

# Quarterly Financial Report

2nd QUARTER

Six months ended  
**August 31, 2017**



**Manitoba  
Public Insurance**

## Management Discussion and Analysis

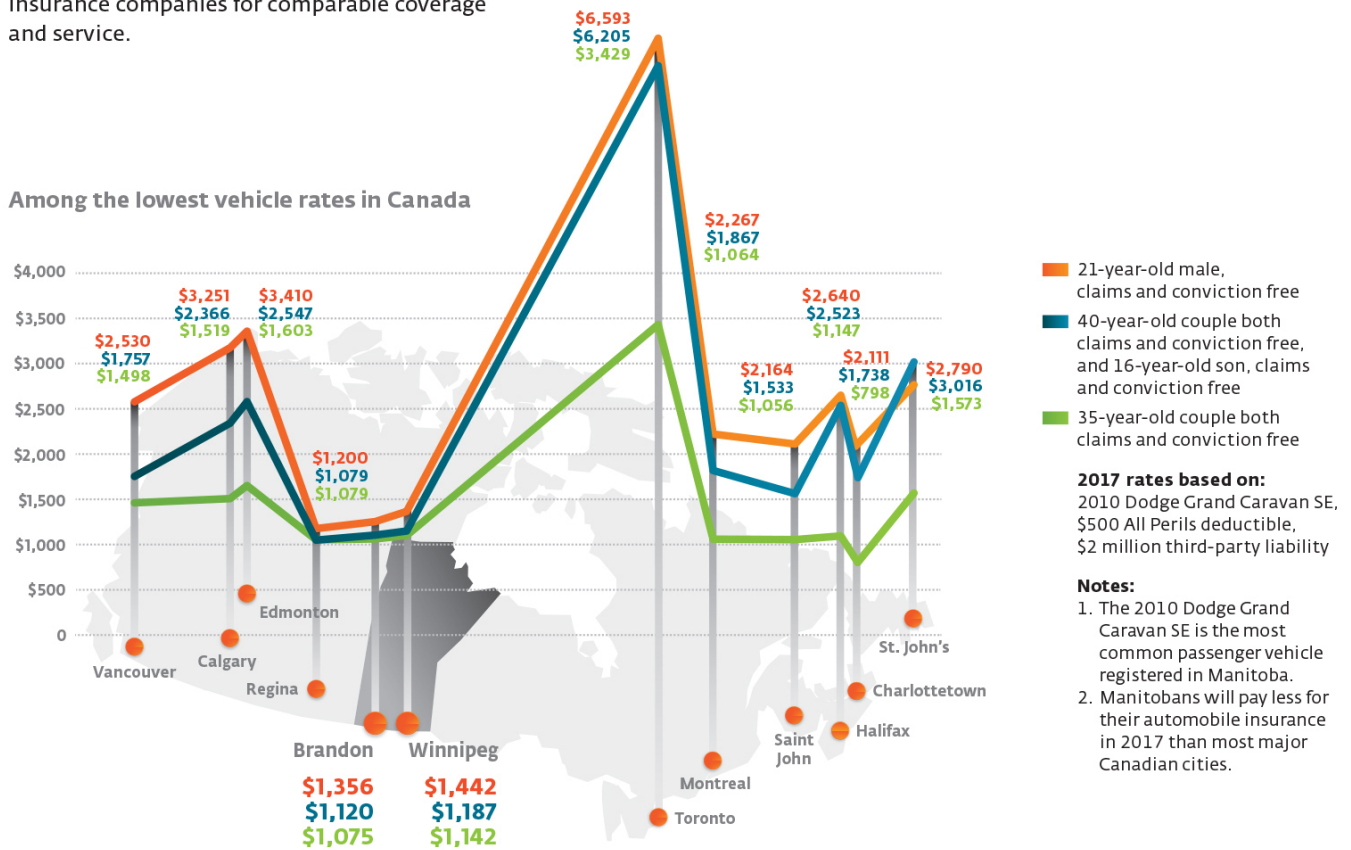
Management’s discussion and analysis provides a review of the financial results and future outlook of Manitoba Public Insurance. It should be read in conjunction with the unaudited condensed interim financial statements and supporting notes for the second quarter ended August 31, 2017, included herein and the annual audited financial statements and supporting notes included in the Corporation’s 2016 Annual Report. Certain information in this report may consist of forward-looking statements. These statements are based on various techniques and assumptions including predictions about future events which may not occur. Actual results could deviate significantly from the forward-looking statements.

### Goal 1

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

**Why?** One reason for our creation was to deliver the best insurance value to Manitobans. This is the essence of our continuing success.

Among the lowest vehicle rates in Canada

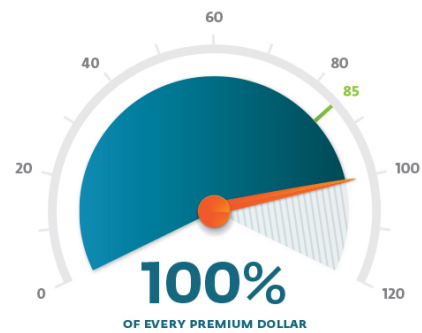


## Goal 2

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

**Why?** Over the long-term, returns within this range strike the right balance. We pay back to Manitobans substantially more of their premiums than would private insurers, while keeping a sound financial footing.

Premium returned for each dollar earned



Past results

98% Q3-15/16	93% Q4-15/16	101% Q1-16/17	110% Q2-16/17	105% Q3-16/17	110% Q4-16/17	112% Q1-17/18	100% Q2-17/18
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## 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.

**Why?** By measuring key performance indicators, we can track the public's view of our performance.

Corporate Performance Index



Past results

3.6 Q3-15/16	3.6 Q4-15/16	3.5 Q1-16/17	3.5 Q2-16/17	3.6 Q3-16/17	3.6 Q4-16/17	3.6 Q1-17/18	3.5 Q2-17/18
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### Goal 4

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

**Why?** We value our customers and put their interests first. Also, Manitobans expect more from us than from private insurers, because Manitoba Public Insurance is their company. We believe their higher expectations are justified.

#### Overall, How Often We Meet/Exceed Standards



Past results

<b>98%</b> Q3-15/16	<b>97%</b> Q4-15/16	<b>98%</b> Q1-16/17	<b>97%</b> Q2-16/17	<b>98%</b> Q3-16/17	<b>98%</b> Q4-16/17	<b>98%</b> Q1-17/18	<b>98%</b> Q2-17/18
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#### Customer satisfaction in major operational areas

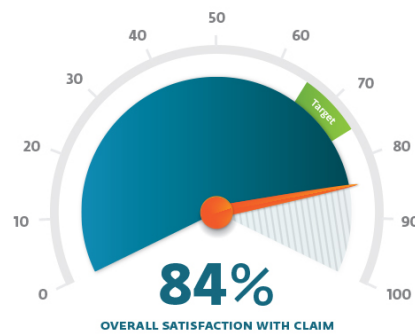
##### Physical Damage Claims



Past results

<b>89%</b> Q3-15/16	<b>88%</b> Q4-15/16	<b>87%</b> Q1-16/17	<b>86%</b> Q2-16/17
<b>87%</b> Q3-16/17	<b>89%</b> Q4-16/17	<b>86%</b> Q1-17/18	<b>90%</b> Q2-17/18

##### Bodily Injury Claims



Past results

<b>81%</b> Q3-15/16	<b>86%</b> Q1-16/17
<b>84%</b> Q3-16/17	<b>84%</b> Q1-17/18

##### Driver and Vehicle Licensing



Past results

<b>93%</b> Q3-15/16	<b>91%</b> Q4-15/16	<b>92%</b> Q1-16/17	<b>93%</b> Q2-16/17
<b>93%</b> Q3-16/17	<b>93%</b> Q4-16/17	<b>94%</b> Q1-17/18	<b>95%</b> Q2-17/18

##### Insurance Operations Policyholder Transactions



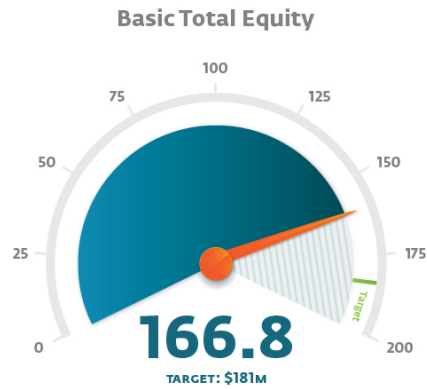
Past results

<b>90%</b> Q3-15/16	<b>91%</b> Q4-15/16	<b>90%</b> Q1-16/17	<b>91%</b> Q2-16/17
<b>91%</b> Q3-16/17	<b>92%</b> Q4-16/17	<b>92%</b> Q1-17/18	<b>94%</b> Q2-17/18

### Goal 5

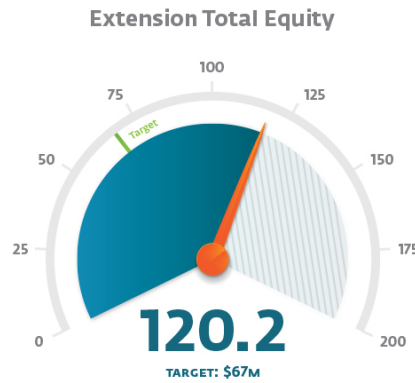
Total equity will be maintained within established target levels.

**Why?** Our long-term objective is to break even financially and to be financially self-sufficient. Maintaining the total equity within its target range helps us control rates. Manitobans deserve stable, affordable premiums over the long term.



Past results

<b>Actual</b>	<b>181.0</b>	<b>183.3</b>	<b>166.8</b>
<b>Target</b>	181.0	181.0	181.0
	Year-End-Feb. 28, 2017	Q1-17/18	Q2-17/18



Past results

<b>Actual</b>	<b>98.5</b>	<b>111.3</b>	<b>120.2</b>
<b>Target</b>	67.0	67.0	67.0
	Year-End-Feb. 28, 2017	Q1-17/18	Q2-17/18



Past results

<b>Actual</b>	<b>77.7</b>	<b>84.9</b>	<b>85.2</b>
<b>Target</b>	65.0	65.0	65.0
	Year-End-Feb. 28, 2017	Q1-17/18	Q2-17/18

### 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.

**Why?** We value our employees.



Past results



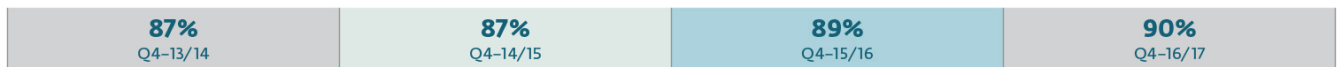
### Goal 7

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

**Why?** Pursuing traffic safety and loss-prevention programs reflects our long standing commitment to the well-being of Manitobans and to affordable auto insurance. Manitobans have told us they support these efforts.



Past results



## Results of Operations

Manitoba Public Insurance reported net income of \$42.3 million for the six months ended August 31, 2017, compared to restated net loss of \$26.9 million for the same period last year. This includes net income of \$9.2 million (2016 – restated net loss of \$51.0 million) from the Basic insurance line of business. Corporate net income increased from the previous year by \$69.2 million due to:

- i) an increase in earned revenues of \$33.5 million, offset by an increase in total expenses of \$1.0 million;
- ii) a decrease in claims cost of \$63.6 million;
- iii) a decrease in investment income of \$26.9 million mainly due to the decrease of unrealized gains on Fair Value Through Profit or Loss bonds of \$38.3 million and increased gains on the sale of equities and other investments of \$14.1 million.

### *Current Year and Last Year*

Total earned revenues for the six months ended August 31, 2017, increased from the previous year by \$33.5 million. This increase is primarily attributed to motor vehicle earned revenues which increased by \$28.8 million or 5.3%. The increase in earned revenues is primarily due to the growth in the number of vehicles on the road in Manitoba, and the value of these vehicles and movement of drivers down the Driver Safety Rating scale resulted in higher premiums.

Claims costs for the six months ended August 31, 2017, decreased by \$63.6 million or 10.5% compared to last year due primarily to a decrease of \$28.5 million or 16.2% in bodily injury claims incurred and a decrease of \$40.7 million or 14.1% in physical damage claims incurred. The \$28.5 million decrease in bodily injury claims was impacted by a decrease of \$45.1 million due to the interest rate adjustment on unpaid claims. Claims expenses increased by \$6.8 million or 9.4% from the previous year, offset by a decrease in road safety and loss prevention expenses of \$1.3 million or 23.2%.

Total expenses increased by \$1.0 million compared to last year due primarily to an increase of \$0.9 million or 2.3% in commission expenses and an increase of \$0.9 million or 5.1% in premium taxes, offset by a decrease of \$0.7 million or 1.2% in operating expenses and \$0.1 million or 9.5% in regulatory appeal expenses.

### *Retained Earnings*

Net income of \$42.3 million for the first six months ending August 31, 2017, increased retained earnings from \$261.5 million to \$303.9 million (restated August 31, 2016 – \$319.8 million). Retained earnings are comprised of \$108.5 million for Basic insurance (restated August 31, 2016 - \$145.3 million) and \$195.4 million for non-Basic lines (restated August 31, 2016 - \$174.5 million).

### **Total Equity**

Total equity of \$372.2 million (restated August 31, 2016 – \$424.6 million) are comprised of \$303.9 million retained earnings and \$68.3 million accumulated other comprehensive income (August 31, 2016 - \$104.8 million).

The Corporation's Chief Actuary concluded that a minimum total equity level of \$181.0 million would be required for Basic to achieve satisfactory future financial condition. At the end of the second quarter, Basic insurance reported total equity of \$166.8 million (restated August 31, 2016 – \$234.9 million). Extension's current capital target level for total equity is \$67.0 million based on the 2016 MCT report. At the end of the second quarter, Extension insurance reported total equity of \$120.2 million (restated August 31, 2016 - \$107.9 million). Special Risk Extension's current capital target level for total equity is \$65.0 million based on the 2016 MCT report. At the end of the second quarter, Special Risk Extension insurance reported total equity of \$85.2 million (restated August 31, 2016 - \$81.8 million).

### **Outlook**

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

As approved by the Public Utilities Board (PUB), effective March 1, 2017, there was a 3.7 per cent overall rate increase to average Basic insurance rates for the 2017/18 insurance year. For the 2018/19 insurance year, Manitoba Public Insurance is requesting a 2.7 percent overall rate increase in its general rate application. This rate increase is driven primarily by the comprehensive claims forecast, which was increased significantly as a result of unprecedented growth in comprehensive claims over the past two fiscal years.

Overall:

- 637,440 vehicles (excluding trailers and off-road vehicles) will receive increases in their Basic premium next year, while 216,643 vehicles will receive decreases. 10,590 vehicles will receive no change.
- The average vehicle premium for Private Passenger Vehicle Class will be \$1,086 if the 2018 rate application is approved.
- Motorcycle rates (including moped and motor scooters) will increase 2.7 per cent.
- If approved, rate changes will take effect March 1, 2018.

Manitoba Public Insurance is committed to keeping rates stable over the long term. Manitoba Public Insurance continues to have one of the lowest rates of year-over-year premium increases of all Canadian provinces. Manitoba Public Insurance continued to exceed its mandate for the Basic plan of returning at least 85 cents of every dollar collected in Basic premiums to Manitobans in the form of claims benefits. For 2016/17, the return was \$1.10 on every dollar.



## Condensed Interim Financial Statements

### Condensed Interim Statement of Financial Position

(Unaudited - in thousands of Canadian dollars)	<i>Notes</i>	August 31, 2017	February 28, 2017
<b>Assets</b>			
Cash and cash equivalents	5	71,524	73,434
Investments	5	2,584,801	2,545,130
Investment property	5	41,254	41,686
Due from other insurance companies		12	29
Accounts receivable		455,647	455,239
Prepaid expenses		9,168	2,483
Deferred policy acquisition costs		25,626	24,155
Reinsurers' share of unearned premiums		7,635	117
Reinsurers' share of unpaid claims		2,399	1,971
Property and equipment		117,225	116,059
Deferred development costs		88,036	89,496
		<b>3,403,327</b>	<b>3,349,799</b>
<b>Liabilities</b>			
Due to other insurance companies		3,953	173
Accounts payable and accrued liabilities		65,023	73,051
Financing lease obligation		4,142	4,189
Unearned premiums		586,724	586,626
Provision for employee current benefits		22,010	22,750
Provision for employee future benefits		411,579	405,058
Provision for unpaid claims	4	1,937,706	1,900,783
		<b>3,031,137</b>	<b>2,992,630</b>
<b>Equity</b>			
Retained Earnings		303,855	261,532
Accumulated Other Comprehensive Income		68,335	95,637
<b>Total Equity</b>		<b>372,190</b>	<b>357,169</b>
		<b>3,403,327</b>	<b>3,349,799</b>

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

## Condensed Interim Statement of Operations

(Unaudited - in thousands of Canadian dollars)	<i>Notes</i>	Three Months Ended		Six Months Ended	
		August 31, 2017	August 31, 2016 Restated	August 31, 2017	August 31, 2016 Restated
<b>Earned Revenues</b>					
Gross premiums written		302,075	286,195	634,592	599,012
Premiums ceded to reinsurers		(16)	(19)	(15,195)	(15,471)
Net premiums written		302,059	286,176	619,397	583,541
(Increase) decrease in gross unearned premiums		10,044	10,418	(27,984)	(23,619)
Increase (decrease) in reinsurers' share of unearned premiums		(3,822)	(3,887)	7,518	7,658
Net premiums earned		308,681	292,707	598,931	567,580
Service fees & other revenue		8,186	7,851	17,247	15,568
The Drivers and Vehicles Act operations recovery		7,563	7,349	15,054	14,574
<b>Total Earned Revenues</b>		<b>324,430</b>	<b>307,907</b>	<b>631,232</b>	<b>597,722</b>
<b>Claims Costs</b>					
Direct claims incurred - gross		211,357	309,267	465,669	533,997
Claims (recovered) incurred ceded to reinsurers		(267)	38	(440)	445
Net claims incurred		211,090	309,305	465,229	534,442
Claims Expense		35,430	33,732	72,676	65,816
Loss prevention/Road safety		3,024	3,844	5,606	6,900
<b>Total Claims Costs</b>		<b>249,544</b>	<b>346,631</b>	<b>543,511</b>	<b>607,158</b>
<b>Expenses</b>					
Operating		29,445	29,519	59,837	60,570
Commissions		20,090	19,499	39,698	38,797
Premium taxes		9,376	8,899	18,199	17,262
Regulatory/Appeal		1,011	1,164	1,942	2,126
<b>Total Expenses</b>		<b>59,922</b>	<b>59,081</b>	<b>119,676</b>	<b>118,755</b>
<b>Underwriting income (loss)</b>		<b>14,964</b>	<b>(98,055)</b>	<b>(31,955)</b>	<b>(128,191)</b>
<b>Investment income (loss)</b>	6	<b>(11,507)</b>	63,611	<b>74,278</b>	101,237
<b>Net income (loss) from operations</b>		<b>3,457</b>	<b>(34,444)</b>	<b>42,323</b>	<b>(26,954)</b>

## Condensed Interim Statement of Comprehensive Income (Loss)

(Unaudited - in thousands of Canadian dollars)	Three Months Ended		Six Months Ended	
	August 31, 2017	August 31, 2016 Restated	August 31, 2017	August 31, 2016 Restated
<b>Net income (loss) from operations</b>	<b>3,457</b>	<b>(34,444)</b>	<b>42,323</b>	<b>(26,954)</b>
<b>Other Comprehensive Income (Loss)</b>				
Items that will be reclassified to income				
Unrealized gains (losses) on Available for Sale assets	(10,240)	19,795	(13,225)	67,230
Reclassification of net realized (gains) losses related to Available for Sale assets	(551)	(3,008)	(14,077)	(5,651)
Total Available for Sale assets	(10,791)	16,787	(27,302)	61,579
Other Comprehensive Income (Loss) for the period	(10,791)	16,787	(27,302)	61,579
<b>Total Comprehensive Income (Loss)</b>	<b>(7,334)</b>	<b>(17,657)</b>	<b>15,021</b>	<b>34,625</b>

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

## Condensed Interim Statement of Changes in Equity

(Unaudited - in thousands of Canadian dollars)	Retained Earnings	Accumulated Other Comprehensive Income	Equity
Balance as at March 1, 2016	346,736	43,227	389,963
Net income (loss) from operations for the period (restated)	(26,954)	-	(26,954)
Other comprehensive income (loss) for the period	-	61,579	61,579
<b>Balance as at August 31, 2016 (restated)</b>	<b>319,782</b>	<b>104,806</b>	<b>424,588</b>
Balance as at March 1, 2017	261,532	95,637	357,169
Net income from operations for the period	42,323	-	42,323
Other comprehensive income for the period	-	(27,302)	(27,302)
<b>Balance as at August 31, 2017</b>	<b>303,855</b>	<b>68,335</b>	<b>372,190</b>

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

## Condensed Interim Statement of Cash Flows

(Unaudited - in thousands of Canadian dollars)		Six months ended	
	<i>Notes</i>	August 31, 2017	August 31, 2016 Restated
<b>Cash Flows from (to) Operating Activities:</b>			
Net income (loss) from operations		42,323	(30,549)
Non-cash items:			
Depreciation of property and equipment		2,505	2,604
Amortization of deferred development costs		10,384	7,967
Amortization of bond discount and premium		1,906	1,695
(Gain) loss on sale of investments		(14,106)	(9,534)
Unrealized (gain) loss on Fair Value Through Profit or Loss bonds		(16,053)	(54,446)
Unrealized (gain) loss on investment in real estate		(12,584)	(5,762)
Unrealized (gain) loss on investment in infrastructure		2,176	704
		<b>16,551</b>	<b>(87,321)</b>
Net change in non-cash balances:			
Due from other insurance companies		17	(193)
Accounts receivable and prepaid expenses		(7,093)	(12,605)
Deferred policy acquisition costs		(1,471)	400
Reinsurers' share of unearned premiums and unpaid claims		(7,946)	(3,717)
Due to other insurance companies		3,780	3,838
Accounts payable and accrued liabilities		(8,028)	(5,447)
Unearned premiums		98	(2,730)
Provision for employee current benefits		(740)	(359)
Provision for employee future benefits		6,521	7,791
Provision for unpaid claims		36,923	113,327
		<b>22,061</b>	<b>100,305</b>
		<b>38,612</b>	<b>12,984</b>
<b>Cash Flows from (to) Investing Activities:</b>			
Purchase of investments		(431,119)	(331,870)
Proceeds from sale of investments		403,239	300,024
Acquisition of property and equipment net of proceeds from disposals		(3,671)	(633)
Financing lease obligation		(47)	(45)
Deferred development costs incurred		(8,924)	(11,845)
		<b>(40,520)</b>	<b>(44,369)</b>
<b>Increase (decrease) in Cash and Cash Equivalents</b>			
Cash and short-term investments beginning of period		73,434	37,322
<b>Cash and Cash Equivalents end of period</b>	5	<b>71,524</b>	<b>5,937</b>

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

## Notes to Financial Statements

### 1) Status of the Corporation

The Manitoba Public Insurance Corporation (the “Corporation”) was incorporated as a Crown Corporation under The Automobile Insurance Act in 1970. In 1974, The Automobile Insurance Act was revised and became The Manitoba Public Insurance Corporation Act (Chapter A180 of the continuing consolidation of the Statutes of Manitoba). In 1988, the Act was re-enacted in both official languages as Chapter P215 of the Statutes of Manitoba. The address of the Corporation’s registered office is 234 Donald Street, Winnipeg, Manitoba.

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

Under The Drivers and Vehicles Act (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).

#### ***Basis of Presentation***

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

These statements are presented in thousands of Canadian dollars 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 of the 2016 Annual Report. 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).

**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**

Refer to the 2016 Annual Audited Financial Statements for a summary outlining those accounting policies followed by the Corporation that have a significant effect on the condensed interim financial statements.

**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) Cash and Investments

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

Cash equivalent investments have a total principal amount of \$74.1 million (August 31, 2016 – \$53.9 million) comprised of provincial short-term deposits with effective interest rates of 0.50% (August 31, 2016 - 0.54% to 0.55%), 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 (August 31, 2016 - \$5.0 million). There were no drawdowns against this line of credit at August 31, 2017 (August 31, 2016 – nil).

### *Cash and Investments*

(in thousands of Canadian dollars)	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		
<b>As at August 31, 2017</b>					
Cash and cash equivalents	71,524	-	-	-	71,524
Bonds					
Federal	-	-	101,965	-	101,965
Manitoba:					
Provincial	-	-	138,788	-	138,788
Municipal	-	20,129	33,053	-	53,182
Schools	-	612,451	-	-	612,451
Other provinces:					
Provincial	-	-	782,533	-	782,533
Municipal	-	-	66,079	-	66,079
Corporations	-	-	56,396	-	56,396
	-	632,580	1,178,814	-	1,811,394
Other investments	1,493	-	-	-	1,493
Infrastructure	-	-	92,461	-	92,461
Equity investments	432,887	-	-	-	432,887
Pooled Real Estate Fund	-	-	246,566	-	246,566
Investments	434,380	632,580	1,517,841	-	2,584,801
Investment property	-	-	-	41,254	41,254
<b>Total</b>	<b>505,904</b>	<b>632,580</b>	<b>1,517,841</b>	<b>41,254</b>	<b>2,697,579</b>

(in thousands of Canadian dollars)	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		
As at August 31, 2016					
Cash and cash equivalents	5,937	-	-	-	5,937
Bonds					
Federal	-	-	228,190	-	228,190
Manitoba:					
Provincial	-	-	198,819	-	198,819
Municipal	-	9,198	28,967	-	38,165
Schools	-	596,545	-	-	596,545
Other provinces:					
Provincial	-	-	548,365	-	548,365
Municipal	-	-	84,817	-	84,817
Corporations	-	-	59,094	-	59,094
	-	605,743	1,148,252	-	1,753,995
Other investments	1,792	-	-	-	1,792
Infrastructure	-	-	95,789	-	95,789
Equity investments	541,798	-	-	-	541,798
Pooled Real Estate Fund	-	-	223,322	-	223,322
Investments	543,590	605,743	1,467,363	-	2,616,696
Investment property	-	-	-	41,900	41,900
<b>Total</b>	<b>549,527</b>	<b>605,743</b>	<b>1,467,363</b>	<b>41,900</b>	<b>2,664,533</b>

Gross unrealized gains and gross unrealized losses included in accumulated other comprehensive income on available for sale equity and other investments are comprised as follows:

**As at August 31, 2017**

(in thousands of Canadian dollars)	Book Value	Unrealized Gains/(Losses)	Fair Value
Equity Investments			
With unrealized gains	292,606	112,786	405,392
With unrealized (losses)	31,166	(3,671)	27,495
Subtotal – Equity Investments	323,772	109,115	432,887
Other Investments			
With unrealized gains	28	1,126	1,154
With unrealized (losses)	371	(32)	339
Subtotal – Other Investments	399	1,094	1,493
<b>Total AFS Equity and Other Investments</b>	<b>324,171</b>	<b>110,209</b>	<b>434,380</b>



**As at August 31, 2016**

(in thousands of Canadian dollars)	Book Value	Unrealized Gains/(Losses)	Fair Value
Equity Investments			
With unrealized gains	355,118	138,453	493,571
With unrealized (losses)	51,882	(3,655)	48,227
Subtotal – Equity Investments	407,000	134,798	541,798
Other Investments			
With unrealized gains	399	1,393	1,792
With unrealized (losses)	-	-	-
Subtotal – Other Investments	399	1,393	1,792
Total AFS Equity and Other Investments	407,399	136,191	543,590

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

- there is no objective evidence of impairment, or
- the loss is not considered to be significant or prolonged.

**Fair Value Measurement**

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

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

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

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

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

<b>As at August 31, 2017</b>			
(in thousands of Canadian dollars)	Level 1	Level 2	Level 3
FVTPL financial assets			
Bonds	68,397	1,095,306	15,111
Infrastructure	-	-	92,461
Pooled real estate	-	246,566	-
<b>Total FVTPL financial assets</b>	<b>68,397</b>	<b>1,341,872</b>	<b>107,572</b>
AFS financial assets			
Cash and cash equivalents	71,524	-	-
Other investments	-	-	1,493
Equity investments	432,887	-	-
<b>Total AFS financial assets</b>	<b>504,411</b>	<b>-</b>	<b>1,493</b>
<b>Total assets measured at fair value</b>	<b>572,808</b>	<b>1,341,872</b>	<b>109,065</b>

<b>As at August 31, 2016</b>			
(in thousands of Canadian dollars)	Level 1	Level 2	Level 3
FVTPL financial assets			
Bonds	201,554	931,936	14,762
Infrastructure	-	-	95,789
Pooled real estate	-	223,322	-
<b>Total FVTPL financial assets</b>	<b>201,554</b>	<b>1,155,258</b>	<b>110,551</b>
AFS financial assets			
Cash and short term investments	5,937	-	-
Other investments	-	-	1,792
Equity investments	541,798	-	-
<b>Total AFS financial assets</b>	<b>547,735</b>	<b>-</b>	<b>1,792</b>
<b>Total assets measured at fair value</b>	<b>749,289</b>	<b>1,155,258</b>	<b>112,343</b>

Fair value measurement of instruments included in Level 3 (in thousands of Canadian dollars)	FVTPL		AFS	
	2017	2016	2017	2016
Balance at March 1	110,121	102,637	1,493	2,115
Total gains/(losses)				
Included in net income	(2,176)	(704)	-	238
Included in other comprehensive income	-	-	-	(169)
Purchases	-	13,266	-	-
Sales	-	(4,648)	-	(392)
Return of Capital	(373)	-	-	-
<b>Balance at August 31</b>	<b>107,572</b>	<b>110,551</b>	<b>1,493</b>	<b>1,792</b>

The fair value of HTM bonds, which include schools and certain municipalities, is based on their carrying value, which approximates fair value.

**6) Investment Income**

(in thousands of Canadian dollars)	August 31, 2017	August 31, 2016
Interest income	25,920	24,613
Gain (loss) on sale of FVTPL bonds	2	3,883
Unrealized gain(loss) on FVTPL bonds	16,053	54,446
Unrealized gain (loss) on pooled real estate	12,584	5,762
Dividends on infrastructure investments	1,186	936
Unrealized gain (loss) on infrastructure investments	(2,176)	(704)
Dividend income	7,051	7,779
Gain (loss) on sale of equities and other investments	14,077	5,651
Gain (loss) on foreign exchange	(43)	(72)
Income from investment property	1,581	1,425
Investment management fees	(1,957)	(2,482)
<b>Total Investment income (loss)</b>	<b>74,278</b>	<b>101,237</b>

**7) Employee Future Benefits Expense**

The total benefits costs included in expenses are as follows:

(in thousands of Canadian dollars)	August 31, 2017	August 31, 2016
Pension benefits	13,874	13,059
Other post-employment benefits	937	907
<b>Total</b>	<b>14,811</b>	<b>13,966</b>

**8) Depreciation and Amortization**

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

(in thousands of Canadian dollars)	August 31, 2017	August 31, 2016
Amortization – Deferred Development	10,384	7,575
Depreciation – Property and equipment	2,505	2,604
<b>Total</b>	<b>12,889</b>	<b>10,179</b>

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