2019 Coachman Insurance Company annual report

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 Coachman Insurance Company (the Corporation) within reasonable limits of materiality.

Preparation of financial information is an integral part of Management's broader responsibilities for the ongoing operations of the Corporation. 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 Corporation to carry out a valuation of the policy liabilities and to issue a report thereon to the shareholder and regulatory authorities. The valuation is carried out 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 Corporation and the nature of the insurance policies. The actuary also makes use of Management information provided by the Corporation 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. An Audit, Finance and Conduct Review Committee, composed of members of the Board of Directors, meets periodically with financial officers of the Corporation 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.

KPMG have been appointed external auditors. Their responsibility is to report to the shareholder and regulatory authorities regarding the fairness of presentation of the Corporation's financial position and results of operations as shown in the financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and her report on the policy liabilities. The Auditor's Report outlines the scope of their examination and their opinion.

Andrew R. Cartmell
President and Chief Executive Officer

Jeff Stepan
Chief Financial Officer

February 26, 2020

Actuary's Report

To the Shareholder of Coachman Insurance Company

I have valued the policy liabilities and reinsurance recoverables of Coachman Insurance Company for its statement of financial position at December 31, 2019, and their change in the statement of operations for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities net of reinsurance recoverables makes appropriate provision for all policy 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

Toronto, Ontario
February 26, 2020

Independent Auditor’s Report

To the Shareholder of Coachman Insurance Company

Opinion

We have audited the financial statements of Coachman Insurance Company (the “Entity”), which comprise:

- the statement of financial position as at December 31, 2019
- the statement of operations for the year then ended
- the statement of changes in shareholder’s equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “Auditors’ Responsibilities for the Audit of the Financial Statements” section of our auditors’ report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled are other ethical responsibilities in accordance with these requirements.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Entity’s ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity’s financial reporting process.

Auditors’ Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Regina, Canada
February 26, 2020

Statement of Financial Position

	(thousands of $)	
	December 31 2019	December 31 2018
Assets		
Cash and cash equivalents (note 4)	$ 8,384	$ 4,603
Accounts receivable (note 5)	16,861	18,232
Investments under securities lending program (note 6)	27,620	52,096
Investments (note 6)	132,591	121,966
Reinsurers' share of unearned premiums (note 10)	8	243
Unpaid claims recoverable from reinsurers (note 8)	17,627	27,736
Deferred policy acquisition costs (note 9)	62	224
Property and equipment	543	195
Right-of-use asset (note 7)	1,456	–
Deferred income tax asset (note 13)	2,034	2,673
	$ 207,186	$ 227,968
Liabilities		
Accounts payable and accrued liabilities	$ 2,899	$ 3,773
Income taxes payable	4,800	–
Amounts due to reinsurers	11	15
Unearned reinsurance commissions	57	215
Unearned premiums (note 10)	14,512	16,994
Provision for unpaid claims (note 8)	106,465	144,541
Lease liability (note 7)	1,480	–
Deferred income tax liability (note 13)	240	376
	130,464	165,914
Shareholder's equity		
Share capital (note 11)	1,000	1,000
Contributed surplus	30,600	30,600
Retained earnings	45,122	30,454
	76,722	62,054
	$ 207,186	$ 227,968

Contingencies (note 20)
The accompanying notes are an integral part of these financial statements.
Approved by the Board of Directors and signed on their behalf on February 26, 2020

Arlene Wiks
Director

Denis Perrault
Director

Statement of Operations

For the years ended December 31	2019 (thousands of $)	2018 (thousands of $)
Gross premiums written	$ 26,947	$ 34,663
Premiums ceded to reinsurers	(2,592)	(4,414)
Net premiums written	24,355	30,249
Change in net unearned premiums (note 10)	2,247	15,870
Net premiums earned	**26,602**	46,119
Gross claims incurred (note 8)	6,733	44,183
Ceded claims incurred (note 8)	2,712	449
Net claims incurred (note 8)	9,445	44,632
Commissions	3,732	8,463
Administrative expenses	4,279	8,225
Premium taxes	893	1,548
Total claims and expenses	**18,349**	62,868
Underwriting income (loss)	**8,253**	(16,749)
Net investment earnings (note 12)	11,846	4,227
Income (loss) before income taxes	**20,099**	(12,522)
Income tax expense (recovery) (note 13)	5,431	(3,350)
Net income (loss) and comprehensive income (loss)	**$ 14,668**	$ (9,172)

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

Statement of Changes in Shareholder's Equity

For the years ended December 31	(thousands of $) 2019		2018	
Share capital				
Balance, end of year	**$**	**1,000**	$	1,000
Contributed surplus				
Balance, end of year	**$**	**30,600**	$	30,600
Retained earnings				
Balance, beginning of year	$	30,454	$	39,626
Net income (loss) and comprehensive income (loss)		14,668		(9,172)
Balance, end of year	**$**	**45,122**	$	30,454
Total shareholder's equity	**$**	**76,722**	$	62,054

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

Statement of Cash Flows

For the years ended December 31		(thousands of $) 2019		2018
Cash provided by (used for):				
Operating activities				
Net income (loss) and comprehensive income (loss)	$	14,668	$	(9,172)
Non-cash items:				
Bond amortization		306		418
Depreciation		405		218
Net unrealized (gains) losses on change in market value of investments		(2,622)		911
Net realized (gains) losses on sale of investments		(4,491)		672
Interest revenue from investments		(2,780)		(2,815)
Interest expense from right of use assets (note 7)		38		–
Deferred income taxes (note 13)		503		(753)
Change in non-cash operating items (note 16)		(27,559)		(3,704)
Income taxes recovered		2,469		4,899
		(19,063)		(9,326)
Investing activities				
Interest received		2,953		2,447
Purchases of investments		(152,832)		(152,380)
Proceeds on sale of investments		173,490		155,851
Purchases of property and equipment		(429)		(150)
		23,182		5,768
Financing activities				
Interest paid (note 7)		(38)		–
Lease liability payments (note 7)		(300)		–
		(338)		–
Increase (decrease) in cash and cash equivalents		**3,781**		(3,558)
Cash and cash equivalents, beginning of year		4,603		8,161
Cash and cash equivalents, end of year	**$**	**8,384**	$	4,603

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

Notes to the Financial Statements

December 31, 2019

1. Nature of Operations

Coachman Insurance Company (the Corporation) was incorporated under the laws of Ontario on June 12, 1979. The Corporation holds an Ontario provincial insurers' licence under the *Insurance Act* (Ontario) and is licensed to conduct business in Ontario. The address of the Corporation's registered office is Suite 200, 10 Four Seasons Place, Etobicoke, ON, Canada.

The Corporation's automobile insurance premium rates are regulated by the Financial Services Commission of Ontario. Regulation of premium rates is based on claims and other costs of providing insurance coverage, as well as projected profit margins. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. The Corporation's automobile insurance premiums represent approximately 99.8% (December 31, 2018 – 71.0%) of the Corporation's gross premiums written.

As a wholly-owned subsidiary of SGI CANADA Insurance Services Ltd. (SCISL), the financial results of the Corporation are included in its consolidated financial results and ultimately consolidated into the financial statements of Saskatchewan Government Insurance (SGI CANADA). The consolidated financial results of SGI CANADA are included in the consolidated financial statements of Crown Investments Corporation of Saskatchewan.

2. Basis of Preparation

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). References to IFRS are based on Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises as set out in Part 1 of the CPA Canada handbook. Part 1 of the CPA Canada handbook incorporates IFRS as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

Basis of measurement

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

Statement of Financial Position classification

The Statement of Financial Position has been prepared on a non-classified basis broadly in order of liquidity.

Functional and presentation currency

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

Use of estimates and judgment

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation processes are related to the actuarial determination of the provision for unpaid claims (note 8), income taxes (note 13) and the valuation of investments classified as Level 3 (note 6).

3. Significant Accounting Policies

Adoption of new and amended accounting standards

This is the first set of the Corporation's financial statements in which IFRS 16, *Leases*, has been applied. The related changes to significant accounting policies is described in the Leases section below.

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 in net income. Financial assets classified as available for sale are measured at fair value with unrealized changes in fair value recorded in other comprehensive income (OCI); however, unrealized losses on investments that show objective evidence of impairment are recognized as a decrease to net income. Financial assets designated as held to maturity, or loans and receivables, are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment losses, if any. Other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. The Corporation has no financial assets and liabilities designated as available for sale or held to maturity.

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

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

Fair value of financial instruments

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

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

The input levels are defined as follows:

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

The Corporation defines active markets based on the frequency of valuation and any restrictions or illiquidity on disposition of the underlying investment and trading volumes. Assets measured at fair value and classified as Level 1 include equity investment funds. Fair value is based on market price data for identical assets obtained from the investment custodian, investment managers or dealer markets. The Corporation does not adjust the quoted price for such investments.

Level 2: Quoted prices in markets that are not active or inputs that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Level 2 inputs include observable market information, including quoted prices for assets in markets that are considered less active. Assets measured at fair value and classified as Level 2 include short-term investments and bonds and debentures. Fair value for short-term investments and bonds and debentures is based on, or derived from, market price data for same or similar instruments obtained from the investment custodian, investment managers or dealer markets.

Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities

Level 3 assets and liabilities include financial instruments whose values are determined using internal pricing models, discounted cash flow methodologies, or similar techniques that are not based on observable market data, as well as instruments for which the determination of estimated fair value requires significant management judgment or estimation. Assets classified as Level 3 include the Corporations's investment in the mortgage investment fund and real estate investment fund. The fair value of these investments is based on the Corporation's shares of the net asset value of the respective fund, as determined by its investment manager, and used to value purchases and sales of units in the investments. The primary valuation methods used by the investment managers are as follows:

- The fair value for the mortgage investment fund is determined based on market values of the underlying mortgage investments, calculated by discounting scheduled cash flows through to the estimated maturity of the mortgages (using spread-based pricing over Government of Canada bonds with a similar term to maturity), subject to adjustments for liquidity and credit risk.
- The fair value of the real estate investment fund is determined based on the most recent appraisals of the underlying properties. Real estate properties are appraised semi-annually by external, independent professional real estate appraisers who are accredited through the Appraisal Institute of Canada. Real estate appraisals are performed in accordance with generally accepted appraisal standards and procedures, and are based primarily on the discounted cash flow and income capitalization methods.

The fair value of other financial assets and financial liabilities is considered to be the carrying value when they are of short duration or when the investment's interest rate approximates current observable market rates. Where other financial assets and financial liabilities are of longer duration, fair value is determined using the discounted cash flow method using discount rates based on adjusted observable market rates. The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and amounts due to reinsurers approximate their carrying values due to their short-term nature.

Investments

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

Investments under securities lending program

Securities lending transactions are entered into on a collateralized basis. The securities lent are not de-recognized on the Statement of Financial Position given that the risks and rewards of ownership are not transferred from the Corporation 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 Corporation in the course of such transactions.

Investment earnings

The Corporation recognizes interest and premium financing as earned, investment fund revenue when a distribution is declared, realized gains and losses on investments when the investment has been sold, and unrealized gains and losses based on changes in market value of the investments held at the year-end date. Realized gains and losses represent the difference between the amounts received through the sale of investments and their respective cost base.

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

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

Foreign currency translation

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

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

Provision for unpaid claims

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

Deferred policy acquisition costs

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

Reinsurance ceded

The Corporation uses various types of reinsurance to limit its maximum insurance risk exposure. Estimates of amounts recoverable from reinsurers in respect of insurance contract liabilities and their share of unearned premiums are recorded as reinsurance assets on a gross basis in the Statement of Financial Position. 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 DPAC respectively. Insurance ceded does not relieve the Corporation of its primary obligation to policyholders.

Income taxes

The Corporation uses the asset and liability method of accounting for income taxes. Income taxes are comprised of both current and deferred taxes. Income taxes are recognized in the Statement of Operations.

Current income taxes are recognized as estimated income taxes for the current year. Deferred income tax assets and liabilities consist of temporary differences between tax and accounting basis of assets and liabilities, as well as the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any deferred income tax asset if it is probable that the asset will not be realized, probable being defined as more likely than not.

Cash and cash equivalents

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

Property and equipment

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

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

The depreciation method being used, the useful lives of the assets and the residual values of the assets are reviewed at each reporting date. Depreciation is recorded in operations on a straight-line basis, commencing in the year the asset is available to be placed in service, over its estimated useful life as follows:

Leasehold improvements	lease term
Other equipment	5 years

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

Leases

IFRS 16, *Leases* (IFRS 16) eliminates the operating and finance lease classifications for lessees with a single, on-balance sheet lease accounting model. As a result of this change, the Corporation now recognizes all leases to which it is a lessee in the Statement of Financial Position as a lease liability with a corresponding right-of-use asset, subject to recognition exemptions for certain short-term and low value leases.

The Corporation adopted IFRS 16 using the modified retrospective approach, which requires that the cumulative effect of initially applying IFRS 16 to be applied as an adjustment to the opening balance of retained earnings at the date of initial application. As at January 1, 2019, the date of initial application, no adjustment to retained earnings was required. The comparative information was not restated and continues to be reported under IAS 17, *Leases* and IFRIC 4, *determining whether an arrangement contains at lease*.

In adopting the standard, the Corporation has applied various practical expedients:

- IFRS 16 allows an entity to account for leases with less than 12 months remaining in the lease term at the date of initial application as if they were short-term leases.
- IFRS 16 allows an entity to exclude initial direct costs from the measurement of the right-to-use asset at the date of initial application.
- IFRS 16 allows an entity to use hindsight when determining the impact of leases upon transition, specifically in determining the lease term.

Policy Applicable from January 1, 2019

On the lease commencement date, a right-of-use asset and a lease liability are recognized.

The lease liability is initially measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Corporation uses its incremental borrowing rate for similar terms at the start date of the lease term. The lease term includes the non cancellable period of the lease along with any periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option and any periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. Lease payments included in the measurement of the lease liability comprise fixed payments, reduced by any incentives receivable, and exclude operational costs and variable lease payments. The lease liability is subsequently measured at amortized cost using the effective interest method.

The right-of-use asset is initially measured at cost, which corresponds to the value of the lease liability adjusted for any lease payments made or initial direct costs incurred at or before the commencement date, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term.

The Corporation has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Corporation recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Policy applicable before January 1, 2019

Leases where the Corporation did not assume substantially all of the risks and rewards of ownership were classified as operating leases. The payments were expensed as they were incurred.

Impact of the adoption of IFRS 16

The adoption of IFRS 16 resulted in the recognition of operating leases, mainly real estate leases, on the Corporation's Statement of Financial Position.

At the transition date, right-of-use assets were measured on a lease-by-lease basis at an amount equal to the lease liability. Lease liabilities were measured at the present value of the remaining lease payments, using the Corporation's incremental borrowing rate at January 1, 2019 for similar terms of the remaining lease period for each lease.

On January 1, 2019, the Corporation recognized right-of-use assets and lease liabilities of $1.3 million, related to the lease of office space in Toronto. The Corporation's incremental borrowing rate used to discount the lease liability for this lease was 2.60%. At that time, there were no adjustments needed for prepaid or accrued lease payments. The adoption did not have a material effect on administration expense and net income.

Provisions and contingent liabilities

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

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

Structured settlements

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

Future accounting policy changes

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

IFRS 9 – Financial Instruments

IFRS 9 will replace IAS 39, and requires financial assets to be measured at either fair value or amortized cost, on the basis of the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. A financial asset that is held by an entity for the purpose of collecting contractual cash flows on specified dates per contractual terms should be measured at amortized cost. All other financial assets should be measured at fair value.

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

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

The standard introduces a forward looking impairment model. IFRS 9 replaces the incurred loss model under IAS 39 with an expected credit loss model. This standard is generally effective for annual periods beginning on or after January 1, 2018. However, in September 2016, IFRS 4 was amended to provide an option of a temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing insurance contracts within the scope of IFRS 4. Therefore, qualifying entities will have the option to adopt IFRS 9 upon the adoption of IFRS 17. The Corporation qualifies for the temporary exemption as the liabilities were predominately connected with insurance as at December 31, 2015, the prescribed date of assessment. Additionally, the Corporation has not previously applied any version of IFRS 9. Therefore, IFRS 9 is effective for annual periods beginning on or after January 1, 2022, which aligns with the effective date of IFRS 17.

IFRS 17 – Insurance Contracts

IFRS 17 was issued in May 2017 and will replace IFRS 4. The intent of the standard is to establish consistent recognition, measurement, presentation and disclosure principles to provide relevant and comparable reporting of insurance contracts across jurisdictions.

The standard requires entities to measure insurance contract liabilities as the risk-adjusted present value of the cash flows plus the contractual service margin, which represents the unearned profit the entity will recognize as future service is provided. This is referred to as the general model. Expedients are specified, provided the insurance contracts meet certain conditions. If, at initial recognition or subsequently, the contractual service margin becomes negative, the contract is considered onerous and the excess is recognized immediately in the Statement of Operations. The standard also includes significant changes to the presentation and disclosure of insurance contracts within entities' financial statements.

IFRS 17 applies to annual periods beginning on or after January 1, 2022, as the IASB voted to approve a one-year deferral of the effective date from 2021 to 2022. The standard is to be applied retrospectively unless impracticable, in which case a modified retrospective approach or fair value approach is to be used for transition. The standard represents a comprehensive IFRS accounting model for insurance contracts and is expected to have a significant impact on financial reporting of insurers. The Corporation is evaluating the impact this standard will have on the financial statements.

4. Cash and Cash Equivalents

	(thousands of $)	
	2019	**2018**
Money market investments	$ 8,049	$ 5,040
Cash (Bank overdraft), net of (including) outstanding cheques	335	(437)
Total cash and cash equivalents	$ 8,384	$ 4,603

The average effective interest rate on money market investments is 1.7% (2018 – 1.7%).

5. Accounts Receivable

Accounts receivable is comprised of the following:

	(thousands of $)	
	2019	**2018**
Due from insureds	$ 11,146	$ 11,740
Due from related party (note 18)	2,817	240
Facility Association (note 19)	1,890	1,721
Due from reinsurers	603	1,182
Accrued investment income	526	699
Other	324	427
Due from brokers	10	236
Income taxes receivable	–	2,597
	17,316	18,842
Less: Allowance for doubtful accounts (note 14)	(455)	(610)
Total accounts receivable	$ 16,861	$ 18,232

Included in due from insureds is $10.7 million (2018 – $10.9 million) of financed premiums receivable, which represents the portion of the 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 earnings that would have been earned on such premium, had the total amount been collected at the beginning of the policy period. The additional charge is recognized in investment earnings using the effective interest method. The effective interest rate for automobile premiums is 3.5% (2018 – 3.5%), all other premiums have an effective interest rate of 8.0% (2018 – 8.0%).

6. Investments

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

	(thousands of $)	
	2019	**2018**
Short-term investments	$ 15,808	$ 17,624
Bonds and debentures	60,662	40,551
Investment funds:		
Canadian equity	7,007	6,923
Global equity	18,156	22,387
Global small cap equity	3,669	4,001
Mortgage	20,216	21,528
Real estate	7,073	8,952
	132,591	121,966
Investments under securities lending program		
Bonds and debentures	27,620	52,096
Total investments	$ 160,211	$ 174,062

Details of significant terms and conditions 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 1.8% (2018 – 1.9%) and an average remaining term to maturity of 108 days (2018 – 64 days).

Bonds and debentures

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 $)			
	2019		2018	
Term to maturity (years)	Carrying Value	Average Effective Rates (%)	Carrying Value	Average Effective Rates (%)
Government of Canada:				
After one through five	$ 29,652	1.9	$ 31,465	2.2
Canadian provincial & municipal:				
One or less	–	–	5,915	1.9
After one through five	14,429	1.9	8,174	2.3
Canadian corporate:				
One or less	1,644	2.0	2,557	1.7
After one through five	35,979	2.3	38,420	2.8
After five	6,578	2.7	6,116	3.0
Total bonds and debentures	$ 88,282		$ 92,647	

Investment funds

The Corporation owns units in equity investment funds, a mortgage investment fund and a real estate investment fund. These investment funds have no fixed distribution rate. Fund returns are based on the success of the fund managers.

Securities lending program

Through its custodian, the Corporation participates in an investment securities lending program for the purpose of generating fee income. While in the possession of counterparties, the loaned securities may be resold or re-pledged by such counterparties.

At December 31, 2019, the Corporation held collateral of $29.0 million (2018 – $54.7 million) for the loaned securities.

Fair value hierarchy

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

	(thousands of $)			
	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Short-term investments	$ –	$ 15,808	$ –	$ 15,808
Bonds and debentures	–	88,282	–	88,282
Investment funds:				
Canadian equity	7,007	–	–	7,007
Global equity	18,156	–	–	18,156
Global small cap equity	3,669	–	–	3,669
Mortgage	–	–	20,216	20,216
Real estate	–	–	7,073	7,073
	$ 28,832	$ 104,090	$ 27,289	$ 160,211

	(thousands of $)			
	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Short-term investments	$ –	$ 17,624	$ –	$ 17,624
Bonds and debentures	–	92,647	–	92,647
Investment funds:				
Canadian equity	6,923	–	–	6,923
Global equity	22,387	–	–	22,387
Global small cap equity	4,001	–	–	4,001
Mortgage	–	–	21,528	21,528
Real estate	–	–	8,952	8,952
	$ 33,311	$ 110,271	$ 30,480	$ 174,062

The Corporation's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

A reconciliation of Level 3 investments is as follows:

	(thousands of $)	
	2019	2018
Level 3 investments, beginning of the year	$ 30,480	$ 32,921
Add: Additions during the year		
Mortgage investment fund	2,285	918
Less: Disposals during the year		
Mortgage investment fund	(3,616)	(4,192)
Real estate investment fund	(1,835)	–
Net unrealized gains	(25)	833
Level 3 investments, end of the year	$ 27,289	$ 30,480

Investment in the mortgage investment fund and the real estate investment fund are valued using the Corporation's share of the net asset value of the respective fund as at December 31, 2019.

During the year ended December 31, 2019 no investments were transferred between levels.

7. Leases

The Corporation leases office space in Toronto. The lease originally commenced in June 2013 for a five-year term. The term was extended for five years for a term of January 2018 to December 2023. There are no further extension provisions. The lease agreement was amended in September 2013, September 2017 and April 2019 to add additional premises to the lease.

Information about the leases is presented below:

Right-of-use assets

	(thousands of $) 2019
Balance, beginning of year	$ –
Depreciation charge for the year	(324)
Additions to right-of-use assets	1,780
Balance, end of year	$ 1,456

Lease liabilities

	(thousands of $) 2019
Contractual undiscounted cash flows	
One year or less	$ 379
Between one and five years	1,181
Total undiscounted lease liabilities	$ 1,560
Discounted lease liabilities included in the Statement of Financial Position	$ 1,480

Amounts recognized in profit or loss

Leases under IFRS 16	(thousands of $) 2019
Interest on lease liabilities	$ 38
Variable lease payment expenses	442
Expenses related to low value leases	11
Expenses related to short-term leases	–
	$ 491

2018 – Operating leases under IAS 17	
Lease expense	$ 583

Amounts recognized in the Statement of Cash Flows

Leases under IFRS 16	(thousands of $) 2019
Interest paid on lease liabilities	$ 38
Lease liability principal payments	300
Total cash outflow for leases	$ 338

8. Claims Incurred and Provision for Unpaid Claims

Net claims incurred

	(thousands of $)					
	2019			2018		
	Current Year	Prior Years	Total	Current Year	Prior Years	Total
Gross claims incurred	$ 22,002	$ (15,269)	$ 6,733	$ 49,592	$ (5,409)	$ 44,183
Ceded claims incurred	(394)	3,106	2,712	(519)	968	449
Net claims incurred	$ 21,608	$ (12,163)	$ 9,445	$ 49,073	$ (4,441)	$ 44,632

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

Ceded claims incurred represent an estimate of the recoverable cost of those claims transferred to the Corporation's various reinsurers pursuant to reinsurance contracts (note 14).

Net provision for unpaid claims

	(thousands of $)	
	2019	2018
Beginning of year:		
Net unpaid claims – discounted	$ 116,805	$ 116,088
PFAD and discount	(8,019)	(7,954)
Net unpaid claims – undiscounted	108,786	108,134
Payments made during the year relating to:		
Prior year claims	(27,947)	(24,233)
Prior year Facility Association claims	(318)	(411)
Excess relating to:		
Prior year estimated unpaid claims	(11,659)	(4,365)
Prior year estimated unpaid Facility Association claims	(503)	(75)
Net unpaid for claims, prior years – undiscounted	68,359	79,050
Net unpaid claims, current year	13,126	29,022
Net unpaid Facility Association claims, current year	383	714
Net unpaid claims, end of year – undiscounted	81,868	108,786
PFAD and discount, end of year	6,970	8,019
Net unpaid claims, end of year – discounted	$ 88,838	$ 116,805

The net provision for unpaid claims of $88.8 million (2018 – $116.8 million) consists of the gross provision for unpaid claims of $106.4 million (2018 – $144.5 million) less unpaid claims recoverable from reinsurers of $17.6 million (2018 – $27.7 million).

The net provision for unpaid claims is summarized as follows:

Net unpaid claims

	(thousands of $)					
	Gross Unpaid Claims		Reinsurance Recoverable		Net Unpaid Claims	
	2019	2018	2019	2018	2019	2018
Provision for reported claims, undiscounted	$ 71,202	$ 95,832	$ 13,578	$ 21,595	$ 57,624	$ 74,237
Provision for claims incurred but not reported	26,953	38,849	2,709	4,300	24,244	34,549
PFAD	14,086	19,334	2,205	3,426	11,881	15,908
Effects of discounting	(5,776)	(9,474)	(865)	(1,585)	(4,911)	(7,889)
	$ 106,465	$ 144,541	$ 17,627	$ 27,736	$ 88,838	$ 116,805

Management believes that the unpaid claims provision is appropriately established in the aggregate and is adequate to cover the ultimate net cost on a discounted basis. The determination of this provision, which includes unpaid claims, adjustment expenses and expected salvage and subrogation, requires an assessment of future claims development. This assessment takes into account the consistency of the Corporation's claim handling procedures, the amount of information available, the characteristics of the line of business from which the claims arise and the delay inherent in claims reporting. This provision is an estimate and as such is subject to variability that may arise from future events, such as the receipt of additional claims information, changes in judicial interpretation of contracts or significant changes in frequency and severity of claims. This estimate is principally based on the Corporation's historical experience and may be revised as additional experience becomes available. Any such changes would be reflected in the Statement of Operations for the period in which the change occurred.

The provision for unpaid claims and unpaid claims recoverable from reinsurers are carried on a discounted basis to reflect the time value of money. In that respect, the Corporation determines the discount rate based upon the expected return of the bond investments that approximates the cash flow requirements of the unpaid claims. The discount rate applied was 2.0% (2018 – 2.3%). The resulting carrying amount is considered to be an indicator of fair value as there is no ready market for trading insurance contract liabilities.

Structured settlements

The Corporation settles some long-term disability claims by purchasing annuities for its claimants from various life insurers. The settlements legally release the Corporation 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 Corporation provides a financial guarantee to the claimants in the event the life insurers' default on the scheduled payments and is thus exposed to credit risk to the extent any of the life insurers fail to fulfill their obligations. As at December 31, 2019, no information has come to the Corporation's attention that would suggest any weakness or failure in the life insurers from which it has purchased annuities. The net present value of the scheduled payments as of the year-end date is $0.5 million (2018 – $0.6 million). The net risk to the Corporation is the credit risk related to the life insurance companies that the annuities are purchased from. No defaults have occurred, and the Corporation considers the possibility of default to be remote.

9. Deferred Policy Acquisition Costs (DPAC)

	(thousands of $)	
	2019	2018
DPAC, beginning of the year	$ 224	$ 3,970
Acquisition costs deferred during the year	4,260	5,664
Amortization of deferred acquisition costs	(4,917)	(8,825)
Change in premium deficiency	495	(585)
DPAC, end of the year	$ 62	$ 224

10. Unearned Premiums

	(thousands of $)					
	Gross Unearned Premiums		Reinsurers' Share of Unearned Premiums		Net Unearned Premiums	
	2019	2018	2019	2018	2019	2018
Unearned premiums, beginning of the year	$ 16,994	$ 32,920	$ 243	$ 299	$ 16,751	$ 32,621
Premiums written	26,947	34,663	2,592	4,414	24,355	30,249
Premiums earned	(29,429)	(50,589)	(2,827)	(4,470)	(26,602)	(46,119)
Change in net unearned premiums	(2,482)	(15,926)	(235)	(56)	(2,247)	(15,870)
Unearned premiums, end of the year	$ 14,512	$ 16,994	$ 8	$ 243	$ 14,504	$ 16,751

11. Share Capital

Authorized:
Unlimited number of common shares with no par value.

	(thousands of $)	
Issued and fully paid:	2019	2018
10,000 common shares	$ 1,000	$ 1,000

12. Net Investment Earnings

Components of net investment earnings are as follows:

	(thousands of $)	
	2019	2018
Net realized gains (losses) on sale of investments	$ 4,491	$ (672)
Net unrealized gains (losses) on change in market value of investments	2,622	(911)
Interest	2,474	2,397
Investment fund distributions	2,143	2,913
Premium financing	512	909
Total investment earnings	12,242	4,636
Investment expenses	(396)	(409)
Net investment earnings	$ 11,846	$ 4,227

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

	(thousands of $)	
	2019	2018
Bonds and debentures	$ (111)	$ 1,041
Investment funds:		
Canadian equity	926	(1,298)
Global equity	1,379	(711)
Global small cap equity	453	(776)
Mortgage	19	120
Real estate	(44)	713
	$ 2,622	$ (911)

13. Income Taxes

The Corporation’s provision for income taxes is as follows:

	(thousands of $)	
	2019	2018
Current	$ 4,928	$ (2,597)
Deferred	503	(753)
Income tax expense (recovery)	$ 5,431	$ (3,350)

Income tax expense (recovery) differs from the amount that would be computed by applying the federal and provincial statutory income tax rates to income before income taxes.

The reasons for the differences are as follows:

	(thousands of $)	
	2019	2018
Income (loss) before income taxes	$ 20,099	$ (12,522)
Combined federal and provincial tax rate	26.50%	26.50%
Computed tax expense (recovery) based on combined rate	$ 5,326	$ (3,318)
Increase (decrease) resulting from:		
Investment earnings not subject to taxation	(48)	(48)
Other	153	16
Total income tax expense (recovery)	$ 5,431	$ (3,350)

All income taxes payable and/or receivable are due within one year.

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities are presented below:

Deferred tax asset	(thousands of $)			
	Provision for Unpaid Claims	Other	DPAC	Total
At January 1, 2018	$ 1,992	$ 17	$ –	$ 2,009
Credit (charge) reflected in income tax expense	(77)	31	710	664
At December 31, 2018	1,915	48	710	2,673
Charge reflected in income tax expense	(504)	(22)	(113)	(639)
At December 31, 2019	$ 1,411	$ 26	$ 597	$ 2,034

Deferred tax liability	(thousands of $)		
	Unpaid Claims Recoverable from Reinsurers	Investments	Total
At January 1, 2018	$ 454	$ 11	$ 465
Credit reflected in income tax expense	(86)	(3)	(89)
At December 31, 2018	368	8	376
Credit reflected in income tax expense	(135)	(1)	(136)
At December 31, 2019	$ 233	$ 7	$ 240

The Corporation expects that the deferred tax asset will be realized in the normal course of operations.

14. Insurance and Financial Risk Management

Insurance risk arises with respect to the adequacy of the Corporation's insurance 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 Corporation's Statement of Financial Position consists primarily of financial instruments. Financial risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Insurance Risk

Underwriting risk

The Corporation manages insurance risk through underwriting and reinsurance strategies within an overall strategic planning process. Pricing is based on assumptions with regards to past experiences and trends. Exposures are managed by having documented underwriting limits and criteria, product and geographic diversification and reinsurance.

Diversification

The Corporation writes property, liability and motor risks over a 12-month period. The most significant risks arise from properly costing automobile injury and accident benefits. The Corporation attempts to mitigate risk by offering different lines of insurance products.

The concentration of insurance risk by line of business is summarized below by reference to gross premiums written:

	(thousands of $)	
	2019	2018
Automobile	$ 26,887	$ 24,619
Personal property	(5)	(53)
Commercial property	33	6,579
Liability	32	3,518
Total	$ 26,947	$ 34,663

The concentration of insurance risk by line of business is summarized below by reference to unpaid claim liabilities:

	(thousands of $)					
	Gross		Reinsurance Recoverable		Net	
	2019	2018	2019	2018	2019	2018
Automobile	$ 85,888	$ 114,406	$ 15,595	$ 24,499	$ 70,293	$ 89,907
Personal property	301	617	72	89	229	528
Commercial property	1,910	5,403	619	658	1,291	4,745
Liability	8,338	12,151	1	649	8,337	11,502
Facility Association (note 19)	1,718	2,104	–	–	1,718	2,104
PFAD and discounting	8,310	9,860	1,340	1,841	6,970	8,019
Total	$ 106,465	$ 144,541	$ 17,627	$ 27,736	$ 88,838	$ 116,805

Reinsurance

The Corporation also seeks to reduce losses that may arise from catastrophes or other events that cause unfavourable underwriting results by reinsuring certain levels of risk with SCISL and other insurers.

The policy of underwriting and reinsuring contracts of insurance limits the liability of the Corporation to a maximum amount on any one loss as follows:

	(thousands of $)	
	2019	2018
Property	$ 1,500	$ 1,250
Automobile and general liability	1,500	1,500

In addition, the Corporation carries property and auto physical damage catastrophe reinsurance limiting combined exposure to $2.5 million per event.

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

The following table sets out the amount by which reinsurance ceded has (reduced) increased the premiums earned, claims incurred, and commissions, administrative expenses and premium taxes:

	(thousands of $)	
	2019	2018
Premiums earned	$ (2,827)	$ (4,470)
Claims incurred	2,712	449
Commissions, administrative expenses and premium taxes	(143)	317

Actuarial risk

Establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances, and is therefore a complex process influenced by a variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Corporation 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 Corporation's experience with similar cases, historical claim payment trends and claim development patterns, the characteristics of each class of business, claim severity and frequency, the effect of inflation on future claim settlement costs, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim, the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as physical damage or collision claims tend to be more reasonably predictable than long-tail claims such as liability claims.

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

The following tables show the development of the estimated net provision for unpaid claims relative to the current estimate of ultimate claim costs for the 10 most recent accident years as estimated at each reporting date.

	(thousands of $)									
Accident Year	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Net ultimate loss										
End of accident year	$ 24,595	$ 38,463	$ 34,290	$ 34,416	$ 34,178	$ 38,940	$ 45,457	$ 62,156	$ 43,607	$ 21,500
One year later	24,658	34,527	30,383	32,611	29,784	37,956	45,815	60,507	41,443	
Two years later	25,193	32,149	27,387	30,038	27,564	36,176	43,218	56,755		
Three years later	23,763	29,954	25,356	28,283	25,711	37,123	40,845			
Four years later	22,906	28,719	24,317	26,612	25,461	36,212				
Five years later	22,265	27,446	23,421	26,194	24,046					
Six years later	21,559	27,378	23,582	25,328						
Seven years later	21,270	26,990	23,416							
Eight years later	21,320	26,994								
Nine years later	21,236									
Cumulative loss development	$ (3,359)	$ (11,469)	$ (10,874)	$ (9,088)	$ (10,132)	$ (2,728)	$ (4,612)	$ (5,401)	$ (2,164)	n/a
Cumulative loss development as a % of original ultimate loss	(13.7%)	(29.8%)	(31.7%)	(26.4%)	(29.6%)	(7.0%)	(10.1%)	(8.7%)	(5.0%)	n/a

	(thousands of $)										
Accident Year	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
Current estimate of net ultimate loss	21,236	26,994	23,416	25,328	24,046	36,212	40,845	56,755	41,443	21,500	317,775
Cumulative paid	(20,923)	(26,365)	(21,727)	(23,368)	(20,437)	(28,871)	(30,466)	(37,540)	(23,698)	(9,114)	(242,509)
Net provision for unpaid claims for the 10 most recent accident years	$ 313	$ 629	$ 1,689	$ 1,960	$ 3,609	$ 7,341	$ 10,379	$ 19,215	$ 17,745	$ 12,386	$ 75,266
Net undiscounted claims outstanding for accident years 2009 and prior											260
Loss adjusting expense reserve											4,293
Provision for adverse deviation and discounting											6,970
Facility Association											1,718
Retained risk sharing pool											144
Health levy											(164)
Subrogation											294
Other reconciling items											57
Net provision for unpaid claims											$ 88,838

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

		(thousands of $)			
		Change to Net Provision for Unpaid Claims		Change to Net Income	
Assumption	**Sensitivity**	**2019**	**2018**	**2019**	**2018**
Discount rate	+ 100 bps	$ (2,644)	$ (3,587)	$ (163)	$ 511
Discount rate	– 100 bps	2,644	3,587	163	(511)

The net provision for unpaid claims refers to the provision for unpaid claims net of unpaid claims recoverable from reinsurers. The method used for deriving this sensitivity information did not change from the prior period.

Financial Risk

The nature of the Corporation's operations results in a Statement of Financial Position that consists primarily of financial instruments. The risks that arise are credit risk, market risk and liquidity risk.

Significant financial risks are related to the Corporation's investments. These financial risks are managed by having a Statement of Investment Policies and Goals (SIP&G), which is approved annually by the Corporation's Board of Directors. The SIP&G provides guidelines to the investment managers for the asset mix of the portfolio regarding quality and quantity of debt 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. The Corporation receives regular reporting from the investment managers and custodian regarding compliance with the SIP&G. The investment managers' performance is evaluated based on return objectives, including realized and unrealized capital gains and losses plus income from all sources, and goals stated in the SIP&G.

Credit risk

The Corporation's credit risk arises primarily from two distinct sources: accounts receivable (from customers, brokers and reinsurers) and certain investments.

The maximum credit risk to which the Corporation is exposed is limited to the carrying value of the financial assets summarized as follows:

	(thousands of $)	
	2019	**2018**
Cash and cash equivalents	$ 8,384	$ 4,603
Accounts receivable	16,861	18,232
Fixed income investments [1]	124,306	131,799
Unpaid claims recoverable from reinsurers	17,627	27,736

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

In addition, the Corporation is exposed to credit risk associated with its structured settlements as described separately in the notes to the financial statements.

Cash and cash equivalents include money market investments of $8.0 million plus cash on hand, net of outstanding cheques of $0.3 million (2018 – $5.0 million less bank overdraft, net of outstanding cheques of $0.4 million). The money market investments mature within 90 days from the date of acquisition and have a credit rating of R-1.

Accounts receivable are primarily from customers, diversified among residential and commercial, along with amounts from the Facility Association (note 19) and from brokers. Accounts receivable generally consist of balances outstanding for one year or less.

	(thousands of $)	
	2019	2018
Current	$ 16,766	$ 15,509
30 – 59 days	43	107
60 – 90 days	28	2,629
Greater than 90 days	479	597
Subtotal	17,316	18,842
Allowance for doubtful accounts	(455)	(610)
Total	$ 16,861	$ 18,232

Provisions for credit losses are maintained in an allowance account and are regularly reviewed by the Corporation. Amounts are written off once reasonable collection efforts have been exhausted. The allowance mainly relates to amounts outstanding greater than 90 days.

Details of the allowance account are as follows:

	(thousands of $)	
	2019	2018
Allowance for doubtful accounts, beginning of year	$ 610	$ 592
Accounts written off	(366)	(262)
Current period provision	211	280
Allowance for doubtful accounts, end of year	$ 455	$ 610

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

Credit risk within investments is related primarily to short-term investments, bonds and debentures, and the mortgage investment fund. It is managed through the 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 the bond and debenture investments are as follows:

	(thousands of $)			
	2019		2018	
Credit Rating	Fair Value (thousands of $)	Makeup of Portfolio (%)	Fair Value (thousands of $)	Makeup of Portfolio (%)
AAA	$ 30,500	34.5	$ 32,583	35.2
AA	24,168	27.4	30,609	33.0
A	20,522	23.3	19,068	20.6
BBB	13,092	14.8	10,387	11.2
Total	$ 88,282	100.0	$ 92,647	100.0

Within bonds and debentures, there are no holdings from one issuer, other than the Government of Canada or a Canadian province, over 10% of the market value of the combined bond and short-term investment portfolios. No one holding of a province is over 20% of the market value of the bond portfolio.

The unit value of the mortgage investment fund is impacted by the credit risk of the underlying mortgages. This risk is limited by restrictions within its own investment policy, which include single loan limits, diversification by property type and geographic regions within Canada. Each underlying mortgage is secured by real estate and related contracts.

Market risk

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk primarily impacts the value of investments.

Interest rate risk

The Corporation is exposed to changes in interest rates in its fixed income investments, including short-term investments, bonds and debentures and the mortgage investment fund. Changes in interest rates also impact the provision for unpaid claims and unpaid claims recoverable from reinsurers. The impact that a change in interest rates has on investment income will be partially offset by the impact the change in interest rates has on discounting of claims incurred.

It is estimated that a 100 basis point increase/decrease in interest rates would have the following impact:

	(thousands of $)			
	100 basis point increase		100 basis point decrease	
	2019	2018	2019	2018
Net investment earnings	$ (2,807)	$ (3,076)	$ 2,807	$ 3,076

Foreign exchange

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

	Maximum Exposure (%)	Current Exposure (%)	10% change in exchange rates (thousands of $)
Asset Class	**December 31 2019**	**December 31 2019**	**December 31 2019**
Global equities	15.0	11.3	$ 1,816
Global small cap equities	3.0	2.3	367

	Maximum Exposure (%)	Current Exposure (%)	10% change in exchange rates (thousands of $)
Asset Class	**December 31 2018**	**December 31 2018**	**December 31 2018**
Global equities	15.0	12.9	$ 2,239
Global small cap equities	3.0	2.3	400

As global equity funds are classified as fair value through profit and loss, any unrealized changes due to foreign currency are recorded in net income. There is no exposure to foreign exchange risk within the Corporation's bond and debenture portfolio. As well, no more than 10% of the market value of the bond portfolio shall be invested in bonds of foreign issuers. The Corporation's exposure to exchange rate risk resulting from the purchase of goods and services, and claims and reinsurance receivables and payables, are not considered material to the operations of the Corporation.

Equity prices

The Corporation is exposed to changes in equity prices in Canadian and global markets. Equities comprise 18.0% (2018 – 19.1%) of the carrying value of the Corporation'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 Corporation's common share portfolio. As well, no one holding represents more than 10% of the voting shares of any corporation.

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

	(thousands of $)					
Asset Class	**2019**			**2018**		
Canadian equities	$	+/-	1,359	$	+/-	1,094
Global equities		+/-	4,194		+/-	4,388
Global small cap equities		+/-	870		+/-	869

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

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

Liquidity risk

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

The following table summarizes the estimated contractual timings of cash flows on an undiscounted basis arising from the Corporation's financial assets and liabilities:

	(thousands of $)							
	2019							
	Carrying amount	Total	No stated maturity	0 – 6 months	7 – 12 months	1 – 2 years	3 – 5 years	More than 5 years
Financial assets								
Cash and cash equivalents	$ 8,384	$ 8,384	$ 8,384	$ –	$ –	$ –	$ –	$ –
Accounts receivable	16,861	16,861	–	14,039	2,822	–	–	–
Investments	160,211	160,211	56,121	13,862	3,590	46,729	33,331	6,578
Unpaid claims recoverable from reinsurers	17,627	16,287	–	2,586	2,021	3,179	5,863	2,638
	$ 203,083	$ 201,743	$ 64,505	$ 30,487	$ 8,433	$ 49,908	$ 39,194	$ 9,216
Financial liabilities								
Accounts payable and accrued liabilities	$ 7,699	$ 7,699	$ 7,053	$ 646	$ –	$ –	$ –	$ –
Amounts due to reinsurers	11	11	–	11	–	–	–	–
Provision for unpaid claims	106,465	98,155	–	13,313	10,977	18,112	35,054	20,699
Lease liability	1,480	1,561	–	190	190	780	401	–
	$ 115,655	$ 107,426	$ 7,053	$ 14,160	$ 11,167	$ 18,892	$ 35,455	$ 20,699

	(thousands of $)							
	2018							
	Carrying amount	Total	No stated maturity	0 – 6 months	7 – 12 months	1 – 2 years	3 – 5 years	More than 5 years
Financial assets								
Cash and cash equivalents	$ 4,603	$ 4,603	$ 4,603	$ –	$ –	$ –	$ –	$ –
Accounts receivable	18,232	18,232	–	15,378	2,854	–	–	–
Investments	174,062	174,062	63,791	22,920	3,176	33,165	44,893	6,117
Unpaid claims recoverable from reinsurers	27,736	25,895	–	4,278	3,298	4,931	8,961	4,427
	$ 224,633	$ 222,792	$ 68,394	$ 42,576	$ 9,328	$ 38,096	$ 53,854	$ 10,544
Financial liabilities								
Accounts payable and accrued liabilities	$ 3,773	$ 3,773	$ 3,013	$ 760	$ –	$ –	$ –	$ –
Amounts due to reinsurers	15	15	–	15	–	–	–	–
Provision for unpaid claims	144,541	134,681	–	18,589	14,642	23,388	47,737	30,325
Lease liability	–	–	–	–	–	–	–	–
	$ 148,329	$ 138,469	$ 3,013	$ 19,364	$ 14,642	$ 23,388	$ 47,737	$ 30,325

The estimated contractual maturities related to the unpaid claims recoverable from reinsurers excludes the net effect of discounting and PFAD of $1.3 million (2018 – $1.8 million) (note 8). The estimated contractual maturities related to the provision for unpaid claims excludes the net effect of discounting and PFAD of $8.3 million (2018 – $9.9 million) (note 8).

15. Capital Management

The Corporation's primary objectives when managing capital is to ensure adequate funding is available to pay policyholder claims, be flexible in its product offerings and support its growth strategies, while providing an adequate return to its shareholder. Its main sources of capital are retained earnings and cash injections in the form of contributed surplus advanced from its parent, SCISL. There were no changes to the Corporation's capital structure during the year.

The Corporation uses a common industry measurement, the Minimum Capital Test (MCT), to monitor capital adequacy. 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 Corporation is a provincially regulated insurer and, as such, is subject to rate regulation related to its automobile premiums. The Board of Directors approved a Capital Management policy for the Corporation prepared in accordance with Guideline A-4, *Regulatory Capital and Internal Capital Targets*, which the Office of Superintendents of Financial Institutions issued in January 2014. The policy establishes an internal MCT target, in excess of 150%, which is used by the regulator as a minimum target for supervisory purposes. The policy also establishes an operating MCT target that provides for an operating cushion above the internal target. The Corporation's MCT at December 31, 2019 was 436% relative to its internal target MCT of 241%.

16. Change in Non-Cash Operating Items

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

	(thousands of $)	
	2019	2018
Accounts receivable	$ (1,271)	$ 9,058
Reinsurers' share of unearned premiums	235	56
Unpaid claims recoverable from reinsurers	10,109	6,502
Deferred policy acquisition costs	162	3,746
Accounts payable and accrued liabilities	(874)	(1,314)
Income taxes payable	4,800	–
Amounts due to reinsurers	(4)	(56)
Unearned reinsurance commissions	(158)	15
Unearned premiums	(2,482)	(15,926)
Provision for unpaid claims	(38,076)	(5,785)
	$ (27,559)	$ (3,704)

17. Employee Salaries and Benefits

The Corporation allocates its salaries and benefits expenses to its various operating functions, and as a result includes employee salaries and benefits expenses on the Statement of Operations within claims incurred and administrative expenses. The total salaries and benefits expenses incurred during the year are as follows:

	(thousands of $)	
	2019	2018
Salaries	$ 3,979	$ 4,278
Other benefits	748	969
Total salaries and benefits	$ 4,727	$ 5,247

18. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Corporation 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"). Routine operating transactions with related parties were conducted in the normal course of business and recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The Corporation 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 CANADA provides management and administrative services to the Corporation. Expenses incurred by SGI CANADA and charged to the Corporation, and amounts outstanding at year-end, are as follows:

	(thousands of $)	
	2019	2018
Accounts receivable (payable)	$ 1,939	$ (253)
Administrative and loss adjusting expenses	2,729	5,212

SCISL is one of the Corporation's reinsurers (note 14). Reinsurance ceded to SCISL has reduced premiums earned by $0.1 million (2018 – $0.2 million) and decreased claims incurred by $0.6 million (2018 – $0.8 million). Amounts outstanding at year-end are as follows:

	(thousands of $)	
	2019	2018
Accounts receivable	$ 878	$ 493
Unpaid claims recoverable from reinsurers	7,789	13,706

Key management personnel

Key management personnel are those persons having authority over the planning, directing and controlling activities of the Corporation, and include executive employees of the Corporation's ultimate parent, SGI CANADA. Compensation for these individuals is paid by SGI CANADA and a portion allocated to the Corporation on the basis of a cost allocation formula.

	(thousands of $)	
	2019	2018
Salaries and other short-term employee benefits	$ 339	$ 335
Post-employment benefits	18	16
	$ 357	$ 351

Other related party transactions are described separately in the notes to the financial statements.

19. Facility Association Participation

The Corporation is a participant in automobile residual market and risk-sharing pools, whereby companies in the industry are required by regulation to provide automobile insurance coverage to high-risk insureds.

Facility Association transactions recorded in the Corporation's financial results are as follows:

	(thousands of $)	
	2019	2018
Gross premiums written	$ 158	$ 1,131
Net premiums earned	$ 322	$ 1,010
Net claims incurred	173	1,147
Commissions	(60)	54
Premium taxes	10	30
Administrative expenses	24	322
Total claims and expenses	147	1,553
Underwriting loss	175	(543)
Investment earnings	48	27
Net loss	$ 223	$ (516)
Facility Association receivable	$ 1,890	$ 1,721
Unearned premiums	(330)	(494)
Facility Association payable	1,520	1,520
Provision for unpaid claims	1,900	2,285

20. Contingencies

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

21. Comparative Information

Certain comparative figures have been reclassified to conform to the current year's presentation.