2016-17 SASKATCHEWAN AUTO FUND ANNUAL REPORT

Mission

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

Vision

Achieve the safest roads in Canada while caring for customers

Values

Integrity – doing the right thing (by being accountable, honest, trustworthy and fair)

Caring – understanding that empathy, courtesy and respect make an impact

Innovation – transforming how we do things today for an even more successful tomorrow

About the Saskatchewan Auto Fund

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

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Table of Contents

Letter of Transmittal

Regina, Saskatchewan
July, 2017

To Her Honour,
The Honourable Vaughn Solomon Schofield, S.O.M., S.V.M.
Lieutenant Governor of Saskatchewan

Your Honour,

I am pleased to submit herewith the annual report of the Saskatchewan Auto Fund for the 12-month period ended March 31, 2017, including the financial statements in the form required by the Treasury Board and in accordance with *The Automobile Accident Insurance Act*.

Respectfully submitted,

Joe Hargrave
Minister Responsible for Saskatchewan Government Insurance

Minister's Message

I became Minister Responsible for Saskatchewan Government Insurance (SGI) in August 2016. I've discovered a company that is passionate about providing value to customers and about its role in promoting traffic safety in this province. Its efforts in both areas fit well with the priorities of this government.

In the fall of 2016, the Government of Saskatchewan passed strengthened legislation to combat impaired driving, building on the tough laws implemented in 2014. On January 1, 2017, we introduced vehicle seizures for experienced drivers with a blood alcohol content between .04 - .08 on a first offence; stricter laws for alcohol or drug use by new and young drivers; and, Canada's toughest ignition interlock laws, to reinforce the message that impaired driving is always the wrong decision.

In support of these new laws, SGI invested $800,000 to fund 32 automated licence plate readers for enforcement vehicles in the Combined Traffic Services Saskatchewan pilot. These devices help police identify high-risk drivers and remove them from our roads.

Steps were also taken to address another key traffic safety concern in Saskatchewan – distracted driving. Expanded cellphone laws will help curb this dangerous behaviour, a leading factor in both collisions overall and those causing fatalities.

A full evaluation of the photo speed enforcement program is underway, but there is no doubt that the second year of the program saw a drop in speeding tickets and fewer collisions in the high risk zones. It is reassuring that drivers appear to be making the choice to slow down.

Once again, the Auto Fund had strong investment earnings in 2016-17, the result of a well-managed, diversified investment portfolio. Its sound financial position allowed SGI to focus on promoting traffic safety, offering affordable insurance and comprehensive injury benefits.

My thanks to the Board of Directors for your oversight this past year. My thanks as well to employees and motor licence issuers for delivering quality services to the people of Saskatchewan.

I am pleased to present the 2016-17 Saskatchewan Auto Fund Annual Report.

Joe Hargrave
Minister Responsible for Saskatchewan Government Insurance

Chair's Message

In 2016-17 the Saskatchewan Auto Fund continued to demonstrate its commitment to caring for customers while also maintaining among the lowest automobile insurance rates in Canada.

Over the past several years, the Auto Fund has helped to implement a number of safety initiatives, including the photo speed enforcement pilot, the Combined Traffic Services Saskatchewan pilot and programs to improve motorcycle safety. It has also run comprehensive education and awareness programming to ensure Saskatchewan people are aware of new laws and enforcement tools, and to keep road safety top of mind for Saskatchewan motorists.

Continuing to focus on the people we serve, in 2016-17 the Auto Fund implemented the government-approved, customer-requested changes to the Safe Driver Recognition program. The changes put the emphasis on safety by increasing discounts for Saskatchewan's safest drivers while handing out steeper penalties for drivers with unsafe behaviours.

Thanks to a well-diversified investment portfolio, leading to strong investment income, the Auto Fund achieved positive financial results in 2016-17.

The Board of Directors experienced significant change in 2016-17, with several departures and new appointees. I am sincerely thankful for the contributions of the outgoing members, David McKeague, Jeff Sterzuk, Rick Kennedy, Rick Orr and Rick Smith. I would also like to welcome our newest members: Mark Borgares, Ngee Cau, Patricia Cook, Pina Melchionna, Ron Waldman and Janice Wallace. I look forward to the expertise and guidance you will provide the Auto Fund in the years to come, building on the efforts of your predecessors.

The Auto Fund has put in another year of hard work that, in return, led to real progress. On behalf of the Board, I extend my gratitude to the motor licence issuers, employees and management who contributed to the Auto Fund's achievements in 2016-17. Thank you for all you do to take care of our customers while working to make our roads and highways safer.

Arlene Wiks

Arlene Wiks
Chair, SGI Board of Directors

President's Message

In 2016-17 the Saskatchewan Auto Fund's commitment to traffic safety helped to save lives, prevent injuries and keep rates for automobile insurance among the lowest in Canada. The Auto Fund continually works towards turning around Saskatchewan's traffic fatality and injury numbers, and 2016-17 was no different. There are still far too many losing their lives or suffering injuries in vehicle collisions, but strengthened traffic safety initiatives give us a solid foundation from which to work to achieve the safest roads in Canada.

A well-diversified and well-managed investment plan led to strong investment earnings of $173.8 million in the past 12 months, contributing to an increase in the Rate Stabilization Reserve (RSR) of $188.7 million. This stability is reassuring and good news for Saskatchewan drivers. A stable RSR ensures we are prepared for future claims or downturns in investment markets.

Two years after sweeping legislative changes, bolstered impaired driving laws were introduced in 2016-17. These tougher laws send the message that the province, our partners, law enforcement and the Auto Fund are serious about changing the attitude around impaired driving. Effective January 1, 2017, three-day vehicle seizures apply to experienced drivers charged for the first time with a blood alcohol content between .04 and .08. Stronger zero tolerance laws for drugs and alcohol apply to all new drivers and drivers 21 and under. Saskatchewan's ignition interlock laws are now the toughest in Canada. Bringing down the number of impaired driving collisions is going to take time. But now, more than ever – with effective laws and increased awareness and education efforts – we are in position to help make Saskatchewan's roads the safest in Canada.

Along with changes to impaired driving, distracted driving legislation was also strengthened. Its expansion from "using" a cellphone while driving to "holding, viewing, using or manipulating" a cellphone when driving means people need to get serious about putting the phone down while behind the wheel or else face fines, demerits and even vehicle seizures for repeat offences. We are confident this change will help in the fight against distracted driving, a top factor in Saskatchewan's overall collisions, as well as in fatal collisions.

As we look ahead to cannabis legalization in 2018, we are studying the proposed federal impaired driving laws and preparing for the impact on traffic safety and impaired driving here in Saskatchewan. We are taking a proactive approach, funding increased training for drug recognition evaluators and standard field sobriety testing. Our role on the provincial task force, along with representatives from several government ministries, demonstrates the province's commitment to ensure Saskatchewan roads are safe.

The second year of the photo speed enforcement pilot program, though not fully evaluated, shows drivers are choosing to slow down in photo enforced speed zones (high speed corridors and select school zones in the province). Fewer speeders reduce collisions, resulting in fewer injuries and fatalities in the province. In 2015 there were 31 fewer crashes in photo speed enforced zones than the five-year average of 97 from 2010-2014. For the first time over the course of the pilot, in January 2017 less than 1% of vehicles driving in these zones were in violation of the speed limit. This success is a step in the right, and safer, direction.

Responding to feedback from customers, the Auto Fund rolled out changes to the Safe Driver Recognition program in 2016. Saskatchewan's safest drivers can now work towards a 25% discount on their insurance premium. For those with high risk driving behaviours, financial penalties are doubled, an incentive for people to change their habits.

At the core of the Auto Fund's mandate is customer care. In recent years, we've reached out to customers to learn more about what they need from us. In 2016-17 we undertook a number of actions to deliver on these requests. Our partnerships with autobody repair shops to handle vehicle appraisals gave customers choice and convenience that reduced the duration of their vehicle repair. We also implemented changes to the auto injury program, resulting from the review in 2016, better meeting the needs of people injured in collisions and helping to keep coverage affordable.

The new fee and safety incentive for new motorcyclists is another example of the Auto Fund responding to customer needs and requests. The change encourages new riders – who are more likely to be involved in collisions – to take a motorcycle training course. This change, along with other improvements made to motorcycle safety in 2014 and 2015, are contributing to a downward trend in the number of motorcycle collisions in the province.

There are always challenges in our day-to-day work, but our staff work to give top priority to customers. In July 2016 our Estevan Claims Centre handled thousands of flood claims, despite the centre itself being underwater, sustaining considerable damages. Keeping customers top of mind, employees worked around the clock to move to a temporary location. It's gratifying to see our customer experience scores going up, indicating customers are noticing differences as we adapt processes and work to better coordinate services for the people of the province.

Storm claim losses totalled $26.7 million in 2016-17, primarily due to a July hailstorm in Moose Jaw and surrounding area. Overall, Auto Fund claim costs year-over-year were up, because of an increase in the number of damage claims and the increased severity of those claims – vehicle repairs are getting more complex. Claim costs were the primary driver behind the Auto Fund's underwriting loss of $53.5 million.

Overall, the Auto Fund made solid progress in 2016-17, and had a very positive financial year. I thank our employees, motor licence issuers, management and Board of Directors for a year of good progress.

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

Management's Discussion and Analysis

The following management's discussion and analysis (MD&A) is the responsibility of Saskatchewan Government Insurance (SGI) as the administrator of the Saskatchewan Auto Fund and reflects events known to SGI to May 24, 2017. The Board of Directors carries out its responsibility for review of this disclosure principally through its Audit, Finance and Conduct Review Committee, comprised exclusively of independent directors. The Audit, Finance and Conduct Review Committee's mandate can be found on SGI's website at www.sgi.sk.ca. The Board of Directors approved this MD&A at its meeting on May 25, 2017, after a recommendation to approve was put forth by the Audit, Finance and Conduct Review Committee.

Overview

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

Caution Regarding Forward-Looking Statements

Forward-looking statements include, among others, statements regarding the 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.

Change in Year End

In December 2015, the Auto Fund was directed by the provincial government to change its fiscal year-end from December 31 to March 31 to coincide with the Government of Saskatchewan's year-end. As a result, the prior year Statement of Operations and Statement of Cash Flows are for a 15-month period.

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 required by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada.

The Auto Fund, at March 31, 2017, had 377 motor licence issuers[1] in 280 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 64.

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 806,000 drivers and approximately 1.2 million vehicles and trailers in Saskatchewan. Business partners range from independent motor licence issuers, autobody repairers 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 81.8% of the Auto Fund's costs for the 12 months ended March 31, 2017. Over the last 10 years, auto damage claim costs have increased at an average annual rate of 6.0%, while personal injury costs have grown at 3.1% 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 auto repair labour rates, continue to rise. As a result, damage claim costs continue to climb as repair costs outpace inflation.

The severity of injury claims continues to grow each year; however, the recent growth is slower than what has been seen in the past. The frequency of injury claims has been declining throughout the history of the Auto Fund, but in recent years all major injury coverage groups have experienced an even steeper decline in claim frequency. Overall injury costs have stabilized; however, it is too early to know if this trend will continue. Injury claim costs are significant to the Auto Fund and continue to be monitored closely.

The Auto Fund continues to offer Safe Driver Recognition (SDR) and Business Recognition (BR) programs. These programs have been in place since 2002 and 2004 respectively. The SDR program places all drivers on a safety rating scale based on their driving history. Changes were made to the SDR program in October 2016. The maximum discount will increase by 1% over the next five years to a maximum of 25%. The BR program rewards businesses that maintain good loss experience with discounts on their vehicle insurance. Changes were made to the BR program in May 2016, to adjust the scale to be more balanced. The maximum discount available from the BR program remains at 10%. For the 12 months ended March 31, 2017 these discounts represented savings to customers totaling $134,738,000 (15 months ended March 31, 2016 – $155,699,000).

Strategic Direction

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

Mission

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

Vision

Achieve the safest roads in Canada while caring for customers

Values

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

Corporate Goals and Measures

The Auto Fund had three key goals in 2016-17:

- Prevent deaths, injuries and property damage caused by traffic collisions;
- Develop a deeper understanding of how to increase value for customers and strengthen the ability to deliver that value; and,
- Enhance foundational business structures and processes, and develop employees to optimize delivery of the strategic plan.

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

Financial

The Auto Fund measures financial results through rate adequacy:

Measure	2016-17 Target	2016-17 Result	2017-18 Target
Auto Fund rates adequate for package of coverage and services			
Rate adequate vehicles	94%	○ 55%	63%

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 long-term goal is to achieve rate adequacy for 98% of the vehicles it insures. Progress toward this goal was negatively impacted in 2015 by changes to the national vehicle rate groups that are set and maintained by the Insurance Bureau of Canada. As well, the Auto Fund did not take forward a program to rebalance rates in 2015 or 2016. As a result, the proportion of vehicles within 5% of the adequate rate fell to 55%. The target for 2017-18 is rate adequacy for 63% of vehicles, while maintaining a long-term goal of 98%.

Customer

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

Measure	2016-17 Target	2016-17 Result	2017-18 Target
Customer experience			
Customer experience index	74%	● 75%	76%
Among the lowest personal auto insurance rates in Canada	Among the lowest two	● Second lowest	Among the lowest two
Traffic safety			
Reduction in injuries and fatalities over baseline (Injury baseline: 6,867; Fatality baseline: 158)	15% reduction Injuries: 5,837 Fatalities: 134	● Injuries: 5,562 (19%) ● Fatalities: 127 (20%)	20% reduction Injuries: 5,494 Fatalities: 126

Legend: ● achieved ○ not achieved

Customer experience

The Auto Fund used two measures to evaluate customer experience: the customer experience index and maintaining among the lowest personal auto rates in Canada.

With a focus on enhancing the overall experience being provided to customers, the company introduced a customer experience index (CXi) to assess what customers think of their interactions and relationship with the company. A combined Auto Fund and SGI CANADA score is used, as Saskatchewan customers do not differentiate between the two companies. A score of 75% was achieved, slightly exceeding the 2016-17 target of 74%. The 2017-18 target is 76%, continuing to move towards the long-term goal of achieving 80%.

As a public auto insurer, maintaining low and stable insurance rates is critical to providing a positive customer experience and remaining relevant. Public insurance companies exist to provide affordable coverage to residents. The Auto Fund completes regular cross-Canada rate comparisons to determine how much a vehicle owner would pay for auto insurance in other Canadian provinces given their current vehicle, driving record and claim history. The Auto Fund aims to maintain among the lowest auto insurance rates in Canada, without compromising other important targets, such as the Minimum Capital Test. The Auto Fund achieved this in 2016-17 with the second lowest personal auto rates in Canada.

Traffic safety

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

The Auto Fund would ultimately like Saskatchewan's roads to be the safest in Canada. By Saskatchewan Day 2020, the Auto Fund is targeting a 30% reduction in injuries and fatalities on Saskatchewan roads over the baseline set using the 2010 – 2014 July to June averages. The Auto Fund, and the people of Saskatchewan, exceeded the 2016-17 targeted reduction of 15% with 19% fewer injuries and 20% fewer fatalities. This translates into 1,305 fewer injuries than the baseline, and 31 fewer fatalities. These results may indicate a downward trend in traffic injuries and fatalities, but it is too soon to know if a statistically sound trend has been established. In 2017-18, the Auto Fund is targeting a 20% reduction from the baseline, or 5,494 injuries and 126 fatalities.

Internal processes

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

Measure	2016-17 Target	2016-17 Result	2017-18 Target
Efficiency and productivity			
Administrative expense ratio	5.8%	○ 5.9%	5.6%

Legend: ● achieved ○ not achieved

Efficiency and productivity

In 2016-17, efficiency and productivity were measured based on the Auto Fund's administrative expense ratio. The ratio is total administrative expenses expressed as a percentage of net premiums earned. Administrative expenses are largely related to salaries and benefits, information technology and facilities costs. The Auto Fund did not achieve its 2016-17 target, realizing a 5.9% administrative expense ratio, which is slightly higher than the target of 5.8%. Analysis of administrative expenses is provided in more detail in the 2016-17 Financial Results section.

The Auto Fund's 2017-18 target is an administrative expense ratio of 5.6%. This is consistent with the long-term target to maintain its administrative expense ratio at or below 6.0%.

Organizational capacity

The Auto Fund's ability to deliver on its corporate strategy is dependent on employees and maintaining an adequate level of capital. As such, organizational capacity is measured based on employee engagement and capital adequacy.

Measure	2016-17 Target	2016-17 Result	2017-18 Target
Employee engagement			
Engagement score compared to the Canadian public sector norm	1-point improvement	Non-reporting year	Non-reporting year
Capital adequacy			
Minimum Capital Test	91%	● 108%	103%

Legend: ● achieved ○ not achieved

Employee engagement

A positive employee experience is essential to achieving the Auto Fund's corporate objectives. One way to measure this is through employee engagement, using a biennial employee survey conducted by an external vendor. The survey includes employees performing work for both SGI CANADA and the Auto Fund. An employee engagement score, derived from SGI's employee survey, is used to measure an employee's emotional and intellectual commitment to the Corporation. Due to fiscal restraint, the employee engagement survey was not conducted in 2016-17 and will not be conducted in 2017-18. The long-term goal continues to be a score at or above the Canadian public sector.

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 108% was above the 2016-17 target of 91% and the long-term goal of 100%. At March 31, 2017, the actual, non-rolling MCT was 124%. The Auto Fund's 2017-18 target is an MCT of 103%.

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. With many long-term employees and a low staff turnover rate, the Corporation has significant expertise in core areas, including licensing and registration, driver and vehicle safety services, and claim handling, as well as within the support areas. The challenge is to continue to recruit, develop and retain the best people to ensure the longevity, growth and maintenance of operations.

The corporate recruitment strategy includes partnerships with outreach agencies and educational institutions, as well as the Corporation's visibility as a preferred employer. SGI's succession planning process focuses on: (i) ensuring current senior management positions have succession plans; (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. As well, there is a program in place to support employees nearing retirement, to assist with the transfer of critical knowledge and expertise.

SGI and the Canadian Office and Professional Employees' Union, Local 397 (COPE 397), are within a four-year Collective Bargaining Agreement, running from January 1, 2014, to December 31, 2017.

Motor licence issuers

The Auto Fund provides accessibility for customers by distributing products through a network of 377 independent motor licence issuers in 280 communities across Saskatchewan, and seven SGI branch offices throughout the province. The majority of motor licence issuers' interests are represented by the Insurance Brokers' Association of Saskatchewan. The relationship between the Auto Fund and motor licence issuers is governed by an Issuer Accord. The accord is intended to enhance the working relationship resulting in improved service to customers. Included in the accord are 15 agreed-upon principles, such as fostering better communication between both groups, recognizing the value of each other's roles to provide service to Saskatchewan people and partnering on traffic safety programs.

Technology and systems

The Auto Fund relies on technology and information systems to deliver products and services to the motoring public. The Auto Fund operates using a sophisticated information system that gives it the flexibility to respond to customer needs and industry changes. Auto Fund products are widely accessible to customers through an online system in issuing offices throughout the province, and customers can perform many transactions through MySGI online services.

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 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.

The Auto Fund maintains a Capital Management Policy that applies an amount to move towards its MCT target of 100% in small increments with each rate program. The 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 policy also considers whether overall capital needs have changed. As claim liabilities and investment assets grow, the need for capital to support the business also increases. With each rate program, SGI analyzes actual results and brings forward recommendations for adjustments required to maintain adequate capital. SGI anticipates that, with this policy in place, only minor adjustments will be needed to address capital needs in subsequent rate programs.

At March 31, 2017, the MCT ratio was 124%, and the 12-month rolling average MCT ratio was 108%.

2016-17 Financial Results

For the 12 months ended March 31, 2017

Overview

With the Auto Fund transition to a March 31 year-end, the prior year Statement of Operations and Statement of Cash Flows are for a 15-month period. For analysis and comparative purposes, the information included in the following discussion focuses on the 12-month periods ending March 31, 2017 and March 31, 2016.

The Auto Fund experienced an increase to the Rate Stabilization Reserve (RSR) of $188.7 million. Operating results were strong due to solid investment returns.

The Auto Fund generated investment earnings of $173.8 million for the 12 months ended March 31, 2017. Results were driven by exceptionally strong equity returns from both Canadian and foreign equities. Strong investment earnings in recent years have rebuilt the Auto Fund's capital base to an adequate level, although earnings are not expected to persist at these high levels in more normalized equity markets or a rising interest rate environment.

With the $188.7 million surplus, the RSR improved to $565.9 million and the MCT to 124%.

Statement of Operations

Premiums written

	(thousands of $)			
	12 months ended March 31			15 months ended March 31, 2016
	2017	2016	Change	
Gross premiums written	933,530	926,473	7,057	1,121,731
Premiums ceded to reinsurers	(8,576)	(5,977)	(2,599)	(10,407)
Net premiums written	924,954	920,496	4,458	1,111,324

Net premiums written for the 12 months ended March 31, 2017 totalled $925.0 million, representing an increase of 0.5%, or $4.5 million over the prior year. The slight increase is due to customers moving to vehicles with higher premiums. The number of vehicle insured years decreased by 0.2% during the year to 933,738 from 935,723.

The Safe Driver Recognition and Business Recognition programs continue to return dollars to Auto Fund customers each year. To March 31, 2017, these programs returned $134.7 million to customers through safe driving discounts, compared to $128.9 million in 2016. Expressed as a percentage of vehicle premiums, this equates to an average discount of 12.6% for 2017 (2016 – 12.2%). Maximum discounts available under each program are 22% for the Safe Driver Recognition program and 10% for the Business Recognition program.

Claims incurred

	(thousands of $)			
	12 months ended March 31			15 months ended March 31, 2016
	2017	2016	Change	
Net claims incurred	798,005	734,977	63,028	934,346

The following table details claim costs by categories:

	(thousands of $)			
	12 months ended March 31			15 months ended March 31, 2016
	2017	2016	Change	
Current year				
Damage claims, excluding storm claims	527,467	484,411	43,056	613,190
Storm claims	26,696	26,026	670	25,726
Total damage claims	554,163	510,437	43,726	638,916
Injury claims	281,791	269,519	12,272	346,540
	835,954	779,956	55,998	985,456
Prior year deficiency (redundancy)				
Damage claims	(10,222)	(6,007)	(4,215)	(24,367)
Injury claims	(18,888)	53,077	(71,965)	35,447
	(29,110)	47,070	(76,180)	11,080
Change in discounting	(8,839)	(92,049)	83,210	(62,190)
Total claims incurred	798,005	734,977	63,028	934,346
Current year loss ratio*	90.6%	85.4%	5.2%	87.8%
Total loss ratio	86.5%	80.4%	6.1%	83.2%

* before prior year deficiency (redundancy) and change in discounting

Current year claims

Current year damage claims, excluding storm claims, are $43.1 million, or 8.9%, higher than the prior year. The number of damage claims increased by 7.3%, and the severity of damage claims increased by 1.6% as vehicle repairs are getting more complex. Damage claims frequency increased to 120.9 damage claims per 1,000 insured years compared to 113.8 in the prior year.

Net storm claims of $26.7 million were consistent with the prior year. On a gross basis, storm claims of $38.1 million were $9.4 million more than the prior year (2016 – $28.7 million gross storm costs). The increase, on a gross basis, was due to a large hailstorm in the Moose Jaw area.

Current year injury claims are $12.3 million or 4.6% higher than the prior year due to an increase in the number of injury claims. Injury frequency increased from 4.9 injury claims per 1,000 insured years in the prior year to 5.1 in the current fiscal year.

Development on prior year claims

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

The prior year redundancy of $29.1 million includes an $18.9 million decrease in the estimate for prior year injury claims, due primarily to improved loss emergence on most injury coverages and lower indexing of medical and income replacement benefits than originally anticipated. This redundancy was partly offset by worse than expected loss emergence on care benefit claims. In addition, there is a $10.2 million redundancy related to damage claims, a reflection of better than expected development on prior year claims, most notably the 2015 and 2016 loss years.

Impact of discounting

Discounting the provision for unpaid claims resulted in an $8.8 million decrease to claims incurred. Growth in the provision for unpaid claims, which was largely related to injury claims, specifically care benefits, resulted in a decrease to claims incurred due to discounting of $28.8 million. This was partly offset by a decrease in the overall rate used to discount the provision, which along with increases to risk margins, resulted in an increase to claims incurred of $20.0 million. The change in the discount rate is comprised of increases in bond yields, which were more than offset by a decrease to the long-term equity yield and actuarial assumption changes. The prior year decrease of $92.0 million was largely due to growth in the provision for unpaid injury claims.

Expenses excluding claims incurred

	(thousands of $)			
	12 months ended March 31			15 months ended March 31, 2016
	2017	2016	Change	
Other expenses	178,037	174,256	3,781	214,295

For the 12-month period, other expenses, excluding claims incurred, increased $3.8 million compared to the same period in 2016. The increase is due primarily to higher spending on traffic safety initiatives.

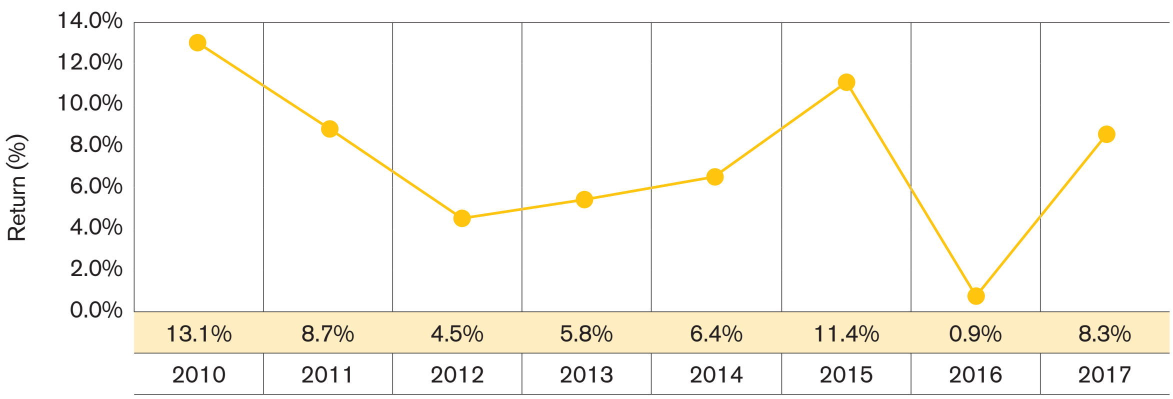
Investment earnings and other income

	(thousands of $)			
	12 months ended March 31			15 months ended March 31, 2016
	2017	2016	Change	
Net investment earnings	173,811	16,549	157,262	111,752
Other income	68,428	59,121	9,307	73,984

Investment earnings

In 2017, investment earnings were $173.8 million, a significant increase over the $16.5 million earned in 2016. Investment earnings are recorded using market-based accounting principles, the components of which are disclosed in note 12 to the financial statements, and include interest, dividends, investment fund and limited partnership distributions, and both realized and unrealized gains and losses on investments. For purposes of portfolio management, market-based returns are calculated based on the Auto Fund's investment earnings. In 2017, the total portfolio's market-based return was 8.3%, compared to a 0.9% return in 2016, led by exceptionally strong equity returns and positive fixed income results.

Annual Market Based Returns to March 31



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

The Matching Portfolio exceeded its benchmark for the year and remained well matched to the associated claim liabilities. The Return Seeking Portfolio returns were strong as the Auto Fund's equity investment managers generally outperformed their respective benchmarks resulting in returns above their policy objectives. The following table illustrates the investment portfolio's actual performance by asset class for 2017 compared to the index and 2016 actual returns.

		Annual Returns (%)		
Asset Class	**Benchmark Index**	**Actual 2017**	**Index 2017**	**Actual 2016**
Matching Bonds	Custom Bond Index	1.7	-0.8	0.8
Mortgages	FTSE TMX Short & Mid-term Bonds	3.8	1.9	3.1
Canadian equities	S&P/TSX Composite	16.7	18.6	-4.5
Global equities	MSCI ACWI ($C)	20.4	18.6	na
Global Small Cap Equities	MSCI ACWSCI ($C)	19.7	21.2	-0.7
Real Estate	Investment Property Databank	8.2	5.9	6.1
Infrastructure	Canadian CPI + 5%	9.9	6.6	11.8

While the Auto Fund monitors investment returns compared to benchmark returns on a monthly basis, the performance measures are expected to be met over four years, a long enough period to capture a full market cycle. This long-term measure is appropriate as it recognizes that the effectiveness of investment management styles varies depending on the market environment.

Other income

Other income consists of fees charged to customers for using the AutoPay and short-term payment option programs, salvage operations income and 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.

Other income increased $9.3 million over the prior year. The Safe Driver Recognition program penalty revenue increased $4.3 million or 36.1%, primarily the result of changes implemented in October 2016, which doubled the maximum penalty amount per incident from $500 to $1,000. Salvage operations income increased $4.2 million from higher sales volumes, particularly in whole vehicle sales. Fees for using payment option plans increased $828,000 to $31.6 million. The overall proportion of vehicle premiums financed through payment option programs grew slightly to 64.6% (2016 – 63.8%).

Statement of Cash Flows

	(thousands of $)			
	12 months ended March 31			15 months ended March 31, 2016
	2017	2016	Change	
Total operating activities	138,694	163,691	(24,997)	124,628
Investing activities	(139,823)	(160,415)	20,592	(99,798)
Net cash flow	(1,129)	3,276	(4,405)	24,830

Cash flows generated from operating activities of $138.7 million for the 12 months ended March 31, 2017 were used to purchase $131.4 million of additional long-term investments and $8.5 million of property and equipment which resulted in an overall decrease in cash and cash equivalents of $1.1 million. The $25.0 million decline in operating cash flow is a result of less favourable underwriting results compared to 2016.

Statement of Financial Position

	(thousands of $)		
	March 31 2017	March 31 2016	Change
TOTAL ASSETS	**$ 2,627,388**	**$ 2,369,585**	**$ 257,803**
Key asset account changes:			
Investments	2,276,791	2,027,389	249,402
Unpaid claims recoverable from reinsurers	13,784	3,468	10,316
Accounts receivable	218,661	223,279	(4,618)

Investments

The carrying value of investments increased by $249.4 million during the year, due to the investment of operating cash flows and exceptionally strong equity returns.

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 annually through a detailed assessment of the Auto Fund's risk tolerance. In summary, the Auto Fund's positive cash flows and the presence of the 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 long-term investment goals, the Auto Fund must invest in asset classes that provide an attractive risk-return profile over the medium to long-term. Over shorter periods, however, performance of these asset classes can be volatile. The Auto Fund investment portfolio continues to hold a diversified asset mix with a longer-term focus, balancing the need for capital preservation in the short term with the need for portfolio growth over the longer term.

The asset mix strategy is formally documented in the Statement of Investment Policies and Goals. In addition to capturing the asset mix strategy, this document provides guidance on permissible investments, quality and quantity guidelines, conflicts of interest, related party transactions and investment performance expectations, among others. Management monitors and enforces compliance with the investment policy. No material compliance deviations were noted in the 12-month period ended March 31, 2017.

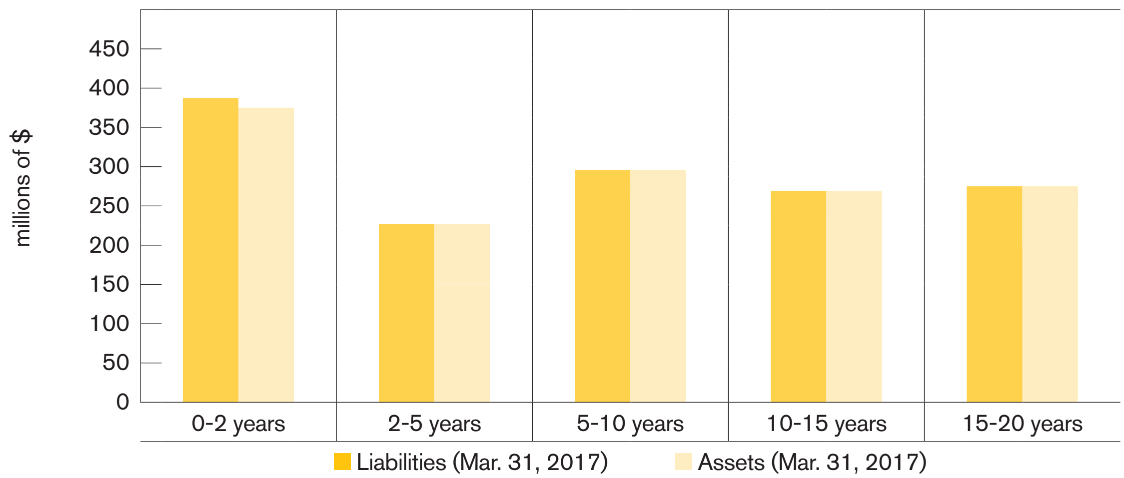
The Auto Fund's investment portfolio is managed by external investment managers. The portfolio is comprised of short-term investments, bonds and debentures, equities, mortgages, real estate and infrastructure. Equities include investments in Canadian common shares as well as investments in two global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

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

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

Expected liability cash flows and matching portfolio asset cash flows as of March 31, 2017 are as follows:

Matching Portfolio Asset-Liability Cash Flows

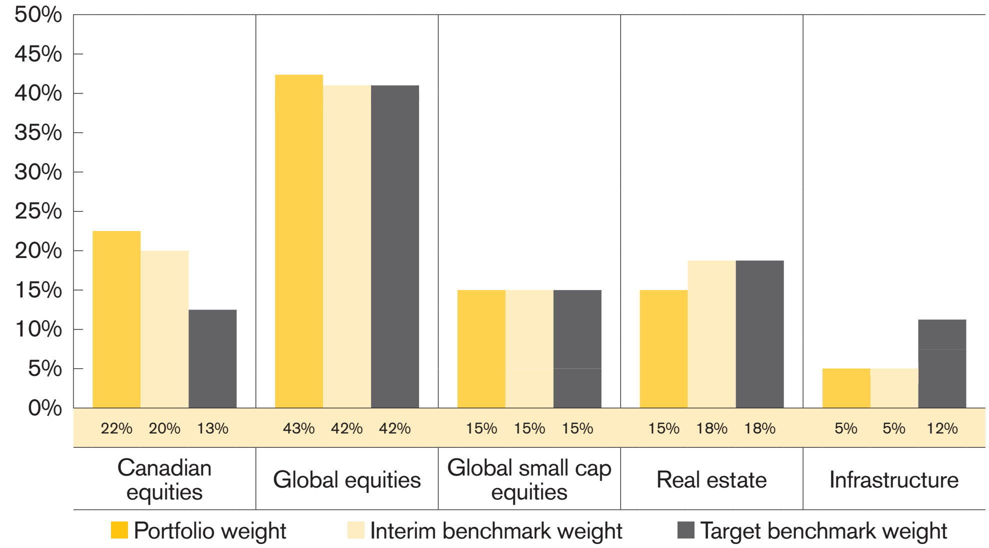


The annual investment policy review resulted in some changes to the policy asset mix guidelines and benchmark portfolio weights in the Return Seeking Portfolio. The changes include a reduction in Canadian equities and real estate in favour of additional global small capitalization equities and infrastructure. The Auto Fund continues to monitor its fixed income investments to ensure they are well matched to their associated liabilities.

The asset mix within the Return Seeking Portfolio remains in transition to the long-term target weights due to lags in funding commitments to infrastructure and real estate. As these mandates are funded over the next three years, the portfolio is expected to more closely align with the long-term benchmark weights.

The portfolio asset mix and benchmark weights at March 31, 2017, are as follows:

Return Seeking Portfolio Asset Mix as at March 31, 2017



Unpaid claims recoverable from reinsurers

Unpaid claims recoverable from reinsurers increased $10.3 million over the 12-month period, largely relating to outstanding recoveries on 2016 storm claims.

Accounts receivable

Accounts receivable decreased $4.6 million, or 2.1% over the 12-month period due primarily to an $11.3 million receivable in the prior period from the Auto Fund's administrator, SGI, which resulted from the normal course of operations and cleared subsequent to year end. The AutoPay financed premiums receivable increased $3.7 million, a 1.9% increase to $193.4 million, as customers continue to choose to pay monthly for their registrations. Customer receivables increased $3.2 million, or 14.9% to $24.8 million, largely the result of higher unpaid safe driver recognition penalties.

	(thousands of $)		
	March 31 2017	March 31 2016	Change
TOTAL LIABILITIES	**$ 2,061,488**	**$ 1,992,408**	**$ 69,080**
Key liability account changes:			
Provision for unpaid claims	1,619,746	1,559,861	59,885
Accounts payable and accrued liabilities	48,466	41,924	6,542
Unearned premiums	383,139	380,711	2,428

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 $59.9 million during the period to $1.6 billion (March 31, 2016 – $1.6 billion). This represents an increase of 3.8% from the last period. 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 from 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.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities increased $6.5 million, due largely to an increase in reinsurance premium payable related to storm claims and favourable weather conditions prompting individuals to insure their seasonal vehicles before the effective dates of the policies.

Unearned premiums

Unearned premiums increased by 0.6%, commensurate with the growth in premiums written.

	(thousands of $)		
	March 31 2017	March 31 2016	Change
EQUITY	**$ 565,900**	**$ 377,177**	**$ 188,723**
Key equity account changes:			
Rate Stabilization Reserve	565,900	377,177	188,723

Rate Stabilization Reserve (RSR)

The increase to the RSR was a result of the $188.7 million surplus from operations.

Quarterly Financial Highlights

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

	(thousands of $)										
	2016-17					2015-16					
	Q4	Q3	Q2	Q1	12 months ended Mar. 31, 2017	Q5	Q4	Q3	Q2	Q1	15 months ended Mar. 31, 2016
Gross premiums written	204,473	205,950	238,133	284,974	**933,530**	198,240	203,590	239,518	285,125	195,258	**1,121,731**
Net premiums earned	219,111	230,550	240,803	232,062	**922,526**	219,597	228,124	239,333	226,761	208,144	**1,121,959**
Net claims incurred	160,874	198,257	230,965	207,909	**798,005**	181,315	177,036	244,130	132,496	199,369	**934,346**
Increase (decrease) to RSR	100,946	(5,099)	48,968	43,908	**188,723**	(52)	75,363	(48,214)	53,155	78,802	**159,054**
Cash flow from (used in) operations	(28,383)	31,112	59,527	76,438	**138,694**	(41,239)	44,558	72,614	87,758	(39,063)	**124,628**
Investments	2,276,791	2,273,216	2,271,370	2,159,290		2,027,389	2,101,727	2,017,196	1,900,745	1,903,118	
Provision for unpaid claims	1,619,746	1,659,314	1,666,077	1,594,969		1,559,861	1,567,237	1,581,290	1,489,987	1,528,807	
Rate Stabilization Reserve	565,900	464,954	470,053	421,085		377,177	377,229	301,866	350,080	296,925	

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

- Premium earnings generally rise in the spring and summer months, largely a factor of increased premiums related to seasonal vehicles.
- With the exception of the period January to March, the Auto Fund generates positive cash flows from operations. Cash is typically low in this period as the Auto Fund pays annual premium taxes to the province in March and there are higher claim outflows from the winter driving season. Operating cash flows are generally strong throughout the remaining nine months of the year and during these months excess cash generated is directed to investments.

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 are disclosed in the financial statements to 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 $147.6 million (2016 – $174.3 million).

Certain Board members are partners in organizations that provided $169,000 (2016 – $284,000) of professional services to the Auto Fund. These services were recorded in claims incurred and administrative expenses in the Statement of Operations. In addition, one Board member was a shareholder in an organization that provided motor licence issuing services on behalf of the Auto Fund. Premiums written from April 1 – November 30, 2016 from this organization amounted to $2.1 million (2016 – $2.9 million) and the associated accounts receivable was $nil (2016 – $84,000). Issuer fees related to the amounts collected over the same period were $187,000 (2016 – $245,000). 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 insurance industry. The net present value of the scheduled payments at March 31, 2017, was $22.8 million (March 31, 2016 – $22.9 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 rehabilitative services for those injured in automobile collisions. Funding commitments range between $20.2 million and $30.3 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 Financial Reporting Interpretations Committee. Significant accounting policies are described in note 3 to the financial statements. Some of these policies involve critical accounting estimates because they require SGI, as the administrator, to make particularly subjective or complex judgments about matters that are inherently uncertain, and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions.

The development, selection and application of key accounting policies, and the critical accounting estimates and assumptions they involve, have been discussed with the Audit, Finance and Conduct Review Committee of the Board of Directors, and the Audit, Finance and Conduct Review Committee has reviewed the disclosures described in this section. The most significant critical accounting estimates involve the provision for unpaid claims and unpaid claims recoverable from reinsurers.

Provision for unpaid claims

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

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

Unpaid claims recoverable from reinsurers

Unpaid claims recoverable from reinsurers include amounts for expected recoveries related to unpaid claim liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with claim and claim adjustment expense reserves, and are reported in the Statement of Financial Position. The ceding of insurance does not discharge the Auto Fund's primary liability to its insureds. An allowance for doubtful accounts is estimated on the basis of periodic evaluations of balances due from reinsurers, reinsurer solvency, management's experience and current economic conditions. At March 31, 2017, and March 31, 2016, 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 as follows:

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 uses the American Institute of Certified Public Accountants/Chartered Professional Accountants of Canada (AICPA/CPA) Privacy Maturity Model to assess and measure its privacy program. The Auto Fund conducts targeted 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 determines Auto Fund reinsurance limits using independent catastrophe modeling, including scenario tests that overlay hypothetical events on high-exposure concentrations. To mitigate the risk of reinsurer failure, SGI and its reinsurance broker monitor the reinsurer ratings provided by AM Best and Standard & Poor's.

Acquisition and Development of Expertise

Risk: SGI faces challenges in building and maintaining 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, retirement programming, and monitoring 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: ensuring current senior management positions have succession plans; identifying high-performing staff who have potential for more senior roles; and, ensuring high-potential staff and the leadership team have ongoing development and support. A corporate leadership strategy has been developed, initially applicable to senior leadership, with the objective to develop individual abilities in areas such as strategic leadership, business acumen and leading a culture of change. SGI continues to receive 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.

Strategy

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

Mitigation: SGI's purpose and ideals are defined in the corporate mission, vision and values statements. These statements were revised in 2016 with input from employees and other stakeholders, and provided the base for the development of the 2016-2020 strategic plan, which provides direction on how the corporation will achieve its vision. SGI's strategic plan is formally reviewed and updated annually and revisited in detail every five years.

Systems Security

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

Mitigation: SGI's Security Policy, which includes corporate standards for user access (including remote and external vendor access), passwords, physical security, mobile devices, wireless networks and acceptable use of SGI systems. SGI has implemented many mechanisms (such as firewalls, intrusion prevention, anti-virus, etc.) to protect its data environment and continually monitors systems for potential threat activity. Should an event occur, SGI has developed incident response procedures to decrease the severity of the breach.

Employee Change Agility

Risk: SGI's business strategy involves significant transformative change. SGI's ability to successfully meet its objectives is to a large extent determined by its ability to retain effective, engaged and productive employees.

Mitigation: SGI has a large number of programs and initiatives dedicated to assisting employees in understanding and adapting to change. This includes employee training, support for performance development and knowledge management programs, plus a focus on employee engagement and empowerment. An enhanced corporate level change management process and a modernized high performance competency model applicable to all employees also help mitigate this risk.

Outlook for 2017-18

The Saskatchewan Auto Fund continues to be efficient and well-run – maintaining administrative expense ratios below other Canadian public insurers and providing among the lowest auto insurance rates in Canada.

The Auto Fund aims to help reduce injuries and fatalities occurring on Saskatchewan roads, maintain Saskatchewan's position as having among the lowest personal auto insurance rates in Canada and provide quality service to customers. To achieve this, the Auto Fund will focus on three key areas in 2017-18:

- traffic safety;
- customer centricity; and,
- operational excellence.

Traffic safety - The Auto Fund plays a key role in improving road safety in Saskatchewan, implementing and funding traffic safety initiatives that focus on changing driving behaviours that contribute most to fatalities and injuries. Its ultimate goal is to help Saskatchewan achieve the safest roads in Canada. In 2017-18, the focus will be on achieving a 20% reduction in injuries and fatalities on Saskatchewan roads compared to the 2010-2014 July to June averages.

Customer centricity - Consistent with previous years, customer centricity remains a strategic area of focus for the Auto Fund. It aims to develop a deeper understanding of how to increase value for customers and strengthen the ability to deliver that value. The Auto Fund plans to complete a redesign of the public website and continues to undertake a review of the claim process, with a focus on enhancing the overall experience being provided to customers. Insight into what customers think of their interactions and relationship with the company is assessed using the customer experience index (CXi). In 2017-18, the target CXi score is 76%, continuing to move towards the long-term goal of achieving 80%.

Operational excellence - The Auto Fund must ensure that its foundational business structures and processes support achieving significant improvements in traffic safety, as well as providing a quality customer experience. A focus on developing employees who have the tools, training and desire to do their jobs, combined with technology and processes that optimize productivity and efficiencies, will ensure strategic priorities are delivered and the Auto Fund's administrative costs support maintaining low rates.

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, PricewaterhouseCoopers 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 25, 2017

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, 2017.

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, 2017, 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 25, 2017

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, 2017, and their change 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 25, 2017

Independent Auditor's Report

May 25, 2017

To the Members of the Legislative Assembly, Province of Saskatchewan

We have audited the accompanying financial statements of Saskatchewan Auto Fund, which comprise the statement of financial position as at March 31, 2017 and the statements of operations, changes in equity and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Saskatchewan Auto Fund as at March 31, 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Statement of Financial Position

	(thousands of $)	
	March 31 2017	**March 31 2016**
Assets		
Cash and cash equivalents (note 4)	$ 38,017	$ 39,146
Accounts receivable (note 5)	218,661	223,279
Investments under securities lending program (note 6)	291,779	377,848
Investments (note 6)	1,985,012	1,649,541
Unpaid claims recoverable from reinsurers (note 9)	13,784	3,468
Deferred policy acquisition costs (note 7)	30,465	30,179
Property and equipment (note 10)	42,990	40,239
Other assets (note 8)	6,680	5,885
	$ 2,627,388	$ 2,369,585
Liabilities		
Accounts payable and accrued liabilities	$ 48,466	$ 41,924
Premium taxes payable	10,137	9,912
Unearned premiums (note 11)	383,139	380,711
Provision for unpaid claims (note 9)	1,619,746	1,559,861
	2,061,488	1,992,408
Equity		
Rate Stabilization Reserve	565,900	377,177
	$ 2,627,388	$ 2,369,585

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 25, 2017

Arlene Wiks
Director

Howard Crofts
Director

Statement of Operations and Change in Rate Stabilization Reserve

For the periods ended	(thousands of $) 12 months ended March 31 2017	15 months ended March 31 2016
		(note 2)
Gross premiums written	$ 933,530	$ 1,121,731
Premiums ceded to reinsurers	(8,576)	(10,407)
Net premiums written	924,954	1,111,324
Change in net unearned premiums (note 11)	(2,428)	10,635
Net premiums earned	**922,526**	1,121,959
Net claims incurred (note 9)	798,005	934,346
Issuer fees	46,244	57,063
Administrative expenses	54,201	65,443
Premium taxes	46,462	55,676
Traffic safety programs	31,130	36,113
Total claims and expenses	**976,042**	1,148,641
Underwriting loss	**(53,516)**	(26,682)
Net investment earnings (note 12)	173,811	111,752
Other income (note 13)	68,428	73,984
Increase to Rate Stabilization Reserve and Comprehensive Income	**$ 188,723**	$ 159,054
Rate Stabilization Reserve, beginning of period	377,177	218,123
Rate Stabilization Reserve, end of period	**$ 565,900**	$ 377,177

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

Statement of Cash Flows

For the periods ended	(thousands of $) 12 months ended March 31 2017	15 months ended March 31 2016
		(note 2)
Cash provided by (used for):		
Operating activities		
Increase to Rate Stabilization Reserve and Comprehensive Income	$ 188,723	$ 159,054
Non-cash items:		
Bond amortization	3,599	2,035
Depreciation	5,579	6,306
Net realized gains on sale of investments	(15,835)	(101,262)
Net unrealized (gains) losses on change in market value of investments	(105,806)	43,473
Loss on disposal of property and equipment	133	161
Change in non-cash operating items (note 16)	62,301	14,861
	138,694	124,628
Investing activities		
Purchases of investments	(919,332)	(1,718,330)
Proceeds on sale of investments	787,972	1,623,148
Purchases of property and equipment, net of proceeds from disposals	(8,463)	(4,616)
	(139,823)	(99,798)
Increase (decrease) in cash and cash equivalents	**(1,129)**	24,830
Cash and cash equivalents, beginning of period	39,146	14,316
Cash and cash equivalents, end of period	**$ 38,017**	$ 39,146
Supplemental cash flow information:		
Interest received	$ 29,189	$ 32,174
Dividends received	$ 5,978	$ 7,306

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

Notes to the Financial Statements

March 31, 2017

1. Status of the Auto Fund

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

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

Substantially all of the Auto Fund's premium revenue is subject to review by the Saskatchewan Rate Review Panel (SRRP). The Auto Fund is required to submit vehicle insurance rate changes to the SRRP, whose mandate is to evaluate the rate change and provide an opinion on the fairness and reasonableness of the requested change. 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 for the periods ended March 31, 2017, and March 31, 2016, have been prepared in accordance with International Financial Reporting Standards (IFRS). References to IFRS are based on Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises as set out in Part 1 of the CPA Canada handbook. Part 1 of the CPA Canada handbook incorporates IFRS as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

In December 2015, the Auto Fund was directed by the provincial government to change its fiscal year end from December 31 to March 31 to coincide with the Government of Saskatchewan. As a result, the Statement of Operations and Statement of Cash Flows are for a 15-month period ended March 31, 2016.

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 in order of liquidity, with a distinction based on expectations regarding recovery or settlement within 12 months after the balance sheet date (current) and more than 12 months after the balance sheet date (non-current) presented in the notes.

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 financial liabilities depends on whether the financial assets and liabilities have been classified as fair value through profit and loss, available for sale, held to maturity, loans and receivables, or other financial liabilities. Financial assets and liabilities classified as fair value through profit and loss are measured at fair value and changes in fair value are recognized 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 the infrastructure limited partnership. 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 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 partnership 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 de-recognized 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 period-end date. Realized gains and losses represent the difference between the amounts received through the sale of investments and their respective cost base.

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

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

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

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

Provision for unpaid claims
The provision for unpaid claims represents an estimate of the total cost of outstanding claims to the period-end date. The estimate includes the cost of reported claims, claims incurred but not reported, and an estimate of 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 period.

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

Reinsurance ceded
The 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 deferred policy acquisition costs 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 assets' 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 period 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
Computer hardware	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.

Intangible assets

Development expenditures incurred are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Auto Fund intends to and has sufficient resources to complete development and to use the asset. The expenditures capitalized include the cost of materials, labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditures are recognized in the Statement of Operations as incurred.

Capitalized development expenditures are measured at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized in the Statement of Operations on a straight-line basis over the estimated useful life of between three to five years.

Capitalized system costs are tested for impairment annually during the period before the system is ready to operate to ensure that the cost does not exceed the expected benefit. Intangible assets are tested for impairment when events or circumstances indicate the carrying value may not be recoverable.

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.

Future accounting policy changes

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

IFRS 4 – Insurance Contracts

In September 2016, the IASB amended the existing IFRS 4 to mitigate accounting mismatches from the adoption of IFRS 9, *Financial Instruments*, before the new insurance contracts standard is issued. IFRS 4 was amended to provide two options as alternatives to fully adopting IFRS 9: (i) a temporary exemption that permits an insurer that meets certain criteria to apply IAS 39, rather than IFRS 9, for years beginning before January 1, 2021, and (ii) an overlay approach that permits any issuer of insurance contracts to reclassify amounts between profit and loss and other comprehensive income for certain eligible financial assets. The amendments related to the temporary exemption are effective for years beginning on or after January 1, 2018. The amendments related to the overlay approach are effective when an entity first applies IFRS 9.

IFRS 7 – Financial Instruments: Disclosures

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

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.

This standard is effective for annual periods beginning on or after January 1, 2018. While early adoption is permitted under the standard, OSFI has indicated that early adoption is not allowed. While the 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.

IFRS 15 – Revenue from Contracts with Customers

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

IFRS 16 – Leases

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

IFRS 17 – Insurance Contracts

In May 2017, the IASB issued IFRS 17 on the accounting for insurance contracts, which would replace IFRS 4, *Insurance Contracts*. IFRS 17 applies to annual periods beginning on or after January 1, 2021, with earlier application permitted if IFRS 15 and IFRS 9 are also adopted. The standard represents a comprehensive IFRS accounting model for insurance contracts and is expected to have a significant impact on financial reporting of insurers. The Auto Fund is in the process of assessing the impact of the new proposed standard.

4. Cash and Cash Equivalents

	(thousands of $)	
	2017	2016
Money market investments	$ 29,783	$ 44,579
Cash (bank overdraft), net of outstanding cheques	8,234	(5,433)
Total cash and cash equivalents	$ 38,017	$ 39,146

The average effective interest rate on money market investments is 0.5% (2016 – 0.5%).

5. Accounts Receivable

Accounts receivable is comprised of the following:

	(thousands of $)	
	2017	2016
Due from insureds	$ 218,298	$ 211,372
Accrued investment income	7,686	7,524
Licence issuers	5,459	5,202
Salvage operation customers	2,055	1,687
Amounts due from municipalities and Justice Department	760	535
Amounts due from reinsurers	571	279
Other	473	274
Due from SGI (note 17)	–	11,346
Subtotal	235,302	238,219
Less: Allowance for doubtful accounts (note 14)	(16,641)	(14,940)
Total accounts receivable	$ 218,661	$ 223,279

Included in due from insureds is $193,407,000 (2016 – $189,735,000) 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).

All accounts receivable are current.

6. Investments

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

	(thousands of $)	
	2017	**2016**
Short-term investments	$ 33,133	$ 74,336
Bonds and debentures	732,644	681,852
Canadian common shares	167,101	148,708
Infrastructure limited partnership	52,526	43,836
Investment funds:		
Global equity	479,675	371,407
Global small cap equity	168,270	86,850
Mortgage	186,289	109,212
Real estate	165,374	133,340
	1,985,012	1,649,541
Investments under securities lending program		
Bonds and debentures	220,629	295,607
Canadian common shares	71,150	82,241
	291,779	377,848
Total investments	$ 2,276,791	$ 2,027,389

Details of significant terms and conditions, exposures to interest rate and credit risks of investments and counterparty risk are as follows:

Short-term investments

Short-term investments are comprised of money market investments with a maturity of less than one year but greater than 90 days from the date of acquisition. These investments have an average effective interest rate of 0.8% (2016 – 0.6%) and an average remaining term to maturity of 151 days (2016 – 138 days). The Auto Fund's investment policy states that investments must meet minimum investment standards of R-1, as rated by a recognized credit rating service.

Holdings for any one issuer, other than the Government of Canada or a Canadian province, are limited to 10% of the market value of the combined short-term investment and bond portfolios.

Bonds and debentures

The Auto Fund's investment policy states that the minimum quality standard for purchase of bonds and debentures is BBB, as rated by a recognized credit rating service. In addition, it limits its holdings for any one issuer, other than the Government of Canada or a Canadian province, to 10% of the market value of the combined bond and short-term investment portfolios. The holdings for any one province are limited to 20% of the market value of the bond portfolio. No more than 10% of the market value of the bond portfolio shall be invested in bonds of foreign issuers.

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 $)			
	2017		2016	
Term to maturity (years)	Carrying Value	Average Effective Rates (%)	Carrying Value	Average Effective Rates (%)
Government of Canada:				
One or less	$ –	0.0	$ 63,773	0.6
After one through five	70,062	1.0	95,035	1.1
After five	141,153	1.9	97,211	1.6
Canadian provincial and municipal:				
One or less	15,332	1.1	–	0.0
After five	405,032	2.9	376,670	2.8
Canadian corporate:				
One or less	108,972	1.1	91,400	1.2
After one through five	128,785	1.6	136,420	1.6
After five	83,937	2.9	116,950	2.6
Total bonds and debentures	$ 953,273		$ 977,459	

Canadian common shares

Common shares have no fixed maturity dates and are generally not exposed to interest rate risk. The average effective dividend rate is 2.3% (2016 – 2.4%).

The Auto Fund's investment policy limits its investment concentration in any one investee or related group of investees to 10% of the market value of the Auto Fund's common shares portfolio. As well, no one holding may represent more than 10% of the voting shares of any corporation.

Investment funds and limited partnership

The Auto Fund owns units in equity funds, a mortgage investment fund, a real estate investment fund, and an infrastructure limited partnership. These investment funds have no fixed distribution rate. Returns are based on the success of the investment managers.

Securities lending program

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

At March 31, 2017, the Auto Fund held collateral of $306,369,000 (2016 – $396,740,000) for the loaned securities.

Fair value hierarchy

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

	(thousands of $)			
	2017			
	Level 1	Level 2	Level 3	Total
Short-term investments	$ –	$ 33,133	$ –	$ 33,133
Bonds and debentures	–	953,273	–	953,273
Canadian common shares	238,251	–	–	238,251
Infrastructure limited partnership	–	–	52,526	52,526
Investment funds:				
Global equity	479,675	–	–	479,675
Global small cap equity	168,270	–	–	168,270
Mortgage	–	–	186,289	186,289
Real estate	–	–	165,374	165,374
	$ 886,196	$ 986,406	$ 404,189	$ 2,276,791

	(thousands of $)			
	2016			
	Level 1	Level 2	Level 3	Total
Short-term investments	$ –	$ 74,336	$ –	$ 74,336
Bonds and debentures	–	977,459	–	977,459
Canadian common shares	230,949	–	–	230,949
Infrastructure limited partnership	–	–	43,836	43,836
Investment funds:				
Global equity	371,407	–	–	371,407
Global small cap equity	86,850	–	–	86,850
Mortgage	–	–	109,212	109,212
Real estate	–	–	133,340	133,340
	$ 689,206	$ 1,051,795	$ 286,388	$ 2,027,389

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 $)	
	12 months ended March 31 2017	15 months ended March 31 2016
Level 3 investments, beginning of the period	$ 286,388	$ 213,192
Add: Additions during the period		
Infrastructure limited partnership	6,758	17,996
Mortgage investment fund	78,417	27,144
Real estate investment fund	20,136	16,245
Less: Disposals during the period		
Infrastructure limited partnership	(1,260)	(270)
Mortgage investment fund	–	(3,031)
Net unrealized gains	13,750	15,112
Level 3 investments, end of the period	$ 404,189	$ 286,388

Investment in the infrastructure limited partnership, 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, 2017 and March 31, 2016.

During the periods ended March 31, 2017, and March 31, 2016, no investments were transferred between levels.

7. Deferred Policy Acquisition Costs

	(thousands of $)	
	12 months ended March 31 2017	15 months ended March 31 2016
Deferred policy acquisition costs, beginning of the period	$ 30,179	$ 30,997
Acquisition costs deferred during the period	46,537	56,333
Amortization of deferred acquisition costs	(46,251)	(57,151)
Deferred policy acquisition costs, end of the period	$ 30,465	$ 30,179

8. Other Assets

Other assets are comprised of the following:

	(thousands of $)	
	2017	**2016**
Inventories	$ 4,580	$ 3,958
Prepaid expenses	2,100	1,927
Total	$ 6,680	$ 5,885

9. Claims Incurred and Provision for Unpaid Claims

Net claims incurred

	(thousands of $)					
	2017			**2016**		
	12 months ended March 31	**Prior years**	**Total**	**15 months ended March 31**	**Prior years**	**Total**
Gross claims incurred	$ 838,307	$ (29,536)	$ 808,771	$ 926,189	$ 10,124	$ 936,313
Ceded claims incurred	(11,192)	426	(10,766)	(2,923)	956	(1,967)
Net claims incurred	$ 827,115	$ (29,110)	$ 798,005	$ 923,266	$ 11,080	$ 934,346

Current period claims relate to events that occurred in the current financial period. 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 $)	
	12 months ended March 31 2017	15 months ended March 31 2016
Net unpaid claims, beginning of period – discounted	$ 1,556,393	$ 1,508,223
PFAD and discount, beginning of the period	756,094	693,903
Net unpaid claims, beginning of period – undiscounted	2,312,487	2,202,126
Payments made during the period relating to:		
Prior year claims	(208,170)	(252,063)
Deficiency (excess) relating to:		
Prior year estimated unpaid claims	(29,110)	11,080
Net unpaid claims, prior periods – undiscounted	2,075,207	1,961,143
Net unpaid claims, current period	295,688	351,344
Net unpaid claims, end of period – undiscounted	2,370,895	2,312,487
PFAD and discount, end of period	(764,933)	(756,094)
Net unpaid claims, end of period – discounted	$ 1,605,962	$ 1,556,393

The net provision for unpaid claims of $1,605,962,000 (2016 – $1,556,393,000) consists of the gross provision for unpaid claims of $1,619,746,000 (2016 – $1,559,861,000) less unpaid claims recoverable from reinsurers of $13,784,000 (2016 – $3,468,000).

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 $329,702,000 (2016 – $300,079,000). 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 4.3% (2016 – 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.

Net unpaid claims

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

	(thousands of $)					
	Gross Unpaid Claims		Reinsurance Recoverable		Net Unpaid Claims	
	2017	2016	2017	2016	2017	2016
Injury accident benefits	$ 2,269,530	$ 2,181,154	$ –	$ –	$ 2,269,530	$ 2,181,154
Injury liability	66,639	80,253	–	–	66,639	80,253
Damage	48,540	54,387	13,814	3,307	34,726	51,080
PFAD	329,773	300,265	71	186	329,702	300,079
Effect of discounting	(1,094,736)	(1,056,198)	(101)	(25)	(1,094,635)	(1,056,173)
Total	$ 1,619,746	$ 1,559,861	$ 13,784	$ 3,468	$ 1,605,962	$ 1,556,393

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, 2017, 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 period-end date is $22,774,000 (2016 – $22,901,000). 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	Buildings Components	Leasehold Improvements	Computer Hardware	Total
Cost:						
Beginning of the period	$ 6,643	$ 46,868	$ 12,003	$ 1,194	$ 40,286	$ 106,994
Additions	–	1,213	2,319	–	4,931	8,463
Disposals	–	–	–	–	(916)	(916)
At March 31, 2017	6,643	48,081	14,322	1,194	44,301	114,541
Accumulated depreciation:						
Beginning of the period	–	24,286	8,289	595	33,585	66,755
Depreciation	–	1,765	576	245	2,993	5,579
Disposals	–	–	–	–	(783)	(783)
At March 31, 2017	–	26,051	8,865	840	35,795	71,551
Net book value at March 31, 2017	$ 6,643	$ 22,030	$ 5,457	$ 354	$ 8,506	$ 42,990

	(thousands of $)					
	Land	Buildings	Buildings Components	Leasehold Improvements	Computer Hardware	Total
Cost:						
Beginning of the period	$ 6,643	$ 46,824	$ 11,669	$ 903	$ 37,648	$ 103,687
Additions	–	44	334	291	3,947	4,616
Disposals	–	–	–	–	(1,309)	(1,309)
At March 31, 2016	6,643	46,868	12,003	1,194	40,286	106,994
Accumulated depreciation:						
Beginning of the period	–	22,084	7,703	304	31,680	61,771
Depreciation	–	2,202	586	291	3,053	6,132
Disposals	–	–	–	–	(1,148)	(1,148)
At March 31, 2016	–	24,286	8,289	595	33,585	66,755
Net book value at March 31, 2016	$ 6,643	$ 22,582	$ 3,714	$ 599	$ 6,701	$ 40,239

Depreciation provided in the period 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	
	2017	2016	2017	2016	2017	2016
Unearned premiums, beginning of the period	$ 384,294	$ 391,346	$ 3,583	$ –	$ 380,711	$ 391,346
Premiums written	933,530	1,121,731	8,576	10,407	924,954	1,111,324
Premiums earned	(929,248)	(1,128,783)	(6,722)	(6,824)	(922,526)	(1,121,959)
Change in net unearned premiums	4,282	(7,052)	1,854	3,583	2,428	(10,635)
Unearned premiums, end of the period	$ 388,576	$ 384,294	$ 5,437	$ 3,583	$ 383,139	$ 380,711

12. Net Investment Earnings

Components of investment earnings are as follows:

	(thousands of $)	
	12 months ended March 31 2017	15 months ended March 31 2016
Net unrealized gains (losses) on change in market value of investments	$ 105,806	$ (43,473)
Investment fund distributions	26,723	17,116
Interest	25,235	33,729
Net realized gains on sale of investments	15,835	101,262
Dividends	6,125	7,201
Infrastructure limited partnership distributions	1,448	1,851
Total investment earnings	181,172	117,686
Investment expenses	(7,361)	(5,934)
Net investment earnings	$ 173,811	$ 111,752

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

	(thousands of $)	
	12 months ended March 31 2017	15 months ended March 31 2016
Bonds and debentures	$ (14,384)	$ (6,165)
Canadian common shares	22,248	(19,768)
U.S. common shares	–	(33,943)
Infrastructure limited partnership	3,192	6,421
Investment funds:		
Non-North American equity	–	1,010
Global equity	69,966	1,181
Global small cap equity	14,226	(900)
Mortgage	(1,340)	435
Real estate	11,898	8,256
	$ 105,806	$ (43,473)

13. Other Income

The components of other income are as follows:

	(thousands of $)	
	12 months ended March 31 2017	15 months ended March 31 2016
Payment option fees	$ 31,625	$ 37,429
Net earnings on salvage sales	20,655	20,971
Safe Driver Recognition program penalties	16,148	15,584
Total other income	$ 68,428	$ 73,984

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 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 $)	
	12 months ended March 31 2017	15 months ended March 31 2016
Salvage sales	$ 56,940	$ 60,802
Cost of sales	(31,982)	(34,693)
Gross profit	24,958	26,109
Administrative expenses	(4,699)	(5,660)
Other income	396	522
Net earnings on salvage sales	$ 20,655	$ 20,971

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.

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 $)	
	2017	2016
Automobile physical damage catastrophe	$ 15,000	$ 12,500
(subject to filling an annual aggregate deductible of)	15,000	12,500

While the Auto Fund utilizes reinsurance, it is still exposed to reinsurance risk. Reinsurance risk is the risk of financial loss due to inadequacies in reinsurance coverage or the default of a reinsurer. The Auto Fund evaluates and monitors 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 period-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists regarding the cost of reported claims that have not been settled, as all the necessary information may not be available at the period-end date.

The significant assumptions used to estimate the provision include: the 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 tables show the development of the estimated net provision for unpaid claims for the ten most recent accident years as estimated at each reporting date. The Corporation changed its year end from December 31 to March 31, effective March 31, 2016. Due to the transition the historical net ultimate loss estimates for the March 31, 2016 accident year are for a 15-month period, whereas all other accident years are for a 12-month period (January – December). Current net ultimate loss estimates are based on a 12-month (April – March) accident year.

Historical Net Ultimate Loss Estimates

	(thousands of $)								
	January 1 - December 31								Jan 1, 2015-
Accident Year	2007	2008	2009	2010	2011	2012	2013	2014	Mar 31, 2016
Net Ultimate Loss									
At end of accident year	$ 448,227	$ 483,870	$ 503,379	$ 538,979	$ 592,874	$ 619,414	$ 662,547	$ 687,370	$ 840,541
One year later	475,268	478,854	514,421	558,884	610,914	611,519	658,423	639,155	
Two years later	472,198	488,578	526,834	566,213	609,827	609,300	642,007		
Three years later	481,492	501,237	526,286	566,573	612,944	600,677			
Four years later	492,254	502,878	528,573	571,490	614,408				
Five years later	492,677	502,449	536,629	574,470					
Six years later	492,133	508,011	543,174						
Seven years later	496,337	512,524							
Eight years later	500,430								

The shaded net ultimate losses are as at December 31 and the non-shaded net ultimate losses are as at March 31, 2016.

Current Net Ultimate Loss Estimates

	(thousands of $)										
	April 1 - March 31										Total
Accident Year	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	
Estimate of net ultimate loss	$ 502,030	$ 535,865	$ 531,427	$ 618,621	$ 591,338	$ 629,886	$ 636,975	$ 628,662	$ 645,389	$ 716,484	$ 6,036,677
Cumulative paid	(446,985)	(469,835)	(460,766)	(546,054)	(520,210)	(555,862)	(552,508)	(543,339)	(532,517)	(497,410)	(5,125,486)
Net provision for unpaid claims for the 10 most recent accident years	$ 55,045	$ 66,030	$ 70,661	$ 72,567	$ 71,128	$ 74,024	$ 84,467	$ 85,323	$ 112,872	$ 219,074	$ 911,191
Net discounted claims outstanding for accident years 2006/2007 and prior											571,837
Loss adjusting expense reserve											110,199
Other reconciling items											12,735
Net provision for unpaid claims											$1,605,962

The estimates of net ultimate loss are as at March 31, 2017.

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

		(thousands of $)			
		Change to Net Provision for Unpaid Claims		Change to RSR	
Assumption	Sensitivity	March 31 2017	March 31 2016	12 months ended March 31 2017	15 months ended March 31 2016
Discount rate	+ 100 bps	$ (88,294)	$ (85,091)	$ 16,063	$ 13,829
Discount rate	– 100 bps	99,400	95,544	(18,437)	(15,945)
Net loss ratio	+ 10%	72,853	88,526	(72,853)	(88,526)
Misestimate	1% deficiency	16,044	15,504	(16,044)	(15,504)

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 partnership. 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 $)	
	2017	2016
Cash and cash equivalents	$ 38,017	$ 39,146
Accounts receivable	218,661	223,279
Fixed income investments [1]	1,172,695	1,161,007

[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 $29,783,000 (2016 – $44,579,000) 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 $)	
	2017	2016
Current	$ 214,048	$ 220,353
30 - 59 days	2,782	1,241
60 - 90 days	1,674	1,459
Greater than 90 days	16,798	15,166
Subtotal	235,302	238,219
Allowance for doubtful accounts	(16,641)	(14,940)
Total	$ 218,661	$ 223,279

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 $)	
	12 months ended March 31 2017	15 months ended March 31 2016
Allowance for doubtful accounts, beginning of period	$ 14,940	$ 9,742
Accounts written off	(2,750)	(2,265)
Current period provision	4,451	7,463
Allowance for doubtful accounts, end of period	$ 16,641	$ 14,940

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:

	2017		2016	
Credit Rating	**Fair Value (thousands of $)**	**Makeup of Portfolio (%)**	**Fair Value (thousands of $)**	**Makeup of Portfolio (%)**
AAA	$ 295,152	31.0	$ 343,111	35.1
AA	534,764	56.1	484,034	49.5
A	89,692	9.4	96,116	9.8
BBB	33,665	3.5	54,198	5.6
Total	$ 953,273	100.0	$ 977,459	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	
	12 months ended March 31 2017	15 months ended March 31 2016	12 months ended March 31 2017	15 months ended March 31 2016
Net investment earnings	$ (72,231)	$ (71,262)	$ 80,963	$ 79,599
Net claims incurred	(88,294)	(85,091)	99,400	95,544
Net increase (decrease) to RSR	16,063	13,829	(18,437)	(15,945)

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:

	2017		
Asset Class	Maximum Exposure (%)	Current Exposure (%)	10% change in exchange rates (thousands of $)
Global equities	52.0	43.4	$ 47,968
Global small cap equities	20.0	15.2	16,827
Infrastructure limited partnership	18.0	4.8	5,253

	2016		
Asset Class	Maximum Exposure (%)	Current Exposure (%)	10% change in exchange rates (thousands of $)
Global equities	52.0	42.9	$ 37,141
Global small cap equities	14.0	10.0	8,685
Infrastructure limited partnership	15.0	5.1	4,384

As the global equity funds and the infrastructure limited partnership 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, 2017, equities comprise 38.9% (2016 – 34.0%) of the carrying value of the Auto Fund's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. No one investee or related group of investees represents greater than 10% of the market value of the Auto Fund's equity portfolio. As well, no one holding represents more than 10% of the voting shares of any corporation.

The Auto Fund's equity price risk is assessed using Value at Risk, a statistical technique that measures the potential change in value of an asset class. It is calculated over a four-year period, using a 95% confidence level. It is expected that the annual change in the portfolio market value will fall within the range outlined in the following table 95% of the time (19 times out of 20 years).

	(thousands of $)					
Asset Class	**2017**			**2016**		
Global equities	$	+/–	107,447	$	+/–	79,852
Canadian equities		+/–	43,362		+/–	38,892
Global small cap equities		+/–	36,616		+/–	17,544

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. The Auto Fund has contractual commitments to provide funding to Saskatchewan health organizations for costs associated with rehabilitation for those involved in automobile collisions.

	(thousands of $)					
	March 31, 2017					
	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	$ –	$ 38,017	$ –	$ –	$ –	$ –
Accounts receivable	–	218,661	–	–	–	–
Investments	1,290,385	157,437	65,595	133,253	175,493	454,628
Unpaid claims recoverable from reinsurers	–	11,423	2,372	19	–	–
	$1,290,385	$ 425,538	$ 67,967	$ 133,272	$ 175,493	$ 454,628
Financial liabilities						
Accounts payable and accrued liabilities	$ 36,473	$ 11,993	$ –	$ –	$ –	$ –
Premium taxes payable	–	10,137	–	–	–	–
Provision for unpaid claims	–	233,718	180,748	134,581	277,668	1,557,994
	36,473	255,848	180,748	134,581	277,668	1,557,994
Financial commitments	–	39,708	59,186	117,043	–	–
	$ 36,473	$ 295,556	$ 239,934	$ 251,624	$ 277,668	$1,557,994

	(thousands of $)					
	March 31, 2016					
	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	$ –	$ 39,146	$ –	$ –	$ –	$ –
Accounts receivable	–	223,279	–	–	–	–
Investments	975,594	229,509	49,406	226,666	99,278	446,936
Unpaid claims recoverable from reinsurers	–	2,596	704	7	–	–
	$ 975,594	$ 494,530	$ 50,110	$ 226,673	$ 99,278	$ 446,936
Financial liabilities						
Accounts payable and accrued liabilities	$ 33,968	$ 7,956	$ –	$ –	$ –	$ –
Premium taxes payable	–	9,912	–	–	–	–
Provision for unpaid claims	–	226,147	188,392	133,270	273,604	1,494,381
	33,968	244,015	188,392	133,270	273,604	1,494,381
Financial commitments	–	31,102	88,966	77,412	–	–
	$ 33,968	$ 275,117	$ 277,358	$ 210,682	$ 273,604	$1,494,381

The estimated contractual maturities related to the unpaid claims recoverable from reinsurers excludes the net effect of discounting and PFAD of $30,000 (2016 – $161,000) (note 9). The estimated contractual maturities related to the provision for unpaid claims excludes the net effect of discounting and PFAD of $764,963,000 (2016 – $755,933,000) (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.

16. Change in Non-Cash Operating Items

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

	(thousands of $)	
	12 months ended March 31 2017	**15 months ended March 31 2016**
Accounts receivable	$ 4,618	$ (6,147)
Unpaid claims recoverable from reinsurers	(10,316)	1,346
Deferred policy acquisition costs	(286)	818
Other assets	(795)	(546)
Accounts payable and accrued liabilities	6,542	17,868
Premium taxes payable	225	(34,667)
Unearned premiums	2,428	(10,635)
Provision for unpaid claims	59,885	46,824
	$ 62,301	$ 14,861

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”). All transactions are settled under normal trade terms. 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 $147,595,000 (2016 – $174,251,000) and accounts payable were $1,060,000 (2016 – accounts receivable were $11,346,000).

Certain Board members are partners in organizations that provided $169,000 (2016 – $284,000) of professional services to the Auto Fund. These services were recorded in claims incurred and administrative expenses in the Statement of Operations. In addition, one Board member was a shareholder in an organization that provided motor licence issuing services on behalf of the Auto Fund. Premiums written from April 1 – November 30, 2016 from this organization amounted to $2,069,000 (2016 – $2,948,000) and the associated accounts receivable was $nil (2016 – $84,000). Issuer fees related to the amounts collected over the same period were $187,000 (2016 – $245,000). The above noted transactions are routine operating transactions in the normal course of business.

Other related party transactions are described separately in the notes.

18. Contingencies

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 Financial Information

For comparative purposes, certain 2016 balances have been reclassified to conform to 2017 financial statement presentation.

Glossary of Terms

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

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

Governance

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

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

In Memoriam

Jamie DeGirolamo, Manager of Driver Development and Safety Services in Saskatoon, had a spark for life and loved to have fun both at work and in the great outdoors with her friends and family. Her adventurous spirit kept her busy with downhill and water skiing, snowmobiling and quadding. Jamie's kind and caring nature meant she put others before herself, even throughout her battle with cancer.

Jamie cherished her relationships with relatives, friends, co-workers and neighbours and especially loved taking care of her two sons.

Myrna Heroux, a Personal Injury Rep 3 at the Saskatoon Central Claims Centre, was a passionate and selfless person with a real love of life. Her co-workers and loved ones describe her as warm-hearted, tenacious, brave and, most of all, dedicated. She was an energetic, positive person willing to help tackle a problem and have a few laughs along the way.

Myrna was a mother before anything else and often expressed her pride for her daughters.

Janice Otten, a Driver Education Liaison with Driver Development and Safety Services in Regina, touched the lives of those around her at SGI with her quick wit, outgoing and friendly nature, and her passion to make a difference in traffic safety. She loved the Canadian Rockies, camping and sitting around the campfire listening to music from her younger years.

Janice was proud, passionate and protective of her family and loved sharing stories about her loved ones.

Bill Santer, a security contractor at head office in Regina, was the smiling face of SGI's main floor security desk for more than 16 years. Bill greeted employees and visitors alike with a bright smile, sincere warmth and possibly a few playful teases. At work, or with his family and wife of 25 years, Bill could be depended on to lend a helping hand.

Bill liked to make people smile and gave comfort to those around him, from new employees to the regulars who stopped in for a daily visit.