2015-16 SASKATCHEWAN AUTO FUND ANNUAL REPORT

Mission

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

Vision

Achieve the safest roads in Canada while caring for customers.

Values

Integrity
Doing the right thing (by being accountable, honest, trustworthy and fair).

Caring
Understanding that empathy, courtesy and respect make an impact.

Innovation
Transforming how we do things today for an even more successful tomorrow.

About the Saskatchewan Auto Fund

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

2015-16 SASKATCHEWAN AUTO FUND ANNUAL REPORT

Contents

Letter of Transmittal

Regina, Saskatchewan
July, 2016

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 15-month period ended March 31, 2016, including the financial statements in the form required by the Treasury Board and in accordance with *The Automobile Accident Insurance Act*.

Respectfully submitted,

Don McMorris
Minister Responsible for Saskatchewan Government Insurance

Minister's Message

Our Crown corporations prove their value when they serve the people of Saskatchewan well, as the Auto Fund demonstrated again in 2015-16. The Auto Fund achieved very positive financial results, and at the same time responded to the needs of our customers and working to make Saskatchewan's roads safer.

In 2015-16 the Auto Fund implemented more recommendations from the all-party Special Committee on Traffic Safety and the Motorcycle Review Committee, including motorcycle engine size restrictions for new riders and adding a dedicated traffic safety enforcement unit in the central and southeast regions of the province. Having the lowest number of fatalities on our roads in years – down to 121 in 2015 preliminary numbers – is an encouraging sign. I am optimistic motorists are responding to the changes we began introducing in 2014, and taking responsibility to improve their driving habits and make better choices on our roads.

That includes choices like not speeding. This is the first year of the photo speed enforcement pilot project and our goal remains zero: zero tickets, zero crashes, zero fatalities and zero injuries. With only one year under our belt it is too early to call it a downward trend; however, early analysis shows people are slowing down, and I commend them for that.

Recommendations stemming from a number of program and injury coverage reviews were approved over the course of the year, which will improve service and benefits for customers once fully implemented.

Crown corporations that are well run and responsive to customer needs support Saskatchewan's economy and help strengthen our province. Thank you to the employees, motor licence issuers and Board of Directors for all their hard work ensuring the Auto Fund serves Saskatchewan people while continuing to offer some of the lowest auto insurance rates in Canada.

I am pleased to present the 2015-16 Saskatchewan Auto Fund Annual Report.

Don McMorris
Minister Responsible for Saskatchewan Government Insurance

Chair's Message

In 2015-16 the Saskatchewan Auto Fund continued to focus on how it can best serve customers and road users, undertaking a number of improvement efforts.

Changes to auto and motorcycle injury coverages were announced, with more choice in coverage offered to motorcyclists for the 2016 riding season. As well, changes to the Business Recognition program were implemented to be more fair and balanced, and government granted approval for the Auto Fund to proceed with a number of changes to the Safe Driver Recognition program (a driver discount and demerit program). The Safe Driver Recognition program changes seek to better recognize safe driving behaviours and get tougher on those with unsafe driving behaviours; changes to this program will be implemented by mid-2016. All of these recommendations and changes came about after significant consultation with Saskatchewan motorists and other key stakeholders.

As well, traffic safety changes continued to be implemented over the past year as we work towards the goal of a 20% reduction in injuries and fatalities by Saskatchewan Day 2017.

These changes include the Combined Traffic Safety Services Saskatchewan Pilot Project – putting 60 additional traffic safety enforcement officers on central and southeast Saskatchewan roads. Half of the positions are funded by the Auto Fund. This dedicated traffic safety unit focuses on high risk behaviour such as impaired driving, distracted driving and aggressive driving. Training and recruitment began in 2014 and the unit was fully phased in by fall 2015.

The Auto Fund achieved positive financial results in 2015-16. Strong investment returns combined with lower claim costs and administrative spending reductions contributed to a healthy financial position.

In 2015-16, Dwight Dunn's term on the Board of Directors ended. I thank him for his service over the past eight years and extend my gratitude to all Board members for their expertise and service to the Auto Fund over the past year.

I extend our appreciation, on behalf of the Board, to all the employees and management who work so hard to make this and every year a success.

Arlene Wiks
Chair, SGI Board of Directors

President's Message

As you peruse the Auto Fund annual report this year you will notice something different – a 15-month fiscal year ending at March 31 instead of a 12-month year ending at December 31. This change aligns the Auto Fund with other Saskatchewan government ministries, Crowns and agencies. This document is transitional; next year we will return to a 12-month year.

It was a solid financial year for the Auto Fund in 2015-16 with both strong underwriting results and investment returns. Positive underwriting results were largely due to favourable claim results as both injury and damage claim costs were relatively low. The unusually mild winter weather and traffic safety initiatives were both factors in keeping claim costs low. Investment returns were strong, an achievement given the volatility in the investment markets over the past 15 months and a testament to the Auto Fund's well diversified, high quality investment portfolio. All in all, I'm very pleased to report that the Rate Stabilization Reserve was strengthened by more than $159 million during the past 15 months.

It's also the second year of strengthened traffic safety measures. In 2014, sweeping changes were made to traffic safety legislation to help make our roads safer. While this is only the start of a long-term goal of reducing injuries and fatalities for Saskatchewan road users, early signs – such as having the lowest number of traffic fatalities in the province in decades – show that we are on the right path and making a difference.

The first year of the photo speed enforcement (PSE) pilot project made an impact – generally, there has been a reduction in speeders in areas where PSE has been installed, although we recognize school zones are still a concern. Additional signage has been installed around PSE school zones in an effort to bring those numbers down, and we will continue to monitor that situation. The Auto Fund also supported a dedicated traffic safety unit in central and southeast Saskatchewan by funding half of the 60 police officer positions designated for this project.

The Auto Fund routinely checks to see if its programs and coverage are meeting customers' needs. In 2015-16 it implemented changes to the Business Recognition Program and received government approval to proceed with a number of changes to the Safe Driver Recognition (SDR) program. As well, government approved changes to both auto and motorcycle injury coverage. All of these changes came about as a result of reviews and consultations with drivers and other key stakeholders.

When it came to SDR there was a common request during the review – customers wanted greater rewards for good drivers and tougher penalties for those with unsafe driving habits. The Auto Fund responded and will be making these changes by mid-2016.

A broad consultation with customers and other stakeholders was undertaken regarding the delivery of support and services for those recovering from collision injuries. The goal of auto injury coverage is to offer an affordable and comprehensive package for our customers, regardless of whether they have chosen Tort or No Fault. The approved changes, once implemented, will help us meet customers' needs, closing gaps in coverage and improving benefits.

We also listened to motorcyclists, completing the work that led to offering them an additional choice of reduced No Fault injury coverage starting April 1, 2016. This new coverage is for motorcycle owners who feel they require reduced benefits in the event of a collision, and because there are reduced benefits, it's a lower cost.

In partnership with the autobody repair industry, a streamlined auto appraisal process was introduced last year. The program allows vehicle owners to have qualifying vehicle damage estimated at accredited auto repair firms, making the process of estimating and getting the repairs done faster and easier – so people can get back on the road sooner.

It takes a group effort to pull off such a productive year – thank you to the Auto Fund's hard working and dedicated employees. I see their commitment to this organization, its customers and the safety of our roads every day. Thanks also to our Board of Directors for their insight and direction, and to our motor licence issuers who are on the front lines to the people we serve. It's due to such a great team that the Auto Fund remains the well managed, customer and community focused organization people of Saskatchewan depend on.

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

Management's Discussion and Analysis

The following management's discussion and analysis (MD&A) is the responsibility of Saskatchewan Government Insurance (SGI) as the administrator of the Saskatchewan Auto Fund and reflects events known to SGI to May 25, 2016. The Board of Directors carries out its responsibility for review of this disclosure principally through its Audit, Finance and Conduct Review Committee, comprised exclusively of independent directors. The Audit, Finance and Conduct Review Committee's mandate can be found on SGI's website at www.sgi.sk.ca. The Board of Directors approved this MD&A at its meeting on May 26, 2016, after a recommendation to approve was put forth by the Audit, Finance and Conduct Review Committee.

Overview

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

Caution Regarding Forward-Looking Statements

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

Change in Year End

In December 2015, the Auto Fund was directed by the provincial government to change its fiscal year end from December 31 to March 31 to coincide with the Government of Saskatchewan's year end. This is the first fiscal period subsequent to this direction and, due to the transition, the current fiscal period consists of the 15 months ending March 31, 2016.

The Saskatchewan Auto Fund

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

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

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

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

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

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

The Auto Fund, at March 31, 2016, had 380 motor licence issuers[1] in 283 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 69.

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 799,000 drivers and approximately 1.2 million vehicles and trailers in Saskatchewan. Business partners range from independent motor licence issuers, autobody repairers and law enforcement agencies, to healthcare providers. These business partners are involved in different aspects of the Auto Fund's operations from licensing, road safety and repair of damaged vehicles, to provision of medical care and rehabilitative services for those injured in motor vehicle collisions.

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

While it has been successful at offering Saskatchewan residents low rates, the Auto Fund does face challenges. Claim costs represented approximately 81% of the Auto Fund's costs for the 15 months ended March 31, 2016. Over the last 10 years, auto damage claim costs have increased at an average annual rate of approximately 6.0%, while personal injury costs have grown at approximately 4.2% annually.

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

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

The Auto Fund continues to offer Safe Driver Recognition (SDR) and Business Recognition (BR) programs. These programs have been in place since 2002 and 2004 respectively. The SDR program places all drivers on a safety rating scale based on their driving history. The BR 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 BR program is 10%. For the 15 months ended March 31, 2016 these discounts represented savings to customers totaling $155,699,000 (12 months ended December 31, 2014 – $120,673,000).

Strategic Direction

In 2015, SGI saw its 2011-2015 strategic plan come to a close, and a new direction for 2016-2020 take shape. A new vision statement and supporting long-term goals were developed to guide the Auto Fund's future, with subtle changes to the mission and value statements.

The mission, vision and values under which the Auto Fund operated during 2015 were:

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 had one primary objective in 2015: to achieve the right balance of price, coverage and service for 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	2015 Target (12 month)	2015 Result (12 month)	2015-16 Result (15 month)	2016-17 Target
Auto Fund rates adequate for package of coverage and services				
Rate adequate vehicles	98%	Unable to report	Unable to report	94%

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. A full rate analysis was not completed in 2015, resulting in the Auto Fund being unable to report on rate adequacy.

The Auto Fund's long-term goal is to achieve rate adequacy for 98% of the vehicles it insures. Progress toward this goal was negatively impacted in 2015 by changes to the national vehicle rate groups that are set and maintained by the Insurance Bureau of Canada. As a result, the target for 2016-17 has declined to 94%, while maintaining the long-term objective of 98%.

Customer

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

Measure	2015 Target (12 month)	2015 Result (12 month)	2015-16 Result (15 month)	2016-17 Target
Provide value to Auto Fund customers				
Auto Fund value index	71%	○ 69%	○ 69%	Customer experience index; among the lowest rates in Canada

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 require. Instead, the Auto Fund must ask customers for feedback. A value index, based on specific survey question results, was used to assess whether customers believe the Auto Fund provides products and services that focus on what's best for them, delivers good value at the best price, and was doing a good or excellent job of providing high standards of customer service. With an average annual score of 69%, the Auto Fund was slightly below its 71% target.

In 2016-17, the Auto Fund will assess its ability to provide value to customers using a combined Auto Fund and SGI CANADA customer experience index. The customer experience index incorporates a new methodology and survey that is expected to given better insight into which interactions offer the greatest opportunity for improvements to ensure positive customer experiences. In addition, the Auto Fund has included a target to maintain among the lowest personal auto insurance rates in Canada. While this has always been a focus for the Auto Fund, it will now be included as a balanced scorecard target.

Internal processes

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

Measure	2015 Target (12 month)	2015 Result (12 month)	2015-16 Result (15 month)	2016-17 Target
Productivity				
Licensed drivers and policies per FTE*	745	● 764	● 767	Removed
Efficiency				
Administrative expense ratio	6.2%	● 5.7%	● 5.8%	6.0%

Legend: ● achieved ○ not achieved

*FTE – full-time equivalent staff position

Productivity

In 2015, productivity was evaluated using a combined measure for SGI, which considers both SGI CANADA's policies in force and the Saskatchewan Auto Fund's licensed drivers. 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) staff position speaks to SGI's productivity.

The 2015 productivity results for both the 12- and 15-month periods are above the target of 745 and well above the 738 result in 2014. The positive variance is due primarily to maintaining the Corporation's FTE count below budget. This measure has been removed from the balanced scorecard for 2016-17, as it is addressed through the administrative expense ratio efficiency measure.

Efficiency

Efficiency is assessed based on the Auto Fund's administrative expense ratio. The ratio is total administrative expenses expressed as a percentage of net premiums earned. Administrative expenses are largely related to salaries and benefits, information technology and facilities costs. For 2015, the Auto Fund achieved its 12-month target with a 5.7% administrative expense ratio. For the 15 months ended March 31, 2016, the administrative expense ratio increased slightly to 5.8% due to premium earnings being slightly lower than planned. Analysis of administrative expenses is provided in more detail in the 2015-16 Financial Results section.

The Auto Fund's 2016-17 target is an administrative expense ratio of 6.0%. This is consistent with its long-term target to maintain its administrative expense ratio at or below 6.0%.

Organizational Capacity

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

Measure	2015 Target (12 month)	2015 Result (12 month)	2015-16 Result (15 month)	2016-17 Target
Employee engagement				
Engagement score compared to the Canadian public sector norm	1-point improvement	Non-reporting year	Non-reporting year	1-point improvement
Capital adequacy				
Minimum Capital Test	69%	● 92%	● 95%	90%

Legend: ● achieved ○ not achieved

Employee engagement

A positive employee experience is essential to achieving the Auto Fund's corporate objectives. One way to measure this is through employee engagement, using a biennial employee survey conducted by an external vendor. The survey includes employees performing work for both SGI CANADA and Auto Fund. An employee engagement score, derived from SGI's employee survey, is used to measure an employee's emotional and intellectual commitment to the Corporation. During 2015, a decision was made to perform the employee survey every two years to allow adequate time to appropriately analyze and implement changes from each survey. Consequently, the survey was not conducted in 2015, but will be reported on in 2016-17.

In support of the company's long-term goal to be at or above the Canadian public sector, in 2016-17, it is targeting a one-point improvement over its 2014 result, which was five points below the Canadian public sector norm (52%).

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 95% was above the 2015 target of 69%, but remains below the long-term goal of 100%. At March 31, 2016, the actual, non-rolling MCT was 99%.

The Auto Fund's 2016-17 target is an MCT of 90%. This target is lower than its final 2015-16 result as it was set during the Auto Fund's corporate budget process, prior to knowing final results. The Auto Fund will continue to focus on moving towards its MCT target of 100%, as described in the following section, Capabilities to Execute Strategies, under Capital and Liquidity.

Capability to Execute Strategies

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

Employees

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

The corporate recruitment strategy was recently updated to enhance partnerships with outreach agencies and educational institutions and the Corporation's visibility as a preferred employer. SGI's succession planning process focuses on: (i) ensuring current senior management positions have succession plans; (ii) identifying high performing staff who have potential for more senior roles; and (iii) ensuring high-potential staff and the leadership team have ongoing development and support. SGI also recently introduced a program to support employees nearing retirement and assist with the transfer of critical knowledge and expertise.

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

Motor licence issuers

The Auto Fund provides accessibility for customers by distributing products through a network of 380 independent motor licence issuers in 283 communities across Saskatchewan, and seven SGI branch offices throughout the province. The majority of motor licence issuers' interests are represented by the Insurance Brokers' Association of Saskatchewan. The relationship between the Auto Fund and motor licence issuers is governed by an Issuer Accord. The accord is intended to enhance the working relationship resulting in improved service to customers. Included in the accord are 15 agreed upon principles, such as fostering better communication between both groups, recognizing the value of each other's roles to provide service to Saskatchewan people and partnering on traffic safety programs.

Technology and systems

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

Capital and liquidity

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

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

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

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

At March 31, 2016, the MCT ratio was 99%, and the 12-month rolling average MCT ratio was 95%.

2015-16 Financial Results

For the 15 months ended March 31, 2016

Overview

With the Auto Fund transition to a March 31 year end, the current fiscal period represents the 15 months ended March 31, 2016. For analysis and comparative purposes, the information included in the following discussion focuses on the 12-month period ending December 31, 2015 and the three-month period ending March 31, 2016.

For the 15 months ended March 31, 2016, the Auto Fund experienced an increase to the Rate Stabilization Reserve (RSR) of $159.1 million. Operating results for the 15 months were strong due to both solid underwriting results and investment returns. The favourable underwriting results stemmed from strong premium growth and low overall claim costs, resulting in a combined ratio of 101%.

Despite significant market volatility throughout the 15 months ended March 31, 2016, the Auto Fund generated strong overall investment earnings of $111.8 million. In summary, currency gains from a declining Canadian dollar produced strong foreign equity returns while fixed income investments generated positive returns due to decreases in interest rates. Strong investment earnings have helped 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 a rising interest rate environment.

With the $159.1 million surplus, the RSR improved to $377.2 million and the MCT to 99%.

Statement of Operations

Premiums written

	(thousands of $)				
	12 months ended December 31			3 months ended March 31, 2016	15 months ended March 31, 2016
	2015	2014	Change		
Gross premiums written	936,070	889,211	46,859	201,245	1,137,315
Premiums ceded to reinsurers	(5,995)	(2,767)	(3,228)	(4,412)	(10,407)
Net premiums written	930,075	886,444	43,631	196,833	1,126,908

12 months ended December 31, 2015

Net premiums written for the 12 months ended December 31, 2015 totalled $930.1 million, representing an increase of 4.9%, or $43.6 million over the prior year. The increase stems from a combination of exposure growth, newer vehicles being registered throughout the year, as well as the impact of the 4.4% rate increase implemented in September 2014. The number of vehicle insured years increased by 1.2% during the year to 932,317 from 921,503.

The Safe Driver Recognition and Business Recognition programs continue to return dollars to Auto Fund customers each year. To December 31, 2015, these programs returned $128.2 million to customers through safe driving discounts, compared to $120.7 million in 2014. Expressed as a percentage of vehicle premiums, this equates to an average discount of 12.2% for 2015 (2014 – 12.1%). Maximum discounts available under each program are 20% for the Safe Driver Recognition program and 10% for the Business Recognition program.

Three months ended March 31, 2016

Net premiums written for the three-month period ended March 31, 2016 were $196.8 million, an increase of $2.3 million over the three-month period ending March 31, 2015. The 1.2% increase is the result of exposure growth combined with an increase in newer vehicles that cost more to insure.

The discount programs returned $27.5 million to customers through safe driver discounts during the three months for total discounts over the 15 months ended March 31, 2016 of $155.7 million.

Claims incurred

	(thousands of $)				
	12 months ended December 31			3 months ended March 31, 2016	15 months ended March 31, 2016
	2015	2014	Change		
Net claims incurred	753,031	834,155	(81,124)	181,315	934,346

Claims incurred for the 15 months ended March 31, 2016 were $934.3 million. The following table details claim costs by categories:

	(thousands of $)				
	12 months ended December 31			3 months ended March 31, 2016	15 months ended March 31, 2016
	2015	2014	Change		
Current year					
Damage claims, excluding storm claims	483,260	482,417	843	129,930	613,190
Storm claims	26,769	20,547	6,222	(1,043)	25,726
Total damage claims	510,029	502,964	7,065	128,887	638,916
Injury claims	297,034	306,648	(9,614)	49,506	346,540
	807,063	809,612	(2,549)	178,393	985,456
Prior year deficiency (redundancy)					
Damage claims	(26,281)	1,762	(28,043)	1,914	(24,367)
Injury claims	46,254	(67,335)	113,589	(10,807)	35,447
	19,973	(65,573)	85,546	(8,893)	11,080
Change in discounting	(74,005)	90,116	(164,121)	11,815	(62,190)
Total claims incurred	753,031	834,155	(81,124)	181,315	934,346
Current year loss ratio*	88.2%	93.7%	-5.5%	80.1%	86.6%
Total loss ratio	82.3%	96.5%	-14.2%	81.5%	82.1%

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

12 months ended December 31, 2015

Current year claims

Total damage claims increased due primarily to a $6.2 million increase in storm claims resulting from more significant hail storms experienced during the 2015 summer months. Excluding storm costs, damage claims remained stable over the year, with a slight increase in total damage frequency from 112.6 damage claims per 1,000 insured years in 2014 to 114.0 in 2015.

Current year injury claims are $9.6 million or 3.1% lower than the prior year. Injury frequency decreased from 4.9 injury claims per 1,000 insured years in 2014 to 4.8 in 2015. As well, the more costly injury claims (those with care and income replacement benefits) have declined, resulting in a lower severity overall.

Development on prior year claims

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

The prior year deficiency of $20.0 million is the result of three factors:

- A deficiency of $140.9 million from extending payment pattern estimates for severely injured claimants. Actuarial analysis determined that claimants with medical, care and income replacement benefits are expected to collect benefits for longer than previously projected. However, as this adjustment extends the payment periods for these types of claims to 55 years into the future, the discounting impact is significant. Net of discounting, this deficiency results in a $28.8 million increase to claims incurred.
- A redundancy of $94.6 million to reduce the expected costs of long-term injury claims. This redundancy is a result of improved development, notably from more recent loss years, in addition to lower indexing of benefits than originally anticipated.
- A redundancy of $26.3 million related to unpaid damage claims, a reflection of better than expected development on prior year claims, most notably the 2014 loss year.

Impact of discounting

Discounting the provision for unpaid claims resulted in a $74.0 million decrease to claims incurred. Growth in the provision for unpaid claims, due to both current year injury claims and the prior year deficiency related to injury claims, resulted in a decrease to claims incurred due to discounting of $116.3 million. Offsetting this was a decrease in the overall discount rate used to discount the provision, which resulted in an increase to claims incurred of $42.3 million. The prior year increase of $90.1 million was the result of a declining discount rate.

Three months ended March 31, 2016

The Auto Fund experienced very favourable claim results during the first three months of 2016, with claim costs 9.1% lower than the same three-month period in 2015 (a 12.6% decrease in the loss ratio). Favourable results stemmed from a decrease in injury claim costs due largely to a decline in the severity of injuries. In addition, the Auto Fund benefited from a positive impact from discounting the provision for unpaid claims, as the discount rate increased during the period.

Expenses excluding claims incurred

	(thousands of $)				
	12 months ended December 31			3 months ended March 31, 2016	15 months ended March 31, 2016
	2015	2014	Change		
Other expenses	172,244	168,952	3,292	42,051	214,295

12 months ended December 31, 2015

For the 12-month period, other expenses, excluding claims incurred, increased $3.3 million compared to the same period in 2015. The increase is due primarily to higher issuer fees and premium taxes, which correlates with the growth in premiums during the period. Partially offsetting this was a decrease in administrative expenses of $2.8 million due largely to the run-off of systems depreciation.

Three months ended March 31, 2016

For the three-month period ended March 31, 2016, other expenses, excluding claims incurred, increased $2.0 million, or 5.0%, compared to the same period in 2015. The increase is due primarily to higher premium taxes, due largely to the growth in premiums, and an increase in administrative expenses due largely to higher employee salary and benefit costs.

Investment earnings and Other income

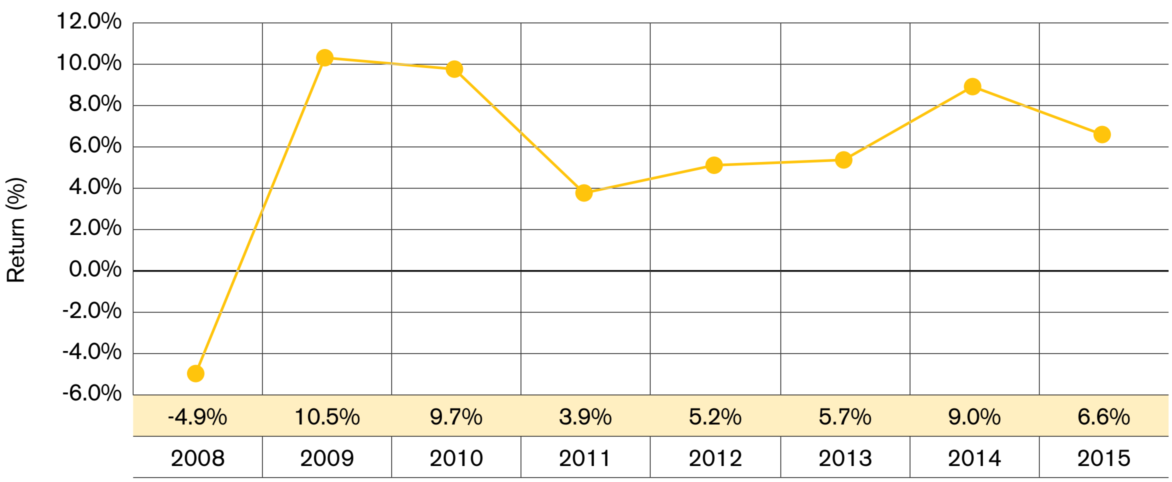
	(thousands of $)				
	12 months ended December 31			3 months ended March 31, 2016	15 months ended March 31, 2016
	2015	2014	Change		
Net investment earnings	122,541	151,104	(28,563)	(10,789)	111,752
Other income	46,899	41,796	5,103	11,501	58,400

Investment earnings

12 months ended December 31, 2015

In 2015, investment earnings were $122.5 million, representing an 18.9% decline from the strong results achieved in 2014. Investment earnings are recorded using market-based accounting principles, the components of which are disclosed in note 12 to the financial statements, and include interest, dividends, pooled fund and limited partnership distributions, and both realized and unrealized gains and losses on investments. For purposes of portfolio management, market-based returns are calculated based on the Auto Fund's investment earnings. In 2015, the total portfolio's market-based return was 6.6% compared to a 9.0% return in 2014 with strong equity returns not compensating enough for lower year-over-year fixed income returns.

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 Statement of Financial Position, under Investments section.

The Matching Portfolio lagged its benchmark for the year, although remained well matched to the associated claim liabilities. The Return Seeking Portfolio returns were strong as the Auto Fund's equity investment managers generally outperformed their respective benchmarks resulting in returns above their policy objectives. The following table illustrates the investment portfolio's actual performance by asset class for 2015 compared to the index and 2014 actual returns. Due to the transition from separate U.S. and non-North American mandates to global equity mandates during the year, a complete return breakdown by asset class is not available for the period.

		Annual Returns (%)		
Asset Class	**Benchmark Index**	**Actual 2015**	**Index 2015**	**Actual 2014**
Matching Bonds	Custom Bond Index	3.6	4.3	10.2
Mortgages	FTSE TMX Short & Mid-term Bonds	4.7	4.0	7.6
Canadian equities	S&P/TSX Composite	-3.3	-8.3	9.4
Global equities	MSCI ACWI ($C)	na	17.1	na
Global Small Cap Equities	MSCI ACWSCI ($C)	20.1	18.7	8.8
Real Estate	Investment Property Databank	6.4	5.8	6.3
Infrastructure	Canadian CPI + 5%	31.2	6.7	na

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

Three months ended March 31, 2016

Investment earnings decreased $10.8 million in the three months ended March 31, 2016. Equity markets were volatile throughout, however ended the quarter relatively neutral. At the same time, an appreciating Canadian dollar generated currency losses on foreign equities resulting in negative returns overall. For fixed income investments, decreases in interest rates generated capital gains and positive returns for the quarter.

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. Results are relatively consistent with the prior year, taking into consideration the additional three months in 2015-16.

For the 15 months ended March 31, 2016, other income of $58.4 million was $16.6 million higher than 2014. Fees earned for using payment option plans increased $10.4 million for a total of $37.4 million (December 31, 2014 – $27.0 million). The increase is due primarily to higher premiums written. The overall proportion of premiums financed through payment option programs was 63.4%, a slight increase from 2014 (63.0%). Salvage operations income of $21.0 million (December 31, 2014 – $14.8 million) is $6.2 million higher than prior year, a result of higher sales volumes in particular from the sale of whole vehicles.

Statement of Cash Flows

	(thousands of $)				
	12 months ended December 31			3 months ended March 31, 2016	15 months ended March 31, 2016
	2015	2014	Change		
Total operating activities	165,867	144,947	20,920	(41,239)	124,628
Investing activities	(152,947)	(190,846)	37,899	53,149	(99,798)
Net cash flow	12,920	(45,899)	58,819	11,910	24,830

12 months ended December 31, 2015

Cash flows generated from operating activities of $165.9 million for the 12 months ended December 31, 2015 were used to purchase $149.9 million of additional long-term investments, $3.1 million of property and equipment, and increase cash and cash equivalents of $12.9 million. The $20.9 million improvement in operating cash flow is a result of improved overall underwriting results compared to 2014.

Three months ended March 31, 2016

For the three months ended March 31, 2016, investing activities generated positive cash flows through the sale of equity and bond investments used to fund negative cash flows from operations, which resulted primarily from the annual premium tax payment to the province.

Statement of Financial Position

	(thousands of $)		
	March 31 2016	December 31 2014	Change
TOTAL ASSETS	**$ 2,369,585**	**$ 2,191,141**	**$ 178,444**
Key asset account changes:			
Investments	2,027,389	1,876,453	150,936
Cash and cash equivalents	39,146	14,316	24,830
Accounts receivable	223,279	217,132	6,147

Investments

Improvements in investment markets and investment of operating cash flows resulted in an increase in the carrying value of investments of $150.9 million.

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

The asset mix strategy is formally documented in the Statement of Investment Policies and Goals. In addition to capturing the asset mix strategy, this document provides guidance on permissible investments, quality and quantity guidelines, conflicts of interest, related party transactions and investment performance expectations, among others. Management monitors and enforces compliance with the investment policy. No material compliance deviations were noted in the 15-month period ended March 31, 2016.

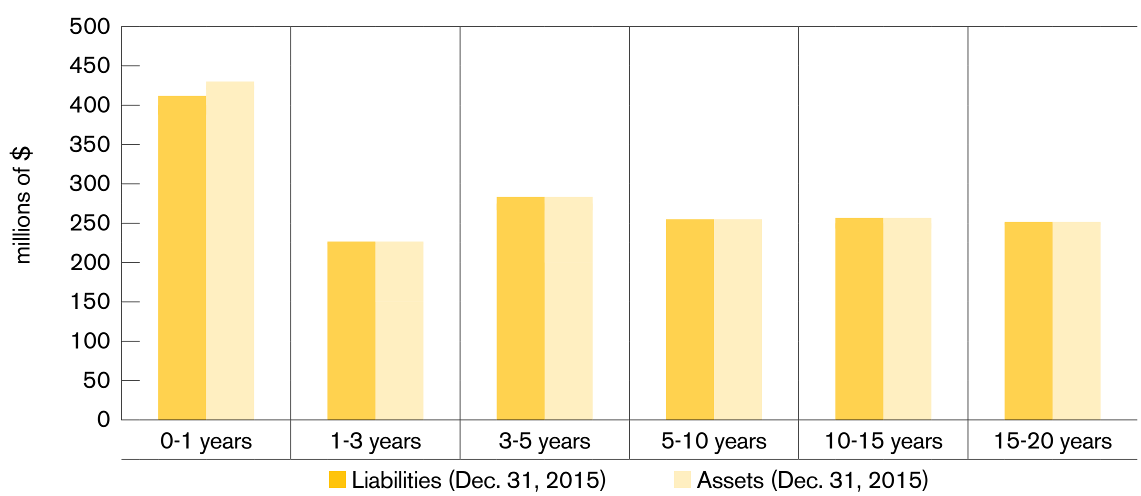
The Auto Fund's investment portfolio is managed by external investment managers. The portfolio is comprised of short-term investments, bonds and debentures, equities, mortgages, real estate and infrastructure. Equities include investments in Canadian common shares as well as investments in two global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

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

The objective of the Matching Portfolio is to group claim payments into five buckets based on the expected payment date, and then match these outflows with anticipated cash inflows from coupon and principal payments from fixed income assets in each bucket. At initiation, the expected future liability stream and asset stream will demonstrate a close match. However, as bonds mature and actual claim payments vary from projection, the asset liability match will change. In conjunction with the Auto Fund's actuarial valuations, asset cash flows are realigned to revised liability cash flows to ensure a close match is maintained. From time to time, the allocation between the Matching and Return Seeking Portfolios may also require rebalancing to maintain the overall risk-return objectives of the combined portfolio. The Matching Portfolio is rebalanced tri-annually 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, 2015, the date of the most recent asset liability matching analysis available, are as follows:

Matching Portfolio Asset-Liability Cash Flows

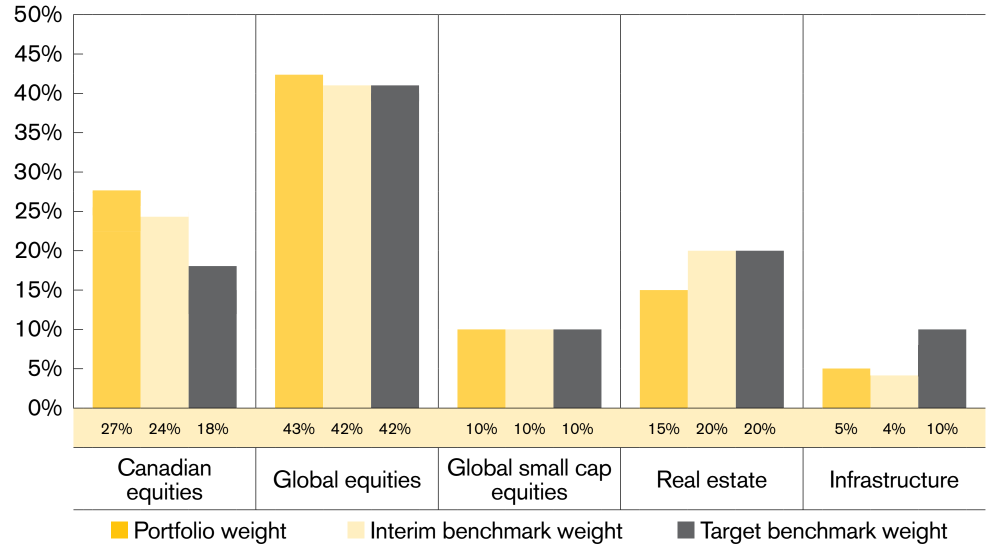


There were no significant changes to the investment policy during the annual review. Changes adopted in the previous year's review were implemented during 2015, including the increase in mortgage weight and changes to bond composition in the Matching Portfolio as well as the transition to global equity mandates in the Return Seeking portfolio. 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 and real estate mandates are funded throughout 2016 and beyond, it is expected that the portfolio will align more closely with the long-term benchmark weights.

The portfolio asset mix and benchmark weights at March 31, 2016, are:

Return Seeking Portfolio Asset Mix as at March 31, 2016



Cash and cash equivalents

Cash and cash equivalents at March 31, 2016, were $39.1 million (2014 – $14.3 million), an increase of $24.8 million. The sources of the change in cash and cash equivalents for the year are discussed in the previous 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.

Accounts receivable

Accounts receivable increased $6.1 million, or 2.8%, over the 15-month period with the increase due largely to an $11.3 million receivable from the Auto Fund's administrator, SGI, which resulted from the normal course of operations and cleared subsequent to year end.

	(thousands of $)		
	March 31 2016	December 31 2014	Change
TOTAL LIABILITIES	**$ 1,992,408**	**$ 1,973,018**	**$ 19,390**
Key liability account changes:			
Provision for unpaid claims	1,559,861	1,513,037	46,824
Accounts payable and accrued liabilities	41,924	24,056	17,868
Premium taxes payable	9,912	44,579	(34,667)
Unearned premiums	380,711	391,346	(10,635)

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 $46.8 million during the period to $1.6 billion (December 31, 2014 – $1.5 billion). This represents an increase of 3.1% from the last period. Key components of the change in the provision for unpaid claims are discussed in the preceding section, Claims Incurred. The majority of the increase is from unpaid injury benefits and is due to the continuing growth of the no-fault program as an additional year of losses is included in the provision.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities increased $17.9 million, due largely to timing differences associated with reporting at March 31 in the current fiscal period versus December 31 in the comparative period.

Premium taxes payable

Premium taxes payable are lower than at December 31, 2014, as premium taxes are required to be paid annually in March.

Unearned premiums

Unearned premiums decreased $10.6 million, as the three-month period ending March 31 historically generates lower premiums written compared to other quarters.

	(thousands of $)		
	March 31 2016	December 31 2014	Change
EQUITY	**$ 377,177**	**$ 218,123**	**$ 159,054**
Key equity account changes:			
Rate Stabilization Reserve	377,177	218,123	159,054

Rate Stabilization Reserve (RSR)

The increase to the RSR was a result of the $159.1 million surplus from operations.

Quarterly Financial Highlights

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

	(thousands of $)										
	2015-16						2014				
	Q5	Q4	Q3	Q2	Q1	15 months ended Mar. 31, 2016	Q4	Q3	Q2	Q1	12 months ended Dec. 31, 2014
Gross premiums written	201,245	206,575	242,208	288,308	198,979	**1,137,315**	204,330	229,926	273,551	181,404	**889,211**
Net premiums earned	222,602	231,109	242,023	229,944	211,865	**1,137,543**	225,918	227,211	214,878	195,969	**863,976**
Net claims incurred	181,315	177,036	244,130	132,496	199,369	**934,346**	236,468	218,113	174,512	205,062	**834,155**
Increase (decrease) to RSR	(52)	75,363	(48,214)	53,155	78,802	**159,054**	(2,817)	523	43,077	12,986	**53,769**
Cash flow from (used in) operations	(41,239)	44,558	72,614	87,758	(39,063)	**124,628**	50,679	69,047	76,254	(51,033)	**144,947**
Investments	2,027,389	2,101,727	2,017,196	1,900,745	1,903,118		1,876,453	1,779,363	1,737,725	1,609,193	
Provision for unpaid claims	1,559,861	1,567,237	1,581,290	1,489,987	1,528,807		1,513,037	1,457,802	1,404,669	1,393,465	
Rate Stabilization Reserve	377,177	377,229	301,866	350,080	296,925		218,123	220,940	219,917	176,320	

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

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

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 International Accounting Standards Board (IASB) published a revised exposure draft (ED) (2013 ED) on the accounting for insurance contracts that 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 International Financial Reporting Standards (IFRS) 4, *Insurance Contracts*. 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 2016 with implementation not expected before 2019. The Auto Fund is in the process of assessing the impact of the new proposed standard.

In July 2015, the IASB amended the existing IFRS 4 to mitigate accounting mismatches from the adoption of IFRS 9, *Financial Instruments*, before the new insurance contracts standard is issued. Insurers that meet certain criteria will be permitted to exclude from net income, and recognize in other comprehensive income, the difference between the amounts that would be recognized in net income in accordance with IFRS 9 and the amounts recognized in net income in accordance with International Accounting Standards (IAS) 39, *Financial Instruments: Recognition and Measurement*.

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 the final version of IFRS 9, *Financial Instruments*, as part of its plan to replace IAS 39, *Financial Instruments: Recognition and Measurement*.

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

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

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

This standard is effective for annual periods beginning on or after January 1, 2018. While early adoption is permitted under the standard, OSFI has indicated that early adoption is not allowed. While the Auto Fund is not federally regulated, it generally follows OSFI's guidance in such matters.

The IASB has proposed temporary deferral and overlay approaches for insurers, as detailed in their December 2015 Exposure Draft Applying IFRS 9, *Financial Instruments* with IFRS 4, *Insurance Contracts* (Proposed amendments to IFRS 4). Proposed changes would allow reporting entities, where the liabilities are predominately arising from insurance contracts, to defer IFRS 9 until the new insurance contracts standard is issued, or 2021 at the latest.

The Auto Fund is in the process of assessing the impact of the new standard and changes proposed in the Exposure Draft.

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 International Financial Reporting Interpretations Committee (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 that excludes insurance contracts within the scope of IFRS 4, *Insurance Contracts*; therefore, this standard will have a limited impact on the Auto Fund.

IFRS 16 – Leases

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

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 2014, the IASB issued Annual Improvements Cycle 2012-2014, which includes minor amendments to IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, IFRS 7, *Financial Instruments: Disclosures*, IAS 19, *Employee Benefits* and IAS 34, *Interim Financial Reporting*. 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 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 are 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 $174.3 million (December 31, 2014 – $143.2 million).

Certain Board members are partners in organizations that provided $284,000 (December 31, 2014 – $154,000) of professional services to the Auto Fund. These services were recorded in claims incurred and administrative expenses in the Statement of Operations. In addition, one Board member 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 $2.9 million (December 31, 2014 – $2.2 million) and the associated accounts receivable at March 31, 2016, were $84,000 (December 31, 2014 – $5,000). Issuer fees related to these premiums were $245,000 (December 31, 2014 – $181,000). The above noted transactions are routine operating transactions in the normal course of business.

Off Balance Sheet Arrangements

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

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

In the normal course of settling claims, the Auto Fund settles some long-term disability claims by purchasing structured settlements (annuities) from various financial institutions for claimants. This is a common practice in the property and casualty insurance industry. The net present value of the scheduled payments at March 31, 2016, was $22.9 million (December 31, 2014 – $23.1 million). The Auto Fund has no recourse to these funds. The Auto Fund provides a financial guarantee to the claimant in the event of default by the financial institution on the payment schedule to the claimant. No default has occurred in the past on these payment schedules and the likelihood of such default is considered extremely remote.

The Auto Fund has contractual obligations to provide funding to Saskatchewan health organizations to provide rehabilitative services for those injured in automobile collisions. Funding commitments range between $23.1 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 Financial Reporting Interpretations Committee. Significant accounting policies are described in note 3 to the financial statements. Some of these policies involve critical accounting estimates because they require SGI, as the administrator, to make particularly subjective or complex judgments about matters that are inherently uncertain, and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions.

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

Provision for unpaid claims

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

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

Unpaid claims recoverable from reinsurers

Unpaid claims recoverable from reinsurers include amounts for expected recoveries related to unpaid claim liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with claim and claim adjustment expense reserves, and are reported in the Statement of Financial Position. The ceding of insurance does not discharge the Auto Fund's primary liability to its insureds. An allowance for doubtful accounts is estimated on the basis of periodic evaluations of balances due from reinsurers, reinsurer solvency, management's experience and current economic conditions. At March 31, 2016, and December 31, 2014, there is no allowance for doubtful accounts recorded related to unpaid claims recoverable from reinsurers.

Risk Management

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

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

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

Privacy Breach

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

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

Catastrophic Claim Loss

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

Mitigation: SGI determines Auto Fund reinsurance limits using independent catastrophe modeling, including scenario tests that overlay hypothetical events on high-exposure concentrations. To mitigate the risk of reinsurer failure, SGI and its reinsurance broker monitor the reinsurer ratings provided by AM Best and Standard and Poor's.

Strategy

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

Mitigation: SGI's purpose and ideals are defined in the corporate mission, vision and values statements. The 2011-2015 strategic plan was developed with the input 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 was revisited in detail during the development of the 2016-2020 strategic plan.

Systems Security

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

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

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

Outlook for 2016-17

The Saskatchewan Auto Fund continues to be efficient and well-run – maintaining administrative expense ratios below other Canadian public insurers and providing among the lowest auto insurance rates in Canada. Beginning in 2016, the Auto Fund embarks on a new five-year strategic plan, with the aim to help reduce injuries and fatalities occurring on Saskatchewan roads, maintain Saskatchewan's position as having among the lowest personal auto insurance rates in Canada and provide quality service to customers. To achieve this, the Auto Fund will focus on three key areas in 2016:

- Traffic safety;
- Customer centricity; and,
- Operational excellence.

Traffic safety - The Auto Fund is a key player in implementing and funding traffic safety initiatives in Saskatchewan to improve road safety. Its ultimate goal is to help Saskatchewan achieve the safest roads in Canada. In 2016, the focus will be on achieving a 15% reduction in injuries and fatalities on Saskatchewan roads compared to the 2010-2014 July to June average.

Customer centricity - Consistent with previous years, customer centricity remains a strategic area of focus for the Auto Fund. It speaks to developing a system of shared values and behaviours that focus employees on delivering great customer experiences and placing customers at the centre of business decisions. The major customer-based initiatives the Auto Fund plans to undertake in 2016 include implementation of the Safe Driver Recognition and Business Recognition program review recommendations approved in 2015, a review of the claim process focused on enhancing the experience provided to customers, and establishing a customer experience index baseline to provide better insight into which interactions offer the greatest opportunity for improvement to customers experience.

Operational excellence - The Auto Fund must ensure that its foundational business structures and processes support achieving significant improvements in traffic safety, as well as providing a quality customer experience. It is important that technology, systems and processes also optimize productivity and efficiencies, freeing up resources for strategic priorities and ensuring the Auto Fund's administrative costs support maintaining low rates. In 2016, the Auto Fund will continue work on a major upgrade to its general information system, used by the Auto Fund for claim management, and continue to automate claim processes including implementing the appraisal transition project, which allows qualifying members of the repair industry to prepare initial vehicle damage appraisals on certain classifications of claims.

Responsibility for Financial Statements

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

Preparation of financial information is an integral part of Management's broader responsibilities for the ongoing operations of the Auto Fund. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

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

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

As appointed by the Lieutenant Governor in Council and approved by Crown Investments Corporation of Saskatchewan, PricewaterhouseCoopers have been appointed external auditors. Their responsibility is to report to the Members of the Legislative Assembly regarding the fairness of presentation of the Auto Fund's financial position and results of operations as shown in the financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and her report on the policy liabilities. The Auditor's Report outlines the scope of their examination and their opinion.

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

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

May 26, 2016

Annual Statement of Management Responsibility

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

a. That we have reviewed the financial statements included herein. Based on our knowledge, having exercised reasonable diligence, the financial statements fairly present, in all material respects, the financial condition, results of operations and cash flows, as of March 31, 2016.

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

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

d. That the Auto Fund conducted its assessment of the effectiveness of its internal controls over financial reporting and, based on the results of this assessment, it can provide reasonable assurance that internal controls over financial reporting as of March 31, 2016, were operating effectively and no material weaknesses were found in the design or operation of the internal controls over financial reporting.

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

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

May 26, 2016

Actuary's Report

To the Board of Directors of Saskatchewan Government Insurance

I have valued the policy liabilities and reinsurance recoverables of the Saskatchewan Auto Fund for its statement of financial position at March 31, 2016, and their change in the statement of operations for the 15 months then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities, net of reinsurance recoverables, makes appropriate provision for all policyholder obligations, and the financial statements fairly present the results of the valuation.

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

May 26, 2016

Independent Auditor's Report

May 26, 2016

To the Members of the Legislative Assembly, Province of Saskatchewan

We have audited the accompanying financial statements of Saskatchewan Auto Fund, which comprise the statement of financial position as at March 31, 2016 and the statements of operations, changes in equity and cash flows for the 15 months then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Saskatchewan Auto Fund as at March 31, 2016 and its financial performance and its cash flows for the 15 months then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

Statement of Financial Position

	(thousands of $)	
	March 31 2016	**December 31 2014**
	(note 2)	
Assets		
Cash and cash equivalents (note 4)	$ 39,146	$ 14,316
Accounts receivable (note 5)	223,279	217,132
Investments under securities lending program (note 6)	377,848	268,293
Investments (note 6)	1,649,541	1,608,160
Unpaid claims recoverable from reinsurers (note 9)	3,468	4,814
Deferred policy acquisition costs (note 7)	30,179	30,997
Property and equipment (note 10)	40,239	41,916
Other assets (note 8)	5,885	5,513
	$ 2,369,585	$ 2,191,141
Liabilities		
Accounts payable and accrued liabilities	$ 41,924	$ 24,056
Premium taxes payable	9,912	44,579
Unearned premiums (note 11)	380,711	391,346
Provision for unpaid claims (note 9)	1,559,861	1,513,037
	1,992,408	1,973,018
Equity		
Rate Stabilization Reserve	377,177	218,123
	$ 2,369,585	$ 2,191,141

Contingencies (note 18)
The accompanying notes are an integral part of these financial statements.
Approved by the Board of Directors and signed on their behalf on May 26, 2016

Arlene Wiks
Director

Howard Crofts
Director

Statement of Operations

For the periods ended	(thousands of $) 15 months ended March 31 2016	12 months ended December 31 2014
	(note 2)	
Gross premiums written	$ 1,137,315	$ 889,211
Premiums ceded to reinsurers	(10,407)	(2,767)
Net premiums written	1,126,908	886,444
Change in net unearned premiums (note 11)	10,635	(22,468)
Net premiums earned	**1,137,543**	863,976
Net claims incurred (note 9)	934,346	834,155
Issuer fees	57,063	42,029
Administrative expenses	65,443	55,358
Premium taxes	55,676	43,573
Traffic safety programs	36,113	27,992
Total claims and expenses	**1,148,641**	1,003,107
Underwriting loss	**(11,098)**	(139,131)
Net investment earnings (note 12)	111,752	151,104
Other income (note 13)	58,400	41,796
Increase to Rate Stabilization Reserve and Comprehensive Income	**$ 159,054**	$ 53,769

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

Statement of Changes in Equity

For the periods ended	(thousands of $) 15 months ended March 31 2016	12 months ended December 31 2014
	(note 2)	
Rate Stabilization Reserve		
Balance, beginning of period	$ 218,123	$ 162,814
Increase to Rate Stabilization Reserve	159,054	53,769
Appropriation from Redevelopment Reserve	–	1,540
Balance, end of period	**$ 377,177**	$ 218,123
Redevelopment Reserve		
Balance, beginning of period	$ –	$ 1,540
Appropriation to Rate Stabilization Reserve	–	(1,540)
Balance, end of period	**$ –**	$ –
Total Equity	**$ 377,177**	$ 218,123

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

Statement of Cash Flows

For the periods ended	(thousands of $) 15 months ended March 31 2016	(thousands of $) 12 months ended December 31 2014
	(note 2)	
Cash provided by (used for):		
Operating activities		
Increase to Rate Stabilization Reserve and Comprehensive Income	$ 159,054	$ 53,769
Non-cash items:		
Bond amortization	2,035	(3,105)
Depreciation	6,306	6,668
Net realized gains on sale of investments	(101,262)	(19,251)
Net unrealized (gains) losses on change in market value of investments	43,473	(55,758)
Loss on disposal of property and equipment	161	76
Change in non-cash operating items (note 16)	14,861	162,548
	124,628	144,947
Investing activities		
Purchases of investments	(1,718,330)	(1,677,520)
Proceeds on sale of investments	1,623,148	1,490,895
Purchases of property and equipment	(4,616)	(4,221)
	(99,798)	(190,846)
Increase (decrease) in cash and cash equivalents	**24,830**	(45,899)
Cash and cash equivalents, beginning of period	14,316	60,215
Cash and cash equivalents, end of period	**$ 39,146**	$ 14,316
Supplemental cash flow information:		
Interest received	$ 32,174	$ 26,267
Dividends received	$ 7,306	$ 6,333

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

Notes to the Financial Statements

March 31, 2016

1. Status of the Auto Fund

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

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

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

Being a fund of the Province of Saskatchewan, the Auto Fund is exempt from federal and provincial income taxes. The financial results of the Auto Fund are included in the Province of Saskatchewan's summary financial statements and not in SGI's financial statements.

2. Basis of Preparation

Statement of compliance

The financial statements for the periods ended March 31, 2016 and 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).

In December 2015, the Auto Fund was directed by the provincial government to change its fiscal year end from December 31 to March 31 to coincide with the Government of Saskatchewan. These financial statements represent the first complete fiscal period subsequent to this direction. The current fiscal period includes the 15 months ending March 31, 2016, with comparative financial statements for the 12 months ended December 31, 2014. As a result, information contained in these financial statements may not be entirely comparable.

Basis of measurement

The financial statements have been prepared using the historical cost basis, except for financial instruments and the provision for unpaid claims and unpaid claims recoverable from reinsurers. The methods used to measure the values of financial instruments are discussed further in note 3. The provision for unpaid claims and unpaid claims recoverable from reinsurers is measured on a discounted basis in accordance with accepted actuarial practice (which in the absence of an active market provides a reasonable proxy of fair value).

Statement of financial position classification

The Statement of Financial Position has been prepared on a non-classified basis in order of liquidity, with a distinction based on expectations regarding recovery or settlement within 12 months after the balance sheet date (current) and more than 12 months after the balance sheet date (non-current) presented in the notes.

Functional and presentation currency

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

Use of estimates and judgment

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation processes are related to the actuarial determination of the provision for unpaid claims (note 9), the valuation of accounts receivable (note 5) and the valuation of investments classified as Level 3 (note 6).

3. Significant Accounting Policies

Financial assets and liabilities

The measurement basis for financial assets and financial liabilities depends on whether the financial assets and liabilities have been classified as fair value through profit and loss, available for sale, held to maturity, loans and receivables, or other financial liabilities. Financial assets and liabilities classified as fair value through profit and loss are measured at fair value and changes in fair value are recognized as an increase or decrease to the Rate Stabilization Reserve. Financial assets classified as available for sale are measured at fair value with unrealized changes in fair value recorded in other comprehensive income; however, unrealized losses on investments that show objective evidence of impairment are recognized as a decrease to the Rate Stabilization Reserve. Financial assets designated as held to maturity, or loans and receivables, are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment losses, if any. Other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. The Auto Fund has no financial assets or liabilities designated as available for sale or held to maturity.

The Auto Fund has designated its cash and cash equivalents and investments as fair value through profit and loss. Accounts receivable are designated as loans and receivables. Accounts payable and accrued liabilities and premium taxes payable are designated as other financial liabilities. Unpaid claims recoverable from reinsurers and the provision for unpaid claims are exempt from the above requirement.

Financial assets and financial liabilities are offset, and the net amount reported in the Statement of Financial Position, only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and liabilities simultaneously. Income and expenses are not offset in the Statement of Operations unless required or permitted by an accounting standard or interpretation, as specifically disclosed in the accounting policies of the Auto Fund. There are no financial assets or financial liabilities reported as offset in these financial statements.

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. All fair value measurements relate to recurring measurements. Fair value measurements for investments are categorized into levels within a fair value hierarchy based on the nature of the valuation inputs (Level 1, 2 or 3).

The three levels are based on the priority of inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset's or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation.

The input levels are defined as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities

The Auto Fund defines active markets based on the frequency of valuation and any restrictions or illiquidity on disposition of the underlying investment and trading volumes. Assets measured at fair value and classified as Level 1 include Canadian 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 flow methodologies or similar techniques that are not based on observable market data, as well as instruments for which the determination of estimated fair value requires significant management judgment or estimation. Assets classified as Level 3 include the Auto Fund's investment in the 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 are as follows:

- The fair value for the pooled mortgage fund is determined based on market values of the underlying mortgage investments, calculated by discounting scheduled cash flows through to the estimated maturity of the mortgages (using spread-based pricing over Government of Canada bonds with a similar term to maturity), subject to adjustments for liquidity and credit risk.

- The fair value of the real estate 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 investment purchases and sales on a trade-date basis, being the date when the transactions are entered into. Financial assets are de-recognized when the rights to receive cash flows from them have expired, or when the Auto Fund has transferred substantially all risks and rewards of ownership.

Investments under securities lending program

Securities lending transactions are entered into on a collateralized basis. The securities lent are not de-recognized on the Statement of Financial Position given that the risks and rewards of ownership are not transferred from the Auto Fund to the counterparties in the course of such transactions. The securities are reported separately on the Statement of Financial Position on the basis that the counterparties may resell or re-pledge the securities during the time that the securities are in their possession.

Securities received from counterparties as collateral are not recorded on the Statement of Financial Position given that the risks and rewards of ownership are not transferred from the counterparties to the Auto Fund in the course of such transactions.

Investment earnings

The Auto Fund recognizes interest revenue as earned, dividends when declared, 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 changes in market value of the investments held at the period-end date. Realized gains and losses represent the difference between the amounts received through the sale of investments and their respective cost base.

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

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

Foreign currency translation

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

Premiums written

The Auto Fund's vehicle registrations have all been classified upon inception as insurance contracts. An insurance contract transfers significant risk and, upon the occurrence of the insured event, causes the insurer to make a benefit payment to the insured party. The sale of vehicle registrations generates premiums written that are taken into income as net premiums earned over the terms of the related policies, no longer than 12 months. The portion of premiums relating to the unexpired term of each policy is recorded as an unearned premium liability on the Statement of Financial Position.

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

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of outstanding claims to the period-end date. The estimate includes the cost of reported claims, claims incurred but not reported, and an estimate of adjusting expenses to be incurred on these claims and a provision for adverse deviation (PFAD) in accordance with Canadian Institute of Actuaries standards. The estimates are subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current period.

Deferred policy acquisition costs

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

Reinsurance ceded

The Auto Fund uses various types of reinsurance to limit its maximum insurance risk exposure. Estimates of amounts recoverable from reinsurers in respect of insurance contract liabilities are recorded as reinsurance assets on a gross basis in the Statement of Financial Position. Unpaid claims recoverable from reinsurers are estimated in a manner consistent with the method used for determining the provision for unpaid claims, unearned premiums and deferred policy acquisition costs respectively. Reinsurance ceded does not relieve the Auto Fund of its primary obligation to policyholders.

Cash and cash equivalents

Cash and cash equivalents consist of money market investments with a maturity of 90 days or less from the date of acquisition, and are presented net of cash on hand less outstanding cheques.

Property and equipment

All classes of property and equipment are recorded at cost less accumulated depreciation and accumulated impairment, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset.

The Auto Fund has not incurred any borrowing costs attributable to property and equipment, and therefore no borrowing costs have been capitalized. Subsequent costs are included in the assets' carrying value when it is probable that future economic benefits associated with the item will flow to the Auto Fund, and the cost of the item can be reliably measured. Repairs and maintenance are charged to the Statement of Operations in the period in which they have been incurred.

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

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

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

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

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

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, labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditures are recognized in the Statement of Operations as incurred.

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

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

Leased assets

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

Provisions and contingent liabilities

Provisions are recognized when the Auto Fund has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

Structured settlements

In the normal course of claim adjudication, the Auto Fund settles certain long-term claim losses through the purchase of annuities under structured settlement arrangements with life insurance companies. As the Auto Fund does not retain any interest in the related insurance contract and obtains a legal release from the claimant, any gain or loss on the purchase of the annuity is recognized in the Statement of Operations at the date of purchase and the related claim liabilities are de-recognized. However, the Auto Fund remains exposed to the credit risk that the life insurance companies may fail to fulfil their obligations.

Future accounting policy changes

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

IFRS 4 – Insurance Contracts

In June 2013, the IASB published a revised exposure draft (2013 ED) on accounting for insurance contracts that builds on 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*. Proposals represent a comprehensive IFRS accounting model for insurance contracts and are expected to have a significant impact on financial reporting of insurers. A final standard is expected in 2016 with implementation not expected before 2019. The Auto Fund is in the process of assessing the impact of the new proposed standard.

In July 2015, the IASB amended the existing IFRS 4 to mitigate accounting mismatches from the adoption of IFRS 9, *Financial Instruments*, before the new insurance contracts standard is issued. Insurers who meet certain criteria will be permitted to exclude from net income and recognize in other comprehensive income the difference between the amounts that would be recognized in net income in accordance with IFRS 9 and the amounts recognized in net income in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*.

IFRS 7 – Financial Instruments: Disclosures

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

IFRS 9 – Financial Instruments

In July 2014, the IASB issued a final version of IFRS 9, *Financial Instruments*, as part of its plan to replace IAS 39, *Financial Instruments: Recognition and Measurement*.

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

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

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

This standard is effective for annual periods beginning on or after January 1, 2018. While early adoption is permitted under the standard, OSFI has indicated that early adoption is not allowed. While the Auto Fund is not federally regulated, it generally follows OSFI's guidance in such matters.

The IASB has proposed temporary deferral and overlay approaches for insurers, as detailed in their December 2015 Exposure Draft Applying IFRS 9, *Financial Instruments* with IFRS 4, *Insurance Contracts* (Proposed amendments to IFRS 4). Proposed changes would allow reporting entities, where the liabilities are predominately arising from insurance contracts, to defer IFRS 9 until the new insurance contracts standard is issued, or 2021 at the latest.

The Auto Fund is in the process of assessing the impact of the new standard and changes proposed in the Exposure Draft.

IFRS 15 – Revenue from Contracts with Customers

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

IFRS 16 – Leases

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

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 other comprehensive income 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 2014, the IASB issued Annual Improvements Cycle 2012-2014, which includes minor amendments to IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, IFRS 7, *Financial Instruments: Disclosures*, IAS 19, *Employee Benefits* and IAS 34, *Interim Financial Reporting*. 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 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 $)	
	March 31 2016	**December 31 2014**
Money market investments	$ 44,579	$ 5,226
Cash (bank overdraft), net of outstanding cheques	(5,433)	9,090
Total cash and cash equivalents	$ 39,146	$ 14,316

The average effective interest rate on money market investments is 0.48% (December 31, 2014 – 1.0%).

5. Accounts Receivable

Accounts receivable is comprised of the following:

	(thousands of $)	
	March 31 2016	**December 31 2014**
Due from insureds	$ 211,372	$ 207,602
Due from SGI (note 17)	11,346	3,925
Accrued investment income	7,524	4,842
Licence issuers	5,202	3,069
Salvage operation customers	1,687	1,643
Other	809	218
Amounts due from reinsurers	279	933
Government of Saskatchewan – Ministry of Finance	–	4,642
Subtotal	238,219	226,874
Less: Allowance for doubtful accounts (note 14)	(14,940)	(9,742)
Total accounts receivable	$ 223,279	$ 217,132

Included in due from insureds is $189,735,000 (December 31, 2014 – $192,078,000) 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 $)	
	March 31 2016	December 31 2014
Short-term investments	$ 74,336	$ 188,566
Bonds and debentures	681,852	737,602
Canadian common shares	148,708	202,570
U.S. common shares	–	99,164
Infrastructure limited partnership	43,836	19,689
Pooled funds:		
Global equity	371,407	–
Global small cap equity	86,850	84,339
Real estate	133,340	108,839
Mortgage	109,212	84,664
Non-North American equity	–	82,727
	1,649,541	1,608,160
Investments under securities lending program		
Bonds and debentures	295,607	227,507
Canadian common shares	82,241	31,327
U.S. common shares	–	9,459
	377,848	268,293
Total investments	$ 2,027,389	$ 1,876,453

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

Short-term investments

Short-term investments are comprised of money market investments with a maturity of less than one year but greater than 90 days from the date of acquisition. These investments have an average effective interest rate of 0.62% (December 31, 2014 – 1.1%) and an average remaining term to maturity of 138 days (December 31, 2014 – 109 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 $)			
	March 31 2016		December 31 2014	
Term to maturity (years)	Carrying Value	Average Effective Rates (%)	Carrying Value	Average Effective Rates (%)
Government of Canada:				
One or less	$ 63,773	0.6	$ 58,549	1.1
After one through five	95,035	1.1	129,182	1.3
After five	97,211	1.6	83,460	2.1
Canadian provincial and municipal:				
After five	376,670	2.8	349,807	2.9
Canadian corporate:				
One or less	91,400	1.2	37,928	1.3
After one through five	136,420	1.6	177,582	2.0
After five	116,950	2.6	128,601	2.8
Total bonds and debentures	$ 977,459		$ 965,109	

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 2.4% (December 31, 2014 – 2.1%).

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 pooled equity funds, 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 105% of the market value of the loaned securities is retained by the Auto Fund until the loaned securities have been returned. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value of the loaned securities fluctuates. In addition, the custodian provides indemnification against any potential losses in the securities lending program. While in the possession of counterparties, the loaned securities may be resold or re-pledged by such counterparties.

At March 31, 2016, the Auto Fund held collateral of $396,740,000 (December 31, 2014 – $281,708,000) 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 $) March 31, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Short-term investments	$ –	$ 74,336	$ –	$ 74,336
Bonds and debentures	–	977,459	–	977,459
Canadian common shares	230,949	–	–	230,949
Infrastructure limited partnership	–	–	43,836	43,836
Pooled funds:				
Global equity	371,407	–	–	371,407
Global small cap equity	86,850	–	–	86,850
Real estate	–	–	133,340	133,340
Mortgage	–	–	109,212	109,212
	$ 689,206	$ 1,051,795	$ 286,388	$ 2,027,389

	(thousands of $) December 31, 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
Real estate	–	–	108,839	108,839
Mortgage	–	–	84,664	84,664
	$ 509,586	$ 1,153,675	$ 213,192	$ 1,876,453

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. During the periods ended March 31, 2016, and December 31, 2014, no investments were transferred between levels.

A reconciliation of Level 3 investments is as follows:

	(thousands of $)	
	March 31 2016	December 31 2014
Level 3 investments, beginning of the period	$ 213,192	$ 3,183
Add: Additions during the period		
Infrastructure limited partnership	17,996	20,061
Mortgage pooled fund	27,144	85,428
Real estate fund	16,245	102,638
Less: Disposals during the period		
Mortgage pooled fund	(3,031)	(3,272)
Infrastructure limited partnership	(270)	(4,880)
Net unrealized gains	15,112	10,034
Level 3 investments, end of the period	$ 286,388	$ 213,192

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 respective fund as at March 31, 2016 and December 31, 2014.

7. Deferred Policy Acquisition Costs

	(thousands of $)	
	March 31 2016	December 31 2014
Deferred policy acquisition costs, beginning of the period	$ 30,997	$ 27,528
Acquisition costs deferred during the period	56,333	44,585
Amortization of deferred acquisition costs	(57,151)	(42,907)
Change in premium deficiency	–	1,791
Deferred policy acquisition costs, end of the period	$ 30,179	$ 30,997

8. Other Assets

Other assets are comprised of the following:

	(thousands of $)	
	March 31 2016	December 31 2014
Inventories	$ 3,958	$ 3,558
Intangible assets	–	174
Prepaid expenses	1,927	1,781
Total	$ 5,885	$ 5,513

Intangible assets

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

	(thousands of $)	
	March 31 2016	December 31 2014
Cost	$ 25,293	$ 25,293
Accumulated amortization, beginning of the period	25,119	23,038
Amortization	174	2,081
Accumulated amortization, end of the period	25,293	25,119
Net book value, end of the period	$ –	$ 174

Amortization recorded in the period is included in administrative expenses on the Statement of Operations. No impairments were recognized during the current or comparative periods.

9. Claims Incurred and Provision for Unpaid Claims

Net claims incurred

	(thousands of $)					
	March 31, 2016			December 31, 2014		
	15 months ended March 31	Prior years	Total	12 months ended December 31	Prior years	Total
Gross claims incurred	$ 926,189	$ 10,124	$ 936,313	$ 898,106	$ (70,319)	$ 827,787
Ceded claims incurred	(2,923)	956	(1,967)	1,622	4,746	6,368
Net claims incurred	$ 923,266	$ 11,080	$ 934,346	$ 899,728	$ (65,573)	$ 834,155

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

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

Net provision for unpaid claims

	(thousands of $)	
	March 31 2016	**December 31 2014**
Net unpaid claims, beginning of period – discounted	$ 1,508,223	$ 1,353,588
PFAD and discount, beginning of the period	693,903	784,020
Net unpaid claims, beginning of period – undiscounted	2,202,126	2,137,608
Payments made during the period relating to:		
Prior year claims	(252,063)	(251,925)
Deficiency (excess) relating to:		
Prior year estimated unpaid claims	11,080	(65,573)
Net unpaid claims, prior periods – undiscounted	1,961,143	1,820,110
Net unpaid claims, current period	351,344	382,016
Net unpaid claims, end of period – undiscounted	2,312,487	2,202,126
PFAD and discount, end of period	(756,094)	(693,903)
Net unpaid claims, end of period – discounted	$ 1,556,393	$ 1,508,223

The net provision for unpaid claims of $1,556,393,000 (December 31, 2014 – $1,508,223,000) consists of the gross provision for unpaid claims of $1,559,861,000 (December 31, 2014 – $1,513,037,000) less unpaid claims recoverable from reinsurers of $3,468,000 (December 31, 2014 – $4,814,000).

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 $300,079,000 (December 31, 2014 – $253,081,000). The incorporation of a PFAD within the provision for unpaid claims is in accordance with accepted actuarial practice and the selected PFAD is within the ranges recommended by the Canadian Institute of Actuaries. The PFAD considers the Auto Fund's assumptions concerning claim development, reinsurance recoveries and future investment earnings.

The provision for unpaid claims and unpaid claims recoverable from reinsurers are carried on a discounted basis to reflect the time value of money. In that respect, the Auto Fund determines the discount rate based upon the expected return of the investments that approximates the cash flow requirements of the unpaid claims. The discount rate applied was 4.3% (December 31, 2014 – 4.3%). The resulting carrying amount is considered to be an indicator of fair value as there is no ready market for trading insurance contract liabilities.

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	
	March 31 2016	December 31 2014	March 31 2016	December 31 2014	March 31 2016	December 31 2014
Injury accident benefits	$ 2,181,154	$ 2,027,924	$ –	$ –	$ 2,181,154	$ 2,027,924
Injury liability	80,253	80,686	–	–	80,253	80,686
Damage	54,387	98,109	3,307	4,593	51,080	93,516
PFAD	300,265	253,318	186	237	300,079	253,081
Effect of discounting	(1,056,198)	(947,000)	(25)	(16)	(1,056,173)	(946,984)
Total	$ 1,559,861	$ 1,513,037	$ 3,468	$ 4,814	$ 1,556,393	$ 1,508,223

Structured settlements

The Auto Fund settles some long-term disability claims by purchasing annuities for its claimants from various life insurers. The settlements legally release the Auto Fund from its obligations to the claimants. Consequently, neither the annuities purchased nor the claim liabilities are recognized on the Statement of Financial Position. However, as part of the settlement, the Auto Fund provides a financial guarantee to the claimants in the event the life insurers default on the scheduled payments and is thus exposed to credit risk to the extent any of the life insurers fail to fulfil their obligations. As at March 31, 2016, no information has come to the Auto Fund's attention that would suggest any weakness or failure in the life insurers from which it has purchased the annuities. The net present value of the scheduled payments as of the period-end date is $22,901,000 (December 31, 2014 – $23,060,000). The net risk to the Auto Fund is the credit risk related to the life insurance companies that the annuities are purchased from. No defaults have occurred, and the Auto Fund considers the possibility of default to be remote.

10. Property and Equipment

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

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

	(thousands of $)					
	Land	Buildings	Buildings Components	Leasehold Improvements	Computer Hardware	Total
Cost:						
Beginning of the period	$ 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:						
Beginning of the period	–	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

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

11. Unearned Premiums

	(thousands of $)					
	Gross Unearned Premiums		Reinsurers' Share of Unearned Premiums		Net Unearned Premiums	
	March 31 2016	December 31 2014	March 31 2016	December 31 2014	March 31 2016	December 31 2014
Unearned premiums, beginning of the period	$ 391,346	$ 371,221	$ –	$ 2,343	$ 391,346	$ 368,878
Premiums written	1,137,315	889,211	10,407	2,767	1,126,908	886,444
Premiums earned	(1,144,367)	(869,086)	(6,824)	(5,110)	(1,137,543)	(863,976)
Change in net unearned premiums	(7,052)	20,125	3,583	(2,343)	(10,635)	22,468
Unearned premiums, end of the period	$ 384,294	$ 391,346	$ 3,583	$ –	$ 380,711	$ 391,346

12. Net Investment Earnings

Components of investment earnings are as follows:

	(thousands of $)	
	15 months ended March 31 2016	12 months ended December 31 2014
Net realized gains on sale of investments	$ 101,262	$ 19,251
Interest	33,729	28,768
Pooled fund distributions	17,116	42,996
Dividends	7,201	6,505
Infrastructure limited partnership distributions	1,851	1,048
Net unrealized gains (losses) on change in market value of investments	(43,473)	55,758
Total investment earnings	117,686	154,326
Investment expenses	(5,934)	(3,222)
Net investment earnings	$ 111,752	$ 151,104

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

	(thousands of $)	
	15 months ended March 31 2016	12 months ended December 31 2014
Bonds and debentures	$ (6,165)	$ 49,102
Canadian common shares	(19,768)	8,577
U.S. common shares	(33,943)	10,966
Infrastructure limited partnership	6,421	1,325
Pooled funds:		
Non-North American equity	1,010	(19,775)
Global equity	1,181	–
Global small cap equity	(900)	(3,146)
Mortgage	435	2,508
Real estate	8,256	6,201
	$ (43,473)	$ 55,758

13. Other Income

The components of other income are as follows:

	(thousands of $)	
	15 months ended March 31 2016	12 months ended December 31 2014
Payment option fees	$ 37,429	$ 27,036
Net earnings on salvage sales	20,971	14,760
Total other income	$ 58,400	$ 41,796

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 $)	
	15 months ended March 31 2016	12 months ended December 31 2014
Salvage sales	$ 60,802	$ 44,617
Cost of sales	(34,693)	(25,485)
Gross profit	26,109	19,132
Administrative expenses	(5,660)	(4,764)
Other income	522	392
Net earnings on salvage sales	$ 20,971	$ 14,760

14. Insurance and Financial Risk Management

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

Insurance risk arises with respect to the adequacy of the Auto Fund's policy premium rates and provision for unpaid claims (consisting of underwriting and actuarial risks). The nature of insurance operations also results in significant financial risks, as the Auto Fund's Statement of Financial Position consists primarily of financial instruments. Financial risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Insurance Risk

Underwriting risk

The Auto Fund manages insurance risk through underwriting and reinsurance strategies within an overall strategic planning process. Pricing is based on assumptions with regards to past experiences and trends.

Reinsurance

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

	(thousands of $)	
	March 31 2016	December 31 2014
Automobile physical damage catastrophe	$ 12,500	$ 7,500
(subject to filling an annual aggregate deductible of)	12,500	5,000

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

Actuarial Risk

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

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

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

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

	(thousands of $)								
	January 1 - December 31								Jan 1, 2015-Mar 31, 2016
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	$ 840,541
One year later	475,268	478,854	514,421	558,884	610,914	611,519	658,423	639,155	
Two years later	472,198	488,578	526,834	566,213	609,827	609,300	642,007		
Three years later	481,492	501,237	526,286	566,573	612,944	600,677			
Four years later	492,254	502,878	528,573	571,490	614,408				
Five years later	492,677	502,449	536,629	574,470					
Six years later	492,133	508,011	543,174						
Seven years later	496,337	512,524							
Eight years later	500,430								
Cumulative loss development	$ 52,203	$ 28,654	$ 39,795	$ 35,491	$ 21,534	$ (18,737)	$ (20,540)	$ (48,215)	n/a
Cumulative loss development as a % of original ultimate loss	11.6%	5.9%	7.9%	6.6%	3.6%	(3.0%)	(3.1%)	(7.0%)	n/a

The Corporation changed its year end from December 31 to March 31, effective the March 31, 2016 fiscal period. As such, the shaded net ultimate losses are as at December 31 and the non-shaded net ultimate losses are as at March 31. Due to the transition of year ends, the March 31, 2016 accident year is for 15 months, whereas all other accident years are 12 months.

Accident Year	(thousands of $) January 1 - December 31 2007	2008	2009	2010	2011	2012	2013	2014	Jan 1, 2015-Mar 31, 2016	Total
Estimate of net ultimate loss	$ 500,430	$ 512,524	$ 543,174	$ 574,470	$ 614,408	$ 600,677	$ 642,007	$ 639,155	$ 840,541	$5,467,386
Cumulative paid	(444,622)	(451,265)	(469,629)	(501,317)	(536,751)	(521,286)	(550,669)	(526,278)	(578,302)	(4,580,119)
Net provision for unpaid claims for the nine most recent accident years	$ 55,808	$ 61,259	$ 73,545	$ 73,153	$ 77,657	$ 79,391	$ 91,338	$ 112,877	$ 262,239	$ 887,267
Net discounted claims outstanding for accident years 2006 and prior										561,060
Loss adjusting expense reserve										98,066
Other reconciling items										10,000
Net provision for unpaid claims										$1,556,393

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:

Assumption	Sensitivity	(thousands of $) Change to Net Provision for Unpaid Claims: March 31 2016	Change to Net Provision for Unpaid Claims: December 31 2014	Change to RSR: 15 months ended March 31 2016	Change to RSR: 12 months ended December 31 2014
Discount rate	+ 100 bps	$ (85,091)	$ (79,865)	$ 13,829	$ 8,564
Discount rate	– 100 bps	95,544	90,432	(15,945)	(10,155)
Net loss ratio	+ 10%	88,526	72,329	(88,526)	(72,329)
Misestimate	1% deficiency	15,504	15,049	(15,504)	(15,049)

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 and U.S. common shares, the global 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 $)	
	March 31 2016	December 31 2014
Cash and cash equivalents	$ 39,146	$ 14,316
Accounts receivable	223,279	217,132
Fixed income investments [1]	1,161,007	1,238,339

[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 $44,579,000 (December 31, 2014 – $5,226,000) 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 $)	
	March 31 2016	December 31 2014
Current	$ 220,353	$ 213,221
30 - 59 days	1,241	1,969
60 - 90 days	1,459	1,719
Greater than 90 days	15,166	9,965
Subtotal	238,219	226,874
Allowance for doubtful accounts	(14,940)	(9,742)
Total	$ 223,279	$ 217,132

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 $)	
	March 31 2016	December 31 2014
Allowance for doubtful accounts, beginning of period	$ 9,742	$ 8,752
Accounts written off	(2,265)	(1,610)
Current period provision	7,463	2,600
Allowance for doubtful accounts, end of period	$ 14,940	$ 9,742

Concentrations of credit risk for insurance contracts can arise from reinsurance ceded contracts as insurance ceded does not relieve the Auto Fund of its primary obligation to the policyholder. Reinsurers are typically required to have a minimum financial strength rating of A- at the inception of the treaty; rating agencies used are A.M. Best and Standard & Poor's. Guidelines are also in place to establish the maximum amount of business that can be placed with a single reinsurer.

Credit risk within investments is related primarily to short-term investments, bonds and debentures, and the mortgage 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:

	March 31, 2016		December 31, 2014	
Credit Rating	**Fair Value (thousands of $)**	**Makeup of Portfolio (%)**	**Fair Value (thousands of $)**	**Makeup of Portfolio (%)**
AAA	$ 343,111	35.1	$ 451,664	46.8
AA	484,034	49.5	303,539	31.5
A	96,116	9.8	180,776	18.7
BBB	54,198	5.6	29,130	3.0
Total	$ 977,459	100.0	$ 965,109	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	
	15 months ended March 31 2016	12 months ended December 31 2014	15 months ended March 31 2016	12 months ended December 31 2014
Investment earnings	$ (71,262)	$ (71,301)	$ 79,599	$ 80,277
Claims incurred	(85,091)	(79,865)	95,544	90,432
Net increase (decrease) to RSR	13,829	8,564	(15,945)	(10,155)

Foreign exchange risk

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

	March 31, 2016		
Asset Class	**Maximum Exposure (%)**	**Current Exposure (%)**	**10% change in exchange rates (thousands of $)**
Global equities	52.0	42.9	$ 37,141
Global small cap equities	14.0	10.0	8,685
Infrastructure limited partnership	15.0	5.1	4,384

	December 31, 2014		
Asset Class	**Maximum Exposure (%)**	**Current Exposure (%)**	**10% change in exchange rates (thousands of $)**
U.S. equities	20.5	17.0	$ 10,862
Non-North American equities	19.0	13.0	8,273
Global small cap equities	19.0	13.2	8,434
Infrastructure limited partnership	15.0	3.1	1,969

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

Equity prices

The Auto Fund is exposed to changes in equity prices in Canadian and global markets. At March 31, 2016, equities comprise 34.0% (December 31, 2014 – 27.2%) of the carrying value of the Auto Fund's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. No one investee or related group of investees represents greater than 10% of the market value of the Auto Fund's equity portfolio. As well, no one holding represents more than 10% of the voting shares of any corporation.

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

	(thousands of $)					
Asset Class	**March 31, 2016**			**December 31, 2014**		
Global equities	$	+/–	79,852	$	+/–	–
Canadian equities		+/–	38,892		+/–	68,532
Global small cap equities		+/–	17,544		+/–	19,567
U.S. equities		+/–	–		+/–	30,197
Non-North American equities		+/–	–		+/–	22,502

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

No derivative financial instruments have been used to alter the effects of market changes and fluctuations.

Liquidity risk

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

The following tables summarize the estimated contractual timing of cash flows on an undiscounted basis arising from the Auto Fund's financial assets and liabilities. The Auto Fund has contractual commitments to provide funding to Saskatchewan health organizations for costs associated with rehabilitation for those involved in automobile accidents.

	(thousands of $)					
	March 31, 2016					
	No stated maturity	0 – 1 years	1 – 2 years	3 – 5 years	5 – 10 years	More than 10 years
Financial assets						
Cash and cash equivalents	$ –	$ 39,146	$ –	$ –	$ –	$ –
Accounts receivable	–	223,279	–	–	–	–
Investments	975,594	229,509	49,406	226,666	99,278	446,936
Unpaid claims recoverable from reinsurers	–	2,596	704	7	–	–
	$ 975,594	$ 494,530	$ 50,110	$ 226,673	$ 99,278	$ 446,936
Financial liabilities						
Accounts payable and accrued liabilities	$ 33,968	$ 7,956	$ –	$ –	$ –	$ –
Premium taxes payable	–	9,912	–	–	–	–
Provision for unpaid claims	–	226,147	188,392	133,270	273,604	1,494,381
	33,968	244,015	188,392	133,270	273,604	1,494,381
Financial commitments	–	31,102	88,966	77,412	–	–
	$ 33,968	$ 275,117	$ 277,358	$ 210,682	$ 273,604	$1,494,381

	(thousands of $)					
	December 31, 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

The estimated contractual maturities related to the unpaid claims recoverable from reinsurers excludes the net effect of discounting and PFAD of $161,000 (December 31, 2014 – $221,000) (note 9). The estimated contractual maturities related to the provision for unpaid claims excludes the net effect of discounting and PFAD of $755,933,000 (December 31, 2014 – $693,682,000) (note 9).

15. Capital Management

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

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

The Auto Fund manages capital in accordance with its capital management policy using a common industry measurement called the Minimum Capital Test (MCT) to establish a target for the Rate Stabilization Reserve. The MCT is a risk-based capital adequacy formula that assesses risks to assets, policy liabilities and off balance sheet exposures by applying various factors to determine a ratio of capital available over capital required.

16. Change in Non-Cash Operating Items

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

	(thousands of $)	
	15 months ended March 31 2016	**12 months ended December 31 2014**
Accounts receivable	$ (6,147)	$ (12,198)
Unpaid claims recoverable from reinsurers	1,346	26,190
Deferred policy acquisition costs	818	(3,469)
Other assets	(546)	(320)
Accounts payable and accrued liabilities	17,868	(1,560)
Premium taxes payable	(34,667)	2,992
Unearned premiums	(10,635)	22,468
Provision for unpaid claims	46,824	128,445
	$ 14,861	$ 162,548

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 $174,251,000 (December 31, 2014 – $143,205,000) and accounts receivable are $11,346,000 (December 31, 2014 – $3,925,000).

Certain Board members are partners in organizations that provided $284,000 (December 31, 2014 – $154,000) of professional services to the Auto Fund. These services were recorded in claims incurred and administrative expenses in the Statement of Operations. In addition, one Board member is a shareholder in an organization that provides motor licence issuing services on behalf of the Auto Fund. Premiums written during the period through this organization amounted to $2,948,000 (December 31, 2014 – $2,224,000) and the associated accounts receivable at March 31, 2016, was $84,000 (December 31, 2014 – $5,000). Issuer fees related to these premiums were $245,000 (December 31, 2014 – $181,000). The above noted transactions are routine operating transactions in the normal course of business.

Other related party transactions are described separately in the notes.

18. Contingencies

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

Glossary of Terms

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

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

Governance

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

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

In Memoriam

Ralph Bales, an Adjuster 2 at the SGI CANADA Winnipeg office, was best known for his easy-going manner, kindness and sense of humour. For Ralph, family came first and his children were a top priority. Spending time with his family at their cabin brought him great happiness.

Ralph was an active member of the Honourable Order of the Blue Goose, loved sports and was a recreational curler.

John Bulbeck, a Product Representative 3, was a good, hardworking and positive person who was there for everyone, despite the challenges he faced. He touched the lives of everyone he met and is fondly remembered by current and former SGI employees, broker partners and many more.

John regularly made an appearance at social gatherings, even if he wasn't feeling well.

Jeff Ferris, a Driver Examiner in Driver Development and Safety Services, was described as one of the most caring, authentic and considerate people you could ever meet – an easy person to befriend. For everything he did, Jeff was not one to ask for anything in return and he put other people first.

Jeff cared deeply for his family. He would beam with pride when he spoke about his wife and two children.

Mary Klassen, a Bond Analyst 2 in Surety, was a person that others wanted to be around due to her warm and positive personality. She had a rare combination of charm, energy and enthusiasm that was contagious and was well known for her welcoming nature. She was proud of her two children and family.

Mary enjoyed attending concerts and festivals, liked gardening and yoga.

Joe Scarfe, an Adjuster 3 at the Regina General Claims Centre, was characterized by those who knew him well as the best person you could ever want to meet. He was a very smart man, who had a special talent for making the best of any bad situation.

He enjoyed his friends and meeting up with them every few months for lunch and some laughs.

Diana Strecker, a Licence Issuer 1 at Head Office, is remembered for her kind heart and a shy smile that touched many. She loved turning a bad customer experience around and applied her persistence and perfectionism to her work.

She was a dedicated grandmother, a fun coffee buddy, and proud of her Ukrainian heritage.