

Management Discussion & Analysis

Corporate Profile

Corporate Vision

Manitoba Public Insurance will be a leader in automobile insurance, providing Manitobans with superior products, coverage and service. Manitoba Public Insurance will anticipate and meet the evolving needs of Manitobans. Manitoba Public Insurance is dedicated to offering provincewide accessibility and, in co-operation with its business partners, will perform at the highest attainable levels of economy, efficiency and effectiveness.

Manitoba Public Insurance will lead innovative road safety programs that raise awareness of the inherent risk of driving and develop educational programs that help Manitobans acquire the skills to avoid accidents, thereby making driving safer.

Manitoba Public Insurance will be one of the best places in the province to work and pursue a career, where people will deliver knowledgeable and caring service in new and innovative ways, feel justifiable pride in their work and careers, and be appropriately recognized for their contributions in helping the corporation achieve its goals. Manitobans will understand and support the unique contribution Manitoba Public Insurance makes to the province of Manitoba.

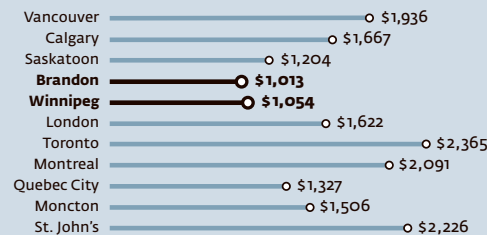
Corporate Goals, Measures and Strategies

Manitoba Public Insurance strives to achieve seven broad corporate goals. Expected outcomes are measured and five-year key strategies have been developed to reflect and address the current realities of the corporation's marketplace and to meet various stakeholder expectations and obligations. Several of the strategies, while presented in support of a particular corporate goal, also support other corporate goals. Manitoba Public Insurance's corporate goals, measures and strategies are as follows:

1. Goal:

Universally available mandatory protection against the cost of automobile accidents. Rates, on average, will be lower than those charged by private insurance companies for comparable coverage and service.

Rates based on: 2002 Ford Taurus SE 4-door • 45-year-old driver • Six years claim-free driving • All-purpose use • \$200 deductible • \$1M third-party liability
Comparison provided by Runzheimer Canada. Rates as of June 12, 2003.



Measure: Among the lowest rates in Canada

Strategies:

Basic automobile insurance—to continue to ensure that the basic, compulsory program meets the needs of Manitoba motorists for affordable, accessible and comprehensive coverage.

To keep all controllable costs at their lowest possible level through continuous focus on savings in claims and operating costs.

To improve the efficiency and convenience of Manitoba Public Insurance's distribution and service network by reducing or eliminating low value transactions.

To reduce corporate costs by improving the corporation's influence and buying power to ensure service providers are as efficient as possible while keeping customers' needs in mind.

To the maximum extent possible, leverage synergies offered by strategic partners that are mutually beneficial, improve customer service and reduce costs.

To increase the percentage of revenue which is derived from investment income while remaining within acceptable investment risk profiles.

To create and maintain an information technology environment which is sufficiently efficient, adaptable, expandable and current to capitalize on opportunities to improve customer service or reduce costs.

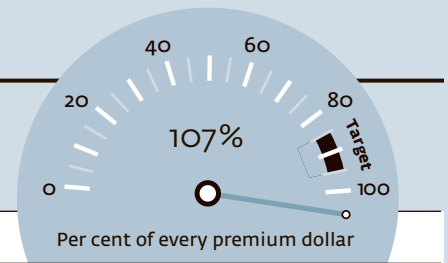
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2. *Goal:*
The Basic plan will return 85 per cent of premium revenue to Manitobans in the form of claims benefits.

Measure: **Premium returned for each dollar earned**

Strategies:

- To maintain operating costs at a maximum of 50 per cent of industry average.
- To break even over the long term on Basic automobile insurance.
- To utilize investment income to reduce the average premium paid by Manitobans.

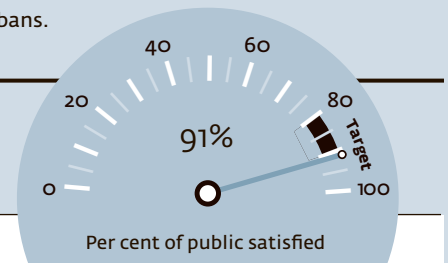


3. *Goal:*
Manitoba Public Insurance will be a leader in automobile insurance, providing Manitobans with superior products, coverage and service.

Measure: **Public satisfaction with claims performance**

Strategies:

- To ensure Manitobans receive understandable information on Manitoba Public Insurance products, their entitlements, services and service standards. The corporation will adopt a strategy that ensures messages reach the appropriate target groups at appropriate times.
- Autopac Extension—to be profitable by providing products and services that continue to recognize the changing needs of our customers and continue to successfully achieve high levels of customer satisfaction through strategic pricing, accessibility and convenience. To mitigate risk through appropriate product design and automated underwriting techniques.
- Special Risk Extension—to be profitable by responding to the variable and specialized needs of our commercial customers and providing personalized auto-related insurance products that cannot be met by the universal, compulsory program or by the Autopac Extension program. To partner with customers in pursuing fleet safety and loss prevention initiatives. To provide Manitobans with a stable market choice that promotes long-term partnerships.

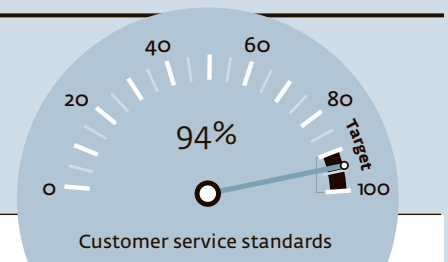


4. *Goal:*
Manitoba Public Insurance will provide service that is responsive, fair, courteous and convenient. Customer service standards will be set by customer expectations and Manitoba Public Insurance will meet these service standards.

Measure: **How often we meet/exceed standards**

Strategies:

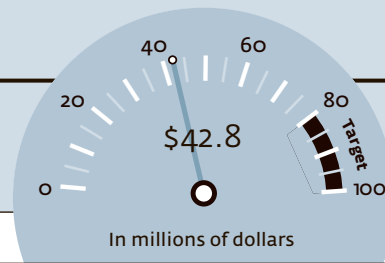
- To create, publish and comply with comprehensive customer service standards for ourselves, brokers, business associates and service providers who are in contact with our customers.
- To promptly address and respond to legitimate concerns expressed by our customers. To provide internal and external appeal mechanisms.



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5. *Goal:*
Rate Stabilization Reserves will be maintained within established target levels.

Measure: **Is RSR within the target range?**



Strategies:

To maintain financial stability by setting appropriate premium rates, strengthening investment income and keeping Rate Stabilization Reserves within established target levels.

To continuously identify and assess potential risks and act explicitly to avoid and mitigate such risks.

6. *Goal:*
Manitoba Public Insurance will offer an environment and career opportunities that are attractive to productive, improvement-minded people. Our people will be treated with respect and fairness and their contributions will be recognized.

Measure: **Level of employee satisfaction**



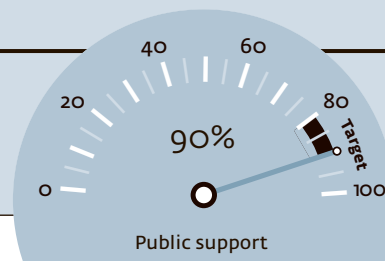
Strategies:

To foster a culture accepting of diversity. To attract, recruit, train and motivate target group candidates throughout the corporation. To build positive relationships within the Aboriginal community and to encourage employee involvement in this endeavour. To remove any systemic barriers that might impede our progress toward these goals.

To continue to respond to the issues raised by our employees. Particular emphasis will be given to providing clear direction and fostering a management style that reflects our values and supports employee commitment to the organization.

7. *Goal:*
Manitoba Public Insurance will lead initiatives on education to increase opportunities for drivers to enhance their driving skills and to increase public concern regarding risky driving behaviour.

Measure: **Public support for road safety activities**



Strategies:

To develop and manage education and awareness initiatives based on factors that contribute to automobile accidents and the actions Manitobans can take to prevent those accidents.

To partner with community groups across Manitoba supporting community-based initiatives that increase road safety awareness and education opportunities.

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Results of Operations

Current Year and Last Year

Corporate

Corporate operating results show an improvement compared to last year. Net income of \$37.3 million exceeds last year's net loss of \$22.6 million, by \$59.9 million.

Total earned revenues for the year were \$679.2 million, an increase of \$44.1 million over last year. The growth in earned revenues is attributable to motor vehicles, which increased revenues by \$38.3 million. Increases in the number and value of vehicles insured contributed to the increase.

Total claim costs, including claims, loss prevention and road safety expenses, increased from last year by \$52.7 million to \$662.2 million.

Claims frequency continued to grow. The number of claims reported for the year was 243,401 and represents an increase of 16,142 or 7 per cent over last year's total of 227,259. In addition, total Autopac, basic and extension, claims severity, measured as the average cost per claim, also increased from \$2,228 last year to \$2,301, an increase of \$73 or 3.3 per cent.

Total corporate expenses increased by \$8.1 million to \$109.4 million. Increases in earned revenues contributed to increases in commissions and premium taxes, which increased by \$7.3 million.

The corporation's positive bottom line was mainly generated on the strength of increased investment income. Corporate investment income increased from \$57.6 million to \$134.9 million, an increase of \$77.3 million. Improvements in the corporation's equity portfolio resulted in the realization of equity gains amounting to \$50.4 million.

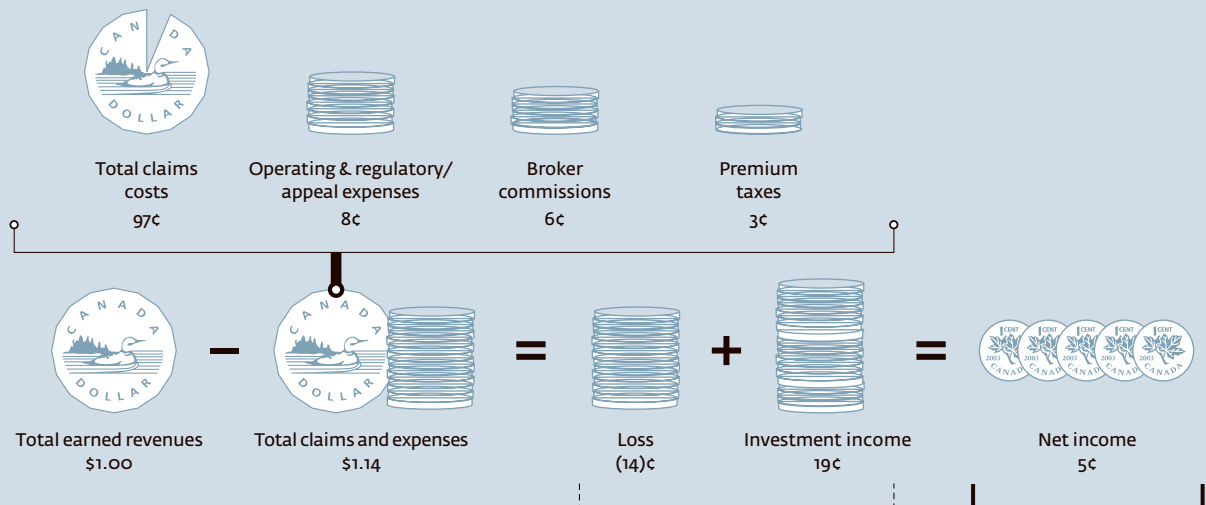
Basic

Operations reported net income of \$3.4 million compared to a net loss of \$30.1 million last year, an improvement of \$33.5 million.

Total earned revenues increased by \$27.0 million to \$563.2 million. The positive growth in earned revenues is due to motor vehicle earned revenue resulting from increases in the number and value of vehicles insured. The number of policies in force increased from 809,223 to 824,930.

Total claim costs, including claims, loss prevention and road safety expenses, rose from last year's total of \$533.8 million to \$587.4 million, an increase of \$53.6 million.

Where your premium dollar has gone



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Physical damage claims costs increased by \$16.8 million from last year. Collision costs rose by \$12.9 million relating to an increase in the number of collision claims from 114,340 last year to 124,102 this year. Comprehensive costs increased by \$3.6 million. A rise of 966 theft claims, to 12,085 from 11,119, contributed to the increase in comprehensive costs.

Injury claims costs increased by \$29.0 million from last year. The severity of the average Personal Injury Protection Plan (PIPP) claim rose from \$2,631 to \$3,472, an increase of 32 per cent. Contributing to the increase in severity of PIPP claims was a significant rise in the number of serious losses experienced in 2003.

	YEARS ENDED FEBRUARY 29/28				
	2004	2003	2002	2001	2000
Type of Claim					
Chronic pain	66	73	173	205	351
Fatal	139	142	152	148	161
Brain damage	97	63	50	64	52
Quadriplegic	3	3	2	6	2
Paraplegic	8	7	1	9	8
Broken bones	811	640	688	669	660
Whiplash	12,249	9,425	8,749	7,309	8,285
Bruising/lacerations	871	636	756	598	1,023
Other	1,449	4,432	3,987	3,864	2,399
Total	15,693	15,421	14,558	12,872	12,941

Basic's share of the corporate investment income increased by \$64.4 million to \$108.5 million. The positive growth relates to the gains realized from the corporation's equity portfolio.

	YEARS ENDED FEBRUARY 29/28				
(IN THOUSANDS OF DOLLARS)	2004	2003	2002	2001	2000
Basic Autopac Five Year Statistics					
Premiums written	558,378	537,235	506,722	464,275	460,806
Claims incurred	513,548	467,715	433,873	378,137	352,743
Claims expense	67,043	58,944	56,159	50,400	52,457
Other expenses	87,768	83,849	76,201	80,108	78,700
Income (loss)	3,358	(30,135)	(11,707)	38,100	40,513

Extension

Operations reported net income of \$8.0 million, up \$4.7 million from the \$3.3 million net income reported last year.

Total earned revenues increased by \$11.1 million to \$69.8 million. All products contributed to the increase in premium revenue.

Total claim costs, including claims, loss prevention and road safety expenses, increased by \$8.4 million to \$53.2 million. Physical damage claims costs increased by \$2.6 million, exhibiting the same trends as the Basic line of business. Injury claims increased by \$5.1 million due mainly to adverse development on claims which occurred in prior years compared to the favourable development experienced last year.

Extension's share of the corporate investment income increased by \$4.9 million to \$8.9 million. As with the Basic line of business, the positive growth relates to the gains realized from the corporation's equity portfolio.

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(IN THOUSANDS OF DOLLARS)	YEARS ENDED FEBRUARY 29/28				
	2004	2003	2002	2001	2000
Extension Five Year Statistics					
Premiums written	73,182	61,494	52,325	43,608	39,179
Claims incurred	46,425	38,677	45,314	37,100	33,134
Claims expense	6,255	5,522	6,899	6,191	5,443
Other expenses	18,015	15,241	13,402	11,866	10,497
Income (loss)	8,001	3,292	(11,606)	(6,130)	(3,783)

Special Risk Extension

Operating results reported net income of \$25.1 million, an increase of \$21.1 million from the \$4.0 million net income reported last year.

Total claim costs, including claims, loss prevention and road safety expenses, decreased by \$9.4 million to \$21.6 million. Liability claims costs decreased by \$6.2 million primarily due to favourable development on claims that occurred in prior years. Physical damage claims costs declined by \$3.0 million due to a drop in the claims severity.

Special Risk Extension's share of the corporate investment income increased by \$6.8 million to \$11.5 million. This positive growth relates to the gains realized from the corporation's equity portfolio.

(IN THOUSANDS OF DOLLARS)	YEARS ENDED FEBRUARY 29/28				
	2004	2003	2002	2001	2000
SRE Five Year Statistics					
Premiums written	48,705	42,742	36,124	31,171	29,708
Claims incurred	18,950	28,202	23,902	16,194	13,424
Claims expense	2,601	2,789	2,433	2,150	2,181
Other expenses	11,019	9,833	8,695	7,872	10,373
Income	25,140	4,049	6,821	14,658	14,179

Current Year and Expected

Corporate

Corporate operating results show an improvement compared to expected results. Net income of \$37.3 million exceeded expected results of \$0.2 million by \$37.1 million.

Increases in investment income and total earned revenues of \$55.2 million and \$9.1 million respectively were partially offset by higher than expected claims costs of \$24.2 million and expenses of \$3.0 million.

Basic

Net income of \$3.4 million was \$4.6 million more than expected.

Claim costs exceeded expectations by \$44.8 million. This variance is primarily associated with an increase in the number of serious losses that occurred in 2003. Also contributing to the higher than expected claims costs was a rise in the severity of the average PIPP claim from \$2,529 to \$3,472, an increase of 37.3 per cent.

Positive returns on the corporation's equity portfolio contributed to a \$47.0 million increase in investment income compared to an expected amount of \$61.5 million.

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Extension

Net income of \$8.0 million was \$8.2 million more than the target.

Earned revenues and expenses did not vary significantly from expected targets. Claims costs, however, decreased, showing an improvement to the target of \$4.2 million. A lower than anticipated claims severity for comprehensive claims was the primary factor.

Positive returns on the corporation's equity portfolio contributed to a \$3.3 million increase in investment income compared to an expected amount of \$5.6 million.

Special Risk Extension

Net income of \$25.1 million was \$23.6 million more than expected.

Claims costs were less than expected by \$15.9 million. The positive variance is attributable to a decrease in the severity of liability claims associated with favourable development on claims that occurred in prior years. This line of business is especially susceptible to large losses and the favourable results experienced this year are not expected to continue next year.

Positive returns on the corporation's equity portfolio contributed to a \$4.8 million increase in investment income compared to an expected amount of \$6.7 million.

Investment Income

Manitoba Public Insurance's investment portfolio performed well, though being underweight in equities, which has helped performance over the past two years. Manitoba Public Insurance's investments are 76 per cent in bonds (fixed income). The majority of this amount is invested in marketable bonds issued by Canadian provinces. The marketable bond portfolio returned 9.5 per cent on a market basis during the year. The portfolio also holds \$335 million of non-marketable bonds issued by Manitoba municipalities, school divisions and health facilities that are purchased through the Manitoba Department of Finance. Canadian equities returned 31.3 per cent over the year, under the 36.5 per cent return for the S&P/TSX Composite Index. U.S. equities performed very well, returning 34.3 per cent over the past year, compared to 24.7 per cent for the S&P 500 Index in Canadian dollars. Extra return was generated through the use of a currency hedge that offset major movements in the Canadian dollar during the year.

The corporation earned total investment income of \$134.9 million, an increase of \$77.3 million from last year. This income was earned from the investment of funds not immediately needed to pay claims and reduced the cost of the average premium by \$142 (2003–\$59). Public insurance schemes utilize all investment income to reduce rates that would otherwise be payable by policyholders.

Basic Rate Stabilization Reserve (RSR) and Retained Earnings

To maintain financial stability, the corporation strives to maintain adequate levels for the Basic Insurance Rate Stabilization Reserve (RSR) and retained earnings. In 1999, the Canadian Institute of Actuaries adopted a standard for Dynamic Capital Adequacy Testing (DCAT), which requires appointed actuaries to report on the financial strength of property and casualty insurance companies. DCAT is a formal approach to "stress testing" the financial strength of a line of business by estimating the future financial results if various events should occur. To address the adequacy of these reserves, the corporation has established target levels by line of business which have been approved by the Board of Directors. On a regular basis, the DCAT analysis will be undertaken by the corporation's external actuary to review the RSR and retained earnings targets.

Basic

As at February 29, 2004, the Basic Insurance RSR totaled \$42.8 million compared to \$35.4 million last year.

The current level is below the established minimum target level of \$80.0 million by \$37.2 million.

The corporation is committed to rebuilding the RSR to fall within the target level with the principal funding being derived from transfers from the Extension and SRE lines of business. It is anticipated that these transfers will contribute approximately \$29.4 million to the RSR in 2004.

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Extension

As at February 29, 2004, the retained earnings balance is \$43.3 million compared to \$35.3 million last year.

The balance of \$43.3 million is \$4.3 million above the target of \$39.0 million established for this line of business. Effective March 1, 2004, approximately \$4.3 million will be transferred to the Basic Insurance RSR in accordance with corporate policy.

Special Risk Extension

As at February 29, 2004, the retained earnings balance is \$58.1 million compared to \$37.1 million last year.

The balance of \$58.1 million is in excess of the approved target of \$33.0 million by \$25.1 million. Effective March 1, 2004, \$25.1 million will be transferred to the Basic Insurance RSR in accordance with corporate policy.

Risk Management

Unpaid Claims

Manitoba Public Insurance maintains provisions for unpaid claims on a discounted basis to cover its future claims commitments. The corporation makes provisions for future development on claims that have been made and an estimate for those that may have occurred but are not yet reported.

In the case of major injuries, only a small portion of the total benefit is paid in the first year. As time passes and more information is available, the estimates are revised to reflect the most current forecast of claims costs.

Because the total amount paid on any single claim may be different from its initial reserve, Manitoba Public Insurance reviews the adequacy of these reserves annually and required adjustments, if needed, are calculated by the corporation's actuary. An independent assessment of the reserves is also conducted by the corporation's external actuary. Furthermore, as part of its annual audit of Manitoba Public Insurance's financial results, the external auditor also reviews the adequacy of the reserves.

Technology

Information systems and their inherent infrastructure provide the corporation with the ability to process and monitor the major components of our business, which include premiums, claims and investments.

An interruption to the services and/or infrastructure could disrupt operations. To minimize this exposure, the corporation is in the process of establishing a parallel computer site, within Manitoba. This is a key part of the corporation's business continuity plan. This facility will also assist in application development and testing.

Obsolescence, in terms of computer technology, can impact the corporation's ability to maintain customer service and meet its business objectives. To address this, the corporation reviews and develops long-term expense and capital forecasts to ensure that technology upgrades are affordable and within the corporation's financial forecasts. In addition, the corporation constantly monitors upgrades provided by third-party vendors to ensure current versions are supportable.

Liquidity

Cash and cash equivalents are essential components of the corporation's financial liquidity management. Cash flows are monitored to ensure sufficient resources are available to meet the corporation's current operating requirements. Excess funds not needed to meet current operating requirements are invested in long-term instruments to be used to meet future obligations.

Cash flows provided by operating activities increased to \$178.5 million from \$92.6 million last year. Contributing to this improvement was a \$59.9 million increase in net income and a \$35.3 million increase in the change in unpaid claims, which do not require an immediate pay out. Cash flows used for investing activities increased to \$236.8 million from \$59.6 million last year.

Refer to Annual Report *note 4* for a breakdown of the corporation's investment portfolio.

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Sustainable Development

For Manitoba Public Insurance, sustainable development means making choices that are right for our business and our communities, both for today and tomorrow.

The company's sustainable development efforts range from recycling paper in our offices to more complex initiatives such as extracting and safely disposing of potentially harmful substances throughout our operations. Manitoba Public Insurance has maintained many such sustainable operations, programs and initiatives for years.

In 2003, the company embarked on a Sustainable Development program to enhance these activities and practices. This involved creating corporate procurement and financial management guidelines, and a Code of Practice, all founded on the principles of sustainable development. The company also set out a Sustainable Development Action Plan, which includes a number of long-standing and new initiatives.

These guidelines and action plan will ensure Manitoba Public Insurance continues to consider the economic, environmental and social impact of all aspects of our operations.

Road Safety

Manitobans know the value of road safety. In a survey last year, nine out of 10 respondents told us they supported our work to promote public awareness and educate drivers about our three top safety priorities: drinking and driving, seatbelt use and speeding. For the third year in a row, the number of driving-related deaths declined in 2003—thanks in part to targeted enforcement initiatives, tougher laws and community groups that joined with Manitoba Public Insurance to deliver neighbourhood-based programs aimed at reducing crashes and associated injuries.

The corporation remains concerned, however, with the rise in catastrophic injuries caused by speed and the failure to wear a seatbelt. Contributing to that concern is the lack of general road safety enforcement in Manitoba, which continues to allow drivers to engage in risky behaviour without legal consequences.

In 2003 the corporation also worked with community groups and road safety partners to deliver effective programs promoting auto crime prevention, safe use of motorcycles, bicycles and snowmobiles, and senior driver safety. Through SpeedWatch and the Citizens on Patrol Program (COPP), we worked with concerned neighbours to make our communities safer. We partnered with enforcement agencies to pioneer new programs combating excessive speed and drinking and driving. Meanwhile, our advertising campaigns promoting safe practices consistently exceeded national advertising measures in terms of reach, recognition and effectiveness.

Loss Prevention

While repair costs in the rest of Canada and the United States increased by 7.0 per cent in 2003, a comprehensive loss prevention program at Manitoba Public Insurance reduced overall repair costs by 3.7 per cent in Manitoba during the same period.

According to 2003 Mitchell Estimating Information, the average physical damage claim in Manitoba was \$1,882 compared with the Canadian industry average of \$2,980.

Effective management of claims costs through loss prevention programs reduced costs by a significant amount. The corporation's ability to manage costs associated with towing, labour and other contracted services also contributed to the savings.

The use of recycled parts saved the corporation \$12.7 million in 2003 while the use of aftermarket parts reduced corporate costs by \$8.9 million.

In addition, premium payers benefited from the sale of more than 19,000 total-loss vehicles earning \$17.7 million in salvage sales. A comprehensive auto theft strategy also reduced costs associated with theft by \$2 million.

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Manitobans continue to support corporate efforts to reduce fraud. In 2003, the corporation's fraud tips line received 958 calls. In all, the corporation's Special Investigation Unit examined 3,544 suspicious injury and physical damage claims during the last fiscal year, saving policyholders several million dollars.

The corporation also protected premium-payers' dollars by recovering \$11.2 million through subrogation efforts, an increase of \$1.5 million over 2002.

Investments

The Investment Committee as appointed by the Board of Directors is responsible for the development of an investment policy for the corporation. The investment policy ensures that sufficient long- and short-term investment funds are available to pay the liabilities of the corporation and to provide investment income that will assist in minimizing premiums payable by policyholders. These assets must be managed in a manner that will maximize return while minimizing risk in an overall portfolio context. The investment policy provides for diversification among various investment instruments such as short-term holdings, bonds and equities.

Outlook

The corporation remains committed to achieving its seven corporate goals. Actual results will be monitored and corrective actions taken when necessary to ensure that expected outcomes are realized.

Under *The Crown Corporations Public Review and Accountability Act*, Manitoba Public Insurance is required to submit Basic Autopac rates to the Public Utilities Board (PUB) for approval. The corporation generally files its rate application in June of each year for the insurance year beginning the following March.

On December 4, 2003 the PUB released its ruling on Manitoba Public Insurance's rate application for the 2004/2005 insurance year. Effective March 1, 2004, Basic insurance rates will be increased by an average of 3.7 per cent. Although Basic insurance rates will change, the corporation will not alter any of the components of the Basic insurance plan.

Current projections indicate that the corporation is expected to realize a net income of \$2.8 million during the 2004/05 fiscal year.