

2015

ANNUAL REPORT

*POSITIONED FOR
THE FUTURE*



**Manitoba
Public Insurance**



TABLE OF CONTENTS

| | |
|--|----|
| Letters of Transmittal | 4 |
| 2015/16 Year-End Summary | 5 |
| Board of Directors | 6 |
| Message from the Chairperson | 7 |
| Executive Team | 8 |
| Message from the President and Chief Executive Officer | 9 |
| Value for Manitobans | 10 |
| Customer Service | 12 |
| Loss Prevention | 14 |
| Physical Damage Claims | 18 |
| Personal Injury Protection Plan | 20 |
| Community Partnerships | 22 |
| Management Discussion & Analysis | 24 |
| Condensed Financial Statements | 40 |
| >> Notes to Condensed Financial Statements | 45 |
| Manitoba Public Insurance Locations | 51 |

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

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

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

LETTERS OF TRANSMITTAL

May 30, 2016

The Honourable Ron Schuler
Minister of Crown Services and Minister Charged
with the Administration of *The Manitoba Public
Insurance Corporation Act*
Room 343, Legislative Building
450 Broadway
Winnipeg, MB R3C 0V8

Dear Minister,

In accordance with Section 43(1) of *The Manitoba Public Insurance Corporation Act*, I am pleased to submit the Annual Report of the Manitoba Public Insurance Corporation for the fiscal year ended February 29, 2016.

Respectfully submitted,



Brent VanKoughnet
Chairperson of the Board



May 30, 2016

The Honourable Janice C. Filmon, C.M., O.M.
Lieutenant Governor of the Province of Manitoba
Room 235, Legislative Building
450 Broadway
Winnipeg, MB R3C 0V8

May it please your Honour,

I have the privilege of presenting the Annual Report of the Manitoba Public Insurance Corporation for the fiscal year ended February 29, 2016.

Respectfully submitted,



Ron Schuler
Minister of Crown Services
Minister Charged with the Administration
of *The Manitoba Public Insurance
Corporation Act*



2015/16 YEAR-END SUMMARY

DOLLARS AND CENTS

| | |
|---|-------------------------------------|
| Approximate Autopac claims paid per working day | \$2.9 million |
| Total Autopac claims paid for injury and property damage occurring in 2015/16, respectively (before expenses) | \$153.0 million and \$558.1 million |
| Amounts paid by MPI to Manitoba medical practitioners on behalf of customers | \$35.2 million |
| Commissions paid by MPI to independent insurance brokers for product sales | \$80.2 million |
| Grants in lieu of taxes paid to Manitoba municipalities by MPI | \$1.9 million |
| Provincial premium taxes paid by MPI | \$33.4 million |
| Dollars invested in road safety programs | \$15.3 million |
| Potential savings to policyholders through use of recycled parts made available for use in claims repairs | \$12.5 million |
| Estimated direct savings to policyholders through subrogation | \$11.1 million |

SIGNIFICANT NUMBERS

| | |
|--|-----------|
| Average number of Autopac claims reported to MPI per working day | 1,201 |
| Total Autopac claims reported | 297,957 |
| Bodily injury claims reported | 16,796 |
| Property damage claims reported | 281,161 |
| Total theft claims reported in Winnipeg | 1,923 |
| Total theft claims reported elsewhere in province | 1,038 |
| Number of Autopac policies in force (average) | 1,110,969 |

CORPORATE FIVE-YEAR STATISTICS

| | 2015/16 | 2014/15 | 2013/14 | 2012/13 Restated | 2011/12 |
|--|-----------|-----------|-----------|---------------------|-----------|
| Premiums written (\$000) | 1,103,185 | 1,026,555 | 977,992 | 936,271 | 959,540 |
| Claims incurred (\$000) | 770,624 | 844,875 | 861,137 | 746,482 | 701,850 |
| Number of claims | 297,957 | 273,244 | 287,741 | 287,105 | 277,201 |
| Average cost per claim (\$) | 2,586 | 3,092 | 2,993 | 2,600 | 2,532 |
| Claim expenses (\$000) | 134,511 | 134,247 | 132,563 | 126,848 | 132,325 |
| Other expenses (\$000) | 250,510 | 247,217 | 239,219 | 248,885 | 238,347 |
| Net income (loss) (\$000) | (31,314) | 57,578 | (44,846) | (34,940) | 37,423 |
| Net income (loss) after surplus distribution (\$000) | (31,314) | 57,578 | (44,846) | (34,940) | 23,303 |
| Investments at year-end (\$000) | 2,523,111 | 2,599,971 | 2,443,390 | 2,328,567 | 2,254,732 |
| Total assets (\$000) | 3,190,917 | 3,215,049 | 3,028,171 | 2,881,133 | 2,787,210 |

BOARD OF DIRECTORS

STANDING (left to right)

Ted Marcelino
Jeanne Millis
William Saunders
Karen MacKinnon
Debbie Mintz
Terry Prychitko

SEATED (left to right)

Marty Donkervoort
Jake Janzen, *Chairperson*
Dan Guimond, *Ex-Officio*



MESSAGE FROM THE CHAIRPERSON



The mandate of Manitoba Public Insurance is to provide all Manitobans with universal access to affordable, comprehensive automobile insurance and we are proud to deliver on that important directive with coverage that is among the best in Canada. Our history of remaining accountable to our customers with rates consistently among the lowest across the country for superior coverage, including the comprehensive Personal Injury Protection Plan, is a testament to the long-term success of the public auto insurance model and our commitment to ongoing rate stability and fiscal responsibility.

Over the past year, Manitoba Public Insurance has had to exercise appropriate fiscal restraint in order to offset the uncertain economic climate and declining investment income that has affected all of the automobile insurance industry. To ensure Manitobans continue to receive the value they expect and deserve, the Corporation remains dedicated to identifying, investigating and implementing operational cost containment measures. In addition, for the 2015 insurance year, the Public Utilities Board approved a 3.4 per cent general rate increase which – when combined with the previous fiscal year’s transfer of \$75.5 million from Extension excess retained earnings to the Basic rate stabilization reserve – has allowed the Corporation to continue delivering on its commitment to rate stability and predictability for Manitobans.

In Winnipeg, insuring a 2010 Dodge Grand Caravan SE would cost \$1,206 compared to \$2,299 in Calgary and \$7,041 in Toronto for a 40-year-old couple and their 16-year-old son, all with clean driving records. In addition, in 2015/16 we returned \$0.93 of every premium dollar from Basic Autopac back to Manitobans in the form of claim benefits.

In conjunction with our mandate, Manitoba Public Insurance is also fundamentally committed to our mission of “working with Manitobans to reduce risk on the road.” By working to address loss prevention around distracted driving, impaired driving, speed, vulnerable road users and occupant restraints, we can help to not only contain claims costs, but also make our roads safer for all Manitobans.

Of course none of this would be possible without the people collaborating to make it happen. I’d like to recognize and thank my colleagues on the Board of Directors. I would also like to acknowledge the visionary leadership of our President and Chief Executive Officer, Dan Guimond, the rest of the executive team, management and other employees of Manitoba Public Insurance, who continue to work hard every day to deliver value to Manitobans in the form of stable rates and exceptional public service.

A handwritten signature in black ink, appearing to read 'Jake Janzen'.

Jake Janzen
Chairperson of the Board

EXECUTIVE TEAM

LEFT TO RIGHT

Christine Martin

*Vice-President, Customer Service
and Chief Operating Officer*

Shannon Leppy

*Vice-President, Human Resources and
Chief Human Resources Officer*

Kathy Kalinowsky

General Counsel and Corporate Secretary

Dan Guimond

President and Chief Executive Officer

Heather Reichert

Vice-President, Finance and Chief Financial Officer

Ward Keith

*Vice-President, Business Development &
Communications and Chief Product Officer*

Brad Bunko

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



MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER



At Manitoba Public Insurance, we are constantly working to increase the value we provide to all Manitobans. For us, this means embracing opportunities that both position the Corporation for the future and offer positive outcomes for our customers and communities.

Manitoba maintains one of the lowest cost auto insurance policies in Canada. With our focus on rate stability and predictability, Manitoba Public Insurance has either held the line or reduced rates for 12 of the last 15 years. Our collaborative work with the Public Utilities Board and our constant attention to operational efficiency and cost containment allow us to provide predictable rates and remain financially stable over the long term.

The Corporation continues to work closely with the vehicle repair industry to deal with significant changes in vehicle design and construction necessary to comply with tougher emission standards. These changes are accompanied by an increased number of in-vehicle technologies that continue to move us towards the reality of the fully autonomous vehicle. This evolution is significantly affecting how vehicles are repaired following collisions.

Against this backdrop and in keeping with our mission of “working with Manitobans to reduce risk on the road” it is critical that we continue our work with the vehicle repair industry to ensure safe, reliable and quality repairs for our customers. Doing so provides our customers with assurance that when their vehicles are involved in collisions, they will be repaired back to original equipment manufacturer safety standards. We will accomplish this through initiatives such as the re-engineering of our physical damage claims processes and construction of our new Centre of Excellence in Automotive Research and Training. The Centre of Excellence will enable us to research ongoing changes in vehicle design, construction and repair while offering cost-effective training to the vehicle repair industry in Manitoba, which in turn helps to keep repair costs and insurance rates in check.

We have also established direct working relationships with global automobile manufacturers and launched new partnerships with Red River College, Apprenticeship Manitoba and high schools across the province to ensure that career opportunities within the repair trade will continue to grow and meet the demands of a constantly changing market.

Manitoba Public Insurance is also committed to identifying new ways to bring value to Manitobans. One exciting example is the all-in-one Personal Identification Card initiative, which is a partnership with Manitoba Health, Healthy Living and Seniors that will offer added convenience, privacy and security for all Manitobans.

Of course, providing value requires a highly skilled and knowledgeable workforce, which we attract and retain by focusing on employee engagement. By embodying a culture of collaboration, accountability and innovation, our employees are empowered to take ownership of their work and deliver on our corporate mission and vision every day. Our dedication to our Value Equation – where price, coverage, service and access combine – guides these efforts and keeps our customers at the forefront.

By focusing on long-term rate predictability and stability, nurturing relationships with our stakeholders, executing a robust loss prevention strategy and evolving our products and services to meet our customers’ needs, Manitoba Public Insurance is poised to continue its proud tradition of adding value for all Manitobans. I look forward to working with the Board of Directors, my executive team, our employees and all of our business partners and industry stakeholders to make it happen.

A handwritten signature in black ink that reads "Dan Guimond". The signature is fluid and cursive.

Dan Guimond
President and Chief Executive Officer

VALUE FOR MANITOBANS

Manitoba Public Insurance remains committed to providing value to Manitobans in all aspects of our business.

A key element in delivering value is ensuring our insurance premiums remain predictable and stable over time, while continuing to offer a comprehensive suite of products and services that meet the needs and expectations of Manitobans. We work hard to achieve rate predictability and stability for our ratepayers by maintaining a collaborative relationship with the Public Utilities Board, focusing on cost containment and remaining fiscally responsible.

Continually striving to achieve our mission of “working with Manitobans to reduce risk on the road” contributes to value by reducing the number of collisions and associated claims costs, while continuing to educate drivers about safe driving behaviours and habits.

We continue to work towards our mission by adapting to meet the dramatic changes being undertaken by the vehicle manufacturing and repair industries. To adapt to these changes, driven by the increased use of complex materials in vehicle construction and advanced safety features, we are working with our partners in the repair trade and positioning ourselves to ensure safe, quality repairs that reduce risk on the road. Our new Physical Damage Centre of Excellence for automotive repair research and training, the physical damage re-engineering initiative and new partnerships with Red River College and Apprenticeship Manitoba to address recruitment and retention challenges are all helping to prepare for the future by ensuring a strong and sustainable automotive repair industry in Manitoba.

We are consistently finding new ways to add value for Manitobans, both in terms of service enhancements and financially sound investment decisions. Two examples of this are the Personal Identification Card initiative and investment in True North Square. The all-in-one Personal Identification Card will provide added convenience, privacy and security by combining a driver’s licence, photo identification, health card and travel card. Our investment in True North Square, made possible in part by our sale of corporate-owned property, will enhance the vibrancy of downtown Winnipeg, produce jobs and strengthen the provincial economy, while increasing the financial health of the Corporation. We are also proud to contribute to our province’s economy. In the 2015/16 fiscal year, the Corporation made a direct contribution of close to \$1 billion, which included claims, commissions, taxes and grants.



As we evolve, our Value Equation remains a vital tool that directs how we operate with our customers, partners and stakeholders. This optimal combination of price, coverage, service and access guarantees comprehensive coverage at an affordable price, without prejudice towards age, gender or other arbitrary factors, and service where and when Manitobans need it.

VALUE EQUATION



PRICE

Affordable Insurance

+



COVERAGE

Comprehensive protection against the cost of collisions

+



SERVICE

Service where and when you need it

+



ACCESS

Easily attainable coverage and services that do not discriminate



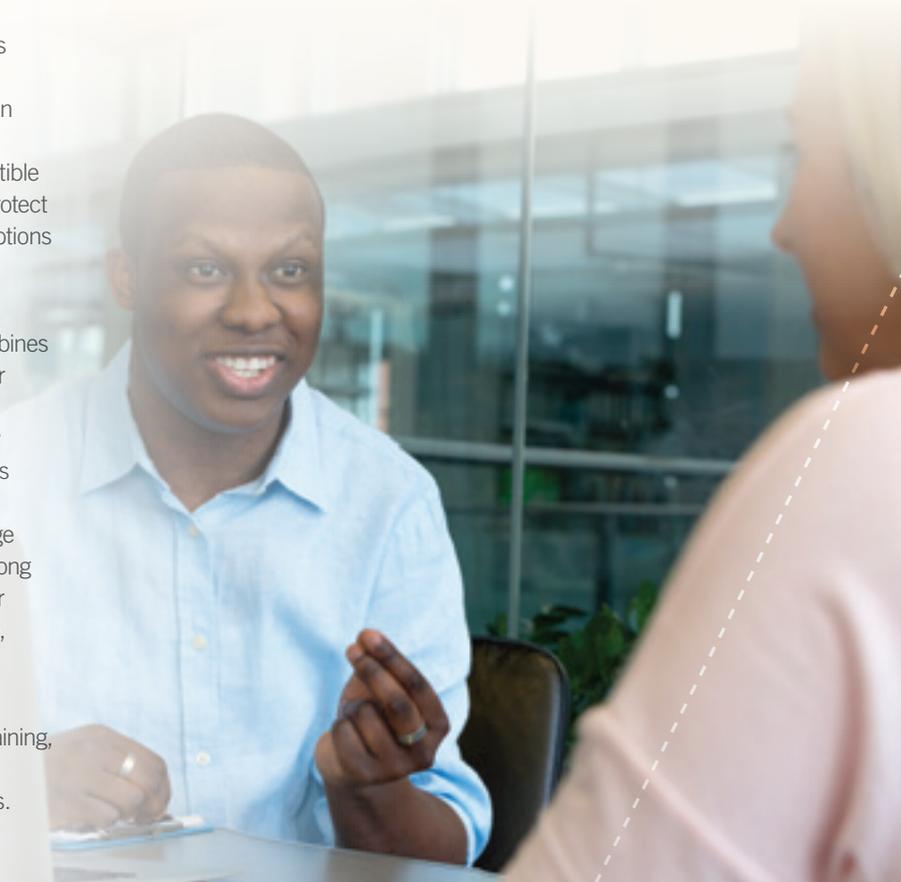
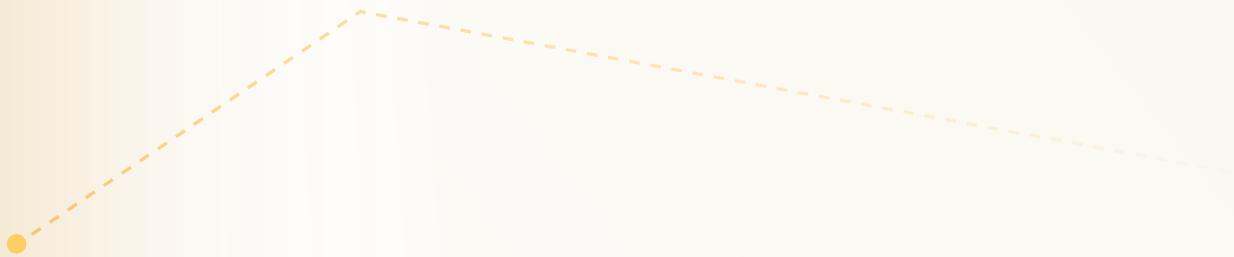
VALUE

FOR ALL MANITOBANS

CUSTOMER SERVICE

At Manitoba Public Insurance, our customers' interests are at the heart of everything we do. As a corporation, we aim to meet the diverse and changing needs and service expectations of our customers through innovation and evolution, while remaining accountable for guaranteed access to affordable vehicle insurance, predictable and stable rates, and safe, high-quality vehicle repairs. Doing so keeps us grounded in achieving the mandate that was established for the Corporation in 1971, while ensuring that we continue to evolve to meet the needs and expectations of our customers.





To this end, we continue to refine and adapt our products and services with our customers in mind. In 2015, we extended coverage under the Personal Injury Protection Plan for families of unpaid caregivers who are fatally injured as a result of a motor vehicle collision. Autopac Extension deductible buy-down coverage was also enhanced in 2015 to better protect victims of automobile vandalism, and increased coverage options were introduced for motorcycle and moped customers with four Autopac Extension products.

To best serve our customers, our service delivery model combines physical damage claims management, insurance sales, driver testing and licensing services at our Service Centre locations. There are eight locations in Winnipeg, with three conveniently located Service Centres offering extended hours on weekdays and service on Saturdays. We offer full service in nine other communities: Arborg, Beausejour, Brandon, Dauphin, Portage la Prairie, Selkirk, Steinbach, Thompson and Winkler. Our strong broker network is also key to delivering first-rate service to our customers where and when they need it. Our Contact Centre, open six days a week, also offers streamlined service to Manitobans, handling about one million calls per year.

With strategic operational changes and targeted employee training, Manitoba Public Insurance is constantly working towards increased service capacity and flexibility for our customers.

91%

of Manitobans who completed an Autopac or driver's licence transaction at either an Autopac agent or Service Centre say they were satisfied with the service they received.

ABOUT 7 IN 10

Manitobans say that Manitoba Public Insurance is doing a good job of having motivated, well-trained, service-oriented staff.

88%

of physical damage claimants say they were satisfied with the overall handling of their physical damage claim.



LOSS PREVENTION

At Manitoba Public Insurance, our accountability to Manitobans is of utmost importance. A comprehensive loss prevention program ensures we are operating as efficiently as possible and can provide Manitobans with the highest value.



A person in a blue shirt is seen from the back, looking towards a road. A single orange traffic cone is on the pavement. The background shows trees and a clear sky.

Our Loss Prevention Strategy and Framework brings all elements of loss prevention together, as each element contributes in complementary ways towards our overall goal of reduced claims and lower claims costs – savings that can be passed onto ratepayers through lower insurance premiums.

Road safety programming is a main pillar of loss prevention. Our efforts are guided by a three-year Operational Plan and formal frameworks to ensure we set priorities that target the most critical issues, our programs are proven and effective, and we evaluate them in accordance with best practice standards. These frameworks establish our principles and accountabilities, set standards for our research and govern the methodologies in our analysis. They are the foundation for evidence-based theories, approaches and tactics to combat safety issues on our roads.

To extend our reach, we sponsor organizations and collaborate with partners across the province to change road user perceptions and behaviours around the key issues of distracted driving, impaired driving, speed, vulnerable road users and occupant restraints. For more information on these sponsorships, see page 22. Our relationship with the Manitoba Association of Chiefs of Police results in coordinated awareness and enforcement efforts around these and other important road safety issues. We also engage numerous external groups, including CAA Manitoba, Mothers Against Drunk Driving, Bike Winnipeg and the Coalition of Manitoba Motorcycle Groups to name a few, in the design and delivery of road safety programs. The end goal of all our road safety programming is to prevent collisions from happening, leading to a reduction in claims, lower rates and, most importantly, lives saved and injuries avoided.





Manitoba Public Insurance is also a proud member of the Provincial Road Safety Committee, which has a mandate to foster increased coordination and collaboration between stakeholders, promote road safety in a more strategic and holistic way and, over the long-term, develop a comprehensive plan to ensure the principles of road safety are integrated into all aspects of transportation policy in Manitoba.

We also teamed up with the City of Winnipeg, the Winnipeg Police Service and CAA Manitoba on a two-year pilot program designed to enhance motorists' awareness at high-collision intersections. The new program leverages a mix of intersection signage, dedicated police enforcement and general public awareness at three of Winnipeg's highest collision intersections, with a view to reducing both the frequency and severity of collisions at these intersections by encouraging motorists to slow down, not follow too closely and proceed through these intersections with extra caution.

Manitoba Public Insurance also annually funds additional law enforcement to enhance our awareness campaigns to combat impaired driving, illegal use of electronic communication devices behind the wheel and speeding in school zones. Our interactive texting and driving simulator further reinforces the dangers of distracted driving, while our Friends for Life speaker series allows new and future drivers to listen to dramatic first-hand accounts of the physical and emotional devastation caused by impaired driving.

Driver education is another major road safety consideration. We remain the proud sponsor of Manitoba's High School Driver Education Program, subsidizing the cost for more than 12,000 participants each year, and are currently redeveloping the program with the goal of further maximizing its effectiveness in producing knowledgeable and safe drivers. This will include the piloting of technologies such as simulators and vehicle telematics in program training vehicles, and incorporating mobile and online learning. By leveraging current technology, learning concepts and delivery methods, we can enhance student self-monitoring, improve driving behaviour and increase opportunities for guardians and instructors to provide regular and meaningful feedback on student progress.

Manitoba Public Insurance also remains committed to improving driver training opportunities for remote area residents and to tailoring high-quality, affordable driver education programs to Manitoba's growing immigrant and refugee populations and First Nations people. We continue to support the Citizens' Bridge program, a community organization that assists individuals seeking driver training and obtaining a driver's licence; the Immigrant and Refugee Community Organization of Manitoba, which provides driver education to recent immigrants and refugees; and northern Manitoba citizens enrolled in provincially sponsored work training and placement programs in Thompson, Flin Flon and The Pas. We also work closely with Safety Services Manitoba in the delivery of other road safety and driver improvement courses.

The Corporation also administers Manitoba's Winter Tire Program, which provides low-interest financing to eligible Manitobans for the purchase of qualifying winter tires. More than 50,000 Manitobans have financed the purchase of their winter tires since the program was introduced in the fall of 2014.

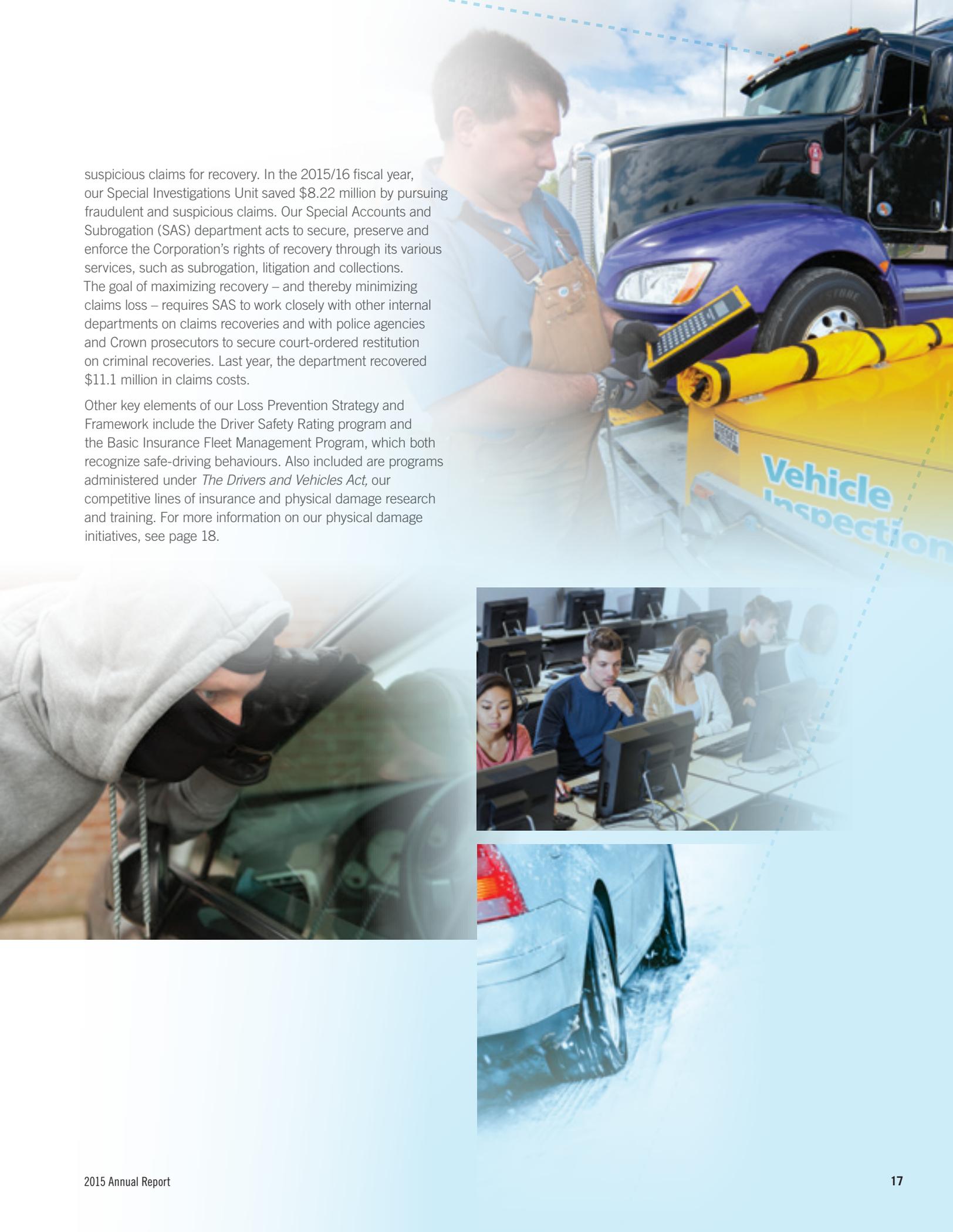
In addition to road safety, another key element of loss prevention is reducing auto theft, with the Corporation and its like-minded partners continuing to focus on auto theft initiatives to keep this costly crime to a minimum. Auto thefts in Winnipeg have decreased by 82 per cent since 2004, and combined total and attempted thefts across the province have decreased by 78 per cent since 2006. The bulk of this success continues to be attributed to two different but complementary initiatives: the Winnipeg Auto Theft Suppression Strategy (WATSS) and the Immobilizer Incentive Program. WATSS encompasses a range of enforcement, suppression and intervention efforts, while the Immobilizer Incentive Program continues to fund the installation of approved, aftermarket immobilizers in vehicles deemed more at risk of being stolen. In 2015, we also launched new public awareness campaigns in partnership with the Winnipeg Police Service, CAA Manitoba and Citizens on Patrol groups throughout Manitoba to raise awareness about a growing concern involving auto theft resulting from vehicle keys being left unattended and vehicles being left running.

Fraud prevention and subrogation and recovery are also important aspects of the Loss Prevention Strategy and Framework. Our Special Investigations Unit investigates suspicious claims arising from arson, fraud, auto theft, organized criminal activity and other suspicious circumstances, which expose the Corporation to financial risk and fraud. Investigators with specialty expertise work co-operatively with other departments within Manitoba Public Insurance, police agencies and the Crown attorney on claims, while also refining policies and procedures to deter criminal activity and identify



suspicious claims for recovery. In the 2015/16 fiscal year, our Special Investigations Unit saved \$8.22 million by pursuing fraudulent and suspicious claims. Our Special Accounts and Subrogation (SAS) department acts to secure, preserve and enforce the Corporation's rights of recovery through its various services, such as subrogation, litigation and collections. The goal of maximizing recovery – and thereby minimizing claims loss – requires SAS to work closely with other internal departments on claims recoveries and with police agencies and Crown prosecutors to secure court-ordered restitution on criminal recoveries. Last year, the department recovered \$11.1 million in claims costs.

Other key elements of our Loss Prevention Strategy and Framework include the Driver Safety Rating program and the Basic Insurance Fleet Management Program, which both recognize safe-driving behaviours. Also included are programs administered under *The Drivers and Vehicles Act*, our competitive lines of insurance and physical damage research and training. For more information on our physical damage initiatives, see page 18.



PHYSICAL DAMAGE CLAIMS

Fundamental changes to the auto repair industry are underway, and Manitoba Public Insurance is working hard to ensure safe, reliable and quality repairs for all Manitobans as these changes unfold.



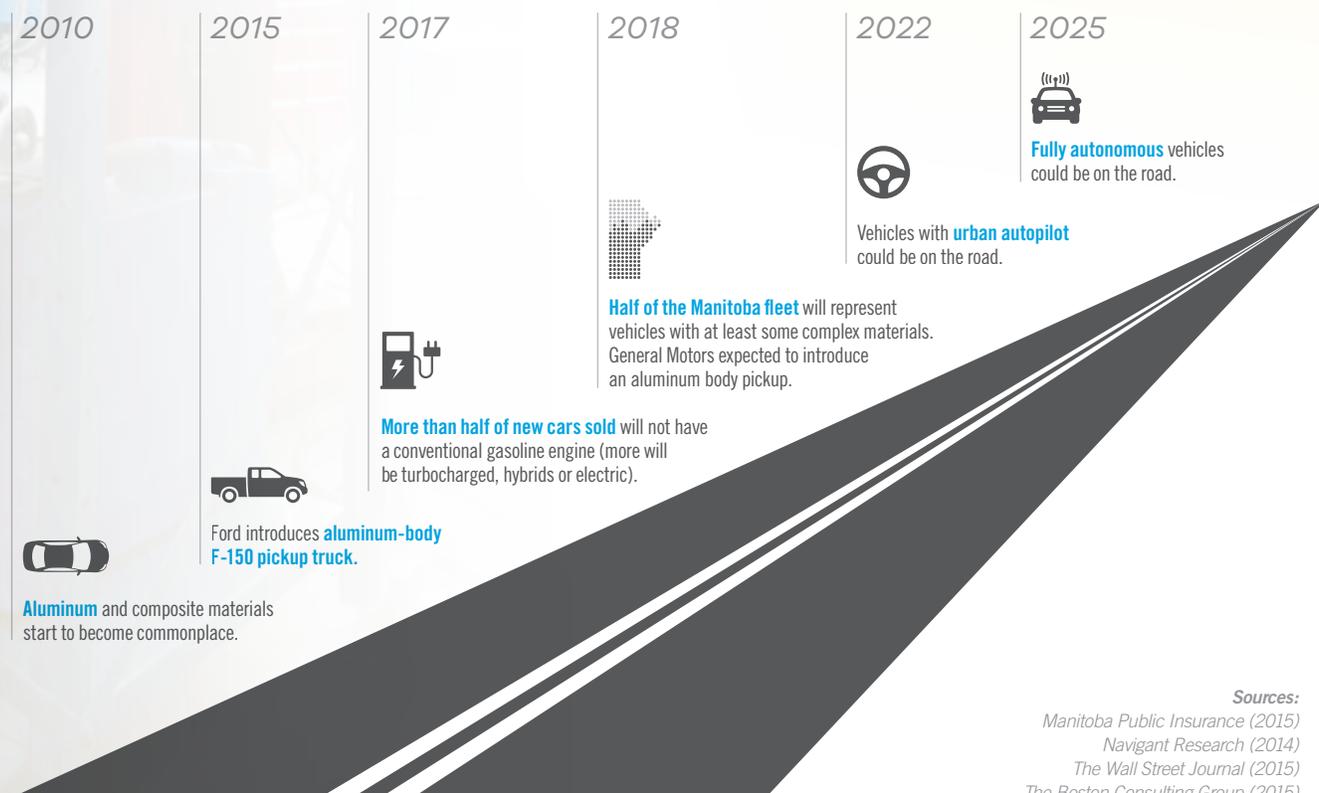
More vehicles are being made with complex materials such as aluminum, advanced high-strength steels, magnesium and carbon fibre instead of traditional steel. Collision-avoidance technologies and other electronics are also becoming more widespread. These new materials and electronics require specialized repair processes, which Manitoba's robust collision repair trade is addressing by investing in additional training, tools, equipment and facilities. We are committed to assisting the repair industry in meeting the challenges of increasingly complex vehicle design and construction, and in continuing to perform the quality repairs that help keep our roads safe.

As such, Manitoba Public Insurance is investing in construction of a new Centre of Excellence in Automotive Research and Training at our Physical Damage Centre. The Centre of Excellence will enable qualified technicians to share and teach the newest auto body repair techniques and technologies. We are also working closely with Red River College and Apprenticeship Manitoba to further improve training opportunities for industry professionals and apprentices.

Our collaborative relationship with the collision repair industry also includes financial incentives for registered apprentices, sponsorship of Skills Manitoba, a non-profit organization that promotes the skilled trades and technology sectors, and an ongoing agreement with the Automotive Trades Association and the Manitoba Motor Dealers Association. We are also working with original equipment manufacturers through the Global Automakers of Canada's Collision Repair Committee to stay educated about technological advancements and share information with Manitoba's repair industry.

In addition to adapting to the changing auto repair industry, we are also working towards streamlining the physical damage claims process with our Physical Damage Re-engineering Program. This long-term initiative includes bringing the Corporation and repair shops onto a shared Mitchell technology platform, empowering accredited repair shops to prepare estimates and developing an application to enable customers to file a first notice of loss online. This evolution will contain costs and maximize efficiencies, with improved communication between the Corporation, repair shops and our customers, and faster turnaround times for repair shops and our customers.

PREPARING FOR INDUSTRY CHANGE



Sources:
 Manitoba Public Insurance (2015)
 Navigant Research (2014)
 The Wall Street Journal (2015)
 The Boston Consulting Group (2015)

PERSONAL INJURY
**PROTECTION
PLAN**



Through the Personal Injury Protection Plan (PIPP), Manitoba Public Insurance, on behalf of the Province of Manitoba, administers comprehensive, world-class injury coverage to support Manitobans recovering from injuries sustained in vehicle collisions.

PIPP ensures that any Manitoban injured in an automobile collision anywhere in Canada and the United States receives coverage and compensation for their claim, that Autopac premiums remain stable, predictable and affordable, and that Manitobans are compensated adequately, fairly and promptly for their economic losses from automobile collisions. In 2015, benefit enhancements were introduced for families that lose an unpaid stay-at-home caregiver in a fatal vehicle collision.

Manitoba Public Insurance remains committed to ensuring catastrophically injured Manitobans are provided with a comprehensive complement of benefits to maximize their recovery. In 2015, our new shared care residence in Brandon opened its doors, providing long-term, permanent housing for four traumatically brain-injured claimants. This pilot project, accomplished by working with partners in government, business and health, builds on that commitment and continues the evolution of increased care and benefits for our most vulnerable and seriously injured claimants.



82%

of injury claimants say they were satisfied with their experience in dealing with Manitoba Public Insurance.

84%

of injury claimants agree that the benefits they received were fair.

83%

of injury claimants agree that Manitoba Public Insurance gave them what they were entitled to under the Personal Injury Protection Plan without having to ask for it.

COMMUNITY PARTNERSHIPS

Manitoba Public Insurance and our employees share a deep-seated commitment to enhancing the social and economic well-being of our communities across the province.





We consistently team up with our numerous partner organizations to support programs and initiatives that contribute to Manitobans' quality of life while aligning with our mission of "working with Manitobans to reduce risk on the road."

To extend the reach of our loss prevention efforts (see page 14), we work closely with like-minded organizations in pursuit of increased road safety. These include MADD Canada, TADD Manitoba, CAA Manitoba, SpeedWatch, the Citizens on Patrol Program, the School Safety Patrol Program, the Manitoba Child Car Seat Program, Operation Red Nose and the Transportation Options Network for Seniors. Through our partnerships with Brandon Transit and Winnipeg Transit, we offer free transit service on New Year's Eve through the Ride Free, Ride Safe Program.

Manitoba Public Insurance is also focused on investing in medical research to improve motor vehicle injury outcomes and has made contributions to the Health Sciences Centre Research Foundation, the Rick Hansen Foundation and the Riverview Health Centre Foundation.

Our support of a wide range of community organizations and initiatives allows us to further contribute to our province while promoting the Corporation's products and services and demonstrating our commitment to social responsibility. These include Bike to Work Day, Children's Rehabilitation Foundation, Downtown Winnipeg BIZ, Habitat for Humanity Manitoba, Junior Achievement, Manito Ahbee, Manitoba Brain Injury Foundation, Special Olympics Manitoba, Skills Manitoba, Sport Manitoba, WE Day, Winnipeg Folk Festival, Winnipeg and Manitoba Crime Stoppers and Winnipeg Pride Parade.

In addition to our corporate efforts, the ongoing involvement of our employees is tremendous. They do not miss an opportunity to initiate and participate in fundraising and volunteer efforts for a number of charitable and community organizations. Staff contributed to, or volunteered their time with, Brush Up Winnipeg, the Christmas Cheer Board, Craig Street Cats, Earth Day, Habitat for Humanity Manitoba, the Heart & Stroke Foundation, Immaculate Conception Drop-In Centre, Koats for Kids, the Manitoba Division of the Canadian Mental Health Association, the Manitoba Dragon Boat Festival, Operation Donation in support of Winnipeg Harvest, the Santa Claus Parade, WE Day, the Winnipeg Fire Paramedic Service Half Marathon and Winnipeg Pet Rescue Shelter. Seventy-six per cent of staff also worked together to raise over \$450,000 for our 2015 United Way workplace campaign, our most successful campaign in the Corporation's history and one that garnered recognition by the United Way of Winnipeg with the Campaign Chair Award for 2015.





MANAGEMENT
DISCUSSION
& ANALYSIS

CORPORATE PROFILE

CORPORATE MISSION

Working with Manitobans to reduce risk on the road.

CORPORATE VISION

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

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

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

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

CORPORATE VALUES

At Manitoba Public Insurance, we value:

Our Customers

Our customers' interests are at the heart of everything we do. We balance the individual customer's needs with the needs of Manitobans as a whole. We base our relationships on respect, fairness, honesty and integrity. We safeguard the confidentiality of information and personal privacy. We are committed to the highest ethical standards and excellence in service.

Our People

Our people are given the skills, tools and encouragement they need to succeed. We provide a respectful, inclusive and safe environment where our staff is well-trained, confident and committed to the Corporate Mission. We provide our people with clear and consistent direction. Our people have the authority they need to do their jobs, providing a sense of achievement from their work, and the opportunity for career growth and advancement. We encourage and support our people to make a positive contribution, both inside and outside the workplace.

Working Together

We work co-operatively with each other and with our business associates, sharing expertise, ideas and resources. Each of us, in our daily work, creates a team environment, drawing on one another to do the best job possible. Our communication with one another is respectful, appropriate and helpful.

Financial Responsibility

Manitoba Public Insurance holds the funds of its policyholders in trust to meet their needs into the future. We operate in a fiscally responsible and cost-effective manner, using investment income to reduce rates and provide long-term benefits to Manitobans.

Excellence and Improvement

We constantly improve our products, services and procedures. As our customers' needs and the business environment continue to change, so must we. We value initiative, creativity and a strong desire for personal, team and corporate success in everything we do. We recognize and reward excellence and improvement in our work.

Our Corporate Citizenship

We lead by example, conducting our affairs responsibly and professionally. We contribute to the social and economic well-being of our communities as well as the sustainable development of Manitoba now and into the future.

SOCIAL AND ECONOMIC CONTRIBUTION

Through the Department of Finance, Manitoba Public Insurance invests in communities throughout Manitoba to the extent investment opportunities of acceptable risk and returns are available. The Corporation also contributes to community and economic development through its local purchasing power and as a major Manitoba employer. In the 2015/16 fiscal year, the Corporation made a direct contribution of close to \$1 billion to Manitoba's economy.

Manitoba Public Insurance has taken a proactive role in identifying and investing in lasting solutions to community safety issues related to vehicles. As a major partner in our communities, the Corporation also supports local charities and non-profit organizations to enhance the quality of life for Manitobans. It is with an eye to future generations and the health of our communities and province that Manitoba Public Insurance ensures its business and purchasing practices, as well as its operations, are in keeping with the principles of sustainable development.

THE CORPORATION'S SERVICE DELIVERY MODEL

Manitoba Public Insurance was created in 1971 with the primary purpose of administering the Basic compulsory, universally available auto insurance program. From the beginning, Basic insurance was charged to both vehicle owners and drivers in an integrated manner, along with vehicle registration and driver licensing. Said another way, registration and insurance have been inextricably linked on both driver's licences and vehicle registration since 1971.

This integration of licensing and insurance is one of the greatest advantages of our public insurance system. It significantly reduces the likelihood of uninsured drivers on the road by ensuring that all licensed drivers are insured drivers and all registered vehicles are insured vehicles.

From 1971 until the Division of Driver and Vehicle Licensing (DDVL) merged with the Corporation in 2004, work effort and responsibility were shared in the following manner:

- Manitoba Public Insurance administered vehicle registration and insurance processing.
- DDVL administered driver licensing and insurance.

In 2004, the government merged the operations of the former DDVL (which was a division of the Ministry of Transportation) and Manitoba Public Insurance, and the Corporation became responsible for the administration of *The Drivers and Vehicles Act*.

The government's stated objectives for the 2004 merger were to:

- improve customer service
- save costs and become more efficient by reducing overlap and duplication
- create a new model for meeting the licensing, registration and insurance needs of Manitobans

The Corporation's chosen approach to achieving the third objective was to enhance its customer-centric service model and create a truly holistic approach to serving Manitobans. The Board of Directors took the view that not only was this an opportunity to improve service significantly, but a responsibility to enhance value to Manitobans to the maximum extent possible. A portion of excess retained earnings from non-Basic lines of business was set aside beginning in 2007 for this purpose. A total of \$91.7 million had been set aside and the fund has since been closed.

Today, the Corporation, its staff and business partners are available to serve Manitobans where and when they need us, and we have significantly reduced unnecessary or lower value interactions. This new model would not have been possible without the merger and is clearly a leading practice in delivering customer service.

Broker Network

Independent insurance brokers are the main conduit for selling and renewing Autopac insurance as well as issuing and renewing driver's licences. Brokers are also responsible for registration for driver education and scheduling of driver testing appointments.

Customers have responded favourably to the level of service provided by our brokers. In general, 92 per cent of Autopac and driver's licence customers were satisfied with the overall level of service they received at a broker's office. Within the last year, 93 per cent of customers said they received prompt service while at a broker's office, 94 per cent of customers responded positively when asked if their account transactions are processed promptly and 97 per cent said brokers treated them courteously and politely.

The Corporation's strong partnership with our broker network is a vital component of our service delivery model and enhances the value provided to our customers across the province.

Service Centres

Our Service Centres conveniently offer a full range of services in one location, including registration, licensing and insurance services, physical damage and bodily injury claims management, driver testing and vehicle standards and inspection. There are Service Centres in 10 communities across the province: Arborg, Beausejour, Brandon, Dauphin, Portage la Prairie, Selkirk, Steinbach, Thompson, Winkler and Winnipeg, which has eight locations.

By aligning all of our Service Centres with our Service Centre model, the Corporation can better meet the changing needs of Manitobans now and into the future, ensure a consistent level of service at all of our locations and be more operationally and financially responsible.



CORPORATE GOVERNANCE

RESPONSIBILITIES OF THE BOARD

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

The Corporation has a comprehensive annual strategic planning process. The Board approves a five-year strategic plan.

Under the provisions of *The Manitoba Public Insurance Corporation Act*, the Board chairperson is required to provide the Minister Responsible for Manitoba Public Insurance with an annual report, which is subsequently reviewed by the Standing Committee of the Legislature. Additional oversight is provided by the Crown Corporations Council, a body given legislative authority to conduct a mandate and strategy review of provincial Crown corporations. The Public Utilities Board approves Basic Autopac insurance rates.

WHISTLEBLOWER REPORT

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

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

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

One report was submitted to the Whistleblower Hotline during the fiscal period March 1, 2015 to February 29, 2016. The report was investigated and the investigation concluded that the allegations of impropriety were unfounded.

FAIR PRACTICES OFFICE

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

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

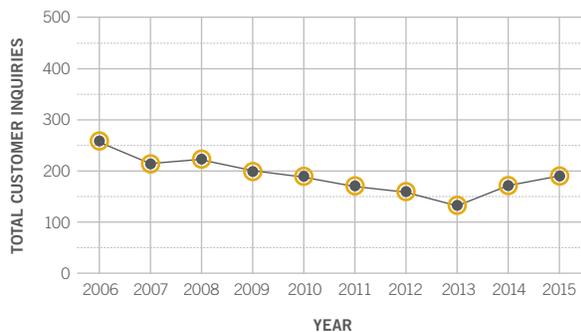
Many of these matters are referred to the FPO by the provincial ombudsman, staff and customers. Inquiries of a systemic or policy nature may also be referred by the Customer Relations unit, which deals primarily with individual customers.

Last year, the FPO completed 182 of the total inquiries received, up from 170 the previous year. The Corporation continues to improve processes for handling escalating concerns and for identifying duplicate inquiries.

2015 Fair Practices Office Results

In the 2015/16 fiscal year, the FPO received 186 documented inquiries from the following referral sources:

| | | |
|-------------------------------------|---|------------|
| Customer | » | 53 |
| Formal Ombudsman inquiries | » | 2 |
| Informal Ombudsman inquiries | » | 107 |
| Internal referrals | » | 14 |
| Ministerial inquiries | » | 10 |



The FPO recommended the Corporation revise its decision in 29 situations or about 15.9 per cent of the cases it reviewed.

COMPLIANCE TO LEGISLATIVE AUTHORITY: SUSTAINABLE DEVELOPMENT ACT

In accordance with Section 14 of *The Manitoba Sustainable Development Act* (1997), the Corporation did not experience any environmental incidents between March 1, 2015 and February 29, 2016.

The Corporation has a sustainable development program including policies and guidelines to reduce the environmental impact of the Corporation and its business partners. Highlights of this program are outlined as follows:

Fleet Vehicle Management

The Corporation has a fuel-efficient vehicle fleet with 54 per cent hybrid and fuel-efficient four-cylinder engine vehicles. Average fuel efficiency for the regular fleet was down slightly from 11.6 litres/100 km to 12.0 litres/100 km in the last year.

Facilities Management

The Corporation continues to apply sustainable practices in the construction and operation of its facilities including certifying buildings to accepted environmental standards.

- LEED (Leadership in Energy and Environmental Design) Certification for New Construction: one gold certification and three silver certifications
- BOMA (Building Owners and Managers Association) BEST: nine certified
- Green Globes: four certified

All of the Corporation's newest Service Centres meet these standards.

In older buildings, the Corporation pursues sustainable upgrades during lifecycle replacement or major renovations by adding features found in its newer buildings including:

- **Heating, Ventilating and Air Conditioning (HVAC)**
 - » digital control and integration of major HVAC components
 - » high-efficiency components (boilers, roof-top units, heaters)
 - » geothermal heat pumps that utilize ground temperature to heat and cool the building
 - » glycol heat recovery systems to reuse exhaust heat within the building
 - » variable speed motors in HVAC components to conserve electricity
 - » air quality sensors to control the amount of fresh air brought into the building
 - » under-floor heat distribution
- **Electrical Conservation**
 - » design elements (reflective light shelves, clerestory windows, skylights in garages) in newer facilities make better use of natural light and reduce the need for artificial lighting
 - » sensor-controlled lighting uses occupancy and natural light sensors to control light fixture output

- » conversion of older incandescent lighting used in garages and outside buildings to more efficient compact fluorescent, T5 fluorescent and halogen lighting
- » high-efficiency hot water tanks
- » temperature-sensitive block heater plugs
- » LED exit lights, handheld estimating lights and interior office lighting

- **Water Conservation**

- » low-flow toilets and fixtures
- » waterless urinals
- » sensor-controlled bathroom fixtures

Environmental Testing

The Corporation undertakes environmental testing to ensure that environmental risks are detected and managed.

| Testing | Results (2015/16) |
|--|--|
| New properties to identify environmental issues | » No contamination detected |
| Well water quality at those sites where a well is used | » Testing showed no signs of E. coli or coliform |
| Runoff water and sediments for vehicle-related contaminants | » Testing showed very low levels of contaminants, all within acceptable levels |
| Waste audits to evaluate recycling success and opportunities | » Results were down from the previous year |

Recycling and the Use of Recycled Goods

The Corporation has programs to divert waste into reusable forms and promotes the use of materials with recycled content.

| Results (2015/16) | Activity |
|-------------------|---|
| 29,879 | » salvage vehicles were sold to automobile recyclers and the public to be rebuilt or used for replacement parts |
| 16,519 | » salvage vehicles had freon extracted from the vehicle air conditioning system as needed |
| 507 | » pre-1995 vehicles were sold for scrap |
| Results (2015/16) | Recycled Materials |
| 847 | » computers and related devices |
| 179 | » tonnes of paper, cardboard, plastic and metal containers |
| 68,696 | » recycled parts available for use in claims repairs |
| 131 | » kilograms of batteries and electronics |

CORPORATE GOALS, STRATEGIES AND MEASURES

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

GOAL 1

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

Strategies

- 1.1 Basic automobile insurance – to ensure that the Basic, compulsory program meets the needs of Manitoba motorists for affordable, accessible and comprehensive coverage.
- 1.2 To keep all controllable costs at their lowest possible level through loss prevention and cost containment strategies.
- 1.3 To improve the efficiency and convenience of Manitoba Public Insurance's distribution and service network by reducing or eliminating low value transactions.
- 1.4 To the maximum extent possible, leverage synergies offered by strategic partners that are mutually beneficial, improve customer service and reduce costs.
- 1.5 To increase the percentage of revenue derived from investment income while remaining within acceptable investment risk profiles.
- 1.6 To create and maintain an information technology environment that is efficient, adaptable, expandable and current to capitalize on opportunities. We will use economies of scale, new technology and existing capabilities to improve customer service and control costs.
- 1.7 We will develop systems that leverage technologies and processes across divisions providing the greatest corporate benefit possible.
- 1.8 To maintain the Basic Insurance Rates Stabilization Reserve to protect motorists from rate increases that would otherwise have been necessary due to unexpected variances from forecasted results and due to events and losses arising from non-recurring events and factors.

Rate Comparison Chart



2016 rates based on:

2010 Dodge Grand Caravan SE,
\$500 all-perils deductible,
\$2 million third-party liability

21-Year-Old Male
Claims and
conviction free

35-Year-Old Couple
Both claims and
conviction free

40-Year-Old Couple
Both claims and
conviction free

16-Year-Old Son
Claims and
conviction free

| | 21-Year-Old Male | 35-Year-Old Couple | 40-Year-Old Couple |
|---------------------|-------------------------|---------------------------|---------------------------|
| WINNIPEG, MB | \$1,464 | \$1,161 | \$1,206 |
| CALGARY, AB | \$3,109 | \$1,465 | \$2,299 |
| TORONTO, ON | \$6,861 | \$3,778 | \$7,041 |

Notes: 1. The 2010 Dodge Grand Caravan SE is the most common passenger vehicle registered in Manitoba.
2. Manitobans will pay less for their automobile insurance in 2016 than most major Canadian cities.

GOAL 2

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

Strategies

- 2.1 To maintain claims expense per reported claim at a maximum of 50 per cent of industry average.
- 2.2 To break even over the long term on Basic automobile insurance.
- 2.3 To use investment income to reduce the average premium paid by Manitobans.



GOAL 3

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

Strategies

- 3.1 To ensure Manitobans receive understandable information on Manitoba Public Insurance products, entitlements, services and service standards. The Corporation will adopt a strategy that ensures information reaches the appropriate target groups at appropriate times.
- 3.2 Autopac Extension – to be profitable by providing products and services that continue to recognize the changing needs of our customers and continue to successfully achieve high levels of customer satisfaction through strategic pricing, accessibility and convenience. To mitigate risk through appropriate product design and automated underwriting techniques.
- 3.3 Special Risk Extension – to be profitable by responding to the variable and specialized needs of our commercial customers and providing personalized auto-related insurance products that cannot be met by the universal, compulsory program or by the automobile extension program. To partner with customers in pursuing fleet safety and loss prevention initiatives. To provide Manitobans with a stable market choice that promotes long-term partnerships.
- 3.4 To use our economies of scale to help ensure safe, quality, reliable repairs for Manitobans by providing support for skilled trades through the development and delivery of cost-effective training.
- 3.5 To leverage our service delivery model to meet customer expectations, increasing accessibility and convenience.
- 3.6 To expand the value that the Corporation provides Manitobans by capitalizing on the effectiveness of its technology and distribution channels to develop innovative solutions that benefit its customers in a cost-effective manner.
- 3.7 To improve the service relationship between drivers and vehicle owners and the Corporation by modernizing business processes and ensuring all aspects of driver risk rating are consistent, clear and fair.



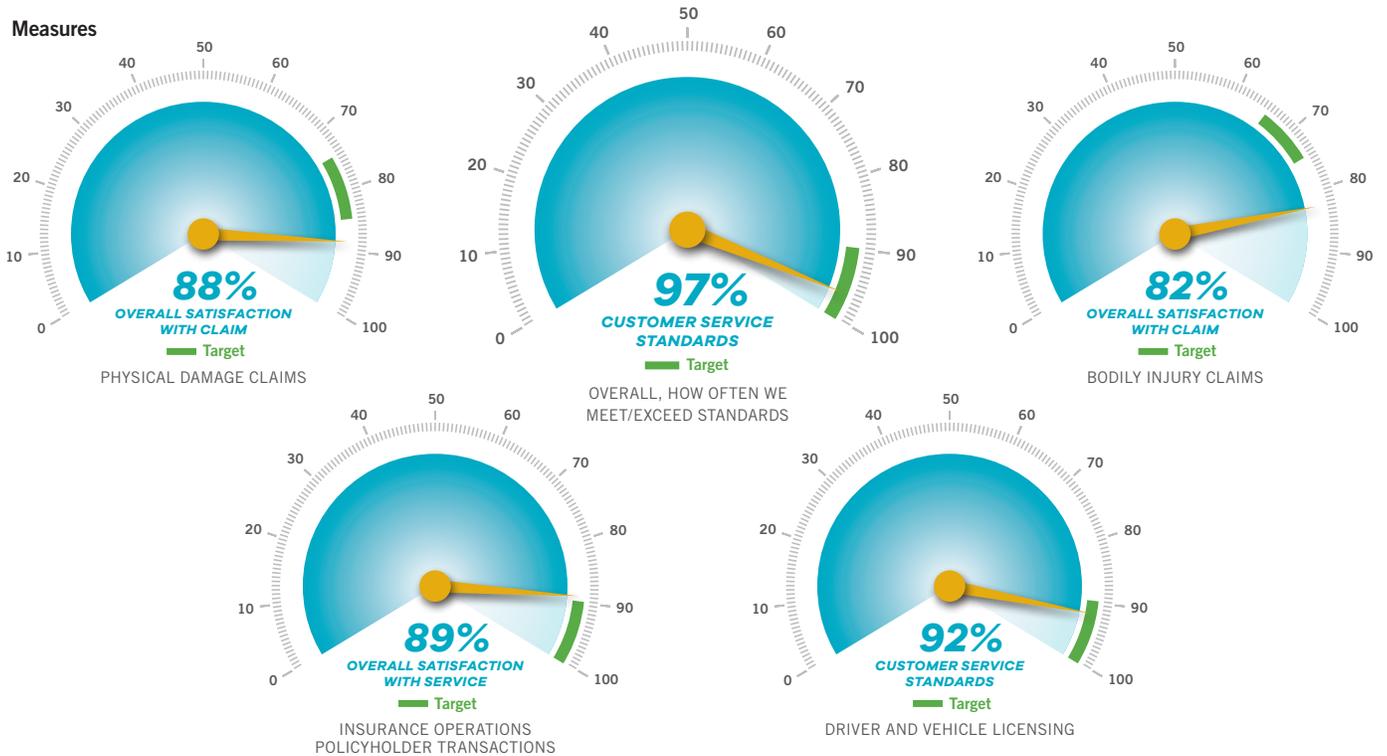
GOAL 4

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

Strategies

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

Measures



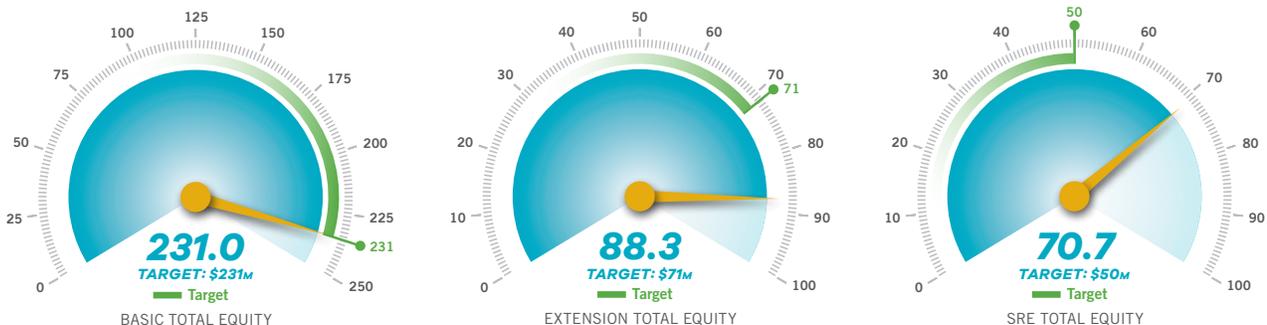
GOAL 5

Total equity will be maintained within established target levels.

Strategies

- 5.1 To maintain financial stability by setting appropriate premium rates, strengthening investment income and maintaining total equity within established target levels.
- 5.2 To continuously identify and assess the likelihood and magnitude of potential risks and act explicitly to avoid and mitigate such risks.
- 5.3 To develop business strategies to ensure competitive lines of business are profitable and contribute to the benefit of all Manitobans.
- 5.4 To assess corporate financial risk in keeping with industry standards and establish appropriate total equity target levels for each line of business.

Measures



GOAL 6

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

Strategies

- 6.1 To build a culture of greater collaboration, accountability and innovation.
- 6.2 To foster a culture that attracts and retains a diverse workforce.
- 6.3 To continue to provide clear direction and foster a management style that reflects our values and supports employee commitment to the organization.
- 6.4 To use change management strategies that ensure communication, education and employee training support and facilitate business change.
- 6.5 To ensure employees are provided with effective, informative and timely two-way communication.

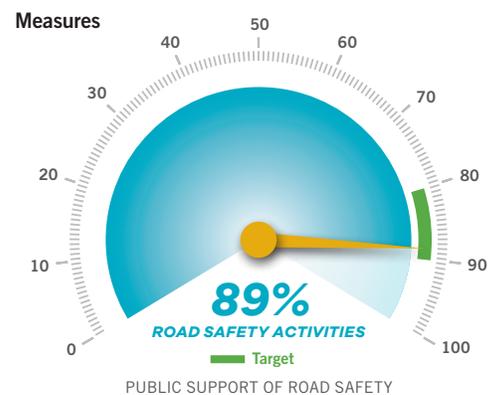


GOAL 7

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

Strategies

- 7.1 To develop an evidence-based road safety strategy with an aim to reduce automobile collisions, using a multi-faceted approach.
- 7.2 To ensure Manitoba drivers meet and continue to maintain established standards of knowledge, skill and behaviour to gain access to Manitoba roads.
- 7.3 To reduce risk on the road by working with and supporting the vehicle repair industry to ensure safe, quality and reliable repairs for Manitobans.
- 7.4 To ensure vehicles and vehicle repairs meet provincial mechanical standards and repairs are made according to the latest best practices.
- 7.5 To develop strategies and initiatives that support continuous vehicle and driver performance monitoring to ensure Manitoba roads remain safe for everyone.
- 7.6 To continue to provide a clear and understandable Driver Safety Rating program, which rewards safe drivers and motivates higher-risk drivers to improve their driving behaviour through insurance rates that reflect the risk they represent on the road.
- 7.7 To enhance road safety research and awareness activities, fine-tune and target advertising campaigns, and explore innovative ways to reach Manitobans with road safety messaging by leveraging the latest technologies.
- 7.8 To partner with community groups across Manitoba supporting community-based initiatives that increase road safety awareness and education opportunities.



RESULTS OF OPERATIONS

CORPORATE

During the reporting period, for every dollar of revenue earned, the Corporation provided Manitobans with 82 cents in claims benefits. Operating, including regulatory and appeal expenses, accounted for 11 cents of every dollar of revenue earned while broker commissions and premium taxes cost 10 cents. This resulted in an underwriting loss of 3 cents. As investment loss was essentially zero cents for every dollar of revenue earned, the Corporation's net loss was 3 cents for every dollar of revenue earned during the year.

Current Year and Last Year

In 2015/16, the Corporation had a net loss of \$31.3 million, \$88.9 million worse than the previous year. The underwriting results were better than 2014/15, due primarily to an increase in earned revenue of \$71.3 million and a decrease of \$72.4 million in claims costs resulting from the change in interest rates which positively affected the claims reserves. A decrease in investment income of \$230.9 million compared to last year was the major contributor to the net loss.

Revenue

Total earned revenues in 2015/16 increased \$71.3 million or 6.7 per cent to \$1.1 billion because of the Public Utilities Board-approved 3.4 per cent rate increase for March 1, 2015; the growth in the number of vehicles on the road in Manitoba; the value of these vehicles; and movement of drivers down the Drivers Safety Rating scale, all of which resulted in higher premiums.

Total earned revenues include \$27.9 million received from the Province of Manitoba as part of the agreement for providing services related to *The Drivers and Vehicles Act* operations.

Where Your Premium Dollar Has Gone

| | | | | |
|---|---------|---|------------------------------------|----------------|
| Total Claims Costs | \$ 0.82 | } | TOTAL EARNED REVENUES | \$ 1.00 |
| Operating & Regulatory / Appeal Expense | \$ 0.11 | | - TOTAL CLAIMS AND EXPENSES | \$ 1.03 |
| Broker Commissions | \$ 0.07 | | = UNDERWRITING LOSS | \$ (0.03) |
| Premium Taxes | \$ 0.03 | | + INVESTMENT INCOME | \$ 0.00 |
| | | | = NET LOSS | \$ (0.03) |

Climate Change

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

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

Claims Costs

Beginning in 2005, a new reserving method was implemented for older open Personal Injury Protection Plan (PIPP) claims files. There are now 10 years of development observations under this process of reserving for open claims with continuing periodic payments. These observations have shown relative consistency in the periodic claim development patterns since the introduction of the new process in 2005.

In 2015/16, the Corporation's overall claims costs decreased by \$72.4 million to \$920.5 million compared to 2014/15. The decrease was mostly driven by claims incurred of \$770.6 million, which is \$74.3 million lower than last year. Of this amount, injury claims incurred decreased by \$182.7 million while physical damage claims increased by \$108.4 million. The total number of claims filed increased by 24,713 from 273,244 in 2014/15 to 297,957 in 2015/16.

The \$182.7 million decrease in injury claims incurred is mainly due to a \$176.3 million decrease in injury claim liabilities resulting from a higher interest rate assumption used in discounting these liabilities and a \$18.2 million favourable claims development, offset by a \$11.8 million higher net severity and volume of injury claims.

The increase of \$108.4 million in physical damage claims was attributed to an increase in comprehensive claims incurred of \$62.1 million or 65.0 per cent from last year. Weather-related claims costs included approximately \$52.6 million from severe hailstorms that struck Manitoba communities this past summer which resulted in 13,710 claims. Collision claims decreased by 2,823 claims or 1.8 per cent from 153,494 claims last year to 150,671. Total severity of physical damage claims increased \$62.0 million in 2015/16.

In 2015/16, we did not see any one significant hailstorm requiring reinsurance recovery, but claims resulting from hailstorms contributed \$52.6 million to the Corporation's overall claims costs. In 2014/15, the Corporation incurred \$13.8 million relating to hail claims. There were significantly more hailstorms in 2015/16 than in recent years.

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

Expenses

Total corporate expenses increased to \$235.2 million, up \$1.8 million from last year. This increase was due primarily to Premium Taxes increase as they are reflective of the increase in Premiums, offset by a reduction in Regulatory/Appeal expenses.

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

Investment Income

Total investment income, including impairments and investment management fees, declined dramatically to a loss of \$4.7 million compared to investment income of \$226.1 million last year, a decrease of \$230.8 million. The \$230.8 million decline is primarily due to rising interest rates causing a higher than expected loss to the bond portfolio (\$164.4 million). In addition, equity markets experienced a significant decline in the Oil and Gas sector causing lower than expected returns and impairment losses to the equity portfolio. Please refer to Note 6 of the Condensed Financial Statements for a breakdown of investment income by type of investment.

The Minister of Finance is responsible for investing the money that Manitoba Public Insurance sets aside for future claims payments and other liabilities. Investment income reduces rates that would otherwise

be payable by policyholders. The total fair value of the Corporation's investment portfolio was \$2.5 billion at February 29, 2016, a decrease of 2.7 per cent or \$67.3 million from the previous year. The bond portfolio, which accounts for 66.2 per cent of the investment portfolio, is primarily invested in two types of bonds:

- Marketable bonds, mainly issued by the governments of Manitoba and other provinces, including floating rate notes (41.6 per cent of the total portfolio market value).
- Non-marketable bonds issued by Manitoba municipalities, hospitals and school divisions, purchased through the Manitoba Department of Finance (24.6 per cent of the total portfolio).

The Minister of Finance through his government department has selected three external investment managers to administer Manitoba Public Insurance's Canadian equity portfolio, which represents 11.9 per cent of the total investment portfolio. The Corporation also has 6.6 per cent of its portfolio in United States equities with exposure to the U.S. equity market through two exchange traded funds. Cash and cash equivalents account for 1.5 per cent of the investment fund; investment in four infrastructure holdings accounts for 3.3 per cent of investments and pooled real estate funds account for 8.8 per cent while directly held real estate investments account for 1.7 per cent of the investment portfolio.

The total portfolio, on a market value basis, had a negative 0.5 per cent return during the fiscal year. Marketable bonds returned negative 2.5 per cent while non-marketable bonds returned 4.9 per cent. The total Canadian equity portfolio earned negative 13.3 per cent, while large cap Canadian equities returned negative 14.9 per cent and small cap Canadian equities returned negative 4.2 per cent. U.S. equities returned negative 3.1 per cent in Canadian dollars. Over a four-year period, the investment portfolio has achieved an annualized return of 6.3 per cent.

BASIC

Years Ended February 29/28

| Basic Autopac – Five-Year Statistics (\$000) | 2016 | 2015 | 2014 | 2013 ⁽¹⁾ | 2012 |
|--|----------|---------|----------|---------------------|---------|
| Premiums written | 888,365 | 824,865 | 784,741 | 746,044 | 779,953 |
| Claims incurred | 666,404 | 745,837 | 747,435 | 661,288 | 612,037 |
| Claims expense | 118,614 | 116,578 | 114,552 | 108,587 | 109,760 |
| Other expenses | 148,410 | 146,953 | 139,964 | 140,794 | 137,669 |
| Net income (loss) | (56,050) | 2,440 | (69,162) | (63,103) | 22,278 |
| Net income (loss) after surplus distribution | (56,050) | 2,440 | (69,162) | (63,103) | 8,158 |

⁽¹⁾ Restated for the impact of IAS 19R

Current Year and Last Year

In 2015/16, Basic insurance had a net loss from annual operations of \$56.1 million, \$58.5 million worse than last year. Underwriting results improved by \$134.0 million which was offset by the drop in Basic's share of investment loss by \$192.5 million. The \$134.0 million increase in underwriting results was primarily resulting from a \$58.1 million increase in earned revenues, a decrease in total claims costs of \$75.7 million due to the change in interest rates which positively affected the claims reserves and a decrease in total expenses of \$0.2 million.

Revenue

The number of policies in force at year end increased to 1,086,538 from 1,064,506. Total earned revenues increased from \$823.4 million last year to \$881.4 million.

Claims Costs

Total claims costs decreased to \$798.0 million, \$75.7 million lower compared to last year. The change in claims costs is comprised of a \$175.8 million decrease in injury claims incurred, offset by a \$96.4 million increase in physical damage claims incurred and a \$3.7 million increase in claims expense.

Injury claims incurred decreased by \$175.8 million due to lower than expected claims development costs and increasing interest rates, which led to a decrease in injury claim liabilities. The number of injury claims increased by 3.7 per cent from 16,193 to 16,796.

Physical damage claims incurred were higher compared to last year, increasing by \$96.4 million. The increase in the number of hail claims reported increased comprehensive claims incurred to \$123.4 million,

a \$53.7 million increase from last year. The number of collision claims decreased by 2,823 but the severity for collision claims increased by \$45.3 million from last year. Total severity for Basic physical damage claims increased by \$58.1 million in 2015/16.

Injury Claims

Years Ended February 29/28

| Type of Claim | 2016 | 2015 | 2014 | 2013 | 2012 |
|----------------------|---------------|---------------|---------------|---------------|---------------|
| Fatal* | 116 | 92 | 118 | 110 | 141 |
| Brain Injury | 48 | 55 | 47 | 61 | 91 |
| Concussion | 94 | 116 | 131 | 185 | 185 |
| Quadriplegic | - | 4 | 1 | 2 | 6 |
| Paraplegic | 3 | 4 | 2 | 2 | 1 |
| Broken Bones | 876 | 686 | 707 | 771 | 849 |
| Sprains and Strains | 7,749 | 7,177 | 5,669 | 4,821 | 3,980 |
| Whiplash** | 6,237 | 6,170 | 9,018 | 9,249 | 8,646 |
| Bruising/Lacerations | 958 | 1,161 | 953 | 975 | 1,072 |
| Other** | 715 | 728 | 721 | 934 | 1,624 |
| Total | 16,796 | 16,193 | 17,367 | 17,110 | 16,595 |

*Fatal includes PIPP, non-PIPP and those still under investigation as at February 29/28. Prior years have been restated.

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

Expenses

Basic expenses decreased from \$135.6 million last year to \$135.4 million. The decrease was primarily due to lower operating and regulatory appeal expenses, offset by higher commissions and premiums taxes.

Investment Income

Basic's share of corporate investment loss was \$4.0 million, including impairments and investment management fees. This was a decrease of \$192.5 million or 102.1 per cent compared to last year, attributable mainly to rising interest rates causing a higher than expected loss to the bond portfolio. In addition, equity markets experienced a significant decline in the Oil and Gas sector causing lower than expected returns and impairment losses to the equity portfolio.

Total Equity

Net loss for the Basic line of business for 2015/16 decreased retained earnings from \$177.8 million to \$121.7 million. Combined with the Accumulated Other Comprehensive Income, the Basic total equity was \$158.3 million. As per the Risk Management section, the Corporation's Chief Actuary concluded that a minimum total equity level of \$231.0 million would be required for Basic to achieve a satisfactory future financial condition. The Corporation transferred \$72.7 million to Basic retained earnings from the Extension line of business. This transfer results in an ending retained earnings for Basic of \$194.4 million and total equity of \$231.0 million to support rate stabilization.

EXTENSION

Years Ended February 29/28

| Extension – Five-Year Statistics (\$000) | 2016 | 2015 | 2014 | 2013 ⁽¹⁾ | 2012 |
|--|---------|---------|---------|---------------------|---------|
| Premiums written | 144,299 | 138,667 | 134,470 | 133,477 | 126,300 |
| Claims incurred | 65,967 | 56,443 | 60,052 | 56,953 | 50,991 |
| Claims expense | 9,757 | 11,749 | 11,974 | 12,505 | 16,505 |
| Other expenses | 49,248 | 51,363 | 50,843 | 47,183 | 48,540 |
| Net income | 26,644 | 43,134 | 31,125 | 28,724 | 21,837 |

⁽¹⁾ Restated for the impact of IAS 19R

Current Year and Last Year

Extension insurance reported net income of \$26.7 million compared to \$43.2 million the previous year. The \$16.5 million decrease in net income was due to a \$18.2 million decrease in Extension's share of investment loss, offset by a \$1.7 million increase in underwriting results.

Revenue

Earned revenues from the sale of Extension products increased by \$7.1 million to \$151.9 million compared to last year. All products, including the sale of coverage for third-party liability and deductible buy down contributed to the increase.

Claims Costs

Total claims costs – including claims benefits, claims handling, loss prevention and road safety expenses – increased \$7.5 million to \$76.6 million. Physical damage claims incurred increased by \$8.9 million or 16.0 per cent. Injury claims incurred increased \$0.6 million, due primarily to increased severity and volume of claims. Claims expenses were lower than last year by \$2.0 million.

Expenses

Expenses related to the sale of Extension products was \$48.3 million, a decrease of \$2.1 million from the previous year. This decrease was primarily due to lower commissions of \$2.0 million and lower operating expenses of \$0.3 million, offset by higher premium taxes of \$0.2 million.

Investment Income

Extension's share of corporate investment loss of \$0.3 million, including impairments and investment management fees, was \$18.2 million lower than last year.

Retained Earnings

Extension's total retained earnings are comprised of retained earnings from the sale of Extension products. As at February 29, 2016, Extension retained earnings totaled \$84.7 million compared to \$130.2 million the previous year. Extension retained earnings decreased by \$72.7 million as a result of the transfer to Basic retained earnings. Extension's current capital target level for total equity is \$71.0 million based on the 2015 Extension Minimum Capital Test (MCT) report.

In 2015/16, \$3.0 million was appropriated from Extension retained earnings to create the Personal Identification Card Fund (PICF). The PICF was established to defray costs of the project to create a personal identification card that incorporates Manitoba Health card information. The Personal Identification Card project has utilized \$1.1 million of the fund.

SPECIAL RISK EXTENSION

Years Ended February 29/28

| SRE – Five-Year Statistics (\$000) | 2016 | 2015 | 2014 | 2013 ⁽¹⁾ | 2012 |
|---|---------------|--------|---------|---------------------|---------|
| Premiums written | 70,521 | 63,022 | 58,781 | 56,750 | 53,287 |
| Claims incurred | 38,253 | 42,596 | 53,650 | 28,241 | 38,822 |
| Claims expense | 6,140 | 5,920 | 6,037 | 5,756 | 6,060 |
| Other expenses | 17,692 | 16,645 | 14,199 | 16,558 | 14,489 |
| Net income (loss) | 4,650 | 10,768 | (6,928) | 10,361 | (2,192) |

⁽¹⁾ Restated for the impact of IAS 19R

Current Year and Last Year

Special Risk Extension (SRE) insurance reported a net income of \$4.7 million, a decrease of \$6.1 million from the previous year. Underwriting results improved by \$9.0 million which was offset by the drop in SRE's share of investment loss of \$15.1 million.

Revenue

Total earned revenues in 2015/16 were \$67.1 million compared to \$61.2 million the previous year. The sale of SRE products, which include large trucking companies' liability, cargo and physical damage coverage, showed a growth of 9.5 per cent compared to last year.

Claims Costs

Total claims costs decreased from \$50.0 million in 2014/15 to \$45.8 million in 2015/16. Injury claims decreased \$7.5 million.

Physical damage claims incurred increased by 16.0 per cent compared to the previous year, a change of \$3.2 million. Claims expense and loss prevention and road safety costs increased by \$0.1 million from the previous year.

Expenses

SRE's expenses increased to \$16.3 million from \$15.2 million, due to an increase in commissions of \$0.9 million and increase in premium taxes of \$0.2 million.

Investment Income

SRE's share of corporate investment loss, including impairments and investment management fees, reflected a decrease of \$15.1 million compared to last year to \$0.3 million.

Retained Earnings

SRE's retained earnings are derived from the annual operations of the SRE line of business. SRE's retained earnings were \$67.6 million as at February 29, 2016, compared to \$62.2 million last year. SRE's current capital target level for total equity is \$50.0 million based on the 2015 SRE MCT report.

THE DRIVERS AND VEHICLES ACT OPERATIONS

Current Year and Last Year

The Drivers and Vehicles Act (DVA) operations experienced a net loss of \$6.6 million in 2015/16 compared to a net income of \$1.2 million last year.

Revenue

The government provides funding to the Corporation that covers the cost of the DVA administrative operation. In 2015/16, the Corporation received \$27.9 million from the Province of Manitoba and reported \$0.8 million in service fees and other revenue, resulting in overall revenue being \$0.3 million higher than the previous year.

Expenses

DVA operations' expenses of \$35.2 million were up \$3.0 million from last year's expenses of \$32.2 million primarily due to one-time initiatives that were required to be undertaken as part of the DVA line of business.

Investment Income

DVA operations portion of corporate investment loss, including investment management fees and impairments, decreased to \$0.1 million, \$5.1 million lower compared to last year.

Retained Earnings

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

RISK MANAGEMENT

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

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

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

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

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

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

The key risk mitigation areas are:

- maintaining adequate unpaid claims reserve
- maintaining an adequate Rate Stabilization Reserve
- governance of investments
- claims control strategies
- information technology processes
- loss prevention strategies

UNPAID CLAIMS

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

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

Because the total amount paid on any single claim may be different from its initial reserve, Manitoba Public Insurance reviews the adequacy of these reserves quarterly. Adjustments, if needed, are calculated by the Corporation's Chief Actuary. An independent assessment of the reserves is also conducted twice a year by the Corporation's external Appointed Actuary. The external auditor performs procedures to assess the reasonability of the reserves as part of its annual audit of the Corporation's financial statements. This process serves to mitigate risk of misstatement of unpaid claims reserves.

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

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

RATE STABILIZATION RESERVE

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

The Corporation's Board of Directors current target for total equity (which includes Basic's retained earnings and the Basic portion of Accumulated Other Comprehensive Income) is \$231.0 million (2015 - \$213.0 million) based on the 2015 Basic Insurance Dynamic Capital Adequacy Test (DCAT) report. In his report, the Corporation's Chief Actuary concluded that a minimum total equity level of \$231.0 million would be required for Basic to achieve a satisfactory future financial condition. A total equity level lower than \$231.0 million would result in a "not satisfactory" opinion because there were plausible adverse scenarios identified where liabilities could exceed assets.

In 2015, the Public Utilities Board accepted the DCAT methodology for the minimum Total Equity target for Basic to be \$231.0 million. With respect to the upper target capital total, the Public Utilities Board approved the use of a 100 per cent MCT ratio on a notional basis only. Previously, the Corporation used the maximum of the Public Utilities Board RSR target in its Public Utilities Board rate application for ratemaking purposes which was based on 10.0 per cent to 20.0 per cent of written premiums.

INVESTMENTS

In accordance with Section 12(1) of *The Manitoba Public Insurance Corporation Act*, the Minister of Finance is responsible for the investments of the Corporation. The Minister has charged the Department of Finance with the operational management of the fund. The Corporation, through the Investment Committee of the Board, works collaboratively with the Department of Finance and makes recommendations to the Minister regarding appropriate policies and strategies to maximize return, minimize volatility and mitigate risk. For example, because the unpaid claims liabilities of the Corporation are inflation sensitive, investments that are inflation sensitive, such as real estate and infrastructure, are included in the portfolio. The Investment Committee has completed asset liability management studies to ensure that the asset mix chosen is compatible with the Corporation's liability profile. A complete description of these risks and risk mitigation strategies is outlined in Note 28 of the 2015/16 audited financial statements located on the Corporation's website mpi.mb.ca.

CLAIMS CONTROL STRATEGIES

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

- Management of an accreditation program for the collision repair industry to ensure high-quality, safe repairs at a reasonable cost. This requires shops and shop technicians to meet standards for facilities, equipment and annual training of technicians.
- Delivery of high-quality collision industry training programs to ensure repairs are performed by highly trained technicians to high standards using current technologies.
- Use of estimating compliance software to ensure all repair estimates are prepared accurately and consistently, ensuring that only required repairs are performed.
- Use of industry-recognized valuation tools to determine actual cash value of vehicles when settling total loss claims.

- Use of aftermarket and recycled parts in vehicle repairs.
- Discounted pricing on glass parts used in vehicle repairs.
- Ensuring collection of claims costs from other insurers and at-fault parties (subrogation).
- Sale of vehicles through salvage and tenders.
- A team-based approach to managing bodily injury claims intended to assist individuals in achieving as full a recovery as possible.

Each year, these initiatives significantly contain costs and generate revenue, which results in lower insurance premiums for our customers. For example, salvage vehicle sales and tenders yielded \$40.6 million in the 2015/16 fiscal year.

INFORMATION TECHNOLOGY PROCESSES

Information Technology Optimization

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

With respect to protecting our ongoing ability to serve customers, we are adopting processes and protocols to ensure "business continuity" in place of the previous approach of "disaster recovery" and continue working to improve our capacity in this area. Through Data Centre Optimization, we are creating an environment of "high availability" where backup systems continue to operate using current information from a second site in the event of a disaster or other business interruption, thus providing better customer service from more highly reliable and available systems.

Business Continuity

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

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

LOSS PREVENTION STRATEGY

The Corporation's Loss Prevention Strategy and Framework brings all elements of loss prevention together to contribute to our overall goal of reduced claims and lower claims costs. This goal ultimately results in lower insurance premiums for ratepayers and increased value for all Manitobans, while also mitigating risk.

Key elements of loss prevention include road safety programming, driver education and training, auto theft initiatives, fraud prevention, subrogation and recovery, disaster recovery and business continuity, the Driver Safety Rating, Basic Insurance Fleet Management Program, programs administered under *The Drivers and Vehicles Act*, our competitive lines of insurance and physical damage research and training. We are also increasing the use of predictive analytics and quantifiable data to assist in loss-prevention efforts.

OUTLOOK

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

BASIC AUTOPAC RATES

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

On June 12, 2015 Manitoba Public Insurance filed its 2016/17 Basic insurance rate application with the Public Utilities Board. The Corporation recommended a zero per cent overall increase in Basic insurance rates compared to the previous year. On December 1, 2015, the Public Utilities Board ordered a zero per cent overall increase.

BASIC AUTOPAC NET INCOME

The Corporation experienced its second consecutive mild winter in 2015/16 resulting in crash rates and injury rates that were below historical norms. Offsetting this favourable experience was record high costs for hail and other storm-related claims, which were more than \$50 million over budget. The Corporation expects both collision frequency and hail frequency to return to historical norms in 2016/17; however, weather continues to be a major cause of variability in the Corporation's claims results.

Physical damage claims severity increased by approximately 10 per cent in 2015/16, which was significantly more than the expected increase of approximately 4 per cent. A key contributor to the deviation from budget was the significant drop in the Canadian dollar, which caused upward pressure on both used vehicle market values and parts prices. At the same time, the Corporation continues to experience cost pressures from increasingly complex and more expensive to repair new vehicles that are entering the fleet. Although it is expected that physical damage severity will return to more moderate growth rates in 2016/17, the Corporation also anticipates that future severity growth will continue to track higher than historical averages due to complex vehicles. The severity of injury claims was on-budget in 2015/16 and continues to track at close to inflationary levels.

The Corporation's equity assets experienced a 9.8 per cent decline in the market value in 2015/16 resulting in lower than expected investment income from this asset class. The Corporation anticipates that equities returns will revert to historical norms in 2016/17, but this forecast is highly uncertain. The forecasted increases in interest rates,

which cause a decrease in the market value of the Corporation's bond values, did not occur in 2015/16. As a result, investment income was better than expected for this asset class. However, the outlook for 2016/17 is that increasing interest rates will cause a decrease in investment income relative to prior years. The Corporation has an asset and liability management program in place that largely immunizes the Corporation from changes in interest rates.

OTHER LINES OF BUSINESS NET INCOME

Extension and Special Risk Extension are expected to realize profits and on-going operations related to the administration of *The Drivers and Vehicles Act* are expected to generate some limited net income to replenish the Extension retained earnings used for start-up costs for the Manitoba Enhanced Identification Card, Manitoba Enhanced Driver's License and the Manitoba Identification Card. Beginning April 1, 2016, the government will increase its payments to the Corporation from \$27.9 million to \$29.4 million per year. Additionally, an annual indexing provision will be applied to the yearly funding for *The Drivers and Vehicles Act* administration.

LOSS PREVENTION

The Corporation's emphasis on loss prevention is formalized in our Loss Prevention Strategy and Framework, which amalgamates the various loss prevention elements that contribute to our overall goal of reduced claims and lower claims costs. To realize this goal, which ultimately contributes to lower insurance premiums for ratepayers, we will continue to focus on road safety as a key element of loss prevention given our unique insight into road safety issues. This insight is gained from our experience and knowledge of drivers and their related claims, as well as their road safety behaviour.

Road safety is a highly complex issue involving interdependencies between road users, the vehicles they drive, the roads they drive on, the legislation that governs driver and vehicle licensing, rules of the road and enforcement. The Corporation's road safety mandate is governed by legislation, and our efforts are guided by a three-year Operational Plan and formal frameworks. These guidelines ensure we set priorities that target the most critical issues with programs that are proven and effective, and evaluated in accordance with best practice standards. A major focus is to administer regulatory programs under *The Drivers and Vehicles Act* that monitor and manage high-risk or medically at risk drivers and that educate and create awareness of road safety risks.

A vital educational component to road safety is our High School Driver Education Program, which attracts more than 12,000 new teen drivers annually. Manitoba parents rely on Manitoba Public Insurance to teach their children about the rules of the road through this training program. We are currently redeveloping the program to ensure an inclusive, world-class program with maximum effectiveness. The multi-year redevelopment includes piloting technologies such as simulators, vehicle telematics and dash cams, and incorporating mobile and online learning. As our communities continue to grow and diversify, we also recognize the need to adopt new approaches to meet the needs of Manitoba's population.

A decorative graphic in the upper right quadrant of the page. It features a white location pin icon at the top, with a dashed white line extending from its base to the left. From the same point, two solid white lines extend downwards and to the left, forming a wide 'V' shape. The background is a gradient from yellow at the top to teal at the bottom.

CONDENSED FINANCIAL STATEMENTS

For the fiscal year ended February 29, 2016

CONDENSED FINANCIAL STATEMENTS

CONDENSED STATEMENT OF FINANCIAL POSITION

As at February 29/28

| (Unaudited – in thousands of Canadian dollars) | Notes | 2016 | 2015 |
|--|-------|------------------|------------------|
| Assets | | | |
| Cash and cash equivalents | 5 | 37,322 | 68,882 |
| Investments | 5 | 2,455,622 | 2,491,176 |
| Investment property | 5 | 42,206 | 42,417 |
| Due from other insurance companies | | 45 | 443 |
| Accounts receivable | | 423,918 | 387,909 |
| Prepaid expenses | | 2,318 | 537 |
| Deferred policy acquisition costs | | 28,844 | 24,014 |
| Reinsurers' share of unearned premiums | | 115 | 79 |
| Reinsurers' share of unpaid claims | | 6,445 | 8,118 |
| Property and equipment | | 115,652 | 122,385 |
| Deferred development costs | | 78,430 | 69,089 |
| | | 3,190,917 | 3,215,049 |
| Liabilities | | | |
| Due to other insurance companies | | 178 | 1 |
| Accounts payable and accrued liabilities | | 66,035 | 62,287 |
| Financing lease obligation | | 4,281 | 4,364 |
| Unearned premiums and fees | | 560,548 | 527,121 |
| Provision for employee current benefits | | 22,685 | 22,164 |
| Provision for employee future benefits | | 378,117 | 391,119 |
| Provision for unpaid claims | 4 | 1,769,110 | 1,786,566 |
| | | 2,800,954 | 2,793,622 |
| Equity | | | |
| Retained Earnings | | 346,736 | 378,050 |
| Accumulated Other Comprehensive Income | | 43,227 | 43,377 |
| Total Equity | | 389,963 | 421,427 |
| | | 3,190,917 | 3,215,049 |

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

CONDENSED STATEMENT OF OPERATIONS

For the years ended February 29/28

| (Unaudited – in thousands of Canadian dollars) | Notes | 2016 | 2015 |
|---|-------|------------------|------------------|
| Earned Revenues | | | |
| Gross premiums written | | 1,119,774 | 1,044,356 |
| Premiums ceded to reinsurers | | (16,588) | (17,801) |
| Net premiums written | | 1,103,186 | 1,026,555 |
| (Increase) decrease in gross unearned premiums | | (33,040) | (24,803) |
| Increase (decrease) in reinsurers' share of unearned premiums | | 36 | 18 |
| Net premiums earned | | 1,070,182 | 1,001,770 |
| Service fees & other revenue | | 30,980 | 28,097 |
| <i>The Drivers and Vehicles Act</i> operations recovery | | 27,900 | 27,900 |
| Total Earned Revenues | | 1,129,062 | 1,057,767 |
| Claims Costs | | | |
| Direct claims incurred - gross | | 771,691 | 843,632 |
| Claims (recovered) incurred ceded to reinsurers | | (1,066) | 1,243 |
| Net claims incurred | | 770,625 | 844,875 |
| Claims expense | | 134,511 | 134,247 |
| Loss prevention/Road safety | | 15,316 | 13,775 |
| Total Claims Costs | | 920,452 | 992,897 |
| Expenses | | | |
| Operating | | 121,821 | 121,791 |
| Commissions | | 77,076 | 77,109 |
| Premium taxes | | 32,602 | 30,587 |
| Regulatory/Appeal | | 3,694 | 3,955 |
| Total Expenses | | 235,193 | 233,442 |
| Underwriting Loss | | (26,583) | (168,572) |
| Investment Income (Loss) | 6 | (4,731) | 226,150 |
| Net Income (Loss) from Operations | | (31,314) | 57,578 |

CONDENSED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

For the years ended February 29/28

| (Unaudited – in thousands of Canadian dollars) | Notes | 2016 | 2015 |
|--|-------|-----------------|---------------|
| Net Income (Loss) from Operations | | (31,314) | 57,578 |
| Other Comprehensive Income (Loss) | | | |
| Items that will not be reclassified to income | | | |
| Remeasurement of Employee Future Benefits | | 32,395 | (40,099) |
| Items that will be reclassified to income | | | |
| Unrealized gains (losses) on Available for Sale assets | | (66,316) | 34,689 |
| Reclassification of net realized (gains) losses related to Available for Sale assets | | 33,771 | (28,064) |
| Net unrealized gains (losses) on Available for Sale assets | | (32,545) | 6,625 |
| Other Comprehensive Loss for the year | | (150) | (33,474) |
| Total Comprehensive Income (Loss) | | (31,464) | 24,104 |

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

CONDENSED STATEMENT OF CHANGES IN EQUITY

| (Unaudited - in thousands of Canadian dollars) | Retained Earnings | Accumulated Other Comprehensive Income | Equity |
|--|----------------------|---|----------------|
| Balance as at March 1, 2014 | 320,472 | 76,851 | 397,323 |
| Net income from operations for the year | 57,578 | - | 57,578 |
| Other comprehensive loss for the year | - | (33,474) | (33,474) |
| Balance as at February 28, 2015 | 378,050 | 43,377 | 421,427 |
| Net loss from operations for the year | (31,314) | - | (31,314) |
| Other comprehensive loss for the year | - | (150) | (150) |
| Balance as at February 29, 2016 | 346,736 | 43,227 | 389,963 |

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

CONDENSED STATEMENT OF CASH FLOWS

For the years ended February 29/28

(Unaudited - in thousands of Canadian dollars)

| | Notes | 2016 | 2015 |
|--|-------|-----------------|-----------------|
| Cash Flows from (to) Operating Activities: | | | |
| Net income (loss) from operations | | (31,314) | 57,578 |
| Non-cash items: | | | |
| Depreciation of property and equipment | | 5,670 | 6,534 |
| Amortization of deferred development costs | | 11,506 | 16,575 |
| Amortization of bond discount and premium | | 3,754 | 1,807 |
| Gain on sale of investments | | (14,778) | (55,984) |
| Unrealized (gain) loss on Fair Value Through Profit or Loss bonds | | 76,744 | (75,691) |
| Unrealized gain on pooled real estate | | (12,713) | (11,927) |
| Unrealized gain on investment in infrastructure | | (6,375) | (5,562) |
| Impairment of available for sale investments | | 33,375 | 830 |
| | | 65,869 | (65,840) |
| Net change in non-cash balances: | | | |
| Due from other insurance companies | | 398 | 3,637 |
| Accounts receivable and prepaid expenses | | (37,790) | (53,260) |
| Deferred policy acquisition costs | | (4,830) | 728 |
| Reinsurers' share of unearned premiums and unpaid claims | | 1,637 | 16,605 |
| Due to other insurance companies | | 177 | (1,933) |
| Accounts payable and accrued liabilities | | 3,748 | (739) |
| Unearned premiums and fees | | 33,427 | 29,310 |
| Provision for employee current benefits | | 521 | 364 |
| Provision for employee future benefits | | 19,393 | 17,882 |
| Provision for unpaid claims | | (17,456) | 77,852 |
| | | (775) | 90,446 |
| | | 65,094 | 24,606 |
| Cash Flows from (to) Investing Activities: | | | |
| Purchase of investments | | (1,055,166) | (1,023,478) |
| Proceeds from sale of investments | | 981,785 | 996,755 |
| Acquisition of property and equipment net of proceeds from disposals | | (2,343) | (5,069) |
| Financing lease obligation | | (83) | (61) |
| Deferred development costs incurred | | (20,847) | (17,079) |
| | | (96,654) | (48,932) |
| Decrease in Cash and Cash Equivalents | | (31,560) | (24,326) |
| Cash and cash equivalents beginning of year | | 68,882 | 93,208 |
| Cash and Cash Equivalents end of year | 5 | 37,322 | 68,882 |
| Supplemental cash flow information: | | | |
| Interest received | | 50,052 | 49,120 |
| Dividends received | | 16,963 | 29,581 |

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

NOTES TO CONDENSED FINANCIAL STATEMENTS

February 29, 2016

1. STATUS OF CORPORATION

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

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

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

2. BASIS OF REPORTING

Statement of Compliance

The financial statements of the Corporation are in such form as prescribed by Section 43(1) of *The Manitoba Public Insurance Corporation Act* and are presented in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements were authorized for issue by the Board of Directors on May 26, 2016.

The external actuary is appointed by the Board of Directors of the Corporation. With respect to preparation of these financial statements, the Appointed Actuary is required to carry out a valuation of the insurance contract liabilities and to report thereon to the Corporation's Board of Directors. Insurance contract liabilities includes unearned premiums and unpaid claims and adjustment expenses.

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

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

Basis of Presentation

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

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

The following balances are generally classified as non-current: investment property, property and equipment, deferred development costs, financing lease obligation, provision for employee future benefits and provision for unpaid claims.

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

Seasonality

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

Basis of Measurement

The Corporation prepares its financial statements as a going concern, using the historical cost basis, except for financial instruments and insurance contract liabilities and reinsurers' share of unpaid claims. Measurement of the financial instruments is detailed in Note 3. Insurance contract liabilities and reinsurers' share of unpaid claims are measured on a discounted basis in accordance with accepted actuarial practice (which in the absence of an active market provides a reasonable proxy for fair value) as explained in Note 3.

Estimates and Judgments

The preparation of financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from these estimates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For a complete listing of significant accounting policies, please refer to the February 29, 2016 audited financial statements available at mpi.mb.ca.

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

Investments

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

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

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

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

Investments that are determined to be impaired are written down to their expected recoverable amount. For equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

Fair Value Determination

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

Property and Equipment

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

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

LAND & BUILDING

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

FURNITURE & EQUIPMENT

- computer equipment » 3 years
- vehicles » 5 years
- furniture and equipment » 10 years

Buildings held under a long-term lease arrangement are depreciated on a straight-line basis over 40 years. Leasehold improvements are carried at cost and are depreciated over the term of the lease plus the first renewal period. Depreciation of construction in progress will begin, in accordance with the above policy, when construction has been completed. Land is not subject to depreciation and is carried at cost.

Revenue

PREMIUMS

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

UNEARNED PREMIUMS

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

INTEREST REVENUE

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

INVESTMENT INCOME

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

REALIZED GAINS AND LOSSES

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

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

UNREALIZED GAINS AND LOSSES

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

Provisions

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

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

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

PROVISION FOR EMPLOYEE CURRENT BENEFITS

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

PROVISION FOR EMPLOYEE FUTURE BENEFITS

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

i. Pension Benefit Plan

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

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

The Corporation values its pension benefit plan annually; the most recent valuation is at December 31, 2015. Roll-forward procedures are performed to ensure that the December 31, 2015 valuation is a reliable estimate of the valuation at February 29, 2016.

ii. Other Benefit Plans

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

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

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

PROVISION FOR UNPAID CLAIMS

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

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

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

LIABILITY ADEQUACY TEST

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

Allocation of Revenue, Claims Incurred and Expenses

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

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

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

Investment income is allocated to the automobile insurance division lines of business, *The Drivers and Vehicles Act* operations and the discontinued general insurance division based on a monthly averaging of the funds available within each division.

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

- i. Identifiable direct expenses are charged to each line of business.
- ii. Where direct allocation is not possible, expenses are prorated to each line of business based mainly on factors such as space, number of employees, time usage, Contact Centre statistics, premiums written ratios and net claims incurred ratios. The basis for allocation of indirect shared expenses is approved by the Board of Directors.
- iii. The allocation of improvement initiative costs is based on a review of each project to determine which line of business will benefit from the project. The allocation basis for each project is approved by the Board of Directors.

Reinsurance Ceded

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

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

4. PROVISION FOR UNPAID CLAIMS

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

The provision for unpaid claims, including adjustment expenses, is subject to variability. This variability is related to future events that arise from the date the loss was reported to the ultimate settlement of the claims. Accordingly, short-tail claims such as physical damage claims tend to be more reasonably predictable than long-tail claims such as Personal Injury Protection Plan (PIPP) and public liability claims. Factors such as the receipt of additional claims information during the claims settlement process, changes in severity and frequencies of claims from historical trends, and effects of inflationary trends contribute to this variability.

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

5. INVESTMENTS

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

Cash equivalent investments have a total principal amount of \$25.3 million (February 28, 2015 – \$66.4 million) comprised of provincial short-term deposits with effective interest rates of 0.52 per cent (February 28, 2015 – 0.60 per cent to 0.68 per cent), with interest receivable at varying dates.

The Corporation has an unsecured operating line of credit with its principal banker in the amount of \$5.0 million (February 28, 2015 – \$5.0 million). There were no drawdowns against this line of credit at February 29, 2016 (February 28, 2015 – nil).

CASH AND INVESTMENTS

(Unaudited – in thousands of Canadian dollars)

| As at February 29, 2016 | Financial Instruments | | | Non-Financial Instruments | Total Fair Value |
|---------------------------|----------------------------------|--------------------------------|---|---------------------------|------------------|
| | Classified as Available for Sale | Classified as Held to Maturity | Classified as Fair Value Through Profit or Loss | | |
| Cash and cash equivalents | 37,322 | - | - | - | 37,322 |
| Bonds | | | | | |
| Federal | - | - | 124,272 | - | 124,272 |
| Manitoba: | | | | | |
| Provincial | - | - | 186,044 | - | 186,044 |
| Municipal | - | 8,538 | 26,611 | - | 35,149 |
| Hospitals | - | - | 10,167 | - | 10,167 |
| Schools | - | 614,860 | - | - | 614,860 |
| Other provinces: | | | | | |
| Provincial | - | - | 548,854 | - | 548,854 |
| Municipal | - | - | 105,262 | - | 105,262 |
| Corporations | - | - | 54,474 | - | 54,474 |
| | - | 623,398 | 1,055,684 | - | 1,679,082 |
| Other investments | 2,115 | - | - | - | 2,115 |
| Infrastructure | - | - | 83,227 | - | 83,227 |
| Equity investments | 468,991 | - | - | - | 468,991 |
| Pooled Real Estate Fund | - | - | 222,207 | - | 222,207 |
| Investments | 471,106 | 623,398 | 1,361,118 | - | 2,455,622 |
| Investment property | - | - | - | 42,206 | 42,206 |
| | 508,428 | 623,398 | 1,361,118 | 42,206 | 2,535,150 |

(Unaudited – in thousands of Canadian dollars)

| As at February 28, 2015 | Financial Instruments | | | Non-Financial Instruments | Total Fair Value |
|---------------------------|----------------------------------|--------------------------------|---|---------------------------|------------------|
| | Classified as Available for Sale | Classified as Held to Maturity | Classified as Fair Value Through Profit or Loss | | |
| Cash and cash equivalents | 68,882 | - | - | - | 68,882 |
| Bonds | | | | | |
| Federal | - | - | 114,774 | - | 114,774 |
| Manitoba: | | | | | |
| Provincial | - | - | 244,640 | - | 244,640 |
| Municipal | - | 10,552 | 27,179 | - | 37,731 |
| Hospitals | - | - | 10,867 | - | 10,867 |
| Schools | - | 596,239 | - | - | 596,239 |
| Other provinces: | | | | | |
| Provincial | - | - | 513,008 | - | 513,008 |
| Municipal | - | - | 128,815 | - | 128,815 |
| Corporations | - | - | 61,077 | - | 61,077 |
| | - | 606,791 | 1,100,360 | - | 1,707,151 |
| Other investments | 2,446 | - | - | - | 2,446 |
| Infrastructure | - | - | 55,930 | - | 55,930 |
| Equity investments | 520,802 | - | - | - | 520,802 |
| Pooled Real Estate Fund | - | - | 204,847 | - | 204,847 |
| Investments | 523,248 | 606,791 | 1,361,137 | - | 2,491,176 |
| Investment property | - | - | - | 42,417 | 42,417 |
| | 592,130 | 606,791 | 1,361,137 | 42,417 | 2,602,475 |

6. INVESTMENT INCOME (LOSS)

| (Unaudited – in thousands of Canadian dollars) | 2016 | 2015 |
|---|----------|---------|
| Interest income | 51,278 | 50,514 |
| Gain on sale of FVTPL bonds | 15,174 | 27,090 |
| Unrealized gain (loss) on FVTPL bonds | (76,744) | 75,691 |
| Unrealized gain on pooled real estate | 12,713 | 11,927 |
| Dividends on infrastructure investments | 1,364 | 985 |
| Unrealized gain on infrastructure investments | 6,375 | 5,562 |
| Dividend income | 15,529 | 28,468 |
| Gain (loss) on sale of equities and other investments | (396) | 28,935 |
| Gain on foreign exchange | 13 | 82 |
| Gain on sale of investment property | 4,412 | - |
| Income from investment property | 3,206 | 1,848 |
| Impairment of AFS investments | (33,375) | (830) |
| Investment management fees | (4,280) | (4,122) |
| Total | (4,731) | 226,150 |

7. EMPLOYEE FUTURE BENEFITS EXPENSE

| (Unaudited – in thousands of Canadian dollars) | 2016 | 2015 |
|--|--------|--------|
| Pension benefits | 26,863 | 24,403 |
| Other post-employment benefits | 6,345 | 5,839 |
| Total | 33,208 | 30,242 |

8. DEPRECIATION AND AMORTIZATION

| (Unaudited – in thousands of Canadian dollars) | 2016 | 2015 |
|--|--------|--------|
| Amortization – deferred development | 11,506 | 16,575 |
| Depreciation – property and equipment | 5,670 | 6,534 |

MANITOBA PUBLIC INSURANCE LOCATIONS

CUSTOMER SERVICE

WINNIPEG

Tel: 204-985-7000

OUTSIDE WINNIPEG

Tel: 800-665-2410

DEAF ACCESS TTY/TDD

Tel: 204-985-8832

OUT-OF-PROVINCE CLAIMS

Tel: 800-661-6051

ADMINISTRATIVE OFFICES

WINNIPEG

234 Donald Street
Box 6300
R3C 4A4

BRANDON

731 1st Street
R7A 6C3

SERVICE LOCATIONS

WINNIPEG

SERVICE CENTRES

15 Barnes Street
40 Lexington Park
1284 Main Street
930 St. Mary's Road
125 King Edward Street East
1103 Pacific Avenue
420 Pembina Highway

CITYPLACE

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

PHYSICAL DAMAGE CENTRE

Holding Compound/Receiving
Salvage
Commercial Claims
1981 Plessis Road

ARBORG

SERVICE CENTRE

323 Sunset Boulevard

BEAUSEJOUR

SERVICE CENTRE

848 Park Avenue

BRANDON

SERVICE CENTRE

731 1st Street

DAUPHIN

SERVICE CENTRE

217 Industrial Road

FLIN FLON

CLAIM CENTRE

8 Timber Lane

PORTAGE LA PRAIRIE

SERVICE CENTRE

2007 Saskatchewan
Avenue West

SELKIRK

SERVICE CENTRE

1008 Manitoba Avenue

STEINBACH

SERVICE CENTRE

91 North Front Drive

SWAN RIVER

CLAIM CENTRE

125 4th Avenue North

THE PAS

CLAIM CENTRE

424 Fischer Avenue

THOMPSON

SERVICE CENTRE

53 Commercial Place

WINKLER

SERVICE CENTRE

355 Boundary Trail



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