

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.

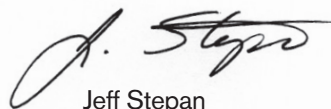
An actuary has been appointed by the Auto Fund to carry out a valuation of the policy liabilities in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned 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 her 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 30, 2019

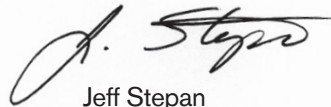
Annual Statement of Management Responsibility

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, 2019.
- 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, 2019, 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 30, 2019

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, 2019 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 policyholder obligations and the financial statements fairly present the results of the valuation.



Barb Addie
Baron Insurance Services Inc.
Fellow, Canadian Institute of Actuaries
Fellow, Casualty Actuarial Society

May 30, 2019
Toronto, Ontario

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, 2019
- 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, 2019, 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 Matter – Comparative Information

The financial statements for the year ended March 31, 2018 were audited by another auditor who expressed an unmodified opinion on those financial statements on May 31, 2018.

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.

The image shows the handwritten signature of KPMG LLP in black ink. The letters are bold and slanted, with a horizontal line underneath the signature.

Chartered Professional Accountants

May 30, 2019
Regina, Canada

Statement of Financial Position

	(thousands of \$)	
	March 31 2019	March 31 2018
Assets		
Cash and cash equivalents (note 4)	\$ 19,680	\$ 23,389
Accounts receivable (note 5)	245,444	237,841
Investments under securities lending program (note 6)	427,089	483,820
Investments (note 6)	2,237,935	2,024,030
Unpaid claims recoverable from reinsurers (note 9)	12,425	11,625
Reinsurers' share of unearned premiums (note 11)	7,947	6,454
Deferred policy acquisition costs (note 7)	30,695	29,993
Property and equipment (note 10)	52,300	41,281
Other assets (note 8)	7,081	6,545
	\$ 3,040,596	\$ 2,864,978
Liabilities		
Accounts payable and accrued liabilities	\$ 57,088	\$ 52,589
Premium taxes payable	10,414	10,059
Amounts due to reinsurers	12,552	8,709
Unearned premiums (note 11)	394,880	386,884
Provision for unpaid claims (note 9)	1,712,209	1,630,742
	2,187,143	2,088,983
Equity		
Rate Stabilization Reserve	853,453	775,995
	\$ 3,040,596	\$ 2,864,978

Commitments and contingencies (note 18)

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

Approved by the Board of Directors and signed on their behalf on May 30, 2019



Arlene Wiks
Director



Denis Perrault
Director

Statement of Operations and Change in Rate Stabilization Reserve

For the years ended March 31	(thousands of \$)	
	2019	2018
Gross premiums written	\$ 956,472	\$ 937,308
Premiums ceded to reinsurers	(14,682)	(9,665)
Net premiums written	941,790	927,643
Change in net unearned premiums (note 11)	(6,503)	2,709
Net premiums earned	935,287	930,352
Gross claims incurred	903,128	793,939
Ceded claims incurred	(8,246)	(6,073)
Net claims incurred (note 9)	894,882	787,866
Issuer fees	47,089	46,253
Administrative expenses	58,244	50,502
Premium taxes	47,424	46,950
Traffic safety programs	29,468	30,636
Total claims and expenses	1,077,107	962,207
Underwriting loss	(141,820)	(31,855)
Net investment earnings (note 12)	135,849	162,762
Other income (note 13)	83,429	79,188
Increase to Rate Stabilization Reserve and Comprehensive Income	\$ 77,458	\$ 210,095
Rate Stabilization Reserve, beginning of period	775,995	565,900
Rate Stabilization Reserve, end of period	\$ 853,453	\$ 775,995

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

Statement of Cash Flows

For the years ended March 31	(thousands of \$)	
	2019	2018
Cash provided by (used for):		
Operating activities		
Increase to Rate Stabilization Reserve and Comprehensive Income	\$ 77,458	\$ 210,095
Non-cash items:		
Bond amortization	1,911	2,609
Depreciation	5,580	5,738
Net realized gains on sale of investments	(24,053)	(6,582)
Net unrealized gains on change in market value of investments	(28,018)	(72,864)
Loss on disposal of property and equipment	71	117
Change in non-cash operating items (note 16)	87,026	4,627
	119,975	143,740
Investing activities		
Purchases of investments	(957,314)	(904,683)
Proceeds on sale of investments	850,300	750,461
Purchases of property and equipment, net of proceeds from disposals	(16,670)	(4,146)
	(123,684)	(158,368)
Decrease in cash and cash equivalents	(3,709)	(14,628)
Cash and cash equivalents, beginning of period	23,389	38,017
Cash and cash equivalents, end of period	\$ 19,680	\$ 23,389
Supplemental cash flow information:		
Interest received	\$ 30,367	\$ 27,736
Dividends received	\$ 6,809	\$ 6,471

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

Notes to the Financial Statements

March 31, 2019

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. The Rate Stabilization Reserve 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 and not in SGI's 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 principals for publically 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, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation processes are related to the actuarial determination of the provision for unpaid claims (note 9), the valuation of accounts receivable (note 5) and the valuation of investments classified as Level 3 (note 6).

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

Reinsurance ceded

The 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 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	20-40 years
Building components	15-30 years
Leasehold improvements	5 years
Furniture and equipment	3-5 years

Building components consist of heating and cooling systems, elevators, roofs and parking lots.

Land is not subject to amortization and is carried at cost.

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

Leased assets

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

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 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.

Adoption of new and amended accounting standards

Effective April 1, 2018, the Auto Fund adopted the following new and amended accounting standard:

IFRS 15 – Revenue from Contracts with Customers

The standard replaces IAS 18, *Revenue* and IAS 11, *Construction Contracts*. The standard specifies how and when to recognize revenue and additional new disclosure requirements. Revenue arising from insurance contracts and financial instruments are out of the scope of IFRS 15. IFRS 15 applies to revenue from salvage operations, Safe Driver Recognition program penalties and certain payment option fees. The adoption of this standard did not have a significant impact on the Auto Fund's financial statements.

Future accounting policy changes

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

IFRS 7 – Financial Instruments: Disclosures

IFRS 7 was amended in December 2011 to require additional financial instrument disclosures upon transition from IAS 39, *Financial Instruments: Recognition and Measurement* to IFRS 9, *Financial Instruments*.

The amendments are effective on adoption of IFRS 9 which is 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, thus IFRS 7 is effective for annual periods beginning on or after January 1, 2022. The Auto Fund is evaluating the impact this amendment will have on the financial statements.

IFRS 9 – Financial Instruments

In July 2014, the IASB issued a final version of IFRS 9, *Financial Instruments*, as part of its plan to replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 is a three-part standard aimed at reducing complexity in reporting financial instruments. The project has been divided into three phases: Phase 1 Classification and Measurement, Phase 2 Impairment and Phase 3 Hedge Accounting.

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

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

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

Phase two was completed in July 2014 and introduced a new expected loss impairment methodology that will result in more timely recognition of impairment losses. Phase three was completed in November 2013. This phase replaces the rule-based hedge accounting requirements in IAS 39 to more closely align the accounting with risk management activities.

This standard is 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, thus IFRS 9 is effective for annual periods beginning on or after January 1, 2022. The Auto Fund is evaluating the impact this standard will have on the financial statements.

IFRS 16 – Leases

IFRS 16 was issued in January 2016 and is intended to replace IAS 17, *Leases*, and related interpretations. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. This standard is effective for annual periods beginning on or after January 1, 2019. The 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. The standard also includes significant changes to the presentation and disclosure of insurance contracts within entities' financial statements.

The Auto Fund intends to adopt IFRS 17 in its financial statements for the annual period beginning on April 1, 2022 as the IASB voted to approved a one-year deferral of the effective date from 2021 to 2022. It is expected that IFRS 17 will have a significant impact on the financial statements. However, the Auto Fund is not able at this time to estimate reasonably the quantitative impact that IFRS 17 will have on the financial statements.

4. Cash and Cash Equivalents

	(thousands of \$)	
	2019	2018
Money market investments	\$ 11,200	\$ 11,600
Cash, net of outstanding cheques	8,480	11,789
Total cash and cash equivalents	\$ 19,680	\$ 23,389

The average effective interest rate on money market investments is 1.7% (2018 – 1.2%).

5. Accounts Receivable

Accounts receivable is comprised of the following:

	(thousands of \$)	
	2019	2018
Due from insureds	\$ 253,401	\$ 243,428
Accrued investment income	7,902	7,592
Licence issuers	7,637	7,027
Salvage operation	2,144	1,762
Amounts due from reinsurers	1,737	719
Amounts due from municipalities and Ministry of Justice	567	832
Other	329	334
Subtotal	273,717	261,694
Less: Allowance for doubtful accounts (note 14)	(28,273)	(23,853)
Total accounts receivable	\$ 245,444	\$ 237,841

Included in due from insureds is \$215.3 million (2018 – \$209.9 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 13).

6. Investments

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

	(thousands of \$)	
	2019	2018
Short-term investments	\$ 4,720	\$ 9,898
Bonds and debentures	635,733	552,522
Canadian common shares	184,890	186,529
Infrastructure limited partnerships	114,942	60,056
Investment funds:		
Global equity	646,809	600,427
Global small cap equity	219,338	211,450
Mortgage	203,926	193,509
Real estate	227,577	209,639
	2,237,935	2,024,030
Investments under securities lending program		
Bonds and debentures	358,235	385,828
Canadian common shares	68,854	97,992
	427,089	483,820
Total investments	\$ 2,665,024	\$ 2,507,850

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 1.7% (2018 – 1.3%) and an average remaining term to maturity of 130 days (2018 – 125 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 \$)			
	2019		2018	
Term to maturity (years)	Carrying Value	Average Effective Rates (%)	Carrying Value	Average Effective Rates (%)
Government of Canada:				
After one through five	\$ 129,960	1.8	\$ 112,859	2.1
After five	53,765	1.9	87,986	2.4
Canadian provincial and municipal:				
After five	503,797	2.6	427,300	3.0
Canadian corporate:				
One or less	149,213	1.8	145,294	1.9
After one through five	69,900	2.2	81,136	2.2
After five	87,333	2.4	83,775	2.9
Total bonds and debentures	\$ 993,968		\$ 938,350	

Canadian common shares

Common shares have no fixed maturity dates. The average effective dividend rate is 2.8% (2018 – 2.3%).

Investment funds and limited partnerships

The Auto Fund owns units in equity funds, a mortgage investment fund, a real estate investment fund, and two 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 \$119.1 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, 2019, the Auto Fund held collateral of \$448.4 million (2018 – \$510.7 million) for the loaned securities.

Fair value hierarchy

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

(thousands of \$)				
2019				
	Level 1	Level 2	Level 3	Total
Short-term investments	\$ -	\$ 4,720	\$ -	\$ 4,720
Bonds and debentures	-	993,968	-	993,968
Canadian common shares	253,744	-	-	253,744
Infrastructure limited partnerships	-	-	114,942	114,942
Investment funds:				
Global equity	646,809	-	-	646,809
Global small cap equity	219,338	-	-	219,338
Mortgage	-	-	203,926	203,926
Real estate	-	-	227,577	227,577
	\$ 1,119,891	\$ 998,688	\$ 546,445	\$ 2,665,024

(thousands of \$)				
2018				
	Level 1	Level 2	Level 3	Total
Short-term investments	\$ -	\$ 9,898	\$ -	\$ 9,898
Bonds and debentures	-	938,350	-	938,350
Canadian common shares	284,521	-	-	284,521
Infrastructure limited partnership	-	-	60,056	60,056
Investment funds:				
Global equity	600,427	-	-	600,427
Global small cap equity	211,450	-	-	211,450
Mortgage	-	-	193,509	193,509
Real estate	-	-	209,639	209,639
	\$ 1,096,398	\$ 948,248	\$ 463,204	\$ 2,507,850

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 \$)	
	2019	2018
Level 3 investments, beginning of the year	\$ 463,204	\$ 404,189
Add: Additions during the year		
Infrastructure limited partnerships	52,924	5,896
Mortgage investment fund	8,569	7,586
Real estate investment fund	1,775	23,135
Less: Disposals during the year		
Infrastructure limited partnerships	(889)	(390)
Net unrealized gains	20,862	22,788
Level 3 investments, end of the year	\$ 546,445	\$ 463,204

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, 2019.

During the year ended March 31, 2019, no investments were transferred between levels.

7. Deferred Policy Acquisition Costs (DPAC)

	(thousands of \$)	
	2019	2018
DPAC, beginning of the year	\$ 29,993	\$ 30,465
Acquisition costs deferred during the year	95,086	92,847
Amortization of deferred acquisition costs	(94,384)	(93,319)
DPAC, end of the year	\$ 30,695	\$ 29,993

8. Other Assets

Other assets are comprised of the following:

	(thousands of \$)	
	2019	2018
Inventories	\$ 5,160	\$ 4,791
Prepaid expenses	1,921	1,754
Total	\$ 7,081	\$ 6,545

9. Claims Incurred and Provision for Unpaid Claims

Net claims incurred

	(thousands of \$)					
	2019			2018		
	Current year	Prior years	Total	Current year	Prior years	Total
Gross claims incurred	\$ 918,356	\$ (15,228)	\$ 903,128	\$ 872,578	\$ (78,639)	\$ 793,939
Ceded claims incurred	(9,791)	1,545	(8,246)	(6,187)	114	(6,073)
Net claims incurred	\$ 908,565	\$ (13,683)	\$ 894,882	\$ 866,391	\$ (78,525)	\$ 787,866

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 \$)	
	2019	2018
Net unpaid claims, beginning of year - discounted	\$ 1,619,117	\$ 1,605,962
PFAD and discount, beginning of the year	759,020	764,933
Net unpaid claims, beginning of year - undiscounted	2,378,137	2,370,895
Payments made during the year relating to:		
Prior year claims	(244,652)	(216,485)
Excess relating to:		
Prior year estimated unpaid claims	(13,683)	(78,525)
Net unpaid claims, prior years - undiscounted	2,119,802	2,075,885
Net unpaid claims, current year	289,551	302,252
Net unpaid claims, end of year - undiscounted	2,409,353	2,378,137
PFAD and discount, end of year	(709,569)	(759,020)
Net unpaid claims, end of year - discounted	\$ 1,699,784	\$ 1,619,117

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

	(thousands of \$)					
	Gross Unpaid Claims		Reinsurance Recoverable		Net Unpaid Claims	
	2019	2018	2019	2018	2019	2018
Injury accident benefits	\$ 2,274,599	\$ 2,253,607	\$ –	\$ –	\$ 2,274,599	\$ 2,253,607
Injury liability	92,816	75,769	–	–	92,816	75,769
Damage	53,681	59,550	11,743	10,789	41,938	48,761
PFAD	359,811	337,017	815	947	358,996	336,070
Effect of discounting	(1,068,698)	(1,095,201)	(133)	(111)	(1,068,565)	(1,095,090)
Total	\$ 1,712,209	\$ 1,630,742	\$ 12,425	\$ 11,625	\$ 1,699,784	\$ 1,619,117

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 for the period in which the change occurred.

Included in the above amount is a PFAD in the amount of \$359.0 million (2018 – \$336.1 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 4.1% (2018 – 4.3%). The resulting carrying amount is considered to be an indicator of fair value as there is no ready market for trading insurance contract liabilities.

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, 2019, 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 \$24.3 million (2018 – \$22.7 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 \$)						
	Land	Buildings	Building Components	Leasehold Improvements	Furniture & Equipment	Total
Cost:						
Beginning of the year	\$ 6,643	\$ 48,457	\$ 14,336	\$ 1,358	\$ 47,487	\$ 118,281
Additions	–	5,539	1,070	1,099	8,962	16,670
Disposals	–	–	–	–	(1,501)	(1,501)
At March 31, 2019	6,643	53,996	15,406	2,457	54,948	133,450
Accumulated depreciation:						
Beginning of the year	–	27,850	9,446	1,068	38,636	77,000
Depreciation	–	1,631	597	205	3,147	5,580
Disposals	–	–	–	–	(1,430)	(1,430)
At March 31, 2019	–	29,481	10,043	1,273	40,353	81,150
Net book value at March 31, 2019	\$ 6,643	\$ 24,515	\$ 5,363	\$ 1,184	\$ 14,595	\$ 52,300

(thousands of \$)						
	Land	Buildings	Building Components	Leasehold Improvements	Furniture & Equipment	Total
Cost:						
Beginning of the year	\$ 6,643	\$ 48,081	\$ 14,322	\$ 1,194	\$ 44,301	\$ 114,541
Additions	–	376	14	164	3,592	4,146
Disposals	–	–	–	–	(406)	(406)
At March 31, 2018	6,643	48,457	14,336	1,358	47,487	118,281
Accumulated depreciation:						
Beginning of the year	–	26,051	8,865	840	35,795	71,551
Depreciation	–	1,799	581	228	3,130	5,738
Disposals	–	–	–	–	(289)	(289)
At March 31, 2018	–	27,850	9,446	1,068	38,636	77,000
Net book value at March 31, 2018	\$ 6,643	\$ 20,607	\$ 4,890	\$ 290	\$ 8,851	\$ 41,281

Depreciation provided in the year is included in administrative expenses on the Statement of Operations. 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. Unearned Premiums

	(thousands of \$)					
	Gross Unearned Premiums		Reinsurers' Share of Unearned Premiums		Net Unearned Premiums	
	2019	2018	2019	2018	2019	2018
Unearned premiums, beginning of the year	\$ 386,884	\$ 388,576	\$ 6,454	\$ 5,437	\$ 380,430	\$ 383,139
Premiums written	956,472	937,308	14,682	9,665	941,790	927,643
Premiums earned	(948,476)	(939,000)	(13,189)	(8,648)	(935,287)	(930,352)
Change in net unearned premiums	7,996	(1,692)	1,493	1,017	6,503	(2,709)
Unearned premiums, end of the year	\$ 394,880	\$ 386,884	\$ 7,947	\$ 6,454	\$ 386,933	\$ 380,430

12. Net Investment Earnings

Components of investment earnings are as follows:

	(thousands of \$)	
	2019	2018
Investment fund distributions	\$ 55,776	\$ 57,949
Interest	28,932	24,964
Net unrealized gains on change in market value of investments	28,018	72,864
Net realized gains on sale of investments	24,053	6,582
Dividends	7,019	6,526
Infrastructure limited partnerships distributions	1,979	2,937
Total investment earnings	145,777	171,822
Investment expenses	(9,928)	(9,060)
Net investment earnings	\$ 135,849	\$ 162,762

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

	(thousands of \$)	
	2019	2018
Bonds and debentures	\$ 20,960	\$ (6,975)
Canadian common shares	(16,983)	(382)
Infrastructure limited partnerships	2,851	2,024
Investment funds:		
Global equity	27,950	43,873
Global small cap equity	(24,771)	13,560
Mortgage	1,848	(366)
Real estate	16,163	21,130
	\$ 28,018	\$ 72,864

13. Other Income

The components of other income are as follows:

	(thousands of \$)	
	2019	2018
Payment option fees	\$ 34,404	\$ 32,590
Safe Driver Recognition program penalties	26,678	24,034
Net earnings on salvage sales	22,347	22,564
Total other income	\$ 83,429	\$ 79,188

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 \$)	
	2019	2018
Salvage sales	\$ 61,661	\$ 61,421
Cost of sales	(34,923)	(34,509)
Gross profit	26,738	26,912
Administrative expenses	(4,796)	(4,687)
Other income	405	339
Net earnings on salvage sales	\$ 22,347	\$ 22,564

14. 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 Auto Fund's Statement of Financial Position consists primarily of financial instruments. Financial risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Insurance Risk

Underwriting risk

The 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 on a calendar year as follows:

	(thousands of \$)	
	2019	2018
Automobile physical damage catastrophe	\$ 17,500	\$ 15,000
(subject to filling an annual aggregate deductible of)	17,500	15,000

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 financial condition of its reinsurers to minimize 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, the characteristics of each class of business, claim severity and frequency, the effect of inflation on future claim settlement costs, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim, the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as physical damage or collision claims tend to be more reasonably predictable than long-tail claims such as liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors, which necessarily involves risk that actual results may differ materially from the estimates.

The following 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

Net provision for unpaid claims										
(thousands of \$)										
Accident year	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
Net Ultimate Loss										
At end of accident year	\$ n/a	\$ n/a	\$ n/a	\$ n/a	\$ n/a	\$ n/a	\$ n/a	\$ 716,484	\$ 711,865	\$ 759,830
One year later	n/a	n/a	n/a	n/a	n/a	n/a	645,389	738,267	723,379	
Two years later	n/a	n/a	n/a	n/a	n/a	628,662	641,301	742,971		
Three years later	n/a	n/a	n/a	n/a	636,975	629,226	645,201			
Four years later	n/a	n/a	n/a	629,886	635,498	634,045				
Five years later	n/a	n/a	591,338	627,545	636,834					
Six years later	n/a	618,621	588,439	629,550						
Seven years later	531,427	617,488	592,199							
Eight years later	534,271	618,989								
Nine years later	538,141									
Cumulative loss development	\$ n/a	\$ n/a	\$ n/a	\$ n/a	\$ n/a	\$ n/a	\$ n/a	\$ 26,487	\$ 11,514	n/a
Cumulative loss development as a % of original ultimate loss	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3.7%	1.6%	n/a

Net ultimate loss

Net ultimate loss											
(thousands of \$)											
Accident year	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	Total
Current estimate of net ultimate loss	\$ 538,141	\$ 618,988	\$ 592,199	\$ 629,550	\$ 636,834	\$ 634,045	\$ 645,201	\$ 742,971	\$ 723,379	\$ 759,830	\$ 6,521,138
Cumulative paid	(468,642)	(553,089)	(528,602)	(566,191)	(567,279)	(563,642)	(565,783)	(655,738)	(609,617)	(525,550)	(5,604,133)
Net provision for unpaid claims for the 10 most recent accident years	\$ 69,499	\$ 65,899	\$ 63,597	\$ 63,359	\$ 69,555	\$ 70,403	\$ 79,418	\$ 87,233	\$ 113,762	\$ 234,280	\$ 917,005
Net discounted claims outstanding for accident years 2008-2009 and prior											660,013
Loss adjusting expense reserve											114,093
Other reconciling items											8,673
Net provision for unpaid claims											\$ 1,699,784

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	2019	2018
Discount rate	+ 100 bps	\$ (92,961)	\$ (87,101)
Discount rate	- 100 bps	105,897	99,328

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 SGI's 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 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 the mortgage investment fund, while the Return Seeking Portfolio holds Canadian common shares, the global equity, global small cap equity and real estate investment funds, and the 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 \$)	
	2019	2018
Cash and cash equivalents	\$ 19,680	\$ 23,389
Accounts receivable	245,444	237,841
Fixed income investments ¹	1,202,614	1,141,757
Unpaid claims recoverable from reinsurers	12,425	11,625

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 the notes to the financial statements.

Cash and cash equivalents include money market investments of \$11.2 million (2018 – \$11.6 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 amounts recoverable on paid claims. Balances are outstanding from customers, along with motor licence issuers, within Saskatchewan. Accounts receivable consist of balances outstanding for one year or less.

	(thousands of \$)	
	2019	2018
Current	\$ 240,034	\$ 232,444
30 - 59 days	3,013	2,891
60 - 90 days	2,311	2,355
Greater than 90 days	28,359	24,004
Subtotal	273,717	261,694
Allowance for doubtful accounts	(28,273)	(23,853)
Total	\$ 245,444	\$ 237,841

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 \$)	
	2019	2018
Allowance for doubtful accounts, beginning of year	\$ 23,853	\$ 16,641
Accounts written off	(5,943)	(5,751)
Current period provision	10,363	12,963
Allowance for doubtful accounts, end of year	\$ 28,273	\$ 23,853

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 the 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 for short-term investments is R-1) along with limits to the maximum notional amount of exposure with respect to any one issuer.

Credit ratings for bonds and debenture investments are as follows:

Credit Rating	2019		2018	
	Fair Value (thousands of \$)	Makeup of Portfolio (%)	Fair Value (thousands of \$)	Makeup of Portfolio (%)
AAA	\$ 387,757	39.0	\$ 385,303	41.1
AA	422,860	42.5	303,503	32.3
A	150,857	15.2	201,516	21.5
BBB	32,494	3.3	48,028	5.1
Total	\$ 993,968	100.0	\$ 938,350	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 the 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	
	2019	2018	2019	2018
Net investment earnings	\$ (75,721)	\$ (68,283)	\$ 85,064	\$ 76,662
Net claims incurred	(92,961)	(87,101)	105,897	99,328
Net increase (decrease) to RSR	17,240	18,818	(20,833)	(22,666)

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 Rate Stabilization Reserve:

Asset Class	2019		
	Maximum Exposure (%)	Current Exposure (%)	10% change in exchange rates (thousands of \$)
Global equities	52.0	44.2	\$ 64,681
Global small cap equities	20.0	15.0	21,934
Infrastructure limited partnerships	20.0	7.9	11,494

Asset Class	2018		
	Maximum Exposure (%)	Current Exposure (%)	10% change in exchange rates (thousands of \$)
Global equities	52.0	44.0	\$ 60,043
Global small cap equities	20.0	15.5	21,145
Infrastructure limited partnership	20.0	4.4	6,006

As the global equity funds and the 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. 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, 2019, equities comprise 42.0% (2018 – 43.7%) 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).

Asset Class	(thousands of \$)			
	2019		2018	
Global equities	\$ +/-	149,413	\$ +/-	117,684
Canadian equities	+/-	49,226	+/-	44,954
Global small cap equities	+/-	53,080	+/-	45,589

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.

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 on a daily basis 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 as well as cash generated from 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, 2019							
	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	\$ 19,680	\$ 19,680	\$ -	\$ 19,680	\$ -	\$ -	\$ -	\$ -
Accounts receivable	245,444	245,444	-	245,444	-	-	-	-
Investments	2,665,024	2,665,024	1,666,336	153,933	81,357	118,503	157,539	487,356
Unpaid claims recoverable from reinsurers	12,425	11,743	-	9,204	2,512	27	-	-
	\$2,942,573	\$2,941,891	\$1,666,336	\$ 428,261	\$ 83,869	\$ 118,530	\$ 157,539	\$ 487,356
Financial liabilities								
Accounts payable and accrued liabilities	\$ 57,088	\$ 57,088	\$ 19,441	\$ 37,647	\$ -	\$ -	\$ -	\$ -
Premium taxes payable	10,414	10,414	-	10,414	-	-	-	-
Amounts due to reinsurers	12,552	12,552	4,419	8,133	-	-	-	-
Provision for unpaid claims	1,712,209	2,421,096	-	243,698	195,290	146,355	288,283	1,547,470
	\$1,792,263	\$2,501,150	\$ 23,860	\$ 299,892	\$ 195,290	\$ 146,355	\$ 288,283	\$ 1,547,470

(thousands of \$)								
March 31, 2018								
	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	\$ 23,389	\$ 23,389	\$ -	\$ 23,389	\$ -	\$ -	\$ -	\$ -
Accounts receivable	237,841	237,841	-	237,841	-	-	-	-
Investments	2,507,850	2,507,850	1,559,602	155,192	80,395	113,600	161,357	437,704
Unpaid claims recoverable from reinsurers	11,625	10,789	-	8,863	1,895	31	-	-
	\$2,780,705	\$2,779,869	\$1,559,602	\$ 425,285	\$ 82,290	\$ 113,631	\$ 161,357	\$ 437,704
Financial liabilities								
Accounts payable and accrued liabilities	\$ 52,589	\$ 52,589	\$ 30,652	\$ 21,937	\$ -	\$ -	\$ -	\$ -
Premium taxes payable	10,059	10,059	-	10,059	-	-	-	-
Amounts due to reinsurers	8,709	8,709	2,098	6,611	-	-	-	-
Provision for unpaid claims	1,630,742	2,388,926	-	240,828	185,948	138,781	279,215	1,544,154
	\$1,702,099	\$2,460,283	\$ 32,750	\$ 279,435	\$ 185,948	\$ 138,781	\$ 279,215	\$ 1,544,154

The estimated contractual maturities related to the unpaid claims recoverable from reinsurers excludes the net effect of discounting and PFAD of \$0.7 million (2018 – \$0.8 million) (note 9). The estimated contractual maturities related to the provision for unpaid claims excludes the net effect of discounting and PFAD of \$708.9 million (2018 – \$758.2 million) (note 9).

15. 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 Rate Stabilization Reserve sufficient to cushion the Auto Fund from the volatility inherent in investment and underwriting operations, and ensure a positive Rate Stabilization Reserve 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 Rate Stabilization Reserve. 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, 2019 was 150% relative to its internal target MCT of 100%.

16. Change in Non-Cash Operating Items

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

	(thousands of \$)	
	2019	2018
Accounts receivable	\$ (7,603)	\$ (19,180)
Unpaid claims recoverable from reinsurers	(800)	2,159
Reinsurers' share of unearned premiums	(1,493)	(1,017)
Deferred policy acquisition costs	(702)	472
Other assets	(536)	135
Accounts payable and accrued liabilities	4,499	12,804
Premium taxes payable	355	(78)
Amounts due to reinsurers	3,843	28
Unearned premiums	7,996	(1,692)
Provision for unpaid claims	81,467	10,996
	\$ 87,026	\$ 4,627

17. 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 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 and charged to the Auto Fund were \$148.9 million (2018 – \$143.0 million) and accounts payable were \$8.5 million (2018 – \$3.1 million).

Certain Board members are partners in organizations that provided \$0.2 million (2018 – \$0.3 million) of professional services to the Auto Fund. These services were recorded in claims incurred and administrative expenses in the Statement of Operations. Other related party transactions are described separately in the notes.

18. Commitments and Contingencies

The Auto Fund has commitments for operating leases, 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 \$)					
	2019-20	2020-21	2021-22	2022-23	2023-24	Thereafter
Commitments						
Operating leases	\$ 84	\$ 84	\$ 84	\$ 84	\$ 84	\$ 301
STARS air ambulance	400	400	400	–	–	–
Medical funding	39,509	40,069	41,118	31,201	32,220	–
Systems contracts	6,825	4,094	775	609	558	1,116
	\$ 46,818	\$ 44,647	\$ 42,377	\$ 31,894	\$ 32,862	\$ 1,417

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.

19. Comparative Information

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