Saskatchewan Auto Fund

2012 Annual Report

Mission

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

Vision

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

Values

Integrity
Leading by example and being accountable for our actions.

Following through on commitments.

Providing honest, timely feedback.

Explaining why a decision is taken.

Giving credit to those who contribute to our success.

Providing information openly without breaching confidentiality.

Maintaining the privacy of personal data.

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

Valuing and actively supporting diversity.

Acknowledging and validating the feelings of others.

Actively seeking and listening to differing points of view.

Responding to individual differences.

Innovation
Seeking solutions that recognize individual circumstances.

Challenging the status quo for positive change.

Pursuing alternatives which lead to business improvements.

Continuously working to revitalize products and services.

Preparing for the needs of the future.

About the Saskatchewan Auto Fund

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

Saskatchewan Auto Fund

2012

Annual Report

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Letter of Transmittal

Regina, Saskatchewan
March, 2013

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

Your Honour,

I am pleased to submit herewith the annual report of the Saskatchewan Auto Fund for the year ended December 31, 2012, including the financial statements in the form required by the Treasury Board and in accordance with *The Saskatchewan Government Insurance Act*.

Respectfully submitted,

Donna Harpauer
Minister responsible for Saskatchewan Government Insurance

Minister's Message

Despite the challenges the Saskatchewan Auto Fund faced in 2012, it has continued to prove its merit in our growing province.

The Auto Fund's ability to continue to offer among the lowest auto insurance rates in Canada, while still providing valuable customer service, helps make Saskatchewan an attractive place to live.

The Auto Fund has been able to continue its mission of making communities safer with traffic safety education and activities. It also supports injury treatment and collision attendance, demonstrated by its support of the STARS air ambulance service.

As part of the New West Partnership, the Auto Fund has worked with Alberta and British Columbia to harmonize licence requirements and commercial vehicle inspections, and brought trailer registration eligibility standards in line with Alberta. Due to these changes, the Auto Fund has been able to meet the needs of the expanding resource and transport sectors of our economy while making trade easier.

My gratitude to the Board of Directors for their strategic oversight that carried us through 2012 well with a solid plan for the future. I'd like to extend special thanks to outgoing Board Chair Warren Sproule, Q.C., for his years of service.

Once again, the Auto Fund has demonstrated its ability to meet the needs of Saskatchewan people.

I'm pleased to present the 2012 Saskatchewan Auto Fund Annual Report.

Donna Harpauer
Minister responsible for Saskatchewan Government Insurance

Chair's Message

I'm very pleased to join SGI's Board of Directors as its Chair, and look forward to the opportunity to provide strategic oversight and guidance to the Saskatchewan Auto Fund along with my fellow directors.

The Auto Fund has the opportunity to serve a growing population in Saskatchewan purchasing and registering more new vehicles. At the same time, it's been grappling with increased injury claim costs. Income replacement benefits have gone up, reflecting the better wages for people in a growing province.

The Auto Fund is well equipped to deal with these challenges thanks to its comprehensive five-year strategic plan, of which we're currently in the third year. The plan is designed to strike a balance between price, coverage and service for customers, and will continue to ensure the Auto Fund provides value to the people of Saskatchewan.

On behalf of the Board, I extend our appreciation to the Auto Fund's employees, management and motor licence issuers for their hard work and determination in 2012.

Arlene Wiks
Chair, SGI Board of Directors

President's Message

Balance matters. You balance your work and family life, your lifestyle between relaxing and staying active. The Saskatchewan Auto Fund also needs balance. In 2012 we made finding the right balance between price, coverage and service for customers a priority.

Leveraging MySGI online services was a primary focus in 2012. We expanded the services it offers to both individuals and businesses, including farm, commercial and group customers. This work has paid off with an increase in users of the online service and positive feedback we've received from customers.

SGI is also seeking further balance in our programs, beginning with our review of the Safe Driver Recognition and Business Recognition programs, aiming to find the right balance between providing value to customers while keeping rates affordable. Customers and other stakeholders have been weighing in on these reviews and we continue to seek their input on how we walk the line between quality service at the best possible price while keeping these programs effective and relevant.

Reducing collisions and injuries continues to be a big focus. Province-wide coordinated approaches to traffic blitzes have continued since they were first piloted in late 2011. We also launched our new mobile Safe Ride app, which enables users to access taxis, designated driving companies and bus routes in their community, as well as a personal list of designated drivers. Both these initiatives are part of our goal to offer the right balance of road safety with education and enforcement.

Of course we're always keeping our eye on the bottom line. While global financial markets remain unstable, our investment strategy has paid off. Through balanced investments we've been able to mitigate some of the market challenges, as you'll see in the Management's Discussion and Analysis section of this report. We're also balancing our books with prudent rate programs, which includes ensuring our reserve funds remain adequate.

The oversight for all of this comes from SGI's Board of Directors. In 2012, Doug Richardson left and Brynn Boback-Lane joined. I'd like to thank Doug, as well as outgoing Board Chair Warren Sproule, Q.C., for their years of service. We wish them all the best.

Our continued success depends on our ability to keep the right balance. It's been one of our strengths in 2012 and I know it has kept us the committed, customer-driven and community-minded company Saskatchewan depends on.

Andrew R. Cartmell
President and CEO 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 February 27, 2013. The Board of Directors carries out its responsibility for review of this disclosure principally through its Audit and Finance Committee, comprised exclusively of independent directors. The Audit and Finance Committee's mandate can be found on SGI's website at www.sgi.sk.ca. The Board of Directors approved this MD&A at its meeting on February 28, 2013, after a recommendation to approve was put forth by the Audit and Finance Committee.

Overview

The MD&A is structured to provide users of the Saskatchewan Auto Fund (the Auto Fund) financial statements with insight into the Auto Fund and the environment in which it operates. This section outlines strategies and the capability to execute the strategies, key performance drivers, capital and liquidity, 2012 results, risk management and an outlook for 2013. Information contained in the MD&A should be read in conjunction with the financial statements and notes to the financial statements, along with other sections in this annual report. All dollar amounts are in Canadian dollars.

Caution Regarding Forward-Looking Statements

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

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The Saskatchewan Auto Fund

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

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

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

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

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

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

The Auto Fund, at December 31, 2012, had 399 motor licence issuers[1] in 299 communities across Saskatchewan. It also operates 21 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 61.

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. 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 762,000 drivers and approximately 1.1 million vehicles and trailers in Saskatchewan. Business partners range from independent motor licence issuers, autobody shops and law enforcement agencies, to healthcare providers. These business partners are involved in different aspects of the Auto Fund's operations from licensing, road safety and repair of damaged vehicles, to provision of medical care and rehabilitative services for those injured in motor vehicle collisions.

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

While it has been successful at offering Saskatchewan residents low rates, the Auto Fund does face challenges. Claim costs represented approximately 83% of the Auto Fund's costs in 2012. Over the last 10 years, damage claim costs have increased at an average annual rate of 5.6%, while personal injury costs have grown at approximately 4.9% annually.

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

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

In light of the expected cost of Auto Fund claims and expenses outpacing growth in premium and investment income, the Auto Fund implemented a 1.6% general increase in rates effective August 4, 2012. Even with this rate increase, the Auto Fund continues to provide among the lowest average personal vehicle rates in Canada and remains focused on its vision to be a company where every customer, employee, owner and business partner across Canada is proud to do business and work with it.

The Auto Fund continues to offer its Safe Driver Recognition (SDR) and Business Recognition programs. These programs have been in place since 2002 and 2004 respectively. The SDR program places all drivers on a safety rating scale based on their driving history. The Business Recognition program rewards businesses that maintain good loss experience with discounts on their vehicle insurance. The maximum discount under the SDR program is currently 20%. The maximum discount available from the Business Recognition program is 10%. The cost to the Auto Fund in 2012 in terms of lower premium revenue was $108,787,000 (2011 – $104,515,000).

Strategic Direction

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

Mission

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

Vision

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

Values

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

Corporate Strategies

To meet its vision, the Auto Fund's main areas of focus in 2012 were:

- We work with customers to understand and provide the protection they need;
- We make every service experience excellent for everyone doing business with SGI;
- We operate to benefit customers, owners and their communities; and,
- We continually improve how SGI operates.

Within these areas, specific strategies were adopted to help build a sense of pride in the Auto Fund's customers, employees, owners and business partners. The Auto Fund uses a balanced scorecard approach to monitor performance and results. The objective of a balanced scorecard is to provide a balanced evaluation of key operational and financial results, activities and achievements with both a short- and long-term focus.

The following sections discuss strategies in each of the four areas of strategic focus, as well as related key performance indicators from the balanced scorecard. The balanced scorecard is reviewed annually to ensure its continued alignment with the Auto Fund's corporate strategies. Key performance targets are also reviewed and either updated or removed along with new performance targets being added.

We work with customers to understand and provide the protection they need

The Auto Fund's focus on understanding and providing the protection customers need concentrated on two strategies: working with customers so they, and the Auto Fund, understand their insurance needs, and providing products that are right for customers.

The performance indicator in the balanced scorecard to monitor the Auto Fund's success with respect to understanding and providing the protection customers need was:

Measure	2012 Target	2012 Result	2013 Target
Auto Fund value index	74%	● 76.5%	Revised index

Legend: ● achieved ○ not achieved

Auto Fund value index

Due to the mandatory nature of Auto Fund products, customer acquisition, customer retention and profitability measures can't be used to assess success with respect to understanding customer needs and providing the products they need. Instead, the Auto Fund must ask customers. A value index was introduced in 2012 to assess whether customers believe the Auto Fund provides products that focus on what's best for them and that are a good value for the price. With a score of 76.5%, the Auto Fund met its target.

In 2013, the Auto Fund value index will be broadened to also assess customer satisfaction with service, which was assessed separately in 2012. A benchmark and target of 69% has been established for the revised index.

We make every service experience excellent for everyone doing business with SGI

The Auto Fund's success depends on its ability to provide quality service to customers and business partners. It has developed key strategies to understand and deliver on customer expectations, as well as to empower front-line employees to respond to customer needs when service levels are not being met.

The following table summarizes the key performance indicators in the balanced scorecard to monitor the Auto Fund's service experience:

Measure	2012 Target	2012 Result	2013 Target
Claim service satisfaction survey results	90%	● 91.0%	Auto Fund value index
Auto Fund service satisfaction	56%	● 67.3%	

Legend: ● achieved ○ not achieved

Claim service satisfaction survey results

When a consumer purchases an insurance policy, they are purchasing security that the insurance company will be there for them in the event of a loss. An important point of contact with policyholders is at the time of a claim, and the claim experience is a key part of customers' perceptions of the Auto Fund. Therefore, it is essential to know whether the Auto Fund is providing a positive claim experience. SGI's key measure for claim service is its semi-annual claim customer service surveys. The Auto Fund targeted a claim service satisfaction rating of 90%, which was met in 2012.

In 2013, the overall Auto Fund service experience will be assessed through the Auto Fund value index. While claim service satisfaction will continue to be monitored through customer surveys, it will not appear on the balanced scorecard.

Auto Fund service satisfaction

The Auto Fund has various touch-points with customers, and these interactions impact customers' overall perception. Therefore, it is critical that customers have a favourable service experience when dealing with the Auto Fund. The Auto Fund's service satisfaction reflects the degree to which customers feel the Auto Fund provides high standards of customer service. The 2012 target of 56% was exceeded with a score of 67.3%.

In 2013, the overall Auto Fund service experience will be assessed through the Auto Fund value index. The service satisfaction measure will no longer appear on the Auto Fund's balanced scorecard.

We operate to benefit customers, owners and their communities

SGI was created in 1944 to rectify problems in the Saskatchewan insurance industry. At that time, poor economic conditions had driven many insurers out of the province. Less than 10% of Saskatchewan's licensed vehicles carried any insurance and there was a need for a compensation plan for persons injured in collisions. True to its roots, the Auto Fund continues to operate to benefit the people of Saskatchewan – its customers, owners and their communities. The Auto Fund does this by focusing on protecting its financial health and helping customers reduce their risk of suffering a loss.

The Auto Fund's success with respect to benefiting the people of Saskatchewan is assessed using the following measures:

Measure	2012 Target	2012 Result	2013 Target
Capital adequacy (Minimum Capital Test)	75 to 150%	○ 61%	75 to 150%
Traffic injuries and fatalities per 100,000 Saskatchewan residents (I – Injuries; F – Fatalities)	I – 636.9	● I – 626	New traffic safety initiatives
	F – 14.4	○ F – 17.2	
Rate-adequate vehicles	n/a	n/a	80.3%

Legend: ● achieved ○ not achieved

Capital adequacy (Minimum Capital Test)

Capital adequacy speaks to the Auto Fund's financial health. 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 premiums 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 target range for the MCT is between 75% and 150%. At December 31, 2012, the Auto Fund's MCT was 51%, and on a rolling 12-month basis the MCT was 61%. The Auto Fund uses a 12-month rolling basis for its MCT to provide stability to the measure, as short-term events can cause significant volatility to the MCT on a month-to-month basis. As the MCT is outside the target range, the Auto Fund has submitted an application to the Saskatchewan Rate Review Panel for a 1.23% surcharge on Saskatchewan Auto Fund rates to replenish the Rate Stabilization Reserve. The surcharge is determined through actuarial analysis and is forecasted to return the RSR to an MCT of 75%, its policy minimum, over a three-year period. An appropriate RSR balance is necessary for the financial stability of the Auto Fund and can act as a buffer for customers to avoid significant rate shock.

The Auto Fund continues to have an MCT target range for 2013 of 75% to 150%.

Traffic injuries and fatalities per 100,000 Saskatchewan residents

The Auto Fund gives back to the community through its efforts to improve traffic safety. Customers have come to value the Auto Fund for its role in promoting traffic safety in the province. Over the years, the Auto Fund has evolved into a national leader in the area of road safety programs. The Auto Fund's traffic safety goals are clear – prevent deaths and injuries due to traffic collisions by addressing driver, vehicle and road safety issues. However, fewer collisions also mean lower claim costs, so work in this area also helps protect the financial health of the Auto Fund.

Through traffic safety initiatives, the Auto Fund aims to reduce traffic injuries and fatalities per 100,000 Saskatchewan residents. In 2012, there were 626 injuries per 100,000 Saskatchewan residents and 17.2 fatalities per 100,000 Saskatchewan residents. While traffic injuries were below target, fatalities were above. In fact, 2012 was one of Saskatchewan's worst years for traffic fatalities in the past two decades – second only to 1999.

The Premier of Saskatchewan has appointed a Legislative Secretary to the Minister Responsible for SGI to focus on traffic safety. The Legislative Secretary has been asked to form an all-party committee to recommend traffic safety improvements. The Auto Fund has undertaken research and analysis into the trend of increasing traffic fatalities, and has analyzed existing programs and possible enhancements. It will share this information with the Legislative Secretary and all-party committee as required, to support their work. As responsibility for traffic safety enhancements is currently shifting to a model shared among multiple agencies, SGI has removed this measure from its corporate balanced scorecard. Traffic safety will continue to be closely monitored and evaluated, and results shared with all agencies involved.

Rate-adequate vehicles

To achieve fairness in rating, the Auto Fund has committed to eliminate cross-subsidization between vehicle classes. This means that each vehicle class should pay sufficient premiums to cover its claim costs. To accomplish this, an annual analysis is performed to determine if a vehicle class is rate adequate, or if an increase or decrease is required. The percentage of rate adequate vehicles is a measure of the number of vehicle types that are within 5% of the adequate rate. The Auto Fund's longer-term goal is to achieve rate adequacy for the vast majority of the vehicles it insures by 2016. This is a new measure in 2013 and a target of 80.3% has been set.

We continually improve how SGI operates

The Auto Fund understands that to be able to meet customer needs and expectations, it must continually improve its operations – from being more efficient, to ensuring employees have the tools to be effective in their jobs. To achieve this, the Auto Fund strives to create an environment that encourages employees to be innovative, creative, accountable and strategic, while improving processes, productivity and efficiency.

The balanced scorecard measures used to monitor the Auto Fund's success with respect to continually improving how it operates were:

Measure	2012 Target	2012 Result	2013 Target
Engagement and enablement score compared to the North American average	At or above average	○ Three points below average	Two points below average
External diversity hiring	25%	● 35.4%	25%
Administrative expense ratio	7.0%	● 6.7%	6.7%
Licensed drivers and policies per full-time employee equivalents (FTEs)	723	● 723	717

Legend: ● achieved ○ not achieved

Engagement and enablement score

To continually improve its operations, the Auto Fund needs the support of dedicated and engaged employees. It also needs to provide an environment that enables employees to do their best work. An employee engagement and enablement score, derived from the Auto Fund's annual employee survey, is used to measure whether employees are engaged and whether they have the environment they need to execute the strategic plan. The Auto Fund was under target in 2012, but aims to reduce this gap in 2013. This balanced scorecard measure was new in 2012, and, therefore, the Auto Fund now has a baseline to measure progress. The 2013 target is to be two points below the average engagement and enablement score, based on participating North American corporate and public sector organizations.

External diversity hiring

Provincial and corporate demographics demonstrate the need to recruit a workforce that is representative of the population. The Auto Fund targeted 25% of new hires to be from designated groups and met this target with 35.4%. The Auto Fund continues to target 25% recruitment of designated group members in 2013, but will monitor its success separately from the balanced scorecard.

Administrative expense ratio

To ensure effective use of resources, all aspects of the business are expected to manage their allocated administrative expense budget such that the Auto Fund remains within its administrative expense ratio. The ratio is total administrative expenses expressed as a percentage of net premiums earned. The actual administrative expense ratio is compared to budgeted ratios within the specified time period. For 2012, the Auto Fund achieved its target with a 6.7% administrative expense ratio. Analysis of the administrative expense ratio is provided in more detail in the following 2012 Financial Results section. The target for 2013 is 6.7%.

Licensed drivers and policies per FTE

This is a combined productivity target for SGI, which considers both SGI CANADA's policies in force and 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 SGI CANADA, the number of insurance policies in force is a key metric, and in the Auto Fund, the number of drivers licensed in the province is an important metric. Increasing the number of policies and licensed drivers per FTE speaks to SGI's productivity. To track productivity, SGI compares the total number of policies in force and the total number of licensed drivers in Saskatchewan to the number of FTEs servicing the business. SGI met this target for 2012, achieving 723 licensed drivers and policies per FTE.

For 2013, the target is 717. While the target is lower than 2012, the new target actually represents an increase in productivity. This is because SGI CANADA is moving to combined policies, whereby it is providing incentives to customers to combine products such as Home Paks and Auto Paks into one policy. While the actual policy count is expected to decline, the amount of work remains relatively stable. As such, based on SGI CANADA's shift to combined policies, the 2013 target is at or above 717 licensed drivers and policies per FTE.

Capability to Execute Strategies

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

Employees

Auto Fund employees are experienced and knowledgeable about the Saskatchewan automobile insurance market. Many employees have been with the Saskatchewan Auto Fund for a long time, on average approximately 15 years, and the staff turnover rate for the last five years has averaged 6%. Due to this long tenure and low turnover, employees have significant expertise in core areas of the Auto Fund including licensing and registration, driver and vehicle safety services and claims handling, as well as within the support areas.

SGI, as the administrator of the Auto Fund, is projecting a significant level of retirements in the near future as a large portion of its workforce reaches retirement age. In fact, over 33% of employees are expected to retire or be eligible for retirement by 2020. The challenge is to recruit and retain the best people to ensure the longevity, growth and maintenance of operations. SGI utilizes a workforce-planning model that includes Aboriginal employment, youth employment, management development and expanded performance management strategies.

This model assists in transitioning expertise as retirements occur.

SGI's succession planning process focuses on (i) ensuring current senior management positions have backups; and (ii) identifying high-performing staff who have potential for more senior roles. The corporate diversity/recruitment strategy was updated in 2012 to enhance partnerships with outreach agencies and educational institutions, and the Corporation's visibility as a preferred employer.

SGI and SGI CANADA Insurance Services Ltd., and the Canadian Office and Professional Employees' Union, Local 397, are within a four-year Collective Bargaining Agreement, running from January 1, 2010, to December 31, 2013.

Motor licence issuers

The Auto Fund provides accessibility for customers by distributing products through a network of 399 independent motor licence issuers in 299 communities across Saskatchewan and seven branch offices throughout the province. Motor licence issuers' interests are represented by the Insurance Brokers' Association of Saskatchewan. The relationship between the Auto Fund and motor licence issuers is governed by an Issuer Accord. The accord is intended to enhance the working relationship resulting in improved service to customers. Included in the accord are 15 agreed upon principles, such as fostering better communication between both groups, recognizing the value of each other's roles to provide service to Saskatchewan people, and partnering on traffic safety programs.

Technology and systems

The Auto Fund relies on its technology and information systems to deliver products and services to the motoring public. It recently completed a redesign of its systems, vastly enhancing service and improving its ability to respond to customer needs and industry changes. Auto Fund products are widely accessible to customers through an online system in issuing offices throughout the province, and customers can now perform many transactions online through the MySGI online service.

Capital and liquidity

As the Auto Fund belongs to the Province of Saskatchewan, legislation restricts how it can raise capital and mandates the benefits it is to provide 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 its operations, along with income generated from its investment portfolio, to fund future operations. If premiums, fees and investment income are not sufficient to sustain operations, it must increase rates. The Saskatchewan Rate Review Panel reviews rate changes and then passes on its 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 premiums 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's capital management policy establishes a target MCT range of 75% to 150%. If the MCT on a 12-month rolling average basis falls below the 75% minimum, the policy requires the Auto Fund to bring to the SGI Board of Directors a proposal to address the shortfall, including consideration of obtaining additional revenue to replenish the RSR. Similarly, if the MCT is above 150% on a rolling 12-month basis, a rebate would be considered.

The MCT at December 31, 2012, was 51% and on a rolling 12-month basis the MCT was 61%. As noted in the Balanced Scorecard section above, the MCT is outside the target range and, therefore, the SGI Board of Directors approved a 1.23% surcharge on rates to replenish the Rate Stabilization Reserve. The surcharge has been submitted as part of the Auto Fund's 2013 application to the Saskatchewan Rate Review Panel.

2012 Financial Results

For the year ended December 31, 2012

Overview

The Auto Fund experienced a decrease to the Rate Stabilization Reserve (RSR) of $11.5 million in 2012, compared to a $142.9 million decrease in 2011, an improvement of $131.4 million year over year, stemming from stronger underwriting results and investment earnings.

The strong Saskatchewan economy continues to play an important role in the Auto Fund's growth, as higher vehicle populations combined with newer vehicles being registered are resulting in continued premium growth. However, the most significant factor in the improved underwriting results is lower overall claim costs resulting from a favourable change in discounting the provision for unpaid claims, combined with lower storm claim costs. At the same time, there was an increase in damage claims due to poor winter driving conditions in the fourth quarter and a continued increase in injury claim severity due to higher long-term medical and care benefit costs and increased income replacement benefits.

Investment earnings increased $23.2 million from 2011, consistent with the improvement in global investment markets. Equity markets generated strong returns, particularly in the U.S. and international markets. While stable interest rates resulted in relatively constant interest income, capital gains decreased significantly resulting in lower overall fixed income returns compared to 2011. The Auto Fund continues to refine its asset liability matching strategy, which better positions the investment asset mix to manage interest rate risk.

After the $11.5 million loss, the RSR at December 31, 2012, is $127.1 million, the MCT is 51% and the 12-month rolling average MCT is 61%.

Statement of Operations

Premiums written

Overview

Net premiums written for 2012 totalled $781.2 million, representing an increase of 4.9%, or $36.4 million, from 2011. The number of vehicle and trailer written exposures increased 3.9% to 1,143,597 from 1,100,261 in 2011. This growth in exposures, combined with a mix of newer model year vehicles that cost more to insure, accounts for the increase in premiums written.

Discount programs

The Safe Driver Recognition and Business Recognition programs continue to return more dollars to Auto Fund customers each year. In 2012, these programs returned $108.8 million to customers through safe driving discounts, compared to $104.5 million in 2011. Expressed as a percentage of vehicle premiums, this equates to an average discount of 12.3% for 2012 (2011 – 12.4%). The maximum discounts available under each program are 20% for the Safe Driver Recognition program and 10% for the Business Recognition program.

Claims incurred

Claims incurred in 2012 were $740.5 million, $66.4 million or 8.2% lower than 2011.

The following table details the claim costs by categories:

	(thousands of $)		
	2012	2011	Change
Current year			
Damage claims	$ 429,707	$ 391,237	$ 38,470
Storm claims	12,199	32,409	(20,210)
Total damage claims – current year	441,906	423,646	18,260
Injury claims – current year	308,871	285,707	23,164
	750,777	709,353	41,424
Development on prior year claims			
Injury claims			
• extending long-term payout period	–	252,064	(252,064)
• discounting impact	–	(241,939)	241,939
Net impact of extending payout period	–	10,125	(10,125)
Injury claims – other	17,565	7,165	10,400
	17,565	17,290	275
Damage claims	9,972	7,361	2,611
	27,537	24,651	2,886
Impact of discounting			
Effect of portfolio restructuring	–	35,562	(35,562)
Change in the discount rate	(37,786)	37,358	(75,144)
	(37,786)	72,920	(110,706)
Total claims incurred	$ 740,528	$ 806,924	$ (66,396)

Current year claims

Current year damage claims are $18.3 million, or 4.3%, higher than the prior year, due to the average cost per damage claim being 7.3% higher than the prior year. This is partially offset by a 2.8% decrease in the number of damage claims, which was 105,849 in 2012 (2011 – 108,925). The damage frequency was 118.3 collisions per 1,000 insured years in 2012, a decrease of 5.5% (2011 – 125.2).

Damage claims excluding storms were $38.5 million higher than the prior year due to poor winter driving conditions in the fourth quarter. Partially offsetting this increase were damage costs related to summer storms, which were $20.2 million lower than 2011. The 2011 storm claim costs of $32.4 million were the highest on record, while the 2012 storm claim costs of $12.2 million were slightly below the five-year average summer storm costs of $14.9 million.

Current year injury claim costs have increased by $23.2 million, or 8.1%. Medical and care benefit costs continue to increase, contributing to the average cost per claim increasing by 14.2% in 2012. This is partially offset by a 5.4% decrease in the number of injury claims. Injury frequency was 5.9 claims per 1,000 insured years in 2012, a decrease of 9.2% (2011 – 6.5 injury claims per 1,000 insured years).

Development on prior year claims

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

In 2012, there was an overall deficiency of $27.5 million. The Auto Fund increased its estimate for prior year injury claims by $17.6 million. This deficiency was due primarily to deficiencies related to care benefits and medical expenses. These deficiencies were due to changes in actuarial assumptions and methods to be more adequately reserved on these lines; there is significant uncertainty as to the future costs of care benefits and medical expenses and this takes into consideration deficiencies experienced in previous years. There was also a deficiency related to prior year damage claims of $10.0 million. This reflects the fact that there was a significantly higher number of 2011 collisions reported in the first quarter of 2012 than had been expected in the 2011 year-end valuation.

The Auto Fund has over 17 years of experience since the no-fault injury program was implemented in 1995 to estimate the cost of injuries. However, factors impacting future costs such as inflation, re-occurrence rates, medical innovations and rehabilitation programs are difficult to anticipate. The Auto Fund's objective is to keep the estimate as accurate as possible with minimal changes to prior-year claim estimates; however, given the nature of this program, changes will inevitably occur in the future. The 2012 total prior year deficiency of $27.5 million represented approximately 2.3% of the provision for unpaid claims estimate at December 31, 2011, of $1.2 billion.

Impact of discounting

Despite a decline in the discount rate from 4.5% to 4.4%, there was a net decrease to claims incurred related to discounting of $37.8 million. This was due to the growth in the provision for unpaid claims, which is required to be discounted.

Expenses excluding claims incurred

Expenses excluding claims incurred were $150.5 million (2011 – $148.0 million) for the year, $2.5 million higher than 2011, due to higher traffic safety spending and premium taxes.

Issuer fees of $37.8 million in 2012 represented a decrease of $405,000 compared to 2011. This was due to the reduction in commissions paid on driver's licence transactions in 2012 as a result of the move to a five-year driver's licence in 2011. The issuer fee expense ratio was 4.9% in 2012 (2011 – 5.3%).

Premium taxes of $38.6 million were $2.0 million, or 5.6%, higher than the previous year, consistent with the growth in earned premiums. Premium taxes are 5% of direct premiums earned.

Administrative expenses decreased to $51.5 million in 2012, a decrease of $1.2 million from 2011. The major contributor to the decrease was a reduction in depreciation expense on the recently developed information system.

Traffic safety program spending totalled $22.6 million, representing a traffic safety spending ratio of 2.9% of net premiums earned. This was an increase of $2.1 million from 2011, which had a traffic safety spending ratio of 2.8%. The major contributor to the growth was driver education funding.

Investment earnings

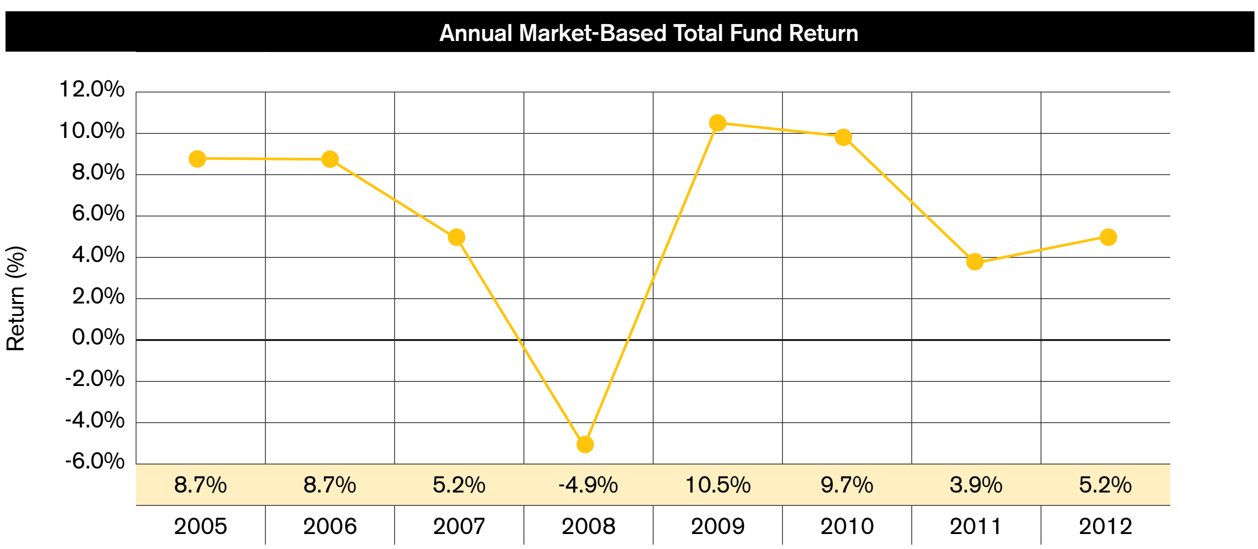
As the Auto Fund operates on a self-sustaining basis over time, investment earnings are used to help keep rates stable for vehicle owners. In 2012, investment earnings were $74.8 million and represented 8.5% of total revenues (2011 – $51.7 million or 6.4% of total revenues). Investment earnings are calculated using market-based accounting principles, the components of which are disclosed in note 12 to the financial statements, and include interest, dividends, and both realized and unrealized capital gains and losses on investments.

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

The Matching portfolio holds fixed income investments and a mortgage pooled fund. This portfolio was rebalanced three times during 2012 to keep it properly matched to the expected unpaid claims liability payments out to 20 years. The Matching portfolio is judged on its effectiveness in matching the incoming cash flows from the fixed income assets to the Auto Fund's expected claim payments.

Any investments not required by the Matching portfolio are held in the Return Seeking portfolio. The Return Seeking portfolio is comprised of equities and real estate. The primary investment performance objective for the Return Seeking portfolio is to earn a market-based return in excess of a benchmark portfolio return. The asset mix for the benchmark portfolio is set by SGI's Board of Directors to be consistent with the Auto Fund's overall risk profile when combined with the Matching Portfolio and is reviewed on an annual basis. The investment manager is permitted to vary the actual asset class weights around the benchmark portfolio, within the policy asset mix guidelines. The benchmark portfolio return is calculated by applying the benchmark portfolio weights to capital market index returns. While the portfolio's rate of return is compared to the benchmark portfolio return on a quarterly basis, the performance measure is expected to be met over four years, a long enough period to capture a full market cycle. This long-term measure is appropriate as it recognizes that the effectiveness of investment management styles varies depending on the market environment.

The total return for the Auto Fund since 2005 is shown below:



For purposes of portfolio management, a market-based return is calculated that captures all interest and dividend income, as well as the impact of the change in market value of investments, both realized and unrealized. In 2012, the portfolio's market-based return was 5.2% compared to a 3.9% return in 2011. The 2012 return was higher than experienced in 2011 due to strong equity performance, particularly from U.S. and non-North American equities, which added to the positive returns generated from the fixed income portfolio.

The following table shows the index returns for the Auto Fund's asset classes:

		Annual index returns ending December 31 (%)	
Asset Class	**Benchmark Index**	**2012**	**2011**
Canadian equities	S&P/TSX Composite	7.2	-8.7
U.S. equities	S&P 500 ($C)	13.4	4.6
Non-North American equities	MSCI EAFE ($C)	14.7	-10.0
Bonds	DEX Universe Bond	3.6	9.7
Short-term bonds	DEX Short-term Bond	2.0	4.7

The volatile environment for equity markets continued into 2012. After a volatile first half of 2012, equity markets recovered generating strong returns for the year. The year began with persistent worries about low growth in Europe and the U.S., a slowing Chinese economy and high consumer debt levels in Canada. Developed world central banks were forced to affirm their monetary policy backstops through continued low interest rates. This created a positive climate for equity markets, despite contentious U.S. elections, the U.S. "fiscal cliff" and yet another debt ceiling debate. Improved economic fundamentals, such as a growing U.S. housing market and the growth in cheap domestic energy, helped spur equity prices further during the second half of 2012.

Interest rates in Canada remained relatively stable over the course of 2012. Short-term rates rose while long-term rates fell slightly resulting in a flatter yield curve. Overall, interest rates remained at multi-generational low levels in 2012.

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

Other income

Other income consists of fees charged to insureds for utilizing the AutoPay and short-term payment option programs, as well as salvage operations income. In 2012, other income of $37.5 million was $3.4 million higher than 2011. Fees earned for using payment option plans increased $2.0 million for a total of $23.9 million (2011 – $21.8 million). The increase is due primarily to higher premiums written. The overall proportion of premiums financed through the payment option programs was 62%, consistent with 2011 (61%). Salvage operations income of $13.6 million (2011 – $12.3 million) is $1.4 million higher than the prior year, a result of improved margins due to higher vehicle bid prices, strong steel prices and improved salvage dismantling processes.

Statement of operations – actual versus budget

The Auto Fund prepares an annual budget each fall for the upcoming fiscal year. The plan is developed using long-term averages combined with known and expected information for the upcoming year. The Auto Fund's 2012 budget, developed in the fall of 2011, anticipated a decrease to the RSR of $8.9 million. The actual 2012 decrease to the RSR was $11.5 million, an unfavourable variance of $2.6 million, due to higher than anticipated claim costs, partially offset by higher investment income.

Claim costs were $35.6 million (5.1%) higher than budgeted, as the overall loss ratio of 96.5% was 5.4% higher than budgeted. Claim costs were higher than expected due to poor winter driving conditions in the fourth quarter and higher than anticipated medical and care benefits.

Overall investment earnings were $74.8 million, $30.6 million higher than planned. This was due to positive fixed income returns from the Matching portfolio, which were $21.1 million higher than budgeted. The Return Seeking portfolio, consisting of equities and real estate, experienced a $42.2 million gain compared to a budget of $32.3 million, a favourable variance of $9.9 million.

Statement of Cash Flows

	(thousands of $)		
	2012	2011	Change
Total operating activities	$ 75,429	$ 30,693	$ 44,736
Investing activities	(84,861)	(76,913)	(7,948)
Net cash flow	$ (9,432)	$ (46,220)	$ 36,788

Positive operating cash flows of $75.4 million were generated, significantly higher than the $30.7 million positive cash flow generated in 2011. This variance is explained primarily by the growth in premiums written in 2012. The positive cash flow experienced in 2012 was despite a $7.1 million decrease to the RSR during the year, as a large portion of the decrease to the RSR was a result of an increase in unpaid claims in the year.

Cash and cash equivalents decreased $9.4 million in 2012, as excess cash, combined with the cash flow generated from operating activities of $75.4 million, was used to fund investing activities. Investing activities included net investment purchases of $81.3 million and $3.6 million of property and equipment purchases primarily related to building renewal, and furniture and equipment.

The decrease in cash and cash equivalents of $9.4 million during the year resulted in cash and cash equivalents of $24.6 million at the end of 2012. Of this balance, $19.0 million (2011 – $32.7 million) was invested in money market investments with a maturity of 90 days or fewer from the date of acquisition. Money market investments decreased significantly during the year as a result of the investment manager investing the Matching portfolio in longer-term assets in accordance with the asset liability matching strategy.

Statement of Financial Position

	(thousands of $)		
	2012	2011	Change
TOTAL ASSETS	**$ 1,824,998**	**$ 1,711,363**	**$ 113,635**
Key asset account changes:			
Investments	1,520,694	1,399,887	120,807
Accounts receivable	193,384	174,712	18,672
Cash and cash equivalents	24,634	34,066	(9,432)
Unpaid claims recoverable from reinsurers	6,558	19,764	(13,206)
Other assets	10,633	14,980	(4,347)

Investments

The carrying value of investments increased by $120.8 million during the year, a result of investing net operating cash flows of $75.4 million, and $9.4 million of excess cash, combined with improvements in the market value of investments.

The investment portfolio is held to pay future claims, while the income earned on these investments helps reduce insurance rates for vehicle owners. The portfolio's asset mix strategy is set by SGI's Board of Directors through a detailed assessment of the Auto Fund's risk tolerance. In summary, the Auto Fund's positive cash flows and the presence of the Rate Stabilization Reserve, which serves to buffer the fund from unfavourable short-term 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 the capital markets and the historic return and risk profile of various asset classes. In order to achieve the long-term investment goals, the Auto Fund must invest in asset classes that provide an attractive risk-return profile over the medium to long term. Over shorter periods, however, performance of these asset classes can be volatile. In 2012, investment earnings benefited from lower volatility adding to gains experienced during the recovery of 2009 and 2010. The 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 desire 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 2012.

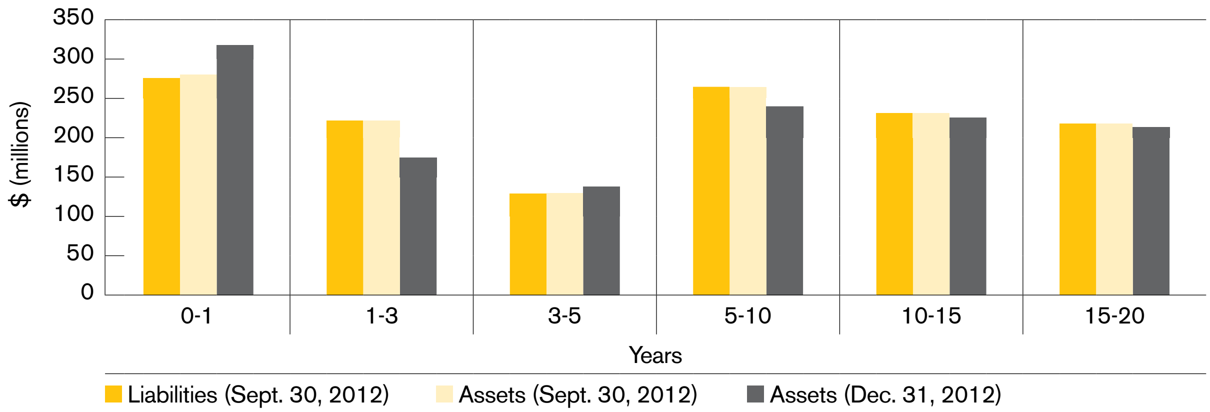
The Auto Fund's investment portfolio is managed by external investment managers. The portfolio is comprised of short-term investments, bonds and debentures, equities, mortgages and real estate. Equities include investments in Canadian and United States common shares as well as investments in a non-North American pooled equity fund and global small capitalization equity pooled fund. The Auto Fund's investments in real estate and mortgages are through pooled funds as well. 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 fixed income investments including mortgage securities, while the Return Seeking portfolio is comprised of equities and real estate. The investment strategy relies on the Matching portfolio to cover expected liability payments out to 20 years with any remaining long-tail liabilities covered by the Return Seeking portfolio.

The objective of the Matching portfolio is to group claim payments into six buckets based on the expected payment date, and then match the coupon and principal payments from the fixed income assets to 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, the asset cash flows are realigned to the revised liability cash flows to ensure a close match is maintained. From time to time, the allocation between the Matching portfolio and Return Seeking portfolio may also require rebalancing to maintain the overall risk-return objectives of the combined portfolio.

The liability cash flows for September 30, 2012, and the Matching portfolio asset position as of September 30, 2012, and December 31, 2012, are shown below:

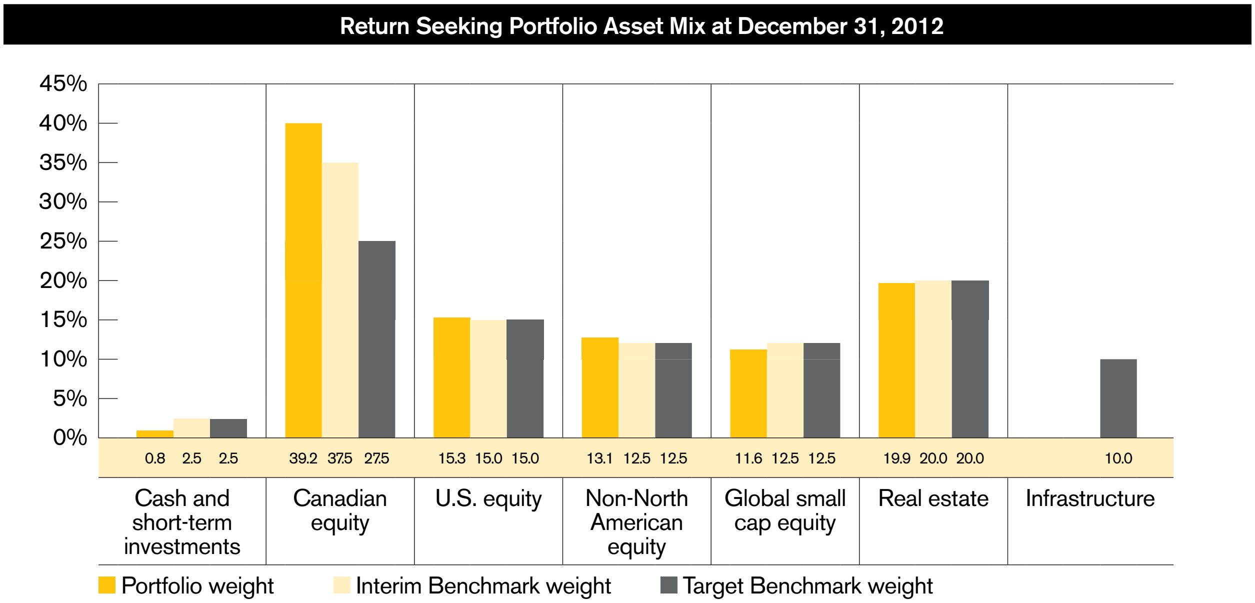
Matching Portfolio Asset Liability Cash Flows



The 2012 investment policy review resulted in no significant changes to the policy asset mix guidelines or benchmark portfolio weights. Changes adopted during the 2011 asset mix review for the Return Seeking Portfolio were partially implemented during 2012. While the allocation to global small capitalization equities was funded during the year, the allocation to the infrastructure asset class has proven more difficult to implement. With alternate infrastructure options now identified, the Auto Fund expects to begin funding this asset class during 2013. There were no changes to the Matching portfolio during 2012. The Auto Fund continues to monitor its fixed income investments to ensure they are relatively well matched to their associated liabilities.

The current portfolio weights within the Return Seeking portfolio are in transition to the long-term benchmark portfolio weights adopted in 2011. As the infrastructure mandate is funded throughout 2013 and beyond, it is expected that the portfolio will align closely with the long-term benchmark.

The portfolio asset mix and benchmark weights at December 31, 2012, are shown below:



Accounts receivable

Accounts receivable increased $18.7 million, a result of the AutoPay financed premiums receivable growing by $8.7 million, or 5.5%, to $168.9 million. The increase is commensurate with the growth in premiums written. In addition, an $8.6 million receivable from SGI CANADA cleared in January 2013.

Cash and cash equivalents

Cash and cash equivalents at December 31, 2012, were $24.6 million (2011 – $34.0 million), a decrease of $9.4 million. The sources of the change in cash and cash equivalents for the year are discussed in the above section, Statement of Cash Flows. Cash equivalents consist of money market investments such as treasury bills, banker's acceptances, discount notes or other liquid short-term investments that have a maturity of 90 days or fewer from the date of acquisition.

Unpaid claims recoverable from reinsurers

Unpaid claims recoverable from reinsurers decreased $13.2 million due to the collection of reinsurance related to prior year catastrophes.

Other assets

Other assets decreased by $4.3 million during the year, due primarily to amortization of the capitalized value of the Auto Fund's redeveloped information system, which is included within intangible assets.

	(thousands of $)		
	2012	2011	Change
TOTAL LIABILITIES	**$ 1,692,909**	**$ 1,567,778**	**$ 125,131**
Key liability account changes:			
Provision for unpaid claims	1,280,402	1,170,687	109,715
Unearned premiums	351,330	337,389	13,941

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 $109.7 million during 2012 to $1.3 billion (2011 – $1.2 billion). This represents an increase of 9.4% from last year. Key components of the change in the provision for unpaid claims are discussed in the preceding section, Claims Incurred. The majority of the increase is in unpaid injury benefits and is due to the continuing growth of the no-fault program as an additional year of losses is included in the provision, in addition to the impact of discounting. As the overall discount rate declined in 2012, the provision for unpaid claims increased accordingly.

Unearned premiums

Unearned premiums increased $13.9 million, commensurate with the growth in premiums written.

	(thousands of $)		
	2012	2011	Change
EQUITY	**$ 132,089**	**$ 143,585**	**$ (11,496)**
Key equity account changes:			
Rate Stabilization Reserve	127,122	134,261	(7,139)
Redevelopment Reserve	4,967	9,324	(4,357)

Rate Stabilization Reserve (RSR)

The decrease to the RSR was a result of the $11.5 million decrease from operations, combined with a $4.4 million appropriation from the Redevelopment Reserve. The appropriation from the Redevelopment Reserve offsets the redevelopment amortization charged through current year operations.

Redevelopment Reserve

The Redevelopment Reserve was established to ensure that adequate funding was available to meet the Auto Fund's commitment to redevelop its information systems. During 2012, amortization of capitalized project costs was $4.4 million (2011 – $5.3 million), therefore, the reserve was reduced accordingly with $4.4 million (2011 – $5.3 million) appropriated back to the RSR.

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

For the three months ended December 31, 2012

The Auto Fund prepares public quarterly financial reports for the first three quarters of each year. These reports are available on SGI's website at www.sgi.sk.ca. Click on the About link and then click on Quarterly Reports. The following analyzes the fourth quarter of 2012.

The Auto Fund recorded a fourth quarter decrease to the RSR of $1.7 million.

The Auto Fund experienced a loss from underwriting in the fourth quarter of 2012, primarily the result of higher claims incurred. Claims incurred for the quarter of $201.4 million were $8.6 million higher than the fourth quarter in 2011 ($192.8 million), largely a result of increased damage claim costs due to poor winter driving conditions in the fourth quarter of 2012.

Fourth quarter investment earnings of $10.6 million were $23.2 million lower than the fourth quarter of 2011. The decrease in investment earnings is due primarily to significant capital gains from investments during the fourth quarter of 2011.

Quarterly Financial Highlights

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

	(thousands of $)									
	2012					2011				
	Q4	Q3	Q2	Q1	**Year**	Q4	Q3	Q2	Q1	**Year**
Net premiums earned	$ 193,743	$ 200,098	$ 193,007	$ 180,378	**$ 767,226**	$ 184,540	$ 191,610	$ 181,262	$ 168,870	**$ 726,282**
Claims incurred	201,389	184,787	189,597	164,755	**740,528**	192,826	243,327	183,642	187,129	**806,924**
Increase (decrease) to RSR	(1,700)	15,152	(17,692)	15,736	**(11,496)**	(5,716)	(90,302)	(19,933)	(26,973)	**(142,924)**
Cash flow from (used in) operations	21,785	30,023	51,675	(28,054)	**75,429**	11,112	36,294	44,776	(61,489)	**30,693**
Investments	1,520,694	1,495,327	1,353,666	1,374,758		1,399,887	1,305,922	1,323,713	1,293,769	
Provision for unpaid claims	1,280,402	1,252,975	1,209,824	1,171,657		1,170,687	1,127,330	1,038,794	984,854	
Rate Stabilization Reserve	127,122	150,853	134,721	151,319		134,261	138,649	207,442	246,216	

The following points are intended to assist the reader in analyzing trends in the quarterly financial highlights for 2012:

- Premium earnings generally rise in the spring and summer months, largely a factor of increased premiums related to seasonal vehicles.
- Except for the first quarter, the Auto Fund typically generates positive cash flows from operations each quarter. Cash is usually low in the first quarter as annual premium taxes are paid to the province in March. Premium taxes are based on premiums written and were $38.6 million in 2012.

Impact of New Accounting Standards

Future accounting policy changes

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

Insurance Contracts

IASB issued exposure draft ED/2010/8 Insurance Contracts (the ED) on July 30, 2010. The ED proposes a new standard on accounting for insurance contracts, which would replace IFRS 4, *Insurance Contracts*. The proposals represent the first comprehensive IFRS accounting model for insurance contracts and are expected to have a significant impact on the financial reporting of insurers. The IASB plans to issue a re-exposure document in the first half of 2013. A final standard is expected in 2014 with implementation not expected before 2017.

Financial Instruments

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

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

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

In November 2012, the IASB issued limited amendments to the exposure draft. The amendments include introduction of a fair value through other comprehensive income (FVOCI) measurement category for simple debt instruments. In this measurement category, the Statement of Financial Position will reflect the fair value carrying amount while amortized cost information is presented in the Statement of Operations. The difference between the fair value and amortized cost information will be recognized in other comprehensive income.

This standard is effective for annual periods beginning on or after January 1, 2015. While early adoption is permitted under the standard, the Office of the Superintendent of Financial Institutions (OSFI) has indicated that early adoption is not allowed. While the Auto Fund is not federally regulated, it generally follows OSFI's guidance in such matters.

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

Fair Value Measurement

IFRS 13, *Fair Value Measurement*, was issued by the IASB in May 2011. IFRS 13 replaces the fair value measurement guidance contained in various standards with a single source of fair value measurement guidance. This standard may impact the measurement of fair value for certain assets and liabilities as well as the associated disclosures. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The new standard is not expected to have a material impact on the Auto Fund's financial statements.

Related Party Transactions

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

SGI is the administrator of the Saskatchewan Auto Fund on behalf of the Province of Saskatchewan. Administrative and loss adjustment expenses incurred by SGI are allocated to the Auto Fund directly or on the basis of specific allocations. Amounts incurred by SGI and charged to the Auto Fund were $130.8 million (2011 – $124.1 million).

Certain Board members are partners in organizations that provided $50,000 (2011 – $99,000) of professional services to the Auto Fund. In addition, an SGI Board member owns an organization that provides insurance services on behalf of the Auto Fund. Premiums written during the year from this organization amounted to $1.9 million (2011 – $1.8 million) and the associated accounts receivable at December 31, 2012, were $7,000 (2011 – $22,000). Issuer fees related to these premiums were $159,000 (2011 – $145,000). 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 its claimants. This is a common practice in the property and casualty industry. The net present value of the scheduled payments at December 31, 2012, was $23.0 million (2011 – $22.9 million). The Auto Fund has no recourse to these funds. The Auto Fund provides a financial guarantee to the claimant in the event of default by the financial institution on the payment schedule to the claimant. No default has occurred in the past on these payment schedules and the likelihood of such default is considered extremely remote.

The Auto Fund has contractual obligations to provide funding to Saskatchewan health organizations to provide for rehabilitative services for those injured in automobile collisions. Funding commitments, which are detailed further in note 18 to the financial statements, range between $16.9 million and $22.9 million per year over the next five years.

Critical Accounting Estimates

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

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

Provision for unpaid claims

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

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

Unpaid claims recoverable from reinsurers

Unpaid claims recoverable from reinsurers includes amounts for expected recoveries related to unpaid claims liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with claim and claim adjustment expense reserves, and are reported in the Statement of Financial Position. The ceding of insurance does not discharge the Auto Fund's primary liability to its insureds. An estimated allowance for doubtful accounts is recorded on the basis of periodic evaluations of balances due from reinsurers, reinsurer solvency, management's experience and current economic conditions. At December 31, 2012, and 2011, 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 the application of potential mitigations.

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

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

Leadership/Strategy

Risk: Poor strategic planning, poor communication, or a lack of integrity or ethical behaviour lead to low morale and staff engagement, as well as declining revenue and profitability.

Mitigation: SGI's purpose and ideals are defined clearly in the corporate mission, vision and values statements, and the Auto Fund promotes leadership and customer service in its training programs. The corporate commitment to privacy and ethical behaviour is reinforced through the annual review and sign-off by all employees of the Code of Ethics and Conduct. The 2011-15 strategic plan was developed with the feedback of employees and other stakeholders, and provides a detailed plan for the future of the Auto Fund. The strategic plan is formally reviewed and updated annually, and recently a 90-day prioritization process was developed to help focus corporate resources.

Significant Privacy Breach

Risk: Personal information held by the Auto Fund for a large number of customers is lost, accessed, used or disclosed contrary to legislated 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 conducts privacy audits in areas that handle customer information, and uses a Privacy Impact Assessment process for reviewing business changes, to ensure privacy concerns are addressed at the design level. To promote awareness of privacy obligations, new staff must complete online privacy training, and all staff are required to complete the annual sign-off of the Code of Ethics and Conduct, and the Confidentiality and Non-Disclosure Agreement.

Customer Focus

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

Mitigation: The Auto Fund has added claims staff and established service targets for all claims lines. Consultations with affected stakeholders are completed for new initiatives to ensure customer acceptance. Registration and traffic safety programs are reviewed on an ongoing basis, and customer needs and concerns are monitored through customer service surveys and discussions with issuers and brokers.

Business Intelligence

Risk: The development and implementation of the Business Intelligence (BI) project is unsuccessful, adversely affecting the Auto Fund's ability to make good decisions.

Mitigation: The BI project was established to meet SGI's need for greater and easier access to information. SGI has contracted with an outside consultant with extensive BI expertise to assist in the development of BI technology. Rather than implementing the entire project at once, an iterative staged approach to development and adoption is being used to control project scope and ensure user needs are being met. Resources have been dedicated to help internal users in refining data needs and applying the BI technology to gather and present information faster and easier.

Catastrophic Claims Loss

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

Mitigation: SGI's reinsurance limits were determined based on independent catastrophe modeling, and reinsurance limits are purchased in excess of a 1-in-250-year event assumption to calculate probable maximum loss. To mitigate the risk of reinsurer failure, SGI and its reinsurance brokers monitor the reinsurer rating provided by AM Best, and Standard and Poor's.

Transfer and Acquisition of Expertise

Risk: SGI is unable to build and maintain the knowledge, skill and experience within the organization's workforce needed to thrive now and in the future, resulting in lower productivity, higher operating costs, and higher health and safety concerns from overworked employees. Challenges include retirements, recruitment of qualified personnel in a tight labour market and the need to support an analytical culture.

Mitigation: SGI has implemented a number of programs in this area, including competency-based recruitment, training and mentoring programs, knowledge management solutions, and the monitoring of workplace engagement and strategic clarity through employee surveys. A corporate learning strategy was created in 2008 and updated in 2012 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 backups; and (ii) identifying high-performing staff who have potential for more senior roles. The corporate diversity/recruitment strategy was updated in 2012 to enhance partnerships with outreach agencies and educational institutions, and the Corporation's visibility as a preferred employer.

Systems Security

Risk: The security of SGI's systems is compromised by a virus attack, system breach, or unauthorized access to confidential or sensitive information by internal or external parties, resulting in significant financial and reputational damage.

Mitigation: SGI created an Information Security Policy in 2009 that 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. The Systems division has implemented many mechanisms (such as firewalls, intrusion prevention, antivirus, etc.) to protect the environment and is continually monitoring systems for potential threat activity. SGI has developed incident response procedures to decrease the severity of a breach, should one occur.

Outlook for 2013

Of the last five years, only 2009 saw the Auto Fund experience an increase to the RSR. While 2012 looked promising at the end of the third quarter, severe winter driving conditions in the fourth quarter resulted in higher than average claim costs and a further decline to the RSR. As a result, the Auto Fund's Minimum Capital Test has, in recent years, hovered in the lower part of its target range and, since mid-2011, has been below its targeted minimum capital range. As such, the Auto Fund has submitted an application to the Saskatchewan Rate Review Panel for a 1.23% surcharge on Saskatchewan Auto Fund rates to replenish the Rate Stabilization Reserve. The surcharge is determined through actuarial analysis and is forecasted to return the RSR to an MCT of 75%, its policy minimum, over a three-year period. An appropriate RSR balance is necessary for the financial stability of the Auto Fund and can act as a buffer for customers to avoid significant rate shock.

The strong Saskatchewan economy is expected to continue to result in premium growth attributable to a newer vehicle population and growth in vehicle counts. However, claim costs continue to escalate as well. With more vehicles on the roads, the number of claims continues to rise, and newer vehicles generally cost more to repair. In addition, rising wages in the province contribute to increasing labour rates paid to autobody shops and higher income replacement benefits for injured persons. Significant weather events, such as hailstorms, are also occurring more regularly leading to higher damage claim costs in recent years. The severe winter driving conditions experienced during the fourth quarter of 2012 have continued into the first quarter of 2013 causing concern early in the year. Claim costs represent approximately 83% of the Auto Fund's expense profile and are monitored closely. While economic and weather factors pose external risks, largely beyond the Auto Fund's control, it continues to invest and focus on traffic safety programming, performing diligent claim management and adjusting, regular rate reviews and management of its other expenses.

While investment markets improved through 2012, challenges both domestically and internationally remain due to low growth, high debt loads and a lack of investor confidence. Measures to address these issues may provide the market environment for more positive, sustained global growth. While equity market volatility is likely to continue, volatility caused by interest rate changes is expected to be offset by the impact on the discounting of claim liabilities. The Auto Fund remains vigilant in monitoring the investment portfolio and continues to maintain its well diversified, high-quality investment portfolio and prudent investment management policies and processes.

Management monitors financial results closely with a long-term perspective to maintaining fair rates while ensuring the adequate capitalization of the Auto Fund. However, with the expected cost of Auto Fund claims and expenses outpacing growth in premiums and investment income, the Auto Fund has submitted an application to the Saskatchewan Rate Review Panel for a 1.03% general increase in rates for the rating year beginning in August 2013. Combined, the above-noted RSR surcharge and the general rate increase will result in an overall average increase of 2.27%. While faced with a challenging environment, even with these increases, the Auto Fund continues to provide amongst the lowest average personal vehicle rates in Canada and remains focused to deliver on its vision to be a company where every customer, employee, owner and business partner across Canada is proud to do business and work with it.

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 and Finance Committee, composed of members of the Board of Directors, meets periodically with financial officers of Saskatchewan Government Insurance and the external auditors. These external auditors have free access to this Committee, without Management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

As appointed by the Lieutenant Governor in Council and approved by Crown Investments Corporation of Saskatchewan, KPMG 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 Auditors' Report outlines the scope of their examination and their opinion.

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

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

February 28, 2013

Annual Statement of Management Responsibility

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

a. That we have reviewed the financial statements included herein. Based on our knowledge, having exercised reasonable diligence, the financial statements fairly present, in all material respects, the financial condition, results of operations and cash flows, as of December 31, 2012.

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

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

d. That the Auto Fund conducted its assessment of the effectiveness of its internal controls over financial reporting and, based on the results of this assessment, it can provide reasonable assurance that internal controls over financial reporting as of December 31, 2012, were operating effectively and no material weaknesses were found in the design or operation of the internal controls over financial reporting.

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

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

February 28, 2013

Actuary's Report

To the Board of Directors of Saskatchewan Government Insurance

I have valued the policy liabilities and reinsurance recoverables of the Saskatchewan Auto Fund for its statement of financial position at December 31, 2012, and their change in the statement of operations for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

I am satisified that the data utilized for the valuation of these liabilities is reliable and sufficient. I verified the consistency of the valuation data with the company financial records.

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

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

February 28, 2013

Independent Auditors' Report

To the Members of the Legislative Assembly, Province of Saskatchewan

We have audited the accompanying financial statements of Saskatchewan Auto Fund ("the Entity"), which comprise the statement of financial position as at December 31, 2012, the statements of operations, changes in equity and cash flows for the year then ended, and notes, comprising 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 our 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, we consider 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 in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Saskatchewan Auto Fund as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants
Regina, Canada

February 28, 2013

Statement of Financial Position

	(thousands of $)	
	December 31 2012	**December 31 2011**
Assets		
Cash and cash equivalents (note 4)	$ 24,634	$ 34,066
Accounts receivable (note 5)	193,384	174,712
Investments under securities lending program (note 6)	302,823	309,293
Investments (note 6)	1,217,871	1,090,594
Unpaid claims recoverable from reinsurers (note 9)	6,558	19,764
Deferred policy acquisition costs (note 7)	28,049	26,071
Other assets (note 8)	10,633	14,980
Property and equipment (note 10)	41,046	41,883
	$ 1,824,998	$ 1,711,363
Liabilities		
Accounts payable and accrued liabilities	$ 21,893	$ 22,253
Premium taxes payable	39,284	37,449
Unearned premiums (note 11)	351,330	337,389
Provision for unpaid claims (note 9)	1,280,402	1,170,687
	1,692,909	1,567,778
Equity		
Rate Stabilization Reserve	127,122	134,261
Redevelopment Reserve	4,967	9,324
Total Equity	132,089	143,585
	$ 1,824,998	$ 1,711,363

Commitments and contingencies (note 18)
(see accompanying notes)
Approved by the Board of Directors and signed on their behalf on February 28, 2013

Rick Watson
Director

Howard Crofts
Director

Statement of Operations

year ended December 31	(thousands of $) 2012	2011
Gross premiums written	$ 785,679	$ 748,961
Premiums written ceded to reinsurers	(4,512)	(4,218)
Net premiums written	781,167	744,743
Change in net unearned premiums (note 11)	(13,941)	(18,461)
Net premiums earned	**767,226**	726,282
Claims incurred (note 9)	740,528	806,924
Issuer fees	37,795	38,200
Administrative expenses	51,546	52,778
Premium taxes	38,555	36,513
Traffic safety programs	22,626	20,547
Total claims and expenses	**891,050**	954,962
Underwriting loss	**(123,824)**	(228,680)
Investment earnings (note 12)	74,838	51,668
Other income (note 13)	37,490	34,088
Decrease to Rate Stabilization Reserve and Comprehensive Loss	**$ (11,496)**	$ (142,924)

(see accompanying notes)

Statement of Changes in Equity

year ended December 31	(thousands of $) 2012	2011
Rate Stabilization Reserve		
Balance, beginning of year	$ 134,261	$ 271,856
Decrease to Rate Stabilization Reserve	(11,496)	(142,924)
Appropriation from Redevelopment Reserve	4,357	5,329
Balance, end of year	**$ 127,122**	$ 134,261
Redevelopment Reserve		
Balance, beginning of year	$ 9,324	$ 14,653
Appropriation to Rate Stabilization Reserve	(4,357)	(5,329)
Balance, end of year	**$ 4,967**	$ 9,324
Total Equity	**$ 132,089**	$ 143,585

(see accompanying notes)

Statement of Cash Flows

year ended December 31	(thousands of $) 2012	2011
Cash provided by (used for):		
Operating activities		
Decrease to Rate Stabilization Reserve and Comprehensive Loss	$ (11,496)	$ (142,924)
Non-cash items:		
Bond amortization	106	(735)
Depreciation	8,434	8,683
Net realized gain on sale of investments	(18,651)	(3,525)
Net unrealized gain on change in fair value of investments	(21,008)	(14,050)
Loss on sale of property and equipment	49	70
Change in non-cash operating items (note 16)	117,995	183,174
	75,429	30,693
Investing activities		
Purchases of investments	(1,141,569)	(1,201,954)
Proceeds on sale of investments	1,060,315	1,131,608
Repayment of capital lease	–	242
Purchases of property and equipment	(3,607)	(6,809)
	(84,861)	(76,913)
Decrease in cash and cash equivalents	(9,432)	(46,220)
Cash and cash equivalents, beginning of period	34,066	80,286
Cash and cash equivalents, end of period	**$ 24,634**	$ 34,066
Supplemental cash flow information:		
Interest received	$ 25,826	$ 23,811
Dividends received	$ 5,212	$ 4,919

(see accompanying notes)

Notes to the Financial Statements

December 31, 2012

1. Status of the Auto Fund

The Saskatchewan Auto Fund (the Auto Fund – 2260 – 11th Avenue, Regina, Sask., Canada) was established effective January 1, 1984, by an amendment to *The Automobile Accident Insurance Act*. 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. Being a fund of the Province of Saskatchewan, it is exempt from federal and provincial income taxes. The financial results of the Auto Fund are included in the Province of Saskatchewan's summary financial statements and not in SGI's financial statements.

2. Basis of Preparation

Statement of compliance
The financial statements for the year ended December 31, 2012, have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

Basis of measurement
The financial statements have been prepared using the historical cost basis except for financial instruments. The methods used to measure the values of financial instruments are discussed further in note 3.

Statement of financial position classification
The statement of financial position has been prepared using the liquidity format in which the assets and liabilities are presented broadly in order of liquidity. The assets and liabilities comprise both current and non-current amounts.

Functional currency and presentation
These financial statements are presented in Canadian dollars, which is the Auto Fund's functional currency and are rounded to the nearest thousand unless otherwise noted.

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), and the valuation of accounts receivable (note 5) and investments (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 considered other than temporary are recognized as a decrease to the Rate Stabilization Reserve. Financial assets designated as held to maturity, loans and receivables, or other financial liabilities are 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 premium taxes payable are designated as other financial liabilities. The unpaid claims recoverable from reinsurers, amounts due to reinsurers, and the provision for unpaid claims are exempt from the above requirement.

Investments

All investments are carried at fair value. The fair value of short-term investments is based on cost, which approximates fair value due to the immediate or short-term nature of these financial instruments and are considered level 2 financial assets. The common shares are level 1 financial assets and the fair value is determined based on quoted market values, based on the latest bid prices. The pooled equity funds are level 1 financial assets, and the fair value is based on the quoted market values of the underlying investments, based on the latest bid prices. Bonds and debentures are level 2 financial assets and the fair value is based on model pricing techniques that effectively discount prospective cash flows to present value taking into consideration duration, credit quality and liquidity. The pooled mortgage fund is a level 2 financial asset and the fair value is determined based on the market values of the underlying mortgage investments, calculated by discounting scheduled cash flows through to the estimated maturity of the mortgage. The pooled real estate fund is a level 2 financial asset and the fair value is determined based on the most recent appraisals of the underlying properties.

The Auto Fund records its investment purchases and sales on a trade-date basis, being the date when the transactions are entered into.

Investments under securities lending program

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

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

Investment earnings

The Auto Fund recognizes interest revenue as earned, dividends when declared, pooled fund revenue when a distribution is declared, realized gains and losses on investments when the investment has been sold and unrealized gains and losses based on the changes in market value of the investments held.

Interest revenue includes amortization of any premium or discount recognized at date of purchase of the security. Amortization is calculated using the effective interest method. Realized gains and losses represent the difference between the amounts received through the sale of investments and their respective cost base. Interest is generally receivable on a semi-annual basis.

Transaction costs are included in the acquisition cost of individual investments. Direct investment expenses, such as external custodial, investment management and investment consultant expenses, are recorded against investment earnings.

Foreign currency translation

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

Premiums written

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

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of outstanding claims to the year-end date. The estimate includes the cost of reported claims, and 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 provision has been calculated including the impact of discounting using a discount rate of 4.4% (December 31, 2011 – 4.5%). The estimates are necessarily 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 charged to expense over the terms of the insurance policies to which such costs relate, no longer than 12 months. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums after giving consideration to investment income, as well as claim and adjustment expenses expected to be incurred as the premiums are earned.

Reinsurance ceded

Unpaid claims recoverable from reinsurers, reinsurers' share of unearned premiums and unearned reinsurance commissions 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.

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. 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.

The depreciation method being used, the useful lives of the assets and residual values of the assets are reviewed at each reporting period. Repairs and maintenance are charged to the statement of operations in the period in which they have been incurred.

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

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

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

Redevelopment Reserve

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

Intangible assets

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

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

The capitalized system costs are tested for impairment annually during the period before the system is ready to operate to ensure that the cost does not exceed the expected benefit.

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.

Future accounting policy changes

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

Insurance Contracts

IASB issued exposure draft ED/2010/8 Insurance Contracts (the ED) on July 30, 2010. The ED proposes a new standard on accounting for insurance contracts, which would replace IFRS 4, *Insurance Contracts*. The proposals represent the first comprehensive IFRS accounting model for insurance contracts and are expected to have a significant impact on the financial reporting of insurers. The IASB plans to issue a re-exposure document in the first half of 2013. A final standard is expected in 2014 with implementation not expected before 2017.

Financial Instruments

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

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

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

In November 2012, the IASB issued limited amendments to the exposure draft. The amendments include introduction of a fair value through other comprehensive income (FVOCI) measurement category for simple debt instruments. In this measurement category, the Statement of Financial Position will reflect the fair value carrying amount while amortized cost information is presented in the Statement of Operations. The difference between the fair value and amortized cost information will be recognized in other comprehensive income.

This standard is effective for annual periods beginning on or after January 1, 2015. While early adoption is permitted under the standard, the Office of the Superintendent of Financial Institutions (OSFI) has indicated that early adoption is not allowed. While the Auto Fund is not federally regulated, it generally follows OSFI's guidance in such matters.

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

Fair Value Measurement

IFRS 13, *Fair Value Measurement*, was issued by the IASB in May 2011. IFRS 13 replaces the fair value measurement guidance contained in various standards with a single source of fair value measurement guidance. This standard may impact the measurement of fair value for certain assets and liabilities as well as the associated disclosures. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The new standard is not expected to have a material impact on the Auto Fund's financial statements.

4. Cash and Cash Equivalents

	(thousands of $)	
	2012	2011
Money market investments	$ 18,980	$ 32,667
Cash on hand, net of outstanding cheques	5,654	1,399
Total cash and cash equivalents	$ 24,634	$ 34,066

The average effective interest rate on money market investments is 1.0% (2011 – 1.0%).

5. Accounts Receivable

Accounts receivable is comprised of the following:

	(thousands of $)	
	2012	2011
Due from insureds	$ 181,652	$ 172,718
Due from SGI	8,580	–
Accrued investment income	4,976	4,619
Licence issuers	2,129	3,565
Salvage operations	1,686	1,553
Other	2,493	506
Subtotal	201,516	182,961
Less: Allowance for doubtful accounts (note 14)	(8,132)	(8,249)
Total accounts receivable	$ 193,384	$ 174,712

Included in due from insureds is $168,920,000 (2011 – $160,178,000) 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).

6. Investments

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

	(thousands of $)	
	2012	2011
Short-term investments	$ 209,528	$ 210,199
Bonds and debentures	546,590	493,404
Canadian common shares	115,803	119,270
U.S. common shares	65,826	54,942
Pooled funds:		
Non-North American equity	57,759	50,310
Global small cap equity	51,087	–
Mortgage	83,596	84,542
Real estate	87,682	77,927
	1,217,871	1,090,594
Investments under securities lending program		
Bonds and debentures	243,825	256,085
Canadian common shares	57,177	49,523
U.S. common shares	1,821	3,685
	302,823	309,293
Total investments	$ 1,520,694	$ 1,399,887

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

Short-term investments

Short-term investments are comprised of money market investments with a maturity of less than one year but greater than 90 days from the date of acquisition. These investments have an average effective interest rate of 1.1% (2011 – 1.0%) and an average remaining term to maturity of 90 days (2011 – 79 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.

The Auto Fund's investment policy 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 $)			
	2012		2011	
Term to maturity (years)	Carrying Value	Average Effective Rates	Carrying Value	Average Effective Rates
Government of Canada:				
One or less	$ 10,954	1.4%	$ –	–
After one through five	52,977	1.2%	90,244	1.2%
After five	226,599	2.1%	193,430	2.3%
Canadian provincial and municipal:				
One or less	11,367	1.5%	–	–
After one through five	59,786	1.6%	55,297	1.6%
After five	231,949	3.1%	218,882	3.1%
Canadian corporate:				
One or less	28,348	1.5%	7,296	1.8%
After one through five	92,083	2.0%	88,231	2.0%
After five	76,352	2.9%	96,109	3.3%
Total bonds and debentures	$ 790,415		$ 749,489	

Common shares

Common shares have no fixed maturity dates and are generally not exposed to interest rate risk. The average effective dividend rate is 2.4% (2011 – 2.3%).

The Auto Fund's investment policy limits its investment concentration in any 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

The Auto Fund owns units in a non-North American pooled equity fund, a global small cap pooled equity fund, a pooled mortgage fund and a pooled real estate fund. These pooled funds have no fixed distribution rate. Fund returns are based on the success of the fund managers.

Security lending program

Through its custodian, the Auto Fund participates in an investment security lending program for the purpose of generating fee income. Non-cash collateral of at least 102% of the market value of the loaned securities is retained by the Auto Fund until the loaned securities have been returned. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value of the loaned securities fluctuates. In addition, the custodian provides indemnification against any potential losses in the securities lending program. While in the possession of counterparties, the loaned securities may be resold or re-pledged by such counterparties.

At December 31, 2012, the Auto Fund held collateral of $317,962,000 (2011 – $324,758,000) 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.

Level 1 – where quoted prices are readily available from an active market

Level 2 – valuation model not using quoted prices, but still using predominantly observable market inputs, such as market interest rates

Level 3 – models using inputs that are not based on observable market data

	(thousands of $)					
	2012			2011		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Short-term investments	$ –	$ 209,528	$ 209,528	–	$ 210,199	$ 210,199
Bonds and debentures	–	790,415	790,415	–	749,489	749,489
Canadian common shares	172,980	–	172,980	168,793	–	168,793
U.S. common shares	67,647	–	67,647	58,627	–	58,627
Pooled funds:						
Non-North American equity	57,759	–	57,759	50,310	–	50,310
Global small cap equity	51,087	–	51,087	–	–	–
Mortgage	–	83,596	83,596	–	84,542	84,542
Real estate	–	87,682	87,682	–	77,927	77,927
	$ 349,473	$ 1,171,221	$ 1,520,694	$ 277,730	$ 1,122,157	$ 1,399,887

During the year, no investments were transferred between levels.

7. Deferred Policy Acquisition Costs

	(thousands of $)	
	2012	2011
Deferred policy acquisition costs, beginning of year	$ 26,071	$ 25,602
Acquisition costs deferred during the year	39,773	38,665
Previously deferred acquisition costs charged to operations during the year	(37,795)	(38,196)
Deferred policy acquisition costs, end of year	$ 28,049	$ 26,071

8. Other Assets

Other assets are comprised of the following:

	(thousands of $)	
	2012	2011
Intangible assets	$ 5,644	$ 9,683
Inventories	3,446	3,459
Prepaid expenses	1,543	1,838
Total	$ 10,633	$ 14,980

Intangible assets

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

	(thousands of $)	
	2012	2011
Cost	$ 25,141	$ 25,141
Depreciation:		
At January 1	15,458	10,379
Provided in the year	4,039	5,079
At December 31	19,497	15,458
Net book value at December 31	$ 5,644	$ 9,683

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

9. Claims Incurred and Provision for Unpaid Claims

Claims incurred

	(thousands of $)	
	2012	2011
Gross claims incurred	$ 742,871	$ 824,441
Ceded claims incurred	(2,343)	(17,517)
Net claims incurred	$ 740,528	$ 806,924

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

The change in the estimate for the provision for unpaid claims is as follows:

	(thousands of $)	
	2012	2011
Net unpaid claims, beginning of year – discounted	$ 1,150,923	$ 958,756
Discount, beginning of the year	660,416	491,396
Net unpaid claims, beginning of year – undiscounted	1,811,339	1,450,152
Payments made during the year relating to:		
Prior year claims	(225,362)	(223,441)
Deficiency relating to:		
Prior year estimated unpaid claims	27,536	14,526
Extending long-term payout period for injury accident benefits	–	252,064
Net unpaid claims, prior years – undiscounted	1,613,513	1,493,301
Provision for claims occurring in the current year	358,533	318,038
Net unpaid claims, end of year – undiscounted	1,972,046	1,811,339
Discount, end of year	(698,202)	(660,416)
Net unpaid claims, end of year – discounted	$ 1,273,844	$ 1,150,923

The net provision for unpaid claims of $1,273,844,000 (2011 – $1,150,923,000) consists of the gross provision for unpaid claims of $1,280,402,000 (2011 – $1,170,687,000) less unpaid claims recoverable from reinsurers of $6,558,000 (2011 – $19,764,000).

Included in the above amount is a provision for adverse development (PFAD) in the amount of $150,155,000 (2011 – $135,080,000). The incorporation of a PFAD within the provision for unpaid claims is in accordance with accepted actuarial practice and the selected PFAD is within the ranges recommended by the Canadian Institute of Actuaries. The PFAD considers the Auto Fund's assumptions concerning claims development, reinsurance recoveries and future investment earnings.

The provision for unpaid claims and unpaid claims recoverable from reinsurers are carried on a discounted basis. 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		Reinsurance Recoverable		Net	
	2012	2011	2012	2011	2012	2011
Injury accident benefits	$ 1,825,850	$ 1,687,182	$ –	$ –	$ 1,825,850	$ 1,687,182
Injury liability	72,224	68,232	–	–	72,224	68,232
Damage	80,246	74,928	6,274	19,003	73,972	55,925
PFAD and discounting	(697,918)	(659,655)	284	761	(698,202)	(660,416)
Total	$ 1,280,402	$ 1,170,687	$ 6,558	$ 19,764	$ 1,273,844	$ 1,150,923

Structured settlements

The Auto Fund settles some long-term disability claims by purchasing annuities from various financial institutions for its claimants. 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 financial institutions default on the scheduled payments. As at December 31, 2012, no information has come to the Auto Fund's attention that would suggest any weakness or failure in the financial institutions from which it has purchased the annuities. The net present value of the scheduled payments as of the year-end date is $23,004,000 (2011 – $22,879,000).

10. Property and Equipment

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

	(thousands of $)					
	Land	**Buildings**	**Building Components**	**Leasehold Improvements**	**Computer Hardware**	**Total**
Cost:						
At January 1, 2012	$ 6,643	$ 43,245	$ 11,254	$ –	$ 33,414	$ 94,556
Additions	–	674	163	572	2,198	3,607
Disposals	–	–	–	–	(1,937)	(1,937)
At December 31, 2012	6,643	43,919	11,417	572	33,675	96,226
Depreciation:						
At January 1, 2012	–	16,984	6,285	–	29,404	52,673
Provided in the year	–	1,610	481	–	2,304	4,395
Disposals	–	–	–	–	(1,888)	(1,888)
At December 31, 2012	–	18,594	6,766	–	29,820	55,180
Net book value at December 31, 2012	$ 6,643	$ 25,325	$ 4,651	$ 572	$ 3,855	$ 41,046

	(thousands of $)				
	Land	**Buildings**	**Building Components**	**Computer Hardware**	**Total**
Cost:					
At January 1, 2011	$ 6,643	$ 38,618	$ 11,190	$ 32,591	$ 89,042
Additions	–	4,627	64	2,118	6,809
Disposals	–	–	–	(1,295)	(1,295)
At December 31, 2011	6,643	43,245	11,254	33,414	94,556
Depreciation:					
At January 1, 2011	–	16,329	5,147	28,818	50,294
Provided in the year	–	1,274	491	1,839	3,604
Disposals	–	(619)	647	(1,253)	(1,225)
At December 31, 2011	–	16,984	6,285	29,404	52,673
Net book value at December 31, 2011	$ 6,643	$ 26,261	$ 4,969	$ 4,010	$ 41,883

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

11. Unearned Premiums

	(thousands of $)					
	Gross Unearned Premiums		Reinsurer's Share of Unearned Premiums		Net Unearned Premiums	
	2012	2011	2012	2011	2012	2011
Unearned premiums beginning of the year	$ 338,546	$ 319,832	$ 1,157	$ 904	$ 337,389	$ 318,928
Premiums written during the year	785,679	748,961	4,512	4,218	781,167	744,743
Premiums earned	(771,538)	(730,247)	(4,312)	(3,965)	(767,226)	(726,282)
Change in net unearned premiums	14,141	18,714	200	253	13,941	18,461
Unearned premiums end of the year	$ 352,687	$ 338,546	$ 1,357	$ 1,157	$ 351,330	$ 337,389

12. Investment Earnings

The components of investment earnings are as follows:

	(thousands of $)	
	2012	2011
Interest	$ 26,073	$ 24,766
Net unrealized gains on change in fair value of investments	21,008	14,050
Net realized gain on sale of investments	18,651	3,525
Pooled funds distributions	5,890	5,607
Dividends	5,233	5,359
Interest on net investment in capital lease	–	87
Total investment earnings	76,855	53,394
Investment expenses	(2,017)	(1,726)
Net investment earnings	$ 74,838	$ 51,668

13. Other Income

The components of other income are as follows:

	(thousands of $)	
	2012	2011
Payment option fees	$ 23,877	$ 21,833
Net earnings on salvage sales	13,613	12,255
Total other income	$ 37,490	$ 34,088

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 operates a salvage department 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 $)	
	2012	2011
Salvage sales	$ 40,812	$ 38,339
Cost of sales	(22,831)	(21,845)
Gross profit	17,981	16,494
Administrative expenses	(4,694)	(4,547)
Other income	326	308
Net earnings on salvage sales	$ 13,613	$ 12,255

14. Insurance and Financial Risk Management

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

Insurance Risk

Underwriting risk

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

Reinsurance

The Auto Fund also seeks to reduce losses that may arise from catastrophes or other events that cause unfavorable 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 $)	
	2012	**2011**
Automobile physical damage catastrophe	$ 5,000	$ 5,000
(subject to filling an annual aggregate deductible of)	5,000	5,000
Personal automobile injury	20,000	20,000

The Auto Fund evaluates and monitors the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvency.

Actuarial Risk

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Auto Fund at the year-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists regarding the cost of reported claims that have not been settled, as all the necessary information may not be available at the year-end date. The significant assumptions used to estimate the provision include: the Auto Fund's experience with similar cases, historical claim payment trends and claim development patterns, the characteristics of each class of business, claim severity and claim frequency, the effect of inflation on future claim settlement costs, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim, the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as physical damage or collision claims tend to be more reasonably predictable than long-tail claims such as liability claims.

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

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

	(thousands of $)						
	2007	2008	2009	2010	2011	2012	Total
Net Ultimate Loss							
At end of accident year	$ 448,227	$ 483,870	$ 503,379	$ 538,979	$ 592,874	$ 619,414	
One year later	475,268	478,854	514,421	558,884	610,914		
Two years later	472,198	488,578	526,834	566,213			
Three years later	481,492	501,237	526,286				
Four years later	492,254	502,878					
Five years later	492,677						
Cumulative loss development	44,450	19,008	22,907	27,234	18,040	n/a	
Cumulative loss development as a % of original ultimate loss	9.9%	3.9%	4.6%	5.1%	3.0%	n/a	
Current estimate of net ultimate loss	$ 492,677	$ 502,878	$ 526,286	$ 566,213	$ 610,914	$ 619,414	$ 3,318,382
Cumulative paid	(434,201)	(435,529)	(447,142)	(474,159)	(487,763)	(347,466)	(2,626,260)
Net provision for unpaid claims for the six most recent accident years	$ 58,476	$ 67,349	$ 79,144	$ 92,054	$ 123,151	$ 271,948	$ 692,122
Net discounted claims outstanding for accident years 2006 and prior							511,551
Loss adjusting expense reserve							68,158
Other reconciling items							2,013
Net provision for unpaid claims							$ 1,273,844

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 (consisting of interest rate risk, foreign exchange risk and equity price 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 manager 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 manager and custodian regarding compliance with the SIP&G. The investment manager's 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 the Auto Fund's investments in short-term investments, bonds and debentures, and the mortgage pooled fund, while the Return Seeking portfolio holds the Canadian common shares, U.S. common shares, the non-North American equity, the global small cap equity and the real estate pooled funds. 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 as at December 31, 2012, is limited to the carrying value of those financial assets summarized as follows:

	(thousands of $)	
	2012	2011
Cash and cash equivalents	$ 24,634	$ 34,066
Accounts receivable	193,384	174,712
Fixed income investments[1]	1,083,539	1,044,230

[1] Includes short-term investments, bonds and debentures, and the mortgage pooled fund

Cash and cash equivalents include money market investments of $18,980,000 (December 31, 2011 – $32,667,000) 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, diversified among residential, farm and commercial customers, along with motor licence issuers within Saskatchewan. Accounts receivable consist of balances outstanding for one year or less.

	(thousands of $)	
	2012	2011
Current	$ 189,225	$ 171,236
30 – 59 days	2,030	2,391
60 – 90 days	1,656	1,036
Greater than 90 days	8,605	8,298
Subtotal	201,516	182,961
Allowance for doubtful accounts	(8,132)	(8,249)
Total	$ 193,384	$ 174,712

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 $)	
	2012	2011
Allowance for doubtful accounts, opening balance	$ 8,249	$ 9,263
Accounts written off	(1,026)	(2,122)
Current period provision	909	1,108
Allowance for doubtful accounts, closing balance	$ 8,132	$ 8,249

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 bond and debenture investments are as follows:

	2012		2011	
Credit Rating	**Carrying Value (thousands of $)**	**Makeup of Portfolio (%)**	**Carrying Value (thousands of $)**	**Makeup of Portfolio (%)**
AAA	$ 300,755	38.1	$ 294,215	39.3
AA	289,200	36.6	296,870	39.6
A	153,506	19.4	111,084	14.8
BBB	46,954	5.9	47,320	6.3
Total	$ 790,415	100.0	$ 749,489	100.0

Within bond 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.

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. Any 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	
	2012	2011	2012	2011
Investment earnings	$ (61,587)	$ (58,414)	$ 69,198	$ 65,560
Claims incurred	(70,889)	(66,667)	80,367	75,834
Net increase (decrease) to RSR	9,302	8,253	(11,169)	(10,274)

Foreign exchange risk

The Auto Fund is subject to changes in the U.S./Canadian dollar exchange rate on its U.S. equity investment portfolio and non-North American currencies through its investment in the non-North American and global small cap equity pooled funds. Exposure to segregated U.S. equities is limited to a maximum of 20% of the market value of the Auto Fund's Return Seeking portfolio. Non-North American equities and global small cap equities are limited to a maximum 18.0% each of the market value of the Auto Fund's Return Seeking portfolio. At December 31, 2012, the Auto Fund's total exposure to segregated U.S. equities was 4.4% (2011 – 4.2%) and its exposure to non-North American equities was 3.8% (2011 – 3.6%) and its total exposure to global small cap equities was 3.4% (2011 – nil). The Auto Fund has no foreign exchange exposure within its bonds and debentures.

At December 31, 2012, a 10% appreciation/depreciation in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a $8.3 million (2011 – $5.9 million) decrease/increase in the Rate Stabilization Reserve. A 10% appreciation/depreciation in the Canadian dollar versus non-North American currencies would result in approximately a $9.4 million (2011 – $5.0 million) decrease/increase in the Rate Stabilization Reserve. As the U.S. equity, non-North American pooled fund and global small cap equity pooled fund investments are classified as fair value through profit and loss, unrealized changes due to foreign currency are recorded in the statement of operations. There is no exposure to foreign exchange risk within the Auto Fund's bond and debenture portfolio. As well, no more than 10% of the market value of the bond and debenture portfolio shall be invested in bonds or debentures of foreign issuers.

The Auto Fund's exposure to exchange rate risk resulting from the purchase of goods and services is not considered material to the operations of the Auto Fund.

Equity prices

The Auto Fund is exposed to changes in equity prices in Canadian, U.S. and EAFE markets. At December 31, 2012, equities comprise 23.0% (2011 – 19.8%) of the carrying value of the Auto Fund's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. No one investee or related group of investees represents greater than 10% of the market value of the Auto Fund's common share portfolio. As well, no one holding represents more than 10% of the voting shares of any corporation.

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

	(thousands of $)					
Asset Class	2012			2011		
Canadian equities	$	+/-	60,543	$	+/-	68,192
U.S. equities		+/-	16,100		+/-	15,829
Non-North American equities		+/-	19,060		+/-	17,910
Global small cap equities		+/-	17,227		+/-	–

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

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

Liquidity risk

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

The following tables summarize the estimated contractual timing of cash flows arising from the Auto Fund's financial assets and liabilities at December 31.

	(thousands of $)						
	2012						
	Carrying amount	No stated maturity	0 – 1 Years	1 – 3 Years	3 – 5 Years	5 – 10 Years	More than 10 Years
Financial assets							
Accounts receivable	$ 193,384	$ –	$ 156,727	$ 36,657	$ –	$ –	$ –
Investments	1,520,694	520,751	260,197	115,294	89,552	165,516	369,384
Unpaid claims recoverable from reinsurers	6,558	–	5,918	638	2	–	–
	$1,720,636	$ 520,751	$ 422,842	$ 152,589	$ 89,554	$ 165,516	$ 369,384
Financial liabilities							
Accounts payable and accrued liabilities	$ 21,893	$ –	$ 21,893	$ –	$ –	$ –	$ –
Premium taxes payable	39,284	–	39,284	–	–	–	–
Provision for unpaid claims	1,280,402	–	158,955	114,097	79,691	163,023	764,636
	$1,341,579	$ –	$ 220,132	$ 114,097	$ 79,691	$ 163,023	$ 764,636

	(thousands of $)						
	2011						
	Carrying amount	No stated maturity	0 – 1 Years	1 – 3 Years	3 – 5 Years	5 – 10 Years	More than 10 Years
Financial assets							
Accounts receivable	$ 174,712	$ –	$ 174,712	$ –	$ –	$ –	$ –
Investments	1,399,887	440,199	217,495	152,666	81,106	173,336	335,085
Unpaid claims recoverable from reinsurers	19,764	–	16,683	3,077	4	–	–
	$1,594,363	$ 440,199	$ 408,890	$ 155,743	$ 81,110	$ 173,336	$ 335,085
Financial liabilities							
Accounts payable and accrued liabilities	$ 22,253	$ –	$ 22,253	$ –	$ –	$ –	$ –
Premium taxes payable	37,449	–	37,449	–	–	–	–
Provision for unpaid claims	1,170,687	–	145,689	100,453	68,957	139,556	716,032
	$1,230,389	$ –	$ 205,391	$ 100,453	$ 68,957	$ 139,556	$ 716,032

15. Capital Management

The primary objective of capital management for the Auto Fund is to maintain an adequate balance in its Rate Stabilization Reserve to assist in achieving consistency and stability in rates so that customers are not subject to ongoing price fluctuations or large rate increases. The Auto Fund uses a common industry measurement called the Minimum Capital Test (MCT) to establish a target for the Rate Stabilization Reserve. The MCT is a risk-based capital adequacy formula that assesses risks to assets, policy liabilities and off-balance sheet exposures by applying various factors to determine a ratio of capital available over capital required. At December 31, 2012, the MCT was 51% (2011 – 60%).

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

16. Change in Non-Cash Operating Items

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

	(thousands of $)	
	2012	**2011**
Accounts receivable	$ (18,672)	$ (11,139)
Deferred policy acquisition costs	(1,978)	(469)
Unpaid claims recoverable from reinsurers	13,206	(14,594)
Other assets	308	(362)
Accounts payable and accrued liabilities	(360)	(17,369)
Premium taxes payable	1,835	1,885
Unearned premiums	13,941	18,461
Provision for unpaid claims	109,715	206,761
	$ 117,995	$ 183,174

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 at prevailing market prices 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 $130,775,000 (2011 – $124,147,000) and accounts receivable are $8,580,000 (2011 – $202,000 – payable).

Certain board members are partners in organizations that provided $50,000 (2011 – $99,000) 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 owns an organization that provides insurance services on behalf of the Auto Fund. Premiums written during the year through this organization amounted to $1,907,000 (2011 – $1,773,000) and the associated accounts receivable at December 31, 2012, was $7,000 (2011 – $22,000). Issuer fees related to these premiums were $159,000 (2011 – $145,000). 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. Commitments and Contingencies

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

The following is the funding anticipated to be provided over the next five years:

	(thousands of $)
2013	$ 22,856
2014	18,900
2015	18,853
2016	16,932
2017	16,932

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

Glossary of Terms

Catastrophe reinsurance	A policy purchased by a ceding company that indemnifies that company for the amount of loss in excess of a specified retention amount subject to a maximum specific limit from a covered catastrophic event.
Claims incurred	The totals for all claims paid and related claim expenses during a specific accounting period(s) plus the changes in the provision for unpaid claims for the same period of time.
Combined ratio	A measure of total expenses (claims and administration) in relation to net premiums earned as determined in accordance with GAAP. If this ratio is below 100% there was a profit from underwriting activities, while over 100% represents a loss from underwriting.
GAAP	Generally accepted accounting principles. These are defined in the handbook prepared by the 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.
Prudent person	A common law standard against which those investing the money of others are judged against.
Redundancy & deficiency	Claim reserves are constantly re-evaluated. An increase in a reserve from the original estimate is a deficiency while a decrease to the original reserve is called a redundancy.
Underwriting profit/loss	The difference between net premiums earned and the sum of net claims incurred, commissions, premium taxes and all general and administrative expenses.
Unearned premiums	The difference between net premiums written and net premiums earned. It reflects the net premiums written for that portion of the term of its insurance policies that are deferred to subsequent accounting periods.

Governance

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

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

In Memoriam

Alice Marquette, a Clerk 5 at the Saskatoon West Claims Centre, was an incredibly hard working and efficient employee who always put others first and was quick to joke and put others at ease.

Alice had a love and devotion to her family, especially her daughter and sisters. She had a quick, dry sense of humour and was an unforgettable co-worker and friend.

Judy Millions, a Clerk 3 in Injury Claims at the Saskatoon Central Claims Centre, was a lightning-fast typist, always on top of everything at work and well liked by her co-workers.

Judy was a dedicated wife, mother and grandmother; a talented baker; fun-loving karaoke participant and an avid traveller, enjoying warm beach-front destinations.

Kanda Benaschak, an Adjuster 1 Auto at the Swift Current Claims Centre, was a fast learner and a perfectionist with her work.

Kanda enjoyed going to concerts, reading and had a real passion for spending time with friends and family.