MANITOBA PUBLIC INSURANCE

2017

ANNUAL REPORT

MANITOBA
PUBLIC INSURANCE

Contents

Manitoba Public Insurance is a provincial Crown corporation that has provided automobile insurance coverage since 1971. We assumed a broader spectrum of services in 2004, when we merged driver and vehicle licensing into our operations. The Corporation is governed by *The Manitoba Public Insurance Corporation Act* and *The Drivers and Vehicles Act.*

This annual report is available in French at mpi.mb.ca.

Le rapport annuel est disponible en français sur le site Web mpi.mb.ca.

Letters of Transmittal

Manitoba Public Insurance

May 31, 2018

The Honourable Cliff Cullen
Minister of Crown Services
Room 314, Legislative Building
Winnipeg, MB R3C 0V8

Dear Minister,

In accordance with Section 43(1) of *The Manitoba Public Insurance Corporation Act*, I am pleased to submit the Annual Report of the Manitoba Public Insurance Corporation for the fiscal year ended February 28, 2018.

Respectfully submitted,

Brent VanKoughnet
CHAIRPERSON OF THE BOARD

Manitoba

May 31, 2018

Her Honour The Honourable
Janice C. Filmon, C.M., O.M.
Lieutenant Governor of Manitoba
Room 235, Legislative Building
Winnipeg, MB R3C 0V8

May it please your Honour,

I am pleased to present the Annual Report for the Manitoba Public Insurance Corporation for the fiscal year ended February 28, 2018.

Respectfully submitted,

Cliff Cullen
MINISTER OF CROWN SERVICES

2017/18 Year–End Summary

Dollars and Cents

Approximate Autopac claims paid per working day	$3.1 million
Total Autopac claims paid for injuries occurring in 2017/18 (before expenses)	$167.0 million
Total Autopac claims paid for property damage occurring in 2017/18 (before expenses)	$611.6 million
Amounts paid by Manitoba Public Insurance to Manitoba medical practitioners on behalf of customers	$34.6 million
Commissions paid by Manitoba Public Insurance to independent insurance brokers for product sales	$83.0 million
Grants-in-lieu of taxes paid to Manitoba municipalities by Manitoba Public Insurance	$1.9 million
Provincial premium taxes paid by Manitoba Public Insurance	$36.9 million
Dollars invested in road safety programs	$15.3 million
Potential savings to policyholders through use of recycled parts made available for use in claims repairs	$12.5 million
Estimated direct savings to policyholders through subrogation	$12.5 million

Significant Numbers

Average number of Autopac claims reported to Manitoba Public Insurance per working day	1,203
Total Autopac claims reported	299,518
Bodily injury claims reported	17,734
Property damage claims reported	281,784
Total theft claims reported in Winnipeg	2,439
Total theft claims reported elsewhere in province	772
Number of Autopac policies in force (average)	1,150,486

Corporate Five-Year Statistics

	2017/18	2016/17	2015/16	2014/15	2013/14
Premiums written ($000)	1,232,350	1,153,420	1,103,185	1,026,555	977,992
Claims incurred ($000)	883,813	981,298	770,624	844,875	861,137
Number of claims	299,518	303,878	297,957	273,244	287,741
Average cost per claim ($)	2,951	3,229	2,586	3,092	2,993
Claim expenses ($000)	161,583	137,102	134,511	134,247	132,563
Other expenses ($000)	254,460	254,274	205,510	247,217	239,219
Net income (loss) ($000)	91,076	(85,204)	(31,314)	57,578	(44,846)
Investments at year-end ($000)	2,784,706	2,648,305	2,523,111	2,599,971	2,443,390
Total assets ($000)	3,482,897	3,349,799	3,190,917	3,215,049	3,028,171

Message from the Chairperson

Manitoba Public Insurance is committed to delivering value to Manitobans through affordable rates, exceptional coverage and service, and safer roads.

During the 2017/18 fiscal year, we placed a strong, clear focus on our core business, and we developed key priorities to keep us on track well into the future.

This commitment is rooted in the promises to provide ratepayers with adequate compensation for loss, and to continuously evaluate policies and procedures, streamline operations, reduce operating costs, and implement loss-prevention programs to control claims frequency and severity.

As a public auto insurer, the Corporation is entrusted by Manitobans with the exclusive authority to provide Basic automobile insurance coverage. The Board of Directors firmly believes that, in turn, the Board has an obligation to ensure Manitoba Public Insurance is adhering to best practices in insurance and demonstrating disciplined management that will provide exceptional value to Manitobans.

During the 2017/18 fiscal year, we placed a strong, clear focus on our core business, and we developed key priorities to keep us on track well into the future.

The Board is committed to keeping Basic rates as stable, predictable and affordable as possible. The Basic program must be operated on a self-sustaining basis; with a capital reserve that is sufficient to absorb unforeseen variations in revenues, claims costs and investment income; and with rates that are actuarially sound. To ensure we accomplish this, the Corporation will continue to demonstrate fiscal prudence and sound financial management with a focus on driving cost containment, streamlining operations and eliminating unnecessary operational expenses. Key performance measures have been re-established and will be benchmarked against best disciplines of other public and private insurance organizations to ensure the continued pursuit of operational effectiveness, financial prudence and optimum investment-management practices.

Over the next year, a thorough product and service review will be conducted to inform and guide the continued adaptation of Manitoba Public Insurance to meet the evolving needs of Manitobans, including those in rural, northern and remote communities. We will investigate online customer self-service options to address and enhance customer service and convenience, while ensuring capital projects and technological initiatives are directly linked to supporting and optimizing core business functions and meeting the priorities of Manitobans.

Vehicle manufacture and repair is undergoing a dramatic shift due to increased use of lightweight complex materials and advanced electronic systems. There are significant cost and repair implications that will need to be managed thoughtfully. In response, we enhanced our claims process, including the launch of our increasingly popular Direct Repair program. Manitoba Public Insurance will continue to collaborate with the repair industry to ensure vehicles damaged in collisions are properly repaired, and we will continue to be proactive in preparing for structural change in the auto industry, including the anticipated introduction of fully autonomous vehicles.

The Board also recognizes the importance the Corporation plays in the broader provincial economy. We will strive to be good corporate citizens in each of the communities we operate in. We will commit to be fair and ethical partners with the many different strategic partners and stakeholders we depend on, and who depend on us to deliver service to Manitobans. We will continue to aspire to create a rewarding and high performance workplace where we hire and train employees with a commitment to excellent service. We also commit to financial management of the Corporation in a manner that will not impair the consolidated financial statements of the Province of Manitoba.

In February, Manitoba Public Insurance welcomed our new President and Chief Executive Officer, Benjamin Graham, who joins us following the retirement of Dan Guimond. Benjamin will be leading our executive, management and employees to focus on key priorities and objectives and to ensure public automobile insurance continues to provide exceptional value to Manitobans.

Lastly, my sincere thanks to my colleagues on the Board for their dedication and professional guidance, and to Manitoba Public Insurance executive, management and staff for their commitment to a journey of renewal, continuous improvement and the pursuit of exceptional value.

Brent VanKoughnet
CHAIRPERSON OF THE BOARD

Board of Directors

BRENT VANKOUGHNET, *Chairperson*

DAN BUBIS

RICHARD CHALE

DOMENIC GRESTONI

EDNA NABESS

TAMMY SCHOCK

VALERIE WOWRYK

BENJAMIN GRAHAM *Ex-Officio*

Message from the President and Chief Executive Officer

We are constantly refining and adapting our products, services and initiatives to meet the diverse needs and service expectations of our customers—no matter where they live in Manitoba.

Our role at Manitoba Public Insurance can be summed up in three phrases: Exceptional coverage. Affordable rates. Safer roads.

To this end, Manitoba Public Insurance is committed to providing guaranteed access to comprehensive automobile insurance coverage at rates that are stable, predictable and affordable. At the same time, we are constantly refining and adapting our products, services and initiatives to meet the diverse needs and service expectations of our customers—no matter where they live in Manitoba.

I joined Manitoba Public Insurance as its President and Chief Executive Officer as we concluded the 2017/18 fiscal year. I enter a company that is demonstrably successful in many areas of our business, but I have been tasked to apply international experience to further improve Manitoba Public Insurance. Simply put, we will refocus on being a fiscally strong insurance company that prides itself on informed underwriting and diligent claims management supported through a prudent investment strategy.

First and foremost, our public auto insurance model provides among the most affordable rates and most comprehensive coverage in Canada. In Winnipeg, insuring a 2016 Ford F150 XLT SuperCrew would cost $1,260, as compared to $4,655 in Calgary and $5,164 in Toronto, for a 40-year-old couple and their 16-year-old son, all with clean driving records.

Our partnership in the *Manitoba Road Safety Plan 2017-2020: Road to Zero* will reduce risk and create safer roads. In the 2017 calendar year, Manitoba saw the second lowest number of roadway fatalities in 35 years. However, the fact that there were still 73 deaths in vehicle collisions highlights just how much further we must go to improve our traffic safety culture.

Customer satisfaction continues to be strong—90 per cent are satisfied with the service they receive. Nevertheless, we must continue to strive for improvement and ensure that we continue to satisfy the evolving needs of customers. To this end, we will be emphasizing enhancements to customer service, including the creation of additional online self-service options, and the creation of a new product road map. This will inform a new customer service framework in 2019 that will evolve our customer-centric focus.

We will be continuing to address the speed of change in the design and manufacture of automobiles, to work collaboratively with the Public Utilities Board, to build on positive relationships with our business partners, and to streamline operations and contain costs to position ourselves for long-term financial stability.

At a high level, this will all be achieved through a framework of three key overriding objectives: product and service leadership; operational excellence; and high functioning relationships with customers, stakeholders and partners at all levels. We recognize that as we prepare for the future, we must continue to provide clear value—low cost, outstanding service, comprehensive coverage and universal access—to all Manitobans.

I would like to extend my sincere appreciation to the Board of Directors for the opportunity to guide the Corporation through this period of focused evolution. I look forward to the Board's guidance and collaboration as we continue the Corporation's long tradition of adding value to Manitoba. I am proud to be working with my executive team, with all of our employees, our business partners, and our industry stakeholders on our mission to provide value and exceptional insurance to Manitobans.

Benjamin Graham
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Executive Team

BENJAMIN GRAHAM
President and Chief Executive Officer

BRAD BUNKO
Vice-President, Information Technology & Business Transformation and Chief Information Officer

MARK GIESBRECHT
Vice-President, Finance and Chief Financial Officer

LUKE JOHNSTON
Chief Actuary and Vice President, Risk Management

WARD KEITH
Vice-President, Business Development & Communications and Chief Administrative Officer

SATVIR TKACHUK
Vice-President, Human Resources and Chief Human Resources Officer

MIKE TRIGGS
General Counsel and Corporate Secretary

CURTIS WENNBERG
Vice-President, Customer Service and Chief Operating Officer

Report on Performance

During the 2017/18 insurance year, Manitoba Public Insurance maintained a focus on our core business and our corporate strategic objectives.

Key successes throughout the year included working collaboratively with the collision repair industry to facilitate proper and accountable repair, creating operational efficiencies to both contain costs and better serve customers, and undertaking loss prevention initiatives to positively influence driving behaviour with a view to reducing collisions, claims and claim costs.

At the outset of the year, we launched our Direct Repair program. Direct Repair enables customers with eligible claims to proceed directly to a participating repair shop for a vehicle damage estimate, after reporting the claim to Manitoba Public Insurance, instead of visiting a Service or Claim Centre. This program creates a streamlined process that provides increased convenience and flexibility for customers, and greater recognition, visibility and workflow management for participating repair shops.

As part of a long-term strategy to keep pace with rapid changes in the design, manufacture and repairability of motor vehicles, Manitoba Public Insurance opened a state-of-the-art centre for automotive research and training at our J.W. Zacharias Physical Damage Research Centre. The centre enables technicians to work closely with the repair industry to provide training on new and emerging repair techniques and equipment. This has already resulted in improved access to training and cost savings for the repair industry and helps ensure Manitoba vehicles are repaired to manufacturer specifications, protecting the safety of all road users.

The Corporation was also proud to host the 2017 Research Council for Automotive Repair (RCAR) conference. This international body exchanges research strategies and findings into repairability and safety, with the overall goal of reducing the human and economic cost of motor vehicle losses.

Physical damage claim efficiencies were also found through the introduction of paintless dent repair, an industry-standard method of removing dents from vehicle body panels. This cost-effective repair method is particularly suited to damage from hail claims. In addition, a change in the initial eradication and disinfection of rodent claims is reducing claims costs, while increasing options and simplifying the claim process for customers.

New Vehicle for Hire insurance coverage was developed, providing a made-in-Manitoba approach for vehicle owners offering ride-share services in accordance with municipal bylaws.

Throughout the year, several successful loss prevention initiatives were undertaken to promote road safety for many key issues, including distracted driving, speeding and impaired driving. This included the Corporation's first broad awareness and education campaign about the dangers of drug-impaired driving in partnership with MADD Canada.

A virtual reality experience, DRIVR-X, was created to tackle critical road safety issues affecting young drivers. DRIVR-X allows participants to explore a realistic, three-dimensional environment with multiple storylines requiring them to make important, life-changing decisions.

Loss prevention efforts culminated in the creation of *Manitoba Road Safety Plan 2017-2020: Road to Zero*. This is the first plan of its kind in our province—it provides the vision for Manitoba to have the safest roads in Canada and commits to one day achieving zero traffic fatalities on our roadways.

In the coming year, we look forward to continuing to build upon the strong foundations that were established in 2017/18 as we implement our strategic objectives going forward.

Better coverage.
Lower rates.
Safer roads.

Strategic Direction

At Manitoba Public Insurance, we are constantly evolving to meet the diverse needs and service expectations of our customers while providing guaranteed access to automobile insurance at cost.

We provide value to Manitobans through low and stable rates, ease-of-access to benefits, superior service, and the convenience of one-stop shopping for licensing, insurance and registration. The Corporation is committed to providing peace of mind for Manitobans through exceptional injury and damage coverage. Our road safety partnerships and initiatives will reduce risk on the road, save lives and reduce suffering for Manitoba families.

All of this speaks to the value that Manitoba Public Insurance provides as we look to the future—value that is achieved through a framework of three key objectives:

1) Product and service leadership.

2) Operational excellence and outstanding customer service.

3) High-functioning relationships with our key stakeholders and partners.

In the upcoming year, our internal evolution will focus on building a performance culture, and on assessing customer service and product offerings. We will develop a product road map to review and examine opportunities, and we will create a new customer experience framework to evolve our customer-centric focus. We recognize the demand for greater online service for customers, partners and staff, and we will work towards robust self-service options. In addition, a review of legacy computer systems will be undertaken as the first phase of a multi-year modernization project.

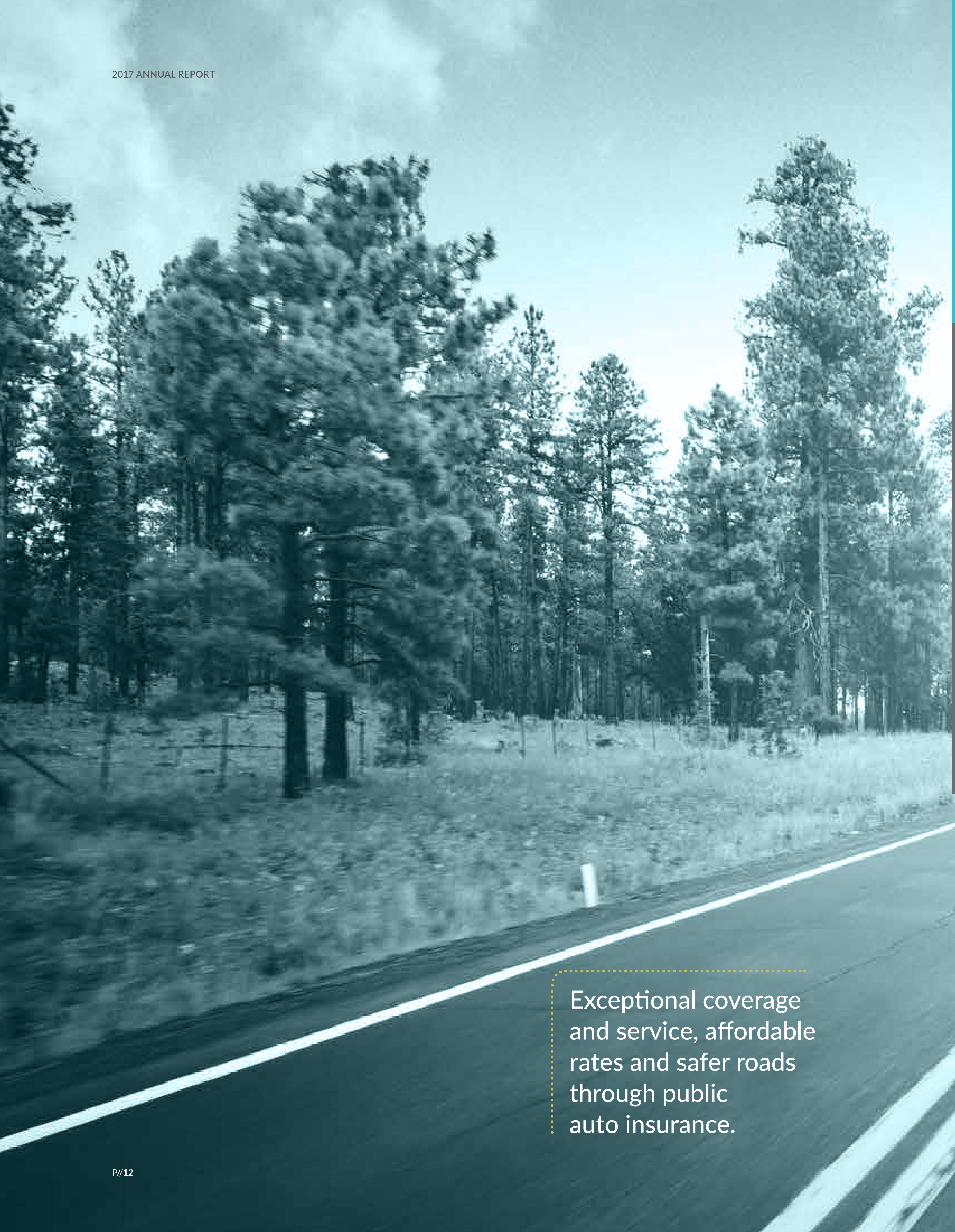
Our fast-changing external environment includes strengthening key relationships with the public, customers, government, the Public Utilities Board, and partners in road safety and service delivery. In the upcoming year, we will be emphasizing the development of new agreements with key partners and providers to continue to provide service and claims excellence for Manitobans.

The design and manufacture of vehicles is undergoing a dramatic shift, due to greater use of lightweight, complex materials, and increased adoption of electronic collision-avoidance and vehicle-control systems. The rapid pace of change will continue to evolve, and we will continue to work with our partners in the collision repair industry to ensure vehicles are repaired properly and cost effectively, in the best interest of all Manitobans.

The Corporation is committed to evolving the traffic safety culture of Manitoba, and fully supports the goals of the *Manitoba Road Safety Plan 2017-2020: Road to Zero.* We are dedicated to renewing our High School Driver Education program, which provides approximately 12,000 new teen drivers with access to professional training each year. Overall, safety and awareness priorities will remain focused on key

contributing factors to collisions, such as distracted driving, impaired driving and speed. We also recognize priorities around cycling, pedestrian and motorcycle safety, and the need to prepare for the legalization of recreational use of cannabis expected in 2018. We remain committed to working with road safety partners to influence driving behaviour with a view to reducing collisions, claims and their associated costs, and making our roads the safest in Canada.

Overall, through product and service leadership, operational excellence, and high-functioning relationships, our strategic direction will position us to continue to provide exceptional value for Manitobans, based on affordable insurance, comprehensive protection, outstanding service and universal access to coverage.



Exceptional coverage and service, affordable rates and safer roads through public auto insurance.

Management Discussion & Analysis

Corporate Profile

Corporate Mission

Exceptional coverage and service, affordable rates and safer roads through public auto insurance.

Corporate Vision

Manitoba Public Insurance will be a leader in automobile insurance and driver services, providing Manitobans with guaranteed access to superior products, coverage and value. We will anticipate and meet the evolving needs of Manitobans. We are dedicated to offering province-wide accessibility and, in co-operation with our business partners, will perform at the highest attainable levels of economy, efficiency and effectiveness

Manitoba Public Insurance will make our roadways and communities safer by enforcing standards fordrivers and vehicles, by raising awareness of the inherent risk of driving and by investing in lasting solutions. We will develop education and awareness programs andcontrols that help and encourage Manitobans to acquire the knowledge and skills to avoid collisions.

Our people will deliver knowledgeable service with care, efficiency and justifiable pride, and will be appropriately recognized for their contributions in helping the Corporation achieve its goals. Manitoba Public Insurance will be one of the best and most inclusive places in the province to work and pursue a career, where people will deliver knowledgeable and caring services in new and innovative ways.

We will ensure Manitobans understand and support the unique contribution Manitoba Public Insurance makes to the province of Manitoba.

This report provides a review of financial performance and operational outcomes for the 2017/18 fiscal year. For this reason, 2017/18 goals, strategies and performance measures have been retained for retrospective reporting purposes. Moving forward, we will report on new financial and operational performance measures consistent with strategic direction provided by the Corporation's Board of Directors, and as referenced in Manitoba Public Insurance's Annual Business Plan for the 2018/19 fiscal year.

Corporate Values

As a public auto insurer, we hold ourselves accountable to all Manitobans to deliver value by fostering a culture of excellence. We achieve this through our four core values:

Striving for Excellence
We provide exceptional coverage and service. We adapt to meet evolving customer and industry needs, focusing on continuous improvement.

Providing Value to Manitobans
We maintain affordable rates and ensure accessible coverage. As a public auto insurer, fiscal responsibility is at the forefront of everything we do.

Doing What's Right
We act with integrity and accountability. We strive to be open and transparent.

Investing in People
We empower our employees to provide excellent service. We work together with business, community and road safety partners to fulfil our mission.

Corporate Governance

Responsibilities of the Board
Manitoba Public Insurance was created by an act of the Legislature to achieve the Corporation's founding principles. The Corporation's Board of Directors, appointed by the Government of Manitoba, ensures that corporate policies are consistent with its mandate and the laws of the Province of Manitoba. The Board is also responsible for policy development and approval, and provides oversight and monitoring. Currently, the Board has eight members. The president and chief executive officer is an ex-officio, non-voting member of the Board and the Board Committees. Further duties, obligations and responsibilities of the Board of Directors are prescribed by *The Crown Corporations Governance and Accountability Act*.

The Corporation is responsible for preparing an annual business plan which must be approved by the Board and submitted to the Minister of Crown Services.

Under the provisions of T*he Manitoba Public Insurance Corporation Act*, the Board chairperson is required to provide the Minister of Crown Services with an annual report, which is subsequently reviewed by the Standing Committee of the Legislature. With the approval of the Lieutenant Governor in Council, the Minister of Crown Services has the legislative authority to issue directives related to matters of policy, accounting, advertising standards and organizational reviews. The Public Utilities Board approves changes to Basic Autopac insurance rates.

Whistleblower Report
The Corporation established an anonymous and confidential Whistleblower Hotline system for the receipt, retention and treatment of complaints about activities that are potentially unlawful or injurious to the public interest, including suspected fraud or financial mismanagement by employees. It is fully compliant with *The Public Interest Disclosure (Whistleblower Protection) Act*.

As these matters are of paramount concern to the Board of Directors and senior management, the Corporation has retained the services of an independent third party to administer the Whistleblower Hotline, receive complaints and provide reports directly to the chair of the Audit Committee, the corporate General Counsel and the manager of Internal Audit—recognizing that employees will be more likely to submit reports if they have a direct channel open to them with which they are comfortable.

Furthermore, it is the policy of the Corporation to ensure there are no reprisals against any employee for accessing the Whistleblower Hotline and making a report, should the identity of the reporting employee become known despite stringent provisions for confidentiality. The purpose of the policy is to discipline those responsible, not to discipline those who report such abuses.

During the fiscal period March 1, 2017, to February 28, 2018, the Whistleblower Hotline received no inquiries.

Fair Practices Office

Our public auto insurance system strives for continuous improvement in all aspects of its operation, particularly those aimed at ensuring fair and appropriate service to customers. With that goal in mind, the Fair Practices Office (FPO) was created in 1999. The FPO is a means for customers and other interested parties to bring issues of a systemic nature to the attention of the Corporation.

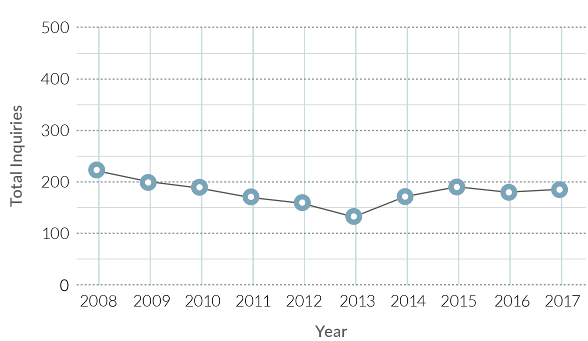
The FPO generally deals with concerns related to corporate policy, or issues involving complex or unusual situations where the correct interpretation of policy may seem unclear. The FPO may initiate its own investigations or respond to inquiries referred by others. It is free to scrutinize the Corporation's policies and procedures in an objective and constructive manner. As required, it can make recommendations about an operational decision on a specific case and alert senior management of any systemic concerns or policies that should be addressed.

Many of these matters are referred to the FPO by the provincial ombudsman, staff and customers. Inquiries of a systemic or policy nature may also be referred by the Customer Relations unit, which deals primarily with individual customers.

2017 Fair Practices Office Results

In the 2017/18 fiscal year, the FPO received 196 documented inquiries from the following referral sources:

Customer	/ 44
Formal Ombudsman inquiries	/ 3
Informal Ombudsman inquiries	/ 106
Internal referrals	/ 1
Executive referrals	/ 16
Ministerial inquiries	/ 26



Over the same period, the FPO investigated a total of 181 inquiries. Of the inquiries investigated, FPO recommended the Corporation revise its decision in 26 situations, or about 14 per cent of the cases reviewed.

Compliance to Legislative Authority: Sustainable Development Act

In accordance with Section 14 of *The Manitoba Sustainable Development Act* (1997), the Corporation did not experience any environmental incidents between March 1, 2017, and February 28, 2018.

The Corporation has a sustainable development program including policies and guidelines to reduce the environmental impact of the Corporation and its business partners.

Corporate Goals, Strategies and Measures

Manitoba Public Insurance's Goals, Strategies and Measures are as follows:

Goal 1

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

Strategies

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

1.2 To keep all controllable costs at their lowest possible level through loss prevention and cost containment strategies.

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

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

1.5 To make prudent investments within acceptable risk profiles.

1.6 To maintain an information technology environment that is efficient, adaptable and designed to meet customer needs.

1.7 To maintain the Basic Insurance Rate Stabilization Reserve to protect motorists from rate increases that would otherwise have been necessary due to unexpected variances from forecasted results and due to events and losses arising from non-recurring events and factors.

Rate Comparison Chart

2018 rates based on: 2016 Ford F150 XLT SuperCrew, $500 all-perils deductible, $2 million third-party liability	**21-Year-Old Male** Claims and conviction free	**35-Year-Old Couple** Both claims and conviction free	**40-Year-Old Couple** Both claims and conviction free **16-Year-Old Son** Claims and conviction free
Winnipeg, MB	$1,534	$1,215	$1,260
Calgary, AB	$6,728	$2,188	$4,655
Toronto, ON	$7,706	$2,318	$5,164

Notes: 1. The 2016 Ford F150 XLT SuperCrew is the most common passenger vehicle registered in Manitoba.
2. Manitobans will pay less for their automobile insurance in 2018 than most major Canadian cities.

Goal 2

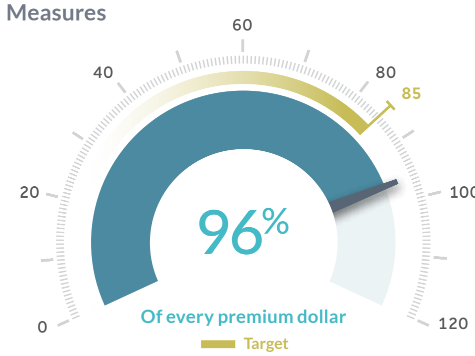
The Basic plan will return at least 85 per cent of premium revenue to Manitobans in the form of claims benefits.

Strategies

2.1 To maintain claims expense per reported claim at a maximum of 50 per cent of industry average.

2.2 To break even over the long term on Basic automobile insurance.

Measures



PREMIUM RETURNED FOR EACH DOLLAR EARNED

Goal 3

Manitoba Public Insurance will be a leader in automobile insurance and vehicle and driver licensing, providing Manitobans with superior products, coverage and service. The Corporation will utilize technology to provide products and services that will enhance the value it delivers to Manitobans.

Strategies

3.1 To ensure Manitobans receive understandable information on Manitoba Public Insurance products, entitlements, services and service standards. The Corporation will adopt a strategy that ensures information reaches the appropriate target groups at appropriate times.

3.2 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.

3.3 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 automobile 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.

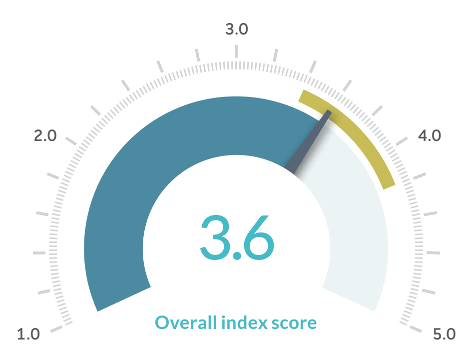
3.4 To use our economies of scale to help ensure safe, quality, reliable repairs for Manitobans by providing support for skilled trades through the development and delivery of cost-effective training.

3.5 To leverage our service delivery model to meet customer expectations, increasing accessibility and convenience.

3.6 To expand the value that the Corporation provides Manitobans by capitalizing on the effectiveness of its technology and distribution channels to develop innovative solutions that benefit its customers in a cost-effective manner.

3.7 To improve the service relationship between drivers and vehicle owners and the Corporation by modernizing business processes and ensuring all aspects of driver risk rating are consistent, clear and fair.

Measures



CORPORATE PERFORMANCE INDEX

Goal 4

Manitoba Public Insurance will provide service that is responsive, fair, courteous and convenient. Manitoba Public Insurance will meet corporate customer service standards that are based on customer expectations.

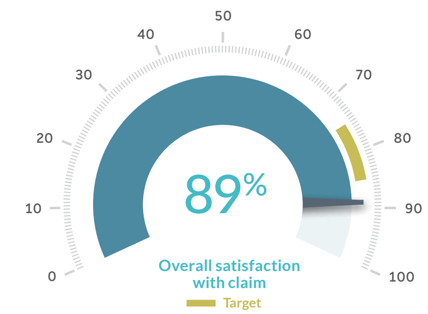
Strategies

4.1 To enhance a customer-centric service philosophy.

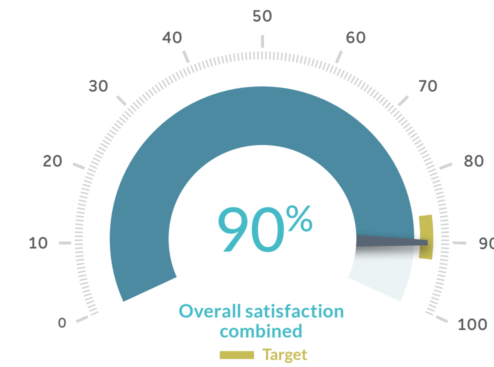
4.2 To create, publish and comply with comprehensive customer service standards for ourselves, brokers, business associates and service providers who are in contact with our customers.

4.3 To promptly address and respond to legitimate concerns expressed by our customers. To provide internal and external appeal mechanisms.

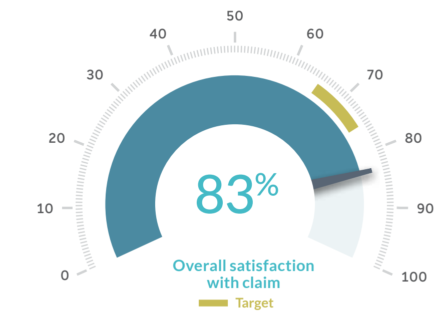
Measures



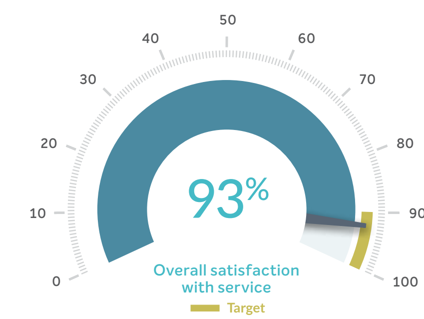
PHYSICAL DAMAGE CLAIMS



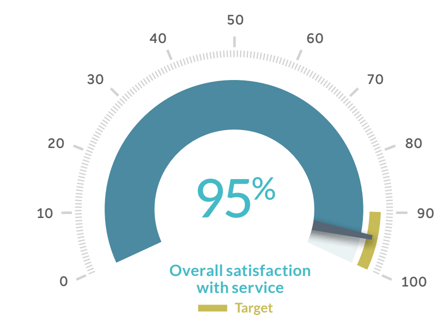
OVERALL CUSTOMER SATISFACTION



BODILY INJURY CLAIMS



INSURANCE OPERATIONS POLICYHOLDER TRANSACTIONS



DRIVER AND VEHICLE LICENSING

Goal 5

Total equity will be maintained within established target levels.

Strategies

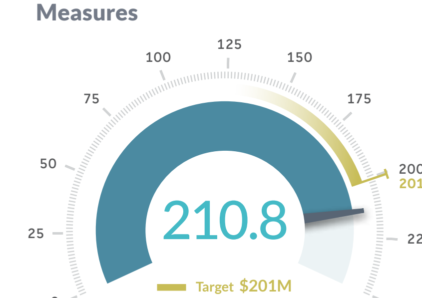
5.1 To maintain financial stability by setting appropriate premium rates, strengthening investments, and maintaining total equity within established target levels.

5.2 To continuously identify and assess the likelihood and magnitude of potential risks and act explicitly to avoid and mitigate such risks.

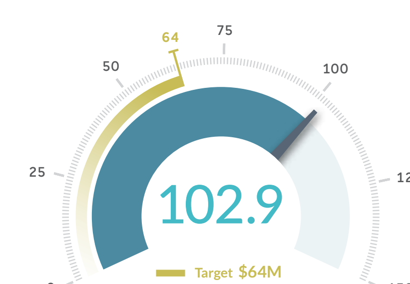
5.3 To develop business strategies to ensure competitive lines of business are profitable and contribute to the benefit of all Manitobans.

5.4 To assess corporate financial risk in keeping with industry standards and establish appropriate total equity target levels for each line of business.

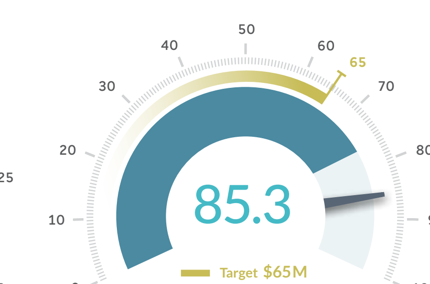
Measures



BASIC TOTAL EQUITY



EXTENSION TOTAL EQUITY



SRE TOTAL EQUITY

Goal 6

Manitoba Public Insurance will offer an environment and career opportunities that will encourage employees to strive for excellence. Our people will be treated with respect and fairness and their contributions will be recognized.

Strategies

6.1 To build a culture of greater collaboration, accountability and innovation.

6.2 To foster a culture that attracts and retains a diverse workforce.

6.3 To continue to provide clear direction and foster a management style that reflects our values and supports employee commitment to the organization.

6.4 To use change management strategies that ensure communication, education and employee training support and facilitate business change.

6.5 To ensure employees are provided with effective, informative and timely two-way communication.

Measures

Goal 7

Manitoba Public Insurance will lead driver and vehicle safety initiatives that reduce risk and protect Manitobans on our streets and in their neighbourhoods. Manitobans will recognize the Corporation is living its mission.

Strategies

7.1 To develop an evidence-based road safety strategy with an aim to reduce automobile collisions, using a multi-faceted approach.

7.2 To ensure Manitoba drivers meet and continue to maintain established standards of knowledge, skill and behaviour to gain access to Manitoba roads.

7.3 To reduce risk on the road by working with and supporting the vehicle repair industry to ensure safe, quality and reliable repairs for Manitobans.

7.4 To ensure vehicles and vehicle repairs meet provincial mechanical standards and repairs are made according to the latest best practices.

7.5 To develop strategies and initiatives that support continuous vehicle and driver performance monitoring to ensure Manitoba roads remain safe for everyone.

7.6 To continue to provide a clear and understandable Driver Safety Rating program, which rewards safe drivers and motivates higher-risk drivers to improve their driving behaviour through insurance rates that reflect the risk they represent on the road.

7.7 To enhance road safety research and awareness activities, fine-tune and target advertising campaigns, and explore innovative ways to reach Manitobans with road safety messaging by leveraging the latest technologies.

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

Measures

Results of Operations

Corporate

During the reporting period, for every dollar of revenue earned, the Corporation provided Manitobans with 84 cents in claims benefits. Operating expenses, including regulatory and appeal expenses, accounted for 10 cents of every dollar of revenue earned while broker commissions and premium taxes cost 9 cents. This resulted in an underwriting loss of 3 cents. Investment income added 11 cents for every dollar of revenue earned, resulting in the Corporation's net income being 8 cents for every dollar of revenue earned during the year.

Current Year and Last Year

In 2017/18, the Corporation had net income of $91.1 million, $176.3 million better than the previous year. The underwriting results were better than 2016/17, due primarily to a decrease of claims costs of $72.5 million largely resulting from favourable claims experience as well as actuarial adjustments and the change in interest rates which positively affected the claims reserves. Additionally, earned revenues rose by $65.3 million and investment income was $38.1 million better compared to last year.

Revenue

Total earned revenues in 2017/18 increased $65.3 million or 5.2 per cent to $1.3 billion because of the Public Utilities Board-approved 3.7 per cent overall rate increase for March 1, 2017; the growth in the number of vehicles on the road in Manitoba; the value of these vehicles; and movement of drivers down the Driver Safety Rating scale, all of which resulted in higher premiums. Total earned revenues include $30.2 million received from the Province of Manitoba as part of the agreement for providing services related to *The Drivers and Vehicles Act* operations.

Claims Costs

Beginning in 2005, a new reserving method was implemented for older open Personal Injury Protection Plan (PIPP) claims files. There are now 12 years of development observations under this process of reserving for open claims with continuing periodic payments. These observations have shown relative consistency in the periodic claim development patterns since the introduction of the new process in 2005.

In 2017/18, the Corporation's overall claims costs decreased by $72.5 million to remain at $1.1 billion compared to 2016/17. The decrease was mostly driven by claims incurred of $883.8 million, which is $97.5 million lower than last year. Of this amount, injury claims incurred decreased by $67.7 million while physical damage claims decreased by $29.8 million. The total number of claims filed decreased by 4,360 from 303,878 in 2016/17 to 299,518 in 2017/18.

The $67.7 million decrease in injury claims incurred compared to last year is mainly due to the significant unfavourable actuarial adjustment made in 2016/17. The decrease of $29.8 million in physical damage claims was attributed to a decrease in comprehensive claims incurred of $55.0 million primarily due to a $36.8 million improvement in hail offset by higher collision of $17.6 million and higher property damage of $7.6 million. Collision claims increased by 2,218 claims or 1.4 per cent from 159,373 claims last year to 161,591. Total severity of physical damage claims decreased $29.8 million in 2017/18.

Where Your Premium Dollar Has Gone

Total Claims Costs	$ 0.84
Operating & Regulatory / Appeal Expense	$ 0.10
Broker Commissions	$ 0.06
Premium Taxes	$ 0.03

Total earned revenues	**$ 1.00**
– Total claims and expenses	$ 1.03
= Underwriting loss	$ (0.03)
+ Investment income	$ 0.11
= Net income	$ 0.08

Climate Change

For Manitoba, climate change has become synonymous with increasing and unpredictable levels of flooding, fires and severe weather conditions, including snowstorms and hailstorms.

From 1971 to 1996, the Corporation did not experience any significant claims costs related to hail damage requiring reinsurance recovery. However, since 1996, the once stable and consistent weather pattern has changed, resulting in the Corporation making four reinsurance claims following severe hailstorms.

In 2017/18, we did not see any one significant hailstorm requiring reinsurance recovery, but claims resulting from hailstorms contributed $8.3 million to the Corporation's overall claims costs.

The impact to the Corporation's overall claims costs resulting from hailstorms for the last five years is:

2017/18	**$8.3 million**
2016/17	$45.1 million
2015/16	$52.6 million
2014/15	$13.8 million
2013/14	$23.5 million

We will continue to monitor carefully and respond to future projections, which call for a continued trend in unpredictable and variable weather patterns.

Expenses

Total corporate expenses of $239.0 million, are $0.4 million better than last year. This decrease was due primarily to Operating and Regulatory/Appeal expense decrease of $5.0 million offset by an increase in Premium Taxes of $4.6 million as they are reflective of the increase in Premiums.

Operating costs are allocated to Basic, Extension, Special Risk Extension and *The Drivers and Vehicles Act* operations (lines of business) representing their share of common costs such as compensation of common departments (Human Resources, Finance, Fair Practices Office, Enterprise Systems Support and IT Support) that support the four lines of business. Costs are allocated through a formal and structured allocation policy developed in 2011. The external auditors have accepted the policy and, for Basic Autopac rate-setting purposes, the Public Utilities Board has approved its use. Effectively, the Corporation's integrated service delivery model ensures that the cost of providing these services is lower than if each were operated on a stand-alone basis.

Investment Income

Total investment income including investment management fees, increased to $134.8 million compared to $96.6 million last year, an increase of $38.2 million. The $38.2 million increase is primarily due to higher unrealized gains on held for trading bonds of $33.2 million. There were impairment losses of $1.1 million to the equity portfolio compared to no impairment last year. Please refer to Note 6 of the Condensed Financial Statements for a breakdown of investment income by type of investment.

The Minister of Finance is responsible for investing the money that Manitoba Public Insurance sets aside for future claims payments and other liabilities. The total fair value of the Corporation's investment portfolio was $2.8 billion at February 28, 2018, an increase of 4.7 per cent or $130.3 million from the previous year. The bond portfolio, which accounts for 67.6 per cent of the investment portfolio, is primarily invested in two types of bonds:

- Marketable bonds, mainly issued by the governments of Manitoba and other provinces, including floating rate notes (45.5 per cent of the total portfolio market value).
- Non-marketable bonds, issued by Manitoba municipalities, hospitals and school divisions, purchased through the Manitoba Department of Finance (22.1 per cent of the total portfolio).

The Minister of Finance through his government department has selected three external investment managers to administer Manitoba Public Insurance's Canadian equity portfolio, which represents 9.5 per cent of the total investment portfolio. The Corporation also has 5.2 per cent of its portfolio in United States equities with exposure to the U.S. equity market through two exchange traded funds. Cash and cash equivalents account for 3.2 per cent of the investment fund; investment in five infrastructure holdings accounts for 3.6 per cent of investments and pooled real estate funds account for 9.4 per cent while directly held real estate investments account for 1.5 per cent of the investment portfolio.

The total portfolio, on a market value basis, had a positive 5.0 per cent return during the fiscal year. Marketable bonds returned positive 3.6 per cent while non-marketable bonds returned 4.6 per cent. The total Canadian equity portfolio earned positive 4.7 per cent, while large cap Canadian equities returned positive 5.0 per cent and small cap Canadian equities returned positive 4.1 per cent. U.S. equities returned positive 3.2 per cent in Canadian dollars. The real estate portfolio returned 11.2 per cent while the infrastructure portfolio grew by 9.8 per cent in fiscal 2018. Over a four-year period, the investment portfolio has achieved an annualized return of 4.4 per cent.

Basic

Years Ended February 28/29

Basic Autopac — Five-Year Statistics ($000)	**2018**	2017	2016	2015	2014
Premiums written	**994,593**	923,789	888,365	824,865	784,741
Claims incurred	**767,239**	860,035	666,404	745,837	747,435
Claims expense	**143,337**	120,972	118,614	116,578	114,552
Other expenses	**154,310**	152,853	148,410	146,953	139,964
Net income (loss)	**34,424**	(123,070)	(56,050)	2,440	(69,162)

Current Year and Last Year

In 2017/18, Basic insurance had net income from annual operations of $34.4 million, $157.5 million better than last year. Underwriting results increased by $124.1 million and Basic's share of investment income by $33.4 million. The $124.1 million increase in underwriting results was primarily resulting from a $69.8 million decrease in total claims costs due to the change in interest rates which positively affected the claims reserves and the actuarial adjustment and a $55.1 million increase in earned revenues offset by an increase in total expenses of $0.9 million.

Revenue

The number of policies in force at year end increased to 1,124,731 from 1,107,011. Total earned revenues increased from $927.9 million last year to $983.0 million.

Claims Costs

Total claims costs decreased to $923.7 million, $69.8 million lower compared to last year. The change in claims costs is comprised of a $65.5 million decrease in injury claims incurred and a $27.3 million decrease in physical damage claims incurred offset by a $23.0 million increase in claims expense. The increase in claims expense was mainly due to a one-time write-off of $16.5 million due predominately to the discontinuation of an automated claims adjudication platform.

Injury claims incurred decreased by $65.5 million due to the year-over-year change in the actuarial adjustment which positively impacted the injury claims liabilities by $126.0 million. This was offset by an increase in direct claims incurred of $65.4 million. The number of injury claims increased by 2.6 per cent from 17,273 to 17,734.

Physical damage claims incurred were lower compared to last year, decreasing by $27.3 million. Hail decreased comprehensive claims incurred by $36.8 million compared to last year. Total severity for Basic physical damage claims decreased by $20.8 million in 2017/18.

Injury Claims

Years Ended February 28/29

Type of Claim	**2018**	2017	2016	2015	2014
Fatal*	**106**	142	116	92	118
Brain Injury	**26**	35	48	55	47
Concussion	**122**	104	94	116	131
Quadriplegic	–	–	–	4	1
Paraplegic	**1**	2	3	4	2
Broken Bones	**848**	821	876	686	707
Sprains and Strains	**8,396**	7,858	7,749	7,177	5,669
Whiplash**	**6,808**	6,655	6,237	6,170	9,018
Bruising/Lacerations	**907**	980	958	1,161	953
Other	**520**	676	715	728	721
Total	**17,734**	17,273	16,796	16,193	17,367

** Fatal includes PIPP, non-PIPP and those still under investigation as at February 28/29. Years prior to 2015 have been restated.*

*** 2015 has been restated to be consistent with prior years.*

Expenses

Basic expenses increased from $140.3 million last year to $141.2 million. The increase was due to higher commissions and premium taxes of $4.0 million related to the increase in premiums offset by lower operating expenses and regulatory appeal expenses of $3.1 million.

Investment Income

Basic's share of corporate investment income was $116.3 million, net of investment management fees. This was an increase of $33.4 million, attributable mainly to unrealized gains on held for trading bonds.

Total Equity

Net income for the Basic line of business for 2017/18 increased retained earnings from $99.3 million to $133.7 million. Combined with Accumulated Other Comprehensive Income, the Basic total equity was $173.5 million. As per the Risk Management section, the Corporation's Chief Actuary concluded that a minimum total equity level of $201.0 million would be required for Basic to achieve a satisfactory future financial condition. The Corporation transferred $37.3 million to Basic retained earnings from the Extension line of business. This transfer results in an ending retained earnings of $171.0 million and total equity of $210.8 million to support rate stabilization.

Extension

Years Ended February 28/29

Extension — Five Year Statistics ($000)	**2018**	2017	2016	2015	2014
Premiums written	**156,947**	151,303	144,299	138,667	134,470
Claims incurred	**66,144**	67,195	65,967	56,443	60,052
Claims expense	**11,852**	10,236	9,757	11,749	11,974
Other expenses	**48,404**	48,063	49,248	51,363	50,843
Net income	**44,921**	37,988	26,644	43,134	31,125

Current Year and Last Year

Extension insurance reported net income of $44.9 million compared to $38.0 million the previous year. The $6.9 million increase in net income was due to a $5.8 million increase in underwriting results and a $1.1 million increase in Extension's share of investment income.

Revenue

Earned revenues from the sale of Extension products increased by $6.6 million to $164.9 million compared to last year. All products, including the sale of coverage for deductible buy down and third party liability, contributed to the increase.

Claims Costs

Total claims costs — including claims benefits, claims handling, loss prevention and road safety expenses — increased $0.5 million to $78.9 million. Physical damage claims incurred decreased by $4.4 million or 7.0 per cent. Injury claims incurred increased $3.3 million, due primarily to increased severity and volume of claims. Claims expenses were higher than last year by $1.6 million.

Expenses

Expenses related to the sale of Extension products was $47.4 million, an increase of $0.3 million from the previous year. This increase was due to higher commissions of $0.1 million and premium taxes of $0.2 million.

Investment Income

Extension's share of corporate investment income of $6.3 million, including investment management fees, was $1.1 million higher than last year.

Retained Earnings

Extension's total retained earnings are comprised of retained earnings from the sale of Extension products. As at February 28, 2018, Extension retained earnings totaled $102.5 million compared to $94.9 million the previous year. Extension retained earnings decreased by $37.3 million as a result of the transfer to Basic retained earnings. Extension's current capital target level for total equity is $64.0 million based on the 2017 Extension Dynamic Capital Adequacy Test (DCAT) report.

Special Risk Extension

Years Ended February 28/29

SRE — Five Year Statistics ($000)	2018	2017	2016	2015	2014
Premiums written	**80,810**	78,328	70,521	63,022	58,781
Claims incurred	**50,460**	54,068	38,253	42,596	53,650
Claims expense	**6,393**	5,895	6,140	5,920	6,037
Other expenses	**18,679**	17,961	17,692	16,645	14,199
Net income (loss)	**10,886**	3,193	4,650	10,768	(6,928)

Current Year and Last Year

Special Risk Extension (SRE) insurance reported a net income of $10.9 million, an increase of $7.7 million from the previous year. Underwriting results increased by $4.9 million and SRE's share of investment income increased by $2.8 million.

Revenue

Total earned revenues in 2017/18 were $77.0 million compared to $74.5 million the previous year. The sale of SRE products, which include large trucking companies' liability, cargo and physical damage coverage, showed a growth of 3.4 per cent compared to last year.

Claims Costs

Total claims costs decreased from $61.2 million in 2016/17 to $58.1 million in 2017/18. Injury claims decreased $5.5 million. Physical damage claims incurred increased by 6.5 per cent compared to the previous year, a change of $1.9 million. Claims expense and loss prevention and road safety costs increased by $0.4 million from the previous year.

Expenses

SRE's expenses increased to $17.4 million from $16.7 million, primarily due to an increase in commissions of $0.7 million.

Investment Income

SRE's share of corporate investment income, including investment management fees, was $9.4 million, an increase of $2.8 million compared to last year.

Retained Earnings

SRE's retained earnings are derived from the annual operations of the SRE line of business. SRE's retained earnings were $81.7 million as at February 28, 2018, compared to $70.8 million last year. SRE's current capital target level for total equity is $65.0 million based on the 2017 SRE DCAT report.

The Drivers and Vehicles Act Operations

Current Year and Last Year

The Drivers and Vehicles Act (DVA) operations experienced net income of $0.9 million in 2017/18 compared to a net loss of $3.3 million last year.

Revenue

The government provides funding to the Corporation that covers the cost of the DVA administrative operation. In 2017/18, the Corporation received $30.2 million from the Province of Manitoba and reported $1.0 million in service fees and other revenue, resulting in overall revenue being $1.1 million higher than the previous year.

Expenses

DVA operations' expenses of $33.0 million were down $2.4 million from last year's expenses of $35.4 million primarily due to reduced operating expenses of $2.0 million and commissions of $0.4 million.

Investment Income

DVA operations' portion of corporate investment income, including investment management fees, increased to $2.7 million, $0.8 million higher compared to last year.

Retained Earnings

Extension and SRE retained earnings were transferred to create the Extension Development Fund (EDF) which was primarily set up to support the projects undertaken to maximize the opportunities presented by the 2004 merger of the Corporation and the Division of Driver and Vehicle Licensing. From EDF funding, DVA operations benefited by $79.5 million including $14.0 million for the implementation of the Manitoba Enhanced Identification Card, Manitoba Enhanced Driver's Licence and Manitoba Identification Card. DVA operations has subsequently repaid $6.1 million to offset the costs associated with these projects and funding.

Risk Management

Like any enterprise, Manitoba Public Insurance assumes risks in its operations that must be handled effectively in order to achieve its goals.

The Audit, Finance & Risk Committee of the Board of Directors ensures that enterprise-wide risk assessment processes and controls are in place to identify and mitigate these risks. The Audit, Finance & Risk Committee also monitors the Corporation's risks on an ongoing basis.

Management is responsible for developing, updating and enforcing the Corporation's Risk Management Framework (the Framework), which includes:

- Risk identification and assessment of impact if there were no risk mitigation actions in place.
- Risk monitoring procedures.
- Processes and controls to manage and mitigate risks.
- The residual risk after consideration of management action.

The Framework ensures a consistent approach for addressing risks and a common understanding of risk and its mitigation throughout the Corporation. The risks are categorized based on the Corporation's seven overall corporate goals.

Much of the risk management process is focused on Goal 1: Rates, on average, will be lower than those charged by private insurance companies for comparable coverage and service.

The key risk mitigation areas are:

- Maintaining adequate unpaid claims reserve.
- Maintaining an adequate Rate Stabilization Reserve.
- Governance of investments.
- Claims control strategies.
- Information technology processes.
- Loss prevention strategies.

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 have not yet been 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 quarterly. Adjustments, if needed, are calculated by the Corporation's Chief Actuary. An independent assessment of the reserves is also conducted twice a year by the Corporation's external Appointed Actuary. The external auditor performs procedures to assess the reasonability of the reserves as part of its annual audit of the Corporation's financial statements. This process serves to mitigate risk of misstatement of unpaid claims reserves.

For Manitoba Public Insurance, long-lasting injury claims are the largest source of year-to-year variability in the estimate of ultimate costs. This variability and volatility is related to future events that arise from the date of loss to the ultimate settlement of the claims. Accordingly, short-tail claims, such as physical damage claims, tend to be more reasonably predictable than long-tail claims such as Personal Injury Protection Plan (PIPP) and public liability claims. For Manitoba Public Insurance, factors such as the effects of inflationary trends and changing interest rates contribute to this variability. Investment portfolio management techniques help to reduce this potential volatility.

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

Rate Stabilization Reserve

The Corporation establishes and maintains a Rate Stabilization Reserve (RSR) to protect motorists from rate increases made necessary by unexpected losses arising from non-recurring events or factors.

The Corporation's Board of Directors' current minimum target level for total equity (which includes Basic retained earnings and the Basic portion of AOCI) is $201.0 million (February 28, 2017 - $181.0 million) based on the 2017 Basic Insurance Dynamic Capital Adequacy Test (DCAT) report. In this report, the Corporation's Chief Actuary concluded that a minimum total equity of $201.0 million would be required for Basic to achieve a satisfactory future financial condition. A total equity level lower than $201.0 million results in a "not satisfactory" opinion because there were plausible adverse scenarios at the 1-in-40 year probability level where liabilities exceed assets.

In Order No. 130/17, the Public Utilities Board approved a lower DCAT-based RSR target (for total equity) of $180.0 million and the continued use of the DCAT methodology for this purpose. However, the Corporation's Board of Directors continues to rely on the Chief Actuary's minimum target of $201.0 million as the Public Utilities Board estimate does "not reflect best estimate expectations", as noted on page 78 of Order No. 130/17. Further, a target of $180.0 million is not sufficient to achieve satisfactory financial conditions as calculated by the Corporation's Chief Actuary.

For the upper (maximum) RSR target for total equity, the Corporation proposed the continued use of the 100 per cent Minimum Capital Test (MCT) ratio in the 2018 General Rate Application. The MCT is a capital adequacy test used by nearly all property and casualty insurers in Canada, and at the 100 per cent level, capital available is equal to capital required. The Corporation is the only insurer in Canada that has proposed the use of 100 per cent MCT as a maximum capital target. Other public insurers have utilized 100 per cent MCT as a target capital amount or a minimum capital amount, while federally regulated private insurers have a target capital ratio (supervisory target) of 150 per cent MCT, and a minimum internal target which would be set greater than the 150 per cent supervisory target. In 2017, the Public Utilities Board set the maximum RSR target for total equity at $325 million, which is equivalent to an MCT ratio of approximately 70 per cent.

Investments

In accordance with Section 12(1) of *The Manitoba Public Insurance Corporation Act*, the Minister of Finance is responsible for the investments of the Corporation. The Minister has charged the Department of Finance with the operational management of the fund. The Corporation, through the Investment Committee of the Board, works collaboratively with the Department of Finance and makes recommendations to the Minister regarding appropriate policies and strategies to maximize return, minimize volatility and mitigate risk. The Investment Committee has completed asset liability management studies to ensure that the asset mix chosen is compatible with the Corporation's liability profile. A complete description of these risks and risk mitigation strategies is outlined in Note 28 of the 2017/18 audited financial statements located on the Corporation's website, mpi.mb.ca.

Claims Control Strategies

Our cost-control measures with respect to claims management include:

- Management of an accreditation program for the collision repair industry to ensure proper, quality and safe repairs at a reasonable cost. This requires shops and the technicians within shops to meet standards for facilities, equipment and annual training of technicians.
- Delivery of high-quality training programs to the collision repair industry to ensure repairs are performed by highly trained technicians to original equipment manufacturer's standards using current technologies.
- Use of estimatics software, along with Manitoba Public Insurance estimating standards, to ensure all repair estimates are prepared accurately and consistently, ensuring that only required repairs are performed.
- Use of industry-recognized valuation tools to determine actual cash value of vehicles when settling total loss claims.
- Use of aftermarket, re-manufactured and recycled parts in vehicle repairs.
- Discounted pricing on glass parts used in vehicle repairs.
- Maximizing recovery of claims costs from other insurers and at-fault parties (subrogation).
- Sale of autos through salvage and tenders.
- A goal oriented and team-based approach to managing Personal Injury Protection Plan claims that helps individuals realize their full recovery potential.

Each year, these initiatives significantly contain costs and generate revenue, which results in lower insurance premiums for our customers. For example, salvage auto sales and tenders yielded $43.6 million in the 2017/18 fiscal year.

Information Technology Processes

Information Technology Optimization

The Corporation depends on highly integrated, quality systems to serve customers and fulfill its legislated mandate. It is imperative that we continue to ensure that the Corporation's systems infrastructure is operating in the most secure, effective and efficient manner. Applications and supporting infrastructure must also be secure and well-supported.

With respect to protecting our ongoing ability to serve customers, we are continuing investment in these technologies, as well as the related processes and capabilities. This reduces the risk of business interruption, and thus provides better customer service via highly reliable and available systems.

Business Continuity

The objective of our Business Continuity Management Program (BCMP) is to create corporate plans and responses that ensure continued customer service in the event of a business disruption. BCMP includes emergency response, crisis management, business recovery, IT service continuity, catastrophe, contingency and pandemic responses, and the processes used to ensure ongoing readiness. The program is focused on creating and implementing a Corporate Business Continuity Plan through a strong understanding of our products and services, people, delivery processes and technology.

Business continuity includes planning, prevention, preparedness and a proactive program approach to crisis responses and business delivery. The practice of business continuity recognizes the need for continuity in contrast to recovery. This approach leverages the prevention and proactive aspects of business continuity that provide continuous service during business disruptions as opposed to suspension and recovery.

Outlook

The Corporation remains committed to achieving its seven corporate goals. Actual results are monitored quarterly by the Board of Directors and may deviate from forecasts prepared in the previous year for rate setting purposes.

Basic Autopac Rates

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

On June 16, 2017, Manitoba Public Insurance filed its 2018/19 General Rate Application for Basic insurance with the Public Utilities Board. The application sought approval of a 2.7 per cent overall rate increase for vehicle premiums and a 1.8 per cent rate increase through driver premiums from demerit drivers on the Driver Safety Rating scale. On December 4, 2017, the Public Utilities Board ordered a 2.6 per cent overall rate increase for vehicle premiums and approved the Corporation's request for a 1.8 per cent rate increase from demerit drivers.

Basic Autopac Net Income

Basic had net income of $34.4 million in 2017/18, which was $80.0 million better than budget. The majority of the favourable variance came from total claims incurred, including interest rate impacts of $76.2 million and better than budget investment income of $9.4 million.

The Corporation had favourable hail experience with Basic hail claims that occurred in 2017/18 coming in at an estimated $28.2 million better than budget. While there was less hail frequency in 2017/18, the Corporation also introduced a paintless dent repair strategy, which helped lower hail claim repair severity by 32.0 per cent from 2016/17 severity levels. The Corporation forecasts hail claims frequency based on longer term averages given the volatility of hail claims experience.

The Corporation also implemented the rodent claims strategy in March 2017 to address the ten-fold increase in rodent claims frequency since 2007/08. The strategy resulted in a $9.8 million improvement from the 2017/18 budget of $13.3 million. This strategy is expected to permanently reduce rodent claims on a go-forward basis with minimal customer complaints. In fact, clients are seeing much faster remediation times on these claims.

The 2017/18 year experienced another relatively mild winter with minimal snowfall, which resulted in Basic collision claims being $8.4 million under budget. Collision claim frequency continues to decline as a result of a combination of factors including favourable winter driving conditions, increased safety features on new vehicles, and improved incentives from the Corporation's Driver Safety Rating program. On the flip side, the Corporation anticipates upward pressure on severity in future years as a result of increased complexity of vehicles. Collision severity was close to budget in 2017/18.

Basic investment income, excluding the impact of interest rates, was $9.4 million better than budget in 2017/18 primarily as a result of higher than anticipated returns from the Corporation's investment in the pooled real estate fund.

The net impact of interest rates from the Corporation's Basic Asset and Liability Management (ALM) strategy resulted in a $21.9 million favourable impact to net income in 2017/18. The ALM strategy would normally result in a close to zero impact to net income; however, in 2017/18 the Corporation made a change to its discount rate methodology in the actuarial valuation which resulted in a $28.7 million favourable adjustment. Excluding this change in methodology, the net impact of interest rates on assets and liabilities was a $6.8 million decrease in net income.

Other Lines of Business Net Income

Extension and Special Risk Extension are expected to realize profits, while ongoing operations related to the administration of *The Drivers and Vehicles Act* are expected to generate some limited net income. Non-Basic lines of business had a net income of $56.7 million in 2017/18, which was $5.5 million better than budget.

Loss Prevention

Loss prevention programs and activities contribute to our overall goal of reduced claims and lower claims costs, which contribute to lower insurance premiums for rate payers. As the mandatory provider of basic auto insurance and the administrator of drivers and vehicles, Manitoba Public Insurance is uniquely positioned to leverage driver and vehicle data in Manitoba to deliver programs that teach, influence and incent safe driving behaviour and intervene to reduce risk associated with driver readiness and fitness, vehicle condition, or fraudulent and ineligible claims.

As our environment evolves, we recognize the need to adopt new approaches to prevent loss. Manitoba Public Insurance interventions are selected strategically, are evidence-based, proven effective, and evaluated to demonstrate value to Manitobans where it matters—in their personal safety and in their pocketbooks.

Condensed Financial Statements

These financial statements are not audited. The February 28, 2018, audited financial statements are available at mpi.mb.ca or upon request.

Condensed Statement of Financial Position

As at February 28 (Unaudited – in thousands of Canadian dollars)	Notes	2018	2017
Assets			
Cash and cash equivalents	5	**89,006**	73,434
Investments	5	**2,660,850**	2,545,130
Investment property	5	**40,646**	41,686
Due from other insurance companies		**3**	29
Accounts receivable		**477,908**	455,239
Prepaid expenses		**1,227**	2,483
Deferred policy acquisition costs		**24,727**	24,155
Reinsurers' share of unearned premiums		**133**	117
Reinsurers' share of unpaid claims		**2,452**	1,971
Property and equipment		**116,754**	116,059
Deferred development costs		**69,191**	89,496
		3,482,897	3,349,799
Liabilities			
Due to other insurance companies		**171**	173
Accounts payable and accrued liabilities		**69,217**	73,051
Financing lease obligation		**4,092**	4,189
Unearned premiums and fees		**628,837**	586,626
Provision for employee current benefits		**22,373**	22,750
Provision for employee future benefits		**446,458**	405,058
Provision for unpaid claims	4	**1,912,734**	1,900,783
		3,083,882	2,992,630
Equity			
Retained Earnings		**352,608**	261,532
Accumulated Other Comprehensive Income		**46,407**	95,637
Total Equity		**399,015**	357,169
		3,482,897	3,349,799

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

Condensed Statement of Operations

For the years ended February 28 (Unaudited – in thousands of Canadian dollars)	Notes	2018	2017
Earned Revenues			
Gross premiums written		**1,247,731**	1,169,044
Premiums ceded to reinsurers		**(15,381)**	(15,624)
Net premiums written		**1,232,350**	1,153,420
Increase in gross unearned premiums		**(40,608)**	(23,406)
Increase in reinsurers' share of unearned premiums		**16**	2
Net premiums earned		**1,191,758**	1,130,016
Service fees & other revenue		**34,187**	31,547
The Drivers and Vehicles Act operations recovery		**30,179**	29,272
Total Earned Revenues		**1,256,124**	1,190,835
Claims Costs			
Direct claims incurred — gross		**884,327**	980,398
Claims (recovered) incurred ceded to reinsurers		**(514)**	900
Net claims incurred		**883,813**	981,298
Claims expense		**161,583**	137,102
Loss prevention/Road safety		**15,345**	14,801
Total Claims Costs		**1,060,741**	1,133,201
Expenses			
Operating		**117,778**	122,313
Commissions		**80,665**	77,880
Premium taxes		**36,214**	34,369
Regulatory/Appeal		**4,458**	4,911
Total Expenses		**239,115**	239,473
Underwriting loss		**(43,732)**	(181,839)
Investment income	6	**134,808**	96,635
Net income (loss) from operations		**91,076**	(85,204)

Condensed Statement of Comprehensive Income (Loss)

For the years ended February 28 (Unaudited – in thousands of Canadian dollars)	Notes	2018	2017
Net income (loss) from operations		**91,076**	(85,204)
Other Comprehensive Income (Loss)			
Items that will not be reclassified to income			
Remeasurement of Employee Future Benefits		**(28,560)**	(10,489)
Items that will be reclassified to income			
Unrealized gains on Available for Sale assets		**73,304**	103,068
Reclassification of net realized gains related to Available for Sale assets		**(27,974)**	(40,169)
Net unrealized gains (losses) on Available for Sale assets		**(20,670)**	62,899
Other Comprehensive Income (Loss) for the year		**(49,230)**	52,410
Total Comprehensive Income (Loss)		**41,846**	(32,794)

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

Condensed Statement of Changes in Equity

(Unaudited – in thousands of Canadian dollars)	Retained Earnings	Accumulated Other Comprehensive Income	Equity
Balance as at March 1, 2016	346,736	43,227	389,963
Net loss from operations for the year	(85,204)	-	(85,204)
Other comprehensive income for the year	-	52,410	52,410
Balance as at February 28, 2017	**261,532**	**95,637**	**357,169**
Net income from operations for the year	**91,076**	**-**	**91,076**
Other comprehensive loss for the year	**-**	**(49,230)**	**(49,230)**
Balance as at February 28, 2018	**352,608**	**46,407**	**399,015**

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

Condensed Statement of Cash Flows

For the years ended February 28 (Unaudited – in thousands of Canadian dollars)	Notes	2018	2017
Cash Flows from (to) Operating Activities			
Net income (loss) from operations		**91,076**	(85,204)
Non-cash items			
Depreciation of property and equipment		**4,973**	5,193
Amortization of deferred development costs		**20,757**	16,859
Amortization of bond discount and premium		**3,557**	3,516
Gain on sale of investments		**(25,043)**	(42,157)
Unrealized (gain) loss on Fair Value Through Profit or Loss bonds		**(9,363)**	23,843
Unrealized gain on pooled real estate		**(29,040)**	(16,422)
Unrealized (gain) loss on infrastructure investments		**(6,195)**	1,483
Impairment of Available for Sale investments		**1,078**	-
Impairment of deferred development cost		**20,258**	-
		72,058	(92,889)
Net change in non-cash balances			
Due from other insurance companies		**26**	16
Accounts receivable and prepaid expenses		**(21,413)**	(31,486)
Deferred policy acquisition costs		**(572)**	4,689
Reinsurers' share of unearned premiums and unpaid claims		**(497)**	4,472
Due to other insurance companies		**(2)**	(5)
Accounts payable and accrued liabilities		**(3,834)**	7,016
Unearned premiums and fees		**42,211**	26,078
Provision for employee current benefits		**(377)**	65
Provision for employee future benefits		**12,840**	16,452
Provision for unpaid claims		**11,951**	131,673
		40,333	158,970
		112,391	66,081
Cash Flows from (to) Investing Activities			
Purchase of investments		**(824,124)**	(831,239)
Proceeds from sale of investments		**753,780**	834,887
Acquisition of property and equipment net of proceeds from disposals		**(5,668)**	(5,600)
Financing lease obligation		**(97)**	(92)
Deferred development costs incurred		**(20,710)**	(27,925)
		(96,819)	(29,969)
Increase (decrease) in Cash and Cash Equivalents		**15,572**	36,112
Cash and cash equivalents beginning of year		**73,434**	37,322
Cash and Cash Equivalents end of year	5	**89,006**	73,434
Supplemental cash flow information			
Interest received		**52,300**	49,083
Dividends received		**14,579**	16,075

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

Notes to Condensed Financial Statements

February 28, 2018

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 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

The financial statements of the Corporation are in such form as prescribed by Section 43(1) of *The Manitoba Public Insurance Corporation Act* and are presented in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements were authorized for issue by the Board of Directors on May 17, 2018.

The external actuary is appointed by the Board of Directors of the Corporation. 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 report thereon to the Corporation's Board of Directors. Insurance contract liabilities include unearned premiums and fees, and unpaid claims and adjustment expenses.

The Appointed Actuary also uses the work of the external auditors in their verification of the information prepared by the Corporation used in the valuation of the insurance contract liabilities.

The external auditors are appointed by the Lieutenant Governor in Council to conduct an independent and objective audit of the financial statements of the Corporation in accordance with Canadian generally accepted auditing standards. In carrying out their audit, the external auditors also make use of the work of the Appointed Actuary and their report on the Corporation's insurance contract liabilities. The external auditors' report outlines the scope of their audit and their opinion.

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, deferred development costs, financing lease obligation, 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 except as otherwise specified.

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 (which in the absence of an active market provides a reasonable proxy for fair value) as explained in Note 3.

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.

3. Summary of Significant Accounting Policies

For a complete listing of significant accounting policies, please refer to the February 28, 2018, audited financial statements available at mpi.mb.ca.

The following are excerpts from the summary of significant accounting policies contained in the audited financial statements and do not represent full disclosure of significant accounting policies.

Investments

Funds available for investments are managed by 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 being 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

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.

Investments that are determined to be impaired are written down to their expected recoverable amount. 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.

Fair Value Determination

The fair values of financial instruments are obtained from external pricing services and are based on bid prices for financial assets. Cash equivalent investments comprise investments due to mature within 90 days from the date of purchase and are carried at fair value.

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 & Building	
• 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. Depreciation of construction in progress will begin, in accordance with the above policy, when construction has been completed. Land is not subject to depreciation and is carried at cost.

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

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 in the current period. Actuarial gains and losses are recognized in Other Comprehensive Income (OCI) in the current period.

The Corporation values its pension benefit plan annually, the most recent valuation is at December 31, 2017. Roll-forward procedures are performed to ensure that the December 31, 2017, valuation is a reliable estimate of the valuation at February 28, 2018.

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 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 Generally Accepted Accounting Principles (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 income 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.

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:

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

ii. 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 investment income 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 monthly averaging of the funds available within each division.

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.

4. 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-tail 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 effects of inflationary trends contribute to this variability.

The determination of the provision for unpaid claims, including adjustment expenses, relies on judgment, analysis of historical claim 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.

5. Investments

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

Cash equivalent investments have a total principal amount of $83.2 million (February 28, 2017 – $61.5 million) comprised of provincial short-term deposits with effective interest rates of 1.10 per cent (February 28, 2017 – 0.55 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 $5.0 million (February 28, 2017 - $5.0 million). The unsecured operating line of credit remained unutilized at February 28, 2018 (February 28, 2017 – nil).

Cash and Investments

As at February 28, 2018 (Unaudited – in thousands of Canadian dollars)	**Financial Instruments** Classified as AFS	Classified as HTM	Classified as FVTPL	**Non-Financial Instruments**	**Total Carrying Value**
Cash and cash equivalents	**89,006**	–	–	–	**89,006**
Bonds					
Federal	–	–	**28,133**	–	**28,133**
Manitoba:					
Provincial	–	–	**127,637**	–	**127,637**
Municipal	–	**27,375**	**32,455**	–	**59,830**
Schools	–	**590,193**	–	–	**590,193**
Other provinces:					
Provincial	–	–	**895,322**	–	**895,322**
Municipal	–	–	**70,075**	–	**70,075**
Corporations	–	–	**115,868**	–	**115,868**
	–	**617,568**	**1,269,490**	–	**1,887,058**
Other investments	**1,351**	–	–	–	**1,351**
Infrastructure	–	–	**100,085**	–	**100,085**
Equity investments	**409,334**	–	–	–	**409,334**
Pooled Real Estate Fund	–	–	**263,022**	–	**263,022**
Investments	**410,685**	**617,568**	**1,632,597**	–	**2,660,850**
Investment property	–	–	–	**40,646**	**40,646**
Total	**499,691**	**617,568**	**1,632,597**	**40,646**	**2,790,502**

As at February 28, 2017 (Unaudited – in thousands of Canadian dollars)	Financial Instruments Classified as AFS	Classified as HTM	Classified as FVTPL	Non-Financial Instruments	Total Carrying Value
Cash and cash equivalents	73,434	–	–	–	73,434
Bonds					
Federal	–	–	59,310	–	59,310
Manitoba:					
Provincial	–	–	142,566	–	142,556
Municipal	–	10,697	31,741	–	42,438
Schools	–	631,919	–	–	631,919
Other provinces:					
Provincial	–	–	738,625	–	738,625
Municipal	–	–	65,262	–	65,533
Corporations	–	–	59,626	–	59,626
	–	642,616	1,097,391	–	1,740,007
Other investments	1,493	–	–	–	1,493
Infrastructure	–	–	95,010	–	95,010
Equity investments	474,639	–	–	–	474,639
Pooled Real Estate Fund	–	–	233,981	–	233,981
Investments	476,132	642,616	1,426,382	–	2,545,130
Investment property	-	-	-	41,686	41,686
Total	549,566	642,616	1,426,382	41,686	2,660,250

6. Investment Income (Loss)

(Unaudited – in thousands of Canadian dollars)	2018	2017
Interest income	**52,584**	48,514
Gain (loss) on sale of FVTPL bonds	**(4,045)**	1,988
Unrealized gain (loss) on FVTPL bonds	**9,363**	(23,843)
Unrealized gain on pooled real estate	**29,040**	16,422
Dividends on infrastructure investments	**2,006**	1,560
Unrealized gain (loss) on infrastructure investments	**6,195**	(1,483)
Foreign exchange gain on infrastructure investments	**35**	-
Dividend income	**12,523**	14,560
Gain on sale of equities and other investments	**29,052**	40,169
Gain (loss) on foreign exchange	**(92)**	308
Income from investment property	**3,445**	3,050
Impairment of AFS investments	**(1,078)**	-
Investment management fees	**(4,220)**	(4,610)
Total	**134,808**	96,635

7. Employee Future Benefits Expense

(Unaudited – in thousands of Canadian dollars)	2018	2017
Pension benefits	**27,698**	27,065
Other post-employment benefits	**5,747**	5,792
Total	**24,727**	32,857

8. Depreciation and Amortization

(Unaudited – in thousands of Canadian dollars)	2018	2017
Amortization – deferred development	**20,757**	16,859
Depreciation – property and equipment	**4,973**	5,193

Manitoba Public Insurance Locations

Customer Service

Winnipeg
T: 204-985-7000

Outside Winnipeg (Toll-Free)
T: 800-665-2410

Deaf Access TTY/TDD
T: 204-985-8832

Out-of-Province Claims
T: 800-661-6051

Administrative Offices

Winnipeg
234 Donald Street
Box 6300
R3C 4A4

Brandon
731 1st Street
R7A 6C3

Service Locations

Winnipeg
Service Centres
15 Barnes Street
40 Lexington Park
1284 Main Street
930 St. Mary's Road
125 King Edward Street East

cityplace
234 Donald Street
Service Centre, Main Floor
ID Verification and Data Integrity
Rehabilitation Management Centre
Serious and Long-Term Case Management Centre
Bodily Injury Centre

Physical Damage Centre
1981 Plessis Road
Holding Compound/ Receiving
Salvage
Commercial Claims

Arborg
Service Centre
323 Sunset Boulevard

Beausejour
Service Centre
848 Park Avenue

Brandon
Service Centre
731 1st Street

Dauphin
Service Centre
217 Industrial Road

Portage La Prairie
Service Centre
2007 Saskatchewan Avenue West

Selkirk
Service Centre
1008 Manitoba Avenue

Steinbach
Service Centre
91 North Front Drive

Swan River
Claim Centre
125 4th Avenue North

The Pas
Claim Centre
424 Fischer Avenue

Thompson
Service Centre
53 Commercial Place

Winkler
Service Centre
355 Boundary Trail

MANITOBA PUBLIC INSURANCE