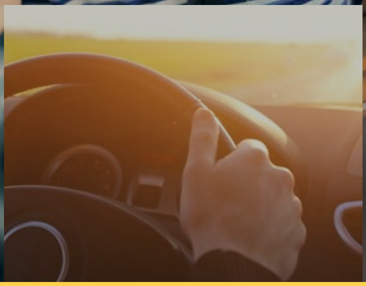
2020-21 SASKATCHEWAN AUTO FUND

ANNUAL REPORT



Vision

Transforming the insurance experience to promote peace of mind and safer communities.

Mission

Auto Fund

We are Saskatchewan's insurance company: providing exceptional value and traffic safety leadership.

SGI CANADA

We deliver profit and growth through exceptional customer and partner experiences.

Values

Integrity: We do the right thing by being accountable, honest, trustworthy and fair.

Caring: We make an impact through empathy, respect and staying true to our roots.

Innovation: We transform our business through creativity, collaboration and continuous improvement.

Passion: We are energized, engaged and inspired in the work we do.

About the Saskatchewan Auto Fund

The Saskatchewan Auto Fund is the province's compulsory auto insurance program, operating the driver's licensing and vehicle registration system. The Auto Fund is designed to be financially self-sustaining over time. It does not receive money from, nor pay dividends to, the Government of Saskatchewan. Saskatchewan Government Insurance (SGI) is the administrator of the Auto Fund.

2020-21 SASKATCHEWAN AUTO FUND ANNUAL REPORT

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Letter of Transmittal

Regina, July 2021

To His Honour
The Honourable Russ Mirasty, S.O.M., M.S.M.
Lieutenant Governor of Saskatchewan
Province of Saskatchewan

Dear Sir:

I have the honour to submit herewith the Annual Report of the Saskatchewan Auto Fund for the fiscal year ending March 31, 2021, in accordance with *The Automobile Accident Insurance Act*.

The Financial Statements included in this annual report are in the form approved by Crown Investments Corporation of Saskatchewan as required by *The Financial Administration Act, 1993* and have been reported on by the auditors.

Respectfully submitted,

Honourable Don Morgan, Q.C.
Minister Responsible for
Saskatchewan Government Insurance

President's and Chair's Message

In a year like no other, the Saskatchewan Auto Fund posted record investment earnings in 2020-21, shared earnings with its customers, and adjusted business practices so it could continue to serve Saskatchewan residents while we all navigated the tumultuous times of a pandemic.

During the year, the Auto Fund's strong financial position made it possible to provide $285.0 million in rebates to all eligible registered vehicle owners, and improve injury benefits for the most seriously injured customers.

The Auto Fund's investment earnings were $508.5 million in 2020-21, resulting in a significant increase to the Rate Stabilization Reserve (RSR), even with an underwriting loss of approximately $20.7 million. After factoring in the cost of rebates and injury benefit enhancements, there was an increase of $283.4 million to the RSR, bringing the balance to $1.1 billion. To ensure there's adequate capital in the RSR to pay future claims, SGI uses a ratio called the Minimum Capital Test, or MCT, a common industry measure. The MCT target is 140 per cent. As of March 31, 2021, the Auto Fund's MCT was above target at 168 per cent, providing a buffer if there are future downturns in investments, which occurred at the beginning of the pandemic.

The cost of catastrophic storms in 2020-21 was $18.9 million, down from last year. Damage claims were also down because there were fewer vehicles on the road due to COVID-19. While injury claims have been dropping every year, they decreased substantially in 2020-21, although the average cost per injury claim increased from the previous year due to the enhancement of long-term benefits that was announced during the year.

We're pleased to report that SGI provided customers with the lowest personal auto rates in Canada in 2020-21, for the most comprehensive coverage. In addition, safe drivers received $138.1 million in discounts under the Safe Driver Recognition program and $18.8 million in discounts under the Business Recognition program.

The pandemic profoundly impacted SGI staff and their customers, just as it did people around the globe. To help customers having difficulty making payments, SGI worked with them to provide financial relief as required. We also incorporated significant COVID-19 response measures to ensure the safety of customers and employees. We rapidly transitioned 92 per cent of employees to work from home and expanded the services available online and over the phone to customers and business partners.

Since not all employees can do their jobs from home, and some services must be done in person, we took additional measures to prevent COVID-19 exposure for staff and customers on site. We implemented masking and stringent cleaning procedures, installed safety barriers at front counters, and limited customer capacity in our facilities. For our efforts, SGI was recognized by Key Media as Canada's Safest Employer in the public sector.

We suspended all driver road testing at the start of the pandemic since physical distancing wasn't possible inside a vehicle. Driver Examinations quickly came up with a solution to resume commercial vehicle road tests one month later, using a modified procedure. Saskatchewan driver examiners were the first of three provinces to use trail vehicles to follow road test applicants in their vehicles, and the first in Canada to resume in-vehicle road testing in June 2020. While the pandemic-related shutdowns and lengthier testing methods caused a considerable backlog of drivers waiting to be tested, we adapted to continue serving customers. The backlog is now on track to reach normal wait times, thanks to innovation, hiring additional staff, and the efforts of our hard-working employees.

Throughout the year, SGI remained committed to raising traffic safety awareness and providing funding for enforcement initiatives targeting key areas of concern – impaired and distracted driving. We're making progress towards our goal of having the safest roads in Canada, as the number of people injured and killed in traffic collisions continues to trend downward. In the 2020 calendar year, 87 people lost their lives in vehicle crashes – the second lowest number of fatalities recorded in a single year in the past six decades. This is also significantly lower than the previous 10-year average of 132 fatalities per year. In addition, the number of people injured decreased, from 4,230 in 2019 to 3,553 in 2020.

To help prevent serious injuries and fatalities, SGI continued to provide funding for the Combined Traffic Services Saskatchewan (CTSS) program. CTSS officers target impaired driving, speeding and distracted driving at high-risk locations. We also worked with our traffic safety partners to raise awareness about the dangers of impaired driving and supported law enforcement's efforts to catch impaired drivers and remove them from our roads. We did this by funding high-visibility police check stops across the province, alcohol screening devices for Saskatchewan RCMP to use at roadsides, and a mobile alcohol and drug testing unit and oral fluid testing device for the Saskatoon Police Service.

In keeping with our commitment to bring the Truth and Reconciliation Commission of Canada's Calls to Action into business decisions and practices, we supported traffic safety initiatives within Indigenous communities. We funded traffic signs for Kinistin First Nation with messaging to Stop, Slow Down, and Watch for Children in English and Salteaux. Five Indigenous communities now proudly display signs with SGI's "Be a friend for life – don't let impaired friends drive" messaging featuring Indigenous artwork. We also funded ATV and snowmobile instructor certification for northern Indigenous communities, where ATVs and snowmobiles are a common mode of transportation. Additionally, we partnered with Prince Albert Grand Council to distribute helmets to youth to prevent brain injuries and promote safe riding.

For the convenience of our customers, partners and employees, SGI streamlined some of its claims processes in 2020-21. Customers with total loss and complex claims can now reach the first available representative in Saskatchewan, rather than waiting for someone in their specific location. We also created specialty work units with dedicated adjusters to handle rodent and large truck claims, and began a pilot project that involved one group of adjusters responsible for setting up new claims, and another group responsible for completing them. Based on the feedback we've received, these changes are making it easier for customers to do business with us.

In 2020-21, SGI continued to strive to deliver exceptional customer service. Based on feedback from real-time online surveys, customer satisfaction ratings for interactions with Claims and the Customer Service Centre increased. However, we did see a decrease in our overall Customer Experience Index score, which measures customers' perception of how easy it is to do business with us, how effective we are, and how they feel about us. The lower score was an unusual result in an unusual year, and we're committed to pinpointing and addressing the issues.

In these uncertain times, we're thankful for the steady hand of our dedicated Board of Directors who continued to provide invaluable guidance and support.

Looking back, 2020-21 was a remarkable year for the Auto Fund. The year of the pandemic marked significant financial gains, unique challenges, and monumental efforts taken to protect those we serve — our partners and employees.

Many of our successes are due to our dedicated employees and motor licence issuers. We thank them for their enthusiasm and strong work ethic, which contributed to a prosperous year for the Auto Fund and Saskatchewan people.

Andrew R. Cartmell
President and Chief Executive Officer
Saskatchewan Government Insurance
as Administrator of the Saskatchewan Auto Fund

Arlene Wiks
Chair, SGI Board of Directors

Management's Discussion and Analysis

The following management's discussion and analysis (MD&A) is the responsibility of Saskatchewan Government Insurance (SGI) as the administrator of the Saskatchewan Auto Fund and reflects events known to SGI to May 26, 2021. The Board of Directors carries out its responsibility for review of this disclosure principally through its Audit, Finance and Conduct Review Committee, comprised exclusively of independent directors. The Audit, Finance and Conduct Review Committee's mandate can be found on SGI's website at www.sgi.sk.ca. The Board of Directors approved this MD&A at its meeting on May 27, 2021, after a recommendation to approve was put forth by the Audit, Finance and Conduct Review Committee.

Overview

The MD&A is structured to provide users of the Saskatchewan Auto Fund (the Auto Fund) financial statements with insight into the Auto Fund and the environment in which it operates. This section outlines strategies and the capability to execute the strategies, key performance drivers, capital and liquidity, financial results, risk management and an outlook for the coming year. Information contained in the MD&A should be read in conjunction with the financial statements and notes to the financial statements, along with other sections in this annual report. All dollar amounts are in Canadian dollars.

Caution Regarding Forward-Looking Statements

Forward-looking statements include, among others, statements regarding the Auto Fund's objectives, strategies and capabilities to achieve them. Forward-looking statements are based on estimates and assumptions made by SGI, as the administrator of the Auto Fund, in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances. SGI, as the administrator of the Auto Fund, deems that the assumptions built into the forward-looking statements are plausible. However, all factors should be considered carefully when making decisions with respect to the Auto Fund. Undue reliance should not be placed on the Auto Fund's forward-looking statements, which apply only as of the date of this MD&A document. The Auto Fund does not undertake to update any of the forward-looking statements that may be made from time to time by or on the Auto Fund's or the administrator's behalf.

The Saskatchewan Auto Fund

In 1944, the Government of Saskatchewan passed *The Saskatchewan Government Insurance Act*, creating the provincial Crown corporation that is known today as SGI. SGI was created to rectify problems in the Saskatchewan insurance industry. At that point in time, poor economic conditions had driven many insurers out of the province. Less than 10% of licensed Saskatchewan vehicles carried any insurance and there was a need for a compensation plan for persons injured in collisions.

In 1946, the government established basic compulsory automobile coverage for Saskatchewan residents under *The Automobile Accident Insurance Act* (AAIA). The Auto Fund was established effective January 1, 1984, by an amendment to the AAIA, which separated the property and casualty insurance operations of SGI and the compulsory Auto Fund. The administrator of the Auto Fund is SGI. The role of SGI, as the administrator, is to oversee the operations of the Auto Fund for the Province of Saskatchewan based on the legislative requirements contained in the AAIA.

The Auto Fund, as the compulsory automobile insurance program for Saskatchewan residents, provides vehicle registrations, driver's licences, basic minimum liability insurance required to operate a vehicle and coverage for damage to or loss of an insured's vehicle, subject to a deductible. Liability insurance provides for a specific amount to cover property damage and/or injuries caused to another person. The compulsory insurance package also includes injury coverage that provides an option to choose between No Fault Coverage and Tort Coverage. This basic insurance package allows a currently registered vehicle to operate legally anywhere in Canada or the United States of America.

The Auto Fund is governed by legislation contained in the AAIA, *The Traffic Safety Act*, *The All Terrain Vehicles Act* and *The Snowmobile Act* (the Acts) along with related regulations created by these Acts. The Auto Fund is also subject to legislation contained in *The Crown Corporations Act*, *1993* and Part IX of the *Insurance Companies Act* (Canada) regarding the investments of the Auto Fund. It is subject to provincial privacy and access to information legislation contained in *The Freedom of Information and Protection of Privacy Act* and *The Health Information Protection Act*. It also has administrative, enforcement and other related duties under other provincial acts and regulations, and under the federal Criminal Code.

The Auto Fund does not receive money from, nor pay dividends to, the Province of Saskatchewan, SGI or Crown Investments Corporation of Saskatchewan (CIC). CIC is SGI's parent corporation. The Auto Fund is operated on a self-sustaining basis viewed over a long-term time frame. Any annual financial excess or deficiencies of the Auto Fund are recorded in its Rate Stabilization Reserve (RSR). The RSR is held on behalf of Saskatchewan's motoring public and cannot be used for any other purpose by the government or the administrator.

Financial results for the Auto Fund are not included in the consolidated financial statements of SGI nor CIC's consolidated financial statements, as the Auto Fund is a fund of the Province of Saskatchewan. Financial results for the Auto Fund are included in the Province of Saskatchewan's summary financial statements using the modified equity accounting method as required by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada.

The Auto Fund operates 20 claims centres and six salvage centres in 13 communities across the province. The Auto Fund's business operation is restricted to the Province of Saskatchewan and is operated from SGI's head office located in Regina, Saskatchewan.

The Auto Fund's quarterly and annual reports are available on SGI's website at www.sgi.sk.ca. Navigate to "About Us" and then click on "Financial Statements."

The Environment the Auto Fund Operates In

The Auto Fund's customers are Saskatchewan residents. It provides all residents with automobile injury coverage and a choice between a no-fault or tort product. As the sole provider of vehicle and driver's licensing in Saskatchewan, the Auto Fund operates based on legislative powers granted in the Acts. The Auto Fund is required to submit vehicle insurance rate changes to the Saskatchewan Rate Review Panel (SRRP), whose mandate is to evaluate the rate change and to provide an opinion on the fairness and reasonableness of the requested change. The SRRP does not have the authority to implement any of its recommendations; the final decision to approve, change or reject rate changes is at the discretion of the provincial government.

The Auto Fund provides vehicle registrations, driver's licences and related services to approximately 0.8 million drivers and approximately 1.2 million vehicles and trailers in Saskatchewan. Business partners include independent motor licence issuers, autobody repairers, law enforcement agencies and healthcare providers. These business partners are involved in different aspects of the Auto Fund's operations from licensing, road safety and repair of damaged vehicles, to provision of medical care and rehabilitative services for those injured in motor vehicle collisions.

The Auto Fund's philosophy is that all drivers are treated equally unless their driving record shows they are a greater risk for causing a collision. It does not use a driver's age, gender or where they live to determine a vehicle insurance premium or the fee for a driver's licence. It has successfully maintained this philosophy while offering Saskatchewan customers low rates, proving its merit.

While it has been successful at offering Saskatchewan residents low rates, the Auto Fund does face challenges. Claim costs represented 80.0% of the Auto Fund's costs in 2020-21. Over the last 10 years, auto damage claim costs have increased at an average annual rate of 1.9%, while personal injury costs have decreased at 1.5% annually on average.

The average cost per damage claim was down this year as compared to last. With less drivers being on the road during the COVID-19 economic slowdown, collisions were less severe. Despite this one-year trend, new and advanced technology means that newer vehicles are more expensive to repair than older ones, as they have more expensive parts, thus, it is expected the average cost per damage claim will continue to trend upwards going forward. The total number of damage claims dropped off significantly this year with fewer drivers being on the road, leading to an overall reduction in damage claim costs.

The severity of injury claims increased this year, primarily related to the enhancement of long-term injury benefits that was announced during the year and the effect that COVID-19 had on the timelines involved with obtaining medical services and treatment. In recent years, the frequency of injury claims has been declining. Overall, injury claim costs have stabilized; however, it is too early to know if this trend will continue. Injury claim costs are significant to the Auto Fund and continue to be monitored closely.

The Auto Fund continues to offer Safe Driver Recognition (SDR) and Business Recognition (BR) programs. These programs have been in place since 2002 and 2004 respectively. The SDR program places all drivers on a safety rating scale based on their driving history. The maximum discount available under the SDR program is 25%. The BR program rewards businesses that maintain good loss experience with discounts on their vehicle insurance. The BR maximum discount available is 15% and the BR maximum surcharge is 25%. These discounts represented $156.9 million of savings to customers (2020 – $151.5 million).

Strategic Direction

The Auto Fund's vision, mission and values are:

Vision

Transforming the insurance experience to promote peace of mind and safer communities.

Mission

We are Saskatchewan's insurance company: providing exceptional value and traffic safety leadership.

Values

Integrity	We do the right thing by being accountable, honest, trustworthy and fair.
Caring	We make an impact through empathy, respect and staying true to our roots.
Innovation	We transform our business through creativity, collaboration and continuous improvement.
Passion	We are energized, engaged and inspired in the work we do.

Corporate Goals and Measures

Corporate transformation is at the heart of the Auto Fund's current strategy. As the Auto Fund navigated its transformation journey throughout 2020-21, it focused on:

- maintaining low, stable auto insurance rates;
- maintaining a positive customer experience;
- preventing deaths, injuries and property damage caused by traffic collisions;
- improving long-term efficiency; and,
- improving change management and leadership effectiveness.

The Auto Fund uses a balanced scorecard approach to monitor performance towards these corporate goals and provide a balanced evaluation of key financial and operational results. The Auto Fund's balanced scorecard uses four perspectives: financial, customer, internal processes and organizational capacity. The balanced scorecard is reviewed annually to ensure continued alignment with the Auto Fund's corporate strategies.

Financial

The Auto Fund measures financial performance through its ability to maintain low, stable rates:

Measure	2020-21 Target	2020-21 Result	2021-22 Target
Low, stable auto insurance rates			
Average personal auto insurance rates in Canada	Lowest two	● Lowest	Lowest two
12-month rolling Minimum Capital Test	142%	● 179%	174%

Legend: ● achieved ○ not achieved

Low, stable rates

As a public auto insurer, maintaining low and stable insurance rates is critical to providing a positive customer experience and remaining relevant. Public insurance companies exist to provide affordable coverage to residents.

The Auto Fund completes regular cross-Canada rate comparisons to determine how much a vehicle owner would pay for auto insurance in other Canadian provinces (specifically British Columbia, Alberta, Manitoba and Ontario) given their current vehicle, driving record and claim history. The Auto Fund aims to maintain among the lowest personal auto insurance rates in Canada, without compromising other important targets, such as the Minimum Capital Test. The Auto Fund achieved this in 2020-21 with the lowest personal auto rates in Canada.

The Auto Fund's ability to maintain stable rates is linked to its capital adequacy and ability to honour its financial obligations. An adequate balance in the Rate Stabilization Reserve (RSR) gives the Auto Fund a financial resource to draw on when adverse events increase the cost of claims, thereby protecting customers against unpredictable premium increases for their auto insurance. The Auto Fund uses a common property and casualty industry measurement called the Minimum Capital Test (MCT) to monitor the adequacy of the RSR. The MCT is a 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 Auto Fund's 12-month rolling average MCT score of 179% was above the 2020-21 target of 142% and the long-term goal of 140%. At March 31, 2021, the actual MCT was 168%.

Customer

The Auto Fund evaluates success with customers by its ability to provide them with a positive experience and improve traffic safety throughout the province:

Measure	2020-21 Target	2020-21 Result	2021-22 Target
Customer experience			
Customer experience index	76	○ 71	71
Traffic safety*			
Injuries per 100,000 population	396.6	● 301.4	387.3
Fatalities per 100,000 population	8.7	● 7.4	8.0

Legend: ● achieved ○ not achieved

*Injuries and fatalities are based on calendar year. Injuries and fatalities reported are those occurring during the period from January 1, 2020 to December 31, 2020 and reported as of April 30, 2021. The population is based on Statistics Canada's January 2021 population data.

Customer experience

With a focus on enhancing the overall experience being provided to customers, the company uses a customer experience index to assess what customers think of their interactions and relationship with the company. A combined Auto Fund and SGI CANADA score is used, as Saskatchewan customers do not differentiate between the two companies. A score of 71 was achieved, falling short of the 2020-21 target of 76.

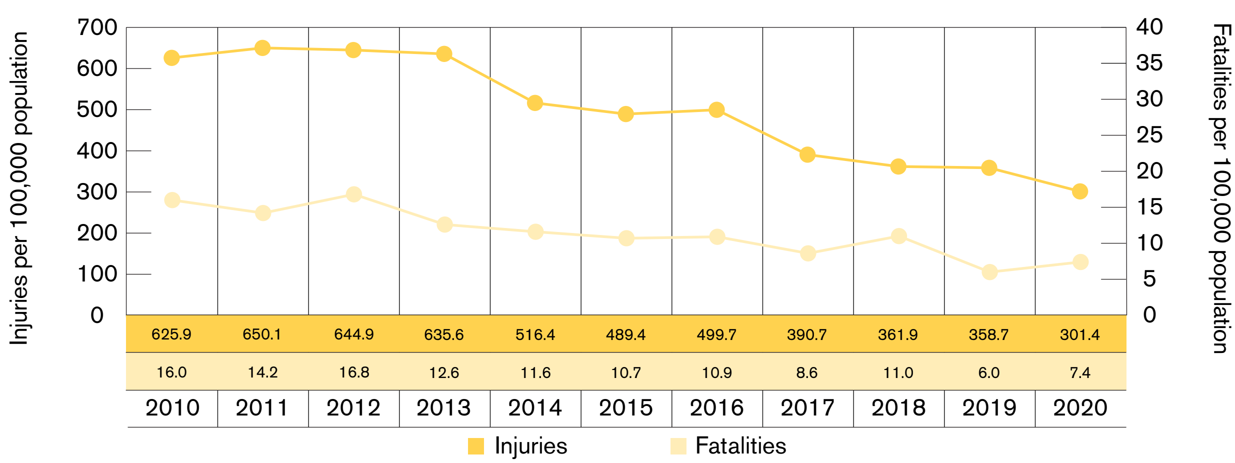
Traffic safety

Customers value the Auto Fund's role in promoting traffic safety in the province. Over the years, SGI has evolved into a national leader in the area of road safety programs. The Auto Fund's traffic safety goals are simple and clear – prevent deaths and injuries due to traffic collisions by addressing driver, vehicle and road safety issues. As fewer collisions result in lower claim costs, work in this area also supports the goal of maintaining low rates.

The Auto Fund would ultimately like Saskatchewan's roads to be the safest in Canada. The 2020-21 targets were 396.6 injuries and 8.7 fatalities per 100,000 population. The Auto Fund, and the people of Saskatchewan, outperformed these targets with 301.4 injuries per 100,000 population and 7.4 fatalities per 100,000 population. This continues the downward trend in the number of injuries and fatalities on Saskatchewan roads.

The following graph shows injuries and fatalities per 100,000 population over the last ten years:

Traffic injuries and fatalities in Saskatchewan



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Injuries	625.9	650.1	644.9	635.6	516.4	489.4	499.7	390.7	361.9	358.7	301.4
Fatalities	16.0	14.2	16.8	12.6	11.6	10.7	10.9	8.6	11.0	6.0	7.4

Internal processes

Efficiency and productivity are key to assessing the success of the Auto Fund's internal processes:

Measure	2020-21 Target	2020-21 Result	2021-22 Target
Efficiency			
Administrative expense ratio	8.3%	● 7.2%	8.2%

Legend: ● achieved ○ not achieved

Efficiency

Efficiency is assessed based on the Auto Fund's administrative expense ratio. The ratio is total administrative expenses expressed as a percentage of net premiums earned. Administrative expenses are largely related to salaries and benefits, information technology and facilities costs. The Auto Fund achieved its target, realizing a 7.2% administrative expense ratio. Analysis of administrative expenses is provided in more detail in the Financial Results section.

In 2021-22, the Auto Fund will be adding a second measure to assess efficiency that will evaluate savings achieved within the Crown sector and for the public through collaboration and red tape reduction. The Crowns, as a sector, are targeting savings of $50.0 million in 2021-22.

Organizational Capacity

The Auto Fund's success depends on its employees and their ability to deliver on its corporate strategy.

Measure	2020-21 Target	2020-21 Result	2021-22 Target
Change management and leadership effectiveness			
Employee engagement	58%	● 64%	64%
Change management index	60%	● 60%	61%
Leadership effectiveness index	65%	● 71%	72%

Legend: ● achieved ○ not achieved

Change management and leadership effectiveness

While the Auto Fund undertakes major corporate transformation, its ability to manage change and lead people effectively is critical to success. Progress in these areas is assessed using two dimensions from the employee survey—change management and leadership effectiveness. Overall employee engagement is also assessed through the employee survey. The survey includes employees performing work for both the Auto Fund and SGI CANADA. SGI exceeded the employee engagement and leadership effectiveness targets and met the change management target.

Capability to Execute Strategies

Fundamental to the capability to execute corporate strategies, manage key performance drivers and deliver results are employees, motor licence issuers, technology and systems, and capital and liquidity. They are discussed further below:

Employees

The Corporation continues to develop the capabilities of the workforce through customized and targeted training and development, and is in the process of significant cultural transformation. An extensive leadership development program was delivered at all levels of the organization and supported through a comprehensive change management approach. A reinforcement plan has been developed to maintain momentum and ensure the new cultural behaviours become common practice.

SGI has moved to a new human resources management system that enables the delivery of more robust talent management programming. The new tool will better support the development and maintenance of career and talent profiles, as well as purposeful learning and development plans. The ability to consolidate and streamline this data will strengthen SGI's succession planning process, which focuses on: (i) outlining options for filling executive or management positions in the event the incumbent is no longer available, to ensure leadership continuity; (ii) identifying high-performing managers and senior staff who have the potential for a higher level role within management and to create a talent pool of candidates to be considered for executive, senior management or management roles; (iii) providing significant leadership development for existing EVPs, Chief Officers and VPs to develop our desired leadership culture; (iv) working with existing EVPs, Chief Officers and VPs to develop SGI's leadership team; (v) working with divisions on workforce planning to identify and develop strategies to eliminate gaps in knowledge transfer and to create workforce plans at the branch, department, and division levels; and (vi) providing enhanced leadership development for existing managers and senior staff to develop strong mid-level leadership bench strength.

SGI and the Canadian Office and Professional Employees' Union, Local 397 (COPE 397), are within a five-year Collective Bargaining Agreement, running from January 1, 2018, to December 22, 2022.

Motor licence issuers

The Auto Fund provides accessibility for customers by distributing products through a network of 359 independent motor licence issuers in 263 communities across Saskatchewan, and seven SGI branch offices throughout the province. The majority of motor licence issuers' interests are represented by the Insurance Brokers' Association of Saskatchewan. The relationship between the Auto Fund and motor licence issuers is governed by an Issuer Accord. The accord is intended to enhance the working relationship resulting in improved service to customers. Included in the accord are 15 agreed-upon principles, such as fostering better communication between both groups, recognizing the value of each other's roles to provide service to Saskatchewan people and partnering on traffic safety programs.

Technology and systems

The Auto Fund relies on technology and information systems to deliver products and services to the motoring public. The Auto Fund operates using a sophisticated information system that gives it the flexibility to respond to customer needs and industry changes. Auto Fund products are widely accessible to customers through an online system in issuing offices throughout the province, and customers can perform many transactions through MySGI online services. As part of the Auto Fund's corporate transformation, it is exploring options to further enhance its core systems.

Corporately, SGI has implemented cloud-based productivity technology which better supports collaboration and provides efficiencies. This technology enables employees to work effectively and securely from the office, their home or wherever else they may be, and it allows employees to virtually interact with customers, business partners and each other with ease. These technologies have and will continue to afford the Corporation flexibility in how it operates and how it responds to business challenges, such as COVID-19.

Capital and liquidity

As the Auto Fund belongs to the Province of Saskatchewan, legislation restricts how it can raise capital and mandates the benefits available to policyholders. The Auto Fund does not pay dividends to nor receive money from the province or SGI, the administrator of the Auto Fund. The Auto Fund cannot go to public capital markets to issue debt or common shares. Since these traditional avenues for capital are not available to sustain the Auto Fund, it uses premiums and fees from operations, along with income generated from its investment portfolio, to fund operations. If premiums, fees and investment income are not sufficient to sustain operations, it must increase rates. The SRRP reviews rate changes and then passes on recommendations to the provincial government, which has the final authority to approve, modify or reject rate changes.

A key operating principle for the Auto Fund is ensuring consistency and stability in rates so that customers are not subject to ongoing price fluctuations or large rate increases. An adequate balance in the RSR gives the Auto Fund a financial resource to draw on when adverse events increase the cost of claims or a decrease in capital markets occurs, thereby protecting customers against unpredictable premium increases for their auto insurance. The Auto Fund uses the MCT to establish a target for the RSR.

The Auto Fund maintains a Capital Management Policy that applies a factor to move towards its MCT operating target of 140% in small increments with each rate program. The policy determines the amount of capital adjustment needed with each rate program by applying a factor to either recover one-fifth of the capital below 140% MCT or release one-fifth of the capital above 140% MCT into the basic insurance rate every year. As such, the rate always includes a portion designed to move the RSR towards an adequate level, and avoids the volatility a surcharge might create, assuming rate programs are annual or close to annual. This method is consistent with private insurers that build cost of capital requirements into each regulatory rate filing.

The policy also considers whether overall capital needs have changed. As claim liabilities and investment assets grow, the need for capital to support the business also increases. With each rate program, SGI analyzes actual results and brings forward recommendations for adjustments required to maintain adequate capital. SGI anticipates that, with this policy in place, only minor adjustments will be needed to address capital needs in subsequent rate programs. At March 31, 2021, the MCT ratio was 168%, and the 12-month rolling average MCT ratio was 179%.

2020-21 Financial Results

For the year ended March 31, 2021

Overview

The Auto Fund had an increase in the RSR of $283.4 million. This increase is net of the $285.0 million rebate to policyholders that was announced during the year and will be paid out in May 2021. Excluding the rebate, the Auto Fund generated a profit of $568.4 million.

The Auto Fund generated investment earnings of $508.5 million in the 12 months ended March 31, 2021. The investment portfolio generated exceptionally strong returns during the year driven primarily from the equity portfolio. The high returns helped the Auto Fund maintain its capital base above target levels.

With the $283.4 million increase, the RSR increased to $1,090.1 million at March 31, 2021.

Statement of Operations

Premium revenue

	(thousands of $)		
	2021	**2020**	**Change**
Gross premiums written	988,696	962,705	25,991
Premiums ceded to reinsurers	(9,449)	(10,549)	1,100
Change in unearned premiums	(18,074)	3,454	(21,528)
Net premiums earned	961,173	955,610	5,563

Gross premiums written totalled $988.7 million, representing a 2.7% increase over the prior year. This increase is primarily due to an increase in the average premium per vehicle licensed as customers move to newer vehicles with higher premiums, given they have enhanced technologies and cost more to repair.

The Safe Driver Recognition (SDR) and Business Recognition (BR) programs continue to provide savings to Auto Fund customers each year. These programs returned $156.9 million to customers through safe driving discounts (2020 – $151.5 million). Expressed as a percentage of vehicle premiums, this equates to an average discount of 13.7% (2020 – 13.6%). Maximum discounts remain at 25% for the SDR program and 15% for the BR program.

Claims incurred

The following table details claim costs by categories:

	(thousands of $)		
	2021	2020	Change
Current year			
Damage claims, excluding catastrophe claims	488,535	566,327	(77,792)
Catastrophe claims[1]	18,872	29,333	(10,461)
Total damage claims	507,407	595,660	(88,253)
Injury claims	269,062	270,060	(998)
	776,469	865,720	(89,251)
Prior year deficiency (redundancy)			
Damage claims	1,229	10,638	(9,409)
Injury claims	203,459	(103,828)	307,287
	204,688	(93,190)	297,878
Change in discounting	(195,703)	116,771	(312,474)
Total claims incurred	785,454	889,301	(103,847)
Current year loss ratio[2]	80.8%	90.6%	-9.8%
Total loss ratio	81.7%	93.1%	-11.4%

[1] Catastrophe claims, also referred to as storm claims, represent claims occurring from a single event, limited to a period between 96 and 168 hours, with an estimated cost greater than $2.5 million. Catastrophic events for the Auto Fund generally relate to summer wind, rain and hail storms, forest fires and winter ice storms.

[2] Before prior year deficiency (redundancy) and change in discounting.

Current year claims

Current year damage claims, excluding catastrophe claims, are 13.7% lower than the prior year due to decreased claim frequency, as a result of fewer vehicles being on the roads during the COVID-19 economic slowdown. Catastrophe claims are 35.7% lower than 2020 due to decreased claim frequency and severity. Overall, damage claim frequency has decreased from 118.9 damage claims per 1,000 insured years in 2020 to 106.1 in 2021.

Current year injury claims are 0.4% lower than the prior year due to decreased claim frequency in 2021. Injury claim frequency decreased from 4.8 injury claims per 1,000 insured years in 2020 to 3.5 in 2021.

Development on prior year claims

With the assistance of its actuary, the Auto Fund makes provisions for future payments on existing claims and an estimate for claims that have occurred but have not yet been reported. At the end of each year, the actuary recalculates the estimate of the ultimate costs for prior years (along with an estimate for the current year). If the actuary reduces the estimate for prior years, a redundancy exists, resulting in a reduction in claim costs for the year. If the reverse is true and the actuary increases the estimate for prior years, a deficiency exists, resulting in an increase in claim costs for the year.

The prior year deficiency of $204.7 million includes a $1.2 million deficiency in damage claims due to worse than expected loss emergence on prior year claims, and a $203.5 million deficiency in injury claims due to the enhancements to coverage for long-term benefits that was announced during the year and an increase in the estimated length of time that long-term injury benefits will be paid out.

Impact of discounting

The change in discounting at March 31, 2021 resulted in a $195.7 million decrease to claims incurred. The discount rate, comprised of bond and long-term equity yields, increased slightly compared to the prior year. In addition, there were changes to projected timing of future payments and lower risk margins relating to long-term benefits.

Expenses excluding claims incurred

	(thousands of $)		
	2021	**2020**	**Change**
Other expenses	196,372	200,906	(4,534)

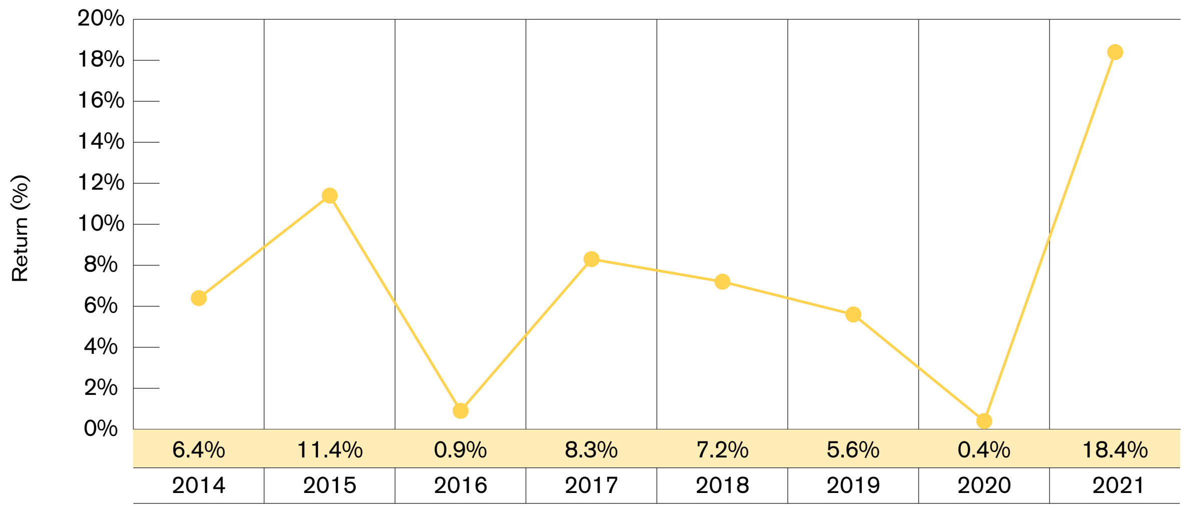
Other expenses, excluding claims incurred, decreased $4.5 million compared to the same period in 2020. The decrease was primarily due to decreases in spending on traffic safety programs and administrative expenses.

Investment earnings and other income

	(thousands of $)		
	2021	**2020**	**Change**
Net investment earnings	508,482	2,450	506,032
Other income	80,562	85,441	(4,879)

In 2021, investment earnings were $508.5 million, a significant increase from the $2.5 million earned in 2020. The components of investment earnings are disclosed in note 13 of the financial statements, and include interest, dividends, investment fund and limited partnership distributions, realized gains and losses on sales of investments, and unrealized gains and losses on the change in market value of investments. For purposes of portfolio management, market-based returns are calculated based on the Auto Fund's investment earnings. In 2021, the total portfolio's market-based return was 18.4%, compared to a 0.4% return in 2020. The strong performance this year primarily related to a significant rebound in equity markets following the negative impact COVID-19 had in the 2019-20 period.

Annual Market Based Returns to March 31



The Auto Fund investment assets are managed as two distinct portfolios – the Matching Portfolio and the Return Seeking Portfolio. More information regarding the Auto Fund's Matching and Return Seeking Portfolios is provided within the Statement of Financial Position section of this report.

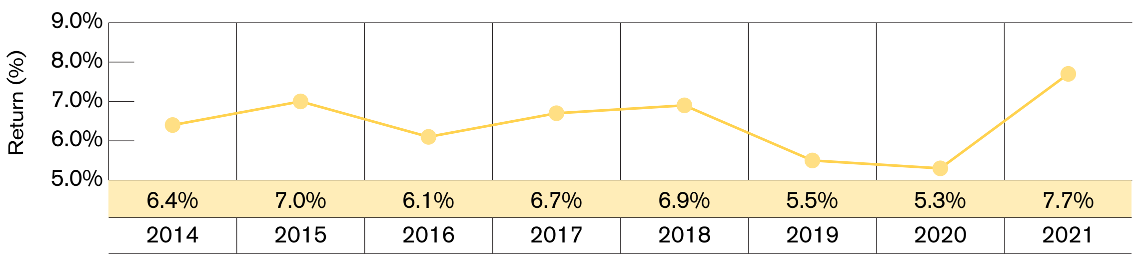
The Matching Portfolio exceeded its benchmark return for the year due to outperformance in corporate bonds and, importantly, remained well matched to the associated claim liabilities. The Return Seeking Portfolio returns exceeded policy benchmarks for the year due to significant outperformance from Canadian and foreign equities.

The following table illustrates the investment portfolio's actual performance by asset class 2021 compared to the index and 2020 actual returns.

		Annual Returns to March 31 (%)		
Asset Class	**Benchmark Index**	**Actual 2021**	**Index 2021**	**Actual 2020**
Matching Bonds	Custom Bond Index	2.1	-3.0	4.7
Mortgages	FTSE TMX Short & Mid-term Bonds	6.2	2.9	4.0
Canadian Equities	S&P/TSX Composite	48.7	44.2	-18.4
Global Equities	MSCI ACWI ($C)	45.7	36.5	-1.8
Global Small Cap Equities	MSCI ACWSCI ($C)	73.9	60.7	-18.3
Real Estate	Investment Property Databank	-1.3	-0.2	9.0
Infrastructure	Canadian CPI + 5%	4.3	7.3	14.0

The Auto Fund's investment returns are compared to benchmark returns on an annual basis, although the performance measures are expected to be met over four years, a long enough period to capture a full market cycle. This long-term measure is appropriate as it recognizes that the effectiveness of investment management styles varies depending on the market environment. As illustrated in the following graph, over rolling four-year periods investment performance remains satisfactory:

Four-Year Market Based Returns to March 31



Other income

Other income consists of fees charged to customers for using the AutoPay and short-term payment option programs, SDR program assessment fees and salvage operations income. Drivers in the SDR penalty zone (safety rating less than zero) are assessed a financial penalty each time an applicable incident occurs.

Other income decreased $4.9 million over 2020. The decrease was the result of decreases of $4.5 million in SDR program fees and $0.6 million in net earnings on salvage sales. These were offset slightly by a $0.2 million increase in fees for payment option plans.

Statement of Cash Flows

	(thousands of $)		
	2021	**2020**	**Change**
Total operating activities	233,098	64,325	168,773
Investing activities	4,687	(48,198)	52,885
Net cash flow	237,785	16,127	221,658

Cash flows generated from operating activities of $233.1 million and investing activities of $4.7 million for the 12 months ended March 31, 2021 resulted in an overall increase in cash and cash equivalents of $237.8 million. Cash and cash equivalents has increased significantly in expectation of funding rebates to policyholders in May 2021.

Statement of Financial Position

	(thousands of $)		
	March 31 2021	March 31 2020	Change
TOTAL ASSETS	**$ 3,713,018**	**$ 3,056,704**	**$ 656,314**
Key asset account changes:			
Investments	3,072,087	2,646,556	425,531

Investments

The carrying value of investments increased by $425.5 million during the year, due to positive operating cash flows and strong returns from equities during the period.

The investment portfolio is held to pay future claims, while income earned on these investments helps keep insurance rates low for vehicle owners. The portfolio's asset mix strategy is set by the Board of Directors annually through a detailed assessment of the Auto Fund's risk tolerance. In summary, the Auto Fund's positive cash flows and the presence of the RSR, which serves to buffer the fund from short-term unfavourable investment performance, permits the Auto Fund to maintain a long-term investment horizon. The asset mix strategy takes into consideration the current and expected conditions of capital markets and the historic return and risk profile of various asset classes. In order to achieve long-term investment goals, the Auto Fund must invest in asset classes that provide an attractive risk-return profile over the medium to long-term. Over shorter periods, however, performance of these asset classes can be volatile. The Auto Fund investment portfolio continues to hold a diversified asset mix with a longer-term focus, balancing the need for capital preservation in the short term with the need for portfolio growth over the longer term.

The asset mix strategy is formally documented in the Statement of Investment Policies and Goals. In addition to capturing the asset mix strategy, this document provides guidance on permissible investments, quality and quantity guidelines, conflicts of interest, related party transactions and investment performance expectations, among others. Management monitors and enforces compliance with the investment policy. No material compliance deviations were noted in the 12-month period ended March 31, 2021.

The Auto Fund's investment portfolio is managed by external investment managers. The portfolio is comprised of short-term investments, bonds and debentures, equities, mortgages, real estate and infrastructure investments. Equities include investments in Canadian common shares as well as investments in two global equity investment funds and a global small capitalization equity investment fund. The Auto Fund's investments in real estate and mortgages are through investment funds as well. The six infrastructure investments are held in limited liability partnerships that are investment vehicles with similarities to an investment fund. More detail on the investment portfolio categories is provided in note 6 to the financial statements.

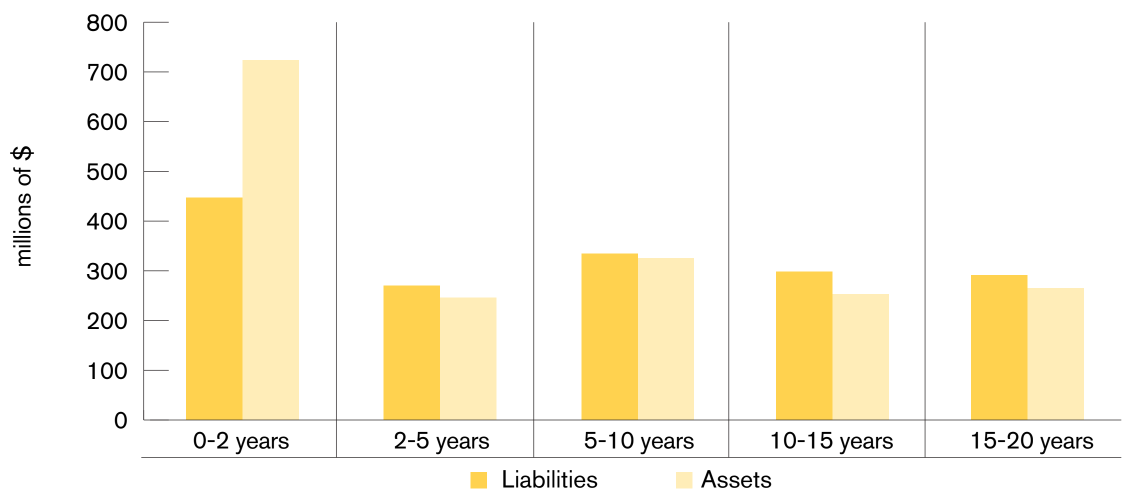
The Auto Fund investment portfolio operates as two distinct portfolios – the Matching Portfolio and the Return Seeking Portfolio. The Matching Portfolio holds the fixed income investments including mortgage securities, while the Return Seeking Portfolio is comprised of equities, real estate and infrastructure. The investment strategy relies on the Matching Portfolio to cover expected liability payments out to 20 years with remaining long-tail liabilities covered by the Return Seeking Portfolio.

The objective of the Matching Portfolio is to group claim payments into five buckets based on the expected payment date, and then match these outflows with anticipated cash inflows from coupon and principal payments from fixed income assets in each bucket. At initiation, the expected future liability stream and asset stream will demonstrate a close match. However, as bonds mature and actual claim payments vary from projection, the asset liability match will change. In conjunction with the Auto Fund's actuarial valuations, asset cash flows are realigned to revised liability cash flows to ensure a close match is maintained. From time to time, the allocation between the Matching and Return Seeking Portfolios may also require rebalancing to maintain the overall risk-return objectives of the combined portfolio.

The Matching Portfolio is rebalanced quarterly and continues to meet the objectives established by the investment policy. In February 2021, the Return Seeking Portfolio transferred $285.0 million to the Matching Portfolio in anticipation of providing rebates to policyholders in May 2021. Once these payments are made the Matching portfolio is expected to more closely align to the associated liabilities.

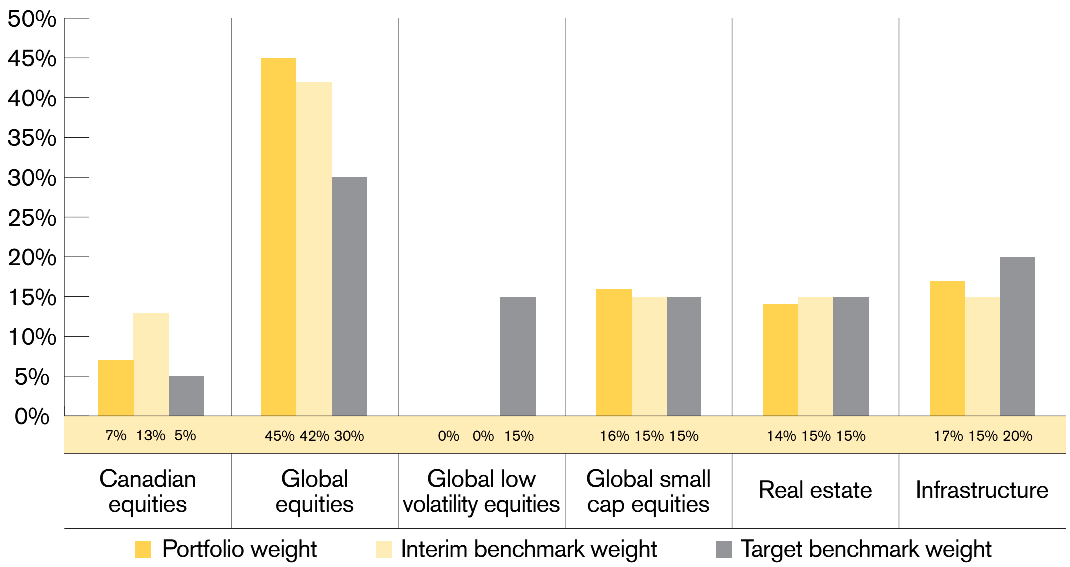
Expected liability cash flows and matching portfolio asset cash flows as of March 31, 2021, are as follows:

Matching Portfolio Asset-Liability Cash Flows as at March 31, 2021



The investment policy was revised during the year to incorporate a smaller allocation to Canadian equities, additional infrastructure investments as well as the addition of a global low volatility equity allocation within the Return Seeking Portfolio. The policy maintains interim benchmark weightings due to the timing of transitions to global low volatility equities and funding schedule for infrastructure assets, however is expected to reach its long-term asset class target allocations during 2021-22. The portfolio asset mix and benchmark weights at March 31, 2021, are as follows:

Return Seeking Portfolio Asset Mix as at March 31, 2021



	(thousands of $)		
	March 31 2021	March 31 2020	Change
TOTAL LIABILITIES	**$ 2,622,880**	**$ 2,249,957**	**$ 372,923**
Key liability account changes:			
Provision for unpaid claims	1,851,517	1,781,398	70,119

Provision for unpaid claims

The provision for unpaid claims reflects the estimated ultimate cost of claims reported but not settled, along with claims incurred but not reported. The process for determining the provision requires management judgment and estimation as discussed in the following section, Critical Accounting Estimates.

The provision for unpaid claims grew by $70.1 million during the year to $1,851.5 million (2020 – $1,781.4 million). This represents an increase of 3.9%. Key components of the change in the provision for unpaid claims are discussed in the preceding section, Claims Incurred.

Quarterly Financial Highlights

The following table highlights quarter-over-quarter results for the Auto Fund:

	(thousands of $)									
	2020-21				2021	2019-20				2020
	Q4	Q3	Q2	Q1		Q4	Q3	Q2	Q1	
Net premiums written	210,099	220,772	258,982	289,394	**979,247**	195,152	216,358	247,177	293,469	**952,156**
Net premiums earned	231,078	241,767	252,387	235,941	**961,173**	228,514	237,994	249,185	239,917	**955,610**
Net claims incurred	218,211	185,414	197,409	184,420	**785,454**	251,467	182,155	221,857	233,822	**889,301**
(Decrease) increase to RSR	(258,533)	198,290	122,430	221,204	**283,391**	(217,712)	100,013	29,510	41,483	**(46,706)**
Cash flow (used in) from operations	(32,221)	108,400	72,153	84,766	**233,098**	(71,166)	62,361	31,471	41,659	**64,325**
Investments	3,072,087	3,299,496	3,079,643	2,892,558		2,646,556	2,872,555	2,793,366	2,701,457	
Provision for unpaid claims	1,851,517	1,835,552	1,841,685	1,810,893		1,781,398	1,757,181	1,778,299	1,755,303	
Rate Stabilization Reserve	1,090,138	1,348,671	1,150,381	1,027,951		806,747	1,024,459	924,446	894,936	

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

- Premium earnings generally rise in the spring and summer months, largely a factor of increased premiums related to seasonal vehicles.
- With the exception of the period January to March, the Auto Fund generates positive cash flows from operations. Cash is typically low in this period as the Auto Fund pays annual premium taxes to the province in March and there are higher claim outflows from the winter driving season. Operating cash flows are generally strong throughout the remaining nine months of the year and during these months excess cash generated is directed to investments.
- The decrease in the RSR during the fourth quarter of 2021 was caused by the accrual of the $285.0 million rebate to policyholders. In 2020, the fourth quarter results were caused by the downturn of the economic markets that occurred due to the onset of the COVID-19 pandemic.

Related Party Transactions

The Auto Fund is related in terms of common ownership to all Government of Saskatchewan ministries, agencies, boards, commissions, Crown corporations, and jointly controlled and significantly influenced corporations and enterprises. 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. Details of significant related party transactions are disclosed in the financial statements that follow.

SGI is the administrator of the Auto Fund on behalf of the Province of Saskatchewan. Administrative and loss adjustment expenses incurred by SGI are allocated to the Auto Fund directly or on the basis of specific allocations. Amounts incurred by SGI and charged to the Auto Fund were $164.8 million (2020 – $172.3 million).

Off Balance Sheet Arrangements

The Auto Fund, in its normal course of operations, enters into certain transactions that are not required to be recorded on its statement of financial position – commonly referred to as the balance sheet. These items include litigation, structured settlements and rehabilitation funding commitments. These items are discussed below and in the notes to the financial statements.

The Auto Fund, as is common to other entities that operate in the insurance industry, is subject to litigation arising in the normal course of insurance operations. The Auto Fund is of the opinion that current litigation will not have a material impact on operations, the financial position or cash flows of the Auto Fund.

In the normal course of settling claims, the Auto Fund settles some long-term disability claims by purchasing structured settlements (annuities) from various financial institutions for claimants. This is a common practice in the property and casualty insurance industry. The net present value of the scheduled payments at March 31, 2021 was $24.7 million (March 31, 2020 – $25.4 million). The Auto Fund has no recourse to these funds. The Auto Fund provides a financial guarantee to the claimant in the event of default by the financial institution on the payment schedule to the claimant. No default has occurred in the past on these payment schedules and the likelihood of default is considered extremely remote.

Critical Accounting Estimates

This discussion and analysis of financial condition and results of operations is based upon financial statements as presented in this annual report. These financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee. Significant accounting policies are described in note 3 to the financial statements. Some of these policies involve critical accounting estimates because they require SGI, as the administrator, to make particularly subjective or complex judgments about matters that are inherently uncertain, and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions. The development, selection and application of key accounting policies, and the critical accounting estimates and assumptions they involve, have been discussed with the Audit, Finance and Conduct Review Committee of the Board of Directors, and the Audit, Finance and Conduct Review Committee has reviewed the disclosures described in this section. The most significant critical accounting estimates involve the provision for unpaid claims and unpaid claims recoverable from reinsurers.

Provision for unpaid claims

A provision for unpaid claims is maintained to cover the estimated ultimate liability for losses and loss adjustment expenses for reported claims and claims incurred but not yet reported at the end of each accounting period. The initial provision is determined on the reported facts filed with the claim, and then revised regularly as more information on the claim becomes known. The provision does not represent the exact calculation of the liability owing to claimants, but is an estimate developed using Canadian accepted actuarial practices and Canadian insurance regulatory requirements. The estimate reflects an expectation of the ultimate cost of settlement and administration of claims. It involves an assessment based on the facts and circumstances of the events reported in the claim, experience with similar claims, historical trends involving claim payments, claim severity, the effect of inflation on reported and future claims, court decisions and the time frame anticipated to settle and pay the claim.

This provision is refined on a continual basis as prior fiscal year claims are settled and additional claims are reported and settled. There may be significant time delays from the occurrence of the insured event and when it is reported. If this occurs near the year-end date, estimates are made as to the value of these claims based on information known at that time. As well, uncertainty exists for reported claims that are not settled, as all necessary information may not be available. Thus, with the level of uncertainty involved in the claim process, until the final settlement occurs, current reserves may not be sufficient. The provision for unpaid claims has been calculated including the impact of discounting. Any adjustments to these estimates, both positive (a redundancy or excess) and negative (a deficiency) are included in the provision for unpaid claims and are reflected as claims incurred in the current year's Statement of Operations.

Unpaid claims recoverable from reinsurers

Unpaid claims recoverable from reinsurers include amounts for expected recoveries related to unpaid claim liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with claim and claim adjustment expense reserves, and are reported in the Statement of Financial Position. The ceding of insurance does not discharge the Auto Fund's primary liability to its insureds. An allowance for doubtful accounts is estimated on the basis of periodic evaluations of balances due from reinsurers, reinsurer solvency, management's experience and current economic conditions.

Risk Management

Risk management is a process for recognizing and addressing risks that could affect the achievement of corporate objectives. On an annual basis, management reviews the key risks faced by SGI, the administrator of the Auto Fund, by identifying specific risk events and their potential impact on both SGI's and the Auto Fund's operations, finances and reputation. Each risk event is rated based on the likelihood of the event occurring and severity of the consequences if it did occur, both before and after the application of current mitigations.

The above process results in a risk profile for SGI and the Auto Fund, which is reviewed by the Risk Committee of the Board of Directors annually. SGI's Audit Services department also uses the risk profile in developing its annual work plan, which provides an assurance component to SGI's risk management process.

The following risks represent the most serious threats to the Auto Fund. Failure to manage any of these risks could lead to significant operational, financial or reputational damage. The nature of these risks, along with efforts to mitigate them, is summarized below.

Corporate Transformation

Risk: SGI fails to change its people, process and technology to become a digital insurer.

Mitigation: Digital insurance transformation uses technology and data to improve business processes and procedures, customer experience, and partner relations. SGI intends to use technology to empower its employees and business partners to add value with each customer interaction, and to this end has committed significant business and IT resources to imagine future states of its people, processes and technologies using a disciplined framework. SGI has also stopped all non-critical business enhancements to its current systems.

Organizational Change Agility

Risk: SGI's business strategy involves significant corporate transformation efforts. Evolving to be a digital, customer centric insurer is required for SGI to meet customer demands and compete with other insurers across the country. SGI requires employees to have the willingness to embrace and adapt within a rapidly changing environment. This is a climate where SGI expects disruption to established processes and roles and where ambiguity and managing through disruptive change will be the norm.

Mitigation: SGI has a large number of initiatives dedicated to assisting employees in understanding and adapting to change, including significant efforts in Leadership Culture Development (LCD). The goal of developing a "growth mindset" can be observed in many initiatives – including the introduction of standardized education levels within career streams, expectations incorporated into new job descriptions/evaluations, coaching training and the introduction of a tiered leadership framework that offers structured learning at all levels.

Responsiveness to Business Needs

Risk: SGI is unable to meet the speed-to-market targets for products and services due to its complex internal system architecture. Increased business expectations and limited information technology resources have contributed to less responsiveness to business needs.

Mitigation: To better meet its current and future business needs, including speed to market, SGI is implementing a digital transformation strategy which includes building a modern technology platform and acquiring and adopting modern technology skills and practices. Under this strategy, SGI will move to a cloud-based platform, accelerate software development, and simplify integration with partners and service providers. To ensure quality and accelerate the delivery of these technologies, SGI has established a unit of IT specialists to lead the adoption of best practices for software development and is continuing to execute on the in-depth education and training program to reskill IT employees on the new tools and techniques.

System Availability and Recovery

Risk: Systems are not available when the business needs them or cannot be recovered in a timely manner when an incident occurs.

Mitigation: To better meet the availability and system recovery needs for the business, SGI has initiated several major initiatives that are focused on developing new skills for staff, leveraging modern technology, and adopting new processes. The systems transformation initiative will result in the modernization of the SGI's core systems along with the migration of other core corporate systems to Software as a Service (SaaS) platforms. Progress on some of these initiatives has been made over the past 12 months with the introduction of several new platforms, notably modern HRMS and Legal Matter Management SaaS platforms. In addition, significant improvements to the IT Service Management processes and structure were made that have resulted in the ability to monitor systems more proactively and respond faster leading to a lower mean time to repair and a higher mean time between failures.

Information Security

Risk: The potential harm to SGI from threats (e.g., system breach, unauthorized access) that can have adverse effects on organizational operations, and result in significant financial and reputational damage.

Mitigation: There is an industry-wide shift in security methodology from perimeter-based security to identity-based protections. SGI has embarked on a transition from traditional perimeter-based security to a more holistic approach that includes identity protection.

SGI has developed a modern cyber security strategy and roadmap. The initiatives on the roadmap will include shifting the cyber security culture, leveraging modern technology, developing new skills in the workforce and adopting new practices. SGI continues to maintain a security policy that includes corporate standards for user access (including remote and external vendor access), passwords, mobile devices, wireless networks, information sensitivity classification and protection and acceptable use of SGI systems. SGI has implemented many mechanisms to protect its data environment and continually monitors systems for potential threat activity. Should an event occur, SGI has developed incident response procedures and has placed an industry-leading firm on retainer for incident response services to assist SGI in responding effectively and efficiently.

Acquisition and Development of Expertise

Risk: SGI's business strategy involves significant corporate transformation efforts. Evolving to be a digital, customer-centric insurer is required for SGI to meet customer demands and maintain strong public support in Saskatchewan. SGI must acquire and develop employees who have the knowledge, skills, and the willingness to continue learning for the new roles and responsibilities required to deliver the work the way it will be designed.

Mitigation: SGI has initiated programs including expanded competency-based recruitment, movement towards modernized recruitment/staffing processes, expanded knowledge management solutions, succession planning, and monitoring engagement and enablement through employee surveys. A corporate learning strategy was loosely established through the Workday Learning Management System work and forms part of HR's overall strategy. SGI's succession planning process focuses on ensuring current senior management positions have succession plans with targeted development to ensure readiness for potential opportunities. The work completed on succession and workforce planning at senior levels supports readiness for current and future movement. The culture reinforcement plan and the approved tiered leadership and corporate technical training frameworks have been introduced to support consistent development and approaches at all levels with a focus on technical/job specific training, strategic leadership, business acumen and leading a culture of change. This work is instrumental for transformation.

Market Value Changes

Risk: Market value changes within the Auto Fund investment portfolio impact the ability of the Auto Fund to deliver stable financial performance.

Mitigation: The Auto Fund investment assets are managed as two distinct portfolios – the Matching Portfolio and the Return Seeking Portfolio. The Matching Portfolio is structured to match the fixed income investment assets to the associated liabilities, thus reducing the impact of changes in interest rates. The Return Seeking Portfolio invests in equity, real estate and infrastructure assets to increase the long-term return. As a whole, the Auto Fund maintains a diversified asset mix with a longer-term focus, balancing the need for capital preservation in the short term with the need for portfolio growth over the longer term.

The structure and management of the Auto Fund's investment portfolios are governed by the Statement of Investment Policies and Goals. The policy is reviewed by the Board of Directors annually and captures the asset mix strategy, guidance on permissible investments, quality and quantity guidelines, conflicts of interest, related party transactions and investment performance expectations. This information is regularly reported to the Investment Committee of the Board and includes a compliance review and performance review by independent external consultants.

Outlook for 2021-22

The Auto Fund continues to be efficient and well-run – consistently providing among the lowest auto insurance rates in Canada.

In 2020-21, the Auto Fund embarked on a new strategy with its sights set on becoming a digital insurer. To achieve this, the Auto Fund is transforming its technology, operations and culture, placing corporate transformation at the heart of the strategy. To go along with the transformation activities, the Auto Fund recognizes the importance of providing low insurance rates and traffic safety leadership.

The Auto Fund continues to maintain its goal of being among the lowest two provinces when it comes to the cost of insurance and reducing the number of traffic injuries and fatalities. To achieve this, the Auto Fund will continue to focus on four key areas in 2021-22:

- empower employees;
- engage customers;
- optimize operations; and,
- transform products.

Empower employees – this is about promoting continuous learning and working effectively together to improve the experience of both employees and customers. In 2021-22, the Auto Fund will continue to focus on developing leadership culture, maintaining a disciplined approach to change management, and transitioning the workforce to support corporate transformation activities.

Engage customers – this is about providing customers with personalized experiences and delivery options, enabling them to make more informed decisions and positively influencing their behavior. In 2021-22, the Auto Fund will focus on customer service to ensure service levels are maintained, implementing the corporate brand platform to ensure a consistent brand identity and continued development and implementation of the claims handling strategy and continue to improve traffic safety in Saskatchewan.

Optimize operations – this is about optimizing business processes and improving responsiveness through automation and digitization. In 2021-22, the Auto Fund will continue to focus on maintaining low stable rates, improving long-term efficiency through process redesign and modern technology implementations.

Transform products – this is about using data, analytics and artificial intelligence to develop innovative products and services that deliver a tangible advantage. In 2021-22, the Auto Fund will continue to focus on establishing a framework for data governance and continuing to mature the capabilities of SGI as a digital insurer.

Impact of COVID-19

The COVID-19 pandemic continues to linger with much of Canada experiencing a third wave of infections. Provinces are deploying vaccines as quickly as possible, but in many areas of Canada the number of infections continue to climb as more contagious variants have taken hold. In response, governments in multiple provinces have reintroduced measures to slow the transmission rate and prevent the health care system from being overwhelmed. These measures include working from home if possible, limiting restaurants to take out and delivery service, limiting capacity in retail stores and halting non-essential construction. With these measures in place, there is an expectation of slowed economic activity which may last until vaccines have been distributed and immunity built up within the population.

The insurance industry has proven to be quite resilient throughout the pandemic but is not isolated from the impact the pandemic is having on people and the economy. The Corporation is positioned to support customers, issuers and employees as the COVID-19 pandemic moves through the third wave.

- The health of SGI's employees is of utmost importance. Employees have been primarily working from home since March 2020. In cases where employees are unable to work from home or are required on-site, appropriate measures have been put in place, including physical distancing and additional cleaning.
- Continuing to serve customers is extremely important during the pandemic. Customers are encouraged to contact either SGI or their issuer by phone, via email and through online self-service options.
- The decrease in economic activity has resulted in fewer vehicles on the roads and insurance companies have had fewer auto claims throughout the pandemic. This trend is expected to continue until economic activity has fully resumed.
- Investment markets have recovered from the pandemic related shock in 2020 with global economic growth expected to be above levels experienced during previous recoveries. Governments across the globe have provided extraordinary levels of monetary and fiscal policy support through the pandemic. These supports remain in place and are expected to further drive strong housing markets, labour market growth and provide increasing confidence in the economic recovery. Although yields are projected to increase marginally, they are advancing from historically low levels.

Responsibility for Financial Statements

The financial statements are the responsibility of Management and have been prepared in conformity with International Financial Reporting Standards. In the opinion of Management, the financial statements fairly reflect the financial position, results of operations and cash flows of the Saskatchewan Auto Fund (the Auto Fund) within reasonable limits of materiality.

Preparation of financial information is an integral part of Management's broader responsibilities for the ongoing operations of the Auto Fund. 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 Auto Fund to carry out a valuation of the policy liabilities in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Auto Fund and the nature of the insurance policies. The actuary also makes use of Management information provided by the Auto Fund and the work of the external auditors in verifying the data used in the valuation.

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

As appointed by the Lieutenant Governor in Council and approved by Crown Investments Corporation of Saskatchewan, KPMG LLP have been appointed external auditors. Their responsibility is to report to the Members of the Legislative Assembly regarding the fairness of presentation of the Auto Fund's financial position and results of operations as shown in the 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
Saskatchewan Government Insurance
as Administrator of the Saskatchewan Auto Fund

Jeff Stepan
Chief Financial Officer
Saskatchewan Government Insurance
as Administrator of the Saskatchewan Auto Fund

May 27, 2021

Annual Statement of Management Responsibility

I, Andrew Cartmell, President and Chief Executive Officer, and I, Jeff Stepan, Chief Financial Officer, certify the following:

a. That we have reviewed the financial statements included herein. Based on our knowledge, having exercised reasonable diligence, the financial statements fairly present, in all material respects, the financial condition, results of operations and cash flows, as of March 31, 2021.

b. That based on our knowledge, having exercised reasonable diligence, the financial statements do not contain any untrue statements of material fact, or omit to state a material fact that is either required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made.

c. That Saskatchewan Auto Fund (the Auto Fund) is responsible for establishing and maintaining effective internal controls over financial reporting, which includes safeguarding of assets and compliance with applicable legislative authorities; and, the Auto Fund has designed internal controls over financial reporting that are appropriate to its circumstances.

d. That the Auto Fund conducted its assessment of the effectiveness of its internal controls over financial reporting and, based on the results of this assessment, it can provide reasonable assurance that internal controls over financial reporting as of March 31, 2021, were operating effectively and no material weaknesses were found in the design or operation of the internal controls over financial reporting.

Andrew R. Cartmell
President and Chief Executive Officer
Saskatchewan Government Insurance
as Administrator of the Saskatchewan Auto Fund

Jeff Stepan
Chief Financial Officer
Saskatchewan Government Insurance
as Administrator of the Saskatchewan Auto Fund

May 27, 2021

Actuary's Report

To the Board of Directors of Saskatchewan Government Insurance

I have valued the policy liabilities and reinsurance recoverables of the Saskatchewan Auto Fund for its statement of financial position at March 31, 2021 and their changes in the 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 financial statements fairly present the results of the valuation.

Chris McCulloch

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

May 27, 2021
Winnipeg, Manitoba

Independent Auditor’s Report

To the Members of the Legislative Assembly, Province of Saskatchewan

Opinion

We have audited the financial statements of Saskatchewan Auto Fund (the “Entity”), which comprise:

- the statement of financial position as at March 31, 2021
- the statement of operations and change in rate stabilization reserve for the year then ended
- the statement of cash flows for the year then ended
- and notes to the 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 March 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.

Other information

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditors’ report thereon, included in the Annual Report

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors’ report thereon, included in the Annual Report as at the date of this auditors’ report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors’ report.

We have nothing to report in this regard.

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.

KPMG LLP

Chartered Professional Accountants

May 27, 2021
Regina, Canada

Statement of Financial Position

	(thousands of $)	
	March 31 2021	**March 31 2020**
Assets		
Cash and cash equivalents (note 4)	$ 273,592	$ 35,807
Accounts receivable (note 5)	253,338	248,866
Investments under securities lending program (note 6)	382,343	–
Investments (note 6)	2,689,744	2,646,556
Unpaid claims recoverable from reinsurers (note 9)	159	5,067
Reinsurers' share of unearned premiums (note 12)	7,411	7,929
Deferred policy acquisition costs (note 7)	31,762	30,217
Property and equipment (note 10)	56,251	59,285
Intangible assets (note 11)	10,706	11,895
Other assets (note 8)	7,712	11,082
	$ 3,713,018	$ 3,056,704
Liabilities		
Accounts payable and accrued liabilities	$ 58,837	$ 57,125
Premium taxes payable	10,996	10,284
Rebate to policyholders payable (note 19)	285,000	–
Amounts due to reinsurers	7,566	9,742
Unearned premiums (note 12)	408,964	391,408
Provision for unpaid claims (note 9)	1,851,517	1,781,398
	2,622,880	2,249,957
Equity		
Rate Stabilization Reserve	1,090,138	806,747
	$ 3,713,018	$ 3,056,704

Commitments and contingencies (note 20)
The accompanying notes are an integral part of these financial statements.
Approved by the Board of Directors and signed on their behalf on May 27, 2021.

Arlene Wiks
Director

Denis Perrault
Director

Statement of Operations and Change in Rate Stabilization Reserve

For the years ended March 31	(thousands of $) 2021	2020
Gross premiums written	$ 988,696	$ 962,705
Premiums ceded to reinsurers	(9,449)	(10,549)
Net premiums written	979,247	952,156
Change in net unearned premiums (note 12)	(18,074)	3,454
Net premiums earned	**961,173**	955,610
Gross claims incurred	784,436	889,428
Ceded claims incurred	1,018	(127)
Net claims incurred (note 9)	785,454	889,301
Issuer fees	47,071	47,482
Administrative expenses	69,190	71,068
Premium taxes	48,557	48,309
Traffic safety programs	31,554	34,047
Total claims and expenses	**981,826**	1,090,207
Underwriting loss	**(20,653)**	(134,597)
Net investment earnings (note 13)	508,482	2,450
Other income (note 14)	80,562	85,441
Increase (decrease) to Rate Stabilization Reserve and Comprehensive Income before rebate to policyholders	**568,391**	(46,706)
Rebate to policyholders (note 19)	(285,000)	–
Increase (decrease) to Rate Stabilization Reserve and Comprehensive Income	**283,391**	(46,706)
Rate Stabilization Reserve, beginning of the year	806,747	853,453
Rate Stabilization Reserve, end of the year	**$ 1,090,138**	$ 806,747

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

Statement of Cash Flows

	(thousands of $)	
For the years ended March 31	**2021**	**2020**
Cash provided by (used for):		
Operating activities		
Increase (decrease) to Rate Stabilization Reserve and Comprehensive Income	$ 283,391	$ (46,706)
Non-cash items:		
Bond amortization	5,667	2,887
Amortization and depreciation	10,360	7,756
Net realized gains on sale of investments	(129,395)	(32,237)
Net unrealized (gains) losses on change in market value of investments	(280,193)	107,069
Interest revenue from investments	(30,966)	(31,621)
Dividend revenue from investments	(4,967)	(6,060)
Loss on disposal of property and equipment	70	146
Change in non-cash operating items (note 17)	379,131	63,091
	233,098	64,325
Investing activities		
Interest received	30,048	31,527
Dividends received	5,137	6,308
Purchases of investments	(1,028,218)	(875,523)
Proceeds on sale of investments	1,006,608	816,272
Purchases of property and equipment	(8,888)	(14,887)
Purchase of intangible assets	–	(11,895)
	4,687	(48,198)
Increase in cash and cash equivalents	**237,785**	16,127
Cash and cash equivalents, beginning of the year	35,807	19,680
Cash and cash equivalents, end of the year	**$ 273,592**	$ 35,807

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

Notes to the Financial Statements

March 31, 2021

1. Status of the Auto Fund

The Saskatchewan Auto Fund (Auto Fund) was established effective January 1, 1984, by an amendment to *The Automobile Accident Insurance Act.* The address of the Auto Fund's registered office is 2260 - 11th Avenue, Regina, SK, Canada. The Auto Fund is a compulsory vehicle insurance program providing vehicle registrations, driver's licences and related services for Saskatchewan drivers and vehicle owners. In addition to vehicle damage and property liability coverage, the Auto Fund also includes injury coverage that provides a choice between No Fault Coverage or Tort Coverage.

The Auto Fund is a self-sustaining fund, administered by Saskatchewan Government Insurance (SGI). The role of SGI, as administrator, is to oversee the operations of the Auto Fund for the Province of Saskatchewan. Any annual excess or deficiencies of the Auto Fund are recorded in its Rate Stabilization Reserve (RSR). The RSR is held on behalf of Saskatchewan's motoring public and is intended to protect motorists from rate increases made necessary by unexpected events and losses arising from catastrophic events.

Substantially all of the Auto Fund's premium revenue is subject to review by the Saskatchewan Rate Review Panel (SRRP). The Auto Fund is required to submit vehicle insurance rate changes to the SRRP, whose mandate is to evaluate the rate change and provide an opinion on the fairness and reasonableness of the requested change. The SRRP does not have the authority to implement any of its recommendations; the final decision to approve, change or reject rate changes is at the discretion of the government of the Province of Saskatchewan.

Being a fund of the Province of Saskatchewan, the Auto Fund is exempt from federal and provincial income taxes. The financial results of the Auto Fund are included in the Province of Saskatchewan's summary financial statements.

2. Basis of Preparation

Statement of compliance

The 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 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 Statement of Financial Position has been prepared on a non-classified basis broadly in order of liquidity.

Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Auto Fund's functional and presentation currency.

Use of estimates and judgment

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and 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), the valuation of accounts receivable (note 5) and the valuation of 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 Saskatchewan. Governments at all levels reacted with stimulus to support businesses and the economy, triggering a rebound in the financial markets.

As the pandemic evolves, the extent of the continued impact on the Auto Fund's operating results is dependent on the effectiveness of measures being taken to contain the third wave of infections and the speed of the vaccine roll out. As a result, the Auto Fund's financial results will be subject to continued volatility. This additional volatility and economic uncertainty has impacted the valuation of the Auto Fund's investments (note 6), provision for unpaid claims (note 9) and unpaid claims recoverable from reinsurers (note 9).

3. Significant Accounting Policies

Financial assets and liabilities

The measurement basis for financial assets and liabilities depends on whether the financial assets and liabilities have been classified as fair value through profit and loss, available for sale, held to maturity, loans and receivables or other financial liabilities. Financial assets and liabilities classified as fair value through profit and loss are measured at fair value and changes in fair value are recognized as an increase or decrease to the RSR. 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 the RSR. 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 Auto Fund has no financial assets or liabilities designated as available for sale or held to maturity.

The Auto Fund has designated its cash and cash equivalents and investments as fair value through profit and loss. Accounts receivable are designated as loans and receivables. Accounts payable and accrued liabilities, premium taxes payable and rebate to policyholders payable are designated as other financial liabilities. Unpaid claims recoverable from 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 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 Statement of Operations and Change in Rate Stabilization Reserve unless required or permitted by an accounting standard or interpretation, as specifically disclosed in the accounting policies of the Auto Fund. There are no financial assets or financial liabilities reported as offset in these 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 Auto Fund defines active markets based on the frequency of valuation and any restrictions or illiquidity on disposition of the underlying investment and trading volumes. Assets measured at fair value and classified as Level 1 include Canadian common shares and equity investment funds. Fair value is based on market price data for identical assets obtained from the investment custodian, investment managers or dealer markets. The Auto Fund 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 of 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 Auto Fund's investment in the mortgage and real estate investment funds and infrastructure limited partnerships. The fair value of these investments is based on the Auto Fund's share of the net asset value of the respective fund or partnership, 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 the 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 comparable sales, discounted cash flows, and income capitalization methods.
- The fair value of the infrastructure limited partnerships is determined by the investment manager. A number of valuation methodologies are considered in arriving at fair value, including internal or external valuation models, which may include discounted cash flow analysis. The most appropriate methodology to determine fair value is chosen on an investment-by-investment basis. Any control, size, liquidity or other discounts or premiums on the investment are considered by the investment manager in their determination of fair value. During the initial period after an investment has been made, cost may represent the most reasonable estimate of fair value.

The fair value of other financial assets and financial liabilities is considered to be the carrying value when they are of short duration or when the investment's interest rate approximates current observable market rates. Where other financial assets and financial liabilities are of longer duration, then 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, premium taxes payable and rebate to policyholders payable approximate their carrying values due to their short term nature.

Investments
The Auto Fund records investment purchases and sales on a trade-date basis, being the date when the transactions are entered into. Financial assets are derecognized when the rights to receive cash flows from them have expired, or when the Auto Fund 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 Statement of Financial Position given that the risks and rewards of ownership are not transferred from the Auto Fund to the counterparties in the course of such transactions. The securities are reported separately on the 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 Statement of Financial Position given that the risks and rewards of ownership are not transferred from the counterparties to the Auto Fund in the course of such transactions.

Investment earnings
The Auto Fund recognizes interest revenue as earned, dividends when declared, investment fund revenue when a distribution is declared, realized gains and losses on investments when the investment has been sold and unrealized gains and losses based on changes in market value of the investments held at the 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 Auto Fund's vehicle registrations 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 vehicle registrations 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 Statement of Financial Position.

At the end of each reporting period, a liability adequacy test is performed, in accordance with IFRS, to validate the adequacy of unearned premiums and deferred policy acquisition costs (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 adjusting 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 and issuer fees 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 Auto Fund uses various types of reinsurance to limit its maximum insurance risk exposure. Estimates of amounts recoverable from reinsurers in respect of insurance contract liabilities are recorded as reinsurance assets on a gross basis in the Statement of Financial Position. Unpaid claims recoverable from reinsurers are estimated in a manner consistent with the method used for determining the provision for unpaid claims, unearned premiums and DPAC respectively. Reinsurance ceded does not relieve the Auto Fund of its primary obligation to policyholders.

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 Auto Fund 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 Auto Fund, and the cost of the item can be reliably measured. Repairs and maintenance are charged to the Statement of Operations and Change in Rate Stabilization Reserve in the period in which they have been incurred.

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

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

Buildings and improvements	15-40 years
Building components	15-30 years
Leasehold improvements	lease term
Furniture and equipment	3-5 years

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

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

Intangible assets

Intangible assets are recorded at cost less accumulated amortization and accumulated impairment, if any. Cost includes expenditures that are directly attributable to the acquisition of the intangible asset.

The Auto Fund has not incurred any borrowing costs attributable to intangible assets, and therefore no borrowing costs have been capitalized. Subsequent costs are included in the intangible asset's carrying value when it is probable that future economic benefits associated with the item will flow to the Auto Fund, and the cost of the item can be reliably measured.

The amortization method being used, the useful lives of the intangible assets and residual values of the intangible assets are reviewed at each reporting period.

The intangible assets have finite useful lives and are being amortized on a straight-line basis, commencing in the year in which the asset is available to be placed in service, over their estimated useful lives of 10 years.

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

Provisions and contingent liabilities

Provisions are recognized when the Auto Fund 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 claim adjudication, the Auto Fund settles certain long-term claim losses through the purchase of annuities under structured settlement arrangements with life insurance companies. As the Auto Fund 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 Statement of Operations and Change in Rate Stabilization Reserve at the date of purchase and the related claim liabilities are de-recognized. However, the Auto Fund remains exposed to the credit risk that the life insurance companies may fail to fulfil their obligations.

Future accounting policy changes

The following future changes to accounting standards will be applicable to the Auto Fund:

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 Statement of Operations and Change in Rate Stabilization Reserve; 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 Statement of Financial Position will reflect the fair value carrying amount while amortized cost information is presented in the Statement of Operations and Change in Rate Stabilization Reserve. 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 Auto Fund 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 Auto Fund 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. The Auto Fund is evaluating the impact this standard will have on the financial statements.

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 Statement of Operations and Change in Rate Stabilization Reserve. The standard also includes significant changes to the presentation and disclosure of insurance contracts within entities' financial statements.

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 Auto Fund is evaluating the impact this standard will have on the financial statements.

4. Cash and Cash Equivalents

	(thousands of $)	
	2021	**2020**
Money market investments	$ 246,152	$ 21,796
Cash, net of outstanding cheques	27,440	14,011
Total cash and cash equivalents	$ 273,592	$ 35,807

The average effective interest rate on money market investments is 0.2% (2020 – 0.3%).

5. Accounts Receivable

Accounts receivable is comprised of the following:

	(thousands of $)	
	2021	2020
Due from insureds	$ 250,716	$ 250,268
Accrued investment income	8,497	14,911
Licence issuers	8,397	7,612
Inter-Company Recievable	6,210	–
Salvage operations	2,064	2,200
Amounts due from reinsurers	658	1,970
Other	637	272
Amounts due from municipalities and Ministry of Justice	595	414
Subtotal	277,774	277,647
Less: Allowance for doubtful accounts (note 15)	(24,436)	(28,781)
Total accounts receivable	$ 253,338	$ 248,866

Included in due from insureds is $218.8 million (2020 – $211.9 million) of financed premiums receivable, which represents the portion of policyholders' monthly premium payments that are not yet due. The majority of policyholders have the option to pay a portion of the premium when the policy is placed in force and the balance in monthly instalments. The policyholder pays an additional charge for this option, reflecting handling costs and the investment income that would have been earned on such premium, had the total amount been collected at the beginning of the policy period (note 14).

6. Investments

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

	(thousands of $)	
	2021	2020
Short-term investments	$ 40,267	$ 8,749
Bonds and debentures	736,616	1,034,727
Canadian common shares	110,037	141,551
Infrastructure limited partnerships	296,242	232,321
Investment funds:		
Global equity	768,736	582,704
Global small cap equity	267,774	186,282
Mortgage	225,209	212,094
Real estate	244,863	248,128
	2,689,744	2,646,556
Investments under securities lending program		
Bonds and debentures	365,445	–
Canadian common shares	16,898	–
	382,343	–
Total investments	$ 3,072,087	$ 2,646,556

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 0.1% (2020 – 1.7%) and an average remaining term to maturity of 66 days (2020 – 6 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.

	(thousands of $)			
	2021		2020	
Term to maturity (years)	Carrying Value	Average Effective Rates (%)	Carrying Value	Average Effective Rates (%)
Government of Canada:				
After one through five	$ 87,543	0.8	$ 108,228	1.0
After five	–	–	6,276	1.1
Canadian provincial and municipal:				
After five	599,062	2.4	555,197	2.3
Canadian corporate:				
One or less	148,612	0.4	199,200	2.1
After one through five	191,038	0.6	87,321	2.3
After five	75,806	2.3	78,505	2.0
Total bonds and debentures	$ 1,102,061		$ 1,034,727	

Canadian common shares

Common shares have no fixed maturity dates. The average effective dividend rate is 2.4% (2020 – 3.6%).

Investment funds and limited partnerships

The Auto Fund owns units in equity funds, a mortgage investment fund, a real estate investment fund and six infrastructure limited partnerships. These investment funds have no fixed distribution rate. Returns are based on the success of the investment managers. Commitments related to these investments are $185.8 million (2020 – $27.1 million).

Securities lending program

Through its custodian, the Auto Fund participates in a 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 March 31, 2021, the Auto Fund held collateral of $401.5 million (2020 – nil) 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 $)			
	2021			
	Level 1	Level 2	Level 3	Total
Short-term investments	$ –	$ 40,267	$ –	$ 40,267
Bonds and debentures	–	1,102,061	–	1,102,061
Canadian common shares	126,935	–	–	126,935
Infrastructure limited partnerships	–	–	296,242	296,242
Investment funds:				
Global equity	768,736	–	–	768,736
Global small cap equity	267,774	–	–	267,774
Mortgage	–	–	225,209	225,209
Real estate	–	–	244,863	244,863
Total Investments	$ 1,163,445	$ 1,142,328	$ 766,314	$ 3,072,087

	(thousands of $)			
	2020			
	Level 1	Level 2	Level 3	Total
Short-term investments	$ –	$ 8,749	$ –	$ 8,749
Bonds and debentures	–	1,034,727	–	1,034,727
Canadian common shares	141,551	–	–	141,551
Infrastructure limited partnerships	–	–	232,321	232,321
Investment funds:				
Global equity	582,704	–	–	582,704
Global small cap equity	186,282	–	–	186,282
Mortgage	–	–	212,094	212,094
Real estate	–	–	248,128	248,128
Total Investments	$ 910,537	$ 1,043,476	$ 692,543	$ 2,646,556

The Auto Fund'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	$ 692,543	$ 546,445
Add: Additions during the year		
Infrastructure limited partnerships	54,805	118,030
Mortgage investment fund	12,168	9,227
Less: Disposals during the year		
Infrastructure limited partnerships	(5,532)	(14,263)
Net unrealized gains	12,330	33,104
Level 3 investments, end of the year	$ 766,314	$ 692,543

Investment in the infrastructure limited partnerships, the mortgage investment fund and the real estate investment fund are valued using the Auto Fund's share of the net asset value of the respective fund as at March 31, 2021.

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

The continued 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. Deferred Policy Acquisition Costs (DPAC)

	(thousands of $)	
	2021	2020
DPAC, beginning of the year	$ 30,217	$ 30,695
Acquisition costs deferred during the year	97,164	95,310
Amortization of deferred acquisition costs	(95,619)	(95,788)
DPAC, end of the year	$ 31,762	$ 30,217

8. Other Assets

Other assets are comprised of the following:

	(thousands of $)	
	2021	2020
Inventories	$ 3,997	$ 4,698
Prepaid expenses	3,715	6,384
Total other assets	$ 7,712	$ 11,082

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	$ 580,611	$ 203,825	$ 784,436	$ 982,629	$ (93,201)	$ 889,428
Ceded claims incurred	155	863	1,018	(138)	11	(127)
Net claims incurred	$ 580,766	$ 204,688	$ 785,454	$ 982,491	$ (93,190)	$ 889,301

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 costs of those claims transferred to the Auto Fund's various reinsurers pursuant to reinsurance contracts.

Net provision for unpaid claims

	(thousands of $)	
	2021	2020
Net unpaid claims, beginning of the year - discounted	$ 1,776,331	$ 1,699,784
PFAD and discount, beginning of the year	592,798	709,569
Net unpaid claims, beginning of the year - undiscounted	2,369,129	2,409,353
Payments made during the year relating to:		
Prior year claims	(185,932)	(239,842)
Deficiency (excess) relating to:		
Prior year estimated unpaid claims	204,688	(93,190)
Net unpaid claims, prior years - undiscounted	2,387,885	2,076,321
Net unpaid claims, current year	251,974	292,808
Net unpaid claims, end of the year - undiscounted	2,639,859	2,369,129
PFAD and discount, end of the year	(788,501)	(592,798)
Net unpaid claims, end of the year - discounted	$ 1,851,358	$ 1,776,331

The net provision for unpaid claims is summarized by type of claim as follows:

	(thousands of $)					
	Gross Unpaid Claims		Reinsurance Recoverable		Net Unpaid Claims	
	2021	2020	2021	2020	2021	2020
Injury accident benefits	$ 2,503,413	$ 2,228,723	$ –	$ –	$ 2,503,413	$ 2,228,723
Injury liability	96,028	92,258	–	–	96,028	92,258
Damage	40,587	53,070	170	4,922	40,417	48,148
PFAD	377,692	379,176	(9)	162	377,701	379,014
Effect of discounting	(1,166,203)	(971,829)	(2)	(17)	(1,166,201)	(971,812)
Total	$ 1,851,517	$ 1,781,398	$ 159	$ 5,067	$ 1,851,358	$ 1,776,331

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 Auto Fund'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 Auto Fund's historical experience and may be revised as additional experience becomes available. Any such changes would be reflected in the Statement of Operations and Change in Rate Stabilization Reserve for the period in which the change occurred.

Included in the above amount is a PFAD in the amount of $377.7 million (2020 – $379.0 million). The incorporation of a PFAD within the provision for unpaid claims is in accordance with accepted actuarial practice and the selected PFAD is within the ranges recommended by the Canadian Institute of Actuaries. The PFAD considers the Auto Fund's assumptions concerning claim development, reinsurance recoveries and future investment earnings.

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 Auto Fund determines the discount rate based upon the expected return of the investments that approximates the cash flow requirements of the unpaid claims. The discount rate applied was 3.9% (2020 – 3.8%). The resulting carrying amount is 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 Auto Fund 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 Auto Fund settles some long-term disability claims by purchasing annuities for its claimants from various life insurers. The settlements legally release the Auto Fund from its obligations to the claimants. Consequently, neither the annuities purchased nor the claim liabilities are recognized on the Statement of Financial Position. However, as part of the settlement, the Auto Fund 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 March 31, 2021, no information has come to the Auto Fund's attention that would suggest any weakness or failure in the life insurers from which it has purchased the annuities. The net present value of the scheduled payments as of the year-end date is $24.7 million (2020 – $25.4 million). The net risk to the Auto Fund is the credit risk related to the life insurance companies that the annuities are purchased from. No defaults have occurred, and the Auto Fund considers the possibility of default to be remote.

10. Property and Equipment

The components of the Auto Fund's property and equipment, as well as the related accumulated depreciation, are as follows:

	(thousands of $)					
	2021					
	Land	Buildings & Improvements	Building Components	Leasehold Improvements	Furniture & Equipment	Total
Cost:						
Beginning of the year	$ 6,643	$ 54,809	$ 15,678	$ 5,183	$ 65,103	$ 147,416
Additions	–	509	675	–	7,704	8,888
Disposals	–	–	–	–	(7,693)	(7,693)
Transfers out	–	–	–	(2,718)	–	(2,718)
End of the year	6,643	55,318	16,353	2,465	65,114	145,893
Accumulated depreciation:						
Beginning of the year	–	31,302	10,686	1,599	44,544	88,131
Depreciation	–	1,625	674	241	6,631	9,171
Disposals	–	–	–	–	(7,623)	(7,623)
Transfers out	–	–	–	(37)	–	(37)
End of the year	–	32,927	11,360	1,803	43,552	89,642
Net book value, end of the year	$ 6,643	$ 22,391	$ 4,993	$ 662	$ 21,562	$ 56,251

	(thousands of $)					
	2020					
	Land	Buildings & Improvements	Building Components	Leasehold Improvements	Furniture & Equipment	Total
Cost:						
Beginning of the year	$ 6,643	$ 53,996	$ 15,406	$ 2,457	$ 54,948	$ 133,450
Additions	–	813	272	2,726	11,076	14,887
Disposals	–	–	–	–	(921)	(921)
Transfers in (out)	–	–	–	–	–	–
End of the year	6,643	54,809	15,678	5,183	65,103	147,416
Accumulated depreciation:						
Beginning of the year	–	29,481	10,043	1,273	40,353	81,150
Depreciation	–	1,821	643	326	4,966	7,756
Disposals	–	–	–	–	(775)	(775)
Transfers in (out)	–	–	–	–	–	–
End of the year	–	31,302	10,686	1,599	44,544	88,131
Net book value, end of the year	$ 6,643	$ 23,507	$ 4,992	$ 3,584	$ 20,559	$ 59,285

On April 1, 2020, leasehold improvements of $2.7 million, and the related accumulated depreciation, was transferred from the Saskatchewan Auto Fund to SGI CANADA, a company related by way of having common control from the Government of Saskatchewan and both being administered by SGI.

Depreciation provided in the year is included in administrative expenses on the Statement of Operations and Change in Rate Stabilization Reserve. When an asset has been disposed, its original cost is removed from the financial statements along with any accumulated depreciation related to that asset.

11. Intangible Assets

The Auto Fund's intangible assets consist solely of internally developed software that has been created as part of SGI's digital transformation project. The intangible assets, as well as the related accumulated amortization, are as follows:

	(thousands of $)	
	2021	2020
Cost:		
Beginning of the year	$ 11,895	$ –
Additions	–	11,895
End of the year	11,895	11,895
Accumulated amortization:		
Beginning of the year	–	–
Amortization	1,189	–
End of the year	1,189	–
Net book value, end of the year	$ 10,706	$ 11,895

12. 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	$ 391,408	$ 394,880	$ 7,929	$ 7,947	$ 383,479	$ 386,933
Premiums written	988,696	962,705	9,449	10,549	979,247	952,156
Premiums earned	(971,140)	(966,177)	(9,967)	(10,567)	(961,173)	(955,610)
Change in net unearned premiums	17,556	(3,472)	(518)	(18)	18,074	(3,454)
Unearned premiums, end of the year	$ 408,964	$ 391,408	$ 7,411	$ 7,929	$ 401,553	$ 383,479

13. Net Investment Earnings

Components of investment earnings are as follows:

	(thousands of $)	
	2021	**2020**
Net unrealized gains (losses) on change in market value of investments	$ 280,193	$ (107,069)
Net realized gains on sale of investments	129,083	32,549
Investment fund distributions	75,857	47,625
Interest and other	25,883	28,865
Dividends	4,967	6,060
Infrastructure limited partnership distributions	4,135	4,590
Total investment earnings	520,118	12,620
Investment expenses	(11,636)	(10,170)
Net investment earnings	$ 508,482	$ 2,450

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

	(thousands of $)	
	2021	**2020**
Bonds and debentures	$ (28,065)	$ 4,463
Canadian common shares	40,630	(36,990)
Infrastructure limited partnerships	14,648	13,612
Investment funds:		
Global equity	163,486	(52,420)
Global small cap equity	91,812	(55,226)
Mortgage	947	(1,059)
Real estate	(3,265)	20,551
Net unrealized gains (losses)	$ 280,193	$ (107,069)

14. Other Income

The components of other income are as follows:

	(thousands of $)	
	2021	2020
Payment option fees	$ 35,921	$ 35,710
Safe Driver Recognition program penalties	24,105	28,606
Net earnings on salvage sales	20,536	21,125
Total other income	$ 80,562	$ 85,441

The Auto Fund offers a Short-term Vehicle Registration and Insurance Plan that allows customers to choose the number of months they wish to insure and register their vehicle. Another payment option, AutoPay, allows customers to have equal monthly withdrawals made from their bank accounts for their vehicle registration and insurance.

The Auto Fund maintains a Safe Driver Recognition program based on a safety rating scale. Drivers lose safety rating points for certain driving incidents. Drivers in the penalty zone (safety rating less than zero) are assessed a financial penalty for each incident they are responsible for. The further the incident moves them in the penalty zone, the higher the penalty they have to pay.

The Auto Fund administers a salvage operation in order to maximize the derived economic value of salvageable vehicles, vehicle parts and materials available through the claim settlement process.

Net earnings on salvage sales is comprised of:

	(thousands of $)	
	2021	2020
Salvage sales	$ 60,801	$ 60,848
Cost of sales	(35,833)	(35,427)
Gross profit	24,968	25,421
Administrative expenses	(4,799)	(4,664)
Other income	367	368
Net earnings on salvage sales	$ 20,536	$ 21,125

15. Insurance and Financial Risk Management

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

Insurance risk arises with respect to the adequacy of the Auto Fund's policy 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 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 Auto Fund 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.

Reinsurance

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

	(thousands of $)	
	2021	2020
Automobile physical damage catastrophe	$ 20,000	$ 17,500
(subject to filling an annual aggregate deductible of)	20,000	17,500

While the Auto Fund 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 Auto Fund evaluates and monitors the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvency.

Actuarial risk

Establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances, and is therefore a complex process influenced by a variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Auto Fund 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 Auto Fund's experience with similar cases, historical claim payment trends and claim development patterns, characteristics of each class of business, claim severity and frequency, 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 table shows the development of the estimated net provision for unpaid claims for the 10 most recent accident years as estimated at each reporting date. The Auto Fund changed its year end from December 31 to March 31, effective March 31, 2016. As a result, historical net ultimate loss estimates for the March 31, 2016 and prior accident years are not available.

Net provision for unpaid claims

	(thousands of $)									
Accident year	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
Net Ultimate Loss										
At end of accident year	$ n/a	$ n/a	$ n/a	$ n/a	$ n/a	$ 716,484	$ 711,865	$ 759,830	$ 762,075	$ 635,933
One year later	n/a	n/a	n/a	n/a	645,389	738,267	723,379	763,849	762,075	
Two years later	n/a	n/a	n/a	628,662	641,301	742,971	727,244	767,780		
Three years later	n/a	n/a	636,975	629,226	645,201	742,089	731,946			
Four years later	n/a	629,886	635,498	634,045	646,230	743,919				
Five years later	591,338	627,545	636,834	636,167	647,833					
Six years later	588,439	629,550	639,210	638,114						
Seven years later	592,199	630,411	641,855							
Eight years later	594,528	633,478								
Nine years later	597,740									
Cumulative loss development	$ n/a	$ n/a	$ n/a	$ n/a	$ n/a	$ 27,435	$ 20,081	$ 7,950	$ –	n/a
Cumulative loss development as a % of original ultimate loss	n/a	n/a	n/a	n/a	n/a	3.8%	2.8%	1.0%	–	n/a

Net ultimate loss

	(thousands of $)										
Accident year	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**Total**
Current estimate of net ultimate loss	$ 597,740	$ 633,478	$ 641,855	$ 638,114	$ 647,833	$ 743,919	$ 731,946	$ 767,780	$ 762,075	$ 635,933	$ 6,800,673
Cumulative paid	(535,000)	(572,773)	(576,601)	(573,387)	(578,612)	(670,087)	(641,744)	(672,997)	(639,585)	(432,681)	(5,893,467)
Net provision for unpaid claims	$ 62,740	$ 60,705	$ 65,254	$ 64,727	$ 69,221	$ 73,832	$ 90,202	$ 94,783	$ 122,490	$ 203,252	907,206
Net discounted claims outstanding for accident years 2010-11 and prior											790,369
Loss adjusting expense reserve											148,744
Other reconciling items											5,039
Net provision for unpaid claims											$ 1,851,358

The Auto Fund's estimated sensitivity of its provision for unpaid claims to changes in best estimate assumptions in its unpaid claims liabilities is as follows:

		(thousands of $)	
		Change to Net Provision for Unpaid Claims	
Assumption	**Sensitivity**	**2021**	**2020**
Discount rate	+ 100 bps	$ (102,339)	$ (100,658)
Discount rate	- 100 bps	117,359	103,555

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 Auto Fund's operations results in a 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 Auto Fund's investments. These financial risks are managed by having a Statement of Investment Policies and Goals (SIP&G), which is approved annually by the SGI Board of Directors. The SIP&G provides guidelines for the Auto Fund's investment managers for the asset mix of the portfolio regarding quality and quantity of fixed income, real estate, infrastructure limited partnership and equity investments using a prudent person approach. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. SGI receives regular reporting from the investment managers and custodian regarding compliance with the SIP&G. The investment managers' performance is evaluated based on the goals stated in the SIP&G.

The Auto Fund investment portfolio operates as two distinct portfolios – the Matching Portfolio and the Return Seeking Portfolio. The Matching Portfolio consists of short-term investments, bonds and debentures and mortgage investment fund, while the Return Seeking Portfolio holds Canadian common shares, global equity, global small cap equity, real estate investment fund and infrastructure limited partnerships. The investment strategy relies on the Matching Portfolio to cover expected liability payments out to 20 years, with the remaining long-tail liabilities covered by the Return Seeking Portfolio.

Credit risk

The Auto Fund's credit risk arises primarily from two distinct sources: accounts receivable and certain investments. The maximum credit risk to which the Auto Fund is exposed is limited to the carrying value of those financial assets summarized as follows:

	(thousands of $)	
	2021	2020
Cash and cash equivalents	$ 273,592	$ 35,807
Accounts receivable	253,338	248,866
Fixed income investments [1]	1,367,537	1,255,570
Unpaid claims recoverable from reinsurers	159	5,067

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

In addition, the Auto Fund is exposed to credit risk associated with its structured settlements as described separately in these notes to the financial statements.

Cash and cash equivalents include money market investments of $246.2 million (2020 – $21.8 million) that mature within 90 days from the date of acquisition. All short-term investments have a credit rating of R-1.

Accounts receivable relate primarily to financed premiums receivable and Safe Driver recognition program penalty receivables. Balances are outstanding from customers, along with motor licence issuers, within Saskatchewan.

Aging of accounts receivable is as follows:

	(thousands of $)	
	2021	2020
Current	$ 249,749	$ 243,207
30 - 59 days	1,881	3,004
60 - 90 days	1,579	2,566
Greater than 90 days	24,565	28,870
Subtotal	277,774	277,647
Allowance for doubtful accounts	(24,436)	(28,781)
Total accounts receivable	$ 253,338	$ 248,866

Provisions for credit losses are maintained in an allowance account and are regularly reviewed by the Auto Fund. Amounts are written off once reasonable collection efforts have been exhausted. An Auto Fund customer cannot complete a driver's licence or vehicle transaction without making arrangements for payment of outstanding balances, including balances previously written off.

Details of the allowance account are as follows:

	(thousands of $)	
	2021	2020
Allowance for doubtful accounts, beginning of the year	$ 28,781	$ 28,273
Accounts written off	(6,552)	(8,675)
Current period provision	2,207	9,183
Allowance for doubtful accounts, end of the year	$ 24,436	$ 28,781

Concentrations of credit risk for insurance contracts can arise from reinsurance ceded contracts as insurance ceded does not relieve the Auto Fund 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 an investment policy that limits debt instruments to those of high credit quality (minimum rating for bonds and debentures is BBB, and 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 bonds and debenture investments are as follows:

	2021		2020	
Credit Rating	**Fair Value (thousands of $)**	**Makeup of Portfolio (%)**	**Fair Value (thousands of $)**	**Makeup of Portfolio (%)**
AAA	$ 163,349	14.8	$ 297,473	28.7
AA	767,167	69.6	510,107	49.3
A	152,957	13.9	196,522	19.0
BBB	18,588	1.7	30,625	3.0
Total	$ 1,102,061	100.0	$ 1,034,727	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 Auto Fund's investment in a mortgage investment fund is subject to credit risk as its value is impacted by the credit risk of the underlying mortgages. This risk is limited by restrictions within its investment policy, which include single loan limits, and 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 impacts the value of the Auto Fund's investments.

Interest rate risk

The Auto Fund 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 amount of discounting included in the provision for unpaid claims. 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 claims incurred.

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

	(thousands of $)			
	100 basis point increase		100 basis point decrease	
	2021	2020	2021	2020
Net investment earnings	$ (81,310)	$ (76,089)	$ 92,373	$ 85,815
Net claims incurred	(102,361)	(100,658)	117,378	103,555
Net increase (decrease) to RSR	21,051	24,569	(25,005)	(17,740)

Foreign exchange risk

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

	2021		
Asset Class	**Maximum Exposure (%)**	**Current Exposure (%)**	**10% change in exchange rates (thousands of $)**
Global equities	52.0	45.1	$ 76,874
Global small cap equities	20.0	15.7	26,777
Infrastructure limited partnerships	30.0	17.4	29,624

	2020		
Asset Class	**Maximum Exposure (%)**	**Current Exposure (%)**	**10% change in exchange rates (thousands of $)**
Global equities	52.0	41.9	$ 58,270
Global small cap equities	20.0	13.4	18,628
Infrastructure limited partnerships	20.0	16.7	23,232

As global equity funds and infrastructure limited partnerships are classified as fair value through profit and loss, unrealized changes due to foreign currency are recorded in the Statement of Operations and Change in Rate Stabilization Reserve. There is no exposure to foreign exchange risk within the Auto Fund's bond and debenture portfolio. As well, no more than 10% of the market value of the bond and debenture portfolio shall be invested in bonds or debentures of foreign issuers. The Auto Fund's exposure to exchange rate risk resulting from the purchase of goods and services is not considered material to the operations of the Auto Fund.

Equity prices

The Auto Fund is exposed to changes in equity prices in Canadian and global markets. At March 31, 2021, equities comprise 37.9% (2020 – 34.4%) of the carrying value of the Auto Fund'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 Auto Fund's equity portfolio. As well, no one holding represents more than 10% of the voting shares of any corporation.

The Auto Fund's equity price risk is assessed using Value at Risk, a statistical technique that measures the potential change in value of an asset class. It is calculated 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).

	(thousands of $)					
Asset Class	**2021**			**2020**		
Global equities	$	+/-	189,955	$	+/-	118,289
Canadian equities		+/-	41,330		+/-	27,178
Global small cap equities		+/-	88,258		+/-	44,112

The Auto Fund's equity investments are classified as fair value through profit and loss and any unrealized changes in their fair value are recorded in the Statement of Operations and Change in Rate Stabilization Reserve.

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 Auto Fund is unable to meet its financial obligations as they fall due. Cash resources of the Auto Fund are managed daily based on anticipated cash flows. The majority of financial liabilities, excluding certain unpaid claim liabilities, are short-term in nature, due within one year. The Auto Fund generally maintains positive overall cash flow through cash generated from operations and investing activities.

The following tables summarize the estimated contractual timing of cash flows on an undiscounted basis arising from the Auto Fund's financial assets and liabilities.

	(thousands of $)							
	March 31, 2021							
	Carrying amount	Total	No stated maturity	0 - 1 years	1 - 2 years	3 - 5 years	5 - 10 years	More than 10 years
Financial assets								
Cash and cash equivalents	$ 273,592	$ 273,592	$ –	$ 273,592	$ –	$ –	$ –	$ –
Accounts receivable	253,338	253,338	–	253,338	–	–	–	–
Investments	3,072,087	3,072,087	1,929,759	188,879	191,038	87,543	168,497	506,371
Unpaid claims recoverable from reinsurers	159	170	–	98	58	14	–	–
	$ 3,599,176	$ 3,599,187	$ 1,929,759	$ 715,907	$ 191,096	$ 87,557	$ 168,497	$ 506,371
Financial liabilities								
Accounts payable and accrued liabilities	$ 58,837	$ 58,837	$ 20,072	$ 38,765	$ –	$ –	$ –	$ –
Premium taxes payable	10,996	10,996	–	10,996	–	–	–	–
Rebate to policyholders payable	285,000	285,000	–	285,000	–	–	–	–
Amounts due to reinsurers	7,566	7,566	6	7,560	–	–	–	–
Provision for unpaid claims	1,851,517	2,640,028	–	238,321	211,027	162,007	325,050	1,703,623
	$ 2,213,916	$ 3,002,427	$ 20,078	$ 580,642	$ 211,027	$ 162,007	$ 325,050	$ 1,703,623

	(thousands of $)							
	March 31, 2020							
	Carrying amount	Total	No stated maturity	0 - 1 years	1 - 2 years	3 - 5 years	5 - 10 years	More than 10 years
Financial assets								
Cash and cash equivalents	$ 35,807	$ 35,807	$ –	$ 35,807	$ –	$ –	$ –	$ –
Accounts receivable	248,866	248,866	–	248,866	–	–	–	–
Investments	2,646,556	2,646,556	1,603,080	207,949	60,471	135,078	126,215	513,763
Unpaid claims recoverable from reinsurers	5,067	4,922	–	5,465	(550)	7	–	–
	$ 2,936,296	$ 2,936,151	$ 1,603,080	$ 498,087	$ 59,921	$ 135,085	$ 126,215	$ 513,763
Financial liabilities								
Accounts payable and accrued liabilities	$ 57,125	$ 57,125	$ 22,682	$ 34,443	$ –	$ –	$ –	$ –
Premium taxes payable	10,284	10,284	–	10,284	–	–	–	–
Rebate to policyholders payable	–	–	–	–	–	–	–	–
Amounts due to reinsurers	9,742	9,742	1,583	8,159	–	–	–	–
Provision for unpaid claims	1,781,398	2,374,051	–	246,269	202,217	154,154	301,649	1,469,762
	$ 1,858,549	$ 2,451,202	$ 24,265	$ 299,155	$ 202,217	$ 154,154	$ 301,649	$ 1,469,762

The estimated contractual maturities related to the unpaid claims recoverable from reinsurers excludes the net effect of discounting and PFAD of $11 thousand (2020 – $0.1 million) (note 9). The estimated contractual maturities related to the provision for unpaid claims excludes the net effect of discounting and PFAD of $788.5 million (2020 – $592.7 million) (note 9).

16. Capital Management

The Auto Fund has a capital management policy, approved by the SGI Board of Directors. The primary objective of capital management for the Auto Fund is to maintain a level of capital in the RSR sufficient to cushion the Auto Fund from the volatility inherent in investment and underwriting operations, and ensure a positive RSR without the need for excessive rate increases for Auto Fund customers.

The Auto Fund's legislation restricts how it can raise capital and mandates the benefits it is to provide to policyholders. The Auto Fund does not receive money from the province nor from SGI, the administrator of the Auto Fund, and it does not pay dividends to the province or its administrator. The Auto Fund cannot go to public capital markets to issue debt or common shares. It uses premiums and fees from operations, along with income generated from its investment portfolio, to fund future operations.

The Auto Fund manages capital in accordance with its capital management policy using a common industry measurement called the Minimum Capital Test (MCT) to establish a target for the RSR. 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 Auto Fund's MCT as at March 31, 2021 was 168% relative to its internal target MCT of 90%.

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	$ (1,043)	$ (3,576)
Unpaid claims recoverable from reinsurers	4,908	7,358
Reinsurers' share of unearned premiums	518	18
Deferred policy acquisition costs	(1,545)	478
Other assets	3,370	(4,001)
Accounts payable and accrued liabilities	1,712	37
Premium taxes payable	712	(130)
Rebate to policyholders payable	285,000	–
Amounts due to reinsurers	(2,176)	(2,810)
Unearned premiums	17,556	(3,472)
Provision for unpaid claims	70,119	69,189
Total change in non-cash operating items	$ 379,131	$ 63,091

18. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Auto Fund 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 Auto Fund 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 acts as administrator of the Auto Fund. Administrative and loss adjustment expenses incurred by SGI CANADA are allocated to the Auto Fund directly or on the basis of a cost allocation formula. These are operating transactions incurred in the normal course of operations. Amounts incurred by SGI CANADA and charged to the Auto Fund were $164.8 million (2020 – $172.3 million) and accounts receivable were $6.2 million (2020 – accounts payable were $4.2 million).

19. Rebate to Policyholders

On February 24, 2021, the Government of Saskatchewan approved $285.0 million in rebates to be paid to registered vehicle owners in May 2021. The rebates resulted in a $285.0 million reduction to the Auto Fund's Comprehensive Income and Rate Stabilization Reserve.

20. Commitments and Contingencies

The Auto Fund has commitments to provide funding to STARS Air Ambulance, to provide funding to Saskatchewan health organizations for costs associated with rehabilitation for those involved in automobile collisions and for systems contracts as follows:

	(thousands of $)				
	2021-22	2022-23	2023-24	2024-25	2025-26
Commitments					
STARS air ambulance	$ 400	$ –	$ –	$ –	$ –
Medical funding	40,314	40,983	42,146	43,342	32,698
Systems contracts	4,055	1,515	1,013	619	572
Total commitments	$ 44,769	$ 42,498	$ 43,159	$ 43,961	$ 33,270

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

Glossary of Terms

Catastrophe reinsurance	A policy purchased by a ceding company that indemnifies that company for the amount of loss in excess of a specified retention amount subject to a maximum specific limit from a covered catastrophic event.
Claims incurred	The total for all claims paid and related claim expenses during a specific accounting period(s) plus the changes in the provision for unpaid claims for the same period of time.
Combined ratio	A measure of total expenses (claims and administration) in relation to net premiums earned as determined in accordance with GAAP. If this ratio is below 100% there was a profit from underwriting activities, while over 100% represents a loss from underwriting
GAAP	Generally accepted accounting principles. These are defined in the handbook prepared by the Canadian Institute of Chartered Accountants.
Gross premiums written (GPW)	Total premiums, net of cancellations, on insurance underwritten during a specified period of time before deduction of reinsurance premiums ceded.
IBNR reserve	Abbreviation for 'incurred but not reported'. A reserve that estimates claims that have been incurred by a policyholder but not reported to the insurance company. It also includes unknown future developments on claims that have been reported.
IFRS	International Financial Reporting Standards. These are global accounting standards issued by the International Accounting Standards Board (IASB), including interpretations of the International Financial Reporting Interpretations Committee (IFRIC).
Loss ratio (Claims ratio)	Claims incurred net of reinsurance expressed as a percentage of net premiums earned for a specified period of time.
Motor licence issuer	A person who negotiates driver's licences and vehicle licence/insurance on behalf of the Auto Fund and who receives a fee from the Auto Fund for licences placed and other services rendered.
Net premiums earned (NPE)	The portion of net premiums written that is recognized for accounting purposes as revenue during a period.
Net premiums written (NPW)	Gross premiums written for a given period of time less premiums ceded to reinsurers during such period.

Premium	The dollars that a policyholder pays today to insure a specific set of risk(s). In theory, this reflects the current value of the claims that a pool of policyholders can be expected to make in the future, as well as the costs of administering those potential claims.
Premium tax	A tax collected from policyholders and paid to the province. It is calculated as a percentage of gross premiums written.
Redundancy & deficiency	Claim reserves are constantly re-evaluated. An increase in a reserve from the original estimate is a deficiency while a decrease to the original reserve is called a redundancy.
Underwriting income/loss	The difference between net premiums earned and the sum of net claims incurred, commissions, premium taxes and all general and administrative expenses.
Unearned premiums	The difference between net premiums written and net premiums earned. It reflects the net premiums written for that portion of the term of its insurance policies that are deferred to subsequent accounting periods.

Governance

Please visit the SGI website at www.sgi.sk.ca for information on governance for the Saskatchewan Auto Fund, including:

- governance guidelines
- Board of Directors' photos and bios, committee members, frequency of meetings and terms of reference
- SGI executives' photos and bios

In Memoriam

Kevin Brown, an Auto Mechanic at Moose Jaw Salvage, brought his extensive experience as a journeyman mechanic to SGI when he joined the company in 2004. His work was meticulous and thorough, and he was always ready to lend a hand to help co-workers. His selflessness extended to his wife, Kim, and their two children, Colton and Caylin. Kevin enjoyed a good game of cribbage on coffee breaks, but cars were his world, work and play. Kevin and Kim shared a passion for cars, enjoying their 1936 Ford coupe and their pride and joy – their courting car, a 1975 Pontiac Firebird.

Allan Sinden, a Clerk 2 in Corporate Mail Services, was a kind, gentle person who had a great sense of humour and got along famously with his team. His love for his family was clear to everyone who met him. Allan and his wife, Karen, were proud of their daughter, Carli, and her partner Jessica. Allan and Karen became grandparents in September 2019 when Carli and Jessica had Alexander Allan. Alex was Allan's pride and joy and he shared many pictures of him around the office.