Quarterly Financial Report

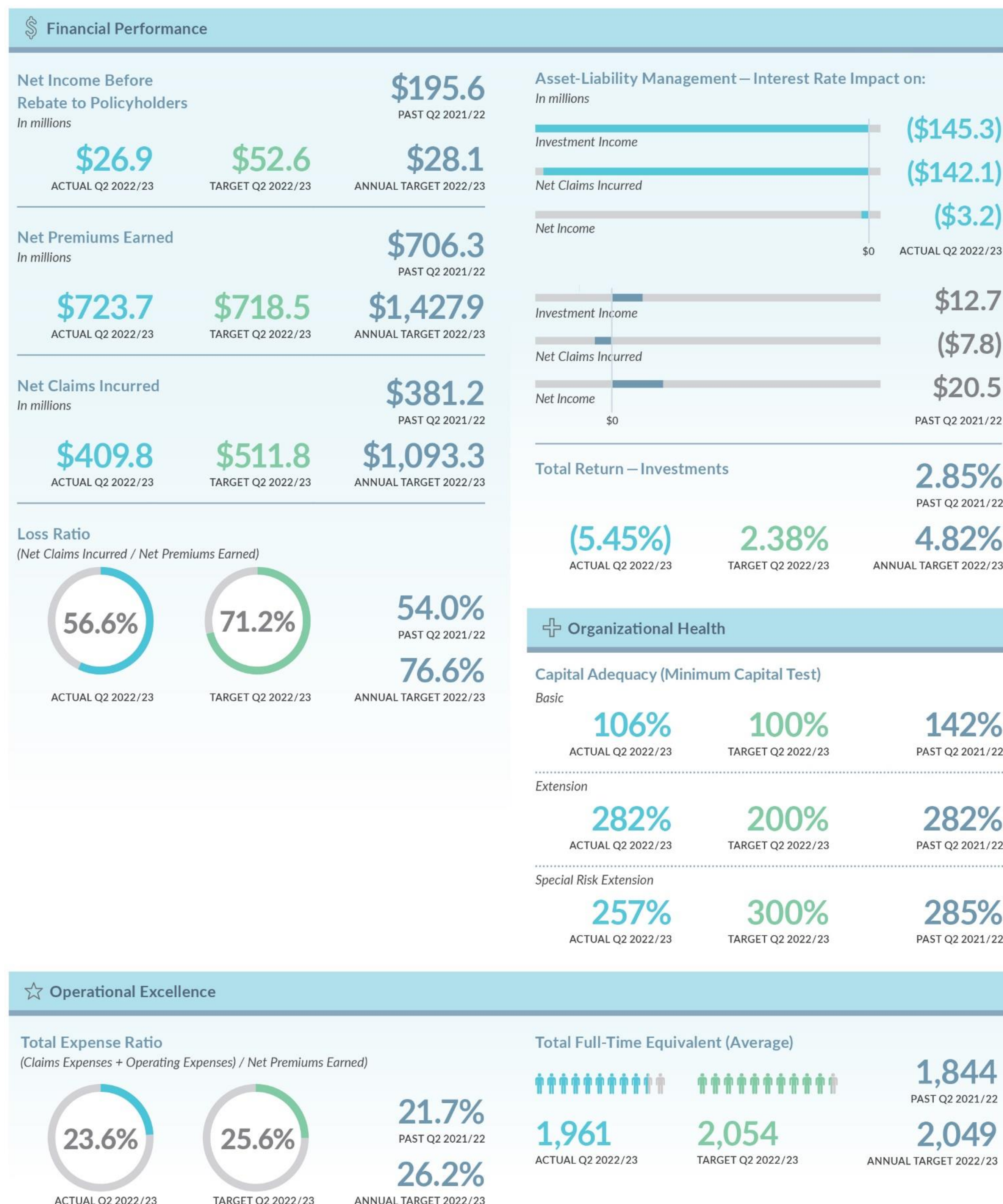
2nd Quarter

Six months ended
September 30, 2022

MANITOBA
PUBLIC INSURANCE

Management Discussion and Analysis

Management's discussion and analysis provides a review of the financial results and future outlook of Manitoba Public Insurance. It should be read in conjunction with the unaudited condensed interim financial statements and supporting notes for the second quarter ended September 30, 2022, included herein and the 2021/22 annual audited financial statements and supporting notes found in the Corporation's 2021 Annual Report available at mpi.mb.ca. Certain information in this report may consist of forward-looking statements. These statements are based on various techniques and assumptions including predictions about future events which may not occur. Actual results could deviate significantly from the forward-looking statements.


Q2
Corporate Performance Measures and Targets
Year-to-date second quarter results 2022/23
Financial Performance
Net Income Before Rebate to Policyholders
In millions
$195.6
PAST Q2 2021/22
$26.9
ACTUAL Q2 2022/23
$52.6
TARGET Q2 2022/23
$28.1
ANNUAL TARGET 2022/23
Net Premiums Earned
In millions
$706.3
PAST Q2 2021/22
$723.7
ACTUAL Q2 2022/23
$718.5
TARGET Q2 2022/23
$1,427.9
ANNUAL TARGET 2022/23
Net Claims Incurred
In millions
$381.2
PAST Q2 2021/22
$409.8
ACTUAL Q2 2022/23
$511.8
TARGET Q2 2022/23
$1,093.3
ANNUAL TARGET 2022/23
Loss Ratio
(Net Claims Incurred / Net Premiums Earned)
56.6%
ACTUAL Q2 2022/23
71.2%
TARGET Q2 2022/23
54.0%
PAST Q2 2021/22
76.6%
ANNUAL TARGET 2022/23
Asset-Liability Management – Interest Rate Impact on:
In millions
Investment Income
($145.3)
Net Claims Incurred
($142.1)
Net Income
($3.2)
$0
ACTUAL Q2 2022/23
Investment Income
$12.7
Net Claims Incurred
($7.8)
Net Income
$20.5
$0
PAST Q2 2021/22
Total Return – Investments
2.85%
PAST Q2 2021/22
(5.45%)
ACTUAL Q2 2022/23
2.38%
TARGET Q2 2022/23
4.82%
ANNUAL TARGET 2022/23
Organizational Health
Capital Adequacy (Minimum Capital Test)
Basic
106%
ACTUAL Q2 2022/23
100%
TARGET Q2 2022/23
142%
PAST Q2 2021/22
Extension
282%
ACTUAL Q2 2022/23
200%
TARGET Q2 2022/23
282%
PAST Q2 2021/22
Special Risk Extension
257%
ACTUAL Q2 2022/23
300%
TARGET Q2 2022/23
285%
PAST Q2 2021/22
Operational Excellence
Total Expense Ratio
(Claims Expenses + Operating Expenses) / Net Premiums Earned)
23.6%
ACTUAL Q2 2022/23
25.6%
TARGET Q2 2022/23
21.7%
PAST Q2 2021/22
26.2%
ANNUAL TARGET 2022/23
Total Full-Time Equivalent (Average)
1,844
PAST Q2 2021/22
1,961
ACTUAL Q2 2022/23
2,054
TARGET Q2 2022/23
2,049
ANNUAL TARGET 2022/23

Results of Operations

Manitoba Public Insurance reported Corporate net income from operations of $26.9 million for the six months ended September 30, 2022, compared to $195.6 million for the same period last year. This includes net income from operations of $8.9 million (September 30, 2021 - $153.0 million) for the Basic insurance line of business. Corporate net income decreased from the previous year due to:

i. a decrease in investment income of $143.5 million mainly due to unrealized losses on bonds of $101.7 million year-to-date compared to unrealized gain on bonds of $9.0 million last year and a difference in the realized loss on bonds of $47.3 million and unrealized loss on infrastructure of $9.3 million. These decreases are offset by gains on sale of equities and infrastructure of $18.2 million and $4.8 million respectively;

ii. an increase in net claims incurred of $28.6 million; and

iii. an increase in corporate operational expenses of $17.3 million; offset by

iv. an increase in earned revenue of $22.3 million.

Current Year and Last Year

Total earned revenues for the six months ended September 30, 2022, increased from the previous year by $22.3 million. This increase is primarily attributed to Special Risk Extension premiums which increased $14.5 million, motor vehicles premiums which increased $6.0 million and an increase in DVA Operational Recovery of $5.0 million.

Claims costs for the six months ended September 30, 2022, increased $34.3 million or 7.4 per cent compared to last year due to an increase in net claims incurred related to bodily injury claims of $48.1 million and physical damage claims of $45.2 million as well as inflation impact on claims of $69.6 million offset by the favourable impact on unpaid claims caused by changes in prevailing interest rates of $134.4 million. Many Personal Injury Protection Plan (PIPP) benefits are indexed to Manitoba inflation and as a result of continued rising inflation, the valuation of the provision for unpaid claims increased $69.6 million.

The favourable impact on unpaid claims due to changes in interest rates is largely offset by corresponding impact on investment income through the Corporation's asset-liability management program. The $45.2 million increase in physical damage claims is primarily due to an increase in comprehensive claims (non-hail), comprehensive-hail and collision claims incurred. Excluding the impact of changing interest rates, net claims incurred increased year over year by $163.0 million. Claims expenses increased $5.8 million while loss prevention/road safety expenses decreased $0.2 million compared to the same period last year.

Total expenses increased $13.3 million or 9.6 per cent compared to last year. These increases were related to increase operating expenses of $11.4 million and commission expenses of $1.1 million.

Retained Earnings

Net income from operations of $26.9 million for the first six months of the 2022/23 fiscal year increased retained earnings to $688.0 million (March 31, 2022 - $661.1 million). Retained earnings are comprised of $368.2 million for Basic insurance (March 31, 2022 - $359.3 million) and $319.8 million from non-Basic lines of business (March 31, 2022 - $301.8 million).

Total Equity

Total equity of $755.2 million (March 31, 2021 - $764.4 million) is comprised of $688.0 million retained earnings and $67.2 million accumulated other comprehensive income (March 31, 2022 - $103.3 million).

Capital Management

The Corporation's Board of Directors has approved risk-based capital adequacy target levels by line of business. Targets are based upon the capital management framework of the Office of the Superintendent of Financial Institutions Canada (OSFI) and the Minimum Capital Test (MCT). The MCT is a ratio of capital available to capital required and utilizes a risk-based formula to assess the capital adequacy of an insurance company. The Corporations capital targets are determined based on the underlying risks and the competitive nature of each line of business.

The Corporation's Board of Directors' current capital target for Basic Insurance is 100 per cent MCT. Use of the MCT framework aligns with industry best practice and this target was selected to appropriately reflect the lower risk level of the Basic monopoly insurance program. On April 12, 2019, the Manitoba Public Insurance Corporation Act Reserves Regulation 76/2019 specified 100 per cent MCT as the capital requirement for Basic. In Order No. 176/19, issued December 3, 2019, the Public Utilities Board approved the Basic target capital level of 100 per cent MCT.

The Corporation ended the quarter with Basic MCT of 106 per cent which is above the target for the Reserves Regulation target of 100 per cent.

The Corporation's Board of Directors' current target for Extension is 200 per cent MCT. This target was selected to reflect the higher relative risk level of operating in a competitive environment, while also aligning with private sector industry average MCT ratios. The Corporation ended the quarter with Extension MCT at 282 per cent.

The Corporation's Board of Directors' current target for Special Risk Extension is 300 per cent MCT. This target was selected to reflect the higher risk exposure of commercial trucking fleets operating out-of-province. The Corporation ended the quarter with Special Risk Extension at 257 per cent.

Outlook

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

As approved by the Public Utilities Board, effective April 1, 2022, there was a 1.57 per cent overall rate decrease to the average Basic insurance rates for the 2022/23 insurance year. In addition, policyholders will continue to receive a reduction in the form of a 5.0 per cent capital fund release.

On July 12, 2022, Manitoba Public Insurance filed its general rate application for the 2023/24 fiscal year with the Public Utilities Board requesting a provisional 0.9 per cent overall rate decrease. On October 12, 2022, Manitoba Public Insurance updated its financials in the general rate application for the 2023/24 fiscal year with the Public Utilities Board requesting a revised 0.1 per cent rate decrease. This decrease consists of a 0.6 per cent anticipated decrease due to movement of registered owners on the Driver Safety Rating scale and a 0.5 per cent increase for vehicles.

The requested 0.1 per cent overall rate decrease does not mean that rates for all vehicles within each major class will decrease by this amount. Based on the Corporation's rate design, major vehicle classes will be impacted as follows:

- Private passenger (+0.4 per cent change)
- Commercial (+4.8 per cent change)
- Public (+2.2 per cent change)
- Motorcycles (+3.0 per cent change)
- Trailers (-9.2 per cent change)
- Off-road vehicles (0.0 per cent change)
- Total overall (+0.5 per cent change) from the Rate Model plus -0.6 per cent for DSR scale movement and expansion.

Over 642,721 vehicles (52.3 per cent) will experience either no change or a reduction in rates from the previous year. Rates paid by individual policyholders within each class will be determined based on their driving record, the registered vehicle (make and model and year), the purpose for which the vehicle is driven and the territory in which the policyholder resides. The breakdown of vehicles receiving a reduction, no change or an increase is as follows:

- 483,058 (39.3 per cent) of vehicles receiving a decrease in rate
- 159,663 (13.0 per cent) of vehicles receiving no change in rate
- 586,975 (47.7 per cent) of vehicles receiving an increase in rate

Condensed Interim Financial Statements

Condensed Interim Statement of Financial Position

(Unaudited - in thousands of Canadian dollars)	*Notes*	**September 30, 2022**	March 31, 2022
Assets			
Cash and cash equivalents	*4*	**194,553**	197,056
Accounts receivable		**504,819**	485,964
Prepaid expenses		**8,434**	4,488
Investments	*4*	**3,200,350**	3,367,927
Investment property	*4*	**13,580**	13,758
Due from other insurance companies		**527**	14
Reinsurers' share of unearned premiums		**11,280**	393
Reinsurers' share of unpaid claims		**25,712**	25,606
Deferred policy acquisition costs		**65,441**	64,711
Property and equipment		**151,097**	145,498
Deferred development costs		**96,660**	79,889
		4,272,453	4,385,304
Liabilities			
Accounts payable and accrued liabilities		**110,331**	107,239
Due to other insurance companies		**6,062**	419
Unearned premiums and fees		**693,915**	703,444
Lease obligation		**6,997**	6,979
Provision for employee current benefits		**25,065**	25,773
Provision for employee future benefits		**408,927**	474,849
Provision for unpaid claims	*6*	**2,265,947**	2,302,173
		3,517,244	3,620,876
Equity			
Retained earnings		**688,000**	661,096
Accumulated other comprehensive income		**67,209**	103,332
		755,209	764,428
		4,272,453	4,385,304

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

Condensed Interim Statement of Operations

(Unaudited - in thousands of Canadian dollars)	Notes	**3 months ended September 30, 2022**	3 months ended September 30, 2021	**6 months ended September 30, 2022**	6 months ended September 30, 2021
Earned Revenues					
Gross premiums written		**376,952**	357,460	**729,666**	696,926
Premiums ceded to reinsurers		**(19)**	(11)	**(22,597)**	(20,540)
Net premiums written		**376,933**	357,449	**707,069**	676,386
Increase in gross unearned premiums		**2,705**	9,229	**5,718**	20,256
Increase (decrease) in reinsurers' share of unearned premiums		**(5,838)**	(5,410)	**10,886**	9,683
Net premiums earned		**373,800**	361,268	**723,673**	706,325
Service fees and other revenue		**9,452**	9,644	**18,209**	18,286
The Drivers and Vehicles Act operations recovery		**10,063**	7,563	**20,125**	15,125
Total Earned Revenues		**393,315**	378,475	**762,007**	739,736
Claims Costs				**-**	-
Direct claims incurred—gross		**317,924**	186,257	**414,545**	381,617
Claims recovered ceded to reinsurers		**(4,811)**	(300)	**(4,743)**	(423)
Net claims incurred		**313,113**	185,957	**409,802**	381,194
Claims expense		**41,391**	38,852	**84,924**	79,099
Loss prevention/Road safety		**2,416**	2,276	**4,228**	4,399
Total Claims Costs		**356,920**	227,085	**498,954**	464,692
Expenses				**-**	-
Operating		**38,387**	33,097	**79,605**	68,233
Commissions		**24,440**	23,887	**47,867**	46,752
Premiums taxes		**11,390**	10,654	**22,062**	21,516
Regulatory/Appeal		**844**	781	**1,874**	1,624
Total Expenses		**75,061**	68,419	**151,408**	138,125
Underwriting income (loss)		**(38,666)**	82,971	**111,645**	136,919
Investment income (loss)	*5*	**21,453**	(3,185)	**(84,865)**	58,597
Gain on disposal of property and equipment		**-**	-	**124**	40
Net income (loss) attributable to Owner of the Corporation		**(17,213)**	79,786	**26,904**	195,556

Condensed Interim Statement of Comprehensive Income (Loss)

(Unaudited - in thousands of Canadian dollars)	Notes	**3 months ended September 30, 2022**	3 months ended September 30, 2021	**6 months ended September 30, 2022**	6 months ended September 30, 2021
Net income (loss) attributable to Owner of the Corporation		**(17,208)**	79,826	**26,904**	195,556
Other Comprehensive Income (Loss)					
Items that will not be reclassified to income					
Remeasurement of employee future benefits		**(8,392)**	11,102	**75,324**	(6,490)
Items that will be reclassified to income					
Unrealized gains (losses) on available for sale assets		**(16,693)**	7,083	**(92,782)**	50,733
Reclassification of net realized gains related to available for sale assets		**(2,959)**	(1,268)	**(18,665)**	(2,535)
Net unrealized gain (loss) on Available for Sale assets		**(19,652)**	5,815	**(111,447)**	48,198
Other comprehensive income (loss) for the period		**(28,044)**	16,917	**(36,123)**	41,708
Total comprehensive income (loss) attributable to Owner of the Corporation		**(45,252)**	96,743	**(9,219)**	237,264

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

Condensed Interim Statement of Changes in Equity

(Unaudited - in thousands of Canadian dollars)	**Retained Earnings**	**Accumulated Other Comprehensive Income (Loss)**	**Equity**
Balance as at April 1, 2021	719,284	2,754	722,038
Net income attributable to Owner of the Corporation for the period	195,556	-	195,556
Other comprehensive income for the period	-	41,708	41,708
Balance as at September 30, 2021	914,840	44,462	959,302
Balance as at April 1, 2022	**661,096**	**103,332**	**764,428**
Net income attributable to Owner of the Corporation for the period	**26,904**	**-**	**26,904**
Other comprehensive loss for the period	**-**	**(36,123)**	**(36,123)**
Balance as at September 30, 2022	**688,000**	**67,209**	**755,209**

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

Condensed Interim Statement of Cash Flows

(Unaudited - in thousands of Canadian dollars)	*Notes*	**6 months ended September 30, 2022**	6 months ended September 30, 2021
Cash Flows from (to) Operating Activities:			
Net income attributable to Owner of the Corporation for the period		**26,904**	195,556
Non-cash items:			
Depreciation of property and equipment, and investment property		**2,880**	3,239
Amortization of deferred development costs		**3,983**	6,836
Amortization of bond discount and premium		**2,940**	4,020
Loss (gain) on sale of investments		**17,764**	(6,069)
Unrealized (gain) loss on fair value through profit or loss bonds		**101,667**	(9,040)
Unrealized gain on pooled real estate fund		**(8,289)**	(7,265)
Unrealized (gain) loss on infrastructure investments		**8,910**	(429)
Unrealized (gain) loss on private debt		**1,952**	(1,166)
Impairment of deferred development costs		**1,242**	199
		159,953	185,881
Net change in non-cash balances:			
Accounts receivable and prepaid expenses		**(22,801)**	5
Due from other insurance companies		**(513)**	6,612
Reinsurers' share of unearned premiums and unpaid claims		**(10,993)**	992
Deferred policy acquisition costs		**(730)**	(9,966)
Accounts payable and accrued liabilities		**3,092**	4,823
Due to other insurance companies		**5,643**	5,352
Unearned premiums and fees		**(9,529)**	(28,198)
Provision for employee current benefits		**(708)**	(579)
Provision for employee future benefits		**9,402**	8,439
Provision for unpaid claims		**(36,226)**	37,075
		(63,363)	24,555
		96,590	210,436
Cash Flows from (to) Investment Activities:			
Purchase of investments		**(596,843)**	(586,263)
Proceeds from sale of investments		**528,030**	422,837
Acquisition of property and equipment net of proceeds from disposals		**(8,302)**	(1,535)
Lease obligation		**18**	(23)
Deferred development costs incurred		**(21,996)**	(22,854)
		(99,093)	(187,838)
Increase in cash and cash equivalents		**(2,503)**	22,598
Cash and cash equivalents beginning of year		**197,056**	182,123
Cash and cash equivalents end of year	*4*	**194,553**	204,721

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

Notes to Financial Statements

1. Status of Corporation

The Manitoba Public Insurance Corporation (the "Corporation") was incorporated as a Crown corporation under *The Automobile Insurance Act* in 1970. The Corporation is owned by the Province of Manitoba and the financial results of the Corporation are included in the consolidated financial statements of the Province of Manitoba. In 1974, *The Automobile Insurance Act* was revised and became *The Manitoba Public Insurance Corporation Act* (Chapter A180 of the continuing consolidation of the Statutes of Manitoba). In 1988, the Act was re-enacted in both official languages as Chapter P215 of the Statutes of Manitoba. The address of the Corporation's registered office is 234 Donald Street, Winnipeg, Manitoba.

Under the provisions of its Act and regulations, the Corporation operates an automobile insurance division and a discontinued general insurance division. The lines of business for the automobile insurance division provide for Basic Universal Compulsory Automobile Insurance, Extension and Special Risk Extension coverages. For financial accounting purposes, the lines of business for the automobile insurance division and the discontinued general insurance division are regarded as separate operations and their revenues and expenses are allocated on a basis described in the summary of significant accounting policies. For financial reporting purposes, due to the immateriality of the financial results of the discontinued general insurance operations, the operations are reported as part of the Special Risk Extension line of business. The Basic Universal Compulsory Automobile Insurance line of business rates are approved by the Public Utilities Board of Manitoba.

Under *The Drivers and Vehicles Act* (DVA), the Corporation is responsible for DVA operations pertaining to driver safety, vehicle registration and driver licensing, including all related financial, administrative and data processing services.

2. Basis of Reporting

Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

Basis of Presentation

The Corporation presents its Statement of Financial Position broadly in order of liquidity.

The following balances are generally classified as current: cash and cash equivalents, investments, due to/from other insurance companies, accounts receivable, prepaid expenses, deferred policy acquisition costs, reinsurers' share of unearned premiums and unpaid claims, accounts payable and accrued liabilities, unearned premiums and fees and provision for employee current benefits.

The following balances are generally classified as non-current: investment property, property and equipment (including right-of-use assets), deferred development costs, lease obligations, provision for employee future benefits and provision for unpaid claims.

These statements are presented in thousands of Canadian dollars which is the Corporation's functional and presentational currency.

Seasonality

The automobile insurance business, which reflects the primary business of the Corporation, is seasonal in nature. While net premiums earned are generally stable from quarter to quarter, underwriting income is typically highest in the first and second quarter of each year and lowest in the fourth quarter of each year. This is driven mainly by weather conditions which may vary significantly between quarters.

Basis of Measurement

The Corporation prepares its financial statements as a going concern, using the historical cost basis, except for financial instruments and insurance contract liabilities and reinsurers' share of unpaid claims. Measurement of the financial instruments is detailed in Note 3. Insurance contract liabilities and reinsurers' share of unpaid claims are measured on a discounted basis in accordance with accepted actuarial practice.

Estimates and Judgments

The preparation of financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, 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 materially from these estimates.

Emergency measures enacted by the federal and provincial governments in response to the COVID–19 pandemic, including physical distancing, travel restrictions, and the temporary closure of non-essential businesses, have created significant additional estimation uncertainty in the determination of reported amounts as at March 31, 2022. The Corporation has made assumptions with respect to the duration and severity of these emergency measures as well as the duration of the subsequent economic recovery in estimating the amount and timing of reported amounts as at March 31, 2022. As a result of this significant estimation uncertainty there is a risk that the assumptions used as at March 31, 2022, may change as more information becomes available, resulting in a material adjustment to reported amounts in future reporting periods.

3. Summary of Significant Accounting Policies

This summary outlines those accounting policies followed by the Corporation that have a significant effect on the financial statements.

Adoption of New and Amended Accounting Standards

Effective April 1, 2021, the Corporation adopted the following new and amended accounting standards:

IFRS 16—Leases

In May 2021, the IASB published an amendment to IFRS 16 which extends the date of the May 2020 amendment. The new amendment is effective for annual reporting periods beginning on or after April 1, 2021, and the amendment expires on June 30, 2022. The May 2020 amendment provided lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. This amendment was made to provide timely relief to lessees and to enable them to continue providing information about their leases that may be useful to investors. The Corporation has determined that these amendments had no impact on its financial statements.

Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, IFRS 16

Amendments to IFRS 9, *Financial Instruments*, IAS 39, *Financial Instruments*, IFRS 7, *Financial Instruments*, IFRS 4, *Insurance Contracts* and IFRS 16, *Leases* were issued in August 2020. The amendments address issues that might affect financial reporting after the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The IASB also amended IFRS 4 to require insurers that apply the temporary exemption from IFRS 9 to apply the amendments in accounting for modifications directly required by Interbank offered rate reform. The adoption of these amendments did not have a material impact on the Corporation's financial statements.

Investments

Funds available for investments are managed by the Manitoba Department of Finance or administered by external managers that are under contract with the Manitoba Department of Finance, on behalf of the Corporation, in accordance with Section 12(1) of *The Manitoba Public Insurance Corporation Act*.

The Corporation's directly held real estate investments are recorded at cost and are depreciated over their estimated useful life.

The Corporation has classified or designated its financial assets and liabilities in the following categories:

- available for sale (AFS)
- held to maturity (HTM)
- financial assets and liabilities at fair value through profit or loss (FVTPL)
- loans and receivables
- other financial liabilities

The Corporation accounts for the purchase and sale of securities using settlement date accounting.

i. AFS Financial Assets

AFS financial assets are initially measured at fair value on the Statement of Financial Position starting on the settlement date. Subsequent to initial recognition, AFS assets are carried at fair value with changes in fair value recorded in Other Comprehensive Income (OCI) until the asset is disposed of or has become impaired. With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through net income (loss) to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed the amount of the initial impairment recognized.

In respect of AFS equity securities, impairment losses previously recognized in net income (loss) are not reversed through net income (loss). Any increase in fair value subsequent to an impairment loss is recognized in OCI. As long as an AFS equity asset is held and not impaired, the gains and losses are not recognized in the Statement of Operations. When the asset is disposed of, or has become impaired, the gain or loss is recognized in the Statement of Operations and is deducted from OCI.

Transaction costs related to AFS financial assets are capitalized on initial recognition.

ii. HTM Financial Assets

HTM financial assets are carried at amortized cost on the Statement of Financial Position starting on the settlement date.

Transaction costs related to financial assets and liabilities classified as HTM are capitalized on initial recognition, when applicable.

iii. FVTPL Financial Assets

FVTPL financial assets are carried at fair value on the Statement of Financial Position starting on the settlement date and the changes in fair value are recorded in the Statement of Operations.

The fair values of FVTPL bonds including federal, provincial, certain municipal, certain hospitals, other provinces and corporations are estimated based on bid prices where there is a market price available or on inputs other than quoted market prices of these or similar investments.

Transaction costs related to FVTPL financial assets are recognized in the Statement of Operations on initial recognition.

Loans and Receivables

Accounts receivable and due from other insurance companies are designated as loans and receivables and are carried at amortized cost using the effective interest method. These receivables include financing plans for customers using interest rates set at the prime rate of the Corporation's principal banker plus 2.0 per cent and updated at each fiscal quarter. The interest rate for a customer remains unchanged throughout the term of the policy.

Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash, current operating accounts, provincial short-term deposits (less than 90 days at the time of purchase) and funds held in trust on behalf of other insurance companies.

Impairment of Financial Assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

When an AFS asset is considered to be impaired, cumulative gains or losses previously recognized in OCI are reclassified to net income (loss) in the period. Subsequent declines in value continue to be recorded through net income (loss).

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through net income (loss) to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in net income (loss) are not reversed through net income (loss). Any increase in fair value subsequent to an impairment loss is recognized in OCI.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or
- The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider; or
- It is becoming probable that the borrower will enter bankruptcy or financial reorganization; or
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

Derecognition of Financial Assets

The Corporation derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Corporation neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Corporation recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Corporation retains substantially all the risks and rewards of ownership of a transferred financial asset, the Corporation continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

Financial Liabilities

All financial liabilities are designated as other financial liabilities and are recorded in the Statement of Financial Position at amortized cost. Financial liabilities include due to other insurance companies and accounts payable and accrued liabilities, which are all current liabilities.

The carrying value of the Corporation's financial liabilities approximate their fair value.

Derivatives

The Corporation uses currency swaps to manage the currency risk on specific foreign exchange denominated assets. Any gains or losses are recorded in the Statement of Operations under the heading "Investment income," on a fair-value basis.

A currency swap is a contractual agreement for specified parties to exchange the cash flow of one currency for a fixed cash flow of another currency.

Fair Value Determination

The fair values of financial instruments are obtained from external pricing services and are based on available bid prices for Level 1 financial assets. Level 2 and Level 3 fair value determinations are based on availability of inputs other than bid prices as there is not a quoted market price. Cash equivalent investments comprise investments due to mature within 90 days from the date of purchase and are carried at fair value.

Deferred Policy Acquisition Costs

To the extent premium acquisition costs such as commissions and premium taxes are recoverable from unearned premiums, they are deferred and amortized to income over the term of the related policies.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Replacement costs are capitalized when incurred and if it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably. All repairs and maintenance costs are recognized in net income (loss) during the period in which they occur.

Depreciation is provided on a straight-line basis which will depreciate the cost of each asset to its residual value over its estimated useful life:

Land & Buildings

- HVAC systems 20 years
- land improvements 25 years
- roofing systems 30 years
- elevators/escalators 30 years
- buildings 40 years

Furniture & Equipment

- computer equipment 3 years
- vehicles 5 years
- furniture and equipment 10 years
- demountable wall systems 10 years

Buildings held under a long-term lease arrangement are depreciated on a straight-line basis over 40 years. Leasehold improvements are carried at cost and are depreciated over the term of the lease plus the first renewal period.

Tenant improvements are carried at cost and are depreciated over the term of the lease plus the first renewal period.

Depreciation of construction in progress will begin, in accordance with the above policy, when construction has been completed and the property is deemed available for use.

Land is not subject to depreciation and is carried at cost.

Investment Property

In the determination of what constitutes investment property relative to property and equipment, effective March 31, 2021, the Corporation considers only property that is 100 per cent investment property. As a result, portions of the cityplace building previously considered investment property are now classified as Property and Equipment.

The Corporation's investment property, which is property held 100 per cent to earn rentals and/or capital appreciation, is measured initially at its cost, including transaction costs. The Corporation has elected to use the cost model to subsequently value its investment property. Therefore, the investment property's carrying amount is valued at cost less accumulated depreciation and impairment losses. Depreciation is based on the useful life of each component of the investment property along with the property's residual value.

The fair value of the investment property is disclosed based on an external valuation that occurs, at a minimum, every other year. The fair value disclosed is based on the most recent valuation which was conducted for March 31, 2022.

The Corporation assesses its investment property for impairment on an annual basis in accordance with the impairment test guidance set forth in IAS 36, *Impairment of Assets*. Based on this assessment it was determined the investment property was not impaired as at March 31, 2022.

Depreciation is provided on a straight-line basis which will depreciate the cost of each asset to its residual value over its estimated useful life:

- parkade 40 years
- surface parking lot held at cost

Deferred Development Costs (Intangible Assets)

The costs of developing major information systems that are expected to provide an economic benefit to the Corporation are deferred to future periods. These information system expenditures are stated at cost net of accumulated amortization and accumulated impairment losses and are amortized on a straight-line basis over five years unless the useful life is deemed to be shorter, starting the month after the asset becomes available for use.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred, including directly assigned employee costs, from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditures are recognized in net income (loss) in the period in which they are incurred. Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses.

Impairment of Tangible and Intangible Assets (Other Than Financial Assets)

When specific events or circumstances arise, the Corporation reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Corporation estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount

that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

Leasing

Manitoba Public Insurance as a Lessee

The Corporation, as a lessee, recognizes a right-of-use asset and a lease liability at the lease's commencement date. The right-of-use asset is initially measured at cost which is comprised of the amount of the initial lease liability and any lease payments made at or before the commencement date less any lease incentives received, initial direct costs and restoration costs. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term plus renewal options expected to be exercised on a straight-line basis.

The lease liability arising from the lease is originally measured on a present-value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments), less any lease incentives receivable, variable lease payments that are based on an index or a rate, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonable certain to exercise that option, and payment of penalties for terminating a lease if the lease term reflects the lessee exercising that option. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Corporation's incremental borrowing rate. Generally, the Corporation uses its incremental borrowing rate as the discount rate.

Manitoba Public Insurance as a Lessor

Manitoba Public Insurance leases retail, office and parking space in buildings and parking facilities owned by Manitoba Public Insurance. The lease payments are recognized as on a straight-line basis over the lease term through net income (loss), except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Revenue

Premiums

Written premiums comprise the premiums on contracts commencing in the fiscal year. Earned premiums represent the portion of written premiums earned through the year on a prorata basis by way of insurance coverage. Written and earned premiums are stated gross of commissions and premium taxes payable and are reported on a gross basis and net of amounts ceded to reinsurance companies.

Unearned Premiums

The liability for unearned premiums is the portion of premiums that relate to the unexpired term of each insurance contract.

Interest Revenue

Interest revenue is recognized when it is probable that the economic benefits will flow to the Corporation and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Investment Income

Investment income is recorded as it accrues. Dividend income from investments is recognized when the Corporation's rights to receive payments is established. Dividend income on common and preferred shares is recorded on the ex-dividend date. Distributions on pooled funds are recorded on the income distribution date. Gains and losses are determined and recorded as at the trade date and are calculated on the basis of average cost. The effective interest rate method is used to amortize premiums or discounts on the purchase of bonds.

Realized Gains and Losses

The realized gain or loss on disposal of an investment is the difference between the proceeds received, net of transaction costs, and its original cost or amortized cost as appropriate.

The realized gain or loss on disposal of property and equipment is the difference between the proceeds received, net of transaction costs, and its original cost or depreciated cost as appropriate.

Unrealized Gains and Losses

Unrealized gains or losses represent the difference between the carrying value at the period-end and the carrying value at the previous period-end or purchase value during the period, less the reversal of previously recognized unrealized gains or losses in respect of disposals during the period.

Other Revenue

Other revenue is comprised of the Corporation's administration of *The Drivers and Vehicles Act* operations for the Province of Manitoba, salvage sales, rental income and transaction fees related to the administration of policies, products and services.

Provisions

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provision for Employee Current Benefits

The provision for employee current benefits includes accruals for vacation pay and sick pay determined in accordance with the Collective Agreement and Corporate policy.

Provision for Employee Future Benefits

Included in the provision for employee future benefits are the pension benefit plan and other benefit plans.

i. **Pension Benefit Plan**

   The employees of the Corporation are members of a defined benefit pension plan administered under *The Civil Service Superannuation Act*. Included in the accounts is a provision for the employer's future pension liability calculated on an indexed basis. The provision for pension is actuarially determined on an annual basis using the projected benefit method prorated on services. The actuarial present value of the accrued pension benefits is measured using the Corporation's best estimates based on assumptions relating to market interest rates at the measurement date based on high quality debt instruments, salary changes, withdrawals and mortality rates. Changes in experience gains and losses are recognized in the current period. Current service costs and interest costs are recognized in net income (loss) in the current period. Actuarial gains and losses are recognized in OCI in the current period.

   The Corporation has its pension benefit plan valued annually at the pension plan year-end date, the most recent of which is December 31, 2021. Additionally, the Corporation has its pension benefit plan revalued at the Corporation fiscal year end of March 31, 2022.

ii. **Other Benefit Plans**

   Other benefit plans consist of two post-retirement extended health plans and severance pay benefits.

   The provision for post-retirement extended health benefits is actuarially determined on an annual basis using the projected benefit method prorated on services, which includes the Corporation's best estimates based on assumptions relating to retirement ages of employees and expected health costs. Changes in experience gains and losses are recognized in the current period. Current service costs and interest costs are recognized in net income (loss) in the current period. Actuarial gains and losses are recognized in OCI in the current period.

   Employees of the Corporation are entitled to severance pay in accordance with the Collective Agreement and Corporate policy. The provision for severance pay is actuarially determined on an annual basis using the projected benefit method prorated on services, without salary projection, which includes the Corporation's best estimates based on assumptions relating to the proportion of employees that will ultimately retire.

Provision for Unpaid Claims

IFRS 4, *Insurance Contracts* permits the continued use of insurance liability valuation methods previously used under pre-IFRS Canadian GAAP. The Corporation establishes reserves for payment of claims and adjustment expenses that arise from the Corporation's insurance products. The reserve balance represents the expected ultimate cost to settle claims occurring prior to, but still outstanding as of, the reporting date. There are two categories of loss reserves: (1) reserves for reported losses and (2) reserves for incurred but not yet reported (IBNR) losses. In addition, reserves are set up for internal loss adjustment expenses, which include estimated internal costs and other expenses that are expected to be incurred to finalize the settlement of the losses. The Corporation discounts its liabilities for unpaid claims and includes a provision for adverse deviations. Liabilities for unpaid claims are estimated using the input of assessment for individual cases reported to the Corporation and statistical analyses for the claims incurred but not reported. Claims and adjustment expenses are charged to the Statement of Operations as incurred.

All of the Corporation's insurance policies meet the definition of an insurance contract and have been accounted for in accordance with IFRS 4.

Reinsurers' share of unpaid claims are recognized when the related gross insurance claim is recognized according to the terms of the relevant reinsurance contracts.

Liability Adequacy Test

At each reporting period, insurance liability adequacy tests are performed to ensure the adequacy of the contract liabilities, net of related Deferred Policy Acquisition Costs (DPAC) and Reinsurers' Share of Unpaid Claims. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. A premium deficiency exists when estimated future claims and related expenses exceed unearned premiums. Any resulting deficiency is recognized first by writing down the DPAC with any remainder recognized as a premium deficiency in unpaid claims.

Salvage and Subrogation

Recoveries from salvage and subrogation are recorded as an offset to claims costs. Expected future subrogation recoveries are included in the provision for unpaid claims.

Structured Settlements

In the normal course of tort claims adjudication, the Corporation settles certain long-term claims 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 purchase and the related claims liabilities are derecognized. While the Corporation remains exposed to the credit risk that the life insurance companies may fail to fulfill their obligations, management believes this risk to be remote.

Allocation of Revenue, Claims Incurred and Expenses

Premiums written, premiums earned and claims incurred are allocated directly to the division writing the insurance risk.

Service fees and other revenue are allocated to the automobile insurance division lines of business and *The Drivers and Vehicles Act* operations on the following basis:

v. Identifiable direct service fees and other revenue are allocated to each line of business.

vi. Where direct allocation is not possible, service fees and other revenue are prorated to each line of business based mainly on factors such as premiums written ratios, expense allocation ratios and payroll allocation ratios. The formulas developed for the allocation of service fees and other revenue are approved by the Board of Directors.

Investment income is allocated to the automobile insurance division lines of business, *The Drivers and Vehicles Act* operations and the discontinued general insurance division based on a direct attribution of each segments unique portfolio returns and a pro-rata share of the portfolio backing the corporate employee future benefits obligation.

Expenses, including claims expense, are allocated to the automobile insurance division lines of business and *The Drivers and Vehicles Act* operations on the following basis:

i. Identifiable direct expenses are charged to each line of business.

ii. Where direct allocation is not possible, expenses are prorated to each line of business based mainly on factors such as space, number of employees, time usage, Contact Centre statistics, premiums written ratios and net claims incurred ratios. The basis for allocation of indirect shared expenses is approved by the Board of Directors.

iii. The allocation of improvement initiative costs is based on a review of each project to determine which line of business will benefit from the project. The allocation basis for each project is approved by the Board of Directors.

Reinsurance Ceded

Premiums, claims and expenses are reported gross and net of amounts due to and recoverable from reinsurers. Estimates of amounts recoverable from reinsurers on unpaid claims are recorded separately from estimated amounts payable to policyholders.

The reinsurers' share of unearned premiums is recognized as an asset in a manner which is consistent with the method used in determining the unearned premium liability.

Foreign Currency

Monetary items denominated in foreign currencies are adjusted to reflect the exchange rate in effect at the year end. Revenue and expense items in foreign currencies are translated at the exchange rate in effect at the transaction date. Unrealized gains or losses arising on translation are charged to operations in the current year.

Changes in unrealized foreign exchange currency translation amounts for AFS equity investments are recorded in OCI and included in accumulated other comprehensive income (AOCI) until recognized in the Statement of Operations.

Comprehensive Income

Comprehensive income consists of net income (loss) attributable to Owner of the Corporation and other comprehensive income (loss). Changes in unrealized gains and losses on financial assets classified as AFS are recorded in OCI and included in AOCI until recognized in the Statement of Operations. Actuarial gains and losses on employee future benefits amounts are recorded in OCI and included in AOCI. AOCI is included on the Statement of Financial Position as a separate component.

Critical Accounting Judgments and Key Sources of Estimation Uncertainty

In the preparation of the Corporation's financial statements, management has made a number of critical accounting estimates and judgments as described below, and in certain notes to the financial statements, such as: determination of fair value for financial instruments and carrying value of deferred development costs. Estimates and judgment are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period; or in the period of the revision and future periods if the revision affects both current and future periods.

Allowance for Doubtful Accounts

The Corporation must make an assessment of whether accounts receivable are collectible from customers. Accordingly, management must make critical and significant estimates on the allowance for estimated losses arising from non-payment of accounts receivable.

Deferred Development Costs (Intangible Assets)

Deferred development costs represent a significant portion of ongoing expenditures related to information systems development. Determining the recoverability of deferred development costs requires an estimation of the recoverable amount of the asset. Key assumptions and sources of estimation uncertainty include the determination of future cash flows expected to arise from the asset and a suitable discount rate in order to calculate present value.

Provision for Unpaid Claims

With respect to preparation of these financial statements, the Appointed Actuary is required to carry out a valuation of the insurance contract liabilities and to provide an opinion to the Corporation's Board of Directors regarding their appropriateness at the reporting date. The factors and techniques used in the valuation are in accordance with accepted actuarial practice, applicable legislation and associated regulations.

Provisions for unpaid claims and adjustment expenses are valued based on Canadian accepted actuarial practice, which are designed to ensure the Corporation establishes an appropriate reserve on the Statement of Financial Position to cover insured losses with respect to the reported and unreported claims incurred as of the end of each accounting period. The insurance contract liabilities include a provision for unpaid claims and adjustment expenses on the expired portion of policies and of future obligations on the unexpired portion of policies. In performing the valuation of the liabilities for these contingent future events, the Appointed Actuary makes assumptions as to future loss ratios, trends, reinsurance recoveries, investment rates of return, expenses and other contingencies, taking into consideration the circumstances of the Corporation and the nature of the insurance policies.

The assumptions underlying the valuation of provisions for unpaid claims and adjustment expenses are reviewed and updated by the Corporation on an ongoing basis to reflect recent and emerging trends in experience.

Provision for Employee Current Benefits

The Corporation has a sick leave plan included in the employee current benefits. The determination of expenses and liabilities associated with the sick leave plan requires the use of critical assumptions such as discount rates and expected sick leave. Due to the nature of the estimates used, there is inherent measurement uncertainty within the employee current benefit assumptions.

Provision for Employee Future Benefits

The Corporation has a defined benefit pension plan, severance benefit plan and post-retirement extended health benefit plans. The determination of expenses and liabilities associated with employee future benefits requires the use of critical assumptions such as discount rates, expected mortality rate, inflation rates, expected salary increases and expected health care cost increases. Due to the nature of the estimates used in the valuation process there is inherent measurement uncertainty within the employee future benefit assumptions.

Fair Value of Level 3 Investments

Level 3 assets and liabilities would 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.

Future Changes in Accounting Policy and Disclosure

Certain new standards, interpretations, amendments and improvements to existing standards were issued by IASB or IFRIC that are mandatory for annual reporting periods beginning on or after January 1, 2022. The standards that may have an impact to the Corporation are:

IFRS 7—Financial Instruments: Disclosures

In December 2011, IFRS 7 *Financial Instruments: Disclosures* was amended to require additional financial instrument disclosures upon transition from IAS 39 *Financial Instruments: Recognition and Measurement* to IFRS 9 *Financial Instruments*. The amendments are effective upon adoption of IFRS 9, which is effective for annual periods beginning on or after January 1, 2018. However, in September 2016, IFRS 4 *Insurance Contracts* 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 *Insurance Contracts*. The Corporation qualifies for a temporary exemption; thus, IFRS 7 amendment is effective for annual periods beginning on or after January 1, 2023. The Corporation is currently evaluating the impact that this standard will have on its financial statements.

IFRS 9—Financial Instruments

IFRS 9 *Financial Instruments* was issued in July 2014 and is intended to replace IAS 39 *Financial Instrument: Recognition and Measurement*. IFRS 9 is a three-part standard aimed at reducing complexity in reporting financial instruments. The project has been divided into three phases: Phase 1 – Classification and Measurement, Phase 2 – Impairment and Phase 3 – Hedge Accounting. Phase 1 was issued in November 2009 and amended in October 2010. It requires financial assets to be recorded at amortized cost or fair value depending on the entity's business model for managing the assets and their associated cash flow characteristics. All financial assets are to be measured at fair value on the balance sheet if they are not measured at amortized cost. Phase 2 was completed in July 2014 and introduced a new expected loss impairment methodology that will result in more timely recognition of impairment losses. Phase 3 was completed in November 2013. This phase replaces the rule-based hedge accounting requirements in IAS 39 to more closely align the accounting with risk management activities.

The standard is effective for annual reporting 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 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 temporary exemption; thus, IFRS 9 is effective for annual periods beginning on or after January 1, 2023. The Corporation is currently evaluating the impact that this standard will have on its financial statements.

IFRS 17—Insurance Contracts

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

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

The main features of the new accounting standard for insurance contracts are as follows: the future profit or contractual service margin is reflected in the initial recognition of the insurance contract and then recognized into profit or loss over time as the services are provided; the loss component of onerous contracts will be recognized into income at the initial recognition of the contract; significant changes to the presentation and disclosure of insurance contracts within entities' financial statements including changes in the balance sheet presentation to present contracts by portfolio as well as changes to the presentation on the income statement to reflect the services that have been provided during the period.

An entity shall apply the general model to all groups of insurance contracts. However, an entity is permitted to simplify the measurement of eligible groups of insurance contracts by applying an approach referred to as 'the premium allocation approach'. Use of the premium allocation approach is optional for each group of insurance contracts that meets the eligibility criteria. The premium allocation approach is permitted if, and only if, at the inception of the group of contracts one of the following conditions are met [IFRS 17.53]:

- The entity reasonably expects that such simplification would produce a measurement of the liability for remaining coverage for the group that would not differ materially from the measurement that would be produced applying the requirements for the general model.
- The coverage period of each contract in the group is one year or less.

Based on the above criteria, all contracts with a one-year coverage period or less qualify for the premium allocation approach, regardless of whether the first condition is met. For insurance contracts with a coverage period greater than one year, entities will need to assess whether the liability for remaining coverage does not materially differ between the general model and the premium allocation approach for measurement of pre-claims liabilities. The general measurement model will apply to the liability for incurred claims.

In December 2021, the IASB issued an amendment to IFRS 17 in regards to financial assets for which comparative information is presented on initial application of IFRS 17 and IFRS 9, but where this information has not been restated for IFRS 9. Under the amendment, an entity is permitted to present comparative information about a financial asset as if the classification and measurement requirements of IFRS 9 had been applied to the financial assets before. The option is available on an instrument-by-instrument basis. In applying the classification overlay to a financial asset, an entity is not required to apply the impairment requirements of IFRS 9. There are no changes to the transition requirements in IFRS 9. An entity elects to apply the amendments applies it when it first applies IFRS 17.

The standard provides a temporary exemption of IFRS 9 for insurers and will be effective for annual reporting periods beginning on or after January 1, 2023. The Corporation continues to evaluate the impact this standard will have on its financial statements.

IAS 1 – Presentation of Financial Statements

Narrow-scope amendments to IAS 1, *Presentation of Financial Statements* were issued in January 2020 to provide clarification over the classification of debt and other liabilities as current or non-current. The amendments aim to promote consistency in the application of the classification requirements of the standard by entities. Further, the amendments affect only the presentation of liabilities in the balance sheet; not the amount or timing of recognition of any asset, liability, income or expenses, or the information that entities disclose about those items. In July 2020, the IASB issued an amendment to defer the effective date to January 1, 2023. The Corporation is currently evaluating the impact that these amendments will have on its financial statements.

IAS 37—Provisions, Contingent Liabilities and Contingent Assets

In May 2020, the IASB issued an amendment to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* which clarifies which costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. The application date of the amendment is on or after the beginning of the first annual reporting beginning on or after January 1, 2022, but early application is permitted. The Corporation is currently evaluating the impact that these amendments will have on its financial statements.

2018-2020 Annual Improvement Cycle

Annual Improvements 2018-2020 Cycle was issued in May 2020 by the IASB and included minor amendments to IFRS 9 and IFRS 16. The annual improvements process is used to make necessary but non-urgent changes to IFRSs that are not included in other projects. The amendments issued are all effective for annual periods beginning on or after January 1, 2022. The Corporation is currently evaluating the impact that these amendments will have on its financial statements.

IAS 1 – Presentation of Financial Statements and IFRS Practice Statement 2 – Making Materiality Judgements

In February 2021, the IASB issued amendments to IAS 1 to assist entities in determining which material accounting policies are required to be disclosed. To support the IAS 1 amendments, the IASB has provided guidance to demonstrate the application of materiality in a "four-step materiality process" described in IFRS Practice Statement 2 to accounting policy disclosures. The amendments issued are effective for annual periods beginning on or after January 1, 2023, but early application is permitted. The Corporation is currently evaluating the impact that these amendments will have on its financial statements.

IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

In February 2021, the IASB issued amendments to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors to help entities distinguish between changes in accounting policies and accounting estimates. The amendments issued are effective for annual periods beginning on or after January 1, 2023, and changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Early application is permitted. The Corporation is currently evaluating the impact that these amendments will have on its financial statements.

4. Cash, Cash Equivalents and Investments

Cash consists of cash net of cheques issued in excess of amounts on deposit.

Cash equivalent investments have a total principal amount of $91.7 million (March 31, 2022—$121.4 million) comprised of provincial short-term deposits with effective interest rates of 3.29 per cent (March 31, 2022—0.316 per cent to 0.32 per cent), with interest receivable at varying dates.

The Corporation has an unsecured operating line of credit with its principal banker in the amount of $10.0 million (March 31, 2022—$10.0 million). The unsecured operating line of credit remained unutilized at September 30, 2022 (March 31, 2021—nil).

Cash, Cash Equivalents and Investments

	Financial Instruments				
As at September 30, 2022 (Unaudited- in thousands of Canadian dollars)	**Classified as AFS**	**Classified as HTM**	**Classified as FVTPL**	**Non-Financial Instruments**	**Total Carrying Value**
Cash and cash equivalents	**194,553**	-	-	-	**194,553**
Bonds					
Federal	-	-	**45,709**	-	**45,709**
Manitoba:					
Provincial	**12,454**	-	**96,380**	-	**108,834**
Municipal	-	**84,099**	**28,103**	-	**112,202**
Schools	-	**388,752**	-	-	**388,752**
Other provinces:					
Provincial	**38,426**	-	**914,675**	-	**953,101**
Municipal	-	-	**44,579**	-	**44,579**
Corporations	**122,211**	-	**456,531**	-	**578,742**
	173,091	**472,851**	**1,585,977**	-	**2,231,919**
Private debt	**185,154**	-	**56,585**	-	**241,739**
Other investments	**287**	-	-	-	**287**
Infrastructure	-	-	**110,433**	-	**110,433**
Equity investments	**419,558**	-	-	-	**419,558**
Pooled real-estate fund	-	-	**196,414**	-	**196,414**
Investments	**778,090**	**472,851**	**1,949,409**	-	**3,200,350**
Investment property	-	-	-	**13,580**	**13,580**
Total	**972,643**	**472,851**	**1,949,409**	**13,580**	**3,408,483**

	Financial Instruments				
As at March 31, 2022 (Unaudited- in thousands of Canadian dollars)	Classified as AFS	Classified as HTM	Classified as FVTPL	Non-Financial Instruments	Total Carrying Value
Cash and cash equivalents	197,056	-	-	-	197,056
Bonds					
Federal	-	-	44,186	-	44,186
Manitoba:					
Provincial	13,199	-	103,874	-	117,073
Municipal	-	55,103	31,934	-	87,037
Schools	-	412,868	-	-	412,868
Other provinces:					
Provincial	55,685	-	835,588	-	891,273
Municipal	-	-	55,044	-	55,044
Corporations	148,517	-	495,725	-	644,242
	217,401	467,971	1,566,351	-	2,251,723
Private debt	190,647	-	46,932	-	237,579
Other investments	287	-	-	-	287
Infrastructure	-	-	114,580	-	114,580
Equity investments	581,870	-	-	-	581,870
Pooled real-estate fund	-	-	181,888	-	181,888
Investments	990,205	467,971	1,909,751	-	3,367,927
Investment property	-	-	-	13,758	13,758
Total	1,187,261	467,971	1,909,751	13,758	3,578,741

Gross unrealized gains and gross unrealized losses included in AOCI on AFS equity and other investments are comprised as follows:

As at September 30, 2022 (Unaudited- in thousands of Canadian dollars)	**Book Value**	**Unrealized Gains/Losses**	**Fair Value**
Equity investments			
With unrealized gains	**351,216**	**68,342**	**419,558**
Subtotal—equity investments	**351,216**	**68,342**	**419,558**
Bonds			
With unrealized losses	**193,999**	**(20,908)**	**173,091**
Subtotal—bonds	**193,999**	**(20,908)**	**173,091**
Private debt			
With unrealized losses	**204,665**	**(19,511)**	**185,154**
Subtotal—private debt	**204,665**	**(19,511)**	**185,154**
Other investments			
With unrealized losses	**314**	**(27)**	**287**
Subtotal—other investments	**314**	**(27)**	**287**
Total AFS equity and other investments	**750,194**	**27,896**	**778,090**

As at March 31, 2022 (Unaudited- in thousands of Canadian dollars)	Book Value	Unrealized Gains/Losses	Fair Value
Equity investments			
With unrealized gains	426,980	154,890	581,870
With unrealized losses	-	-	-
Subtotal—equity investments	426,980	154,890	581,870
Bonds			
With unrealized gains	-	-	-
With unrealized losses	224,253	(6,852)	217,401
Subtotal—bonds	224,253	(6,852)	217,401
Private debt			
With unrealized gains	-	-	-
With unrealized losses	199,314	(8,667)	190,647
Subtotal—private debt	199,314	(8,667)	190,647
Other investments			
With unrealized gains	-	-	-
With unrealized losses	314	(27)	287
Subtotal—other investments	314	(27)	287
Total AFS equity and other investments	850,861	139,344	990,205

AFS financial assets where the investment's underlying cost is greater than the fair value, the loss has not been recognized in net income (loss) either because:

- there is not objective evidence of impairment, or
- the loss is not considered to be significant or prolonged.

Fair-Value Measurement

Financial assets that are measured at fair value are classified by their level within the fair-value hierarchy. The fair-value hierarchy consists of three levels that are defined on the basis of the type of inputs used to measure fair value. The classification cannot be higher than the lowest level of input that is significant to the measurement:

Level 1—Fair value is determined based on unadjusted quoted prices of identical assets in active markets. Inputs include prices from exchanges where equity and debt securities are actively traded.

Level 2—Level 2 valuations utilize inputs other than quoted market prices included in Level 1 that are observable, directly or indirectly, for the asset. These inputs include quoted prices for similar assets in active markets and observable inputs other than quoted prices, such as interest rates and yield curves. The fair values for some Level 2 securities were obtained from a pricing service. Pricing service inputs may include benchmark yields, reported trades, broker/dealer quotes and bid/ask spreads.

Level 3—Fair value measurements using significant inputs that are not based on observable market data are Level 3. This mainly consists of derivatives and private equity investments. In these cases prices may be determined by internal pricing models utilizing all available financial information, including direct comparison and industry sector data. For some investments, valuations are obtained annually. For periods between valuations, management assesses the validity of the valuation for current reporting purposes.

No investments were transferred between levels in the period ended September 30, 2022, while in the period ended March 31, 2022, there was one investment transferred between levels. A pooled real-estate fund which transferred from level 2 to level 3 as this was a private equity investment in real estate with properties independently valued by third-party appraisal firms using valuation models.

The following table presents financial instruments measured at fair value in the Statement of Financial Position, classified by level within the fair value hierarchy.

As at September 30, 2022 (Unaudited- in thousands of Canadian dollars)	**Level 1**	**Level 2**	**Level 3**
FVTPL financial assets			
Bonds	**27,772**	**1,544,620**	**13,585**
Private debt	**-**	**56,585**	**-**
Infrastructure	**-**	**32,205**	**78,228**
Pooled real estate fund	**-**	**-**	**196,414**
Total FVTPL financial assets	**27,772**	**1,633,410**	**288,227**
AFS financial assets			
Cash and cash equivalents	**194,553**	**-**	**-**
Bonds	**-**	**173,091**	**-**
Private debt	**-**	**109,132**	**76,022**
Other investments	**-**	**-**	**287**
Equity investments	**9,880**	**409,678**	**-**
Total AFS financial assets	**204,433**	**691,901**	**76,309**
Total assets measured at fair value	**232,205**	**2,325,311**	**364,536**

As at March 31, 2022 (Unaudited- in thousands of Canadian dollars)	Level 1	Level 2	Level 3
FVTPL financial assets			
Bonds	17,279	1,535,179	13,893
Private debt	-	46,932	-
Infrastructure	-	-	114,580
Pooled real estate fund	-	-	181,888
Total FVTPL financial assets	17,279	1,582,111	310,361
AFS financial assets			
Cash and cash equivalents	197,056	-	-
Bonds	-	217,401	-
Private debt	-	108,615	82,032
Other investments	-	-	287
Equity investments	11,523	570,347	-
Total AFS financial assets	208,579	896,363	82,319
Total assets measured at fair value	225,858	2,478,474	392,680

The following table presents the fair-value measurement of instruments included in Level 3.

	FVTPL		AFS	
(Unaudited - in thousands of Canadian dollars)	**2022**	2021	**2022**	2021
Balance at April 1	**310,361**	127,872	**82,319**	87,325
Realized gains/(losses)				
Included in net income	**4,764**	-	**-**	-
Included in OCI	**-**	-	**-**	1,367
Unrealized gains/(losses)				
Included in net income	**(2,500)**	(848)	**-**	-
Included in OCI	**-**	-	**(6,695)**	-
Recovery (impairment of AFS investments realized in net income	**-**	-	**-**	-
Purchases	**6,237**	-	**685**	-
Sales	**(30,635)**	-	**-**	-
Return of capital	**-**	-	**-**	-
Balance at September 30	**288,227**	127,024	**76,309**	88,692

The fair value of HTM bonds, which include schools and certain municipalities, is based on their carrying value, which approximates fair value. As of September 30, 2022, the fair value of municipal, utilities, schools and hospital bonds held to maturity is $472.9 million (September 30, 2021—$495.4 million).

5. Investment Income

For the six months ended (Unaudited - in thousands of Canadian dollars)	**September 30, 2022**	September 30, 2021
Interest income	**35,945**	33,078
Gain on sale of FVTPL bonds	**(43,655)**	3,650
Unrealized gain on FVTPL bonds	**(101,667)**	9,040
Unrealized gain (loss) on pooled real estate fund	**8,289**	7,265
Unrealized gain on private debt	**(1,952)**	1,166
Dividends on infrastructure investments	**399**	814
Realized gain on instrastructure investments	**4,764**	-
Unrealized loss on infrastructure investments	**(8,910)**	429
Dividend income	**4,106**	4,010
Gain on sale of equities and other investments	**21,127**	2,419
Income from investment property	**193**	123
Investment management fees	**(3,504)**	(3,397)
Total	**(84,865)**	58,597

Investment income is net of investment management fees paid to the Department of Finance in the amount of $3.5 million (September 30, 2021—$3.4 million). This includes $2.8 million (September 30, 2021—$2.7 million) of fees the Province paid to outside managers on the Corporation's behalf.

6. Provision for Unpaid Claims

The provision for unpaid claims, including adjustment expenses, represents an estimate for the full amount of all costs and the projected final settlement of claims incurred.

The provision for unpaid claims, including adjustment expenses, is subject to variability. This variability is related to future events that arise from the date the loss was reported to the ultimate settlement of the claims. Accordingly, short-tail claims such as physical damage claims, tend to be more reasonably predictable than long-term claims such as Personal Injury Protection Plan (PIPP) and public liability claims. Factors such as the receipt of additional claims information during the claims settlement process, changes in severity and frequencies of claims from historical trends, and effect of inflationary trends contribute to this variability. Many Personal Injury Protection Plan (PIPP) benefits are indexed to Manitoba inflation and as a result of continued rising inflation, the valuation of the provision for unpaid claims increased $69.6 million.

The determination of the provision for unpaid claims, including adjustment expenses, relies on judgment, analysis of historical claims trends, investment rates of return and expectation on the future development of claims. The process of establishing this provision necessarily involves risks which could cause the actual results to deviate, perhaps substantially, from the best determinable estimate.

7. Employee Future Benefits Expense

The total benefit costs included in expenses are as follows:

For the six months ended September 30 (Unaudited - in thousands of Canadian dollars)	**2022**	2021
Pension benefits	**7,026**	8,638
Other post-retirement benefits	**1,046**	1,403
Total	**8,072**	10,041

8. Depreciation and Amortization

The total depreciation and amortization included in expenses are as follows:

For the six months ended September 30 (Unaudited-in thousands of Canadian dollars)	**2022**	2021
Amortization - Deferred Development	**3,983**	6,836
Depreciation - Property and Equipment & Investment Property	**2,880**	3,239
Total	**6,863**	10,075

For more information contact:

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