2014 SASKATCHEWAN AUTO FUND ANNUAL REPORT

Mission

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

Vision

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

Values

Integrity
Leading by example and being accountable for our actions.

Following through on commitments.

Providing honest, timely feedback.

Explaining why a decision is taken.

Giving credit to those who contribute to our success.

Providing information openly without breaching confidentiality.

Maintaining the privacy of personal data.

Caring
Acting in a manner that preserves the dignity of others.

Valuing and actively supporting diversity.

Acknowledging and validating the feelings of others.

Actively seeking and listening to differing points of view.

Responding to individual differences.

Innovation
Seeking solutions that recognize individual circumstances.

Challenging the status quo for positive change.

Pursuing alternatives which lead to business improvements.

Continuously working to revitalize products and services.

Preparing for the needs of the future.

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.

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Letter of Transmittal

Regina, Saskatchewan
April, 2015

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 year ended December 31, 2014, including the financial statements in the form required by the Treasury Board and in accordance with *The Saskatchewan Government Insurance Act*.

Respectfully submitted,

Don McMorris
Minister Responsible for Saskatchewan Government Insurance

Minister's Message

In 2014 the Saskatchewan Auto Fund continued to provide the province's motorists with fair prices, solid coverage and quality customer service while also meeting the needs created by more drivers and vehicles on our roads and highways. The Auto Fund managed these challenges of growth while continuing to offer some of Canada's lowest auto insurance rates.

A major focus in 2014 was working to prevent fatalities, injuries and collisions on Saskatchewan roads by implementing significant changes to traffic laws, including introducing tougher penalties for both alcohol- and drug-impaired drivers, a photo speed enforcement pilot project and mandatory booster seats, to name but a few. We look forward to seeing the impact of these and other measures resulting from the recommendations of the all-party Special Committee on Traffic Safety. I commend my government colleagues on their commitment to improving safety on our roadways.

My thanks to the Board of Directors, employees and motor licence issuers for their dedication to ensuring the Auto Fund continues to answer the needs of Saskatchewan people and provide value to customers. It has been a rewarding time to become the Minister of a well-run, customer-focused Crown corporation that contributes to making our province a great place to live and work.

I am pleased to present the 2014 Saskatchewan Auto Fund Annual Report.

Don McMorris
Minister Responsible for Saskatchewan Government Insurance

Chair's Message

The top strategic objective for the Saskatchewan Auto Fund is to balance the right level of service and coverage with prices customers find reasonable.

Major initiatives undertaken to achieve this in 2014 included a review of auto injury coverage to ensure the program is still effectively meeting customers' needs. The Safe Driver Recognition (SDR) program – a driver demerit and discount program – also underwent a public consultation process to look for opportunities to make it work even better for customers. The Corporation also continued its multi-year strategy to improve understanding of customers' needs, and adapting processes and practices to deliver an exceptional experience to customers whenever they interact with it.

To ensure adequate and reasonable prices, the Auto Fund applied for and was granted a rate increase and undertook rate rebalancing to address price fairness. These efforts, combined with sound fiscal management and administrative efficiencies, allowed the Auto Fund to bring its financial position closer to capital targets.

This past year the Board of Directors bid farewell to Merin Coutts and Rick Watson, whose terms with the Board ended. We welcomed David McKeague, Q.C., and Linda Moulin, who have brought fresh insight and expertise. I thank the Board of Directors for their direction and oversight of the Auto Fund in 2014.

It has been a successful year for the Auto Fund and on behalf of the Board I also thank employees, management and motor licence issuers for their hard work and dedication.

Arlene Wiks
Chair, SGI Board of Directors

President's Message

Stay the course.

It's an old expression that brings to mind being steadfast and sticking firmly to your plan. That was how the Auto Fund navigated 2014 and it brought results.

A smart investment strategy, diversified and designed to manage interest rate risk, brought in considerable earnings. We also continued to experience benefits from the Saskatchewan economy with growth in premiums due to factors like more vehicles on the roads. Overall, the Auto Fund deposited $53.8 million into the Rate Stabilization Reserve (RSR) in 2014, an increase that was better-than-expected.

The Auto Fund, which operates on a break-even basis over time, also implemented a 3.4% overall increase to vehicle rates, rate rebalancing and a 1% increase to the capital amount on all rates to maintain fairness, offset increasing claim costs (including autobody repair labour rates) and improve its capital position for the future. Even with the rate changes, the Auto Fund continues to offer among the lowest auto insurance rates in the country.

Providing good value and customer experience continues to be a focus. As a result, two important program reviews were conducted in 2014. In April, a comprehensive review of auto injury coverage began. Consulting customers who had filed an injury claim and key stakeholders, we asked if the coverage is still adequately meeting their needs. The review was then opened to the public for feedback. The consultation process yielded a number of useful insights which will be used to make recommendations to government in 2015.

The Auto Fund also held a public consultation process for the Safe Driver Recognition (SDR) program, which recognizes Saskatchewan residents with good driving records by giving them added incentive to keep their records safe, while offering a deterrent to those who have caused collisions or earned traffic convictions. The feedback we collected will help determine changes to improve the effectiveness of the SDR program.

2014 was a monumental year for traffic safety. Proposals from the Motorcycle Review Committee report, compiled in 2013, were approved and many were implemented. Resulting changes include increased requirements for acquiring a motorcycle learner's licence, additional mandatory gear for new riders and their passengers, and stiffer penalties under SGI's driver improvement programs for all riders. These improvements and law changes were rolled out alongside sweeping changes to other traffic safety laws implemented mid-year.

Changes to traffic safety laws were the outcome of the all-party Special Committee on Traffic Safety's 2013 recommendations addressing the need to reduce fatalities and injuries on Saskatchewan roads and highways. Changes include harsher penalties for impaired drivers, mandatory installation of ignition interlock devices for certain impaired driving convictions, drug-impaired drivers facing the same consequences as alcohol-impaired drivers, stiffer penalties for drivers caught using a cellphone a second time, tougher penalties for speeders, introducing mandatory booster seats for children and a photo speed enforcement pilot project implemented at a number of high-speed locations and some school zones.

To complement awareness of laws changing, SGI launched the Road Safety Challenge campaign to encourage residents to adopt safer driving habits. It's not always "the other guy" driving poorly – drivers need to be aware of and correct their own bad habits.

These sweeping safety reforms are among the most significant – in terms of both number and impact – in the province's history. SGI is proud to be among those taking action to support the Saskatchewan government's commitment to making our roads safer for everyone. And I'm especially proud of the hundreds of staff at SGI who worked hard implementing numerous changes in a very short timeframe.

None of the Auto Fund's accomplishments in 2014 would have been possible without our employees. They care about SGI, they care about customers – and they demonstrate it every day. I thank them, and thank the Board of Directors and motor licence issuers, for making 2014 a successful year. Their dedication and hard work have resulted in a financially secure Auto Fund that continues to benefit the people of Saskatchewan through fair pricing, quality coverage and a strong customer focus.

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

In the Community

In 2014, the Auto Fund gave back with…

Play It Safe Day

A free annual traffic safety education event at Mosaic Stadium for children, that includes a visit with the Saskatchewan Roughriders.

Safe bus services

Safe transit to and from festivals and events around Saskatchewan to prevent impaired driving, including sponsored New Year's Eve transit and transportation to and from the Ness Creek Music Festival and Craven Country Jamboree.

Operation Red Nose

Sponsorship for the volunteer-run program that provides people in Regina, North Battleford, Saskatoon and Prince Albert with a safe ride home after they've been drinking during the holiday season. Donations for rides support local youth and amateur sports organizations.

The SGI Safety Squad

Traffic safety educators travel to events and locations around the province to provide entertaining and informative booths and presentations about road safety.

Hope's Home Charity Gala

Funding raised through a charity gala to support Hope's Home early learning centre, offering respite services along with fun and educational programs to medically fragile children and their families.

Telemiracle

A total of more than $7,400 combined from staff fundraising and corporate support. Telemiracle assists Saskatchewan people requiring special needs equipment and access to medical treatment.

Huddle Up Coats 4 Kids

A corporate donation of $10,000 and more than 1,300 coats donated by employees for children in need of warm winter coats.

Saskatchewan Polytechnic partnership

Financial support for their Aboriginal Student Achievement Plan driving success program, which is a strategic plan to increase academic success rates for Aboriginal students.

Saskatchewan Native Theatre Group

Funding to tour a traffic safety play to 43 elementary schools around the province. The play taught traffic safety messages such as wearing a seatbelt, using a booster seat, pedestrian and bicycle safety.

Management's Discussion and Analysis

The following management's discussion and analysis (MD&A) is the responsibility of Saskatchewan Government Insurance (SGI) as the administrator of the Saskatchewan Auto Fund and reflects events known to SGI to February 25, 2015. 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 February 26, 2015, 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, 2014 results, risk management and an outlook for 2015. Information contained in the MD&A should be read in conjunction with the financial statements and notes to the financial statements, along with other sections in this annual report. All dollar amounts are in Canadian dollars.

Caution Regarding Forward-Looking Statements

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

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The Saskatchewan Auto Fund

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

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

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

The Auto Fund is governed by legislation contained in the AAIA, *The Traffic Safety Act*, *The All Terrain Vehicles Act* and *The Snowmobile Act* (the Acts) along with related regulations created by these Acts. The Auto Fund is also subject to legislation contained in *The Crown Corporations Act, 1993* and Part IX of the I*nsurance 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 December 31, 2014, had 389 motor licence issuers[1] in 288 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 68.

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 790,000 drivers and approximately 1.1 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 approximately 83% of the Auto Fund's costs in 2014. Over the last 10 years, auto damage claim costs have increased at an average annual rate of 5.9%, while personal injury costs have grown at approximately 4.7% 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.

Injury costs continue to rise annually, though at a lower rate than in the past. The severity of income replacement benefits, which had been increasing at an especially high rate in the past, has now stabilized. Increases in overall injury severity combined with reductions in injury claim frequency have resulted in only a small increase in injury claims in 2014.

Management monitors financial results closely with a long-term perspective to maintaining fair rates while ensuring the adequate capitalization of the Auto Fund. The government approved a 3.4% increase, including rebalancing, to Auto Fund rates effective August 31, 2014. With rebalancing, some rates will increase, some will decrease and some will stay the same. The Auto Fund's Minimum Capital Test (MCT) has been below its targeted minimum capital range since mid-2011. In addition to the 3.4% rate increase and rebalancing, a 1.0% increase to the capital amount was also approved. Combined, the rate increase and capital amount increase resulted in an overall average increase of 4.4%. While faced with a challenging environment, even with these increases, the Auto Fund continues to provide amongst the lowest average personal vehicle rates in Canada and remains focused to deliver on its vision to be a company where every customer, employee, owner and business partner across Canada is proud to do business and work with it.

The Auto Fund continues to offer Safe Driver Recognition (SDR) and Business Recognition programs. These programs have been in place since 2002 and 2004 respectively. The SDR program places all drivers on a safety rating scale based on their driving history. The Business Recognition program rewards businesses that maintain good loss experience with discounts on their vehicle insurance. The maximum discount under the SDR program is currently 20%. The maximum discount available from the Business Recognition program is 10%. In 2014 these discounts represented savings to customers totaling $120,673,000 (2013 – $114,086,000).

Strategic Direction

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

Mission

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

Vision

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

Values

Integrity Conducting ourselves with honesty, trust, and fairness.
Caring Acting with empathy, courtesy and respect.
Innovation Implementing creative solutions to achieve our vision.

Corporate Objective and Measures

The Auto Fund has one primary long-term objective: to achieve the right balance of price, coverage and service for its customers. The Auto Fund uses a balanced scorecard approach to monitor performance towards this objective, which provides a balanced evaluation of key financial and operational results. The Auto Fund's balanced scorecard uses four perspectives: financial, customer, internal processes and organizational capacity. The balanced scorecard is reviewed annually to ensure continued alignment with the Auto Fund's corporate strategies.

Financial

The Auto Fund measures financial results through rate adequacy:

Measure	2014 Target	2014 Result	2015 Target
Auto Fund rates adequate for package of coverage and services			
Rate adequate vehicles	97.8%	○ 94.7%	98.0%

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.

A rate increase, along with rate rebalancing and a 1% increase to the capital amount on all rates, took effect August 31, 2014. Once fully implemented, the rate program will bring 94.7% of vehicles to within 5% of the rate required for their vehicle group to break even for the rating year. This is below the target of 97.8% – the main reason being that the approved limits on rate increases were 33% lower than the Auto Fund's original proposal.

Customer

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

Measure	2014 Target	2014 Result	2015 Target
Provide value to Auto Fund customers			
Auto Fund value index	66.0%	● 69.3%	71.0%

Legend: ● achieved ○ not achieved

Provide value to Auto Fund customers

Due to the mandatory nature of Auto Fund products, traditional measures such as customer acquisition, customer retention and profitability can't be used to assess success with respect to understanding customer needs and providing the products they need. Instead, the Auto Fund must ask customers for feedback. A value index, based on specific survey question results, is used to assess whether customers believe the Auto Fund provides products and services that focus on what's best for them, provides good value at the best price, and is doing a good or excellent job of providing high standards of customer service. With an average annual score of 69.3%, the Auto Fund met its 66.0% target. In 2015, the target is 71%, a slight improvement over 2014. The Auto Fund's long-term objective is a score of 75% by 2019.

Internal processes

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

Measure	2014 Target	2014 Result	2015 Target
Productivity			
Licensed drivers and policies per FTE*	723	● 738	745
Efficiency			
Administrative expense ratio	6.7%	● 6.4%	6.2%

Legend: ● achieved ○ not achieved

* FTE – full-time equivalent staff position

Productivity

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

The 2014 productivity result is 738 licensed drivers and policies per FTE, which is well above the target of 723. The positive variance is due primarily to maintaining SGI's FTE count below target. The 2015 target is 745, a slight improvement over the strong 2014 results. It is based on actuarial projections for licensed drivers and policies in force, and budgeted FTEs. SGI's long-term goal is to achieve 848 or more licensed drivers and policies per FTE.

Efficiency

Efficiency is assessed based on the Auto Fund's administrative expense ratio. The ratio is total administrative expenses expressed as a percentage of net premiums earned. For 2014, the Auto Fund exceeded its target with a 6.4% administrative expense ratio. Administrative expenses are largely related to salaries and benefits, information technology and buildings. Analysis of the administrative expense ratio is provided in more detail in the 2014 Financial Results section. The 2015 target of 6.2% represents an improvement over the 2014 result and is based on the Auto Fund's 2015 budget. The long-term goal is to achieve an administrative expense ratio of 6.0%.

Organizational Capacity

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

Measure	2014 Target	2014 Result	2015 Target
Employee engagement			
Engagement score compared to the Canadian public sector norm	At or above norm	○ 5 points below norm	1 point improvement
Capital adequacy			
Minimum Capital Test	56%	● 69%	69%

Legend: ● achieved ○ not achieved

Employee engagement

A positive employee experience is essential to achieving SGI's corporate objectives. One way to measure this is through employee engagement, using an annual employee survey conducted by an external vendor. The survey includes both Auto Fund and SGI CANADA employees. An employee engagement score, derived from SGI's annual employee survey, is used to measure an employee's emotional and intellectual commitment to the corporation.

SGI changed employee survey vendors in 2014, which meant it no longer has historical data to establish a benchmark for employee engagement. The result for 2014 was 52%, five points below the Canadian public sector norm for employee engagement. Without a historical trend-line to give context to the 2014 score, SGI is aiming for a one-point improvement in 2015 with a longer term target to be at or above the Canadian public sector norm.

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 69% was below its long-term target of 100%. However, it was above the 2014 target of 56%. At December 31, 2014, the actual, non-rolling, MCT was also 69%. For 2015, the Auto Fund target is 69% with a long-term goal of 100%.

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 of the Auto Fund including licensing and registration, driver and vehicle safety services, and claim handling, as well as within the support areas.

SGI, as the administrator of the Auto Fund, is projecting a significant level of retirements in the near future as a large portion of its workforce reaches retirement age. In fact, over 40% of employees are expected to retire or be eligible for retirement by 2021. The challenge is to recruit and retain the best people to ensure the longevity, growth and maintenance of operations. SGI uses a workforce-planning model that includes Aboriginal employment, youth employment, management development and expanded performance management strategies. This model assists in transitioning expertise as retirements occur.

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. The corporate diversity/recruitment strategy was recently updated to enhance partnerships with outreach agencies and educational institutions, and the Corporation's visibility as a preferred employer. In addition, during 2014 SGI introduced the New Paths to Retirement program, which provides employees with a retirement notice incentive, and opportunities to reduce their work hours, or work part time, prior to full retirement. It also allows for rehiring after an employee has retired. While this is a program to support employees nearing retirement, it also allows for the transfer of critical knowledge and expertise.

SGI and SGI CANADA Insurance Services Ltd., 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 389 independent motor licence issuers in 288 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 the MySGI online service.

Capital and liquidity

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

A key operating principle for the Auto Fund is ensuring consistency and stability in rates so that customers are not subject to ongoing price fluctuations or large rate increases. An adequate balance in the Rate Stabilization Reserve (RSR) gives the Auto Fund a financial resource to draw on when adverse events increase the cost of claims or a decrease in capital markets occurs, thereby protecting customers against unpredictable premium increases for their auto insurance. The Auto Fund uses a common industry measurement called the Minimum Capital Test (MCT) to establish a target for the RSR. The MCT is a risk-based capital adequacy formula that assesses risks to assets, policy liabilities and off balance sheet exposures by applying various factors to determine a ratio of capital available over capital required.

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

The new policy determines the amount of capital adjustment needed with each rate program by applying an amount to either recover one-fifth of the capital below 100% MCT or release one-fifth of the capital above 100% MCT into the basic insurance rate every year. As such, the rate always includes a portion designed to move the RSR towards an adequate level, and avoids the volatility a surcharge might create, assuming rate programs are annual or close to annual. This method is consistent with private insurers that build cost of capital requirements into each regulatory rate filing.

The new policy also considers whether overall capital needs have changed. As claim liabilities and investment assets grow, the need for capital to support the business also increases. With each rate program, SGI will analyze actual results and bring forward recommendations for adjustments required to maintain adequate capital. SGI anticipates that, with the new policy in place, only minor adjustments will be needed to address capital needs in subsequent rate programs.

At December 31, 2014, the 12-month rolling average MCT ratio was 69%. As part of its 2014 rate program, the provincial government approved a 1% increase to the capital amount on all rates, increasing the overall capital amount from 1.2% to 2.2%. The new rates took effect August 31, 2014. The capital amount will move the RSR toward the 100% target specified in the revised Capital Management Policy.

2014 Financial Results

For the year ended December 31, 2014

Overview

The Auto Fund experienced an increase to the Rate Stabilization Reserve (RSR) of $53.8 million in 2014, compared to a $32.3 million increase in 2013, an improvement of $21.5 million year over year, stemming largely from strong investment earnings.

Investment earnings increased $64.4 million from 2013 as bond yields fell generating significant capital gains from fixed income investments. Equity market returns were generally lower than 2013 but remained positive, with positive foreign equity returns resulting primarily from a depreciating Canadian currency. While declining bond yields were the primary driver of the increased investment earnings, they also caused a lower discount rate and hence higher claims expense resulting from less discounting of unpaid claims. This partial offset is expected as the Auto Fund positions its investment asset mix in accordance with an asset liability matching strategy designed to manage interest rate risk. Strong investment earnings are helping to rebuild the Auto Fund's capital base, although earnings are not expected to persist at these high levels in more normalized equity markets or an increasing interest rate environment.

Although premiums have increased, overall underwriting results declined compared to 2013, due primarily to higher overall claim costs resulting from an increase in storm costs, increasing autobody labour rates and higher discounting expense. Offsetting these increases is lower current year income replacement benefit costs and favourable development on prior year injury costs overall.

With the $53.8 million surplus, the RSR improved to $218.1 million, the MCT is 69% and the 12-month rolling average MCT is 69%.

Statement of Operations

Premiums written

Overview

Net premiums written for 2014 totaled $886.4 million, representing an increase of 7.5%, or $61.9 million, from 2013. The growth is attributable to an increase in the number of vehicle and trailer written exposures, combined with a mix of newer model year vehicles that cost more to insure. In addition, net premiums written have grown as a result of the overall rate increases in mid-year 2013 and 2014 of 2.26% and 4.4%.

Discount programs

The Safe Driver Recognition and Business Recognition programs continue to return dollars to Auto Fund customers each year. In 2014, these programs returned $120.7 million to customers through safe driving discounts, compared to $114.1 million in 2013. Expressed as a percentage of vehicle premiums, this equates to an average discount of 12.1% for 2014 (2013 – 12.2%). Maximum discounts available under each program are 20% for the Safe Driver Recognition program and 10% for the Business Recognition program.

Claims incurred

Claims incurred in 2014 were $834.2 million; $95.1 million higher than 2013. The following table details claim costs by categories:

	(thousands of $)		
	2014	2013	Change
Current year			
Damage claims	$ 482,417	$ 468,785	$ 13,632
Storm claims	20,547	12,903	7,644
Total damage claims – current year	502,964	481,688	21,276
Injury claims – current year	306,648	335,725	(29,077)
	809,612	817,413	(7,801)
Development on prior year claims			
Injury claims	(67,335)	6,265	(73,600)
Damage claims	1,762	1,243	519
	(65,573)	7,508	(73,081)
Impact of discounting	90,116	(85,818)	175,934
Total claims incurred	$ 834,155	$ 739,103	$ 95,052
Loss ratio – current year	93.7%	101.3%	(7.6%)
Total loss ratio	96.5%	91.6%	4.9%

Current year claims

Current year damage claims, excluding storm claims, are $13.6 million, or 2.9%, higher than the prior year. While the number of damage claims decreased by 4.8%, the severity of damage claims increased by 8.1%, due primarily to an increase in autobody shop labour rates. Damage frequency decreased from 125.3 collisions per 1,000 insured years in 2013 to 112.6 in 2014.

Net storm claims were $7.6 million higher than the prior year. This increase in storm costs is the result of a higher number of smaller storms, none of which reached reinsurance retention limits. On a gross basis, storm claims of $20.5 million were $26.7 million less than the prior year (2013 – $47.2 million gross storm costs). The significant decrease, on a gross basis, was due to a large hail storm in 2013 in the Regina area, which was the largest catastrophe in the Auto Fund's history.

Current year injury claims are $29.1 million, or 8.7%, lower than the prior year. The number of injury claims decreased by 11.2%, partially offset by a 2.9% increase in the severity of injury claims, due primarily to increasing medical costs. Injury frequency decreased from 5.6 injury claims per 1,000 insured years in 2013 to 4.9 in 2014.

Development on prior year claims

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

In 2014, there was an overall prior year redundancy of $65.6 million, due primarily to a $67.3 million decrease in the estimate for prior year injury claims. This redundancy is a combination of favourable development and updated actuarial data that suggests that long-term injury costs, specifically income replacement benefits, have stabilized. In addition, there was a $1.8 million deficiency related to prior-year damage claims.

The Auto Fund has 20 years of data since the no-fault injury program was implemented in 1995 to estimate the cost of injuries. However, factors impacting future costs such as inflation, re-occurrence rates, medical innovations and rehabilitation programs are difficult to anticipate. The Auto Fund's objective is to keep the estimate as accurate as possible with minimal changes to prior-year claim estimates. However, given the nature of this program, changes will inevitably occur in the future. The overall prior-year redundancy of $65.6 million represented approximately 3.1% of the undiscounted net provision for unpaid claims estimate at December 31, 2013, of $2.1 billion.

Impact of discounting

The impact of discounting increased claims incurred $90.1 million in the current year and is comprised of three main components:

- A decrease in the discount rate from 4.9% to 4.3%, due primarily to the decline in bond yields, resulted in an increase to claims incurred related to discounting of $76.7 million (2013 – decrease to claims incurred of $59.8 million due to increase in discount rate).
- Growth in the provision for unpaid claims, which is required to be discounted, resulted in a decrease to claims incurred related to discounting of $22.8 million (2013 – decrease to claims incurred of $68.2 million).
- An increase to the investment margin for adverse deviation, which is applied as a reduction to the discount rate, resulted in an increase to claims incurred related to discounting of $36.2 million (2013 – increase to claims incurred of $42.2 million).

Expenses excluding claims incurred

Expenses excluding claims incurred were $169.0 million (2013 – $161.1 million) for the year, $7.9 million higher than 2013, due to increases in each account category as follows:

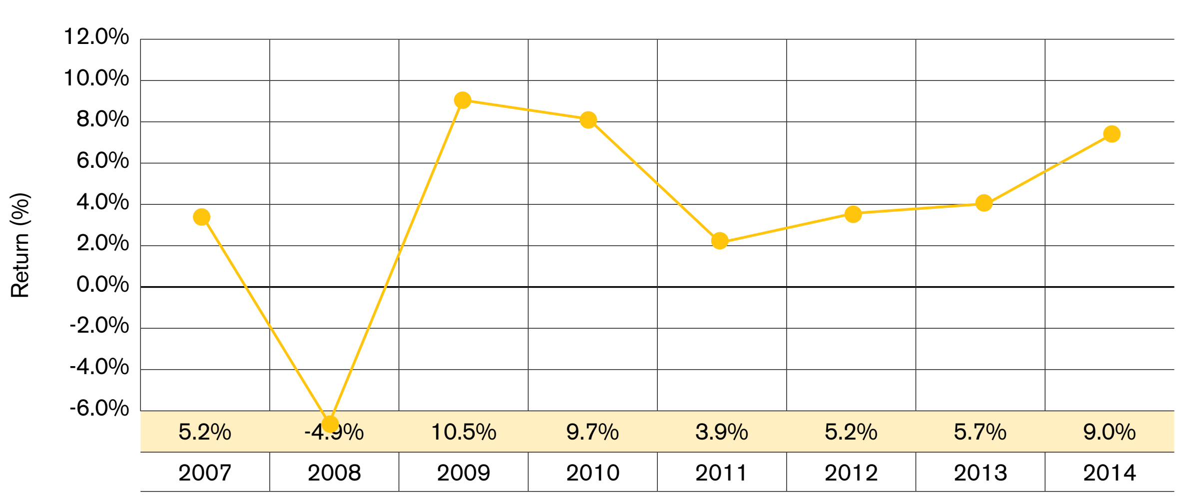
- Traffic safety program spending totaled $28.0 million, representing a traffic safety spending ratio of 3.2% of net premiums earned. This was an increase of $3.4 million from 2013, which had a traffic safety spending ratio of 3.1%. The growth was due largely to additional spending on driver education funding, photo speed enforcement and other traffic safety initiatives and campaigns.
- Premium taxes of $43.6 million were $2.9 million, or 7.2%, higher than the previous year, consistent with the growth in earned premiums. Premium taxes are 5% of direct premiums earned.
- Administrative expenses were $55.4 million in 2014, an increase of $2.2 million, or 4.2%, from 2013. The increase was due primarily to higher issuer bank charges resulting from increasing customer use of credit cards and a general increase to salaries and benefits.

Investment earnings

As the Auto Fund operates on a self-sustaining basis over time, investment earnings are used to help keep rates stable for vehicle owners. In 2014, investment earnings were $151.1 million and represented 14.3% of total revenues (2013 – $86.7 million or 9.3% of total revenues). Investment earnings are calculated using market-based accounting principles, the components of which are disclosed in note 12 to the financial statements, and include interest, dividends, pooled fund distributions, and both realized and unrealized gains and losses on investments.

For purposes of portfolio management, market-based returns are calculated which capture all interest and dividend income, as well as the impact of the change in market value of investments, both realized and unrealized. While these returns are compared to the benchmark returns on a quarterly 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. In 2014, the total portfolio's market-based return was 9.0% compared to a 5.7% return in 2013 with strong fixed income performance more than compensating for lower year-over-year returns from equities.

Annual Market Based Total Fund Return



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 section Statement of Financial Position, Investments.

The Matching Portfolio exceeded its objectives for the year, generating strong fixed income returns and remaining well matched to the claim liabilities. Equity market returns remained strong for the Return Seeking Portfolio; however, the investment managers generally under-performed their respective benchmarks resulting in returns below their policy objectives. The following table illustrates the investment portfolio's actual performance by asset class for 2014 as well as the actual returns for 2013.

		Annual Returns (%)		
Asset Class	**Benchmark Index**	**Actual 2014**	**Index 2014**	**Actual 2013**
Matching Portfolio				
Matching Bonds	Custom Bond Index	10.2	9.7	-2.0
Mortgages	FTSE TMX Short & Mid-term Bonds	7.6	6.0	2.9
Return Seeking Portfolio				
Canadian Equities	S&P/TSX Composite	9.4	10.6	18.7
U.S. Equities	S&P 500 ($C)	23.8	23.9	43.7
Non-North American Equities	MSCI EAFE ($C)	1.4	3.7	28.4
Global Small Cap Equities	MSCI ACWSCI ($C)	8.8	10.5	40.4
Real Estate	Investment Property Databank	6.3	5.9	11.7
Infrastructure	Canadian CPI + 5%	na	na	na

Other income

Other income consists of fees charged to customers for utilizing the AutoPay and short-term payment option programs, as well as salvage operations income. In 2014, other income of $41.8 million was $3.0 million higher than 2013. Fees earned for using payment option plans increased $1.9 million for a total of $27.0 million (2013 – $25.1 million). The increase is due primarily to higher premiums written. The overall proportion of premiums financed through payment option programs was 63.0%, up from 2013 (62.3%). Salvage operations income of $14.8 million (2013 – $13.7 million) is $1.1 million higher than prior year, a result of higher sales volumes in particular from the sale of whole vehicles.

Statement of operations – actual versus budget

The Auto Fund prepares an annual budget each fall for the upcoming fiscal year. The plan is developed using long-term averages combined with known and expected information for the upcoming year. The Auto Fund's 2014 budget, developed in the fall of 2013, anticipated a decrease to the Rate Stabilization Reserve of $12.6 million. The actual 2014 increase to the RSR was $53.8 million, a favourable variance of $66.4 million, due to higher investment income.

Claim costs were $834.2 million, $37.1 million (4.7%) higher than budgeted, as the overall loss ratio of 96.5% was 5.3% higher than budgeted, due primarily to the impact of discounting.

Overall investment earnings were $151.1 million, $104.8 million higher than planned. The Return Seeking portfolio, consisting of equities, real estate and infrastructure, experienced a $58.5 million gain compared to a budget of $35.3 million, a favourable variance of $23.2 million. The Matching Portfolio experienced a $96.0 million gain compared to a budget of $13.8 million as bond yields were budgeted to increase slightly, but instead declined causing the significant variance.

Statement of Cash Flows

	(thousands of $)		
	2014	2013	Change
Total operating activities	$ 144,947	$ 87,744	$ 57,203
Investing activities	(190,846)	(52,163)	(138,683)
Net cash flow	$ (45,899)	$ 35,581	$ (81,480)

Positive operating cash flows of $144.9 million were generated, $57.2 million higher than the $87.7 million positive cash flow generated in 2013. The increase is due primarily to growth in premiums written, significant non-cash claims expense associated with discounting and cash flows received from reinsurers related to 2013 storm costs.

Cash flows generated from operating activities of $144.9 million and cash and cash equivalents of $45.9 million were used to fund net investing activities of $190.8 million. Investing activities included net investment purchases of $186.6 million and $4.2 million of property and equipment purchases, primarily related to building renewal, and furniture and equipment.

The decrease in cash and cash equivalents of $45.9 million during the year resulted in cash and cash equivalents of $14.3 million at the end of 2014. Of this balance, $5.2 million (2013 – $57.7 million) was invested in money market investments with a maturity of 90 days or fewer from the date of acquisition. Money market investments decreased significantly during the year, a result of the investment manager reallocating these holdings to short-term investments and bonds and debentures, in accordance with the asset liability matching strategy.

Statement of Financial Position

	(thousands of $)		
	2014	2013	Change
TOTAL ASSETS	**$ 2,191,141**	**$ 1,985,027**	**$ 206,114**
Key asset account changes:			
Investments	1,876,453	1,611,714	264,739
Accounts receivable	217,132	204,934	12,198
Cash and cash equivalents	14,316	60,215	(45,899)
Unpaid claims recoverable from reinsurers	4,814	31,004	(26,190)

Investments

Improvements in investment markets and the investment of operating cash flows resulted in an increase in the carrying value of investments of $264.7 million during the year.

The investment portfolio is held to pay future claims, while income earned on these investments helps reduce insurance rates for vehicle owners. The portfolio's asset mix strategy is set by the Board of Directors 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 the long-term investment goals, the Auto Fund must invest in asset classes that provide an attractive risk-return profile over the medium to long-term. Over shorter periods, however, performance of these asset classes can be volatile. The Auto Fund investment portfolios will continue to hold a diversified asset mix and a longer-term focus, balancing the need for capital preservation in the short-term with the need for portfolio growth over the longer term.

The asset mix strategy is formally documented in the Statement of Investment Policies and Goals. In addition to capturing the asset mix strategy, this document provides guidance on permissible investments, quality and quantity guidelines, conflicts of interest, related party transactions and investment performance expectations, among others. Management monitors and enforces compliance with the investment policy. No material compliance deviations were noted in 2014.

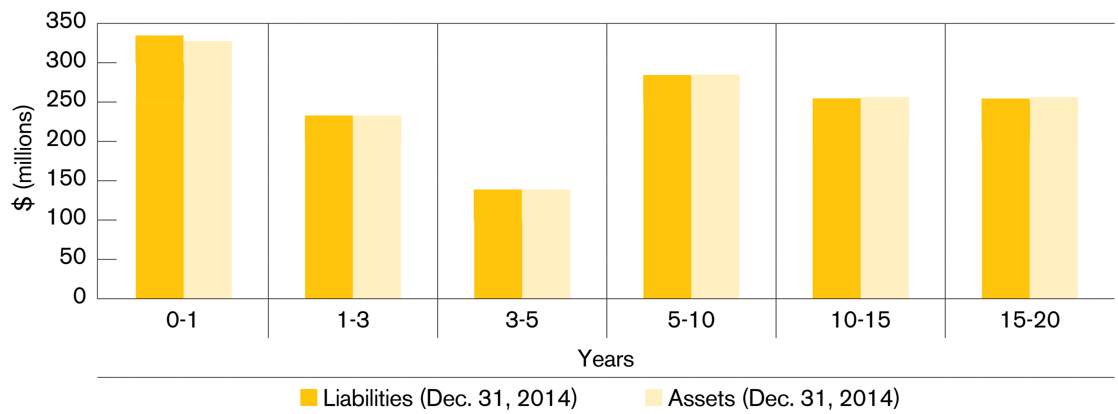
The Auto Fund's investment portfolio is managed by external investment managers. The portfolio is comprised of short-term investments, bonds and debentures, equities, mortgages, real estate and infrastructure. Equities include investments in Canadian and United States common shares as well as an investment in a non-North American pooled equity fund and global small capitalization equity pooled fund. The Auto Fund's investments in real estate and mortgages are through pooled funds as well. The direct infrastructure fund is held in a similar pooled-type investment. More detail on the investment portfolio categories is provided in note 6 to the financial statements.

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

The objective of the Matching portfolio is to group claim payments into six buckets based on the expected payment date, and then match these outflows with anticipated cash inflows from coupon and principal payments from fixed income assets in each bucket. At initiation, the expected future liability stream and asset stream will demonstrate a close match. However, as bonds mature and actual claim payments vary from projection, the asset liability match will change. In conjunction with the Auto Fund's actuarial valuations, asset cash flows are realigned to revised liability cash flows to ensure a close match is maintained. From time to time, the allocation between the Matching portfolio and Return Seeking portfolio may also require rebalancing to maintain the overall risk-return objectives of the combined portfolio. The Matching portfolio was rebalanced three times during 2014 and continues to meet the objectives established by the investment policy.

Expected liability cash flows and matching portfolio asset cash flows as of December 31, 2014, are:

Matching Portfolio Asset Liability Cash Flows

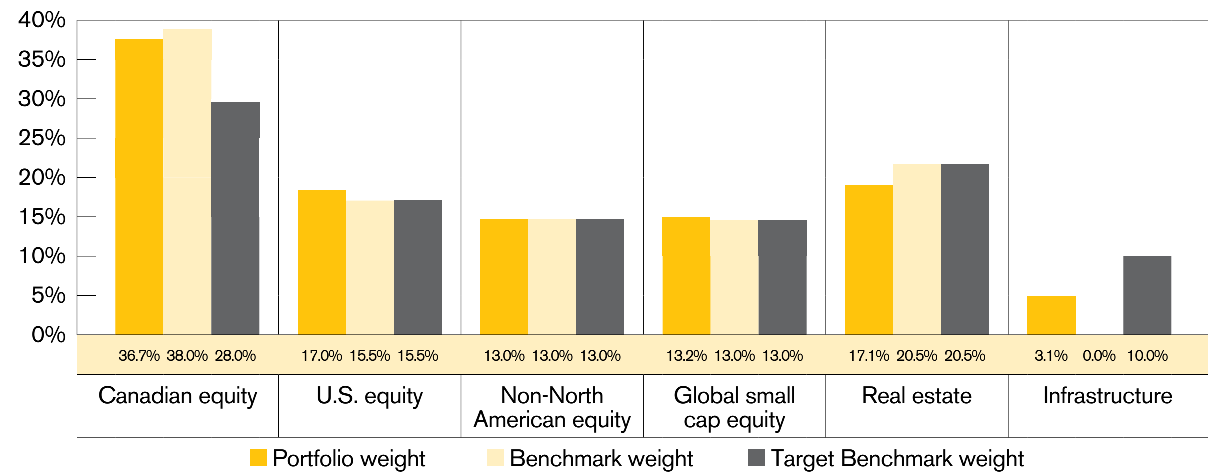


The 2014 investment policy review resulted in some changes to the policy asset mix guidelines and benchmark portfolio weights. In the Return Seeking portfolio, the U.S. equity and non-North American equity mandates were replaced in favour of a global equity structure, which better addresses underweight exposures to both small capitalization and emerging market equities. The review also resulted in lower Canadian equity exposure in favour of additional foreign equities. In the Matching portfolio, the first three asset-liability buckets were condensed into two buckets, consisting of a 0-2 year bucket and a 2-5 year bucket. The mortgage maximum weight was also expanded from 12% to 20%. While these policies were approved by the Board of Directors, implementation will not occur until early in 2015. The Auto Fund continues to monitor its fixed income investments to ensure they are well matched to their associated liabilities.

The current weights within the Return Seeking portfolio are in transition to the long-term benchmark portfolio weights adopted in 2011. As the infrastructure mandate is funded throughout 2015 and beyond, it is expected that the portfolio will align more closely with the long-term benchmark.

The portfolio asset mix and benchmark weights at December 31, 2014, are shown below:

Return Seeking Portfolio Asset Mix as at December 31, 2014



Accounts receivable

Accounts receivable increased $12.2 million, a result of the AutoPay financed premiums receivable growing by $13.4 million, or 7.5%, to $192.1 million. The increase is commensurate with the growth in premiums written.

Cash and cash equivalents

Cash and cash equivalents at December 31, 2014, were $14.3 million (2013 – $60.2 million), a decrease of $45.9 million. The sources of the change in cash and cash equivalents for the year are discussed in the above section, Statement of Cash Flows. Cash equivalents consist of money market investments such as treasury bills, banker's acceptances, discount notes or other liquid short-term investments that have a maturity of 90 days or fewer from the date of acquisition.

Unpaid claims recoverable from reinsurers

Unpaid claims recoverable from reinsurers decreased $26.2 million as amounts were paid from reinsurers related to recoveries on 2013 storms.

	(thousands of $)		
	2014	**2013**	**Change**
TOTAL LIABILITIES	**$ 1,973,018**	**$ 1,820,673**	**$ 152,345**
Key liability account changes:			
Provision for unpaid claims	1,513,037	1,384,592	128,445
Unearned premiums	391,346	368,878	22,468

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 $128.4 million during 2014 to $1.5 billion (2013 – $1.4 billion). This represents an increase of 9.3% from last year. Key components of the change in the provision for unpaid claims are discussed in the preceding section, Claims Incurred. The majority of the increase is in unpaid injury benefits and is due to the continuing growth of the no-fault program as an additional year of losses is included in the provision.

Unearned premiums

Unearned premiums increased $22.5 million, due to the growth in premiums written.

	(thousands of $)		
	2014	2013	Change
EQUITY	**$ 218,123**	**$ 164,354**	**$ 53,769**
Key equity account changes:			
Rate Stabilization Reserve	218,123	162,814	55,309
Redevelopment Reserve	–	1,540	(1,540)

Rate Stabilization Reserve (RSR)

The increase to the RSR was a result of the $53.8 million surplus from operations.

Redevelopment Reserve

The Redevelopment Reserve was established to ensure that adequate funding was available to meet the Auto Fund's commitment to redevelop its information systems. The Redevelopment Reserve was originally established at $35.0 million, as the project cost was not to exceed this amount. The project was completed at the end of 2010. It addressed the antiquity of the previous systems and now provides improvements in delivering changes, offers more choices for customers, provides better and more accessible information, and better positions the Auto Fund for future demands. The Redevelopment Reserve was fully appropriated back to the RSR in 2014.

For the three months ended December 31, 2014

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

The Auto Fund recorded a fourth quarter decrease to the RSR of $2.8 million compared to a decrease of $23.1 million in the fourth quarter of 2013. The improved results in the fourth quarter compared to 2013 were the result of improved underwriting results and higher investment earnings.

Underwriting results improved due to strong premium growth combined with a lower loss ratio. The increase in investment earnings is due to both higher equity and fixed income returns.

Quarterly Financial Highlights

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

	(thousands of $)									
	2014					2013				
	Q4	Q3	Q2	Q1	**Year**	Q4	Q3	Q2	Q1	**Year**
Gross premiums written	204,330	229,926	273,551	181,404	**889,211**	186,668	212,944	259,923	172,196	**831,731**
Net premiums earned	225,918	227,211	214,878	195,969	**863,976**	204,375	214,669	201,634	186,287	**806,965**
Net claims incurred	236,468	218,113	174,512	205,062	**834,155**	234,271	201,247	138,420	165,165	**739,103**
Increase (decrease) to RSR	(2,817)	523	43,077	12,986	**53,769**	(23,090)	9,496	16,391	29,468	**32,265**
Cash flow from (used in) operations	50,679	69,047	76,254	(51,033)	**144,947**	31,148	23,855	69,660	(36,919)	**87,744**
Investments	1,876,453	1,779,363	1,737,725	1,609,193		1,611,714	1,607,853	1,533,805	1,523,092	
Provision for unpaid claims	1,513,037	1,457,802	1,404,669	1,393,465		1,384,592	1,330,406	1,256,937	1,281,876	
Rate Stabilization Reserve	218,123	220,940	219,917	176,320		162,814	185,250	174,829	157,514	

The following points are intended to assist the reader in analyzing trends in the quarterly financial highlights for 2014:

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

Impact of New Accounting Standards

Future accounting policy changes

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

IFRS 4 – Insurance Contracts

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

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

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 IFRICs. 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, 2017. Early application is permitted. IFRS 15 contains a scope exception which excludes insurance contracts within the scope of IFRS 4 *Insurance Contracts*; therefore, this standard will have a limited impact on the Auto Fund.

IAS 1 – Presentation of Financial Statements

In December 2014, IAS 1 was amended to clarify that materiality applies to all parts of the financial statements, that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate and provides examples of how to clarify understandability and comparability in the ordering of note disclosures. The amendment is effective for annual periods beginning on or after January 1, 2016. The Auto Fund does not expect these amendments to significantly impact the financial statements.

Annual Improvements Cycles

In 2013, the IASB issued two exposure drafts for Annual Improvements Cycles 2010-2012 and 2011-2013, which include minor amendments to a number of IFRSs. The annual improvements process is used to make necessary but non-urgent changes to IFRSs that are not included in other projects. The amendments issued are all effective for annual periods beginning July 1, 2014. The Auto Fund does not expect these amendments to significantly impact the financial statements.

The IASB issued an exposure draft in December 2013 for the annual improvement cycle for 2012-2014. These amendments are effective for annual periods beginning on or after January 1, 2016. The Auto Fund does not expect these amendments to significantly impact the financial statements.

Related Party Transactions

The Saskatchewan Auto Fund is related in terms of common ownership to all Government of Saskatchewan ministries, agencies, boards, commissions, Crown corporations, and jointly controlled and significantly influenced corporations and enterprises. Transactions with these entities are entered into in the normal course of business and are settled at prevailing market prices under normal trade terms. Details of significant related party transactions disclosed in the financial statements follow.

SGI is the administrator of the Saskatchewan Auto Fund on behalf of the Province of Saskatchewan. Administrative and loss adjustment expenses incurred by SGI are allocated to the Auto Fund directly or on the basis of specific allocations. Amounts incurred by SGI and charged to the Auto Fund were $143.2 million (2013 – $138.2 million).

Certain board members are partners in organizations that provided $154,000 (2013 – $nil) 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 is a shareholder in an organization that provides motor licence issuing services on behalf of the Auto Fund. Premiums written during the year from this organization amounted to $2.2 million (2013 – $1.9 million) and the associated accounts receivable at December 31, 2014, were $5,000 (2013 – $25,000). Issuer fees related to these premiums were $181,000 (2013 – $169,000). The above noted transactions are routine operating transactions in the normal course of business.

Off Balance Sheet Arrangements

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

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

In the normal course of settling claims, the Auto Fund settles some long-term disability claims by purchasing structured settlements (annuities) from various financial institutions for claimants. This is a common practice in the property and casualty industry. The net present value of the scheduled payments at December 31, 2014, was $23.1 million (2013 – $21.6 million). The Auto Fund has no recourse to these funds. The Auto Fund provides a financial guarantee to the claimant in the event of default by the financial institution on the payment schedule to the claimant. No default has occurred in the past on these payment schedules and the likelihood of such default is considered extremely remote.

The Auto Fund has contractual obligations to provide funding to Saskatchewan health organizations to provide for rehabilitative services for those injured in automobile collisions. Funding commitments range between $22.3 million and $32.0 million per year over the next five years.

Critical Accounting Estimates

This discussion and analysis of financial condition and results of operations is based upon financial statements as presented in this annual report. These financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and interpretations of the International Reporting Interpretations Committee. Significant accounting policies are described in note 3 to the financial statements. Some of these policies involve critical accounting estimates because they require SGI, as the administrator, to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions.

The development, selection and application of key accounting policies, and the critical accounting estimates and assumptions they involve, have been discussed with the Audit, 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 includes amounts for expected recoveries related to unpaid claim liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with claim and claim adjustment expense reserves, and are reported in the Statement of Financial Position. The ceding of insurance does not discharge the Auto Fund's primary liability to its insureds. An estimated allowance for doubtful accounts is recorded on the basis of periodic evaluations of balances due from reinsurers, reinsurer solvency, management's experience and current economic conditions. At December 31, 2014, and 2013, there is no allowance for doubtful accounts recorded related to unpaid claims recoverable from reinsurers.

Risk Management

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

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

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

Strategy

Risk: The risk that 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. The 2011-2015 strategic plan was developed with the feedback of employees and other stakeholders, and provides a detailed plan for the future of SGI. The strategic plan is formally reviewed and updated annually, and will be revisited in detail in 2015.

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 and Poor's.

Transfer and Acquisition 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 the monitoring of workplace engagement and enablement through employee surveys. A corporate learning strategy is in place to grow talent, and SGI has devoted additional resources and technology to training and development. SGI's succession planning process focuses on: (i) ensuring 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. 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.

Employee Engagement and Productivity

Risk: 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 employee training and support, including employee recognition and mentoring programs, performance development and knowledge management programs, corporate change management processes, and the corporate wellness strategy. The Auto Fund also receives detailed feedback from employees through the annual employee survey process, monitors competitors' salary and benefits to ensure the Auto Fund remains competitive, and continues to align its compensation and benefits with best practices.

Information Savvy

Risk: The Auto Fund cannot be successful in the long-term without the development and implementation of an information savvy environment and an analytical mindset.

Mitigation: An information savvy environment includes three key elements: (i) high-quality data; (ii) effective analysis of the data; and, (iii) using the analysis to make better business decisions. To this end, SGI's business intelligence project is building a high-quality data platform to meet the need for greater and easier access to information, and SGI has created a Corporate Analytics group to centralize and build the analytical capabilities of the Auto Fund.

Outlook for 2015

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

The Auto Fund plans to position itself over the next few years to ensure it is providing the right balance of price, coverage and service to customers. To achieve this, the Auto Fund will focus on three key areas in 2015:

- Improving customer centricity to enhance the overall customer experience;
- Ensuring financial stability; and,
- Improving employee centricity to attract and retain qualified workers.

Becoming customer centric is more than providing exceptional face-to-face service. The Auto Fund will continue to improve its face-to-face service with a focus on claim handling, but will also work on enhancing other aspects of the experience it provides to customers. The Auto Fund will continue to improve customers' ability to do business when, where and how they want to ensure convenient, efficient and timely access to products and services. It will also continue to ask customers for feedback on whether current programs continue to meet their needs and, if not, how they could better meet their needs. The Auto Fund asked for customer feedback on the Safe Driver Recognition program, the Business Recognition program and auto injury coverage in 2014, and will implement the recommendations that are approved in 2015.

Ensuring financial stability requires regular rate programs to ensure each vehicle group is paying enough to cover their claim costs, as well as a focus on identifying opportunities to keep basic auto insurance rates low. In addition, the Auto Fund is focused on reducing claim costs through investments in traffic safety, as well as managing operating costs.

Employee centricity is about recognizing that engaged employees who have the tools, training and desire to do their jobs will be more effective at helping the Auto Fund achieve its customer and efficiency goals. Management will work with employees to identify and address obstacles they are facing.

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

February 26, 2015

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 December 31, 2014.

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 control 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 December 31, 2014, 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

February 26, 2015

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 December 31, 2014, 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

February 26, 2015

Independent Auditor's Report

February 26, 2015

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 December 31, 2014 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 December 31, 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

Statement of Financial Position

	(thousands of $)	
	December 31 2014	December 31 2013
Assets		
Cash and cash equivalents (note 4)	$ 14,316	$ 60,215
Accounts receivable (note 5)	217,132	204,934
Investments under securities lending program (note 6)	268,293	219,471
Investments (note 6)	1,608,160	1,392,243
Unpaid claims recoverable from reinsurers (note 9)	4,814	31,004
Deferred policy acquisition costs (note 7)	30,997	27,528
Property and equipment (note 10)	41,916	42,358
Other assets (note 8)	5,513	7,274
	$ 2,191,141	$ 1,985,027
Liabilities		
Accounts payable and accrued liabilities	$ 24,056	$ 25,616
Premium taxes payable	44,579	41,587
Unearned premiums (note 11)	391,346	368,878
Provision for unpaid claims (note 9)	1,513,037	1,384,592
	1,973,018	1,820,673
Equity		
Rate Stabilization Reserve	218,123	162,814
Redevelopment Reserve	–	1,540
	218,123	164,354
	$ 2,191,141	$ 1,985,027

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 February 26, 2015

Arlene Wiks
Director

Howard Crofts
Director

Statement of Operations

For the years ended December 31	(thousands of $) 2014	2013
Gross premiums written	$ 889,211	$ 831,731
Premiums ceded to reinsurers	(2,767)	(7,218)
Net premiums written	886,444	824,513
Change in net unearned premiums (note 11)	(22,468)	(17,548)
Net premiums earned	**863,976**	806,965
Net claims incurred (note 9)	834,155	739,103
Issuer fees	42,029	42,629
Administrative expenses	55,358	53,146
Premium taxes	43,573	40,664
Traffic safety programs	27,992	24,620
Total claims and expenses	**1,003,107**	900,162
Underwriting loss	**(139,131)**	(93,197)
Net investment earnings (note 12)	151,104	86,713
Other income (note 13)	41,796	38,749
Increase to Rate Stabilization Reserve and Comprehensive Income	**$ 53,769**	$ 32,265

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

Statement of Changes in Equity

For the years ended December 31	(thousands of $) 2014	2013
Rate Stabilization Reserve		
Balance, beginning of year	$ 162,814	$ 127,122
Increase to Rate Stabilization Reserve	53,769	32,265
Appropriation from Redevelopment Reserve	1,540	3,427
Balance, end of year	**$ 218,123**	$ 162,814
Redevelopment Reserve		
Balance, beginning of year	$ 1,540	$ 4,967
Appropriation to Rate Stabilization Reserve	(1,540)	(3,427)
Balance, end of year	**$ –**	$ 1,540
Total Equity	**$ 218,123**	$ 164,354

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

Statement of Cash Flows

For the years ended December 31	(thousands of $) 2014	2013
Cash provided by (used for):		
Operating activities		
Increase to Rate Stabilization Reserve and Comprehensive Income	$ 53,769	$ 32,265
Non-cash items:		
Bond amortization	(3,105)	(737)
Depreciation	6,668	7,961
Net realized gains on sale of investments	(19,251)	(31,996)
Net unrealized gains on change in market value of investments	(55,758)	(12,090)
Loss on disposal of property and equipment	76	82
Change in non-cash operating items (note 16)	162,548	92,259
	144,947	87,744
Investing activities		
Purchases of investments	(1,677,520)	(1,300,713)
Proceeds on sale of investments	1,490,895	1,254,516
Purchases of property and equipment	(4,221)	(5,966)
	(190,846)	(52,163)
Increase (decrease) in cash and cash equivalents	**(45,899)**	35,581
Cash and cash equivalents, beginning of year	60,215	24,634
Cash and cash equivalents, end of year	**$ 14,316**	$ 60,215
Supplemental cash flow information:		
Interest received	$ 26,267	$ 25,514
Dividends received	$ 6,333	$ 6,044

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

Notes to the Financial Statements

December 31, 2014

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 to 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 year ended December 31, 2014, 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).

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 are 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 and U.S. common shares, and pooled equity 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 flows 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 pooled mortgage fund and real estate fund, 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 is as follows:

- The fair value for the pooled mortgage fund is determined based on the market values of the underlying mortgage investments, calculated by discounting scheduled cash flows through to the estimated maturity of the mortgages (using spread-based pricing, over Government of Canada bonds with a similar term to maturity), subject to adjustments for liquidity and credit risk.
- The fair value of the real estate pooled 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 its investment purchases and sales on a trade-date basis, being the date when the transactions are entered into. Financial assets are derecognized when the rights to receive cash flows from them have expired, or when the Auto Fund has transferred substantially all risks and rewards of ownership.

Investments under securities lending program

Securities lending transactions are entered into on a collateralized basis. The securities lent are not derecognized 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, pooled 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 the changes in market value of the investments held at the year-end date.

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. Realized gains and losses represent the difference between the amounts received through the sale of investments and their respective cost base. Interest is generally receivable on a semi-annual basis.

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

Foreign currency translation

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

Premiums written
The Auto Fund's vehicle registrations have all been classified upon inception as insurance contracts. An insurance contract is a contract that transfers significant insurance 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 and are taken into income as net premiums earned over the terms of the related policies, no longer than 12 months. The portion of the policy 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 year-end date. The estimate includes the cost of reported claims, claims incurred but not reported, and an estimate of adjusting expenses to be incurred on these claims and a provision for adverse deviation (PFAD) in accordance with Canadian Institute of Actuaries standards. The estimates are subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current year.

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

Reinsurance ceded
The Auto Fund uses various types of reinsurance to limit its maximum insurance risk exposure. Estimates of amounts recoverable from reinsurers in respect of insurance contract liabilities are recorded as reinsurance assets on a gross basis in the Statement of Financial Position. Unpaid claims recoverable from reinsurers are estimated in a manner consistent with the method used for determining the provision for unpaid claims, unearned premiums and 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 year in which the asset is available to be placed in service, over their estimated useful lives as follows:

Buildings	20-40 years
Building components	15-30 years
Leasehold improvements	5 years
Computer hardware	3-5 years

Building components consists 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.

Redevelopment Reserve
The Redevelopment Reserve was established, through an appropriation from the Rate Stabilization Reserve, to meet the Auto Fund's commitment to redevelop its information system. As redevelopment expenses are incurred and charged against operations, funds are appropriated back to the Rate Stabilization Reserve.

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, direct 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.

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

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

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 IFRICs. 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, 2017. Early application is permitted. IFRS 15 contains a scope exception which excludes insurance contracts within the scope of IFRS 4 *Insurance Contracts*, therefore this standard will have a limited impact on the Auto Fund.

IAS 1 – Presentation of Financial Statements

In December 2014, IAS 1 was amended to clarify that materiality applies to all parts of the financial statements, that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate and provides examples of how to clarify understandability and comparability in the ordering of note disclosures. The amendment is effective for annual periods beginning on or after January 1, 2016. The Auto Fund does not expect these amendments to significantly impact the financial statements.

Annual Improvements Cycles

In 2013, the IASB issued two exposure drafts for Annual Improvements Cycles 2010-2012 and 2011-2013, which include minor amendments to a number of IFRSs. The annual improvements process is used to make necessary but non-urgent changes to IFRSs that are not included in other projects. The amendments issued are all effective for annual periods beginning July 1, 2014. The Auto Fund does not expect these amendments to significantly impact the financial statements.

The IASB issued an exposure draft in December 2013 for the annual improvement cycle for 2012-2014. These amendments are effective for annual periods beginning, on or after January 1, 2016. The Auto Fund does not expect these amendments to significantly impact the financial statements.

4. Cash and Cash Equivalents

	(thousands of $)	
	2014	2013
Money market investments	$ 5,226	$ 57,732
Cash on hand, net of outstanding cheques	9,090	2,483
Total cash and cash equivalents	$ 14,316	$ 60,215

The average effective interest rate on money market investments is 1.0% (2013 – 1.0%).

5. Accounts Receivable

Accounts receivable is comprised of the following:

	(thousands of $)	
	2014	2013
Due from insureds	$ 207,602	$ 192,357
Accrued investment income	4,842	5,507
Government of Saskatchewan – Ministry of Finance	4,642	1,985
Due from SGI (note 17)	3,925	6,308
Licence issuers	3,069	1,238
Salvage operation customers	1,643	1,748
Amounts due from reinsurers	933	4,398
Other	218	145
Subtotal	226,874	213,686
Less: Allowance for doubtful accounts (note 14)	(9,742)	(8,752)
Total accounts receivable	$ 217,132	$ 204,934

Included in due from insureds is $192,078,000 (2013 – $178,695,000) 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 $)	
	2014	2013
Short-term investments	$ 188,566	$ 175,168
Bonds and debentures	737,602	648,152
Canadian common shares	202,570	166,165
U.S. common shares	99,164	79,050
Infrastructure limited partnership	19,689	3,183
Pooled funds:		
Non-North American equity	82,727	68,744
Global small cap equity	84,339	71,737
Mortgage	84,664	82,115
Real estate	108,839	97,929
	1,608,160	1,392,243
Investments under securities lending program		
Bonds and debentures	227,507	186,328
Canadian common shares	31,327	24,351
U.S. common shares	9,459	8,792
	268,293	219,471
Total investments	$ 1,876,453	$ 1,611,714

Details of significant terms and conditions, exposures to interest rate and credit risks of investments and counter party 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 1.1% (2013 – 1.1%) and an average remaining term to maturity of 109 days (2013 – 42 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 $)			
	2014		2013	
Term to maturity (years)	Carrying Value	Average Effective Rates (%)	Carrying Value	Average Effective Rates (%)
Government of Canada:				
One or less	$ 58,549	1.1	$ 37,205	1.0
After one through five	129,182	1.3	45,283	1.4
After five	83,460	2.1	129,411	3.0
Canadian provincial and municipal:				
After one through five	–	–	71,761	1.7
After five	349,807	2.9	240,241	3.9
Canadian corporate:				
One or less	37,928	1.3	50,051	1.3
After one through five	177,582	2.0	109,148	2.1
After five	128,601	2.8	151,380	3.6
Total bonds and debentures	$ 965,109		$ 834,480	

Common shares

On the basis of its analysis of the nature, characteristics and risks of its common share investments, the Auto Fund has determined presenting them by geography is appropriate. Common shares have no fixed maturity dates and are generally not exposed to interest rate risk. The average effective dividend rate is 2.1% (2013 – 2.0%).

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.

Pooled funds and limited partnership

The Auto Fund owns units in a non-North American pooled equity fund, a global small cap pooled equity fund, a pooled mortgage fund, a pooled real estate fund, and an infrastructure limited partnership. These investments 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 102% 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 December 31, 2014, the Auto Fund held collateral of $281,708,000 (2013 – $230,445,000) 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 $)			
	2014			
	Level 1	Level 2	Level 3	Total
Short-term investments	$ –	$ 188,566	$ –	$ 188,566
Bonds and debentures	–	965,109	–	965,109
Canadian common shares	233,897	–	–	233,897
U.S. common shares	108,623	–	–	108,623
Infrastructure limited partnership	–	–	19,689	19,689
Pooled funds:				
Non-North American equity	82,727	–	–	82,727
Global small cap equity	84,339	–	–	84,339
Mortgage	–	–	84,664	84,664
Real estate	–	–	108,839	108,839
	$ 509,586	$ 1,153,675	$ 213,192	$ 1,876,453

	(thousands of $)			
	2013			
	Level 1	Level 2	Level 3	Total
Short-term investments	$ –	$ 175,168	$ –	$ 175,168
Bonds and debentures	–	834,480	–	834,480
Canadian common shares	190,516	–	–	190,516
U.S. common shares	87,842	–	–	87,842
Infrastructure limited partnership	–	–	3,183	3,183
Pooled funds:				
Non-North American equity	68,744	–	–	68,744
Global small cap equity	71,737	–	–	71,737
Mortgage	–	82,115	–	82,115
Real estate	–	97,929	–	97,929
	$ 418,839	$ 1,189,692	$ 3,183	$ 1,611,714

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 $)	
	2014	2013
Balance beginning of the period	$ 3,183	$ –
Add: Additions during the period		
Infrastructure limited partnership	20,061	3,183
Mortgage pooled fund	85,428	–
Real estate fund	102,638	–
Less: Disposals during the period		
Mortgage pooled fund	(3,272)	–
Infrastructure limited partnership	(4,880)	–
Net unrealized gains	10,034	–
	$ 213,192	$ 3,183

Investment in the mortgage pooled fund, the real estate pooled fund, and the infrastructure limited partnership are valued using the Auto Fund's share of the net asset value of the investment as at December 31, 2014.

During the year, the Auto Fund transferred the mortgage pooled fund and the real estate fund from Level 2 to Level 3 to be consistent with the investment manager's classifications.

7. Deferred Policy Acquisition Costs

	(thousands of $)	
	2014	2013
Deferred policy acquisition costs, at January 1	$ 27,528	$ 28,049
Acquisition costs deferred during the year	44,585	42,108
Amortization of deferred acquisition costs	(42,907)	(40,838)
Change in premium deficiency	1,791	(1,791)
Deferred policy acquisition costs, at December 31	$ 30,997	$ 27,528

8. Other Assets

Other assets are comprised of the following:

	(thousands of $)	
	2014	2013
Inventories	$ 3,558	$ 3,470
Intangible assets	174	2,255
Prepaid expenses	1,781	1,549
Total	$ 5,513	$ 7,274

Intangible assets

Intangible assets consist of system development costs and are comprised of the following:

	(thousands of $)	
	2014	2013
Cost	$ 25,293	$ 25,293
Accumulated amortization:		
At January 1	23,038	19,611
Amortization	2,081	3,427
At December 31	25,119	23,038
Net book value at December 31	$ 174	$ 2,255

Amortization provided in the year is included in administrative expenses on the Statement of Operations. No impairments were recognized during the year (2013 – nil).

9. Claims Incurred and Provision for Unpaid Claims

Net claims incurred

	(thousands of $)					
	2014			2013		
	Current year	Prior years	Total	Current year	Prior years	Total
Gross claims incurred	$ 898,106	$ (70,319)	$ 827,787	$ 767,412	$ 5,743	$ 773,155
Ceded claims incurred	1,622	4,746	6,368	(35,817)	1,765	(34,052)
Net claims incurred	$ 899,728	$ (65,573)	$ 834,155	$ 731,595	$ 7,508	$ 739,103

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

Ceded claims incurred represent an estimate of the recoverable costs of those claims transferred to the Auto Fund's various reinsurers pursuant to reinsurance contracts.

Net provision for unpaid claims

	(thousands of $)	
	2014	**2013**
Net unpaid claims, beginning of year – discounted	$ 1,353,588	$ 1,273,844
PFAD and discount, beginning of the year	784,020	698,202
Net unpaid claims, beginning of year – undiscounted	2,137,608	1,972,046
Payments made during the year relating to:		
Prior year claims	(251,925)	(219,695)
Deficiency (excess) relating to:		
Prior year estimated unpaid claims	(65,573)	7,508
Net unpaid claims, prior years – undiscounted	1,820,110	1,759,859
Net unpaid claims, current year	382,016	377,749
Net unpaid claims, end of year – undiscounted	2,202,126	2,137,608
PFAD and discount, end of year	(693,903)	(784,020)
Net unpaid claims, end of year – discounted	$ 1,508,223	$ 1,353,588

The net provision for unpaid claims of $1,508,223,000 (2013 – $1,353,588,000) consists of the gross provision for unpaid claims of $1,513,037,000 (2013 – $1,384,592,000) less unpaid claims recoverable from reinsurers of $4,814,000 (2013 – $31,004,000).

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 $253,081,000 (2013 – $195,947,000). 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 claims 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 bond investments that approximates the cash flow requirements of the unpaid claims. The discount rate applied was 4.3% (2013 – 4.9%). The resulting carrying amount is considered to be an indicator of fair value as there is no ready market for trading insurance contract liabilities.

Type of 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	
	2014	2013	2014	2013	2014	2013
Injury accident benefits	$ 2,027,924	$ 1,982,893	$ –	$ –	$ 2,027,924	$ 1,982,893
Injury liability	80,686	77,050	–	–	80,686	77,050
Damage	98,109	106,825	4,593	29,160	93,516	77,665
PFAD	253,318	198,001	237	2,054	253,081	195,947
Effect of discounting	(947,000)	(980,177)	(16)	(210)	(946,984)	(979,967)
Total	$ 1,513,037	$ 1,384,592	$ 4,814	$ 31,004	$ 1,508,223	$ 1,353,588

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 December 31, 2014, no information has come to the Auto Fund's attention that would suggest any weakness or failure in the life insurers from which it has purchased the annuities. The net present value of the scheduled payments as of the year-end date is $23,060,000 (2013 – $21,574,000). 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	Building Components	Leasehold Improvements	Computer Hardware	Total
Cost:						
At January 1, 2014	$ 6,643	$ 46,451	$ 11,448	$ 794	$ 35,367	$ 100,703
Additions	–	373	221	109	3,518	4,221
Disposals	–	–	–	–	(1,237)	(1,237)
At December 31, 2014	6,643	46,824	11,669	903	37,648	103,687
Accumulated depreciation:						
At January 1, 2014	–	20,328	7,235	144	30,638	58,345
Depreciation	–	1,756	468	160	2,203	4,587
Disposals	–	–	–	–	(1,161)	(1,161)
At December 31, 2014	–	22,084	7,703	304	31,680	61,771
Net book value at December 31, 2014	$ 6,643	$ 24,740	$ 3,966	$ 599	$ 5,968	$ 41,916

	(thousands of $)					
	Land	Buildings	Building Components	Leasehold Improvements	Computer Hardware	Total
Cost:						
At January 1, 2013	$ 6,643	$ 43,919	$ 11,417	$ 572	$ 33,523	$ 96,074
Additions	–	2,532	31	222	3,181	5,966
Disposals	–	–	–	–	(1,337)	(1,337)
At December 31, 2013	6,643	46,451	11,448	794	35,367	100,703
Accumulated depreciation:						
At January 1, 2013	–	18,594	6,766	–	29,706	55,066
Depreciation	–	1,734	469	144	2,187	4,534
Disposals	–	–	–	–	(1,255)	(1,255)
At December 31, 2013	–	20,328	7,235	144	30,638	58,345
Net book value at December 31, 2013	$ 6,643	$ 26,123	$ 4,213	$ 650	$ 4,729	$ 42,358

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

11. Unearned Premiums

	(thousands of $)					
	Gross Unearned Premiums		Reinsurers' Share of Unearned Premiums		Net Unearned Premiums	
	2014	2013	2014	2013	2014	2013
Unearned premiums, at January 1	$ 371,221	$ 352,687	$ 2,343	$ 1,357	$ 368,878	$ 351,330
Premiums written	889,211	831,731	2,767	7,218	886,444	824,513
Premiums earned	(869,086)	(813,197)	(5,110)	(6,232)	(863,976)	(806,965)
Change in net unearned premiums	20,125	18,534	(2,343)	986	22,468	17,548
Unearned premiums, at December 31	$ 391,346	$ 371,221	$ –	$ 2,343	$ 391,346	$ 368,878

12. Net Investment Earnings

The components of investment earnings are as follows:

	(thousands of $)	
	2014	2013
Net unrealized gains on change in market value of investments	$ 55,758	$ 12,090
Pooled fund distributions	42,996	12,218
Interest	28,768	26,945
Net realized gain on sale of investments	19,251	31,996
Dividends	6,505	5,935
Infrastructure limited partnership distributions	1,048	–
Total investment earnings	154,326	89,184
Investment expenses	(3,222)	(2,471)
Net investment earnings	$ 151,104	$ 86,713

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

	(thousands of $)	
	2014	2013
Bonds and debentures	$ 49,102	$ (49,495)
Canadian common shares	8,577	10,664
U.S. common shares	10,966	16,301
Infrastructure limited partnership	1,325	–
Pooled funds:		
Non-North American equity	(19,775)	12,626
Global small cap equity	(3,146)	13,484
Mortgage	2,508	(1,737)
Real estate	6,201	10,247
	$ 55,758	$ 12,090

13. Other Income

The components of other income are as follows:

	(thousands of $)	
	2014	2013
Payment option fees	$ 27,036	$ 25,087
Net earnings on salvage sales	14,760	13,662
Total other income	$ 41,796	$ 38,749

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 $)	
	2014	2013
Salvage sales	$ 44,617	$ 42,493
Cost of sales	(25,485)	(24,279)
Gross profit	19,132	18,214
Administrative expenses	(4,764)	(4,904)
Other income	392	352
Net earnings on salvage sales	$ 14,760	$ 13,662

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. The 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 its insurance risk through its 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 as follows:

	(thousands of $)	
	2014	2013
Automobile physical damage catastrophe	$ 7,500	$ 5,000
(subject to filling an annual aggregate deductible of)	5,000	5,000
Personal automobile injury	–	20,000

While the Auto Fund utilizes reinsurance, it is still exposed to reinsurance risk. Reinsurance risk is the risk of financial loss due to inadequacies in reinsurance coverage or the default of a reinsurer. The Auto Fund evaluates and monitors the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvency.

Actuarial Risk

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Auto Fund at the year-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists regarding the cost of reported claims that have not been settled, as all the necessary information may not be available at the year-end date.

The significant assumptions used to estimate the provision include: the Auto Fund's experience with similar cases, historical claim payment trends and claim development patterns, the characteristics of each class of business, claim severity and claim frequency, the effect of inflation on future claim settlement costs, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim, the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as physical damage or collision claims tend to be more reasonably predictable than long-tail claims such as liability claims.

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

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

	(thousands of $)							
Accident Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Net Ultimate Loss								
At end of accident year	$ 448,227	$ 483,870	$ 503,379	$ 538,979	$ 592,874	$ 619,414	$ 662,547	$ 687,370
One year later	475,268	478,854	514,421	558,884	610,914	611,519	658,423	
Two years later	472,198	488,578	526,834	566,213	609,827	609,300		
Three years later	481,492	501,237	526,286	566,573	612,944			
Four years later	492,254	502,878	528,573	571,490				
Five years later	492,677	502,449	536,629					
Six years later	492,133	508,011						
Seven years later	496,337							
Cumulative loss development	$ 48,110	$ 24,141	$ 33,250	$ 32,511	$ 20,070	$ (10,114)	$ (4,124)	n/a
Cumulative loss development as a % of original ultimate loss	10.7%	5.0%	6.6%	6.0%	3.4%	(1.6%)	(0.6%)	n/a

	(thousands of $)								
Accident Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**Total**
Current estimate of net ultimate loss	$ 496,337	$ 508,011	$ 536,629	$ 571,490	$ 612,944	$ 609,300	$ 658,423	$ 687,370	$4,680,504
Cumulative paid	(441,017)	(446,649)	(462,201)	(493,865)	(525,600)	(508,611)	(524,717)	(393,346)	(3,796,006)
Net provision for unpaid claims for the eight most recent accident years	$ 55,320	$ 61,362	$ 74,428	$ 77,625	$ 87,344	$ 100,689	$ 133,706	$ 294,024	$ 884,498
Net discounted claims outstanding for accident years 2006 and prior									523,326
Loss adjusting expense reserve									91,725
Other reconciling items									8,674
Net provision for unpaid claims									$1,508,223

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**	**2014**	**2013**	**2014**	**2013**
Discount rate	+ 100 bps	$ (79,865)	$ (68,965)	$ 8,564	$ 6,909
Discount rate	- 100 bps	90,432	77,885	(10,155)	(8,236)
Net loss ratio	+ 10%	72,329	72,023	(72,329)	(72,023)
Misestimate	1% deficiency	15,049	13,586	(15,049)	(13,586)

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 pooled fund, while the Return Seeking portfolio holds Canadian common shares, U.S. common shares, the non-North American equity, global small cap equity, and real estate pooled 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 $)	
	2014	2013
Cash and cash equivalents	$ 14,316	$ 60,215
Accounts receivable	217,132	204,934
Fixed income investments[1]	1,238,339	1,091,763

[1] Includes short-term investments, bonds and debentures, and the mortgage pooled 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 $5,226,000 (December 31, 2013 – $57,732,000) 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 $)	
	2014	2013
Current	$ 213,221	$ 201,653
30 - 59 days	1,969	1,273
60 - 90 days	1,719	1,051
Greater than 90 days	9,965	9,709
Subtotal	226,874	213,686
Allowance for doubtful accounts	(9,742)	(8,752)
Total	$ 217,132	$ 204,934

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 $)	
	2014	2013
Allowance for doubtful accounts, at January 1	$ 8,752	$ 8,132
Accounts written off	(1,610)	(1,731)
Current period provision	2,600	2,351
Allowance for doubtful accounts, at December 31	$ 9,742	$ 8,752

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 all 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 pooled 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:

	2014		2013	
Credit Rating	**Fair Value (thousands of $)**	**Makeup of Portfolio (%)**	**Fair Value (thousands of $)**	**Makeup of Portfolio (%)**
AAA	$ 451,664	46.8	$ 307,344	36.8
AA	303,539	31.5	334,574	40.1
A	180,776	18.7	149,085	17.9
BBB	29,130	3.0	43,477	5.2
Total	$ 965,109	100.0	$ 834,480	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 pooled 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 pooled 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	
	2014	2013	2014	2013
Investment earnings	$ (71,301)	$ (62,056)	$ 80,277	$ 69,649
Claims incurred	(79,865)	(68,965)	90,432	77,885
Net increase (decrease) to RSR	8,564	6,909	(10,155)	(8,236)

Foreign exchange risk

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

Asset Class	Maximum Exposure (%)	Current Exposure (%)		10% change in exchange rates (thousands of $)	
		2014	2013	2014	2013
U.S. equities	20.5	17.0	16.9	$ 10,862	$ 8,784
Non-North American equities	19.0	13.0	13.2	8,273	6,875
Global small cap equities	19.0	13.2	13.8	8,434	7,174
Infrastructure limited partnership	15.0	3.1	0.6	1,969	318

As the U.S. common shares, non-North American equity pooled fund, global small cap equity pooled fund 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, U.S. and EAFE (Europe, Australasia and Far East) markets. At December 31, 2014, equities comprise 27.2% (2013 – 26.0%) 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 common share 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 (VaR), 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. As such, 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	**2014**			**2013**		
Canadian equities	$	+/-	68,532	$	+/-	54,107
U.S. equities		+/-	30,197		+/-	24,596
Non-North American equities		+/-	22,502		+/-	20,486
Global small cap equities		+/-	19,567		+/-	18,436

The Auto Fund's equity investments are classified as fair value through profit and loss and as such, 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 claims liabilities, are short-term in nature, due within one year. The Auto Fund generally maintains positive overall cash flows through cash generated from operations as well as cash generated from its 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 at December 31. The Auto Fund has contractual commitments to provide funding to Saskatchewan health organizations for costs associated with rehabilitation for those involved in automobile accidents.

	(thousands of $)					
	2014					
	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	$ 9,090	$ 5,226	$ –	$ –	$ –	$ –
Accounts receivable	–	217,132	–	–	–	–
Investments	722,778	285,043	106,895	171,150	216,898	373,689
Unpaid claims recoverable from reinsurers	–	4,311	282	–	–	–
	$ 731,868	$ 511,712	$ 107,177	$ 171,150	$ 216,898	$ 373,689
Financial liabilities						
Accounts payable and accrued liabilities	$ 18,655	$ 5,401	$ –	$ –	$ –	$ –
Premium taxes payable	–	44,579	–	–	–	–
Provision for unpaid claims	–	276,490	191,940	132,958	273,444	1,331,887
	18,655	326,470	191,940	132,958	273,444	1,331,887
Financial commitments	–	31,675	50,911	44,977	–	–
	$ 18,655	$ 358,145	$ 242,851	$ 177,935	$ 273,444	$ 1,331,887

	(thousands of $)					
	2013					
	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	$ 2,483	$ 57,732	$ –	$ –	$ –	$ –
Accounts receivable	–	204,934	–	–	–	–
Investments	602,066	262,424	122,128	104,063	166,560	354,473
Unpaid claims recoverable from reinsurers	–	24,728	4,402	30	–	–
	$ 604,549	$ 549,818	$ 126,530	$ 104,093	$ 166,560	$ 354,473
Financial liabilities						
Accounts payable and accrued liabilities	$ 16,040	$ 9,576	$ –	$ –	$ –	$ –
Premium taxes payable	–	41,587	–	–	–	–
Provision for unpaid claims	–	281,424	190,502	131,453	270,565	1,292,824
	16,040	332,587	190,502	131,453	270,565	1,292,824
Financial commitments	–	29,404	31,186	68,686	–	–
	$ 16,040	$ 361,991	$ 221,688	$ 200,139	$ 270,565	$ 1,292,824

The estimated contractual maturities related to the unpaid claims recoverable from reinsurers excludes the net effect of discounting and PFAD of $221,000 (2013 – $1,844,000) (note 9). The estimated contractual maturities related to the provision for unpaid claims excludes the net effect of discounting and PFAD of $693,682,000 (2013 – $782,176,000) (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 uses a common industry measurement called the Minimum Capital Test (MCT) to establish a target for the Rate Stabilization Reserve. The MCT is a risk-based capital adequacy formula that assesses risks to assets, policy liabilities and off-balance sheet exposures by applying various factors to determine a ratio of capital available over capital required. The Auto Fund has established an internal target capital ratio. The Auto Fund is currently below its internal target capital ratio, and is addressing this in accordance with its capital management policy.

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 its operations, along with income generated from its investment portfolio, to fund future operations.

16. Change in Non-Cash Operating Items

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

	(thousands of $)	
	2014	2013
Accounts receivable	$ (12,198)	$ (11,550)
Unpaid claims recoverable from reinsurers	26,190	(24,446)
Deferred policy acquisition costs	(3,469)	521
Other assets	(320)	(30)
Accounts payable and accrued liabilities	(1,560)	3,723
Premium taxes payable	2,992	2,303
Unearned premiums	22,468	17,548
Provision for unpaid claims	128,445	104,190
	$ 162,548	$ 92,259

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 $143,205,000 (2013 – $138,232,000) and accounts receivable are $3,925,000 (2013 – $6,308,000).

Certain board members are partners in organizations that provided $154,000 (2013 – $nil) 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 is a shareholder in an organization that provides motor licence issuing services on behalf of the Auto Fund. Premiums written during the year through this organization amounted to $2,224,000 (2013 – $1,945,000) and the associated accounts receivable at December 31, 2014, was $5,000 (2013 – $25,000). Issuer fees related to these premiums were $181,000 (2013 – $169,000). 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 this litigation will not have a significant effect on its financial position or results of operation of the Auto Fund.

Glossary of Terms

Catastrophe reinsurance	A policy purchased by a ceding company that indemnifies that company for the amount of loss in excess of a specified retention amount subject to a maximum specific limit from a covered catastrophic event.
Claims incurred	The totals 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 Chartered Professional Accountants of Canada.
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.
Prudent person	A common law standard against which those investing the money of others are judged against.
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

Ed Boychuk, a Computer Operator at head office, was a well-known employee who was funny and had a laid-back attitude. He took the time to really get to know his co-workers and help them with anything they needed, including introducing prospective love interests.

He enjoyed working with computers, playing video games and watching action, adventure and sci-fi movies.

Julia Leonard, a Licence Issuer 1 at the Regina Driver Exam Office, was a nurturing person who took new employees under her wing and loved her job. She had a spunky personality and provided excellent customer service.

Julia was a loving wife and mother of three who liked reading, playing Scrabble and dying her hair pink.

Karen Prychitko, former Manager of Corporate Planning, was a take-charge kind of person who was passionate about her work, mentoring new employees and making challenging tasks fun. She was at the forefront of developing SGI's strategic direction in 2009 and played a big role in developing a new, customer-focused approach.

She had a great sense of adventure, travelled to almost every continent, and loved the outdoors and her two dogs.