

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 February 26, 2014. The Board of Directors carries out its responsibility for review of this disclosure principally through its Audit and Finance Committee, comprised exclusively of independent directors. The Audit and Finance 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 February 27, 2014, after a recommendation to approve was put forth by the Audit and Finance 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, 2013 results, risk management and an outlook for 2014. 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 Saskatchewan Auto Fund 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.

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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 coverage 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 permitted by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

The Auto Fund, at December 31, 2013, had 396 motor licence issuers¹ in 295 communities across Saskatchewan. It also operates 20 claims centres and five salvage centres in 13 communities across the province along with seven licence issuing branch offices. 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 and then click on Quarterly Reports or Annual Reports.

¹ This and other terms are defined in the Glossary of Terms beginning on page 65.

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 778,000 drivers and approximately 1.1 million vehicles and trailers in Saskatchewan. Business partners range from independent motor licence issuers, autobody shops and law enforcement agencies, to 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 approximately 82% of the Auto Fund's costs in 2013. Over the last 10 years, auto damage claim costs have increased at an average annual rate of 5.6%, while personal injury costs have grown at approximately 4.4% annually.

New and advanced technology means vehicles are more expensive to repair. New vehicles also cost more to repair than older vehicles and auto part prices, along with repair labour rates, continue to rise. As a result, damage claim costs continue to climb as repair costs outpace inflation.

Injury costs also continue to rise annually. Income replacement benefits have been increasing significantly due to increased wages in the province, and other benefits under No Fault Coverage are indexed to inflation each year. Tort and out-of-province liability claims, which are generally based on court awards, increase at a rate significantly higher than inflation.

Management monitors financial results closely with a long-term perspective to maintaining fair rates while ensuring the adequate capitalization of the Auto Fund. The Auto Fund's Minimum Capital Test (MCT) has been below its targeted minimum capital range since mid-2011. As such, effective August 31, 2013, government approved a 1.23% surcharge on Saskatchewan Auto Fund rates to replenish the RSR. In addition, with the expected cost of Auto Fund claims and expenses outpacing growth in premiums and investment income, the Auto Fund also rebalanced rates, meaning some rates increased, while some decreased and some stayed the same, with an overall 1.03% increase in premium revenue for the rating year effective August 31, 2013. Combined, the above-noted RSR surcharge and the premium revenue increase resulted in an overall average increase of 2.26%. While faced with a challenging environment, even with these increases, the Auto Fund continues to provide amongst the lowest average personal vehicle rates in Canada and remains focused to deliver on its vision to be a company where every customer, employee, owner and business partner across Canada is proud to do business and work with it.

The Auto Fund continues to offer Safe Driver Recognition (SDR) and Business Recognition 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 Business Recognition program rewards businesses that maintain good loss experience with discounts on their vehicle insurance. The maximum discount under the SDR program is currently 20%. The maximum discount available from the Business Recognition program is 10%. The cost to the Auto Fund in 2013 in terms of lower premium revenue was \$114,086,000 (2012 – \$108,787,000).

Strategic Direction

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

Mission

We're your insurance company, offering protection that benefits you, your family and your community.

Vision

To be a company where every customer, employee, owner and business partner across Canada is proud to do business and work with us.

Values

Integrity Conducting ourselves with honesty, trust, and fairness.

Caring Acting with empathy, courtesy and respect.

Innovation Implementing creative solutions to achieve our vision.

Corporate Objective and Measures

The Auto Fund has one primary long-term objective: to achieve the right balance of price, coverage and service for its customers. The Auto Fund uses a balanced scorecard approach to monitor performance towards this objective, which provides 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 results through rate adequacy:

Measure	2013 Target	2013 Result	2014 Target
Auto Fund rates adequate for package of coverage and services			
Rate adequate vehicles	80.3%	● 94.6%	97.8%

Legend: ● achieved ○ not achieved

Auto Fund rates adequate for package of coverage and services

To achieve fairness in rating, the Auto Fund has committed to eliminate cross-subsidization between vehicle classes. This means each vehicle class would pay sufficient premiums to cover its claim costs. To accomplish this, an annual analysis is performed to determine if a vehicle class is rate adequate, or if an increase or decrease is required. The percentage of rate adequate vehicles is a measure of the number of vehicle types that are within 5% of the adequate rate. The Auto Fund's longer-term goal is to achieve rate adequacy for 98% of the vehicles it insures by 2016.

A rate increase and rebalancing took effect August 31, 2013. The changes for all vehicle groups with annual premiums greater than \$1,000 were capped at 15%, while those with annual premiums less than \$1,000 were subject to dollar caps. Once fully implemented, the 2013 rate program will bring 94.6% of vehicles within 5% of their required rate. This surpasses the 80.3% target due primarily to conservative assumptions that were built into the target due to uncertainty. The 2014 rate program is expected to improve rate adequacy to 97.8%, which, if achieved, will bring the Auto Fund very close to its long-term goal of 98% rate adequacy.

Customer

The Auto Fund assesses success with customers by its ability to provide value to them:

Measure	2013 Target	2013 Result	2014 Target
Provide value to Auto Fund customers			
Auto Fund value index*	69%	● 69.8%	66%

Legend: ● achieved ○ not achieved

* The 2013 result is based on fourth quarter survey results, as intended when the 2013 target was set. The 2014 target is an annual average of survey results from all four quarters.

Provide value to Auto Fund customers

Due to the mandatory nature of Auto Fund products, traditional measures such as customer acquisition, customer retention and profitability can't be used to assess success with respect to understanding customer needs and providing the products they need. Instead, the Auto Fund must ask customers for feedback. A value index, based on specific survey question results, is used to assess whether customers believe the Auto Fund provides products and services that focus on what's best for them, provides good value at the best price, and is doing a good or excellent job of providing high standards of customer service. Based on a fourth quarter result of 69.8%, the Auto Fund met its target. In 2014, the target is 66%. This target is lower than the 2013 result, due primarily to the 2014 target being an annual average, as opposed to the 2013 result which was a fourth quarter measure. The Auto Fund's long-term objective is a score of 75% by 2019.

Internal processes

Productivity and efficiency are key to assessing the success of the Auto Fund's internal processes:

Measure	2013 Target	2013 Result	2014 Target
Productivity			
Licensed drivers and policies per FTE*	717	● 736	723
Efficiency			
Administrative expense ratio	6.7%	● 6.6%	6.7%

Legend: ● achieved ○ not achieved

* FTE – full-time equivalent staff position

Productivity

Productivity is evaluated using a combined measure for SGI, which considers both the Auto Fund's licensed drivers and SGI CANADA's policies in force. SGI, while administering the Auto Fund, also operates a competitive insurance company (SGI CANADA) in Saskatchewan and various other provinces across Canada. For SGI CANADA, the number of insurance policies in force is a key metric, and in the Auto Fund, the number of drivers licensed in the province is a key metric. Increasing the number of policies and licensed drivers per full-time equivalent (FTE) speaks to SGI's productivity.

The Q4 productivity result is 736 licensed drivers and policies per FTE, which is well above the target of 717. The positive variance is due to a combination of a lower FTE count and higher than expected increases in the number of licensed drivers and policies in force. The 2014 target is lower than the 2013 result as it takes into consideration a planned growth in FTEs in 2014 to respond to significant demands in both SGI CANADA and the Auto Fund in the next few years. This includes responding to industry pressures facing SGI CANADA, and implementing traffic safety and motorcycle review recommendations in the Auto Fund.

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. For 2013, the Auto Fund exceeded its target with a 6.6% administrative expense ratio. Analysis of the administrative expense ratio is provided in more detail in the 2013 Financial Results section. The 2014 target is based on the Auto Fund's budget and is consistent with the 2013 target.

Organizational Capacity

The Auto Fund's ability to deliver on its corporate strategy is dependent on its employees and its capital adequacy; as such organizational capacity is measured based on employee engagement and enablement, and capital adequacy.

Measure	2013 Target	2013 Result	2014 Target
Employee engagement and enablement			
Engagement and enablement score compared to the North American average	Two points below average	○ Three points below average	At or above the average
Capital adequacy			
Minimum Capital Test	43%	● 64%	56%

Legend: ● achieved ○ not achieved

Employee engagement and enablement

To continually improve operations, the Auto Fund needs the support of dedicated and engaged employees. It also needs to provide an environment that enables employees to do their best work. An employee engagement and enablement score, derived from SGI's annual employee survey, is used to measure whether employees are engaged in their work and whether they have the environment they need to execute the strategic plan. While the engagement and enablement score was one point below target, SGI is relatively satisfied with this result due to the degree of organizational change and the ambitious corporate strategy in 2013. That said, the company acknowledges that it needs to continue to build on the work already done to improve employee engagement and enablement going forward, and is aiming for a three point improvement in 2014.

Capital adequacy

Capital adequacy speaks to the Auto Fund's 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 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 12-month rolling average MCT score of 64% was below its capital target range of 75% to 150%; however, it was above the 2013 target of 43%. At December 31, 2013, the actual non-rolling MCT was 58%.

For 2014, the Auto Fund revised its Capital Management Policy, as discussed in the section that follows. The 2014 MCT target is 56%.

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

Auto Fund employees are experienced and knowledgeable about the Saskatchewan automobile insurance market. Many employees have been with the Saskatchewan Auto Fund for a long time, on average approximately 16 years, and the staff turnover rate for the last five years has averaged 9%. Due to this long tenure and low turnover, employees have significant expertise in core areas of the Auto Fund including licensing and registration, driver and vehicle safety services, and claim handling, as well as within the support areas.

SGL, as the administrator of the Auto Fund, is projecting a significant level of retirements in the near future as a large portion of its workforce reaches retirement age. In fact, over 37% of employees are expected to retire or be eligible for retirement by 2021. The challenge is to recruit and retain the best people to ensure the longevity, growth and maintenance of operations. SGL utilizes a workforce-planning model that includes Aboriginal employment, youth employment, management development and expanded performance management strategies. This model assists in transitioning expertise as retirements occur.

SGL's succession planning process focuses on: (i) ensuring senior management positions have capable successors; and, (ii) identifying high-performing staff who have potential for more senior roles. The corporate diversity/recruitment strategy was recently updated to enhance partnerships with outreach agencies and educational institutions, and the Corporation's visibility as a preferred employer.

On December 31, 2013, the four-year Collective Bargaining Agreement between SGL and SGL CANADA Insurance Services Ltd., and the Canadian Office and Professional Employees' Union, Local 397 (COPE 397) expired. The bargaining committee is currently in negotiations with respect to reaching a new agreement. This agreement applies to all in-scope employees at SGL. SGL has not had a work stoppage since 1948, and it will continue to work with COPE 397 to ensure that this record continues into the future.

Motor licence issuers

The Auto Fund provides accessibility for customers by distributing products through a network of 396 independent motor licence issuers in 295 communities across Saskatchewan, and seven SGL branch offices throughout the province. 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. In the past five years, the Auto Fund completed a redesign of its systems, vastly enhancing service and improving its ability 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 online through the MySGI online service.

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 or receive money from the province nor from 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 future operations. If premiums, fees and investment income are not sufficient to sustain operations, it must increase rates. The Saskatchewan Rate Review Panel 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 Rate Stabilization Reserve (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 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.

For 2014, the Auto Fund revised its Capital Management Policy to follow guidance from the Office of the Superintendent of Financial Institutions on setting capital targets. This resulted in the target capital level being changed from an MCT range between 75% and 150% to targeting an MCT of 100%. The approach used to maintain capital at an appropriate level also changed. The former policy triggered a surcharge or rebate when the MCT moved outside the target range. The new policy applies an amount to move towards an MCT of 100% in small increments with each rate program, instead of waiting for the MCT to fall outside the target range and then applying more significant surcharges or rebates. Essentially, it smoothes out the impact to customers.

The new policy determines the amount of capital adjustment needed with each rate program by applying an amount to either recover one-fifth of the capital below 100% MCT or release one-fifth of the capital above 100% 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 new 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 will analyze actual results and bring forward recommendations for adjustments required to maintain adequate capital. SGI anticipates that, once the new policy is in place, only minor adjustments will be needed to address capital needs in subsequent rate programs.

At December 31, 2013, the 12-month rolling average was 64%. As part of its 2014 rate program, the Auto Fund is seeking an additional 3.7% rate increase to move the RSR toward the target 100% MCT. The 3.7% capital amount will move the RSR one-fifth of the way to the 100% target, consistent with the revised Capital Management Policy.

2013 Financial Results

For the year ended December 31, 2013

Overview

The Auto Fund experienced an increase to the Rate Stabilization Reserve (RSR) of \$32.3 million in 2013, compared to an \$11.5 million decrease in 2012, an improvement of \$43.8 million year over year, stemming from both stronger underwriting results and investment earnings.

Underwriting results improved \$30.6 million, due primarily to lower overall claim costs resulting from a favourable change in discounting the provision for unpaid claims. Offsetting the impact of discounting is a continuing increase in injury claim severity due largely to increased income replacement benefit costs. Poor winter driving conditions in the first half of the year also resulted in an increase in damage claim costs.

Investment earnings increased \$11.9 million from 2012, consistent with the strong global investment markets experienced during the year. Equity markets generated strong returns, particularly in the U.S. and internationally. While interest income remained relatively flat, increases in mid- and long-term interest rates generated significant capital losses which resulted in negative fixed income returns for the year. The asset-liability matching strategy mitigates these losses through decreases in discounted claim liabilities and continues to position the investment asset mix to manage interest rate risk. Strong investment earnings are helping to rebuild the Auto Fund's capital base, although earnings are not expected to persist at these high levels in more normalized equity markets or an increasing interest rate environment.

With the \$32.3 million surplus, the RSR improved to \$162.8 million, the MCT is 58% and the 12-month rolling average MCT is 64%.

Statement of Operations

Premiums written

Overview

Net premiums written for 2013 totaled \$824.5 million, representing an increase of 5.5%, or \$43.3 million, from 2012. The growth is attributable to a 1.1% increase in the number of vehicle and trailer written exposures, combined with a mix of newer model year vehicles that cost more to insure. In addition, net premiums written have grown as a result of the overall rate increases in 2012 and 2013 of 1.6% and 2.26% respectively.

Discount programs

The Safe Driver Recognition and Business Recognition programs continue to return dollars to Auto Fund customers each year. In 2013, these programs returned \$114.1 million to customers through safe driving discounts, compared to \$108.8 million in 2012. Expressed as a percentage of vehicle premiums, this equates to an average discount of 12.2% for 2013 (2012 – 12.3%). Maximum discounts available under each program are 20% for the Safe Driver Recognition program and 10% for the Business Recognition program.

Claims incurred

Claims incurred in 2013 were \$739.1 million; \$1.4 million lower than 2012. The following table details claim costs by categories:

	(thousands of \$)		
	2013	2012	Change
Current year			
Damage claims	\$ 468,785	\$ 429,707	\$ 39,078
Storm claims	12,903	12,199	704
Total damage claims - current year	481,688	441,906	39,782
Injury claims - current year	335,725	308,871	26,854
	817,413	750,777	66,636
Development on prior year claims			
Injury claims	6,265	17,565	(11,300)
Damage claims	1,243	9,972	(8,729)
	7,508	27,537	(20,029)
Impact of discounting	(85,818)	(37,786)	(48,032)
Total claims incurred	\$ 739,103	\$ 740,528	\$ (1,425)
Loss ratio - current year	101.3%	97.9%	3.4%
Total loss ratio	91.6%	96.5%	(4.9%)

Current year claims

Total current year damage claim costs are \$39.8 million, or 9.0%, higher than the prior year, due primarily to poor winter driving conditions experienced in the first half of the year. This led to a 5.9% increase in damage frequency, from 118.3 collisions per 1,000 insured years in 2012 to 125.3 in 2013. The number of damage claims increased by 7.6% and the severity of damage claims increased by 1.3%.

Net summer storm claims of \$12.9 million were comparable to last year. However, on a direct basis, claims related to these events were estimated at \$47.2 million, with \$34.3 million ceded to reinsurers (2012 – \$12.2 million direct basis). The significant increase, on a direct basis, was due to a \$42.8 million hail storm in the Regina area, which was the largest catastrophe in the Auto Fund's history.

Current year injury claims are \$26.9 million, or 8.7%, higher than the prior year. Income replacement benefit costs continue to increase, contributing to the average cost per injury claim increasing by 11.6% in 2013. This is partially offset by a 2.6% decrease in the number of injury claims. Injury frequency was 5.6 claims per 1,000 insured years in 2013, a decrease of 5.1% (2012 – 5.9 injury claims per 1,000 insured years).

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.

In 2013, there was an overall prior year deficiency of \$7.5 million due primarily to a \$6.3 million increase in the estimate for prior year injury claims. This deficiency is attributable to updated actuarial data that suggests that long-term injury costs, specifically income replacement benefits, continue to increase. The Auto Fund has over 18 years of data since the no-fault injury program was implemented in 1995 to estimate the cost of injuries. However, factors impacting future costs such as inflation, re-occurrence rates, medical innovations and rehabilitation programs are difficult to anticipate. The Auto Fund's objective is to keep the estimate as accurate as possible with minimal changes to prior-year claim estimates; however, given the nature of this program, changes will inevitably occur in the future. The overall prior year deficiency of \$7.5 million represented approximately 0.6% of the provision for unpaid claims estimate at December 31, 2012, of \$1.3 billion.

Impact of discounting

The impact of discounting decreased claims incurred \$85.8 million in the current year and is comprised of three main components:

- An increase in the discount rate from 4.4% to 4.9% resulted in a decrease to claims incurred related to discounting of \$59.8 million (2012 – increase to claims incurred of \$7.1 million due to decline in discount rate).
- Growth in the provision for unpaid claims, which is required to be discounted, resulted in a decrease to claims incurred related to discounting of \$68.2 million (2012 – decrease to claims incurred of \$44.9 million).
- An increase to the investment margin for adverse deviation, which is applied as a reduction to the discount rate, resulted in an increase to claims incurred related to discounting of \$42.2 million (2012 – nil).

Expenses excluding claims incurred

Expenses excluding claims incurred were \$161.1 million (2012 – \$150.5 million) for the year, \$10.6 million higher than 2012, due to increases in each account category as follows:

- Issuer fees of \$42.6 million in 2013 increased \$4.8 million compared to 2012. This was due to a \$3.0 million increase in issuer fees, consistent with the \$39.7 million increase in earned premiums, combined with a \$1.8 million premium deficiency expense. The issuer fee expense ratio was 5.3% in 2013 (2012 – 4.9%). There was no change in issuer fee rates during the year.
- Premium taxes of \$40.7 million were \$2.1 million, or 5.5%, higher than the previous year, consistent with the growth in earned premiums. Premium taxes are 5% of direct premiums earned.
- Administrative expenses increased to \$53.1 million in 2013, an increase of \$1.6 million from 2012. The increase was due primarily to higher issuer bank charges resulting from increasing customer use of credit cards, expenses related to a usage based insurance pilot program for motorcycles, and a general increase to salaries and benefits.
- Traffic safety program spending totaled \$24.6 million, representing a traffic safety spending ratio of 3.1% of net premiums earned. This was an increase of \$2.0 million from 2012, which had a traffic safety spending ratio of 2.9%. The growth was due largely to additional spending on driver education funding, photo radar and other traffic safety initiatives.

Investment earnings

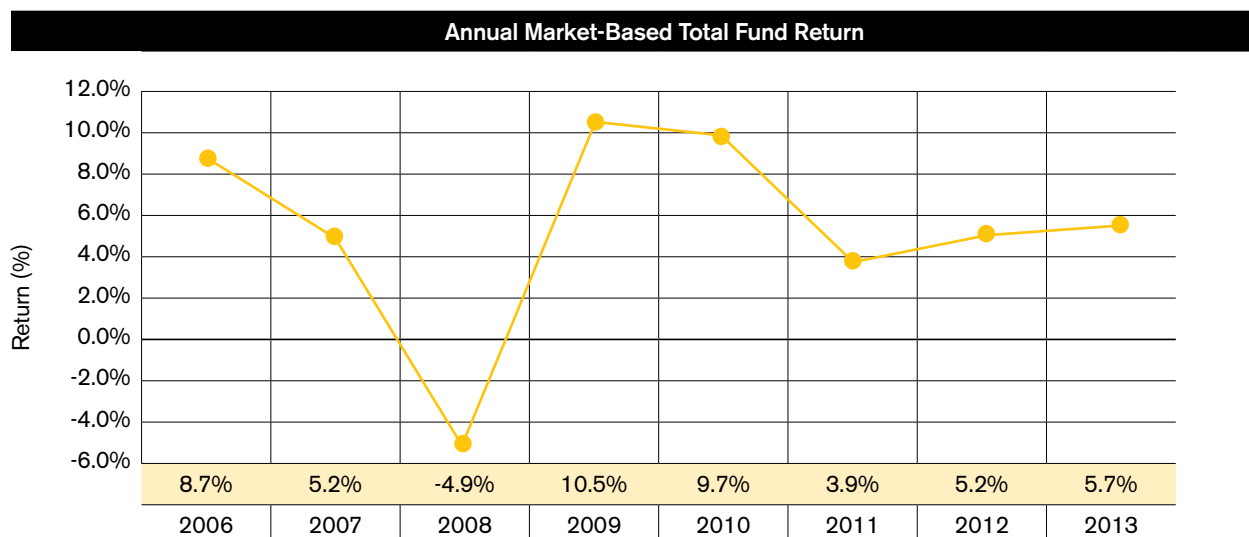
As the Auto Fund operates on a self-sustaining basis over time, investment earnings are used to help keep rates stable for vehicle owners. In 2013, investment earnings were \$86.7 million and represented 9.3% of total revenues (2012 – \$74.8 million or 8.5% of total revenues). Investment earnings are calculated using market-based accounting principles, the components of which are disclosed in note 12 to the financial statements, and include interest, dividends, pooled fund distributions, and both realized and unrealized gains and losses on investments.

The Auto Fund investment assets are managed as two distinct portfolios – the Matching portfolio and the Return Seeking portfolio. This serves to distinguish between investment assets which are held to match to the expected unpaid claim liability cash flows and assist in reducing interest rate risk, and surplus investment assets which are held for growth to provide for longer dated (20+ years) liabilities.

The Matching portfolio holds fixed income investments and a mortgage pooled fund. This portfolio was rebalanced three times during 2013, to keep it properly matched to the estimated unpaid claim liability payments expected over the next 20 years. The Matching portfolio is judged on its effectiveness in matching the expected incoming cash flows from the fixed income assets to the Auto Fund’s projected cash outflows for unpaid claim liabilities.

Any investments not required by the Matching portfolio are held in the Return Seeking portfolio. The Return Seeking portfolio is comprised of equities, real estate and infrastructure. The primary investment performance objective for the Return Seeking portfolio is to earn a market-based return in excess of a benchmark portfolio return. The asset mix for the benchmark portfolio is set by SGI’s Board of Directors to be consistent with the Auto Fund’s overall risk profile when combined with the Matching portfolio, and is reviewed on an annual basis. Actual asset class weights are allowed to vary around the benchmark portfolio within the policy asset mix guidelines. The benchmark portfolio return is calculated by applying benchmark portfolio weights to capital market index returns. While the portfolio’s rate of return is compared to the benchmark portfolio return on a quarterly basis, the performance measure is 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.

Despite volatile investment markets, the Auto Fund’s investment managers exceeded objectives across a number of equity asset classes during 2013 and for the second consecutive year, the Return Seeking portfolio exceeded its total fund return policy objective. An overall total return for the Auto Fund follows.



Equity markets embraced improved economic and fiscal data delivering strong, consistent returns during 2013. Common themes continued to drive growth in the U.S, including the recovery in housing, manufacturing and development of cheap domestic energy sources. Relative stability in Europe combined with ultra-accommodative monetary policy in Japan drove strong performance in international markets. World central banks maintained accommodative monetary policy affirming their commitment to sustained economic momentum, which helped further drive equity prices. Canadian equity markets delivered decent performance despite significant declines in material prices, especially gold.

Interest rates in Canada increased over the course of 2013. While short-term rates remained well anchored, mid- and long-term rates rose, resulting in a steeper yield curve. With interest rates still near multi-generational lows, low inflation, low growth and high consumer debt levels are expected to keep yields low through 2014.

Asset Class	Benchmark Index	Annual index returns ending December 31 (%)	
		2013	2012
Canadian equities	S&P/TSX Composite	13.0	7.2
U.S. equities	S&P 500 (\$C)	41.3	13.4
Non-North American equities	MSCI EAFE (\$C)	31.0	14.7
Bonds	DEX Universe Bond	-1.2	3.6
Short-term bonds	DEX Short-term Bond	1.7	2.0

Equity markets continued to gain momentum throughout 2013, generating strong returns for the year. The resource dependent TSX Composite Index finished the year up 13.0%. The S&P 500 Index generated a 32.4% return for the year (41.3% in Canadian dollar terms) while non-North American equities, the EAFE Index, rose 26.9% in aggregate local currency terms (31.0% in Canadian dollar terms). The Canadian dollar fell during 2013 creating foreign exchange gains for Canadian investors. For purposes of portfolio management, a market-based result is calculated that captures all interest and dividend income, as well as the impact of the change in market value of investments, both realized and unrealized. In 2013, the portfolio's market-based return was 5.7% compared to a 5.2% return in 2012. The 2013 return was higher due to strong equity performance, particularly from U.S. and non-North American markets, which compensated for negative returns generated from the fixed income portfolio.

More information regarding the Auto Fund's Matching and Return Seeking portfolios is provided within the section Statement of Financial Position, Investments.

Other income

Other income consists of fees charged to customers for utilizing the AutoPay and short-term payment option programs, as well as salvage operations income. In 2013, other income of \$38.7 million was \$1.3 million higher than 2012. Fees earned for using payment option plans increased \$1.2 million for a total of \$25.1 million (2012 – \$23.9 million). The increase is due primarily to higher premiums written. The overall proportion of premiums financed through payment option programs was 62.3%, consistent with 2012 (61.9%). Salvage operations income of \$13.7 million (2012 – \$13.6 million) is consistent with the prior year.

Statement of operations – actual versus budget

The Auto Fund prepares an annual budget each fall for the upcoming fiscal year. The plan is developed using long-term averages combined with known and expected information for the upcoming year. The Auto Fund's 2013 budget, developed in the fall of 2012, anticipated a decrease to the Rate Stabilization Reserve of \$16.8 million. The actual 2013 increase to the RSR was \$32.3 million, a favourable variance of \$49.1 million, due primarily to higher investment income.

Claim costs were \$739.1 million, \$19.0 million (2.5%) lower than budgeted, and the overall loss ratio of 91.6% was on target with the budget of 91.5%.

Overall investment earnings were \$86.7 million, \$42.6 million higher than planned. The Return Seeking portfolio, consisting of equities, real estate and infrastructure, experienced a \$104.0 million gain compared to a budget of \$28.9 million, a favourable variance of \$75.1 million. This was partially offset by negative fixed income returns from the Matching portfolio, which were \$32.5 million lower than budgeted.

Statement of Cash Flows

	(thousands of \$)		
	2013	2012	Change
Total operating activities	\$ 87,744	\$ 75,429	\$ 12,315
Investing activities	(52,163)	(84,861)	32,698
Net cash flow	\$ 35,581	\$ (9,432)	\$ 45,013

Positive operating cash flows of \$87.7 million were generated, \$12.3 million higher than the \$75.4 million positive cash flow generated in 2012. This variance is explained primarily by growth in premiums written in 2013. The Auto Fund generally experiences strong cash flows due to the long-term nature of injury claim costs and corresponding growth in the provision for unpaid claims.

Certain of the cash flow generated from operating activities was used to fund net investing activities of \$52.2 million, with the remainder resulting in a \$35.6 million increase in cash and cash equivalents. Investing activities included net investment purchases of \$46.2 million and \$5.9 million of property and equipment purchases primarily related to building renewal, and furniture and equipment.

The increase in cash and cash equivalents of \$35.6 million during the year resulted in cash and cash equivalents of \$60.2 million at the end of 2013. Of this balance, \$57.7 million (2012 – \$19.0 million) was invested in money market investments with a maturity of 90 days or fewer from the date of acquisition. Money market investments increased significantly during the year as a result of the investment manager investing the Matching portfolio in shorter-term assets in accordance with the asset liability matching strategy.

Statement of Financial Position

	(thousands of \$)		
	2013	2012	Change
TOTAL ASSETS	\$ 1,985,027	\$ 1,824,998	\$ 160,029
Key asset account changes:			
Investments	1,611,714	1,520,694	91,020
Cash and cash equivalents	60,215	24,634	35,581
Unpaid claims recoverable from reinsurers	31,004	6,558	24,446
Accounts receivable	204,934	193,384	11,550
Other assets	7,274	10,671	(3,397)

Investments

Improvements in investment markets and the investment of operating cash flows resulted in an increase in the carrying value of investments of \$91.0 million during the year.

The investment portfolio is held to pay future claims, while income earned on these investments helps reduce insurance rates for vehicle owners. The portfolio's asset mix strategy is set by the Board of Directors 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 Rate Stabilization Reserve, 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 the 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. In 2013, investment earnings benefited from strong equity markets over the period. The Auto Fund investment portfolios will continue to hold a diversified asset mix and a longer-term focus, balancing the need for capital preservation in the short term with the need for portfolio growth over the longer term.

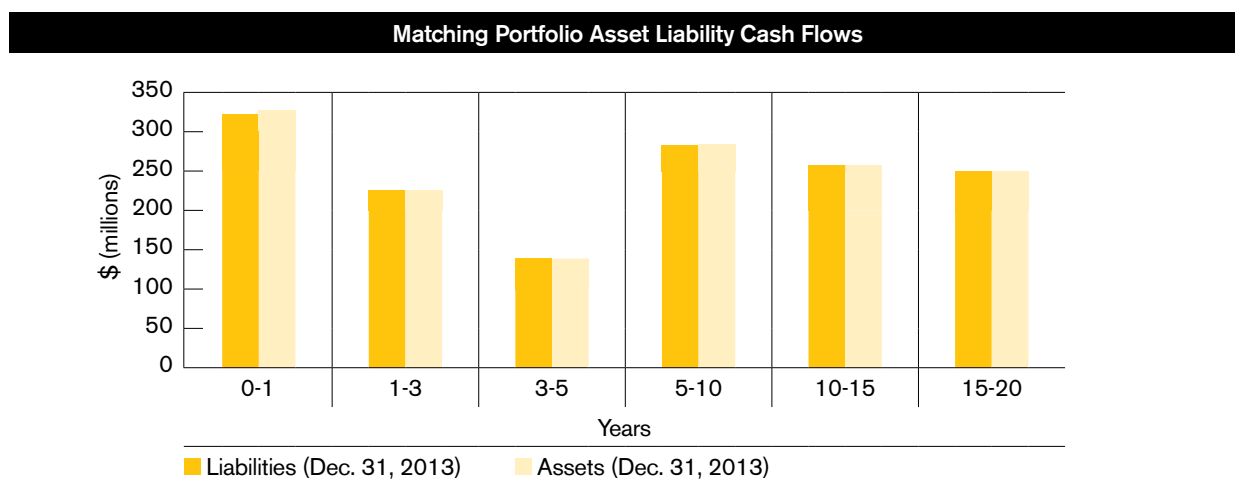
The asset mix strategy is formally documented in the Statement of Investment Policies and Goals. In addition to capturing the asset mix strategy, this document provides guidance on permissible investments, quality and quantity guidelines, conflicts of interest, related party transactions and investment performance expectations, among others. Management monitors and enforces compliance with the investment policy. No material compliance deviations were noted in 2013.

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. Equities include investments in Canadian and United States common shares as well as an investment in a non-North American pooled equity fund and global small capitalization equity pooled fund. The Auto Fund's investments in real estate and mortgages are through pooled funds as well. The direct infrastructure fund is held in a similar pooled-type investment. 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 six 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 portfolio and Return Seeking portfolio may also require rebalancing to maintain the overall risk-return objectives of the combined portfolio.

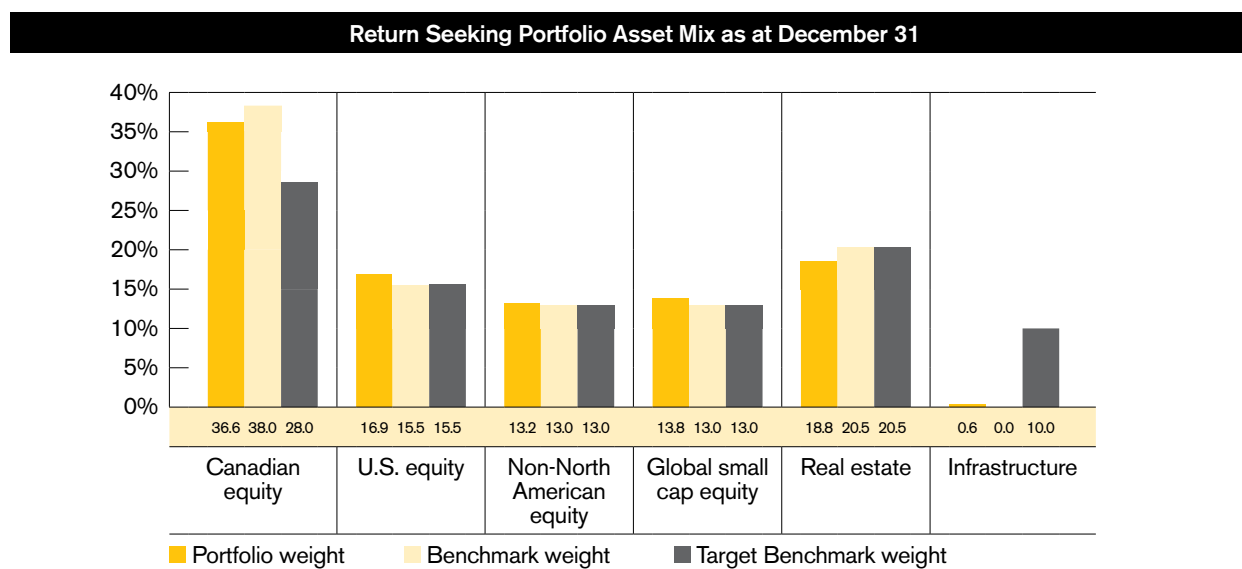
Expected liability cash flows and matching portfolio asset cash flows as of December 31, 2013, are:



The 2013 investment policy review resulted in some changes to the policy asset mix guidelines and benchmark portfolio weights. In the Return Seeking portfolio, the Canadian equity manager was replaced due to poor relative performance. Two new Canadian equity managers were added, a growth manager and a value manager, which, in combination, demonstrated consistent returns with better downside risk characteristics. The cash weight was also removed as cash needs are managed by the Matching portfolio. There were no changes to the Matching portfolio during 2013. The Auto Fund continues to monitor its fixed income investments to ensure they are well matched to their associated liabilities.

Current portfolio weights within the Return Seeking portfolio are in transition to the long-term benchmark portfolio weights adopted in 2011. As the infrastructure mandate is funded throughout 2014 and beyond, it is expected that the portfolio will align more closely with the long-term benchmark.

The portfolio asset mix and benchmark weights at December 31, 2013, are:



Cash and cash equivalents

Cash and cash equivalents at December 31, 2013, were \$60.2 million (2012 – \$24.6 million), an increase of \$35.6 million. The sources of the change in cash and cash equivalents for the year are discussed in the above section, Statement of Cash Flows. Cash equivalents consist of money market investments such as treasury bills, banker's acceptances, discount notes or other liquid short-term investments that have a maturity of 90 days or fewer from the date of acquisition.

Unpaid claims recoverable from reinsurers

Unpaid claims recoverable from reinsurers increased \$24.4 million due to the \$42.8 million Regina area hail storm, of which \$34.3 million is estimated as recoverable from reinsurers.

Accounts receivable

Accounts receivable increased \$11.6 million, a result of the AutoPay financed premiums receivable growing by \$9.8 million, or 5.8%, to \$178.7 million. The increase is commensurate with the growth in premiums written.

Other assets

Other assets decreased by \$3.4 million during the year, due primarily to amortization of the capitalized value of the Auto Fund's information system, which is included within intangible assets.

	(thousands of \$)		
	2013	2012	Change
TOTAL LIABILITIES	\$ 1,820,673	\$ 1,692,909	\$ 127,764
Key liability account changes:			
Provision for unpaid claims	1,384,592	1,280,402	104,190
Unearned premiums	368,878	351,330	17,548

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 \$104.2 million during 2013 to \$1.4 billion (2012 – \$1.3 billion). This represents an increase of 8.1% from last year. Key components of the change in the provision for unpaid claims are discussed in the preceding section, Claims Incurred. The majority of the increase is in unpaid injury benefits and is due to the continuing growth of the no-fault program as an additional year of losses is included in the provision.

Unearned premiums

Unearned premiums increased \$17.5 million, commensurate with growth in premiums written.

	(thousands of \$)		
	2013	2012	Change
EQUITY	\$ 164,354	\$ 132,089	\$ 32,265
Key equity account changes:			
Rate Stabilization Reserve	162,814	127,122	35,692
Redevelopment Reserve	1,540	4,967	(3,427)

Rate Stabilization Reserve (RSR)

The increase to the RSR was a result of the \$32.3 million surplus from operations, combined with a \$3.4 million appropriation from the Redevelopment Reserve. The appropriation from the Redevelopment Reserve offsets the amortization related to the Auto Fund's information system charged through current year operations.

Redevelopment Reserve

The Redevelopment Reserve was established to ensure that adequate funding was available to meet the Auto Fund's commitment to redevelop its information systems. During 2013, amortization of capitalized project costs was \$3.4 million (2012 – \$4.4 million); therefore, the reserve was reduced accordingly with \$3.4 million (2012 – \$4.4 million) appropriated back to the RSR.

The Redevelopment Reserve was originally established at \$35.0 million, as the project cost was not to exceed this amount. The project was completed at the end of 2010. It addressed the antiquity of the previous systems and now provides improvements in delivering changes, offers more choices for customers, provides better and more accessible information, and better positions the Auto Fund for future demands. The remaining balance in the Redevelopment Reserve will be reduced and appropriated back to the RSR as the capitalized cost of the project is amortized in the future. It is expected to be fully appropriated back to the RSR during the first half of 2014.

For the three months ended December 31, 2013

The Auto Fund prepares public quarterly financial reports for the first three quarters of each year. These reports are available on SGI's website at www.sgi.sk.ca. Click on the About link and then click on Quarterly Reports. The following summarizes fourth quarter results.

The Auto Fund recorded a fourth quarter decrease to the RSR of \$23.1 million.

The Auto Fund experienced an underwriting loss of \$75.0 million compared to a loss of \$44.9 million in 2012. This variance was primarily the result of claim costs increasing \$32.9 million, largely a result of changes due to the impact of discounting, as the impact of increasing the investment margin for adverse deviation was recorded in the fourth quarter. This is discussed in the preceding section, Claims Incurred.

Fourth quarter investment earnings of \$42.8 million were \$32.2 million higher than the fourth quarter of 2012. The increase in investment earnings is due primarily to strong equity performance.

Quarterly Financial Highlights

The following table highlights quarter over quarter results of the Auto Fund:

	(thousands of \$)									
	2013					2012				
	Q4	Q3	Q2	Q1	Year	Q4	Q3	Q2	Q1	Year
Net premiums earned	\$ 204,375	\$ 214,669	\$ 201,634	\$ 186,287	\$ 806,965	\$ 193,743	\$ 200,098	\$ 193,007	\$ 180,378	\$ 767,226
Claims incurred	234,271	201,247	138,420	165,165	739,103	201,389	184,787	189,597	164,755	740,528
Increase (decrease) to RSR	(23,090)	9,496	16,391	29,468	32,265	(1,700)	15,152	(17,692)	15,736	(11,496)
Cash flow from (used in) operations	31,148	23,855	69,660	(36,919)	87,744	17,633	28,251	58,811	(29,256)	75,429
Investments	1,611,714	1,607,853	1,533,805	1,523,094		1,520,694	1,495,327	1,353,666	1,374,758	
Provision for unpaid claims	1,384,592	1,330,406	1,256,937	1,281,876		1,280,402	1,252,975	1,209,824	1,171,657	
Rate Stabilization Reserve	162,814	185,250	174,829	157,514		127,122	150,853	134,721	151,319	

The following points are intended to assist the reader in analyzing trends in the quarterly financial highlights for 2013:

- 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 first quarter, the Auto Fund generates positive cash flows from operations. Cash is typically low in the first quarter 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.

Impact of New Accounting Standards

Future accounting policy changes

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

IFRS 4 – Insurance Contracts

In June 2013, the IASB published a revised exposure draft (2013 ED) on the accounting for insurance contracts which builds on the previous consultations undertaken in 2007 and 2010. The 2013 ED is the result of deliberations at the IASB using comments received from constituents. The ED continues to propose a new standard on accounting for insurance contracts, which would replace IFRS 4, *Insurance Contracts*. The proposals represent a comprehensive IFRS accounting model for insurance contracts and are expected to have a significant impact on the financial reporting of insurers. A final standard is expected in 2015 with implementation not expected before 2018.

IFRS 9 – Financial Instruments

In November 2009, the IASB issued an exposure draft of IFRS 9, *Financial Instruments*, as part of its plan to replace IAS 39, *Financial Instruments: Recognition and Measurement*.

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

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

In November 2012, the IASB issued limited amendments to the exposure draft. The amendments include introduction of a fair value through other comprehensive income (FVOCI) 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.

In July 2013, the mandatory effective date for this standard was deferred and is pending the finalization of the impairment and classification and measurement requirements. While early adoption is permitted under the standard, the Office of the Superintendent of Financial Institutions (OSFI) has indicated that early adoption is not allowed. While the Auto Fund is not federally regulated, it generally follows OSFI's guidance in such matters.

The Auto Fund is in the process of assessing the impact of the new standard.

IAS 36 – Impairment of Assets – Recoverable Amounts Disclosures for Non-Financial Assets

In May 2013, the IASB issued limited scope amendments to IAS 36. The amendment clarified the requirement to disclose the recoverable amount of an asset (including goodwill) or a cash-generating unit for which a material impairment loss was recognized or reversed during the reporting period. In addition, the amendment requires an entity to disclose the discount rate used in a present value technique that has been used in determining the recoverable amount of an impaired asset on the basis of fair value less costs of disposal. These amendments are effective for annual periods beginning on or after January 1, 2014. Earlier application is permitted. The Auto Fund does not expect these amendments to impact the financial statements.

Annual Improvements Cycles

In 2012, the IASB issued two exposure drafts for Annual Improvements Cycles 2010-2012 and 2011-2013, which include minor amendments to a number of IFRSs. The annual improvements process is used to make necessary but non-urgent changes to IFRSs that are not included in other projects. The amendments issued are all effective for annual periods beginning January 1, 2014. Early application is permitted, however OSFI has indicated that it will not allow early adoption of these changes for federally regulated financial institutions. While the Auto Fund is not federally regulated, it generally follows OSFI's guidance in such matters. The Auto Fund does not expect these amendments to significantly impact the financial statements.

Related Party Transactions

The Saskatchewan 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. Transactions with these entities are entered into in the normal course of business and are settled at prevailing market prices under normal trade terms. Details of significant related party transactions disclosed in the financial statements follow.

SGI is the administrator of the Saskatchewan 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 \$138.2 million (2012 – \$130.8 million).

An SGI Board member owns an organization that provides insurance services on behalf of the Auto Fund. Premiums written during the year from this organization amounted to \$1.9 million (2012 – \$1.9 million) and the associated accounts receivable at December 31, 2013, were \$25,000 (2012 – \$7,000). Issuer fees related to these premiums were \$169,000 (2012 – \$159,000). The above noted transactions are routine operating transactions in the normal course of business.

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 industry. The net present value of the scheduled payments at December 31, 2013, was \$21.6 million (2012 – \$23.0 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 such default is considered extremely remote.

The Auto Fund has contractual obligations to provide funding to Saskatchewan health organizations to provide for rehabilitative services for those injured in automobile collisions. Funding commitments range between \$21.6 million and \$28.7 million per year over the next five years.

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 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 and Finance Committee of the Board of Directors, and the Audit and Finance 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 includes 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 estimated allowance for doubtful accounts is recorded on the basis of periodic evaluations of balances due from reinsurers, reinsurer solvency, management's experience and current economic conditions. At December 31, 2013, and 2012, there is no allowance for doubtful accounts recorded related to unpaid claims recoverable from reinsurers.

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 the Auto Fund by identifying specific risk events and their potential impact on 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 application of potential mitigations.

The above process results in a risk profile for 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 the Auto Fund'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.

Significant Privacy Breach

Risk: Personal information held by the Auto Fund for a large number of customers is lost, accessed, used or disclosed contrary to legislated privacy requirements, resulting in adverse legal, regulatory and financial consequences, as well as a loss in confidence by customers and the shareholder.

Mitigation: Specific guidelines on handling personal information have been implemented and are updated regularly to be consistent with industry recommended best practices. SGI is implementing the AICPA/CICA Privacy Maturity Model which provides SGI with tools to assess and measure its privacy program. SGI conducts privacy audits in areas that handle customer information, and uses a Privacy Impact Assessment process for reviewing business changes, to ensure privacy concerns are addressed at the design level. To promote awareness of privacy obligations, new staff must complete online privacy training, and all staff are required to complete an annual sign-off of the Code of Ethics and Conduct, and the Confidentiality and Non-Disclosure Agreement.

Catastrophic Claim Loss

Risk: An event loss in excess of reinsurance limits, an aggregation of large losses within the corporate net retention or the failure of a reinsurer could result in major financial losses for the Auto Fund.

Mitigation: SGI's reinsurance limits were determined based on independent catastrophe modeling, and reinsurance limits are purchased in excess of the 1-in-250-year event probable maximum loss. The Corporation conducts scenario modeling on relevant catastrophic storm events, overlaying them on high exposure concentrations to validate the upper limit of reinsurance protection. To mitigate the risk of reinsurer failure, SGI and its reinsurance brokers monitor the reinsurer rating provided by AM Best, and Standard and Poor's.

Leadership / Strategy

Risk: The risk that the Auto Fund does not have the right strategic plan or leadership to be successful.

Mitigation: SGI's purpose and ideals are defined clearly in the corporate mission, vision and values statements, and the Auto Fund promotes leadership in training programs. The corporate commitment to privacy and ethical behaviour is reinforced through the annual review and sign-off by all employees of the Code of Ethics and Conduct. A strategic plan has been developed with the feedback of employees and other stakeholders, and provides a detailed plan for the future of the Auto Fund. The strategic plan is formally reviewed and updated annually, and a redeveloped prioritization process for major corporate projects is being implemented.

Transfer and Acquisition of Expertise

Risk: SGI is unable to build and maintain the knowledge, skill and experience within the organization's workforce needed to thrive now and in the future. Challenges include retirements, recruitment of qualified personnel in a tight labour market and the need to support an analytical and customer-centric culture.

Mitigation: SGI has implemented or is working on a number of programs in this area, including competency-based recruitment, training and mentoring programs, knowledge management solutions, and monitoring of workplace engagement and enablement through employee surveys. A corporate learning strategy is in place to grow talent, and SGI has devoted additional resources and technology to training and development. SGI's succession planning process focuses on: (i) ensuring senior management positions have backups; (ii) identifying high performing staff who have potential for more senior roles; and, (iii) ensuring high potential staff and the leadership team have ongoing development and support. The corporate diversity/recruitment strategy was updated in 2012 to enhance partnerships with outreach agencies and educational institutions, and the Corporation's visibility as a preferred employer. As a result, SGI has received national recognition as a Top 100 Employer, one of Canada's top diversity employers and one of Canada's top employers for employees over 40.

Customer Focus

Risk: The Auto Fund is unable to provide value to customers.

Mitigation: Consultations with affected stakeholders are completed for new initiatives to ensure customer acceptance. Registration and traffic safety programs are reviewed on an ongoing basis, and customer needs and concerns are monitored through customer service surveys, and discussions with issuers and brokers. During 2013, the Auto Fund presented recommendations to the Legislative Assembly's Special Committee on Traffic Safety that were adopted, and created the Motorcycle Review Committee to get customer input regarding ratings, safety programs and coverage. The Auto Fund is also reviewing its Safe Driver Recognition and Business Recognition programs and commencing an injury coverage review.

Outlook for 2014

While the Auto Fund does not operate in a competitive environment, it faces many external pressures – from increasing traffic collisions, to changes in customer preferences, to declining bond yields, and rising wages and repair rates.

For 2014, the Auto Fund is focused on three critical priorities – evolving to a strongly customer-centric business model, maintaining financial sustainability and ensuring the staff culture supports these priorities. This will mean continuing to improve service to customers, implementing recommendations from the all-party committee traffic safety review and the motorcycle review, and completing a review of Saskatchewan's auto injury program. It will also mean ensuring the Auto Fund collects the premium required to cover claim costs and expenses.

A central tenet of SGI's strategic plan is customer-centricity. A Customer and Distribution Strategy division was created in 2012 and tasked with developing customer strategy, and leading SGI in implementing it. That work is well underway and continues to be an important focus area in 2014. However, it is likely a further three-to-five year journey to achieve a true state of customer-centricity throughout the Auto Fund.

Due to the impacts on the Rate Stabilization Reserve associated with increasing autobody labour rates and lower premium growth than previously anticipated, as well as the impact of declining bond yields, rising income replacement costs for accident victims and higher costs for parts used in collision repair, a rate increase and surcharge are required again in 2014. As such, the Auto Fund submitted a proposal to the Saskatchewan Rate Review Panel which included a 2.7% revenue increase, with rate rebalancing. Rebalancing helps promote greater fairness in rating for all drivers, since it takes into account the number of claims and average cost of claims for each class of vehicle and sets rates accordingly, meaning each customer's rate would depend on the type of vehicle they own. An additional 3.7% has also been requested to replenish the Rate Stabilization Reserve. The 3.7% capital amount will move the RSR one-fifth of the way towards the Auto Fund's 100% MCT target, consistent with the revised capital management policy discussed earlier.

While faced with a challenging environment, an ambitious 2014 agenda and including the proposed rate program, the Auto Fund continues to provide amongst the lowest average personal vehicle rates in Canada and remains focused to deliver on its vision to be a company where every customer, employee, owner and business partner is proud to do business and work with it.