



2021 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 his 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 24, 2022

Actuary's Report

To the policyholders and 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, 2021 and their changes 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.

Chris McCulloch

Chris McCulloch
SGI CANADA
Fellow, Canadian Institute of Actuaries
Fellow, Casualty Actuarial Society

Winnipeg, Manitoba
February 24, 2022

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, 2021
- 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, 2021, 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 all 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.

The logo for KPMG LLP, featuring the letters 'KPMG' in a stylized, handwritten font, followed by 'LLP' in a similar style. A horizontal line is drawn underneath the text.

Chartered Professional Accountants

Regina, Canada
February 24, 2022

Statement of Financial Position

	(thousands of \$)	
	December 31 2021	December 31 2020
Assets		
Cash and cash equivalents (note 4)	\$ 4,350	\$ 4,055
Accounts receivable (note 5)	13,297	16,038
Investments under securities lending program (note 6)	25,022	29,304
Investments (note 6)	110,012	125,401
Reinsurers' share of unearned premiums (note 10)	50	9
Unpaid claims recoverable from reinsurers (note 8)	12,159	14,423
Deferred policy acquisition costs (note 9)	2,077	2,223
Property and equipment	270	424
Right-of-use assets (note 7)	728	1,092
Deferred income tax asset (note 13)	950	1,117
	\$ 168,915	\$ 194,086
Liabilities		
Accounts payable and accrued liabilities	\$ 3,668	\$ 3,887
Dividend payable	30,000	20,000
Amounts due to reinsurers	7	7
Unearned reinsurance commissions	207	304
Unearned premiums (note 10)	12,253	13,554
Provision for unpaid claims (note 8)	69,697	83,137
Lease liability (note 7)	770	1,134
Deferred income tax liability (note 13)	164	196
	116,766	122,219
Shareholder's equity		
Share capital (note 11)	1,000	1,000
Contributed surplus	30,600	30,600
Retained earnings	20,549	40,267
	52,149	71,867
	\$ 168,915	\$ 194,086

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 24, 2022



Denis Perrault
Director



Janice Wallace
Director

Statement of Operations

For the years ended December 31	(thousands of \$)	
	2021	2020
Gross premiums written	\$ 23,714	\$ 25,334
Premiums ceded to reinsurers	(1,301)	(1,295)
Net premiums written	22,413	24,039
Change in net unearned premiums (note 10)	1,342	959
Net premiums earned	23,755	24,998
Gross claims incurred (note 8)	8,924	10,439
Ceded claims incurred (note 8)	(507)	(2,419)
Net claims incurred (note 8)	8,417	8,020
Commissions	3,554	1,768
Administrative expenses	3,846	4,975
Premium taxes	743	788
Total claims and expenses	16,560	15,551
Underwriting income	7,195	9,447
Net investment earnings (note 12)	6,672	10,847
Income before income taxes	13,867	20,294
Income tax expense (note 13)	3,585	5,149
Net income and comprehensive income	\$ 10,282	\$ 15,145

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 \$)	
	2021	2020
Share capital		
Balance, end of the year	\$ 1,000	\$ 1,000
Contributed surplus		
Balance, end of the year	\$ 30,600	\$ 30,600
Retained earnings		
Balance, beginning of the year	\$ 40,267	\$ 45,122
Net income and comprehensive income	10,282	15,145
Dividends	(30,000)	(20,000)
Balance, end of the year	\$ 20,549	\$ 40,267
Total shareholder's equity	\$ 52,149	\$ 71,867

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

Statement of Cash Flows

For the years ended December 31	(thousands of \$)	
	2021	2020
Cash provided by (used for):		
Operating activities		
Net income and comprehensive income	\$ 10,282	\$ 15,145
Non-cash items:		
Bond amortization	508	546
Depreciation	518	520
Net unrealized loss (gains) on change in market value of investments	2,960	(4,808)
Net realized gains on sale of investments	(4,329)	(1,250)
Interest revenue from investments	(1,729)	(2,395)
Interest expense from right-of-use assets (note 7)	25	34
Income tax expense (note 13)	3,585	5,149
Change in non-cash operating items (note 16)	(9,247)	(21,194)
Income taxes paid	(4,253)	(9,209)
	(1,680)	(17,462)
Investing activities		
Interest received	1,833	2,532
Purchases of investments	(100,428)	(127,329)
Proceeds on sale of investments	120,959	138,347
Purchases of property and equipment	–	(37)
	22,364	13,513
Financing activities		
Dividends paid	(20,000)	–
Interest paid (note 7)	(25)	(34)
Lease liability payments (note 7)	(364)	(346)
	(20,389)	(380)
Increase (decrease) in cash and cash equivalents	295	(4,329)
Cash and cash equivalents, beginning of the year	4,055	8,384
Cash and cash equivalents, end of the year	\$ 4,350	\$ 4,055

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

Notes to the Financial Statements

December 31, 2021

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 98.7% (December 31, 2020 - 99.8%) 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 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.

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 and unpaid claims recoverable from reinsurers (note 8), along with the valuation of deferred income taxes (note 13) and investments classified as Level 3 (note 6).

COVID-19 pandemic

On March 11, 2020, COVID-19 was declared a pandemic by the World Health Organization, followed closely by a state of emergency declaration on Ontario, where Coachman sells insurance. Governments at all levels reacted with stimulus to support businesses and the economy, triggering a rebound in the financial markets.

As the pandemic continues to evolve, the extent of the continued impact on the Corporation's operating results is dependent on the effectiveness of impact mitigation strategies that have been implemented by various levels of government (vaccination and other public health orders) and the transmissibility and severity of new variants. As a result, the Corporation's financial results will be subject to continued volatility. This additional volatility and economic uncertainty has impacted the valuation of the Corporation's investments (note 6) and the provision for unpaid claims liabilities and unpaid claims recoverable from reinsurers (note 8).

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 (FVPL), available for sale, held to maturity, loans and receivables, or other financial liabilities. Financial assets and liabilities classified as FVPL 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; 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 FVPL. Accounts receivable are designated as loans and receivables. Accounts payable and accrued liabilities, dividends payable and lease 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 is 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 Corporation's investment in the mortgage investment fund and real estate investment fund. The fair value of these investments is based on the Corporation's share 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 are 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 dividend payable 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:

Furniture & equipment	5 years
Leasehold improvements	lease term

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

Leases

The Corporation 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.

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 does not 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.

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 fulfill 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, 2023, 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.

The primary features of the standard that would be applicable to property and casualty insurance contracts include the following:

- The concept of portfolio, which is composed of groups of contracts covering similar risks and managed together as a single pool;
- The concept of group, which is composed of sets of contracts with similar profitability issued within the same year;
- The loss component of onerous contracts measured based on projected profitability will be recognized in net income as soon as insurance contracts are issued;
- Insurance liabilities will be discounted at a rate that reflects the characteristics of the liabilities (as opposed to a rate based on asset returns) and the duration of each portfolio. The effect of the changes in discount rates will be recorded either in net income or in other comprehensive income, according to the accounting policy choice made by the Corporation;
- Changes in balance sheet presentation will result in premiums receivable, deferred acquisition costs, claims liabilities, unearned premiums and other related assets and liabilities being presented together by portfolio on a single line called insurance contract assets or liabilities. Reinsurance assets, reinsurance receivables, deferred acquisition costs ceded, and other reinsurance related assets and liabilities will be presented together by portfolio on a single line called reinsurance contract assets or liabilities;
- Gross premiums written will no longer be presented in the Statement of Operations. The new insurance revenue will reflect services that have been provided during the period (similar to the current earned premiums);
- Insurance results will be presented without the impact of discounting. Amounts relating to financing and changes in discount rates will be shown separately; and
- Additional disclosures will provide information on the recognized amounts from insurance contracts and the nature and extend of risks arising from these contracts.

IFRS 17 applies to annual periods beginning on or after January 1, 2023. 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 \$)	
	2021	2020
Money market investments	\$ 1,599	\$ 3,314
Cash on hand, net of outstanding cheques	2,751	741
Total cash and cash equivalents	\$ 4,350	\$ 4,055

The average effective interest rate on money market investments is 0.2% (2020 – 0.2%).

5. Accounts Receivable

Accounts receivable is comprised of the following:

	(thousands of \$)	
	2021	2020
Due from insureds	\$ 9,768	\$ 11,172
Facility Association (note 19)	1,716	1,584
Income taxes receivable	935	132
Due from reinsurers	831	2,263
Accrued investment income	287	390
Other	286	519
Due from related parties (note 18)	91	573
Due from brokers	4	19
	13,918	16,652
Less: Allowance for doubtful accounts (note 14)	(621)	(614)
Total accounts receivable	\$ 13,297	\$ 16,038

Included in due from insureds is \$9.2 million (2020 – \$10.6 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 policies is 3.5% (2020 – 3.5%), all other premiums have an effective interest rate of 8.0% (2020 – 8.0%).

6. Investments

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

	(thousands of \$)	
	2021	2020
Short-term investments	\$ 17,185	\$ 17,697
Bonds and debentures	43,736	49,422
Investment funds:		
Canadian equity	7,028	6,966
Global equity	17,231	22,008
Global small cap equity	3,155	4,400
Mortgage	16,029	17,968
Real estate	5,648	6,940
	110,012	125,401
Investments under securities lending program		
Bonds and debentures	25,022	29,304
Total investments	\$ 135,034	\$ 154,705

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 0.2% (2020 - 0.1%) and an average remaining term to maturity of 76 days (2020 - 97 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 \$)			
	2021		2020	
Term to maturity (years)	Carrying Value	Average Effective Rates (%)	Carrying Value	Average Effective Rates (%)
Government of Canada:				
After one through five	\$ 24,861	1.2	\$ 22,082	0.5
Canadian provincial & municipal:				
One or less	2,446	0.4	9,487	0.2
After one through five	8,157	1.4	7,923	0.5
Canadian corporate:				
One or less	4,170	1.0	4,611	0.7
After one through five	22,538	1.5	26,827	0.9
After five	6,586	2.5	7,796	1.8
Total bonds and debentures	\$ 68,758		\$ 78,726	

Investment funds

The Corporation owns units in equity 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, 2021, the Corporation held collateral of \$26.3 million (2020 – \$30.8 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 \$)				
2021				
	Level 1	Level 2	Level 3	Total
Short-term investments	\$ –	\$ 17,185	\$ –	\$ 17,185
Bonds and debentures	–	68,758	–	68,758
Investment funds:				
Canadian equity	7,028	–	–	7,028
Global equity	17,231	–	–	17,231
Global small cap equity	3,155	–	–	3,155
Mortgage	–	–	16,029	16,029
Real estate	–	–	5,648	5,648
Total investments	\$ 27,414	\$ 85,943	\$ 21,677	\$ 135,034

(thousands of \$)				
2020				
	Level 1	Level 2	Level 3	Total
Short-term investments	\$ –	\$ 17,697	\$ –	\$ 17,697
Bonds and debentures	–	78,726	–	78,726
Investment funds:				
Canadian equity	6,966	–	–	6,966
Global equity	22,008	–	–	22,008
Global small cap equity	4,400	–	–	4,400
Mortgage	–	–	17,968	17,968
Real estate	–	–	6,940	6,940
Total investments	\$ 33,374	\$ 96,423	\$ 24,908	\$ 154,705

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 \$)	
	2021	2020
Level 3 investments, beginning of the year	\$ 24,908	\$ 27,289
Add: Additions during the year		
Mortgage investment fund	758	933
Less: Disposals during the year		
Mortgage investment fund	(2,509)	(3,492)
Real estate investment fund	(1,468)	–
Net unrealized (loss) gains	(12)	178
Level 3 investments, end of the year	\$ 21,677	\$ 24,908

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, 2021.

During the year ended December 31, 2021 no investments were transferred between levels.

The impact of COVID-19 has been reflected in the valuation of Level 3 investments through adjustments to the discount rate and expected cash flows.

7. Leases

The Corporation has a lease for office space in Toronto. The lease originally commenced in June 2013 for a five-year term. The lease 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 space to the lease.

Information about the lease is presented below:

Right-of-use assets

	(thousands of \$)	
	2021	2020
Balance, beginning of the year	\$ 1,092	\$ 1,456
Depreciation charge for the year	(364)	(364)
Balance, end of the year	\$ 728	\$ 1,092

Lease liabilities

	(thousands of \$)	
	2021	2020
Contractual undiscounted cash flows		
One year or less	\$ 390	\$ 390
Between one and five years	401	791
Total undiscounted lease liabilities	\$ 791	\$ 1,181
Discounted lease liabilities included in the Statement of Financial Position	\$ 770	\$ 1,134

Amounts recognized in profit or loss

	(thousands of \$)	
	2021	2020
Interest on lease liabilities	\$ 25	\$ 34
Variable lease payment expenses	473	482
Expenses related to low value leases	9	10
	\$ 507	\$ 526

Amounts recognized in the Statement of Cash Flows

	(thousands of \$)	
	2021	2020
Interest paid on lease liabilities	\$ 25	\$ 34
Lease liability principal payments	364	346
Total cash outflow for leases	\$ 389	\$ 380

8. Claims Incurred and Provision for Unpaid Claims

Net claims incurred

	(thousands of \$)					
	2021			2020		
	Current Year	Prior Years	Total	Current Year	Prior Years	Total
Gross claims incurred	\$ 10,700	\$ (1,776)	\$ 8,924	\$ 13,659	\$ (3,220)	\$ 10,439
Ceded claims incurred	286	(793)	(507)	(388)	(2,031)	(2,419)
Net claims incurred	\$ 10,986	\$ (2,569)	\$ 8,417	\$ 13,271	\$ (5,251)	\$ 8,020

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

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 \$)	
	2021	2020
Beginning of the year:		
Net unpaid claims – discounted	\$ 68,714	\$ 88,838
PFAD and discount	(6,848)	(6,970)
Net unpaid claims – undiscounted	61,866	81,868
Payments made during the year relating to:		
Prior year claims	(14,594)	(22,712)
Prior year Facility Association claims	(305)	(258)
Excess relating to:		
Prior year estimated unpaid claims	(2,459)	(4,869)
Prior year estimated unpaid Facility Association claims	(110)	(382)
Net unpaid for claims, prior years – undiscounted	44,398	53,647
Net unpaid claims, current year	8,142	7,898
Net unpaid Facility Association claims, current year	445	321
Net unpaid claims, end of the year – undiscounted	52,985	61,866
PFAD and discount, end of the year	4,553	6,848
Net unpaid claims, end of the year – discounted	\$ 57,538	\$ 68,714

The net provision for unpaid claims is summarized as follows:

Net unpaid claims

	(thousands of \$)					
	Gross Unpaid Claims		Reinsurance Recoverable		Net Unpaid Claims	
	2021	2020	2021	2020	2021	2020
Provision for reported claims, undiscounted	\$ 50,822	\$ 57,239	\$ 9,995	\$ 11,300	\$ 40,827	\$ 45,939
Provision for claims incurred but not reported	13,366	17,704	1,208	1,777	12,158	15,927
PFAD	7,914	9,981	1,346	1,622	6,568	8,359
Effects of discounting	(2,405)	(1,787)	(390)	(276)	(2,015)	(1,511)
	\$ 69,697	\$ 83,137	\$ 12,159	\$ 14,423	\$ 57,538	\$ 68,714

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 1.6% (2020 – 0.8%). The resulting carrying amounts are considered to be an indicator of fair value as there is no ready market for trading insurance contract liabilities.

In relation to COVID-19, the Corporation collected data currently available to estimate the potential impact. A set of assumptions were selected and applied to the actuarial methods in the determination of the claims liabilities reserve.

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, 2021, 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 \$0.6 million (2020 – \$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 \$)	
	2021	2020
DPAC, beginning of the year	\$ 2,223	\$ 62
Acquisition costs deferred during the year	3,814	3,978
Amortization of deferred acquisition costs	(3,941)	(4,089)
Change in premium deficiency	(19)	2,272
DPAC, end of the year	\$ 2,077	\$ 2,223

10. Unearned Premiums

	(thousands of \$)					
	Gross Unearned Premiums		Reinsurers' Share of Unearned Premiums		Net Unearned Premiums	
	2021	2020	2021	2020	2021	2020
Unearned premiums, beginning of the year	\$ 13,554	\$ 14,512	\$ 9	\$ 8	\$ 13,545	\$ 14,504
Premiums written	23,714	25,334	1,301	1,295	22,413	24,039
Premiums earned	(25,015)	(26,292)	(1,260)	(1,294)	(23,755)	(24,998)
Change in net unearned premiums	(1,301)	(958)	41	1	(1,342)	(959)
Unearned premiums, end of the year	\$ 12,253	\$ 13,554	\$ 50	\$ 9	\$ 12,203	\$ 13,545

11. Share Capital

Authorized:

Unlimited number of common shares with no par value.

	(thousands of \$)	
Issued and fully paid:	2021	2020
10,000 common shares	\$ 1,000	\$ 1,000

12. Net Investment Earnings

Components of net investment earnings are as follows:

	(thousands of \$)	
	2021	2020
Net realized gains on sale of investments	\$ 4,329	\$ 1,250
Investment fund distributions	3,943	2,869
Interest and other	1,221	1,849
Premium financing	425	401
Net unrealized (loss) gains on change in market value of investments	(2,960)	4,808
Total investment earnings	6,958	11,177
Investment expenses	(286)	(330)
Net investment earnings	\$ 6,672	\$ 10,847

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

	(thousands of \$)	
	2021	2020
Bonds and debentures	\$ (2,006)	\$ 2,024
Investment funds:		
Canadian equity	321	(495)
Global equity	(959)	2,572
Global small cap equity	(304)	529
Mortgage	(188)	311
Real estate	176	(133)
Net unrealized (loss) gains	\$ (2,960)	\$ 4,808

13. Income Taxes

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

	(thousands of \$)	
	2021	2020
Current	\$ 3,450	\$ 4,276
Deferred	135	873
Income tax expense	\$ 3,585	\$ 5,149

Income tax expense 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 \$)	
	2021	2020
Income before income taxes	\$ 13,867	\$ 20,294
Combined federal and provincial tax rate	26.50%	26.50%
Computed tax expense based on combined rate	\$ 3,675	\$ 5,378
(Decrease) resulting from:		
Investment earnings not subject to taxation	(50)	(41)
Other	(40)	(188)
Total income tax expense	\$ 3,585	\$ 5,149

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, 2020	\$ 1,411	\$ 26	\$ 597	\$ 2,034
Charge reflected in income tax expense	(310)	(10)	(597)	(917)
At December 31, 2020	1,101	16	–	1,117
(Charge) credit reflected in income tax expense	(178)	11	–	(167)
At December 31, 2021	\$ 923	\$ 27	\$ –	\$ 950

Deferred tax liability

	(thousands of \$)		
	Unpaid Claims Recoverable from Reinsurers	Investments	Total
At January 1, 2020	\$ 233	\$ 7	\$ 240
Credit reflected in income tax expense	(42)	(2)	(44)
At December 31, 2020	191	5	196
Credit reflected in income tax expense	(30)	(2)	(32)
At December 31, 2021	\$ 161	\$ 3	\$ 164

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 reinsurance strategies within an overall strategic planning process. Pricing is based on assumptions with regards to past experiences and trends.

Reinsurance

The Corporation 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 of \$1.8 million (2020 - \$1.5 million) on any one loss. In addition, the Corporation carries auto physical damage catastrophe reinsurance limiting combined exposure to \$2.5 million (2020 - \$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, commissions, administrative expenses and premium taxes:

	(thousands of \$)	
	2021	2020
Premiums earned	\$ (1,260)	\$ (1,294)
Claims incurred	(507)	(2,419)
Commissions, administrative expenses and premium taxes	(75)	2

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, 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Net ultimate loss										
End of accident year	\$ 34,290	\$ 34,416	\$ 34,178	\$ 38,940	\$ 45,457	\$ 62,156	\$ 43,607	\$ 21,500	\$ 11,317	\$ 11,121
One year later	30,383	32,611	29,784	37,956	45,815	60,507	41,443	19,948	9,936	
Two years later	27,387	30,038	27,564	36,176	43,218	56,755	40,949	20,037		
Three years later	25,356	28,283	25,711	37,123	40,845	54,425	39,618			
Four years later	24,317	26,612	25,461	36,212	41,109	53,925				
Five years later	23,421	26,194	24,046	36,005	41,484					
Six years later	23,582	25,328	24,035	35,896						
Seven years later	23,416	25,025	24,333							
Eight years later	23,270	25,174								
Nine years later	23,132									
Cumulative loss development	\$ (11,158)	\$ (9,242)	\$ (9,845)	\$ (3,044)	\$ (3,973)	\$ (8,231)	\$ (3,989)	\$ (1,463)	\$ (1,381)	n/a
Cumulative loss development as a % of original ultimate loss	(32.5%)	(26.9%)	(28.8%)	(7.8%)	(8.7%)	(13.2%)	(9.1%)	(6.8%)	(12.2%)	n/a

	(thousands of \$)										
Accident Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Current estimate of net ultimate loss	\$ 23,132	\$ 25,174	\$ 24,333	\$ 35,896	\$ 41,484	\$ 53,925	\$ 39,618	\$ 20,037	\$ 9,936	\$ 11,121	\$ 284,656
Cumulative paid	(22,355)	(24,313)	(22,962)	(33,138)	(37,287)	(45,641)	(29,701)	(13,250)	(5,144)	(3,510)	(237,301)
Net provision for unpaid claims	\$ 777	\$ 861	\$ 1,371	\$ 2,758	\$ 4,197	\$ 8,284	\$ 9,917	\$ 6,787	\$ 4,792	\$ 7,611	47,355
Net undiscounted claims outstanding for accident years 2011 and prior											543
Loss adjusting expense reserve											3,101
Provision for adverse deviation and discounting											4,553
Unpaid Facility Association claims											1,555
Retained risk sharing pool											67
Health levies											(5)
Subrogation recoveries											320
Other reconciling items											49
Net provision for unpaid claims											\$ 57,538

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:

Assumption	Sensitivity	(thousands of \$)			
		Change to Net Provision for Unpaid Claims		Change to Net Income	
		2021	2020	2021	2020
Discount rate	+ 100 bps	\$ (1,689)	\$ (2,056)	\$ (307)	\$ (191)
Discount rate	- 100 bps	1,689	2,056	307	191

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 \$)	
	2021	2020
Cash and cash equivalents	\$ 4,350	\$ 4,055
Accounts receivable	13,297	16,038
Fixed income investments ¹	101,972	114,391
Unpaid claims recoverable from reinsurers	12,159	14,423

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 \$1.6 million plus cash on hand, net of outstanding cheques of \$2.8 million (2020 - \$3.3 million of money market investments plus cash on hand, net of outstanding cheques of \$0.7 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 personal and commercial, along with amounts owing from the Facility Association (note 19) and reinsurers. Accounts receivable generally consist of balances outstanding for one year or less.

	(thousands of \$)	
	2021	2020
Current	\$ 12,926	\$ 15,993
30 - 59 days	41	53
60 - 90 days	17	66
Greater than 90 days	934	540
Subtotal	13,918	16,652
Allowance for doubtful accounts	(621)	(614)
Total	\$ 13,297	\$ 16,038

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 \$)	
	2021	2020
Allowance for doubtful accounts, beginning of the year	\$ 614	\$ 455
Accounts written off	(191)	(220)
Current period provision	198	379
Allowance for doubtful accounts, end of the year	\$ 621	\$ 614

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 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:

Credit Rating	(thousands of \$)			
	2021		2020	
	Fair Value (thousands of \$)	Makeup of Portfolio (%)	Fair Value (thousands of \$)	Makeup of Portfolio (%)
AAA	\$ 26,753	38.9	\$ 23,978	30.5
AA	21,777	31.7	17,410	22.1
A	13,121	19.1	27,529	35.0
BBB	7,107	10.3	9,809	12.4
Total	\$ 68,758	100.0	\$ 78,726	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 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	
	2021	2020	2021	2020
Net investment earnings	\$ (1,997)	\$ (2,247)	\$ 1,997	\$ 2,247

Foreign exchange risk

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

Asset Class	2021		
	Maximum Exposure (%)	Current Exposure (%)	10% Change in Exchange Rates (thousands of \$)
Global equities	15.0	12.8	\$ 1,723
Global small cap equities	3.0	2.3	316

Asset Class	2020		
	Maximum Exposure (%)	Current Exposure (%)	10% Change in Exchange Rates (thousands of \$)
Global equities	15.0	14.2	\$ 2,201
Global small cap equities	3.0	2.8	440

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 20.3% (2020 – 21.6%) 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).

Asset Class	(thousands of \$)			
	2021		2020	
Canadian equities	\$	+/- 2,097	\$	+/- 1,337
Global equities		+/- 4,258		+/- 4,468
Global small cap equities		+/- 1,063		+/- 1,353

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 and due within one year. The Corporation generally maintains positive overall cash flow through cash generated from operations as well as cash generated from investing activities.

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

(thousands of \$)								
2021								
	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	\$ 4,350	\$ 4,350	\$ 4,350	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts receivable	13,297	13,297	-	10,748	2,549	-	-	-
Investments	135,034	135,034	49,091	19,631	4,170	32,606	22,950	6,586
Unpaid claims recoverable from reinsurers	12,159	11,203	-	2,260	1,790	2,588	3,199	1,366
	\$ 164,840	\$ 163,884	\$ 53,441	\$ 32,639	\$ 8,509	\$ 35,194	\$ 26,149	\$ 7,952
Financial liabilities								
Accounts payable and accrued liabilities	\$ 3,668	\$ 3,668	\$ 2,831	\$ 837	\$ -	\$ -	\$ -	\$ -
Dividend payable	30,000	30,000	30,000	-	-	-	-	-
Amounts due to reinsurers	7	7	-	7	-	-	-	-
Provision for unpaid claims	69,697	64,188	-	9,170	7,830	12,935	22,776	11,477
Lease liability	770	791	-	195	195	401	-	-
	\$ 104,142	\$ 98,654	\$ 32,831	\$ 10,209	\$ 8,025	\$ 13,336	\$ 22,776	\$ 11,477

(thousands of \$)								
2020								
	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	\$ 4,055	\$ 4,055	\$ 4,055	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts receivable	16,038	16,038	-	13,282	2,756	-	-	-
Investments	154,705	154,705	58,282	23,998	7,797	36,680	20,152	7,796
Unpaid claims recoverable from reinsurers	14,423	13,077	-	2,264	1,647	2,522	5,010	1,634
	\$ 189,221	\$ 187,875	\$ 62,337	\$ 39,544	\$ 12,200	\$ 39,202	\$ 25,162	\$ 9,430
Financial liabilities								
Accounts payable and accrued liabilities	\$ 3,887	\$ 3,887	\$ 3,118	\$ 769	\$ -	\$ -	\$ -	\$ -
Dividend payable	20,000	20,000	20,000	-	-	-	-	-
Amounts due to reinsurers	7	7	-	7	-	-	-	-
Provision for unpaid claims	83,137	74,943	-	10,060	8,549	14,368	28,212	13,754
Lease liability	1,134	1,181	-	195	195	791	-	-
	\$ 108,165	\$ 100,018	\$ 23,118	\$ 11,031	\$ 8,744	\$ 15,159	\$ 28,212	\$ 13,754

The estimated contractual maturities related to lease liabilities excluded the net effect of the discounting of \$21 thousand (2020 - \$47 thousand) (note 7). The estimated contractual maturities related to the unpaid claims recoverable from reinsurers excludes the net effect of discounting and PFADs of \$1.0 million (2020 - \$1.3 million) (note 8). The estimated contractual maturities related to the provision for unpaid claims excludes the net effect of discounting and PFADs of \$5.5 million (2020 - \$8.2 million) (note 8).

15. Capital Management

The Corporation's primary objectives when managing capital are 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 the Superintendent 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, 2021 was 366% relative to its internal target MCT of 243%.

16. Change in Non-Cash Operating Items

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

	(thousands of \$)	
	2021	2020
Accounts receivable	\$ 3,441	\$ 819
Reinsurers' share of unearned premiums	(41)	(1)
Unpaid claims recoverable from reinsurers	2,264	3,204
Deferred policy acquisition costs	146	(2,161)
Accounts payable and accrued liabilities	(219)	988
Amounts due to reinsurers	-	(4)
Unearned reinsurance commissions	(97)	247
Unearned premiums	(1,301)	(958)
Provision for unpaid claims	(13,440)	(23,328)
	\$ (9,247)	\$ (21,194)

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.

Total salaries and benefits expenses incurred during the year are as follows:

	(thousands of \$)	
	2021	2020
Salaries	\$ 1,003	\$ 1,882
Benefits	187	288
Total salaries and benefits	\$ 1,190	\$ 2,170

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.

SGL CANADA provides management and administrative services to the Corporation. Expenses incurred by SGL CANADA and charged to the Corporation, and amounts outstanding at year-end, are as follows:

	(thousands of \$)	
	2021	2020
Accounts payable	\$ (794)	\$ (263)
Administrative and loss adjusting expenses	2,773	3,185

SCISL is one of the Corporation's reinsurers (note 14). Reinsurance ceded to SCISL has decreased claims incurred by \$0.9 million (2020 - \$3.4 million). Amounts outstanding at year-end are as follows:

	(thousands of \$)	
	2021	2020
Accounts receivable	\$ 885	\$ 836
Unpaid claims recoverable from reinsurers	7,965	8,199

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 and Board members of the Corporation's ultimate parent, SGL CANADA. Compensation for these individuals is paid by SGL CANADA and a portion allocated to the Corporation on the basis of a cost allocation formula.

Key management personnel compensation allocated to the Corporation is comprised of:

	(thousands of \$)	
	2021	2020
Salaries and other short-term employee benefits	\$ 88	\$ 196
Post-employment benefits	6	12
	\$ 94	\$ 208

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 \$)	
	2021	2020
Gross premiums written	\$ 717	\$ 447
Net premiums earned	\$ 661	\$ 434
Net claims incurred	602	187
Commissions	17	(15)
Premium taxes	20	13
Administrative expenses	211	121
Total claims and expenses	850	306
Underwriting (loss) income	(189)	128
Investment earnings	5	60
Net (loss) income	\$ (184)	\$ 188
Facility Association receivable	\$ 1,716	\$ 1,584
Unearned premiums	399	343
Facility Association payable	1,520	1,520
Provision for unpaid claims	1,555	1,440

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.

