623)	(7,880)	(7,868)	(5,250)	(13,118)
Net claims incurred	\$ 229,587	\$ (3,917)	\$ 225,670	\$ 234,398	\$ (8,850)	\$ 225,548

Current year claims relate to events that occurred in the current financial year. Prior year claims incurred relate to adjustments for the reassessment of the estimated cost for claim events that occurred in all previous financial periods.

Ceded claims incurred represent an estimate of the recoverable cost of those claims transferred to the Corporation's various reinsurers pursuant to reinsurance contracts (note 15).

### Net provision for unpaid claims

	(thousands of \$)	
	2021	2020
Beginning of the year:		
Net unpaid claims - discounted	\$ 342,750	\$ 336,791
PFAD and discount	(29,250)	(20,050)
Net unpaid claims - undiscounted	313,500	316,741
Payments made during the year relating to:		
Prior year claims	(103,316)	(107,783)
Prior year Facility Association claims	(2,604)	(3,868)
Deficiency (excess) relating to:		
Prior year estimated unpaid claims	(1,576)	(9,396)
Prior year estimated unpaid Facility Association claims	(2,341)	546
Net unpaid claims, prior years - undiscounted	203,663	196,240
Net unpaid claims, current year	129,449	112,310
Net unpaid Facility Association claims, current year	5,564	4,950
Net unpaid claims, end of the year - undiscounted	338,676	313,500
PFAD and discount, end of the year	24,735	29,250
Net unpaid claims, end of the year - discounted	\$ 363,411	\$ 342,750

The net provision for unpaid claims is summarized as follows:

### Net unpaid claims

	(thousands of \$)					
	Gross Unpaid Claims		Reinsurance Recoverable		Net Unpaid Claims	
	2021	2020	2021	2020	2021	2020
Provision for reported claims, undiscounted	\$ 258,806	\$ 240,380	\$ 26,254	\$ 25,426	\$ 232,552	\$ 214,954
Provision for claims incurred but not reported	107,991	100,023	1,867	1,477	106,124	98,546
PFAD	39,158	37,908	2,481	2,467	36,677	35,441
Effects of discounting	(12,689)	(6,615)	(747)	(424)	(11,942)	(6,191)
	\$ 393,266	\$ 371,696	\$ 29,855	\$ 28,946	\$ 363,411	\$ 342,750

Management believes that the unpaid claims provision is appropriately established in the aggregate and is adequate to cover the ultimate net cost on a discounted basis. The determination of this provision, which includes unpaid claims, adjustment expenses and expected salvage and subrogation, requires an assessment of future claims development. This assessment takes into account the consistency of the Corporation's claim handling procedures, the amount of information available, the characteristics of the line of business from which the claims arise and the delay inherent in claims reporting. This provision is an estimate and as such is subject to variability that may arise from future events, such as the receipt of additional claims information, changes in judicial interpretation of contracts or significant changes in frequency and severity of claims. This estimate is principally based on the Corporation's historical experience and may be revised as additional experience becomes available. Any such changes would be reflected in the Consolidated Statement of Operations for the period in which the change occurred.

The provision for unpaid claims and unpaid claims recoverable from reinsurers are carried on a discounted basis to reflect the time value of money. In that respect, the Corporation determines the discount rate based upon the expected return of the bond investments that approximates the cash flow requirements of the unpaid claims. The discount rate applied was 1.5% (2020 - 0.8%). The resulting carrying amounts are considered to be an indicator of fair value as there is no ready market for trading insurance contract liabilities.

In relation to COVID-19, the Corporation collected data currently available to estimate the potential impact. A set of assumptions were selected and applied to the actuarial methods in the determination of the claims liabilities reserve.

### Structured settlements

The Corporation settles some long-term disability claims by purchasing annuities for its claimants from various life insurers. The settlements legally release the Corporation from its obligations to the claimants. Consequently, neither the annuities purchased nor the claim liabilities are recognized on the Consolidated Statement of Financial Position. However, as part of the settlement, the Corporation provides a financial guarantee to the claimants in the event the life insurers' default on the scheduled payments and is thus exposed to credit risk to the extent any of the life insurers fail to fulfil their obligations. As at December 31, 2021, no information has come to the Corporation's attention that would suggest any weakness or failure in the life insurers from which it has purchased annuities.

The net present value of the scheduled payments as of the year-end date is \$0.6 million (2020 - \$0.6 million). The net risk to the Corporation is the credit risk related to the life insurance companies that the annuities are purchased from. No defaults have occurred, and the Corporation considers the possibility of default to be remote.



## 10. Deferred Policy Acquisition Costs (DPAC)

	(thousands of \$)	
	2021	2020
DPAC, beginning of the year	\$ 54,424	\$ 45,066
Acquisition costs deferred during the year	84,569	82,034
Amortization of deferred acquisition costs	(81,240)	(76,634)
Change in premium deficiency	(9)	3,958
DPAC, end of the year	\$ 57,744	\$ 54,424

## 11. Unearned Premiums

	(thousands of \$)					
	Gross Unearned Premiums		Reinsurers' Share of Unearned Premiums		Net Unearned Premiums	
	2021	2020	2021	2020	2021	2020
Unearned premiums, beginning of the year	\$ 229,642	\$ 212,578	\$ 2,516	\$ 2,249	\$ 227,126	\$ 210,329
Premiums written	458,426	443,195	24,421	24,805	434,005	418,390
Premiums earned	(448,783)	(426,131)	(23,963)	(24,538)	(424,820)	(401,593)
Change in net unearned premiums	9,643	17,064	458	267	9,185	16,797
Unearned premiums, end of the year	\$ 239,285	\$ 229,642	\$ 2,974	\$ 2,516	\$ 236,311	\$ 227,126

## 12. Share Capital

### Authorized:

Unlimited number of common shares with no par value. Unlimited number of non-voting first preferred shares.

Issued and fully paid	(thousands of \$)	
	2021	2020
6,155,616 common shares	\$ 27,254	\$ 27,254

## 13. Net Investment Earnings

Components of net investment earnings are as follows:

	(thousands of \$)	
	2021	2020
Investment fund distributions	19,167	9,786
Net realized gains on sale of investments	6,274	4,033
Premium financing	6,151	5,828
Interest and other	6,044	7,192
Net unrealized (loss) gains on change in market value of investments	\$ (482)	\$ 18,270
Total investment earnings	37,154	45,109
Investment expenses	(1,329)	(1,103)
Net investment earnings	\$ 35,825	\$ 44,006

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

	(thousands of \$)	
	2021	2020
Bonds and debentures	\$ (9,137)	\$ 8,540
Investment funds:		
Canadian equity	(588)	(223)
Global equity	6,980	7,613
Global small cap equity	(468)	1,526
Mortgage	(684)	1,174
Real estate	3,415	(360)
Net unrealized (loss) gains	\$ (482)	\$ 18,270

## 14. Income Taxes

The Corporation's provision for income taxes is as follows:

	(thousands of \$)	
	2021	2020
Current	\$ 18,114	\$ 5,243
Deferred	(143)	12,517
<b>Income tax expense</b>	<b>\$ 17,971</b>	<b>\$ 17,760</b>

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

The reasons for the differences are as follows:

	(thousands of \$)	
	2021	2020
Income before income taxes	\$ 71,531	\$ 71,463
Combined federal and provincial tax rate	25.36%	26.11%
Computed tax expense based on combined rate	\$ 18,140	\$ 18,659
(Increase) decrease resulting from:		
Changes to enacted tax rates	126	(527)
Investment earnings not subject to taxation	(246)	(192)
Other	(49)	(180)
<b>Total income tax expense</b>	<b>\$ 17,971</b>	<b>\$ 17,760</b>

The combined federal and provincial tax rate is calculated by taking the federal tax rate added to the tax rate of the individual provinces on the basis of the pro rata share of premiums written from each jurisdiction.

All income taxes payable and/or receivable are due within one year.

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

### Deferred tax asset

	(thousands of \$)				
	Provision for Unpaid Claims	Other	Tax Loss Carryforward	DPAC	Total
At January 1, 2020	\$ 4,734	\$ 26	\$ 11,837	\$ 951	\$ 17,548
Credit (charge) reflected in income tax expense	211	72	(11,837)	(951)	(12,505)
At December 31, 2020	4,945	98	-	-	5,043
Credit reflected in income tax expense	124	14	-	-	138
<b>At December 31, 2021</b>	<b>\$ 5,069</b>	<b>\$ 112</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,181</b>

## Deferred tax liability

	(thousands of \$)			
	Unpaid Claims Recoverable from Reinsurers	Investments	Other	Total
At January 1, 2020	\$ 450	\$ 27	\$ 20	\$ 497
Charge (credit) reflected in income tax expense	28	(5)	(11)	12
At December 31, 2020	478	22	9	509
(Credit) charge reflected in income tax expense	(6)	(5)	6	(5)
At December 31, 2021	\$ 472	\$ 17	\$ 15	\$ 504

The Corporation expects that the deferred tax asset will be realized in the normal course of operations.

## 15. Insurance and Financial Risk 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 Consolidated 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 insurance risk through 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 \$)				
2021	Automobile	Personal Property	Commercial Property	Liability	Total
Manitoba	\$ -	\$ 33,872	\$ 16,282	\$ 6,376	\$ 56,530
Alberta	95,650	74,375	13,391	11,481	194,897
British Columbia	-	59,781	9,389	3,751	72,921
Ontario	88,953	27,470	9,484	8,171	134,078
Total	\$ 184,603	\$ 195,498	\$ 48,546	\$ 29,779	\$ 458,426

(thousands of \$)					
2020	Automobile	Personal Property	Commercial Property	Liability	Total
Manitoba	\$ -	\$ 29,099	\$ 13,637	\$ 5,371	\$ 48,107
Alberta	100,040	68,011	13,454	10,584	192,089
British Columbia	-	58,330	8,337	3,275	69,942
Ontario	96,983	22,839	7,097	6,138	133,057
<b>Total</b>	<b>\$ 197,023</b>	<b>\$ 178,279</b>	<b>\$ 42,525</b>	<b>\$ 25,368</b>	<b>\$ 443,195</b>

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

(thousands of \$)						
	Gross		Reinsurance Recoverable		Net	
	2021	2020	2021	2020	2021	2020
Automobile	\$ 221,325	\$ 223,491	\$ 13,113	\$ 15,683	\$ 208,212	\$ 207,808
Personal property	69,047	48,388	9,014	6,036	60,033	42,352
Commercial property	12,053	12,624	1,812	718	10,241	11,906
Liability	47,702	40,134	2,998	2,825	44,704	37,309
Assumed	1,184	1,641	1,184	1,641	-	-
PFAD and discounting	26,469	31,293	1,734	2,043	24,735	29,250
Facility Association (note 20)	15,486	14,125	-	-	15,486	14,125
<b>Total</b>	<b>\$ 393,266</b>	<b>\$ 371,696</b>	<b>\$ 29,855</b>	<b>\$ 28,946</b>	<b>\$ 363,411</b>	<b>\$ 342,750</b>

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

(thousands of \$)						
	Gross		Reinsurance Recoverable		Net	
	2021	2020	2021	2020	2021	2020
Alberta	\$ 173,652	\$ 171,919	\$ 8,477	\$ 9,425	\$ 165,175	\$ 162,494
Manitoba	28,273	23,576	7,091	3,094	21,182	20,482
Ontario	157,542	152,616	12,839	14,650	144,703	137,966
British Columbia	32,531	21,944	180	136	32,351	21,808
Maritimes	1,268	1,641	1,268	1,641	-	-
<b>Total</b>	<b>\$ 393,266</b>	<b>\$ 371,696</b>	<b>\$ 29,855</b>	<b>\$ 28,946</b>	<b>\$ 363,411</b>	<b>\$ 342,750</b>

### 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 SGI CANADA and 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 \$)	
	2021	2020
Property	\$ 1,750	\$ 1,500
Automobile and general liability	1,750	1,500

In addition, the Corporation carries property and auto physical damage catastrophe reinsurance limiting combined exposure to \$5.0 million (2020 – \$5.0 million) per event.

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 financial condition of its reinsurers to minimize exposure to significant losses from reinsurer insolvency.

The following table sets out the amount by which reinsurance ceded has reduced the premiums earned, claims incurred, commissions, administrative expenses and premium taxes:

	(thousands of \$)	
	2021	2020
Premiums earned	\$ (23,963)	\$ (24,538)
Claims incurred	(7,880)	(13,118)
Commissions, administrative expenses and premium taxes	(1,722)	(1,191)

### 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 year-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists regarding the cost of reported claims that have not been settled, as all the necessary information may not be available at the year-end date.

The significant assumptions used to estimate the provision include: the Corporation's experience with similar cases, historical claim payment trends and claim development patterns, characteristics of each class of business, claim severity and 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.

The following tables show the development of the estimated net provision for unpaid claims relative to the current estimate of ultimate claim costs for the 10 most recent accident years as estimated at each reporting date.

	(thousands of \$)									
Accident Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Net ultimate loss										
End of accident year	\$ 65,990	\$ 80,103	\$ 90,086	\$ 112,829	\$ 135,381	\$ 181,542	\$ 203,572	\$ 231,533	\$ 197,145	\$ 204,947
One year later	63,728	76,425	81,672	105,456	130,510	174,463	205,261	225,976	199,677	
Two years later	58,002	71,747	77,770	105,663	128,709	170,180	204,539	225,325		
Three years later	55,938	68,860	76,517	109,155	129,316	168,220	201,369			
Four years later	54,894	67,284	76,984	107,597	129,594	167,589				
Five years later	54,348	66,942	74,949	108,310	128,522					
Six years later	55,558	65,927	74,424	107,597						
Seven years later	55,701	65,840	74,970							
Eight years later	55,529	65,950								
Nine years later	55,465									
Cumulative loss development	\$ (10,525)	\$ (14,153)	\$ (15,116)	\$ (5,232)	\$ (6,859)	\$ (13,953)	\$ (2,203)	\$ (6,208)	\$ 2,532	n/a
Cumulative loss development as a % of original ultimate loss	(15.9%)	(17.7%)	(16.8%)	(4.6%)	(5.1%)	(7.7%)	(1.1%)	(2.7%)	1.3%	n/a

	(thousands of \$)										
Accident Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Current estimate of net ultimate loss	\$ 55,465	\$ 65,950	\$ 74,970	\$ 107,597	\$ 128,522	\$ 167,589	\$ 201,369	\$ 225,325	\$ 199,677	\$ 204,947	\$1,431,411
Cumulative paid	(54,611)	(64,999)	(72,050)	(101,063)	(119,206)	(152,624)	(172,527)	(175,521)	(139,230)	(83,624)	(1,135,455)
Net provision for unpaid claims	\$ 854	\$ 951	\$ 2,920	\$ 6,534	\$ 9,316	\$ 14,965	\$ 28,842	\$ 49,804	\$ 60,447	\$ 121,323	295,956
Net undiscounted claims outstanding for accident years 2011 and prior											502
Loss adjusting expense reserve											14,185
Provision for adverse deviation and discounting											24,735
Unpaid Facility Association claims											15,486
Retained risk sharing pool											67
Health levies											1,681
Subrogation recoveries											9,182
Other reconciling items											1,617
Net provision for unpaid claims											\$ 363,411

The Corporation's estimated sensitivity of its provision for unpaid claims and net income to changes in best estimate assumptions in the unpaid claims liabilities is as follows:

Assumption	Sensitivity	(thousands of \$)			
		Change to Net Provision for Unpaid Claims		Change to Income before Income Taxes	
		2021	2020	2021	2020
Discount rate	+100 bps	\$ (9,059)	\$ (8,935)	\$ (2,717)	\$ (1,258)
Discount rate	- 100 bps	9,059	8,935	2,717	1,258

The net provision for unpaid claims refers to the provision for unpaid claims net of unpaid claims recoverable from reinsurers. The method used for deriving this sensitivity information did not change from the prior period.

## Financial Risk

The nature of the Corporation's operations results 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 \$)	
	2021	2020
Cash and cash equivalents	\$ 27,442	\$ 23,136
Accounts receivable	131,383	132,607
Fixed income investments <sup>1</sup>	598,569	538,800
Unpaid claims recoverable from reinsurers	29,855	28,946

<sup>1</sup> 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 consolidated financial statements.

Cash and cash equivalents include money market investments of \$5.6 million plus cash on hand, net of outstanding cheques of \$21.8 million (2020 - \$9.1 million of money market investments plus cash on hand, net of outstanding cheques of \$14.0 million). 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 owing from brokers across the provinces the Corporation operates in and amounts recoverable on claims paid. Accounts receivable generally consist of balances outstanding for one year or less.

	(thousands of \$)	
	2021	2020
Current	\$ 128,384	\$ 130,954
30 - 59 days	556	895
60 - 90 days	497	396
Greater than 90 days	11,643	10,534
Subtotal	141,080	142,779
Allowance for doubtful accounts	(9,697)	(10,172)
Total	\$ 131,383	\$ 132,607

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. The allowance mainly relates to amounts outstanding greater than 90 days.

Details of the allowance account are as follows:

	(thousands of \$)	
	2021	2020
Allowance for doubtful accounts, beginning of the year	\$ 10,172	\$ 9,420
Accounts written off	(2,890)	(1,913)
Current period provision	2,415	2,665
Allowance for doubtful accounts, end of the year	\$ 9,697	\$ 10,172

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 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	(thousands of \$)			
	2021		2020	
	Fair Value (thousands of \$)	Makeup of Portfolio (%)	Fair Value (thousands of \$)	Makeup of Portfolio (%)
AAA	\$ 161,488	38.9	\$ 112,244	30.8
AA	131,810	31.8	80,268	22.0
A	80,672	19.4	127,599	35.0
BBB	41,054	9.9	44,582	12.2
Total	\$ 415,024	100.0	\$ 364,693	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 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	
	2021	2020	2021	2020
Net investment earnings	\$ (11,776)	\$ (10,193)	\$ 11,776	\$ 10,193

### Foreign exchange

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	2021		
	Maximum Exposure (%)	Current Exposure (%)	10% Change in Exchange Rates (thousands of \$)
Global equities	15.0	11.0	\$ 8,438
Global small cap equities	3.0	2.0	1,522

Asset Class	2020		
	Maximum Exposure (%)	Current Exposure (%)	10% Change in Exchange Rates (thousands of \$)
Global equities	15.0	9.7	\$ 6,497
Global small cap equities	3.0	1.9	1,269

As 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 17.6% (2020 - 15.9%) 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 \$)					
	2021		2020			
Canadian equities	\$	+/-	10,398	\$	+/-	5,600
Global equities		+/-	20,850		+/-	13,189
Global small cap equities		+/-	5,130		+/-	3,902

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 claim liabilities, are short-term in nature and due within one year. The Corporation generally maintains positive overall cash flow through cash generated from operations, as well as cash generated from investing activities.

The following tables summarize the estimated contractual timings of cash flows on an undiscounted basis arising from the Corporation's financial assets and liabilities:

	(thousands of \$)							
	2021							
	Carrying Amount	Total	No stated maturity	0 - 6 months	7 - 12 months	1 - 2 years	3 - 5 years	More than 5 years
<b>Financial assets</b>								
Cash and cash equivalents	\$ 27,442	\$ 27,442	\$ 27,442	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts receivable	131,383	131,383	-	104,668	26,715	-	-	-
Investments	764,411	764,411	252,432	112,320	25,469	195,632	138,129	40,429
Unpaid claims recoverable from reinsurers	29,855	28,121	-	9,721	4,866	5,145	6,097	2,292
	<b>\$ 953,091</b>	<b>\$ 951,357</b>	<b>\$ 279,874</b>	<b>\$ 226,709</b>	<b>\$ 57,050</b>	<b>\$ 200,777</b>	<b>\$ 144,226</b>	<b>\$ 42,721</b>
<b>Financial liabilities</b>								
Accounts payable and accrued liabilities	\$ 34,900	\$ 34,900	\$ 26,179	\$ 8,721	\$ -	\$ -	\$ -	\$ -
Premium taxes payable	11,011	11,011	-	11,011	-	-	-	-
Amounts due to reinsurers	339	339	-	339	-	-	-	-
Provision for unpaid claims	393,266	366,797	-	89,202	51,908	63,496	105,605	56,586
Lease liability	5,595	6,092	-	483	483	1,579	1,880	1,667
	<b>\$ 445,111</b>	<b>\$ 419,139</b>	<b>\$ 26,179</b>	<b>\$ 109,756</b>	<b>\$ 52,391</b>	<b>\$ 65,075</b>	<b>\$ 107,485</b>	<b>\$ 58,253</b>

(thousands of \$)								
2020								
	Carrying Amount	Total	No stated maturity	0 - 6 months	7 - 12 months	1 - 2 years	3 - 5 years	More than 5 years
<b>Financial assets</b>								
Cash and cash equivalents	\$ 23,136	\$ 23,136	\$ 23,136	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts receivable	132,607	132,607	-	106,013	26,594	-	-	-
Investments	673,018	673,018	211,714	125,724	35,613	172,784	93,232	33,951
Unpaid claims recoverable from reinsurers	28,946	26,903	-	7,051	4,500	5,221	7,640	2,491
	\$ 857,707	\$ 855,664	\$ 234,850	\$ 238,788	\$ 66,707	\$ 178,005	\$ 100,872	\$ 36,442
<b>Financial liabilities</b>								
Accounts payable and accrued liabilities	\$ 31,935	\$ 31,935	\$ 23,727	\$ 8,208	\$ -	\$ -	\$ -	\$ -
Premium taxes payable	11,195	11,195	-	11,195	-	-	-	-
Amounts due to reinsurers	301	301	-	301	-	-	-	-
Provision for unpaid claims	371,696	340,403	-	74,451	46,314	60,422	104,335	54,881
Lease liability	6,444	7,073	-	483	483	1,951	1,844	2,312
	\$ 421,571	\$ 390,907	\$ 23,727	\$ 94,638	\$ 46,797	\$ 62,373	\$ 106,179	\$ 57,193

The estimated contractual maturities related to lease liabilities excluded the net effect of the discounting of \$0.5 million (2020 - \$0.6 million) (note 7). The estimated contractual maturities related to the unpaid claims recoverable from reinsurers excludes the net effect of discounting and PFADs of \$1.7 million (2020 - \$2.0 million) (note 9). The estimated contractual maturities related to the provision for unpaid claims excludes the net effect of discounting and PFADs of \$26.5 million (2020 - \$31.3 million) (note 9).

## 16. 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, share capital and cash injections in the form of contributed surplus advanced from its parent, SGI CANADA.

The Corporation uses a common industry measurement, the Minimum Capital Test (MCT), to monitor 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 Corporation is a provincially regulated insurer and, as such, is subject to rate regulation related to its automobile premiums. The Board of Directors approved Capital Management policies for the Corporation, and its subsidiary, prepared in accordance with Guideline A-4, *Regulatory Capital and Internal Capital Targets*, which the Office of the Superintendent of Financial Institutions 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's MCT as at December 31, 2021 was 321% relative to its internal target MCT of 215%.

## 17. Change in Non-Cash Operating Items

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

	(thousands of \$)	
	2021	2020
Accounts receivable	\$ 961	\$ (10,621)
Reinsurers' share of unearned premiums	(458)	(267)
Unpaid claims recoverable from reinsurers	(909)	(1,826)
Prepaid expenses	19	(64)
Deferred policy acquisition costs	(3,320)	(9,358)
Accounts payable and accrued liabilities	2,965	3,813
Premium taxes payable	(184)	(493)
Amounts due to reinsurers	38	(179)
Unearned reinsurance commissions	(13)	175
Unearned premiums	9,643	17,064
Provision for unpaid claims	21,570	7,785
	\$ 30,312	\$ 6,029

## 18. Employee Salaries and Benefits

The Corporation allocates its salaries and benefits expenses to its various operating functions, and as a result includes employee salaries and benefits expenses on the Consolidated Statement of Operations within claims incurred and administrative expenses.

The total salaries and benefits expenses incurred during the year are as follows:

	(thousands of \$)	
	2021	2020
Salaries	\$ 20,739	\$ 19,884
Benefits	3,975	3,674
Total salaries and benefits	\$ 24,714	\$ 23,558

## 19. Related Party Transactions

Included in these consolidated financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as “related parties”). Routine operating transactions with related parties were conducted in the normal course of business and recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The Corporation has elected to take a partial exemption under IAS 24, *Related Party Disclosures*, which allows government-related entities to limit the extent of disclosures about related party transactions with government or other government-related entities.

SGI CANADA provides management and administrative services to the Corporation, as well as being one of its reinsurers (note 15). Expenses incurred by SGI CANADA and charged to the Corporation, and amounts outstanding at year-end, are as follows:

	(thousands of \$)	
	2021	2020
Accounts receivable	\$ 217	\$ 2,339
Unpaid claims recoverable from reinsurers	12,265	12,912
Accounts payable and accrued liabilities	6,662	1,931
Administrative and loss adjusting expenses	49,244	40,983

Reinsurance ceded to SGI CANADA has reduced premiums earned by \$6.6 million (2020 - \$3.8 million) and decreased claims incurred by \$3.8 million (2020 - \$5.4 million).

### Key management personnel

Key management personnel are those persons having authority over the planning, directing and controlling activities of the Corporation, and include executive employees and Board members of the Corporation’s parent, SGI CANADA. Compensation for these individuals is paid by SGI CANADA and a portion allocated to the Corporation on the basis of a cost allocation formula.

	(thousands of \$)	
	2021	2020
Salaries and other short-term employee benefits	\$ 1,416	\$ 1,534
Post-employment benefits	97	101
	\$ 1,513	\$ 1,635

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

## 20. Facility Association Participation

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 \$)	
	2021	2020
Gross premiums written	\$ 10,359	\$ 12,989
Net premiums earned	\$ 10,151	\$ 12,177
Net claims incurred	6,223	9,771
Commissions	268	54
Premium taxes	387	468
Administrative expenses	2,523	3,175
Total claims and expenses	9,401	13,468
Underwriting income (loss)	750	(1,291)
Net investment earnings	8	64
Net income (loss)	\$ 758	\$ (1,227)
Facility Association receivable	\$ 5,189	\$ 4,265
Unearned premiums	6,427	6,218
Facility Association payable	1,524	1,524
Provision for unpaid claims	15,486	14,125



## 21. Select Operating Information

The Corporation provides property and casualty insurance directly in Alberta, Manitoba, British Columbia and Ontario, and through its subsidiary, Coachman, operating in Ontario. The performance of Coachman 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 \$)			
	2021			
	SCISL	Coachman	Consolidation Adjustments	Total
Net premiums written	\$ 411,592	\$ 22,413	\$ –	\$ 434,005
Net premiums earned	401,065	23,755	–	424,820
Net claims incurred	217,253	8,417	–	225,670
Other expenses	155,301	8,143	–	163,444
Underwriting income	28,511	7,195	–	35,706
Net investment earnings	29,153	6,672	–	35,825
Income before income taxes	57,664	13,867	–	71,531
Income tax expense	14,386	3,585	–	17,971
Net income	\$ 43,278	\$ 10,282	–	\$ 53,560
Total assets	\$ 947,290	\$ 168,915	\$ (90,221)	\$ 1,025,984
Total liabilities	\$ 621,953	\$ 116,766	\$ (38,072)	\$ 700,647
Shareholder's equity	\$ 325,337	\$ 52,149	\$ (52,149)	\$ 325,337

	(thousands of \$)			
	2020			
	SCISL	Coachman	Consolidation Adjustments	Total
Net premiums written	\$ 394,351	\$ 24,039	\$ –	\$ 418,390
Net premiums earned	376,595	24,998	–	401,593
Net claims incurred	217,528	8,020	–	225,548
Other expenses	141,057	7,531	–	148,588
Underwriting income	18,010	9,447	–	27,457
Net investment earnings	33,159	10,847	–	44,006
Income before income taxes	51,169	20,294	–	71,463
Income tax expense	12,611	5,149	–	17,760
Net income	\$ 38,558	\$ 15,145	\$ –	\$ 53,703
Total assets	\$ 833,348	\$ 194,086	\$ (100,000)	\$ 927,434
Total liabilities	\$ 561,571	\$ 122,219	\$ (28,133)	\$ 655,657
Shareholder's equity	\$ 271,777	\$ 71,867	\$ (71,867)	\$ 271,777

## 22. 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 litigation will not have a significant effect on the financial position or results of operations.

In addition, the effects of the COVID-19 pandemic related to emerging coverage issues and claims (class action lawsuits related to business interruption coverage) could negatively impact the Corporation's provision for unpaid claims liabilities. The Corporation's commercial insurance policies do not provide business interruption coverage in the context of a closure due to COVID-19 as direct physical loss or damage is required to trigger this coverage. In the event that these cases result in a significant judgment against the Corporation, the resulting liability could be material. Based on information currently known, the Corporation does not believe that the outcome of these cases will have a material impact on the consolidated financial statements.

## 23. Comparative Information

Certain comparative figures have been reclassified to conform to the current year's presentation.



