2022 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.

Penny McCune
President and Chief Executive Officer

Jeff Stepan
Chief Financial Officer

February 23, 2023

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, 2022 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 23, 2023

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, 2022
- 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, 2022, and its financial performance and its cash flows for the year then ended in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards).

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 "Auditor's Responsibilities for the Audit of the Financial Statements" section of our Auditor's 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 Standards as issued by the International Accounting Standards Board, 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.

Auditor’s 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 Auditor’s 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 Auditor’s 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 auditor’s 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 23, 2023

Statement of Financial Position

	(thousands of $)	
	December 31 2022	December 31 2021
Assets		
Cash and cash equivalents (note 4)	$ 1,044	$ 4,350
Accounts receivable (note 5)	16,939	12,362
Income tax receivable	4,546	935
Investments under securities lending program (note 6)	37,807	25,022
Investments (note 6)	57,414	110,012
Reinsurers' share of unearned premiums (note 10)	33	50
Unpaid claims recoverable from reinsurers (note 8)	7,859	12,159
Deferred policy acquisition costs (note 9)	2,983	2,077
Property and equipment	139	270
Right-of-use assets (note 7)	364	728
Deferred income tax asset (note 13)	807	950
	$ 129,935	$ 168,915
Liabilities		
Accounts payable and accrued liabilities	$ 3,761	$ 3,668
Dividend payable	–	30,000
Amounts due to reinsurers	106	7
Unearned reinsurance commissions	337	207
Unearned premiums (note 10)	17,197	12,253
Provision for unpaid claims (note 8)	58,739	69,697
Lease liability (note 7)	395	770
Deferred income tax liability (note 13)	106	164
	80,641	116,766
Shareholder's equity		
Share capital (note 11)	1,000	1,000
Contributed surplus	30,600	30,600
Retained earnings	17,694	20,549
	49,294	52,149
	$ 129,935	$ 168,915

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 23, 2023

Denis Perrault
Director

Janice Wallace
Director

Statement of Operations

For the years ended December 31	(thousands of $) 2022	2021
Gross premiums written	$ 31,687	$ 23,714
Premiums ceded to reinsurers	(1,032)	(1,301)
Net premiums written	30,655	22,413
Change in net unearned premiums (note 10)	(4,961)	1,342
Net premiums earned	**25,694**	23,755
Gross claims incurred (note 8)	12,769	8,924
Ceded claims incurred (note 8)	2,581	(507)
Net claims incurred (note 8)	15,350	8,417
Commissions	3,312	3,554
Administrative expenses	6,178	3,846
Premium taxes	802	743
Total claims and expenses	**25,642**	16,560
Underwriting income	**52**	7,195
Net investment (losses) earnings (note 12)	(3,891)	6,672
(Loss) income before income taxes	**(3,839)**	13,867
Income tax (recovery) expense (note 13)	(984)	3,585
Net (loss) income	**$ (2,855)**	$ 10,282

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

Statement of Changes in Shareholder's Equity

	(thousands of $)	
For the years ended December 31	**2022**	**2021**
Share capital		
Balance, end of the year	**$ 1,000**	$ 1,000
Contributed surplus		
Balance, end of the year	**$ 30,600**	$ 30,600
Retained earnings		
Balance, beginning of the year	$ 20,549	$ 40,267
Net (loss) income	(2,855)	10,282
Dividends	–	(30,000)
Balance, end of the year	**$ 17,694**	$ 20,549
Total shareholder's equity	**$ 49,294**	$ 52,149

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

Statement of Cash Flows

	(thousands of $)	
For the years ended December 31	2022	2021
Cash provided by (used for):		
Operating activities		
Net (loss) income	$ (2,855)	$ 10,282
Non-cash items:		
Bond amortization	(53)	508
Depreciation	501	518
Net unrealized losses on change in market value of investments	8,321	2,960
Net realized gains on sale of investments	(1,227)	(4,329)
Interest revenue from investments	(1,567)	(1,729)
Interest expense from right-of-use assets (note 7)	16	25
Income tax (recovery) expense (note 13)	(984)	3,585
Change in non-cash operating items (note 16)	(6,869)	(9,247)
Income taxes paid	(2,542)	(4,253)
	(7,259)	(1,680)
Investing activities		
Interest received	1,578	1,833
Purchases of investments	(86,944)	(100,428)
Proceeds on sale of investments	119,716	120,959
Purchases of property and equipment	(6)	–
	34,344	22,364
Financing activities		
Dividends paid	(30,000)	(20,000)
Interest paid (note 7)	(16)	(25)
Lease liability payments (note 7)	(375)	(364)
	(30,391)	(20,389)
(Decrease) increase in cash and cash equivalents	**(3,306)**	295
Cash and cash equivalents, beginning of the year	4,350	4,055
Cash and cash equivalents, end of the year	**$ 1,044**	$ 4,350

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

Notes to the Financial Statements

December 31, 2022

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 99.2% (2021 – 98.7%) 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).

3. Significant Accounting Policies

Financial assets and liabilities

The measurement basis for financial assets and 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 receivables 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 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 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 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 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 17 – Insurance Contracts

In May 2017, the IASB issued IFRS 17 to establish a global standard which provides guidance on the recognition, measurement, presentation and disclosure of insurance contracts. Amendments to IFRS 17 were issued in June 2020. IFRS 17 replaces existing accounting under IFRS 4. IFRS 17 is effective beginning on January 1, 2023 with a transition date of January 1, 2022 and will be applied retrospectively.

The Corporation is still evaluating the quantitative impacts of IFRS 17. Upon transition on January 1, 2022 changes to equity will be driven primarily by changes in the discount rate and risk adjustment applied to the liabilities for incurred claims, changes to the method in how acquisition costs are accounted for and the recognition of onerous contracts in the liability for remaining coverage when facts and circumstances indicate a loss at initial recognition of contract.

While the Corporation continues to finalize its application of this standard, its assessment of the qualitative implications of this standard, including consideration of any Office of the Superintendent of Financial Institutions (OSFI) requirements, are as follows:

- Scope: IFRS 17 introduces scope exemptions for specific types of contracts. The Corporation does not expect significant change in the scope of insurance contracts between IFRS 4 and IFRS 17.
- Level of aggregation: IFRS 17 requires groups of contracts to be aggregated and measured based on contracts subject to similar risks and managed together, profitability, and contracts issued not more than one year apart. The Corporation determines contracts subject to similar risks and managed together based on product lines. The Corporation will cohort its new business using annual cohorts. When an insurance contract is written, it will be assigned a profitability group based on the expected profitability on the date of initial recognition. The level of aggregation requirements do not permit the offsetting of gains and losses between groups of insurance contracts.
- Measurement models: Insurance contract liabilities for each group of insurance contracts represent the sum of the liability for incurred claims and liability for remaining coverage. The Corporation expects that substantially all of its liabilities will be measured using the Premium allocation approach (PAA). When measuring liabilities for remaining coverage, the PAA is similar to the Corporation's previous accounting treatment for short duration contracts and therefore the Corporation does not expect a significant impact to measurement. The Corporation primarily issues insurance contracts with a coverage period of 12 months or less, which automatically qualify for the PAA. When a portfolio contains policies that are greater than one year in length, the Corporation will complete an analysis to assess whether the measurement of the liability for remaining coverage differs significantly from the measurement under the general measurement model (GMM). If the quantification shows immaterial differences between the two models, the Corporation will use the PAA for those portfolios as well.
- Acquisition costs: For Insurance contracts that are recognized using the PAA and less than one year in length, IFRS 17 provides the option to expense acquisition costs (broker commissions, premium tax, administrative expenses) as incurred. The Corporation has chosen not to elect to expense acquisition cashflows, they will be part of the cashflows of the group of contracts.

- Liability for incurred claims: when measuring the liabilities for incurred claims, IFRS 17 requires:
    - Estimates of future cash flows to be discounted to reflect the time value of money and financial risk related to those cash flows, unless the Corporation expects claims to be paid in one year or less from the date it was incurred. The Corporation has elected to discount all claims regardless of the expected settlement date.
    - The methodology for determining the discount rate is not prescribed, there are two primary methods to apply, namely the top-down or bottom-up approach. Under each approach applicable yield curves are adjusted to reflect the liquidity characteristics of insurance contacts. The Corporation has elected to apply a hybrid approach using elements of both the top-down and bottom-up approach to determine the illiquidity premium. The illiquidity premium is determined using the spread between risk-free rates and the result of the top-down approach. The illiquidity premium will then be used to adjust risk-free rates to determine the applicable discount rates.
    - An explicit risk adjustment for non-financial risk which replaces the risk margin under IFRS 4. The IFRS 4 risk margin reflects the inherent uncertainty in the net discounted claim liabilities estimates, whereas the IFRS 17 risk adjustment for non-financial risk is the compensation the Corporation requires for bearing the uncertainty that arises from non-financial risk. IFRS 4 required a risk margin for financial risks which is not permitted by IFRS 17.
- Onerous contracts: IFRS 17 requires the identification of groups of onerous contracts when facts and circumstances indicate a loss for PAA contracts. When onerous contracts are identified, the Corporation is required to recognize a loss immediately in the Statement of Operations along with an increase in the insurance contract liability known as a “loss component” to appropriately reflect the timing of losses. The amount of loss from onerous contracts written in a year is a required disclosure. The Corporation is finalizing its evaluation of onerous contracts initially recognized at transition in 2022 and has established a mechanism for identifying onerous contracts beyond the transition date.
- Reinsurance contracts held: The Corporation will apply the PAA to its reinsurance contracts held which is similar to how they are measured under IFRS 4. When measuring the asset for reinsured claims, the expected future cashflows will include any risk of non-performance of the reinsurer.
- Presentation and disclosure: IFRS 17 introduces changes to the way in which the Corporation will present and disclose financial results. Insurance contract liabilities will be presented in the Statement of Financial Position as a single line item and will consist of premiums receivable, deferred policy acquisition cash flows, unearned premiums, onerous loss component (if applicable), discounted and risk adjusted claim liabilities, and other related liabilities. Reinsurance contract assets will be separately presented in the Statement of Financial Position and will include amounts expected to be recovered from reinsurers and an allocation of the reinsurance premiums paid. The reclassification of amounts on the statement of financial position are expected to result in a reduction in assets and liabilities of the Corporation.

  The Statement of Operations will no longer include premiums written, instead it will include an insurance service result comprised of insurance revenue and insurance service expenses. Reinsurance results will be separately presented from direct insurance activities and presented as a single line item. Insurance finance income or expense will be presented within investment result. The Corporation will present the impact of changes in discount rates as finance income or expenses.

  IFRS 17 requires extensive new disclosures related to amounts recognized in the financial statements, including detailed reconciliations of contracts, and commentary regarding significant judgements made when applying IFRS 17.

IFRS 9 – Financial Instruments

IFRS 9 replaces IAS 39 and was 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 9 is effective beginning on January 1, 2023 with a transition date of January 1, 2022 and will be applied retrospectively.

- Measurement and classification – Under IFRS 9, the classification of financial assets is dependent on the business model the Corporation utilizes to manage its financial assets and the cashflow characteristics of the financial assets.

  The Corporation's general business model is to hold-to-collect and sell financial assets to fund insurance liabilities. Equity and debt investments are held to collect contractual cashflows and sold when required to fund insurance contract liabilities in the short and long-term.

  Investments in bonds and debentures fall under the hold-to-collect and sell business model and related cashflows meet the criteria for solely payments of principal and interest (SPPI). Therefore, these financial assets can be classified as FVTOCI or FVTPL. The Corporation has elected to designate these financial assets as FVTPL on January 1, 2023 to avoid a mismatch that would arise from reporting fair value changes in other comprehensive income, while reporting changes in the valuations of the underlying insurance liabilities in profit or loss.

  Equity and other investments also fall under the hold-to-collect and sell business model, however, since cashflows did not meet the SPPI criteria, these financial assets will be classified as FVTPL.

  The Corporation's cash and cash equivalents, loans and accounts receivables fall under the hold-to-collect business model with a focus on collecting contractual cashflows, these financial assets will be classified as amortized cost, while cash and cash equivalents will be classified as FVTPL as the SPPI criteria was not met.

  All accounts payables and accrued liabilities will be classified as amortized cost. The option to classify these financial liabilities as FVTPL was not selected.

  The new classification and measurement requirements are not expected to have a significant impact on the Corporation's financial statements as most of the financial assets were previously classified at fair value under IAS 39 and will continue to be classified at fair value under IFRS 9.

- Solely payments of principal and interest assessment – Financial assets which are held within held-to-collect and sell and held to collect business models are assessed to evaluate if their contractual cash flows are comprised of SPPI. Contractual cash flows generally meet SPPI criteria if such cash flows reflect compensation for basic credit risk and customary returns from a debt instrument which also includes time value for money. Where the contractual terms introduce exposure to risk or variability of cash flows that are inconsistent with a basic lending arrangement, the related financial asset will be classified and measured at FVTPL.
- Impairment model – Expected credit loss (ECL) – IFRS 9 replaces the incurred loss model under IAS 39 with the forward-looking expected credit loss model. The Corporation will apply the simplified approach to providing for expected credit losses, which requires the use of the lifetime expected loss provision for trade receivables. The general approach will be applied for the other applicable financial assets. The Corporation does not expect a significant impact on allowances for trade receivables at implementation.

4. Cash and Cash Equivalents

	(thousands of $)	
	2022	2021
Money market investments	$ 99	$ 1,599
Cash on hand, net of outstanding cheques	945	2,751
Total cash and cash equivalents	$ 1,044	$ 4,350

The average effective interest rate on money market investments is 4.1% (2021 – 0.2%).

5. Accounts Receivable

Accounts receivable is comprised of the following:

	(thousands of $)	
	2022	2021
Due from insureds	$ 14,260	$ 9,768
Facility Association (note 19)	1,495	1,716
Due from reinsurers	1,066	831
Amounts recoverable on claims paid	572	320
Accrued investment income	275	287
Other	58	(34)
Due from brokers	11	4
Due from related parties (note 18)	–	91
	17,737	12,983
Less: Allowance for doubtful accounts (note 14)	(798)	(621)
Total accounts receivable	$ 16,939	$ 12,362

Included in due from insureds is $13.6 million (2021 – $9.2 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% (2021 – 3.5%), all other premiums have an effective interest rate of 8.0% (2021 – 8.0%).

6. Investments

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

	(thousands of $)	
	2022	2021
Short-term investments	$ 11,497	$ 17,185
Bonds and debentures	14,176	43,736
Investment funds:		
Canadian equity	4,048	7,028
Global equity	9,482	17,231
Global small cap equity	1,819	3,155
Mortgage	11,932	16,029
Real estate	4,460	5,648
	57,414	110,012
Investments under securities lending program:		
Bonds and debentures	37,807	25,022
Total investments	$ 95,221	$ 135,034

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 3.9% (2021 – 0.2%) and an average remaining term to maturity of 66 days (2021 – 76 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 $)			
	2022		2021	
Term to maturity (years)	Carrying value	Average effective rates (%)	Carrying value	Average effective rates (%)
Government of Canada:				
After one through five	$ 24,169	3.8	$ 24,861	1.2
Canadian provincial & municipal:				
One or less	–	–	2,446	0.4
After one through five	9,687	4.0	8,157	1.4
Canadian corporate:				
One or less	–	–	4,170	1.0
After one through five	11,935	5.1	22,538	1.5
After five	6,192	3.9	6,586	2.5
Total bonds and debentures	$ 51,983		$ 68,758	

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, 2022, the Corporation held collateral of $39.7 million (2021 – $26.3 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 $)			
	2022			
	Level 1	Level 2	Level 3	Total
Short-term investments	$ –	$ 11,497	$ –	$ 11,497
Bonds and debentures	–	51,983	–	51,983
Investment funds:				
Canadian equity	4,048	–	–	4,048
Global equity	9,482	–	–	9,482
Global small cap equity	1,819	–	–	1,819
Mortgage	–	–	11,932	11,932
Real estate	–	–	4,460	4,460
Total investments	$ 15,349	$ 63,480	$ 16,392	$ 95,221

	(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

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 $)	
	2022	**2021**
Level 3 investments, beginning of the year	$ 21,677	$ 24,908
Add: Additions during the year		
Mortgage investment fund	1,434	758
Less: Disposals during the year		
Mortgage investment fund	(4,808)	(2,509)
Real estate investment fund	(952)	(1,468)
Net unrealized losses	(959)	(12)
Level 3 investments, end of the year	$ 16,392	$ 21,677

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, 2022.

During the year ended December 31, 2022 no investments were transferred between levels.

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 $)	
	2022	**2021**
Balance, beginning of the year	$ 728	$ 1,092
Depreciation charge for the year	(364)	(364)
Balance, end of the year	$ 364	$ 728

Lease liabilities

	(thousands of $)	
	2022	2021
Contractual undiscounted cash flows:		
One year or less	$ 401	$ 390
Between one and five years	–	401
Total undiscounted lease liabilities	$ 401	$ 791
Discounted lease liabilities included in the Statement of Financial Position	$ 395	$ 770

Amounts recognized in profit or loss

	(thousands of $)	
	2022	2021
Interest on lease liabilities	$ 16	$ 25
Variable lease payment expenses	473	473
Expenses related to low value leases	1	9
	$ 490	$ 507

Amounts recognized in the Statement of Cash Flows

	(thousands of $)	
	2022	2021
Interest paid on lease liabilities	$ 16	$ 25
Lease liability principal payments	375	364
Total cash outflow for leases	$ 391	$ 389

8. Claims Incurred and Provision for Unpaid Claims

Net claims incurred

	(thousands of $)					
	2022			2021		
	Current year	Prior years	Total	Current year	Prior years	Total
Gross claims incurred	$ 13,574	$ (805)	$ 12,769	$ 10,700	$ (1,776)	$ 8,924
Ceded claims incurred	703	1,878	2,581	286	(793)	(507)
Net claims incurred	$ 14,277	$ 1,073	$ 15,350	$ 10,986	$ (2,569)	$ 8,417

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 $)	
	2022	2021
Beginning of the year:		
Net unpaid claims – discounted	$ 57,538	$ 68,714
PFAD and discount	(4,553)	(6,848)
Net unpaid claims – undiscounted	52,985	61,866
Payments made during the year relating to:		
Prior year claims	(14,127)	(14,594)
Prior year Facility Association claims	(402)	(305)
Deficiency (excess) relating to:		
Prior year estimated unpaid claims	1,348	(2,459)
Prior year estimated unpaid Facility Association claims	(275)	(110)
Net unpaid for claims, prior years – undiscounted	39,529	44,398
Net unpaid claims, current year	9,493	8,142
Net unpaid Facility Association claims, current year	546	445
Net unpaid claims, end of the year – undiscounted	49,568	52,985
PFAD and discount, end of the year	1,312	4,553
Net unpaid claims, end of the year – discounted	$ 50,880	$ 57,538

The net provision for unpaid claims is summarized as follows:

Net unpaid claims

	(thousands of $)					
	Gross unpaid claims		**Reinsurance recoverable**		**Net unpaid claims**	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**
Provision for reported claims, undiscounted	$ 44,527	$ 50,822	$ 7,257	$ 9,995	$ 37,270	$ 40,827
Provision for claims incurred but not reported	12,646	13,366	348	1,208	12,298	12,158
PFAD	7,220	7,914	910	1,346	6,310	6,568
Effects of discounting	(5,654)	(2,405)	(656)	(390)	(4,998)	(2,015)
	$ 58,739	$ 69,697	$ 7,859	$ 12,159	$ 50,880	$ 57,538

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 3.9% (2021 – 1.6%). The resulting carrying amounts are 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, 2022, 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 (2021 – $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 $)	
	2022	**2021**
DPAC, beginning of the year	$ 2,077	$ 2,223
Acquisition costs deferred during the year	5,155	3,814
Amortization of deferred acquisition costs	(4,227)	(3,941)
Change in premium deficiency	(22)	(19)
DPAC, end of the year	$ 2,983	$ 2,077

10. Unearned Premiums

	(thousands of $)					
	Gross unearned premiums		**Reinsurers' share of unearned premiums**		**Net unearned premiums**	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**
Unearned premiums, beginning of the year	$ 12,253	$ 13,554	$ 50	$ 9	$ 12,203	$ 13,545
Premiums written	31,687	23,714	1,032	1,301	30,655	22,413
Premiums earned	(26,743)	(25,015)	(1,049)	(1,260)	(25,694)	(23,755)
Change in net unearned premiums	4,944	(1,301)	(17)	41	4,961	(1,342)
Unearned premiums, end of the year	$ 17,197	$ 12,253	$ 33	$ 50	$ 17,164	$ 12,203

11. Share Capital

Authorized:

Unlimited number of common shares with no par value.

	(thousands of $)	
Issued and fully paid:	**2022**	**2021**
10,000 common shares	$ 1,000	$ 1,000

12. Net Investment (Losses) Earnings

Components of net investment (losses) earnings are as follows:

	(thousands of $)	
	2022	2021
Interest and other	$ 1,620	$ 1,221
Investment fund distributions	1,327	3,943
Net realized gains on sale of investments	1,227	4,329
Premium financing	485	425
Net unrealized losses on change in market value of investments	(8,321)	(2,960)
Total investment (losses) earnings	(3,662)	6,958
Investment expenses	(229)	(286)
Net investment (losses) earnings	$ (3,891)	$ 6,672

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

	(thousands of $)	
	2022	2021
Bonds and debentures	$ (2,119)	$ (2,006)
Investment funds:		
Canadian equity	(473)	321
Global equity	(4,231)	(959)
Global small cap equity	(539)	(304)
Mortgage	(723)	(188)
Real estate	(236)	176
Net unrealized losses	$ (8,321)	$ (2,960)

13. Income Taxes

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

	(thousands of $)	
	2022	2021
Current	$ (1,069)	$ 3,450
Deferred	85	135
Income tax (recovery) expense	$ (984)	$ 3,585

Income tax (recovery) 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 $)	
	2022	**2021**
(Loss) income before income taxes	$ (3,839)	$ 13,867
Combined federal and provincial tax rate	26.50%	26.50%
Computed tax (recovery) expense based on combined rate	$ (1,017)	$ 3,675
Increase (decrease) resulting from:		
Investment losses (earnings) not subject to taxation	35	(52)
Other	(2)	(38)
Total income tax (recovery) expense	$ (984)	$ 3,585

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	**Fixed & right-of-use assets**	**Total**
At January 1, 2021	$ 1,101	$ 16	$ 1,117
Charge reflected in income tax expense	(178)	11	(167)
At December 31, 2021	923	27	950
(Charge) credit reflected in income tax expense	(145)	2	(143)
At December 31, 2022	$ 778	$ 29	$ 807

Deferred tax liability

	(thousands of $)		
	Unpaid claims recoverable from reinsurers	**Investments**	**Total**
At January 1, 2021	$ 191	$ 5	$ 196
Credit reflected in income tax expense	(30)	(2)	(32)
At December 31, 2021	161	3	164
Credit reflected in income tax expense	(57)	(1)	(58)
At December 31, 2022	$ 104	$ 2	$ 106

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 (2021 – $1.8 million) on any one loss. In addition, the Corporation carries auto physical damage catastrophe reinsurance limiting combined exposure to $2.5 million (2021 – $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 increased (reduced) the premiums earned, claims incurred, commissions, administrative expenses and premium taxes:

	(thousands of $)	
	2022	**2021**
Premiums earned	$ (1,049)	$ (1,260)
Claims incurred	2,581	(507)
Commissions, administrative expenses and premium taxes	(76)	(75)

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	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Net ultimate loss										
End of accident year	$ 34,416	$ 34,178	$ 38,940	$ 45,457	$ 62,156	$ 43,607	$ 21,500	$ 11,317	$ 11,121	$ 14,402
One year later	32,611	29,784	37,956	45,815	60,507	41,443	19,948	9,936	10,602	
Two years later	30,038	27,564	36,176	43,218	56,755	40,949	20,037	10,228		
Three years later	28,283	25,711	37,123	40,845	54,425	39,618	21,875			
Four years later	26,612	25,461	36,212	41,109	53,925	39,581				
Five years later	26,194	24,046	36,005	41,484	54,486					
Six years later	25,328	24,035	35,896	41,212						
Seven years later	25,025	24,333	35,669							
Eight years later	25,174	24,399								
Nine years later	25,017									
Cumulative loss development	$ (9,399)	$ (9,779)	$ (3,271)	$ (4,245)	$ (7,670)	$ (4,026)	$ 375	$ (1,089)	$ (519)	n/a
Cumulative loss development as a % of original ultimate loss	(27.3%)	(28.6%)	(8.4%)	(9.3%)	(12.3%)	(9.2%)	1.7%	(9.6%)	(4.7%)	n/a

	(thousands of $)										
Accident year	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**Total**
Current estimate of net ultimate loss	$ 25,017	$ 24,399	$ 35,669	$ 41,212	$ 54,486	$ 39,581	$ 21,875	$ 10,228	$ 10,602	$ 14,402	$ 277,471
Cumulative paid	(24,643)	(23,824)	(34,358)	(38,178)	(48,042)	(32,805)	(14,491)	(5,944)	(5,452)	(5,592)	(233,329)
Net provision for unpaid claims	$ 374	$ 575	$ 1,311	$ 3,034	$ 6,444	$ 6,776	$ 7,384	$ 4,284	$ 5,150	$ 8,810	44,142
Net undiscounted claims outstanding for accident years 2012 and prior											282
Loss adjusting expense reserve											2,847
Provision for adverse deviation and discounting											1,312
Unpaid Facility Association claims											1,578
Retained risk sharing pool											45
Health levies											102
Subrogation recoveries											572
Net provision for unpaid claims											$ 50,880

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**	**2022**	**2021**	**2022**	**2021**
Discount rate	+100 bps	$ (1,301)	$ (1,689)	$ (543)	$ (307)
Discount rate	– 100 bps	1,301	1,689	543	307

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 $)	
	2022	**2021**
Cash and cash equivalents	$ 1,044	$ 4,350
Accounts receivable	16,939	12,362
Fixed income investments [1]	75,412	101,972
Unpaid claims recoverable from reinsurers	7,859	12,159

[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 $0.1 million (2021 – $1.6 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 $)	
	2022	**2021**
Current	$ 16,698	$ 11,991
30 – 59 days	75	41
60 – 90 days	36	17
Greater than 90 days	928	934
Subtotal	17,737	12,983
Allowance for doubtful accounts	(798)	(621)
Total	$ 16,939	$ 12,362

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 $)	
	2022	**2021**
Allowance for doubtful accounts, beginning of the year:	$ 621	$ 614
Accounts written off	(243)	(191)
Current period provision	420	198
Allowance for doubtful accounts, end of the year	$ 798	$ 621

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:

	2022		2021	
Credit Rating	**Fair value (thousands of $)**	**Makeup of portfolio (%)**	**Fair value (thousands of $)**	**Makeup of portfolio (%)**
AAA	$ 24,169	46.5	$ 26,753	38.9
AA	16,112	31.0	21,777	31.7
A	8,679	16.7	13,121	19.1
BBB	3,023	5.8	7,107	10.3
Total	$ 51,983	100.0	$ 68,758	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**	
	2022	**2021**	**2022**	**2021**
Net investment earnings	$ (1,844)	$ (1,997)	$ 1,844	$ 1,997

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:

	2022		
Asset Class	**Maximum exposure (%)**	**Current exposure (%)**	**10% change in exchange rates (thousands of $)**
Global equities	15.0	10.0	$ 948
Global small cap equities	3.0	1.9	182

	2021		
Asset Class	**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

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 16.1% (2021 – 20.3%) 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 $) 2022	2021
Canadian equities	$ +/– 1,312	$ +/– 2,097
Global equities	+/– 2,329	+/– 4,258
Global small cap equities	+/– 682	+/– 1,063

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 $) 2022							
	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	$ 1,044	$ 1,044	$ 1,044	$ –	$ –	$ –	$ –	$ –
Accounts receivable	16,939	16,939	–	13,065	3,874	–	–	–
Investments	95,221	95,221	31,741	11,497	–	14,540	31,251	6,192
Unpaid claims recoverable from reinsurers	7,859	7,605	–	1,626	1,211	1,615	1,937	1,216
	$ 121,063	$ 120,809	$ 32,785	$ 26,188	$ 5,085	$ 16,155	$ 33,188	$ 7,408
Financial liabilities								
Accounts payable and accrued liabilities	$ 3,761	$ 3,761	$ 3,227	$ 534	$ –	$ –	$ –	$ –
Amounts due to reinsurers	106	106	–	106	–	–	–	–
Provision for unpaid claims	58,739	57,173	–	9,536	7,246	11,260	19,367	9,764
Lease liability	395	401	–	201	200	–	–	–
	$ 63,001	$ 61,441	$ 3,227	$ 10,377	$ 7,446	$ 11,260	$ 19,367	$ 9,764

	(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	12,362	12,362	–	9,813	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
	$ 163,905	$ 162,949	$ 53,441	$ 31,704	$ 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

The estimated contractual maturities related to lease liabilities excluded the net effect of the discounting of $6 thousand (2021 – $21 thousand) (note 7). The estimated contractual maturities related to the unpaid claims recoverable from reinsurers excludes the net effect of discounting and PFADs of $0.3 million (2021 – $1.0 million) (note 8). The estimated contractual maturities related to the provision for unpaid claims excludes the net effect of discounting and PFADs of $1.6 million (2021 – $5.5 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, 2022 was 471% relative to its internal target MCT of 257%.

16. Change in Non-Cash Operating Items

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

	(thousands of $)	
	2022	**2021**
Accounts receivable	$ (4,588)	$ 3,441
Reinsurers' share of unearned premiums	17	(41)
Unpaid claims recoverable from reinsurers	4,300	2,264
Deferred policy acquisition costs	(906)	146
Accounts payable and accrued liabilities	93	(219)
Amounts due to reinsurers	99	–
Unearned reinsurance commissions	130	(97)
Unearned premiums	4,944	(1,301)
Provision for unpaid claims	(10,958)	(13,440)
	$ (6,869)	$ (9,247)

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 $)	
	2022	**2021**
Salaries	$ 1,173	$ 1,003
Benefits	258	187
Total salaries and benefits	$ 1,431	$ 1,190

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 $)	
	2022	**2021**
Accounts payable	$ (1,164)	$ (794)
Administrative and loss adjusting expenses	4,856	2,773

SCISL is one of the Corporation's reinsurers (note 14). Reinsurance ceded to SCISL has increased claims incurred by $0.3 million (2021 – decreased claims incurred by $0.9 million). Amounts outstanding at year-end are as follows:

	(thousands of $)	
	2022	**2021**
Accounts receivable	$ 700	$ 885
Unpaid claims recoverable from reinsurers	5,140	7,965

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, 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.

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

	(thousands of $)	
	2022	**2021**
Salaries and other short-term employee benefits	$ 105	$ 88
Post-employment benefits	8	6
	$ 113	$ 94

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 $)	
	2022	**2021**
Gross premiums written	$ 740	$ 717
Net premiums earned	$ 717	$ 661
Net claims incurred	676	602
Commissions	21	17
Premium taxes	22	20
Administrative expenses	212	211
Total claims and expenses	931	850
Underwriting loss	(214)	(189)
Investment (losses) earnings	(30)	5
Net loss	$ (244)	$ (184)
Facility Association receivable	$ 1,495	$ 1,716
Unearned premiums	422	399
Facility Association payable	1,520	1,520
Provision for unpaid claims	1,578	1,555

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 information has been reclassified to conform to the current year's presentation.