Manitoba
Public Insurance

ANNUAL FINANCIAL STATEMENT

FOR THE FISCAL YEAR

ENDED FEBRUARY 28, 2013

Responsibility for Financial Statements

The financial statements are the responsibility of management and are prepared in accordance with International Financial Reporting Standards. The financial information contained elsewhere in the annual report is consistent with that in the financial statements. The financial statements necessarily include amounts that are based on management's best estimate and judgments which have been reached based on careful assessment of data available through the Corporation's information systems. In the opinion of management, the accounting practices utilized are appropriate in the circumstances and the financial statements fairly reflect the financial position and results of operations of the Corporation.

In carrying out its responsibilities, management maintains appropriate systems of internal and administrative controls designed to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by the Internal Audit Department.

The financial statements were approved by the Board of Directors, which has overall responsibility for their contents. The Board of Directors is assisted with this responsibility by its Audit Committee (the "Committee"), which consists primarily of Directors not involved in the daily operations of the Corporation.

The general responsibilities of the Committee are categorized into the following: review of financial reporting, review of internal controls and processes, review of actuarial functions, monitoring of corporate integrity, compliance with authorities and review of performance reporting. The Committee's role is that of oversight in these areas in order to ensure management processes are in place and functioning so as to identify and minimize risks to the business operations.

In carrying out the above responsibilities, this Committee meets regularly with management, and with both the Corporation's external and internal auditors to approve the scope and timing of their respective audits, to review their findings and to satisfy itself that their responsibilities have been properly discharged. The Committee is readily accessible to the external and internal auditors.

The Committee is responsible for the review of the actuarial function. As well, the Committee recommends, for approval, the appointment of the external actuary and his fee arrangements to the Board of Directors. The actuary is responsible for ensuring that the assumptions and methods used in the valuation of policy and claims liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives. In addition, the actuary provides an opinion regarding the valuation of policy and claims liabilities at the balance sheet date to meet all policyholder obligations of the Corporation. Examination of supporting data for accuracy and completeness of assets and their ability to meet the policy and claims liabilities are important elements in forming the actuary's opinion.

KPMG LLP, the Corporation's appointed external auditors, have audited the financial statements. Their Auditors' Report is included herein. Their opinion is based upon an examination conducted in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary in order to obtain reasonable assurance that the financial statements are free of material misstatement and present fairly the financial position of the Corporation in accordance with International Financial Reporting Standards.

M. J. McLaren
President and Chief Executive Officer

H. D. Reichert, FCA
Vice-President, Finance and Chief Financial Officer

May 3, 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Manitoba Public Insurance Corporation

We have audited the accompanying financial statements of Manitoba Public Insurance Corporation, which comprise the statement of financial position as at February 28, 2013, the statements of operations, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Manitoba Public Insurance Corporation as at February 28, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants

May 3, 2013

Winnipeg, Canada

J. S. CHENG & PARTNERS INC.
JSCP
ACTUARIES Who Care™

ACTUARY'S REPORT

To the Board of Directors of Manitoba Public Insurance Corporation:

I have valued the policy liabilities of Manitoba Public Insurance Corporation for its statements of financial position at February 28, 2013 and their change in the statement of operations for the year then ended in accordance with accepted actuarial practice in Canada including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policy obligations and the financial statements fairly present the results of the valuation.

Joe S. Cheng
Fellow, Canadian Institute of Actuaries

Winnipeg, Manitoba

May 3, 2013

Financial Statements

Statement of Financial Position

As At February 28/29 (in thousands of Canadian dollars)	*Notes*	**2013**	2012
Assets			
Cash and investments	*4*	**1,551,879**	1,550,606
Equity investments	*4*	**562,229**	502,675
Investment property	*4&5*	**209,087**	190,990
Due from other insurance companies	*6*	**1,002**	2,545
Accounts receivable		**321,293**	304,155
Prepaid expenses		**1,034**	996
Deferred policy acquisition costs	*7*	**26,312**	40,547
Reinsurers' share of unearned premiums	*17*	**69**	3,340
Reinsurers' share of unpaid claims	*17&18*	**33,732**	31,291
Property and equipment	*8*	**126,883**	123,266
Deferred development costs	*9*	**47,613**	36,799
		2,881,133	2,787,210
Liabilities			
Due to other insurance companies	*10*	**1,788**	5,791
Accounts payable and accrued liabilities	*11*	**58,227**	57,849
Financing lease obligation	*12*	**4,482**	4,536
Unearned premiums and fees	*14*	**474,977**	479,592
Provision for employee current benefits	*15*	**21,501**	21,109
Provision for employee future benefits	*16*	**332,155**	301,261
Provision for unpaid claims	*17&18*	**1,558,024**	1,485,445
		2,451,154	2,355,583
Equity			
Retained Earnings			
Basic Insurance Retained Earnings			
Rate Stabilization Reserve		**141,470**	155,700
Retained Earnings		-	57,983
		141,470	213,683
Non-Basic Retained Earnings			
Retained Earnings		**177,231**	139,060
Extension Development Fund	*21*	**6,723**	20,769
		183,954	159,829
		325,424	373,512
Accumulated Other Comprehensive Income	*22*	**104,555**	58,115
Total Equity		**429,979**	431,627
		2,881,133	2,787,210

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

Approved by the Board of Directors:

Jake Janzen
Chairperson

Kerry Bittner
Vice-Chairperson

Statement of Operations

For the years ended February 28/29 (in thousands of Canadian dollars)	Notes	2013	2012
Earned Revenues			
Gross premiums written		**948,818**	967,565
Premiums ceded to reinsurers		**(12,547)**	(8,025)
Net premiums written		**936,271**	959,540
(Increase) decrease in gross unearned premiums		**7,910**	(17,735)
Increase (decrease) in reinsurers' share of unearned Premiums		**(3,271)**	(6,420)
Net premiums earned		**940,910**	935,385
Service fees & other revenue	23	**25,577**	25,046
The Drivers and Vehicles Act operations recovery	24	**27,900**	27,325
Total Earned Revenues		**994,387**	987,756
Claims Costs			
Direct claims incurred		**754,404**	710,002
Claims incurred ceded to reinsurers		**(7,922)**	(8,152)
Net claims incurred		**746,482**	701,850
Claims expense		**130,702**	132,325
Loss prevention/Road safety		**15,974**	15,828
Total Claims Costs		**893,158**	850,003
Expenses			
Operating		**127,869**	113,554
Commissions		**72,491**	77,437
Premium taxes		**28,702**	28,071
Regulatory/Appeal		**3,424**	3,457
Total Expenses		**232,486**	222,519
Underwriting income (loss)		**(131,257)**	(84,766)
Investment income	4	**83,169**	118,975
Gain on disposal of property		**-**	3,214
Net income (loss) from annual operations	25	**(48,088)**	37,423
Surplus distribution	26	**-**	(14,120)
Net income (loss) after surplus distribution	25	**(48,088)**	23,303

Statements of Comprehensive Income (Loss)

For the years ended February 28/29 (in thousands of Canadian dollars)	Notes	2013	2012
Net income (loss) after surplus distribution	25	**(48,088)**	23,303
Other Comprehensive Income (Loss)			
Unrealized gains (losses) on Available for Sale assets	22	**53,808**	(23,310)
Reclassification of net realized (gains) losses related to Available for Sale assets	22	**(7,368)**	(2,127)
Other Comprehensive Income (Loss) for the period		**46,440**	(25,437)
Total Comprehensive Income (Loss)		**(1,648)**	(2,134)

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

Statement of Changes in Equity

(in thousands of Canadian dollars)	Basic			Non-Basic		Corporate		
	Rate Stabilization Reserve (RSR)	Retained Earnings (B-RE)	IT Optimization Fund (ITOF)	Retained Earnings (NB-RE)	Extension Development Fund (EDF)	Retained Earnings	Accumulated Other Comprehensive Income	Equity
Balance at March 1, 2011	140,525	-	65,000	101,457	43,227	350,209	83,552	433,761
Net income (loss) after surplus distribution for the year	-	8,158	-	15,145	-	23,303	-	23,303
Other comprehensive income (loss) for the year							(25,437)	(25,437)
Transfer between RSR, B-RE & ITOF	15,175	(15,175)	-	-	-	-	-	-
Transfer between B-RE & ITOF	-	65,000	(65,000)	-	-	-	-	-
Transfer between NB-RE & EDF	-	-	-	22,458	(22,458)	-	-	-
Balance at February 29, 2012	155,700	57,983	-	139,060	20,769	373,512	58,115	431,627
Net income (loss) after surplus distribution for the year	-	(72,213)	-	24,125	-	(48,088)	-	(48,088)
Other comprehensive income (loss) for the year						-	46,440	46,440
Transfer between RSR & B-RE	(14,230)	14,230	-	-	-			
Transfer between NB-RE & EDF	-	-	-	14,046	(14,046)	-	-	-
Balance at February 28, 2013	**141,470**	-	-	**177,231**	**6,723**	**325,424**	**104,555**	**429,979**

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

Statement of Cash Flows

For the years ended February 28/29 (in thousands of Canadian dollars)	*Notes*	**2013**	2012
Cash Flows from (to) Operating Activities:			
Net income (loss) after surplus distribution		**(48,088)**	23,303
Non-cash items:			
Depreciation of property and equipment		**6,742**	6,747
Amortization of deferred development costs		**8,847**	8,406
Amortization of bond discount and premium		**5,872**	4,911
(Gain) loss on sale of investments		**(24,422)**	(41,831)
Unrealized (gain) loss on Fair Value Through Profit or Loss bonds		**9,075**	(26,122)
Unrealized (gain) loss on investment in real estate		**(18,915)**	(15,631)
Unrealized (gain) loss on investment in infrastructure		**(1,035)**	(645)
Write-down of investments		**3,957**	13,599
		(57,967)	(27,263)
Net change in non-cash balances:			
Due from other insurance companies		**1,542**	9,426
Accounts receivable and prepaid expenses		**(17,177)**	(12,167)
Deferred policy acquisition costs		**14,235**	6,403
Reinsurers' share of unearned premiums and unpaid claims		**829**	17,536
Due to other insurance companies		**(4,002)**	(7,596)
Accounts payable and accrued liabilities		**378**	(303,730)
Unearned premiums and fees		**(4,615)**	19,005
Provision for employee current benefits		**392**	1,935
Provision for employee future benefits		**30,893**	43,449
Provision for unpaid claims		**72,579**	44,300
		95,054	(181,439)
		37,087	(208,702)
Cash Flows from (to) Investing Activities:			
Purchase of investments		**(968,030)**	(1,093,650)
Proceeds from sale of investments		**996,010**	1,386,583
Acquisition of property and equipment net of proceeds from disposals		**(10,358)**	(6,876)
Financing lease obligation		**(54)**	(50)
Deferred development costs incurred		**(19,661)**	(6,973)
		(2,093)	279,034
Increase (decrease) in Cash and Short-Term Investments		**34,994**	70,332
Cash and short-term investments beginning of year		**135,888**	65,556
Cash and Short-Term Investments end of year	*4*	**170,882**	135,888
Supplemental cash flow information:			
Interest received		**40,917**	35,389
Dividends received		**11,058**	12,570

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

Notes to Financial Statements

February 28, 2013

1. Status of Corporation

The Manitoba Public Insurance Corporation (the "Corporation") was incorporated as a Crown Corporation under *The Automobile Insurance Act* in 1970. 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*, the Corporation is responsible for 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 3, 2013.

The external actuary is appointed by the Board of Directors of the Corporation. With respect to preparation of these financial statements, the external actuary is required to carry out a valuation of the policy liabilities and to report thereon to the Corporation's Board of Directors.

The external actuary also uses the work of the external auditors in his verification of the information prepared by the Corporation used in the valuation of the policy 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 external actuary and his report on the Corporation's policy 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.

These statements are presented in thousands of Canadian dollars 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. Measurement of the financial instruments is detailed in Note 4.

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 from these estimates.

3. Summary of Significant Accounting Policies

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

Investments

Funds available for investments are managed by the 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 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)
- cash and short-term investments, loans and receivables
- other financial liabilities

Corporate investments that are determined to be impaired are written down to their expected recoverable amount. Equity investments, classified as AFS, would be considered impaired if there is objective evidence of a significant or prolonged decline in the fair value of the investment below its cost.

The fair value of financial instruments are obtained from external pricing services and are based on bid prices for financial assets. Short-term investments comprise investments due to mature within 12 months from the date of purchase and are carried at fair value.

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

i) AFS Financial Assets

AFS financial assets are carried at fair value on the Statement of Financial Position starting on the settlement date and the changes in fair value are recorded in Other Comprehensive Income (OCI) until the asset is disposed of, or has become impaired. As long as an AFS asset is held and not impaired, the gains and losses are not recognized in the Statement of Operations. When the asset is disposed of, or has become impaired, the gain or loss is recognized in the Statement of Operations and the amount is deducted from OCI.

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

ii) HTM Financial Assets

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

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

iii) FVTPL Financial Assets

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

The fair value of FVTPL bonds including federal, provincial, certain municipal, certain hospitals, other provinces and corporations is estimated based on bid prices of these or similar investments.

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

Loans and Receivables

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

Cash and Short-Term Investments

Cash and short-term investments are comprised of cash, current operating accounts, provincial short term deposits and funds held in trust on behalf of other insurance companies and are designated as AFS.

Impairment of Financial Assets

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

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

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

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

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

When an AFS asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

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

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

Derecognition of Financial Assets

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

Financial Liabilities

All financial liabilities are designated as other financial liabilities and are recorded in the Statement of Financial Position at amortized cost. Financial liabilities include:

- Due to other insurance companies and Accounts payable and accrued liabilities which are all current liabilities; and
- Financing lease obligation which is a non-current liability, payable over the life of the lease.

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

Derivatives

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

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

Fair Value Determination

The fair values of financial instruments are obtained from external pricing services and are based on bid prices for financial assets. Short-term investments comprise investments due to mature within 12 months from the date of purchase and are carried at fair value. Refer to Note 4 for further information on the fair value of financial instruments.

Deferred Policy Acquisition Costs

Commissions and premium taxes are deferred and charged to expense over the term of the insurance contract to which such costs relate.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. 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:

- computer equipment 3 years
- vehicles 5 years
- furniture and equipment 10 years
- HVAC systems 20 years
- land improvements 25 years
- roofing systems 30 years
- elevators/escalators 30 years
- buildings 40 years

Buildings held under a long-term lease arrangement are depreciated on a straight-line basis over 40 years.

Leasehold improvements 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.

Investment Property

In the determination of what constitutes investment property relative to property and equipment, the Corporation has considered the intended use of the property, the ability to sell the property, and the ability of the Corporation to lease the property or a portion of the property under a finance lease.

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

for impairment on an annual basis in accordance with the impairment test guidance set forth in IAS 36, *Impairment of Assets*.

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:

- HVAC systems — 20 years
- roofing systems — 30 years
- elevators/escalators — 30 years
- buildings — 40 years

Depreciation of construction in progress will begin, in accordance with the above policy, when construction has been completed.

Deferred Development Costs (Intangible Assets)

The costs of developing major information systems that are expected to provide an economic benefit to the Corporation are deferred to future periods. These information system expenditures are stated at cost net of accumulated amortization and are amortized on a straight-line basis over five years.

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

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

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses.

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

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

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

MANITOBA PUBLIC INSURANCE AS A LESSEE

Assets held under finance leases are initially recognized as assets of the Corporation at their fair value at the commencement of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease liability.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

MANITOBA PUBLIC INSURANCE AS A LESSOR

Manitoba Public Insurance leases retail, office and parking space to various food chains, stores, offices and individuals in cityplace properties, a building and parking facilities owned by Manitoba Public Insurance. All of these leases are considered operating leases.

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 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.

DIVIDEND INCOME

Dividend income from investments is recognized when the Corporation's rights to receive payments is established.

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.

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.

The Corporation values its pension benefit plan at December 31, 2012. Roll-forward procedures are performed to ensure that the December 31, 2012 valuation is a reliable estimate of the valuation at February 28, 2013.

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.

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 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.

LIABILITY ADEQUACY TEST

At each end of the 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 liability.

Salvage and Subrogation

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

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 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.

Foreign Currency

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

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

Basic Insurance Rate Stabilization Reserve

The Basic Insurance Rate Stabilization Reserve relates to basic universal compulsory automobile insurance and is intended to protect motorists from rate increases made necessary by unexpected events and losses arising from non-recurring events or factors.

Information Technology Optimization Fund

In 2010/2011, the Corporation's Board of Directors authorized the appropriation of $75.0 million from Retained Earnings of the Corporation to fund costs for Information Technology (IT) optimization projects. In 2011/2012, the Corporation's Board of Directors approved the transfer of $65.0 million from the IT Optimization Fund back to Basic Retained Earnings and $10.0 million from the Extension Development Fund back to Extension Retained Earnings, eliminating the funds established for IT optimization projects. Management has been authorized to enter into an agreement to have Data Centre Optimization services provided by a third party. Given this agreement, the nature of the IT optimization costs has changed from being capital intensive to an annual management service fee. Consequently, the IT Optimization Fund is no longer required.

Extension Development Fund

The Extension Development Fund (EDF) is an appropriation from the non-Basic Lines Retained Earnings. The EDF was established to defray the costs of projects undertaken to maximize the opportunities presented by the 2004 merger of Manitoba Public Insurance and the Division of Driver and Vehicle Licensing.

Retained Earnings

Retained earnings are comprised of the accumulation of net income or losses for the Basic and non-Basic lines of business. Non-Basic lines of business consists of Extension and Special Risk Extension lines of business and *The Drivers and Vehicles Act* operations.

Comprehensive Income

Comprehensive income consists of net income (loss) after surplus distribution and other comprehensive income (loss). Changes in unrealized gains and losses on financial assets classified as AFS, and related changes in unrealized foreign exchange currency translation amounts are recorded in other comprehensive income, and included in accumulated other comprehensive income until recognized in the Statement of Operations. Accumulated other comprehensive income is included on the Statement of Financial Position as a separate component.

Critical Accounting Judgments and Key Sources of Estimation Uncertainty

In the application of the Corporation's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Corporation must make an assessment of whether accounts receivable are collectible from customers. Accordingly, management establishes an allowance for estimated losses arising from non-payment of accounts receivable. At February 28, 2013 the allowance for doubtful accounts on accounts receivable is $6.6 million (Note 31).

DEFERRED DEVELOPMENT COSTS (INTANGIBLE ASSETS)

Deferred development costs represent $47.6 million of total assets on the Statement of Financial Position at February 28, 2013 (Note 9). A significant portion of ongoing expenditures relate to information systems development. Management estimates the expected period of benefit over which capitalized costs will be amortized. The considerations which form the basis of the assumptions for these estimated useful lives include the timing of technological obsolescence and customer service requirements, as well as historical experience and internal plans for the projected use of the information systems.

PROVISION FOR UNPAID CLAIMS

The Appointed 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 policy liabilities and to provide an opinion to the Corporation's Board of Directors regarding their appropriateness at the reporting date. The factors and techniques used in the valuation are in accordance with accepted actuarial practice, applicable legislation and associated regulations.

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

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

PROPERTY AND EQUIPMENT AND INVESTMENT PROPERTY (NON-FINANCIAL INSTRUMENTS)

The Corporation estimates the useful life and residual value for all Property and Equipment and Investment Property which include all significant components.

PROVISION FOR EMPLOYEE FUTURE BENEFITS

The Corporation has a defined benefit pension plan, severance benefit plan and post retirement extended health benefit plans. The determination of expenses and liabilities associated with employee future benefits requires the use of critical assumptions such as discount rates, expected mortality rate, inflation rates, expected salary increases and expected health care cost increases. Due to the nature of the estimates used in the valuation process there is inherent measurement uncertainty within the employee future benefit assumptions. See Note 16 for further details of the significant estimates and changes impacting the current period financial statements.

FAIR VALUE OF LEVEL THREE AFS AND FVTPL INVESTMENTS

Due to the nature of Level 3 investments, they are valued using an approved valuation technique which requires the use of significant assumptions such as discount rates and volatility of future cash flows. Management considers current market information when selecting a discount rate and estimating the future cash flows related to each internally valued financial asset. See Note 4 for further details of valuation methods and assumptions.

CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The following are the critical judgments, apart from those involving estimations that management have made in the process of applying the Corporation's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

Held to Maturity Investments

Management has classified certain municipal, hospital and school bonds as held to maturity. The assessment of the Corporation's intent and ability to hold these investments until maturity is a matter of judgment. To determine the Corporation's intent and ability to hold the investment until maturity, management considers internal investment policies, documented risk management policies, and the overall financial performance of the Corporation.

Leases

The Corporation enters into leasing arrangements for general business purposes. The assessment of when substantially all of the significant risks and rewards of ownership of leased assets are transferred is a matter of judgment. This judgment impacts the Corporation's classification of leases as operating relative to financing leases.

Future Changes in Accounting Policy and Disclosure

The International Accounting Standards Board (IASB) issued IFRS 9, *Financial Instruments* in November 2009. This standard is the completion of the first part of a three-part project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The new standard is to reduce complexity compared to IAS 39. The Standard is effective for annual periods beginning on or after January 1, 2015. Restatement of comparative period financial statements is not required on initial application.

In May, 2011, the IASB issued IFRS 13, *Fair Value Measurement*. This standard sets out, in a single IFRS, a framework to measure fair value and requires disclosures about fair value measurement. The Standard is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

The IASB issued amendments to IAS 19, *Employee Benefits* in June, 2011. The amendments will improve the recognition and disclosure requirements for defined benefit plans. The new requirements are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

The IASB is undertaking Phase II of the Insurance Contracts project to develop a standard to replace the interim IFRS 4, *Insurance Contracts* that was developed in Phase I. The revised exposure draft of the new IFRS is planned to occur in the second quarter of 2013 with an effective date to be confirmed.

4. Investments

Cash consists of cash net of cheques issued in excess of amounts on deposit. There is no amount held in trust on behalf of other insurance companies included in cash and short-term investments (2012 – nil).

Short-term investments have a total principal amount of $176.3 million (2012 – $146.4 million) comprised of provincial short-term deposits with effective interest rates of 0.91% to 0.93% (2012 - 0.86% to 0.88%), 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. There were no drawdowns against this line of credit at February 28, 2013.

Cash and Investments

(in thousands of Canadian dollars)	Financial Instruments				
As at February 28, 2013	**Classified as Available for Sale**	**Classified as Held to Maturity**	**Classified as Fair Value Through Profit or Loss**	**Non-Financial Instruments**	**Total Carrying Value**
Cash and short-term investments	**170,882**	**-**	**-**	**-**	**170,882**
Bonds					
Federal	**-**	**-**	**61,460**	**-**	**61,460**
Manitoba:					
Provincial	**-**	**-**	**254,190**	**-**	**254,190**
Municipal	**-**	**15,140**	**29,860**	**-**	**45,000**
Hospitals	**-**	**-**	**12,107**	**-**	**12,107**
Schools	**-**	**536,434**	**-**	**-**	**536,434**
Other provinces:					
Provincial	**-**	**-**	**338,172**	**-**	**338,172**
Municipal	**-**	**-**	**63,023**	**-**	**63,023**
Corporations	**-**	**-**	**44,081**	**-**	**44,081**
	-	**551,574**	**802,893**	**-**	**1,354,467**
Other investments	**4,099**	**-**	**-**	**-**	**4,099**
Infrastructure	**-**	**-**	**22,431**	**-**	**22,431**
Cash and investments	**174,981**	**551,574**	**825,324**	**-**	**1,551,879**
Equity investments	**562,229**	**-**	**-**	**-**	**562,229**
Investment property	**-**	**-**	**173,002**	**36,085**	**209,087**
	737,210	**551,574**	**998,326**	**36,085**	**2,323,195**

(in thousands of Canadian dollars)	Financial Instruments				
As at February 29, 2012	Classified as Available for Sale	Classified as Held to Maturity	Classified as Fair Value Through Profit or Loss	Non-Financial Instruments	Total Carrying Value
Cash and short-term investments	135,888	-	-	-	135,888
Bonds					
Federal	-	-	121,282	-	121,282
Manitoba:					
Provincial	-	-	289,926	-	289,926
Municipal	-	17,591	36,952	-	54,543
Hospitals	-	-	12,482	-	12,482
Schools	-	490,157	-	-	490,157
Other provinces:					
Provincial	-	-	319,976	-	319,976
Municipal	-	-	58,034	-	58,034
Corporations	-	-	49,957	-	49,957
	-	507,748	888,609	-	1,396,357
Other investments	6,771	-	-	-	6,771
Infrastructure	-	-	11,590	-	11,590
Cash and investments	142,659	507,748	900,199	-	1,550,606
Equity investments	502,675	-	-	-	502,675
Investment property	-	-	154,086	36,904	190,990
	645,334	507,748	1,054,285	36,904	2,244,271

The fair value of HTM bonds including schools, certain municipal and certain hospitals is based on their carrying value, which approximates market value.

The following table presents the financial instruments measured at fair value, classified by valuation method.

The three levels have been defined as follows:

Level 1 – Unadjusted quoted market prices of identical assets in active markets;

Level 2 – Inputs other than quoted market prices included in Level 1 that are observable for the asset, either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

The classification in the hierarchy of a financial instrument is based on the lowest level of input that is significant to the measurement of fair value.

As at February 28, 2013 (in thousands of Canadian dollars)	**Level 1**	**Level 2**	**Level 3**
FVTPL financial assets			
Bonds	**86,920**	**699,688**	**16,285**
Infrastructure	**-**	**-**	**22,431**
Investment property	**-**	**173,002**	**-**
Total FVTPL financial assets	**86,920**	**872,690**	**38,716**
AFS financial assets			
Cash and short term investments	**170,882**	**-**	**-**
Other investments	**-**	**-**	**4,099**
Equity investments	**562,229**	**-**	**-**
Total AFS financial assets	**733,111**	**-**	**4,099**
Total assets measured at fair value	**820,031**	**872,690**	**42,815**

As at February 29, 2012 (in thousands of Canadian dollars)	Level 1	Level 2	Level 3
FVTPL financial assets			
Bonds	75,592	799,821	13,196
Infrastructure	-	-	11,590
Investment property	-	154,086	-
Total FVTPL financial assets	75,592	953,907	24,786
AFS financial assets			
Cash and short term investments	135,888	-	-
Other investments	-	-	6,771
Equity investments	502,675	-	
Total AFS financial assets	638,563	-	6,771
Total assets measured at fair value	714,155	953,907	31,557

Fair value measurement of instruments included in Level 3	FVTPL		AFS	
(in thousands of Canadian dollars)	**2013**	2012	**2013**	2012
Balance at March 1	**24,786**	13,354	**6,771**	7,126
Total gains/(losses)				
Included in net income	**4,124**	(158)	**-**	(1,489)
Included in other comprehensive income	**-**	-	**1,017**	1,294
Purchases	**9,806**	11,590	**28**	120
Sales	**-**	-	**(3,717)**	(280)
Balance at February 28/29	**38,716**	24,786	**4,099**	6,771

Impairment

Impaired investments included in the Corporation's portfolio include the following:

As at February 28, 2013 (in thousands of Canadian dollars)	**Gross**	**Impaired**	**Net**
By investment type			
Available for sale	**10,086**	**(3,957)**	**6,129**
	10,086	**(3,957)**	**6,129**

As at February 29, 2012 (in thousands of Canadian dollars)	Gross	Impaired	Net
By investment type			
Available for sale	30,044	(13,599)	16,445
	30,044	(13,599)	16,445

Investment Income

(in thousands of Canadian dollars)	**2013**	2012
Interest income	**42,604**	37,914
Gain (loss) on sale of Fair Value Through Profit or Loss bonds	**17,054**	39,704
Unrealized gain (loss) on Fair Value Through Profit or Loss bonds	**(9,075)**	26,122
Unrealized gain (loss) on investment property	**18,915**	15,631
Gain (loss) on infrastructure investments	**690**	519
Unrealized gain (loss) on infrastructure investments	**1,035**	645
Dividend income	**11,058**	12,444
Gain (loss) on sale of equities	**7,374**	2,126
Gain (loss) on foreign exchange	**-**	(1)
Income from investment property	**1,751**	1,502
Write-down of investments	**(3,957)**	(13,599)
Investment management fees	**(4,280)**	(4,032)
Total	**83,169**	118,975

Income from investment property consists of gross rental income of $11.0 million (2012 - $11.0 million) and gross rental expenses of $9.2 million (2012 - $9.5 million).

Investment income is net of investment management fees paid to the Department of Finance in the amount of $4.3 million (2012 - $4.0 million). This includes $3.0 million (2012 - $2.7 million) of fees the Province paid to outside managers on the Corporation's behalf.

5. Investment Property – Non-Financial Instruments

(in thousands of Canadian dollars)	cityplace Building*	Adjacent Surface Parking Lots	Adjacent Parkade	Total
Cost				
Balance at March 1, 2011	23,822	4,578	10,822	39,222
Additions	-	-	-	-
Balance at February 29, 2012	23,822	4,578	10,822	39,222
Additions	-	-	-	-
Balance at February 28, 2013	**23,822**	**4,578**	**10,822**	**39,222**
Accumulated Depreciation				
Balance at March 1, 2011	1,091	-	409	1,500
Depreciation	595	-	223	818
Balance at February 29, 2012	1,686	-	632	2,318
Depreciation	596	-	223	819
Balance at February 28, 2013	**2,282**	-	**855**	**3,137**
Carrying Amounts				
At February 29, 2012	22,136	4,578	10,190	36,904
At February 28, 2013	**21,540**	**4,578**	**9,967**	**36,085**
Fair Value at February 28, 2013	**34,192**	**6,600**	**10,250**	**51,042**

* Includes the portion of the cityplace building not used for administrative purposes

6. Due from Other Insurance Companies

(in thousands of Canadian dollars)	**2013**	2012
Balance at March 1	**2,545**	11,971
Claims paid ceded to reinsurers	**15,979**	3,969
Less: recovery from reinsurers	**(17,522)**	(13,395)
Balance at February 28/29	**1,002**	2,545

7. Deferred Policy Acquisition Costs

(in thousands of Canadian dollars)	Premium Taxes		Commissions		Writedowns		Total	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
Balance at March 1	**13,302**	12,770	**34,321**	34,741	**(7,076)**	(561)	**40,547**	46,950
Deferred during the year	**28,465**	28,603	**73,180**	77,017	**-**	-	**101,645**	105,620
Expensed during the year	**(28,702)**	(28,071)	**(72,491)**	(77,437)	**-**	-	**(101,193)**	(105,508)
(Write-down) reverse write-down	**-**	-	**-**	-	**(14,687)**	(6,515)	**(14,687)**	(6,515)
Balance at February 28/29	**13,065**	13,302	**35,010**	34,321	**(21,763)**	(7,076)	**26,312**	40,547

Premium deficiencies are recognized first by writing down deferred policy acquisition costs with any remainder recognized as a liability. Refer to Note 3 for more information.

8. Property and Equipment

(in thousands of Canadian dollars)	Land & Buildings [1]	Furniture & Equipment [2]	Property under Finance Lease [3]	Property under Construction [4]	Total
Cost					
Balance at March 1, 2011	115,045	69,952	13,415	6,439	204,851
Additions	2,344	3,791	25	1,889	8,049
Disposals	(2,944)	(1,010)	-	-	(3,954)
Transfer from (out of) Property under Construction	4,532	-	-	(4,532)	-
Balance at February 29, 2012	118,977	72,733	13,440	3,796	208,946
Additions	6	2,746	10	7,648	10,410
Disposals	-	(692)	-	-	(692)
Balance at February 28, 2013	**118,983**	**74,787**	**13,450**	**11,444**	**218,664**
Accumulated Depreciation					
Balance at March 1, 2011	20,630	60,777	307	-	81,714
Disposals	(2,073)	(708)	-	-	(2,781)
Depreciation	3,028	3,383	336	-	6,747
Balance at February 29, 2012	21,585	63,452	643	-	85,680
Disposals	-	(641)	-	-	(641)
Depreciation	2,962	3,444	336	-	6,742
Balance at February 28, 2013	**24,547**	**66,255**	**979**		**91,781**
Carrying Amounts					
At February 29, 2012	97,392	9,281	12,797	3,796	123,266
At February 28, 2013	**94,436**	**8,532**	**12,471**	**11,444**	**126,883**

(1) Includes land, land improvements, leasehold improvements and building components: elevators, escalators, HVAC systems, roofing systems.
(2) Includes furniture, equipment, computer equipment and vehicles.
(3) Includes property located at 1284 Main Street in Winnipeg held under a financing lease. Refer to Note 12 for financing lease obligations.
(4) The Corporation is in the process of restoring the parkade in cityplace. Refer to Note 28 for commitments.

9. Deferred Development Costs

(in thousands of Canadian dollars)	Internally Developed Intangible Assets
Cost	
Balance at March 1, 2011	76,290
Additions	6,973
Balance at February 29, 2012	83,263
Additions	19,661
Balance at February 28, 2013	**102,924**
Accumulated Amortization	
Balance at March 1, 2011	38,058
Additions	8,406
Balance at February 29, 2012	46,464
Additions	8,847
Balance at February 28, 2013	**55,311**
Carrying Amounts	
At February 29, 2012	36,799
At February 28, 2013	**47,613**

10. Due to Other Insurance Companies

(in thousands of Canadian dollars)	**2013**	2012
Balance at March 1	**5,791**	13,386
Decrease in reinsurance ceded premiums written less installment payments	**(3,091)**	(6,271)
Decrease in amounts received as collateral for reinsurers' share of unpaid claims	**(912)**	(1,324)
Balance at February 28/29	**1,788**	5,791

11. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities are comprised of the following:

(in thousands of Canadian dollars)	**2013**	2012
Due to the Province of Manitoba	**11,746**	8,959
Payroll	**2,120**	1,387
Broker commissions	**5,735**	10,488
Provision for fleet rebates	**13,893**	10,496
International Registration Program payable to other jurisdictions	**2,497**	2,502
Other payables and accrued liabilities	**22,236**	24,017
	58,227	57,849

12. Financing Lease Obligation

On March 29, 2010 a new Service Centre built on land in Winnipeg at 1284 Main Street became operational. The Service Centre and land are owned by a third-party and are leased to the Corporation. The provisions of the lease include an initial term of 25 years and, at the Corporation's option, three further terms of five years each. In accordance with IAS 17, *Leases*, the land portion has been recorded as an operating lease and the building portion as a financing lease. The details of the financing lease are as follows:

	2013	2012
Interest rate	**6.70%**	6.70%
Interest expense for the year (in thousands of Canadian dollars)	**302**	307
Financing lease obligation at February 28/29 (in thousands of Canadian dollars)	**4,482**	4,536

The minimum lease payments are as follows:

	Minimum Lease Payments		Present Value of Minimum Lease Payments	
(in thousands of Canadian dollars)	**2013**	2012	**2013**	2012
Not later than one year	**356**	356	**343**	343
Later than one year and not later than five years	**1,479**	1,460	**1,293**	1,275
Later than five years	**6,985**	7,360	**4,092**	4,189
Total	**8,820**	9,176	**5,728**	5,807

13. Operating Leases

AS A LESSEE:

The Corporation leases offices in Winnipeg, Brandon, Portage la Prairie, Steinbach and Winkler and vehicles temporarily assigned to certain Corporate employees. These leases are classified as operating leases in accordance with IAS 17, *Leases*. The lease terms for the offices are all under ten years and the lease terms of the vehicles are all under five years. Also classified as an operating lease is the land portion of the Service Centre located at 1284 Main Street in Winnipeg. Refer to Note 12 Financing Lease Obligation. None of the leases are subleased and no contingent rent is payable for any of the lease arrangements.

Non-cancellable operating lease rentals are payable as follows:

(in thousands of Canadian dollars)	**2013**	2012
Not later than one year	**779**	957
Later than one year and not later than five years	**1,716**	1,959
Later than five years	**2,291**	2,679
Total	**4,786**	5,595

During the year ended February 28, 2013, $919 thousand was recognized as an expense for operating leases (2012 - $1,040 thousand) in the Statement of Operations.

AS A LESSOR:

On May 1, 2009, the Corporation purchased the cityplace property located in downtown Winnipeg including the cityplace building, two adjacent parking lots and one adjacent parkade. The cityplace building includes five floors of office space, three floors of parking and two floors of retail space. The Corporation uses approximately 60% of the building for administrative purposes and leases out the remaining 40%. The leases are all classified as operating leases.

Future minimum lease payments under non-cancellable leases to be received are:

(in thousands of Canadian dollars)	**2013**	2012
Not later than one year	**2,184**	3,129
Later than one year and not later than five years	**8,241**	11,288
Later than five years	**8,840**	5,260
Total	**19,265**	19,677

During the year ended February 28, 2013, income from investment property includes gross rental income from operating leases of $11.0 million (2012 - $11.0 million) and gross rental expenses pertaining to operating leases of $9.2 million (2012 - $9.5 million). Included in rental income is income contingent on retail sales of $183 thousand (2012 - $160 thousand).

14. Unearned Premiums and Fees

	2013		2012	
(in thousands of Canadian dollars)	**Gross**	**Reinsurers' Share**	Gross	Reinsurers' Share
Unearned premiums				
Balance at March 1	**443,387**	**3,340**	425,652	9,760
Premiums written	**948,818**	**12,547**	967,565	8,025
Premiums earned	**(956,727)**	**(15,818)**	(949,830)	(14,445)
Balance at February 28/29	**435,478**	**69**	443,387	3,340
Prepaid premiums	**35,139**	**-**	31,922	-
Unearned fees	**4,360**	**-**	4,283	-
Balance at February 28/29	**474,977**	**69**	479,592	3,340

(in thousands of Canadian dollars)	**2013**	2012
Unearned premiums - gross	**435,478**	443,387
Prepaid premiums	**35,139**	31,922
Unearned fees	**4,360**	4,283
	474,977	479,592

15. Provision for Employee Current Benefits

The provision for employee current benefits includes banked vacation, accrued vacation and sick leave liabilities.

(in thousands of Canadian dollars)	**2013**	2012
Balance at March 1	**21,109**	19,174
Provisions	**15,245**	16,434
Payments	**(14,853)**	(14,499)
Balance at February 28/29	**21,501**	21,109

16. Provision for Employee Future Benefits

The Corporation has a defined benefit pension plan, severance benefit plan and post-retirement extended health benefit plan available to eligible employees. The defined benefit pension plan is based on years of service and final average salary whereas the severance benefit plan is based on years of service and final salary.

The Corporation uses an actuarial valuation, on an annual basis, to measure the accrued provision for its benefit plans. The most recent actuarial valuation was conducted by an external actuary as at December 31, 2012, with the next scheduled actuarial valuation being December 31, 2013.

The actuarial valuation is based on the Corporation's best estimate of various economic assumptions. With respect to the demographic assumptions, the Corporation relies on and uses the assumptions adopted by the Civil Service Superannuation Board. Results from the most recent actuarial valuations, projected to February 28/29 and the corresponding economic assumptions are as follows:

	Pension Benefit Plan			Other Benefit Plans		
	2013	2012	2011	**2013**	2012	2011
Discount rate	**3.90%**	4.20%	4.85%	**3.90%**	4.20%	4.85%
Inflation rate	**2.00%**	2.00%	2.00%			
Expected salary increase	**0.00%**	2.90%	2.90%			
Expected health care cost increase (out of scope)				**5.90%**	6.00%	6.50%
Expected health care cost increase (in of scope)				**2.00%**		

	Pension Benefit Plan			Other Benefit Plans		
(in thousands of Canadian dollars)	**2013**	2012	2011	**2013**	2012	2011
Balance at March 1	**260,415**	218,872	189,113	**40,847**	38,940	37,721
Current service cost	**12,554**	10,773	9,318	**5,305**	3,819	4,824
Interest cost	**10,956**	10,631	9,990	**727**	738	764
Benefits paid	**(8,345)**	(6,591)	(5,980)	**(3,453)**	(2,668)	(3,537)
Actuarial (gains) losses	**9,780**	26,730	16,431	**3,369**	17	(832)
Balance at February 29/28	**285,360**	260,415	218,872	**46,795**	40,846	38,940
Employee contribution for the year	**7,375**	6,603	6,387	-	-	-

Plan Assets

The Corporation has not segregated investment assets to fund the benefit plans. Funding occurs as benefits are paid. The Corporation has established a provision against general assets, which is being increased to match the increase in its benefit plan liabilities. The interest cost associated with the various benefit plans is based on market interest rates at the most recent valuation date.

	Pension Benefit Plan			Other Benefit Plans		
(in thousands of Canadian dollars)	**2013**	2012	2011	**2013**	2012	2011
Current service cost	**12,554**	10,773	9,318	**5,305**	3,820	4,824
Interest cost	**10,956**	10,631	9,990	**727**	738	764
Actuarial (gains) losses pertaining to interest	**6,161**	16,840	10,352			
Actuarial (gains) losses pertaining to expenses	**3,619**	9,890	6,079	**3,369**	17	(832)
	33,290	48,134	35,739	**9,401**	4,575	4,756

17. Insurance Contracts

The following is a summary of the insurance contract provisions and related reinsurance assets as at the end of February, 2013 and 2012.

(in thousands of Canadian dollars)	**2013**	2012
Gross Insurance Contract Provisions		
Outstanding case reserves	**1,046,236**	1,009,538
Provision for incurred but not reported claims	**286,815**	239,785
Provision for internal loss adjusting expenses	**154,455**	141,691
Effect of discounting	**(202,697)**	(194,697)
Provision for adverse deviation	**273,215**	289,128
Total Gross Provision for Unpaid Claims	**1,558,024**	1,485,445
Total Gross Provision for Unearned Premiums	**435,478**	443,387
Total Gross Insurance Contract Provisions	**1,993,502**	1,928,832
Reinsurance Ceded		
Outstanding case reserves	**29,288**	27,195
Provision for incurred but not reported claims	**1,714**	1,817
Effect of discounting	**(331)**	(493)
Provision for adverse deviation	**3,061**	2,772
Total Reinsurers' Share of Unpaid Claims	**33,732**	31,291
Total Reinsurers' Share of Unearned Premiums	**69**	3,340
Total Reinsurers' Share of Insurance Contract Provisions	**33,801**	34,631
Net Insurance Contract Provisions		
Outstanding case reserves	**1,016,948**	982,343
Provision for incurred but not reported claims	**285,101**	237,968
Provision for internal loss adjusting expenses	**154,455**	141,691
Effect of discounting	**(202,366)**	(194,204)
Provision for adverse deviation	**270,154**	286,356
Total Net Provision for Unpaid Claims	**1,524,292**	1,454,154
Total Net Provision for Unearned Premiums	**435,409**	440,047
Total Net Insurance Contract Provisions	**1,959,701**	1,894,201

The following is a summary of the insurance contract provisions and related reinsurance assets by line of business as at the end of February, 2013 and 2012.

(in thousands of Canadian dollars)		**2013**	
	Gross	**Reinsurance Ceded**	**Net**
Basic	**1,733,209**	**23,420**	**1,709,789**
Extension	**96,925**	**(595)**	**97,520**
Special Risk Extension	**92,850**	**8,246**	**84,604**
Total undiscounted	**1,922,984**	**31,071**	**1,891,913**
Discounting with Provision for Adverse Deviation	**70,518**	**2,730**	**67,788**
Total Insurance Contract Provisions	**1,993,502**	**33,801**	**1,959,701**

(in thousands of Canadian dollars)		2012	
	Gross	Reinsurance Ceded	Net
Basic	1,641,690	24,313	1,617,377
Extension	93,823	260	93,563
Special Risk Extension	98,888	7,779	91,109
Total undiscounted	1,834,401	32,352	1,802,049
Discounting with Provision for Adverse Deviation	94,431	2,279	92,152
Total Insurance Contract Provisions	1,928,832	34,631	1,894,201

18. Claims Liabilities

METHODOLOGY AND ASSUMPTIONS

The best estimates of claim liabilities are determined based on a review of the projected ultimate claim liabilities using various standard actuarial techniques. In particular, the techniques used to project ultimate claim liabilities include the incurred loss development method, the paid loss development method, the incurred Bornheutter-Ferguson method, and the paid Bornheutter-Ferguson method. The projected ultimate claim liabilities are then determined by selection of the most appropriate technique by line of business, coverage, and maturity of the accident year.

Loss Development Method

The loss development method projects ultimate claims for each accident year using the reported/paid losses as at the valuation date, and assuming that future development on these losses is similar to prior accident years' development. The underlying assumption of the method is that the reported/paid-to-date losses will continue to develop in a similar manner in the future.

Bornheutter-Ferguson Method

The Bornheutter-Ferguson Method projects ultimate claims for each accident year by adding the expected unreported/unpaid losses to the reported/paid losses as at the valuation date. The expected unreported/unpaid losses are determined as the product of the expected loss ratio and the percent unreported/unpaid, the latter based on the maturity of the accident year. An implicit assumption of this method is that the reported/paid-to-date losses contain no informational value as to the amount of losses yet to be reported/paid.

Claim liabilities are initially determined on an undiscounted gross basis. Ceded claim liabilities are then deducted to determine the claim liabilities on an undiscounted net basis.

By line of business and coverage, losses paid and incurred for the last 19 accident years, on a gross basis, are organized in a triangular form by accident year and development period. Adjustments are made to the triangles for Comprehensive coverage and indexed coverages:

- For Comprehensive coverage, catastrophic losses are removed from the triangles. For the purpose of the valuation, catastrophic losses are defined as losses from a single catastrophic event whereby the incurred losses from the event exceed the Corporation's catastrophe retention level for the applicable accident year. The claim liabilities for these catastrophic losses are evaluated separately.
- For indexed coverages, prior years' losses are brought to current benefit levels so that the loss development factors are unaffected by indexation.

Ratios of loss amounts at successive development years are calculated to build loss development factor triangles. Loss development factors are selected based on observed historical development pattern. Judgment is used whenever there is significant variability in the observed historical development pattern, which happens with coverages with a small number of claims. Judgment is also used, in the absence of available supporting data, to determine tail factors for long-tailed coverages.

The loss data does not include internal loss adjustment expenses (ILAE). As such, a provision for ILAE is determined based on the observed historical ratios of paid ILAE to paid losses. The method assumes that half of the ILAE is paid when the claim is first set up, with the remaining half being paid to maintain the claim. An ILAE ratio is selected based on the observed historical ratios. Half of the selected ratio is applied to case reserves. The full ratio is applied to incurred but not reported (IBNR) losses.

The loss data includes salvage and subrogation. As such, a separate analysis is not performed.

Ceded claim liabilities and net claim liabilities are determined as follows:

- For catastrophe reinsurance, estimates of gross claim liabilities are determined for each catastrophic loss. The net claim liabilities were then determined as the gross claim liabilities less the applicable recovery. The ceded claim liabilities are the applicable recovery.
- For casualty reinsurance, aggregate ceded claim liabilities by insurance year are determined taking into consideration discounting, retention levels, and other contract provisions. These liabilities are deducted from gross claim liabilities to determine net claim liabilities.

The undiscounted claim liabilities are adjusted to determine the discounted claim liabilities on an actuarial present value basis. Two adjustments are made to conform to the Actuarial Standards of Practice of the Canadian Institute of Actuaries:

- The undiscounted claim liabilities are discounted based on a selected discount rate, which is determined based on the average duration weighted yield for the Corporation's bond portfolio as at the end of the fiscal year; and
- Provisions for adverse deviation are added to the discounted claim liabilities to obtain the discounted claim liabilities on an actuarial present value basis.

The estimates for unearned premium liabilities are also tested to ensure that they are sufficient to pay for future claims and expenses in servicing the unexpired policies as of the valuation date.

CHANGES IN ASSUMPTIONS

Basic Accident Benefits Weekly Indemnity & Accident Benefits Other (Indexed) – Change in Selected Incurred But Not Reported

In the February 29, 2012 valuation, for both Basic Accident Benefits Weekly Indemnity and Accident Benefits Other (Indexed), the incurred but not reported (IBNR) for the three most recent years were selected as the higher of the indicated IBNR using the incurred Bornheutter-Ferguson method and the paid Bornheutter-Ferguson method. For the February 28, 2013 valuation, this "higher of" method was extended to include the five most recent years. This change was made to recognize the increasing volatility of paid and case reserve reporting patterns for less than 60 months.

The change in the selected IBNR increased the discounted net claim liabilities by $26.5 million and ILAE provision by $5.3 million

Basic Personal Injury Protection Plan (PIPP) Enhancement – Expected Utilization

The expected utilization for certain PIPP Enhancement coverages were reduced significantly to reflect the actual utilization. The reduction in the expected utilization decreased the discounted net claim liabilities by $16.5 million.

Change in Discount Rate

The selected discount rate, determined based on the average duration weighted yield for the Corporation's bond portfolio, decreased by 2 basis points between the February 29, 2012 valuation and the February 28, 2013 valuation. The decrease in the selected discount rate increased the discounted net claim liabilities by $3.0 million and ILAE provision by $0.3 million.

Interest Rate Margin for Adverse Deviation

In the February 29, 2012 valuation, the interest rate margin for adverse deviation was increased by 25 basis points. This was done to recognize the then higher than forecasted Manitoba inflation rate, coupled with a decreasing trend in the average duration weighted yield of the Corporation's bond portfolio. For fiscal year 2012, the inflation rate declined significantly, returning to a value closer to the forecasted inflation rate. In that same period, the average yield remained relatively unchanged. As such, the increase in the interest rate margin for adverse deviation was reversed, in other words, the interest rate margin for adverse deviation was decreased by 25 basis points. The decrease in the interest rate margin decreased the discounted net claim liabilities by $34.9 million and ILAE provision by $3.7 million.

The provision for unpaid claims, including adjustment expenses, by major claims category includes:

Balance at February 28, 2013 (in thousands of Canadian dollars)	**Gross**	**Reinsurers' Share**	**Net**
Automobile Insurance Division			
Liability	**1,386,170**	**33,586**	**1,352,584**
Physical Damage	**168,051**	**146**	**167,905**
	1,554,221	**33,732**	**1,520,489**
Discontinued Operations - Personal/Commercial Lines	**3,803**	**-**	**3,803**
	1,558,024	**33,732**	**1,524,292**

Balance at February 29, 2012 (in thousands of Canadian dollars)	Gross	Reinsurers' Share	Net
Automobile Insurance Division			
Liability	1,341,719	27,640	1,314,079
Physical Damage	139,929	3,651	136,278
	1,481,648	31,291	1,450,357
Discontinued Operations - Personal/Commercial Lines	3,797	-	3,797
	1,485,445	31,291	1,454,154

CHANGES IN UNPAID CLAIMS AND ILAE PROVISION

Gross

(in thousands of Canadian dollars)	**2013**	2012
Discounted unpaid claims at March 1	**1,343,762**	1,315,858
Effect of discounting and Provision for Adverse Deviation	**(94,430)**	14,079
Undiscounted unpaid claims at March 1	**1,249,332**	1,329,937
Ultimate claims for current accident year	**662,672**	624,935
Payment on current accident year claims	**(394,777)**	(383,086)
Change in ultimate claims from prior accident years	**57,194**	(76,243)
Payments on prior accident years claims	**(241,370)**	(246,220)
Undiscounted unpaid claims at February 28/29	**1,333,051**	1,249,323
Effect of discounting and Provision for Adverse Deviation	**70,518**	94,431
Discounted unpaid claims at February 28/29	**1,403,569**	1,343,754
ILAE provision	**154,455**	141,691
Total unpaid claims provision	**1,558,024**	1,485,445

Reinsurance Ceded

(in thousands of Canadian dollars)	**2013**	2012
Discounted unpaid claims at March 1	**31,289**	42,410
Effect of discounting and Provision for Adverse Deviation	**(2,278)**	(3,222)
Undiscounted unpaid claims at March 1	**29,011**	39,188
Ultimate claims for current accident year	**477**	468
Payment on current accident year claims		
Change in ultimate claims from prior accident years	**6,995**	8,617
Payments on prior accident years claims	**(5,481)**	(19,261)
Undiscounted unpaid claims at February 28/29	**31,002**	29,012
Effect of discounting and Provision for Adverse Deviation	**2,730**	2,279
Discounted unpaid claims at February 28/29	**33,732**	31,291
ILAE provision		
Total unpaid claims provision	**33,732**	31,291

Net of Reinsurance Ceded

(in thousands of Canadian dollars)	**2013**	2012
Discounted unpaid claims at March 1	**1,312,473**	1,273,448
Effect of discounting and Provision for Adverse Deviation	**(92,152)**	17,301
Undiscounted unpaid claims at March 1	**1,220,321**	1,290,749
Ultimate claims for current accident year	**662,195**	624,467
Payment on current accident year claims	**(394,777)**	(383,086)
Change in ultimate claims from prior accident years	**50,199**	(84,860)
Payments on prior accident years claims	**(235,889)**	(226,959)
Undiscounted unpaid claims at February 28/29	**1,302,049**	1,220,311
Effect of discounting and Provision for Adverse Deviation	**67,788**	92,152
Discounted unpaid claims at February 28/29	**1,369,837**	1,312,463
ILAE provision	**154,455**	141,691
Total unpaid claims provision	**1,524,292**	1,454,154

According to accepted actuarial practice, the discounted net claim liabilities include a provision for adverse deviation (PFAD) of $270.2 million (2012 – $286.4 million). This is comprised of a claims development PFAD of $146.8 million (2012 – $137.6 million), an interest rate PFAD of $121.9 million (2012 – $147.4 million), and a reinsurance PFAD of $1.5 million (2012 - $1.4 million).

Net claims incurred and adjustment expenses included no losses from catastrophes in the current fiscal year (2012 – nil). Catastrophes are an inherent risk to the Corporation and may contribute materially to the year-to-year fluctuations in the Corporation's results of operations and financial condition when they occur.

There were no changes in the estimate of net unpaid claims for discontinued operations recognized during the fiscal year ended February 28, 2013 (2012 – decrease of $0.4 million). All of the net unpaid claims relate to loss dates prior to October 1, 1990.

Unpaid claim liabilities are carried at values that reflect their remaining estimated ultimate costs for all accident years.

DEVELOPMENT OF ULTIMATE CLAIMS

Gross	Accident Year						
(In thousands of Canadian dollars)	2008	2009	2010	2011	2012	2013	6 Year Total
Estimate of ultimate claims costs							
At end of accident year	691,105	605,403	641,527	633,832	624,935	662,672	
One year later	672,846	591,749	611,578	627,341	628,331		
Two years later	669,780	576,028	608,583	635,392			
Three years later	638,322	556,758	610,837				
Four years later	636,848	576,287					
Five years later	642,221						
Current estimate of cumulative claims cost	642,221	576,287	610,837	635,392	628,331	662,672	3,755,740
Cumulative payments to date	566,445	500,858	520,196	545,221	521,561	394,777	3,049,058

Net of Reinsurance Ceded	Accident Year						
(in thousands of Canadian dollars)	2008	2009	2010	2011	2012	2013	6 Year Total
Estimate of ultimate claims costs							
At end of accident year	649,685	604,931	618,906	633,302	624,467	662,195	
One year later	632,233	591,300	590,027	626,998	628,030		
Two years later	629,452	575,766	586,459	635,164			
Three years later	598,087	556,563	590,448				
Four years later	595,360	576,148					
Five years later	601,993						
Current estimate of cumulative claims cost	601,993	576,148	590,448	635,164	628,030	662,195	3,693,978
Cumulative payments to date	526,386	500,858	500,070	545,220	521,561	394,776	2,988,871

There is uncertainty inherent in the estimation process. The actual amount of ultimate claims can only be ascertained once all claims are closed. The unpaid claim liabilities for Personal Injury Protection Plan (PIPP) benefits represent the majority of the Corporations claim liabilities. PIPP claim liabilities are also the most uncertain because of the long term nature of these benefits. A 5.00% increase in net PIPP claim liabilities is equal to approximately $42.9 million. Such a change could occur if the actual future development of lifetime PIPP claimants was higher than expected. A 1.00% decrease in the interest rate would increase PIPP claim liabilities by approximately $86.3 million. We have assumed that the interest rate with margin will not be less than zero. However, this impact would be largely offset by gains on the Corporation's fixed income portfolio. Changes to the assumptions for other coverages or lines of business are considered to be less material.

19. Reinsurance

The Corporation follows the practice of obtaining reinsurance to limit its exposure to losses. Under agreements in effect at February 28, 2013, these reinsurance agreements limit the Corporation's exposure on a casualty basis to a maximum amount of $5.0 million (2012 – $5.0 million) on any one occurrence.

The reinsurance arrangements also limit the Corporation's liability in respect to a series of claims arising out of a single occurrence, including catastrophic claims, to a maximum of $16.7 million (2012 – $16.7 million). These arrangements protect the Corporation against losses up to $266.7 million (2012 – $266.7 million).

Certain lines of insurance carry maximum limits lower than these amounts. While these arrangements are made to protect against large losses, the primary liability to the policyholders remains with the Corporation.

20. Information Technology Optimization Fund

Activity in the Information Technology Optimization Fund includes:

(in thousands of Canadian dollars)	**2013**	2012
Balance at March 1	-	65,000
Transfer from (to) Basic Insurance Retained Earnings	-	(65,000)
Balance at February 28/29	-	-

See Note 3 for full details of the IT Optimization Fund.

21. Extension Development Fund

Activity in the Extension Development Fund includes:

(in thousands of Canadian dollars)	**2013**	2012
Balance at March 1	**20,769**	43,227
Transfer to Non-Basic Retained Earnings for IT optimization projects	**(728)**	(10,000)
Transfer to Non-Basic Retained Earnings for program costs	**(13,318)**	(12,458)
Balance at February 28/29	**6,723**	20,769

See Note 3 for full details of the Extension Development Fund.

22. Accumulated Other Comprehensive Income (Loss)

Accumulated Other Comprehensive Income (Loss) (AOCI) reflects the net unrealized gain or loss on financial assets classified as AFS. Changes in AOCI by type of asset are presented below.

(in thousands of Canadian dollars)	Equity Investments	Other Investments	Total AOCI
Balance at March 1, 2011	81,741	1,811	83,552
Unrealized gains (losses) on AFS assets	(24,604)	1,294	(23,310)
Reclassification of net realized (gains) losses related to AFS assets	(2,127)	-	(2,127)
Balance at February 29, 2012	55,010	3,105	58,115
Unrealized gains (losses) on AFS assets	52,791	1,017	53,808
Reclassification of net realized (gains) losses related to AFS assets	(5,337)	(2,031)	(7,368)
Balance at February 28, 2013	**102,464**	**2,091**	**104,555**

23. Service Fees and Other Revenue

(in thousands of Canadian dollars)	**2013**	2012
Transaction fees	**7,284**	7,701
Time payment fees	**2,642**	2,578
Time payment interest	**12,501**	12,236
Late payment fees	**1,130**	881
Dishonoured payment fees	**692**	771
Identity card/Enhanced identity card fees	**377**	439
Other miscellaneous revenue	**951**	440
	25,577	25,046

24. The *Drivers and Vehicles Act* Operations Recovery

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

The Province of Manitoba provided funding to the Corporation in the amount of $21.0 million annually, from October, 2004 to March, 2011, to defray the cost borne by the Corporation for DVA operations. Beginning April 1, 2011 the Province of Manitoba increased its payments to the Corporation to $27.9 million per year.

The Corporation, on behalf of the Province of Manitoba, collects and transfers motor vehicle registration fees and driver licensing fees to the Province of Manitoba.

Fees collected on behalf of and transferred to the Province of Manitoba include:

(in thousands of Canadian dollars)	**2013**	2012
Vehicle registration fees	**160,503**	138,082
Driver licensing fees	**22,788**	22,681
	183,291	160,763

25. Net Income (Loss) From Annual Operations

The lines of business reported net income (loss) from annual operations as follows:

(in thousands of Canadian dollars)	**2013**	2012
Basic insurance	**(72,213)**	22,278
Extension insurance	**27,035**	21,836
Special risk extension insurance	**9,177**	(2,191)
The *Drivers and Vehicles Act* operations	**(12,087)**	(4,500)
	24,125	15,145
Net income (loss) from annual operations	**(48,088)**	37,423
Surplus distribution	**-**	(14,120)
Net income (loss) after surplus distribution	**(48,088)**	23,303

26. Surplus Distribution

As outlined in the Public Utilities Board ruling on December 2, 2011 on the Corporations 2012/13 Basic Insurance rate application, there was no surplus distribution.

On June 6, 2011, in response to customer feedback, the Corporation applied to the Public Utilities Board, requesting that the Board vary its Order 43/11, regarding the distributed rebate in 2010/11. The Corporation requested permission to issue an additional rebate of $16.0 million, estimated to be 5.0% of the original rebate. The rebate, was calculated on premiums paid in the 2010/2011 insurance year. The Corporation requested that all ratepayers receive the "greater of" calculation based on both premiums paid in fiscal year 2009/2010 and on the 2009/2010 insurance rating year. This would ensure affected customers receive a rebate based on the calculation that was most advantageous to them and eliminated any potential disadvantage based on their particular vehicle or Autopac insurance purchasing decisions.

On June 23, 2011, the additional proposed surplus distribution was approved by the Public Utilities Board in its Order 86/11. The additional surplus was actualized during the third quarter of 2011/2012 when $14.1 million was paid to Basic policyholders.

27. Discontinued General Insurance Operations

The Corporation discontinued writing reinsurance assumed business effective November 18, 1987, and personal and commercial insurance policies effective October 1, 1990.

As of February 28, 2001, the Corporation accepted a third-party offer to purchase the reinsurance assumed business from the Corporation. Under the terms of the agreement, the Corporation transferred and assigned to the third party the title, interest and all of the obligations resulting from the un-commuted reinsurance assumed treaties written by the Corporation for the period July 1, 1975 to November 18, 1987, including retrocessional treaties. The obligations include all known or unknown liabilities. The primary liability to the treaty holders remains with the Corporation in the event of the third party's insolvency.

Claims costs and expenses on personal and commercial policies will be incurred until all claims on existing policies are settled.

Discontinued operations resulted in a net income of $0.1 million (2012 - net loss of $0.2 million) which is reported as part of the Special Risk Extension line of business (Note 25). Included in the provision for unpaid claims is $3.8 million (2012 - $3.8 million) relating to discontinued operations.

28. Commitments

As of February 28, 2013, the Corporation has no material commitments.

29. Related-Party Transactions

Key management personnel are comprised of all members of the Board of Directors and the named Executive. The summary of compensation of key management personnel for the year is as follows:

(in thousands of Canadian dollars)	**2013**	2012
Short term benefits	**1,497**	1,602
Post-employment benefits	**154**	287
Other long-term benefits	**20**	20
Termination benefits	**150**	-
	1,821	1,909

Key management personnel and their close relatives may have insurance policies with the Corporation as required by *The Manitoba Public Insurance Corporation Act*. The terms and conditions of such transactions are the same as those available to clients and employees of the Corporation.

30. Capital Management

The Corporation's Board of Directors has approved risk-based capital adequacy target levels by line of business to maintain financial stability. In addition, specific levels of retained earnings have been appropriated to support one corporate initiative:

The Extension Development Fund, which was established to defray the costs of projects undertaken to maximize the opportunities presented by the 2004 merger of Manitoba Public Insurance and the Division of Driver and Vehicle Licensing. (Refer to Notes 3 and 21 for full details of the Extension Development Fund.)

Basic Retained Earnings are comprised of the Rate Stabilization Reserve (RSR) and Retained Earnings in excess of RSR. The Corporation's Board of Directors current target RSR level is $200.0 million based on the 2012 Basic Insurance Dynamic Capital Adequacy Test (DCAT) report. In his report, the Corporations' internal actuary concluded that a minimum RSR level of $200.0 million would be required for Basic to achieve a satisfactory future financial condition. An RSR level lower than $200.0 million would result in a "not satisfactory" opinion because there were plausible adverse scenarios identified where liabilities exceed assets.

In 2010, the Corporation began using the maximum of the Public Utilities Board RSR target in its Public Utilities Board rate application for ratemaking purposes. The Public Utilities Board has established the Basic RSR target for rate-setting purposes based on 10.0% to 20.0% of written premiums. Based on the Public Utilities Board methodology, as at February 28, 2013, this range is $74.6 million to $149.8 million (2012 - $77.9 million to $155.7 million). In Order No. 157/12, the Public Utilities Board ordered that a technical conference take place in early 2013 to discuss the adverse scenarios and methodology construct being utilized currently by the Corporation within the DCAT, with a view to refining the same.

The Corporation's Board of Directors' current target level for Extension Retained Earnings is $35.0 million based on the 2012 Extension DCAT report. Based on this target the Corporation's internal actuary has concluded that the future financial condition of this line of business is satisfactory.

The Corporation's Board of Directors' current target level of $37.0 million for SRE Retained Earnings is based on the 2012 SRE DCAT report. The Corporation's internal actuary has concluded that, based on this target, the future financial condition of this line of business is satisfactory.

31. Financial Risk Management

Investments carry certain financial risks including market risk, credit risk and liquidity risk. 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, and the Department jointly determine appropriate policies and strategies to mitigate risk. The investment objectives and goals of the Corporation are embodied in an Investment Policy document, which sets target asset allocation and portfolio concentration limits as well as defining the credit quality of the counterparties and the percentage of highly liquid investments required to meet cash flow needs.

Market Risk

Market risk is the risk that changes in foreign exchange rates, market interest rates and other changes in market prices will result in fluctuation of the fair value or future cash flows of a financial instrument.

CURRENCY RISK

Currency risk is the risk that changes in foreign exchange rates will result in fluctuation of the fair value or future cash flows of a financial instrument. The Corporation has low exposure to currency risk because the Corporation has limited non-Canadian financial instruments. At February 28, 2013, total U.S. dollar financial instruments had a carry value of $158.4 million U.S. ($162.0 million Cdn) which is approximately 6.0% of the Corporation's investment portfolio.

The Corporation has entered into a currency swap relating to a Province of Quebec provincial bond denominated in U.S. dollars for $10.0 million. The currency swap provides a fixed 5.76% return in Canadian dollars. The agreement also provides that at predetermined future dates, the Corporation pays a fixed 7.5% rate based on the U.S. $10.0 million par value of the bond and receives 5.76% return based on a Canadian dollar notional value of $13.4 million. As of February 28, 2013 the fair value of the swap was $16.3 million. The maturity date of the currency swap and the bond is July 15, 2023.

INTEREST RATE RISK

Interest rate risk is the risk that changes in market interest rates will result in fluctuation of the fair value or future cash flows of a financial instrument.

The market valuation of the Corporation's fixed income portfolio is directly impacted by fluctuations in interest rates and will have a larger impact on instruments with a long duration.

Bonds	Average Effective Rate - %	
	2013	2012
Federal	**2.51**	2.17
Provincial	**2.70**	2.82
Municipal	**3.48**	3.38
Hospitals	**1.97**	2.5
Schools	**5.19**	5.47
Corporations	**2.86**	3.32

As at February 28, 2013, a 100 basis point change in interest rates would result in a change in the fair value of the Corporation's fixed income portfolio of approximately $64.0 million (2012 - $68.7 million). As all of the Corporation's marketable fixed income assets are now classified as FVTPL, all changes would affect net income.

Fluctuations in interest rates would also have an impact on the Corporation's unpaid claims. The Corporation's duration of its fixed income portfolio approximates the duration of its unpaid claims liability and therefore, any change in interest rates related to these investments is largely mitigated by an offsetting impact on the unpaid claims liability.

EQUITY PRICE RISK

The fair value of equity securities held by the Corporation can be affected by changes in market prices, other than currency and interest rate risks, which may be caused by factors specific to the individual financial instrument or factors affecting all similar financial instruments. General economic conditions, political conditions and other factors affect the equity market. As at February 28, 2013, a 10.0% change in the fair value of the Corporation's equity portfolio would result in a $56.2 million (2012 - $50.2 million) change in other comprehensive income.

As all equities are classified as AFS, all changes in prices are recorded as other comprehensive income and do not directly impact the Statement of Operations until such time as an investment is sold or has become impaired (Refer to Note 3). The Corporation has policies in place to limit and monitor its exposure to individual issuers and classes of issuers of equity securities.

Credit Risk

Credit risk is the potential for the Corporation to incur a financial loss due to the failure of the other party to discharge an obligation. Financial instruments that give rise to potential credit risk for the Corporation include fixed income securities, accounts receivable, reinsurance receivables and structured settlements.

The following table summarizes the Corporation's maximum exposure to credit risk on the Statement of Financial Position. The maximum credit exposure is the carrying value of the asset net of any allowance for loss.

(in thousands of Canadian dollars)

	2013	2012
Bonds	**1,354,467**	1,396,357
Due from other insurance companies	**1,002**	2,545
Accounts receivable	**321,293**	304,155
Reinsurance receivable	**31,935**	27,268
Maximum credit risk exposure on the Statement of Financial Position	**1,708,697**	1,730,325

FIXED INCOME SECURITIES CREDIT RISK

The Corporation mitigates its exposure to credit risk by placing fixed income securities with high-quality institutions with investment grade ratings. The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings, where available, or to historical information about counterparty default rates. The following table highlights the fixed income securities by credit quality according primarily to Moody's Investors Service at February 28/29. All Manitoba municipal, schools and hospitals bonds are backed by the Province of Manitoba and, as such, have been assigned the credit rating of the Province of Manitoba Bonds.

	2013		2012	
	Carrying Value (in thousands of Canadian dollars)	**Percentage of Portfolio**	Carrying Value (in thousands of Canadian dollars)	Percentage of Portfolio
Aaa	**127,756**	**9.4**	190,790	13.6
Aa	**1,185,854**	**87.6**	1,158,928	83.0
A	**39,646**	**2.9**	45,446	3.3
Not rated	**1,211**	**0.1**	1,193	0.1
	1,354,467	**100.0**	1,396,357	100.0

ACCOUNTS RECEIVABLE CREDIT RISK

The Corporation's accounts receivable are comprised of customers with varying financial conditions as the Corporation is required to provide basic insurance to all vehicle owners and drivers in the Province of Manitoba. All significant past due receivables, including subrogation receivables, are fully provided for due to the uncertainty of collection. The credit risk pertaining to premiums receivable is mitigated as a customer's policy may be cancelled for default of payment.

The following table highlights the Corporation's accounts receivable by major category.

(in thousands of Canadian dollars)	**2013**	2012
Policy and time payments	**286,215**	275,706
Accrued interest	**25,130**	23,202
Subrogation and other receivables	**16,497**	12,304
Allowance for doubtful accounts	**(6,549)**	(7,057)
Balance at February 28/29	**321,293**	304,155

Details of the allowance for doubtful accounts are as follows:

(in thousands of Canadian dollars)	**2013**	2012
Balance at March 1	**7,057**	8,487
Accounts written off	**(675)**	(1,227)
Current period provision	**167**	(203)
Balance at February 28/29	**6,549**	7,057

REINSURANCE RECEIVABLE CREDIT RISK

The Corporation evaluates the financial condition of its reinsurers to minimize the exposure to significant losses from reinsurer insolvency. The Corporation holds collateral in regards to unregistered reinsurance in the form of amounts on deposit and letters of credit of $1.8 million (2012 – $3.0 million). Furthermore, a corporate guideline requiring reinsurers to have a minimum credit rating of A- from A.M. Best and BBB+ credit rating from Standard & Poors is in place.

For the 2012/2013 fiscal year, ten reinsurers share the Corporation's casualty reinsurance coverage, ranging from 2.5% to 35.0% on any one layer. The reinsurer exposed to 35.0% of the losses is licensed in Canada by the Office of the Superintendent of Financial Institutions and, therefore, subject to minimum capital requirements.

For the 2012/2013 fiscal year, 16 reinsurers share the Corporation's catastrophe reinsurance coverage, none holding more than 34.5% of the reinsurance exposure on any one layer. The 2012/2013 catastrophe reinsurance program is placed on a rolling one-third, three-year term to further mitigate the Corporation's exposure to reinsurer insolvency.

No amount due from reinsurers was considered uncollectible during 2012/2013 and no allowance for doubtful accounts has been established as at February 28, 2013.

STRUCTURED SETTLEMENTS CREDIT RISK

The claims settlement processes may involve the use of structured settlements, which are purchased through various financial institutions. As of the Statement of Financial Position date, the present value of expected payments totals $155.5 million (2012 – $157.0 million) based on various dates of purchase. The Corporation assumes a financial guarantee to make payments to claimants in the event that financial institutions default on payments under the terms of the structured settlement.

Liquidity Risk

A significant risk of the insurance industry is the ability to match the cash inflows of the investment portfolio with the cash requirements of the policy liabilities and operating expenses. The Corporation has taken the overall historical liability settlement pattern as a basis to define diversification and duration characteristics of the investment portfolio. To meet the cash requirements for claims and operating expenses, the Corporation has policies to ensure that assets and liabilities are broadly matched in terms of their duration.

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

Bonds - maturity profile

	2013			
(in thousands of Canadian dollars)	**Within One Year**	**One Year To Five Years**	**After Five Years**	**Total Carrying Value**
Federal	**302**	**-**	**61,159**	**61,461**
Manitoba				
Provincial	**2,739**	**21,366**	**230,085**	**254,190**
Municipal	**14,267**	**10,141**	**20,592**	**45,000**
Hospitals	**-**	**12,107**	**-**	**12,107**
Schools	**1,805**	**3,216**	**531,412**	**536,433**
Other Provinces				
Provincial	**62,340**	**41,884**	**233,948**	**338,172**
Municipal	**-**	**5,290**	**57,733**	**63,023**
Corporations	**-**	**18,024**	**26,057**	**44,081**
	81,453	**112,028**	**1,160,986**	**1,354,467**

	2012			
(in thousands of Canadian dollars)	Within One Year	One Year To Five Years	After Five Years	Total Carrying Value
Federal	13,392	50,468	57,422	121,282
Manitoba				
Provincial	27,719	29,632	232,575	289,926
Municipal	17,013	21,680	15,850	54,543
Hospitals	-	12,482	-	12,482
Schools	3,030	7,792	479,335	490,157
Other Provinces				
Provincial	41,487	41,071	237,418	319,976
Municipal	-	5,383	52,651	58,034
Corporations	-	23,574	26,383	49,957
	102,641	192,082	1,101,634	1,396,357

32. Non-current assets and liabilities

The following table presents financial assets and liabilities the Corporation expects to recover or settle in 12 months or greater at February 28, 2013 and February 29, 2012.

(in thousands of Canadian dollars)	**2013**	2012
Assets:		
Bonds	**1,273,014**	1,293,716
Equity investments	**562,228**	502,675
Investment property	**173,002**	154,086
Infrastructure and other investments	**26,530**	18,361
Reinsurers' share of unpaid claims	**32,627**	28,427
Total assets	**2,067,401**	1,997,265
Liabilities:		
Financing lease obligation	**4,126**	4,180
Provision for paid claims	**1,271,311**	1,228,332
Total liabilities	**1,275,437**	1,232,512
Net assets due after one year	**791,964**	764,753

33. Rate Regulation

Under the provisions of *The Crown Corporations Public Review and Accountability Act,* the Public Utilities Board has the authority to review and approve Basic Insurance rates, premiums and service fees charged with respect to compulsory driver and vehicle insurance provided by the Corporation. No new rates or fees for services can be introduced without the approval of the Public Utilities Board.

Annually the Corporation prepares its Basic Insurance general rate application and files it with the Public Utilities Board in the month of June for implementation the following fiscal year commencing on March 1. The general rate application includes the prospective rate requirements based on historical and forecasted financial and other information as well as the application of actuarial, accounting and statistical principles and practices.

The Corporation is required to pay a portion of the Public Utilities Board's operating costs relating to the Corporation's share of the overall Public Utilities Board budget. In addition, the Public Utilities Board can also order the Corporation to reimburse other proceeding participants for specified costs such as their time, legal and expert witness fees.

34. Subsequent Events

No subsequent events have occurred after February 28, 2013.

35. Comparative Figures

Certain of the comparative figures have been reclassified to conform to the current year financial statement presentation.