MANITOBA PUBLIC INSURANCE

2018/19

Annual Financial Statements

For the fiscal year ended
February 28, 2019

MANITOBA
PUBLIC INSURANCE

RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

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

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

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

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

Benjamin Graham
President and Chief Executive Officer

Mark Giesbrecht, CPA, CGA
Vice-President, Finance and Chief Financial Officer

May 16, 2019

Independent auditor's report

To the Board of Directors of Manitoba Public Insurance Corporation

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Manitoba Public Insurance Corporation (the Corporation) as at February 28, 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Corporation's financial statements comprise:

- the statement of financial position as at February 28, 2019;
- the statement of operations for the year then ended;
- the statement of comprehensive income (loss) for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence
We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
Richardson Building, One Lombard Place, Suite 2300, Winnipeg, Manitoba, Canada R3B 0X6
T: +1 204 926 2400, F: +1 204 944 1020

Other information

Management is responsible for the other information. The other information comprises the information, other than the financial statements and our auditor's report thereon, included in the annual report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Corporation’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation’s financial reporting process.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Chartered Professional Accountants

Winnipeg, Manitoba
May 16, 2019

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ACTUARIES Who Care®
J. S. CHENG & PARTNERS INC.

ACTUARY'S REPORT

To the Board of Directors of Manitoba Public Insurance Corporation:

I have valued the policy liabilities and reinsurance recoverables of Manitoba Public Insurance Corporation for its statements of financial position at February 28, 2019 and their change in the statement of operations for the year then ended in accordance with accepted actuarial practice in Canada including selection of appropriate assumptions and methods.

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

Joe S. Cheng
Fellow, Canadian Institute of Actuaries

Winnipeg, Manitoba

May 16, 2019

Financial Statements

Statement of Financial Position

As at February 28 (in thousands of Canadian dollars)	*Notes*	**2019**	2018
Assets			
Cash and cash equivalents	*4*	**193,108**	89,006
Investments	*4*	**2,839,530**	2,660,850
Investment property	*4&5*	**49,027**	40,646
Due from other insurance companies	*6*	**1,603**	3
Accounts receivable	*29*	**496,108**	477,908
Prepaid expenses		**1,603**	1,227
Deferred policy acquisition costs	*7*	**32,510**	24,727
Reinsurers' share of unearned premiums	*14&17*	**142**	133
Reinsurers' share of unpaid claims	*17&18*	**9,814**	2,452
Property and equipment	*8*	**114,936**	116,754
Deferred development costs	*9*	**57,562**	69,191
		3,795,943	3,482,897
Liabilities			
Due to other insurance companies	*10*	**2,369**	171
Accounts payable and accrued liabilities	*11*	**109,676**	69,217
Financing lease obligation	*12*	**3,988**	4,092
Unearned premiums and fees	*14*	**673,414**	628,837
Provision for employee current benefits	*15*	**22,840**	22,373
Provision for employee future benefits	*16*	**456,926**	446,458
Provision for unpaid claims	*17&18*	**2,084,632**	1,912,734
		3,353,845	3,083,882
Equity			
Retained Earnings	*20*	**511,753**	352,608
Accumulated Other Comprehensive Income (Loss)	*21*	**(69,655)**	46,407
		442,098	399,015
		3,795,943	3,482,897

Contingent Liabilities (Note 32)

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

Approved by the Board of Directors:

Dr. Mike Sullivan
Chair

Domenic Grestoni, CPA, CGA, ICD.D
Chair, Audit, Finance and Risk Committee

Statement of Operations

For the years ended February 28 (in thousands of Canadian dollars)	Notes	2019	2018
Earned Revenues			
Gross premiums written		**1,332,345**	1,247,731
Premiums ceded to reinsurers		**(16,733)**	(15,381)
Net premiums written		**1,315,612**	1,232,350
Increase in gross unearned premiums		**(39,404)**	(40,608)
Increase in reinsurers' share of unearned premiums		**9**	16
Net premiums earned		**1,276,217**	1,191,758
Service fees and other revenue	*22&23*	**36,982**	34,187
The Drivers and Vehicles Act operations recovery	*22&24*	**30,250**	30,179
Total Earned Revenues		**1,343,449**	1,256,124
Claims Costs			
Direct claims incurred - gross		**1,031,851**	884,327
Claims recovered ceded to reinsurers		**(15,926)**	(514)
Net claims incurred		**1,015,925**	883,813
Claims expense		**143,832**	161,583
Loss prevention/Road safety		**13,146**	15,345
Total Claims Costs		**1,172,903**	1,060,741
Expenses			
Operating		**126,971**	117,778
Commissions		**85,638**	80,665
Premiums taxes		**38,788**	36,214
Regulatory/Appeal		**4,329**	4,458
Total Expenses		**255,726**	239,115
Underwriting loss		**(85,180)**	(43,732)
Investment income	*4*	**242,586**	134,808
Gain on disposal of property and equipment		**1,739**	-
Net income from operations	*25*	**159,145**	91,076

Statement of Comprehensive Income (Loss)

For the years ended February 28 (in thousands of Canadian dollars)	Notes	2019	2018
Net income from operations	*25*	**159,145**	91,076
Other Comprehensive Income (Loss)	*16&21*		
Items that will not be reclassified to income			
Remeasurement of Employee Future Benefits		**3,918**	(28,560)
Items that will be reclassified to income			
Unrealized gains on Available for Sales assets		**1,976**	7,304
Reclassification of net realized gains related to Available for Sale assets		**(121,956)**	(27,974)
Net unrealized losses on Available for Sale assets		**(119,980)**	(20,670)
Other Comprehensive Loss for the year		**(116,062)**	(49,230)
Total Comprehensive Income		**43,083**	41,846

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

Statement of Changes in Equity

(in thousands of Canadian dollars)	Retained Earnings	Accumulated Other Comprehensive Income	Equity
Balance as at March 1, 2017	261,532	95,637	357,169
Net income from operations for the year	91,076	-	91,076
Other comprehensive loss for the year	-	(49,230)	(49,230)
Balance as at February 28, 2018	**352,608**	**46,407**	**399,015**
Net income from operations for the year	**159,145**	**-**	**159,145**
Other comprehensive loss for the year	**-**	**(116,062)**	**(116,062)**
Balance as at February 28, 2019	**511,753**	**(69,655)**	**442,098**

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

Statement of Cash Flows

For the years ended February 28 (in thousands of Canadian dollars)	*Notes*	**2019**	2018
Cash Flows from (to) Operating Activities:			
Net income from operations		**159,145**	91,076
Non-cash items:			
Depreciation of property and equipment		**4,832**	4,973
Amortization of deferred development costs		**24,298**	20,757
Amortization of bond discount and premium		**4,133**	3,557
Gain on sale of investments		**(130,167)**	(25,043)
Unrealized gain on Fair Value Through Profit or Loss bonds		**(10,144)**	(9,363)
Unrealized gain on pooled real estate fund		**(20,295)**	(29,040)
Unrealized gain on infrastructure investments		**(10,904)**	(6,195)
Gain on disposal of property and equipment		**(1,739)**	-
Impairment of Available for Sale investments		**-**	1,078
Impairment of deferred development costs		**3,026**	20,258
		22,185	72,058
Net change in non-cash balances:			
Due from other insurance companies		**(1,600)**	26
Accounts receivable and prepaid expenses		**(18,576)**	(21,413)
Deferred policy acquisition costs		**(7,783)**	(572)
Reinsurers' share of unearned premiums and unpaid claims		**(7,371)**	(497)
Due to other insurance companies		**2,198**	(2)
Accounts payable and accrued liabilities		**40,459**	(3,834)
Unearned premiums and fees		**44,577**	42,211
Provision for employee current benefits		**467**	(377)
Provision for employee future benefits		**14,386**	12,840
Provision for unpaid claims		**171,898**	11,951
		238,655	40,333
		260,840	112,391
Cash Flows from (to) Investment Activities:			
Purchase of investments		**(1,179,471)**	(824,124)
Proceeds from sale of investments		**1,039,807**	753,780
Acquisition of property and equipment net of proceeds from disposals		**(1,275)**	(5,668)
Financing lease obligation		**(104)**	(97)
Deferred development costs incurred		**(15,695)**	(20,710)
		(156,738)	(96,819)
Increase in Cash and Cash Equivalents		**104,102**	15,572
Cash and cash equivalents beginning of year		**89,006**	73,434
Cash and Cash Equivalents end of year	*4*	**193,108**	89,006
Supplemental cash flow information:			
Interest received		**55,053**	52,300
Dividends received		**16,535**	14,579

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

Notes to Financial Statements

February 28, 2019

1. Status of Corporation

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

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

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

2. Basis of Reporting

Statement of Compliance

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 16, 2019.

Appointment of External Actuary

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

Appointment of External Auditors

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

Basis of Presentation

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

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

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

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

Seasonality

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

Basis of Measurement

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

Estimates and Judgments

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

3. Summary of Significant Accounting Policies

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

Adoption of New and Amended Accounting Standards

Effective March 1, 2018, the Corporation adopted the following new and amended accounting standards:

IFRS 4 – Insurance Contracts

In September 2016, IFRS 4 *Insurance Contracts* was amended to address concerns regarding the different effective dates of IFRS 9 *Financial Instruments* and the new insurance contracts standard IFRS 17 *Insurance Contracts*. The amendment provides a temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing insurance contracts within the scope of IFRS 4. Alternatively, the amendment provides an option to permit entities that issue insurance contracts to reclassify, from profit or loss to Other Comprehensive Income (OCI), the volatility arising from financial assets reclassified as Fair Value Through Profit or Loss (FVTPL) under IFRS 9 that were not FVTPL under IAS 39 *Financial Instruments: Recognition and Measurement*.

The Corporation adopted these amendments on January 1, 2018. The Corporation meets the criteria to defer IFRS 9 and has included additional disclosures, as required by the amendments to explain how the Corporation qualifies for the temporary exemption, as well as illustrate how the Corporation's financial statements compare to other insurers who are currently applying IFRS 4. The disclosures can be found in Note 4.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 *Revenue from Contracts with Customers* was issued in May 2014, and is intended to replace IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and related International Financial Reporting Interpretations Committee (IFRIC) rulings. The standard was issued as a result of an ongoing project to align revenue recognition between IFRS and U.S. Generally Accepted Accounting Principles, and applies to revenue arising from contracts with customers, including service contracts. IFRS 15 excludes insurance contracts within the scope of IFRS 4 and revenue arising from financial instruments within the scope of IFRS 9. The standard provides a single, principles-based five-step model to be applied to all contracts with customers, and also introduces additional disclosure requirements. Based on the Corporation's assessment of revenues and costs within the scope of this standard, IFRS 15 does not have a material impact on its financial statements. The disclosures can be found in Note 22.

IAS 40 – Investment Property

In December 2016, IAS 40 *Investment Property* was amended to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The Corporation has adopted these amendments on March 1, 2018, and has determined there were no significant impacts to the financial statements.

Annual Improvements

The annual improvement cycle for 2014-2016 was issued in December 2016 by the IASB and included minor amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, and IAS 28 *Investments in Associates and Joint Ventures*. The Corporation has adopted these amendments on March 1, 2018, and has determined there were no material impacts to the financial statements.

Investments

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

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

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

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

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

i) AFS Financial Assets

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

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

ii) HTM Financial Assets

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

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

iii) FVTPL Financial Assets

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

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

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

Loans and Receivables

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

Cash and Cash Equivalents

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

Impairment of Financial Assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Fair Value Determination
The fair values of financial instruments are obtained from external pricing services and are based on bid prices for financial assets. Cash equivalent investments comprise investments due to mature within 90 days from the date of purchase and are carried at fair value. Refer to Note 4 for further information on the fair value of financial instruments.

Deferred Policy Acquisition Costs

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

Property and Equipment

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

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

Land & Buildings

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

Furniture & Equipment

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

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

Investment Property

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

The Corporation's investment property, which is property held to earn rentals and/or capital appreciation, is measured initially at its cost, including transaction costs. The Corporation has elected to use the cost model to subsequently value its investment property. Therefore, the investment property's carrying amount is valued at cost less accumulated depreciation and impairment losses. Depreciation is based on the useful life of each component of the investment property along with the property's residual value. The Corporation assesses its investment property for impairment on an annual basis in accordance with the impairment test guidance set forth in IAS 36, *Impairment of Assets*.

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

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

Tenant improvements are carried at cost and are depreciated over the term of the lease plus the first renewal period. Depreciation of construction in progress will begin, in accordance with the above policy, when construction has been completed and the investment property is deemed available for use. Land is not subject to depreciation and is carried at cost.

Deferred Development Costs (Intangible Assets)

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

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

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

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

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

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

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

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

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

Leasing

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

Manitoba Public Insurance as a Lessee

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

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

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

Manitoba Public Insurance as a Lessor

Manitoba Public Insurance leases retail, office and parking space in cityplace properties, a building and parking facilities owned by Manitoba Public Insurance. All of these leases are considered operating leases.

Revenue

Premiums

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

Unearned Premiums

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

Interest Revenue

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

Investment Income

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

Realized Gains and Losses

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

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

Unrealized Gains and Losses

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

Provisions

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

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

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

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

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

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

The Corporation values its pension benefit plan annually, the most recent valuation is at December 31, 2018. Roll-forward procedures are performed to ensure that the December 31, 2018 valuation is a reliable estimate of the valuation at February 28, 2019.

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.

Salvage and Subrogation

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

Structured Settlements

In the normal course of tort claims adjudication, the Corporation settles certain long-term claims losses through the purchase of annuities under structured settlement arrangements with life insurance companies. As the Corporation does not retain any interest in the related insurance contract and obtains a legal release from the claimant, any gain or loss on the purchase of the annuity is recognized in the Statement of Operations at the date of purchase and the related claims liabilities are derecognized. While, the Corporation remains exposed to the credit risk that the life insurance companies may fail to fulfill their obligations, management believes this risk to be remote.

Allocation of Revenue, Claims Incurred and Expenses

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

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

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.

Foreign Currency

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

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

Comprehensive Income

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

Critical Accounting Judgments and Key Sources of Estimation Uncertainty

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

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

Allowance for Doubtful Accounts

The Corporation must make an assessment of whether accounts receivable are collectible from customers. Accordingly, management establishes an allowance for estimated losses arising from non-payment of accounts receivable.

Deferred Development Costs (Intangible Assets)

Deferred development costs represent a significant portion of ongoing expenditures related to information systems development. Management estimates the expected period of benefit over which capitalized costs will be amortized. The considerations which form the basis of the assumptions for these estimated useful lives include the timing of technological obsolescence and customer service requirements, as well as historical experience and internal plans for the projected use of the information systems.

Provision for Unpaid Claims

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

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

The assumptions underlying the valuation of provisions for unpaid claims and adjustment expenses are reviewed and updated by the Corporation on an ongoing basis to reflect recent and emerging trends in experience. Sensitivity of these assumptions and the impact on net insurance contract liabilities and equity are fully disclosed in Note 18.

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

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

Fair Value of Level 3 AFS and FVTPL Investments
Level 3 assets and liabilities would include financial instruments whose values are determined using internal pricing models, discounted cash flow methodologies, or similar techniques that are not based on observable market data, as well as instruments for which the determination of estimated fair value requires significant management judgment or estimation. See Note 4 for further details of valuation methods and assumptions.

Future Changes in Accounting Policy and Disclosure

Certain new standards, interpretations, amendments and improvements to existing standards were issued by The International Accounting Standards Board (IASB) or International Financial Reporting Interpretations Committee (IFRIC) that are mandatory for annual reporting periods beginning on January 1, 2019; or later periods. The standards that may have an impact to the Corporation are:

IFRS 7 – Financial Instruments: Disclosures
In December 2011, IFRS 7 *Financial Instruments: Disclosures* was amended to require additional financial instrument disclosures upon transition from IAS 39 *Financial Instruments: Recognition and Measurement* to IFRS 9 *Financial Instruments*. The amendments are effective upon adoption of IFRS 9, which is effective for annual periods beginning on or after January 1, 2018. However, in September 2016, IFRS 4 *Insurance Contracts* was amended to provide an option of a temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing insurance contracts within the scope of IFRS 4. Therefore, qualifying entities will have the option to adopt IFRS 9 upon the adoption of IFRS 17 *Insurance Contracts*. The Corporation qualified for a temporary exemption. However, a further delay of IFRS 17 in November 2018 results in the availability of an additional temporary exemption of IFRS 9. The Corporation also qualified for this exemption. Thus, the amended IFRS 7 is effective for annual periods beginning on or after January 1, 2022. The Corporation is currently evaluating the impact that this standard will have on its financial statements.

IFRS 9 – Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which replaces IAS 39, *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after January 1, 2018. The standard provides guidance on the classification and measurement of financial instruments, impairment of financial assets, and hedge accounting.

The standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39. The standard requires financial assets to be recorded at amortized cost or fair value depending on the Corporation's business model for managing the assets and their associated cash flow characteristics. All financial assets are to be measured at fair value on the Statement of Financial Position if they are not measured at amortized cost. IFRS 9 allows financial assets or financial liabilities not classified as amortized cost to be recognized as FVTPL or as fair value through OCI (FVOCI).

At initial recognition, the Corporation may irrevocably designate a financial asset as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch. For equity investments measured at FVOCI, dividends that do not clearly represent a return of investment are recognized in profit (loss) under investment income. Other gains and losses associated with such instruments remain in AOCI indefinitely.

The standard introduces an expected credit loss model, which applies to all financial assets unless designated or classified as FVTPL. This impairment model requires a 12 month expected credit loss provision at initial recognition. Subsequently, a significant increase to credit risks of a financial asset will result in an increase of the impairment provision to the financial asset's lifetime expected credit loss. In the event that significant credit risks are reduced, the impairment model allows for the provision to return to the financial asset's 12 month expected credit loss. Changes in the impairment provision will flow through the Statement of Operations.

Requirements for financial liabilities were added in October 2010 which largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated as FVTPL would generally be recorded in OCI. This standard also replaces the rule-based hedge accounting requirements in IAS 39 to more closely align the accounting with risk management activities.

In September 2016, the IASB issued amendments to IFRS 4 to address concerns regarding the different effective dates of IFRS 9 and the forthcoming new insurance contract standard IFRS 17.

Entities that issue insurance contracts within the scope of IFRS 4 will be provided with two options, the overlay and the deferral approaches. The overlay approach will permit insurers to exclude from net income (loss) and recognize in OCI the difference between the amounts that would be recognized in net income (loss) in accordance with IFRS 9 and the amounts recognized in net income (loss) in accordance with IAS 39. The deferral approach will allow insurers whose activities are predominantly connected with insurance the option to temporarily defer adoption of IFRS 9 until annual periods beginning on or after January 1, 2022.

The IASB considers entities with a "predominance ratio" greater than 90 per cent or greater than 80 per cent and the entities do not engage in significant activity unconnected with insurance at December 31, 2015 to qualify for the deferral approach. The Corporation exceeded the 80 per cent ratio at that date and does not engage in significant activity unconnected with insurance, and as a result will apply the deferral approach.

Under the deferral approach, financial assets must be classified based on their contractual cash flow characteristics. Financial assets may give rise to cash flows that are solely payments of principal and interest (SPPI) on the outstanding principal amount. Principal generally refers to the fair value of a financial asset at the time of initial recognition. Interest refers to consideration for the time value of money along with credit risk associated with the principal amount outstanding over time, however interest could also include consideration for other basic lending risks, costs and profit margin.

Financial assets may be managed on a fair value basis. Managed on a fair value basis refers to the objective of realizing changes in fair values through regular trading activity, where the collection of contractual cash flows is incidental, not integral to this objective.

IFRS 9 provides an irrevocable election at initial recognition to classify particular financial assets as FVTPL or FVOCI. The Corporation is evaluating the impact these elections will have on the financial statements.

The fair values of the Corporation's financial assets based on contractual cash flow characteristics can be seen in Note 4.

IFRS 16 – Leases

IFRS 16 *Leases* was issued in January, 2016 and is intended to replace IAS 17, *Leases* and related IFRICs. The standard was issued as a result of a joint project with the U.S. Financial Accounting Standards Board. The standard provides a single lessee accounting model whereby a lessee recognizes a right-of-use asset and a lease liability for all leases. A lessee may elect to apply an exemption to the standard for leases with a term of 12 months or less that contain no purchase options; or leases where the underlying asset has a low value. The standard is effective for annual periods beginning on or after January 1, 2019. Early application is permitted if IFRS 15 *Revenue from Contracts with Customers* has also been adopted. The Corporation is evaluating the impact this standard will have on the financial statements.

IFRS 17 – Insurance Contracts

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

The standard requires entities to measure insurance contract liabilities as the risk-adjusted present value of the cash flows plus the contractual service margin, which represents the unearned profit the entity will recognize as future service is provided. This is referred to as the general model. Expedients are specified, provided the insurance contracts meet certain conditions. The premium allocation approach is permitted for the liability for remaining coverage on contracts with a duration of one year or less. If, at initial recognition or subsequently, the contractual service margin becomes negative, the contract is considered onerous and the excess is recognized immediately in the Statement of Operations. The standard also includes significant changes to the presentation and disclosure of insurance contracts within entities' financial statements.

IFRS 17 is effective for annual reporting periods beginning on or after January 1, 2022. The standard is to be applied retrospectively unless impracticable, in which case a modified retrospective approach or fair value approach is to be used for transition. Early application is permitted where entities have also adopted IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments*. The Corporation is currently evaluating the impact that this standard will have on its financial statements.

IAS 19 – Employee Benefits

In February 2018 the IASB issued an amendment to IAS 19 that clarifies that if a plan amendment, curtailment or settlement occurs, it will be mandatory that the current service cost and the net interest for the period after the remeasurement be determined using the assumptions used in the remeasurement. The amendments also clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The standard is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted. The Corporation is evaluating the impact this amendment will have on its financial statements.

Annual Improvements

The annual improvements process is used to make necessary but non-urgent changes to IFRSs that are not included in other projects.

In December 2017, the IASB issued Annual Improvements Cycle 2015-2017, and included minor amendments to IFRS 3, *Business Combinations,* IFRS 11, *Joint Arrangements,* IAS 12, *Income Taxes,* and IAS 23, *Borrowing Costs.* The annual improvements process is used to make necessary but non-urgent changes to IFRS that are not included in other projects. The amendments issued are all effective for annual periods beginning on or after January 1, 2019. The Corporation is evaluating the impact these amendments will have on its financial statements.

Conceptual Framework for Financial Reporting

In March 2018, the IASB revised its conceptual framework for financial reporting. The revised framework includes a new chapter on measurement, guidance on reporting financial performance, improved definitions and guidance, and clarifications on important topics (e.g., the roles of stewardship, prudence, and measurement uncertainty in financial reporting). The IASB has also issued amendments that update references to the framework in certain standards. The amendments are effective for annual periods beginning on or after January 1, 2020. The Corporation is currently evaluating the impact these amendments will have on its financial statements.

4. 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 $184.3 million (February 28, 2018 – $83.2 million) comprised of provincial short-term deposits with effective interest rates of 1.60 per cent (February 28, 2018 – 1.10 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, 2018 - $5.0 million). The unsecured operating line of credit remained unutilized at February 28, 2019 (February 28, 2018 – nil).

Cash and Investments

	Financial Instruments				
As at February 28, 2019 (in thousands of Canadian dollars)	**Classified as AFS**	**Classified as HTM**	**Classified as FVTPL**	**Non-Financial Instruments**	**Total Carrying Value**
Cash and cash equivalents	**193,108**	**-**	**-**	**-**	**193,108**
Bonds					
Federal	**-**	**-**	**29,402**	**-**	**29,402**
Manitoba:					
Provincial	**-**	**-**	**127,338**	**-**	**127,338**
Municipal	**-**	**24,707**	**32,396**	**-**	**57,103**
Schools	**-**	**546,309**	**-**	**-**	**546,309**
Other provinces:					
Provincial	**-**	**-**	**1,038,694**	**-**	**1,038,694**
Municipal	**-**	**-**	**64,975**	**-**	**64,975**
Corporations	**-**	**-**	**114,813**	**-**	**114,813**
	-	**571,016**	**1,407,618**	**-**	**1,978,634**
Other investments	**378**	**-**	**-**	**-**	**378**
Infrastructure	**-**	**-**	**111,996**	**-**	**111,996**
Equity investments	**465,206**	**-**	**-**	**-**	**465,206**
Pooled real estate fund	**-**	**-**	**283,316**	**-**	**283,316**
Investments	**465,584**	**571,016**	**1,802,930**	**-**	**2,839,530**
Investment property	**-**	**-**	**-**	**49,027**	**49,027**
Total	**658,692**	**571,016**	**1,802,930**	**49,027**	**3,081,665**

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

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

As at February 28, 2019 (in thousands of Canadian dollars)	**Book Value**	**Unrealized Gains/Losses**	**Fair Value**
Equity Investments			
With unrealized losses	**468,408**	**(3,202)**	**465,206**
Subtotal - Equity Investments	**468,408**	**(3,202)**	**465,206**
Other Investments			
With unrealized gains	**314**	**64**	**378**
Subtotal - Other Investments	**314**	**64**	**378**
Total AFS Equity and Other Investments	**468,722**	**(3,138)**	**465,584**

As at February 28, 2018 (in thousands of Canadian dollars)	Book Value	Unrealized Gains/Losses	Fair Value
Equity Investments			
With unrealized gains	254,728	120,541	375,269
With unrealized losses	38,716	(4,651)	34,065
Subtotal - Equity Investments	293,444	115,890	409,334
Other Investments			
With unrealized gains	342	967	1,309
With unrealized losses	58	(16)	42
Subtotal - Other Investments	400	951	1,351
Total AFS Equity and Other Investments	293,844	116,841	410,685

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

Fair Value Measurement

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

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

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

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

No investments were transferred between levels in 2019 or 2018.

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

As at February 28, 2019 (in thousands of Canadian dollars)	**Level 1**	**Level 2**	**Level 3**
FVTPL financial assets			
Bonds	**-**	**1,393,301**	**14,317**
Infrastructure	**-**	**-**	**111,996**
Pooled real estate fund	**-**	**283,316**	**-**
Total FVTPL financial assets	**-**	**1,676,617**	**126,313**
AFS financial assets			
Cash and cash equivalents	**193,108**	**-**	**-**
Other investments	**-**	**-**	**378**
Equity investments	**465,206**	**-**	**-**
Total AFS financial assets	**658,314**	**-**	**378**
Total assets measured at fair value	**658,314**	**1,676,617**	**126,691**

As at February 28, 2018 (in thousands of Canadian dollars)	Level 1	Level 2	Level 3
FVTPL financial assets			
Bonds	-	1,255,128	14,362
Infrastructure	-	-	100,085
Pooled real estate fund	-	263,022	-
Total FVTPL financial assets	-	1,518,150	114,447
AFS financial assets			
Cash and cash equivalents	89,006	-	-
Other investments	-	-	1,351
Equity investments	409,334	-	-
Total AFS financial assets	498,340	-	1,351
Total assets measured at fair value	498,340	1,518,150	115,798

Fair value measurement of instruments included in Level 3

	FVTPL		**AFS**	
(in thousands of Canadian dollars)	**2019**	2018	**2019**	2018
Balance at March 1	**114,447**	110,121	**1,351**	1,493
Total gains/(losses)				
Included in net income	**10,857**	5,446	**-**	-
Included in OCI	**-**	-	**(887)**	(142)
Purchases	**30,766**	-	**-**	-
Sales	**(28,863)**	-	**(86)**	-
Return of capital	**(894)**	(1,120)	**-**	-
Balance at February 28	**126,313**	114,447	**378**	1,351

The fair value of HTM bonds, which include schools and certain municipalities, is based on their carrying value, which approximates fair value. As of February 28, 2019, the fair value of municipal, utilities, schools and hospital bonds held to maturity is $571.0 million (February 28, 2018 - $617.6 million).

Impairment

Impairment losses were based on management's best estimate of whether objective evidence of impairment exists, using available market data and other observable data. There were no investment impairments recorded in 2018/19. For 2017/18, impaired investments included in the Corporation's portfolio include the following:

As at February 28, 2018 (in thousands of Canadian dollars)	Gross	Impaired	Net
By investment type			
AFS	6,003	(1,078)	4,925
Total	6,003	(1,078)	4,925

Investment Income

For the year ending February 28 (in thousands of Canadian dollars)	**2019**	2018
Interest income	**55,421**	52,584
Gain (loss) on sale of FVTPL bonds	**6,349**	(4,045)
Unrealized gain on FVTPL bonds	**10,144**	9,363
Unrealized gain on pooled real estate fund	**20,295**	29,040
Dividends on infrastructure investments	**2,514**	2,006
Realized gain on instrastructure investments	**1,878**	-
Unrealized gain on infrastructure investments	**10,904**	6,195
Foreign exchange gain on infrastructure investments	**24**	35
Dividend income	**13,699**	12,523
Gain on sale of equities and other investments	**121,956**	29,052
Loss on foreign exchange	**(40)**	(92)
Income from investment property	**3,604**	3,445
Impairment of AFS investments	**-**	(1,078)
Investment management fees	**(4,162)**	(4,220)
Total	**242,586**	134,808

Investment income is net of investment management fees paid to the Department of Finance in the amount of $4.2 million (February 28, 2018 - $4.2 million). This includes $2.7 million (February 28, 2018 - $2.8 million) of fees the Province paid to outside managers on the Corporation's behalf.

Temporary Deferral of IFRS 9

The Corporation has temporarily deferred the adoption of IFRS 9. The Corporation qualified for temporary deferral from IFRS 9 based on the following reasons: (1) the Corporation has not previously applied any version of IFRS 9, and (2) the Corporation's activities were predominantly connected with insurance as at February 29, 2016, and there have been no significant changes in its activities since that date. The conclusion that the Corporation's activities were predominantly connected with insurance was made on the basis that the carrying value of the Corporation's liabilities arising from insurance contracts, within the scope of IFRS 4, comprised of greater than 80 per cent of the Corporation's total liabilities and the Corporation does not engage in significant activity unconnected with insurance.

In accordance with the requirements of temporary deferral, the Corporation has disclosed the following information to allow for comparability with entities that have adopted IFRS 9.

Solely Payments of Principle and Interest

The below table categorizes the Corporation's financial assets between two groups: a) financial assets with contractual terms that give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI) and b) all other financial assets.

As at February 28, 2019 (in thousands of Canadian dollars)	**Fair Value**	**Change in Fair Value During the Year**
SPPI	**2,162,890**	**25,416**
Other	**869,748**	**176,000**
Total	**3,032,638**	**201,416**

As at February 28, 2018 (in thousands of Canadian dollars)	Fair Value	Change in Fair Value During the Year
SPPI	1,970,269	15,273
Other	779,587	267,128
Total	2,749,856	282,401

Credit Risk Exposure Related to Financial Assets Categorized as SPPI

The below table describes the credit risk exposure and credit risk concentrations for financial assets categorized as SPPI.

As at February 28, 2019 (in thousands of Canadian dollars)	**Fair Value**	**Carrying Value**
Aaa	**200,211**	**200,211**
Aa	**1,659,658**	**1,659,658**
A	**106,031**	**106,031**
Baa	**12,734**	**12,734**
Not rated	**184,256**	**184,256**
Total	**2,162,890**	**2,162,890**

As at February 28, 2018 (in thousands of Canadian dollars)	Fair Value	Carrying Value
Aaa	187,369	187,369
Aa	1,570,101	1,570,101
A	129,588	129,588
Not rated	83,211	83,211
Total	1,970,269	1,970,269

5. Investment Property – Non-Financial Instruments

(in thousands of Canadian dollars)	Cityplace Building*	Surface Parking Lots	Parkade	Investment Property Under Construction	Total
Cost					
Balance at March 1, 2017	32,296	1,040	10,822	5,175	49,333
Additions	-	-	-	189	189
Transfer from Property Under Construction	-	-	5,364	(5,364)	-
Balance at February 28, 2018	32,296	1,040	16,186	-	49,522
Additions	**9,970**	**-**	**-**	-	**9,970**
Balance at February 28, 2019	**42,266**	**1,040**	**16,186**	-	**59,492**
Accumulated Depreciation					
Balance at March 1, 2017	5,903	-	1,744	-	7,647
Depreciation	962	-	267	-	1,229
Balance at February 28, 2018	6,865	-	2,011	-	8,876
Depreciation	**1,232**	**-**	**357**	-	**1,589**
Balance at February 28, 2019	**8,097**	**-**	**2,368**	-	**10,465**
Carrying Amounts					
At February 28, 2018	25,431	1,040	14,175	-	40,646
At February 28, 2019	**34,169**	**1,040**	**13,818**	-	**49,027**
Fair Value at February 28, 2019	**41,668**	**4,380**	**22,200**	-	**68,248**

*Includes the portion of the cityplace building not used for administrative purposes as well as tenant improvements.

6. Due From Other Insurance Companies

(in thousands of Canadian dollars)	2019	2018
Balance at March 1	**3**	29
Claims paid ceded to reinsurers	**8,565**	32
Less: recovery from reinsurers	**(6,965)**	(58)
Balance at February 28	**1,603**	3

7. Deferred Policy Acquisition Costs

(in thousands of Canadian dollars)	2019	2018
Balance at March 1	**24,727**	24,155
Deferred during the year	**157,867**	148,095
Expensed during the year	**(122,167)**	(114,828)
Write-down	**(27,917)**	(32,695)
Balance at February 28	**32,510**	24,727

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

8. Property and Equipment

(in thousands of Canadian dollars)	Land & Buildings (1)	Furniture & Equipment (2)	Buildings under Finance Lease(3)	Property Under Construction (4)	Total
Cost					
Balance at March 1, 2017	132,374	31,944	13,451	4,820	182,589
Additions	109	1,719	-	4,085	5,913
Disposals	(1,871)	(2,161)	-	-	(4,032)
Transfer from Property Under Construction	6,968	-	-	(6,968)	-
Balance at February 28, 2018	137,580	31,502	13,451	1,937	184,470
Additions	**-**	**3,014**	**-**	**872**	**3,886**
Disposals	**(2,728)**	**(1,229)**	**-**	**-**	**(3,957)**
Transfer from Property Under Construction	**1,775**	**526**	**-**	**(2,301)**	**-**
Balance at February 28, 2019	**136,627**	**33,813**	**13,451**	**508**	**184,399**
Accumulated Depreciation					
Balance at March 1, 2017	36,499	27,705	2,326	-	66,530
Disposals	(1,660)	(2,127)	-	-	(3,787)
Depreciation	3,095	1,542	336	-	4,973
Balance at February 28, 2018	37,934	27,120	2,662	-	67,716
Disposals	**(1,959)**	**(1,126)**	**-**	**-**	**(3,085)**
Depreciation	**2,994**	**1,502**	**336**	**-**	**4,832**
Balance at February 28, 2019	**38,969**	**27,496**	**2,998**	**-**	**69,463**
Carrying Amounts					
At February 28, 2018	99,646	4,382	10,789	1,937	116,754
At February 28, 2019	**97,658**	**6,317**	**10,453**	**508**	**114,936**

(1) Includes land, land improvements, leasehold improvements, buildings and building components: elevators, escalators, HVAC systems, roofing systems.
(2) Includes furniture, equipment, computer equipment, vehicles and demountable wall systems.
(3) Includes property located at 1284 Main Street in Winnipeg held under a financing lease. Refer to Note 12 for financing lease obligations.
(4) The Corporation has completed modifications to Plessis Road, Pembina and Brandon locations. Ongoing, there are a number of smaller renovations for roofs at service centres, security systems and equipment.

9. Deferred Development Costs

(in thousands of Canadian dollars)	**Internally Developed Intangible Assets**
Cost	
Balance at March 1, 2017	198,594
Additions	20,710
Impairments	(20,506)
Balance at February 28, 2018	198,798
Additions	**15,695**
Impairments	**(3,026)**
Balance at February 28, 2019	**211,467**
Accumulated Depreciation	
Balance at March 1, 2017	109,098
Amortization	20,757
Impairments	(248)
Balance at February 28, 2018	129,607
Amortization	**24,298**
Balance at February 28, 2019	**153,905**
Carrying Amounts	
At February 28, 2018	69,191
At February 28, 2019	**57,562**

Deferred development costs of $12.5 million (February 28, 2018 - $20.4 million) have not yet been put into use and are currently not being amortized. Impairments of $3.0 million (February 28, 2018 – $20.5 million) were recognized during the year and have been recorded in claims expense, loss prevention/road safety expense and operating expense on the Statement of Operations.

10. Due to Other Insurance Companies

(in thousands of Canadian dollars)	**2019**	2018
Balance at March 1	**171**	173
Change in reinsurance ceded premiums written less installment payments	**11**	5
Change in amounts received as collateral for reinsurers' share of unpaid claims	**2,187**	(7)
Balance at February 28	**2,369**	171

11. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities are comprised of the following:

(in thousands of Canadian dollars)	**2019**	2018
Due to the Province of Manitoba	**11,578**	11,972
Payroll	**4,401**	4,006
Broker commissions	**6,499**	6,229
Provision for fleet rebates	**16,720**	15,533
International Registration Program payable to other jurisdictions	**8,132**	5,789
Premium taxes	**46,167**	8,417
Other payables and accrued liabilities	**16,179**	17,271
Balance at February 28	**109,676**	69,217

12. Financing Lease Obligation

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

(in thousands of Canadian dollars with the exception of interest rates)	**2019**	2018
Interest rate	**6.70%**	6.70%
Interest rate expense for the year	**271**	278
Financing lease obligations at February 28	**3,988**	4,092

The minimum lease payments are as follows:

	Minimum Lease Payments		**Present Value of Minimum Lease Payments**	
(in thousands of Canadian dollars)	**2019**	2018	**2019**	2018
Not later than one year	**406**	375	**391**	362
Later than one year and not later than five years	**1,577**	1,556	**1,380**	1,360
Later than five years	**4,627**	5,054	**3,249**	3,433
Total	**6,610**	6,985	**5,020**	5,155

13. Operating Leases

As A Lessee:

The Corporation leases offices in Winnipeg and Killarney. These leases are classified as operating leases in accordance with IAS 17, *Leases*. The lease terms for the offices are all under ten years. Also classified as an operating lease is the land portion of the Service Centre located at 1284 Main Street in Winnipeg. None of the leases are subleased and no contingent rent is payable for any of the lease arrangements.

Non-cancellable operating lease rentals are payable as follows:

(in thousands of Canadian dollars)	**2019**	2018
Not later than one year	**412**	397
Later than one year and not later than five years	**454**	693
Later than five years	**754**	1,308
Total	**1,620**	2,398

During the year ended February 28, 2019, $395 thousand was recognized as an expense for operating leases (February 28, 2018 - $635 thousand) in the Statement of Operations.

As A Lessor:

The Corporation owns the cityplace property located in downtown Winnipeg including the cityplace building, one adjacent parking lot and one adjacent parkade. The cityplace building includes five floors of office space, three floors of parking and two floors of retail space. The Corporation uses approximately 60 per cent of the building for administrative purposes and leases out the remaining 40 per cent. Tenant improvements are 100 per cent investment property and therefore do not factor into the calculation. The leases are all classified as operating leases.

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

(in thousands of Canadian dollars)	**2019**	2018
Not later than one year	**2,701**	3,980
Later than one year and not later than five years	**6,771**	7,251
Later than five years	**6,386**	6,283
Total	**15,858**	17,514

During the year ended February 28, 2019, income from investment property includes gross rental income from operating leases of $15.0 million (February 28, 2018 - $14.3 million) and gross rental expenses pertaining to operating leases of $11.4 million (February 28, 2018 - $10.9 million). Included in rental income is income contingent on retail sales of $288 thousand (February 28, 2018 - $220 thousand).

14. Unearned Premiums and Fees

		2019	
(in thousands of Canadian dollars)	**Gross**	**Reinsurers' Share**	**Net**
Unearned premiums			
Balance at March 1	**578,970**	**133**	**578,837**
Premiums written	**1,332,345**	**16,733**	**1,315,612**
Premiums earned	**(1,292,941)**	**(16,724)**	**(1,276,217)**
Balance at February 28	**618,374**	**142**	**618,232**
Prepaid premiums	**44,798**	**-**	**44,798**
Unearned fees	**10,242**	**-**	**10,242**
Balance at February 28	**673,414**	**142**	**673,272**

		2018	
(in thousands of Canadian dollars)	Gross	Reinsurers' Share	Net
Unearned premiums			
Balance at March 1	538,362	117	538,245
Premiums written	1,247,731	15,381	1,232,350
Premiums earned	(1,207,123)	(15,365)	(1,191,758)
Balance at February 28	578,970	133	578,837
Prepaid premiums	41,016	-	41,016
Unearned fees	8,851	-	8,851
Balance at February 28	628,837	133	628,704

15. Provision for Employee Current Benefits

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

(in thousands of Canadian dollars)	**2019**	2018
Balance at March 1	**22,373**	22,750
Provisions incurred	**16,530**	15,654
Payments	**(16,063)**	(16,031)
Balance at February 28	**22,840**	22,373

16. Provision for Employee Future Benefits

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

The Corporation uses an actuarial valuation, on an annual basis, to measure the accrued provision for its benefit plans. The most recent actuarial valuation was conducted by an external actuary as at December 31, 2018, with the next scheduled actuarial valuation being December 31, 2019.

The actuarial valuation is based on the Corporation's best estimate of various economic assumptions. With respect to the demographic assumptions, the Corporation relies on and uses the assumptions adopted by the Civil Service Superannuation Board. The weighted average duration of the defined benefit obligation is 15.2 years (February 28, 2018 – 15.4 years). Results from the most recent actuarial valuations, projected to February 28, 2019 and the corresponding economic assumptions are as follows:

Assumptions:

	Pension Benefit Plan		Other Benefit Plans	
	2019	2018	**2019**	2018
Discount rate - actuarial valuation	**3.94%**	3.43%	**3.94%**	3.43%
Discount rate - February 28	**3.69%**	3.43%	**3.69%**	3.43%
Inflation rate	**1.70%**	2.00%	**N/A**	N/A
Expected salary increase	**2.00%**	1.50%	**N/A**	N/A
Expected health care cost increase (out of scope)	**N/A**	N/A	**5.50%**	5.00%
Expected health care cost increase (in scope)	**N/A**	N/A	**1.70%**	2.00%

Change in benefit obligations:

	Pension Benefit Plan		Other Benefit Plans	
(in thousands of Canadian dollars)	**2019**	2018	**2019**	2018
Balance at March 1	**392,693**	353,052	**53,765**	52,006
Current service cost	**14,608**	14,232	**4,317**	4,801
Interest cost	**14,158**	13,466	**1,121**	946
Benefits paid	**(15,002)**	(15,660)	**(4,816)**	(4,945)
Remeasurement (gains)/losses recognized in Other Comprehensive Income	**(6,795)**	27,603	**2,877**	957
Balance at February 28	**399,662**	392,693	**57,264**	53,765
Employee contribution for the year	**10,108**	10,236	**-**	-

Plan Assets

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

Benefit Plan Expenses

	Pension Benefit Plan		Other Benefit Plans	
(in thousands of Canadian dollars)	**2019**	2018	**2019**	2018
Current service cost	**14,608**	14,232	**4,317**	4,801
Interest cost	**14,158**	13,466	**1,121**	946
Total	**28,766**	27,698	**5,438**	5,747

Sensitivity Analysis

Based on the December 31, 2018 actuarial valuation, changes to the actuarial assumptions would change the benefit obligation as follows:

Pension Benefit Plan

Gain due to discount rate increasing from 3.94% to 4.94% (plus 1.00%)	**(57,741)**
Loss due to discount rate decreasing from 3.94% to 2.94% (minus 1.00%)	**75,230**
Loss due to mortality life expectancy at age 65 up one year	**6,782**
Loss due to inflation indexing (2/3rd COLA) increasing 1.00%	**33,821**
Gain due to inflation indexing (2/3rd COLA) decreasing from 1.00%	**(29,970)**

Other Benefit Plans

Gain due to discount rate increasing from 3.94% to 4.94% (plus 1.00%)	**(5,200)**
Loss due to discount rate decreasing from 3.94% to 2.94% (minus 1.00%)	**6,948**
Loss due to mortality life expectancy at age 65 up one year	**720**
Loss due to health care cost inflation indexing increasing 1.00%	**6,784**
Gain due to health care cost inflation indexing decreasing 1.00%	**(5,194)**

Expected maturity analysis of undiscounted pension benefit and other benefit plans:

(in thousands of Canadian dollars)	**Less than a year**	**Between 1 & 2 years**	**Between 2 & 5 years**	**Over 5 years**	**Total**
Pension benefit plan	**12,456**	**13,720**	**48,743**	**656,135**	**731,054**
Other benefit plans	**591**	**653**	**2,332**	**60,362**	**63,938**
At December 31, 2018	**13,047**	**14,373**	**51,075**	**716,497**	**794,992**

(in thousands of Canadian dollars)	Less than a year	Between 1 & 2 years	Between 2 & 5 years	Over 5 years	Total
Pension benefit plan	11,120	12,407	44,946	635,237	703,710
Other benefit plans	491	554	2,042	48,876	51,963
At December 31, 2017	11,611	12,961	46,988	684,113	755,673

17. Insurance Contracts

The following is a summary of the insurance contract provisions and related reinsurance assets as at February 28, 2019 and 2018.

		2019	
		Reinsurance	
(in thousands of Canadian dollars)	**Gross**	**Ceded**	**Net**
Insurance Contract Provisions			
Outstanding case reserves	**1,399,248**	**7,233**	**1,392,015**
Provision for incurred but not reported claims	**458,554**	**2,302**	**456,252**
Provision for internal loss adjusting expenses	**195,218**	**-**	**195,218**
Effect of discounting	**(227,410)**	**(246)**	**(227,164)**
Provision for adverse deviation	**259,022**	**525**	**258,497**
Provision for Unpaid Claims	**2,084,632**	**9,814**	**2,074,818**
Provision for Unearned Premiums (Note 14)	**618,374**	**142**	**618,232**
Total Insurance Contract Provisions	**2,703,006**	**9,956**	**2,693,050**

		2018	
		Reinsurance	
(in thousands of Canadian dollars)	Gross	Ceded	Net
Insurance Contract Provisions			
Outstanding case reserves	1,314,260	1,244	1,313,016
Provision for incurred but not reported claims	417,661	1,160	416,501
Provision for internal loss adjusting expenses	180,320	-	180,320
Effect of discounting	(244,684)	(113)	(244,571)
Provision for adverse deviation	236,332	161	236,171
Premium deficiency	8,845	-	8,845
Provision for Unpaid Claims	1,912,734	2,452	1,910,282
Provision for Unearned Premiums (Note 14)	578,970	133	578,837
Total Insurance Contract Provisions	2,491,704	2,585	2,489,119

The following is a summary of the insurance contract provisions and related reinsurance assets by line of business as at February 28, 2019 and 2018.

		2019	
		Reinsurance	
(in thousands of Canadian dollars)	**Gross**	**Ceded**	**Net**
Insurance Contract Provisions			
Basic	**2,448,649**	**8,194**	**2,440,455**
Extension	**107,635**	**460**	**107,175**
Special Risk Extension	**115,110**	**1,023**	**114,087**
Total undiscounted	**2,671,394**	**9,677**	**2,661,717**
Discounting with Provision for Adverse Deviation	**31,612**	**279**	**31,333**
Total Insurance Contract Provisions	**2,703,006**	**9,956**	**2,693,050**

		2018	
		Reinsurance	
(in thousands of Canadian dollars)	Gross	Ceded	Net
Insurance Contract Provisions			
Basic	2,278,168	1,209	2,276,959
Extension	105,133	35	105,098
Special Risk Extension	107,910	1,293	106,617
Total undiscounted	2,491,211	2,537	2,488,674
Discounting with Provision for Adverse Deviation and premium deficiency	493	48	445
Total Insurance Contract Provisions	2,491,704	2,585	2,489,119

18. Claims Liabilities

Methodology and Assumptions

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

Loss Development Method

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

Bornheutter-Ferguson Method

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

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

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

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

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

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

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

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

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

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

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

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

Changes in Assumptions

Change in Discount Rate

The discount rate, determined based on the market value weighted yield for the Corporation's bond portfolio, decreased by 21 basis points, from 3.47 per cent to 3.26 per cent, between the February 28, 2018 valuation and the February 28, 2019 valuation. The decrease in the discount rate increased the discounted net claim liabilities by $37.0 million and ILAE by $3.9 million.

Change in Loss Development Factors

The loss development factors for all coverages are reviewed and revised to reflect an additional year of actual losses. The aggregate effect of all revisions to the selected loss development factors is an increase in the discounted net claim liabilities of $1.8 million and ILAE provision of $0.8 million.

Change in Selected Incurred But Not Reported

In the February 28, 2018 valuation, for Basic Accident Benefits Other (Indexed), the IBNR for all years were selected as the indicated IBNR using the incurred Bornheutter-Ferguson method. For the February, 28, 2019 valuation, for years 2015 to 2017, the IBNR was set at zero given the significant increase in case reserves for these years. For year 2018, the IBNR was set such that the ultimate for the year would be approximately equal to the average for years 2015 to 2017.

The change in the selected IBNR decreased the discounted net claim liabilities by $17.9 million and ILAE provision by $3.3 million.

Change in ILAE Ratio

The ILAE ratios for all lines of business are reviewed and revised to reflect recent indications. The aggregate effect of all revisions to the ILAE ratios is a decrease in the ILAE provision of $4.6 million.

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

Balance at February 28, 2019 (in thousands of Canadian dollars)	**Gross**	**Reinsurance Ceded**	**Net**
Automobile Insurance Division			
Liability	**1,869,968**	**2,019**	**1,867,949**
Physical Damage	**212,261**	**7,795**	**204,466**
	2,082,229	**9,814**	**2,072,415**
Discontinued Operations-Personal/Commercial Lines	**2,403**	**-**	**2,403**
Total	**2,084,632**	**9,814**	**2,074,818**

Balance at February 28, 2018

(in thousands of Canadian dollars)	Gross	Reinsurance Ceded	Net
Automobile Insurance Division			
Liability	1,712,982	2,073	1,710,909
Physical Damage	197,339	379	196,960
	1,910,321	2,452	1,907,869
Discontinued Operations-Personal/Commercial Lines	2,413	-	2,413
Total	1,912,734	2,452	1,910,282

Changes in Unpaid Claims and ILAE Provision

Gross

(in thousands of Canadian dollars)	**2019**	2018
Discounted unpaid claims at March 1	**1,723,569**	1,710,433
Effect of discounting and Provision for Adverse Deviation	**8,352**	(32,206)
Undiscounted unpaid claims at March 1	**1,731,921**	1,678,227
Ultimate claims for current accident year	**903,009**	850,714
Payment on current accident year claims	**(536,305)**	(518,862)
Change in ultimate claims from prior accident years	**45,058**	33,566
Payments on prior accident year claims	**(285,881)**	(311,724)
Undiscounted unpaid claims at February 28	**1,857,802**	1,731,921
Effect of discounting and Provision for Adverse Deviation	**31,612**	(8,352)
Premium deficiency	**-**	8,845
Discounted unpaid claims at February 28	**1,889,414**	1,732,414
ILAE provision	**195,218**	180,320
Total unpaid claims provision	**2,084,632**	1,912,734

Reinsurance Ceded

(in thousands of Canadian dollars)	**2019**	2018
Discounted unpaid claims at March 1	**2,452**	1,971
Effect of discounting and Provision for Adverse Deviation	**(48)**	20
Undiscounted unpaid claims at March 1	**2,404**	1,991
Ultimate claims for current accident year	**16,417**	377
Payment on current accident year claims	**(8,550)**	-
Change in ultimate claims from prior accident years	**(720)**	67
Payments on prior accident year claims	**(16)**	(31)
Undiscounted unpaid claims at February 28	**9,535**	2,404
Effect of discounting and Provision for Adverse Deviation	**279**	48
Discounted unpaid claims at February 28	**9,814**	2,452
Total unpaid claims provision	**9,814**	2,452

Net of Reinsurance Ceded

(in thousands of Canadian dollars)	**2019**	2018
Discounted unpaid claims at March 1	**1,721,117**	1,708,462
Effect of discounting and Provision for Adverse Deviation	**8,400**	(32,226)
Undiscounted unpaid claims at March 1	**1,729,517**	1,676,236
Ultimate claims for current accident year	**886,592**	850,337
Payment on current accident year claims	**(527,755)**	(518,862)
Change in ultimate claims from prior accident years	**45,778**	33,499
Payments on prior accident year claims	**(285,865)**	(311,693)
Undiscounted unpaid claims at February 28	**1,848,267**	1,729,517
Effect of discounting and Provision for Adverse Deviation	**31,333**	(8,400)
Premium deficiency	**-**	8,845
Discounted unpaid claims at February 28	**1,879,600**	1,729,962
ILAE provision	**195,218**	180,320
Total unpaid claims provision	**2,074,818**	1,910,282

According to accepted actuarial practice, the discounted net claim liabilities include a provision for adverse deviation (PfAD) of $258.5 million (February 28, 2018 – $236.2 million). This is comprised of a claims development PfAD of $177.8 million (February 28, 2018 – $162.5 million), an interest rate PfAD of $80.4 million (February 28, 2018 – $73.6 million), and a reinsurance PfAD of $0.3 million (February 28, 2018 - $0.1 million).

Net claims incurred and adjustment expenses included $15.0 million from catastrophes in the current fiscal year (February 28, 2018 – nil). Catastrophes are an inherent risk to the Corporation and may contribute materially to the year-to-year fluctuations in the Corporation's results of operations and financial condition when they occur.

Changes in the estimate of net unpaid claims for discontinued operations recognized during the fiscal year ended February 28, 2019 are a decrease of $0.01 million (February 28, 2018 – $0.03 million). All of the net unpaid claims relate to loss dates prior to October 1, 1990.

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

Development of Ultimate Claims

The following table represents the development of claims on the gross basis as of February 28, 2019.

Gross	Accident Year										
(in thousands of Canadian dollars)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Estimate of ultimate claims costs for the most recent ten years:											
At end of accident year	641,528	633,831	624,935	662,672	747,160	695,156	797,589	849,115	850,714	903,009	
One year later	611,577	627,341	628,331	688,939	749,198	702,512	809,487	868,568	862,666		
Two years later	608,583	635,392	648,565	693,249	757,375	710,390	824,666	883,231			
Three years later	610,837	633,448	641,615	686,140	765,209	692,855	820,578				
Four years later	604,017	643,939	650,484	693,530	750,567	693,202					
Five years later	606,305	649,095	655,895	713,438	747,494						
Six years later	606,027	656,068	661,569	712,570							
Seven years later	609,801	655,442	666,457								
Eight years later	612,975	660,296									
Nine years later	615,078										
Current estimate of cumulative claims cost	615,078	660,296	666,457	712,570	747,494	693,202	820,578	883,231	862,666	903,009	7,564,581
Cumulative payments to date	555,616	591,675	589,637	631,338	679,196	617,580	715,325	739,858	694,643	536,305	6,351,173
Effect of discounting and PfAD on above	571	290	272	192	42	304	655	1,432	6,027	17,962	27,747
Discounted gross unpaid claims in respect of years prior to 2010											645,856
Gross claims relating to Discontinued General Lines											2,403
ILAE provision											195,218
Total gross unpaid claims											2,084,632
Current estimate of surplus (deficiency)	26,450	(26,465)	(41,522)	(49,898)	(334)	1,954	(22,989)	(34,116)	(11,952)	-	
Percentage surplus (deficiency) of initial gross reserve	4.1%	(4.2%)	(6.6%)	(7.5%)	0.0%	0.3%	(2.9%)	(4.0%)	(1.4%)	0.0%	

The following table represents the development of claims on the net of reinsurance basis as of February 28, 2019.

Net of Reinsurance Ceded	Accident Year										
(in thousands of Canadian dollars)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Estimate of ultimate claims costs for the most recent ten years:											
At end of accident year	618,906	633,302	624,467	662,195	744,364	694,710	797,164	848,721	850,337	886,592	
One year later	590,027	626,998	628,030	688,605	746,019	702,227	809,187	868,299	862,475		
Two years later	586,460	635,164	648,282	693,029	754,034	710,206	824,488	883,108			
Three years later	590,448	633,271	641,356	685,992	761,918	692,739	820,486				
Four years later	583,748	643,834	649,573	693,439	747,372	693,153					
Five years later	585,925	649,020	655,032	713,384	744,293						
Six years later	585,671	656,020	660,742	712,548							
Seven years later	589,466	655,184	666,011								
Eight years later	592,661	660,046									
Nine years later	594,772										
Current estimate of cumulative claims cost	594,772	660,046	666,011	712,548	744,293	693,153	820,486	883,108	862,475	886,592	7,523,484
Cumulative payments to date	535,317	591,675	589,205	631,338	676,271	617,580	715,325	739,858	694,643	527,755	6,318,967
Effect of discounting and PfAD on above	570	274	272	192	27	303	655	1,432	6,031	17,741	27,497
Discounted net unpaid claims in respect of years prior to 2010											645,183
Net claims relating to Discontinued General Lines											2,403
ILAE provision											195,218
Total net unpaid claims											2,074,818
Current estimate of surplus (deficiency)	24,134	(26,744)	(41,544)	(50,353)	71	1,557	(23,322)	(34,387)	(12,138)	-	
Percentage surplus (deficiency) of initial net reserve	3.9%	(4.2%)	(6.7%)	(7.6%)	0.0%	0.2%	(2.9%)	(4.1%)	(1.4%)	0.0%	

There is uncertainty inherent in the estimation process. The actual amount of ultimate claims can only be ascertained once all claims are closed. The unpaid claim liabilities for Personal Injury Protection Plan (PIPP) benefits represent the majority of the Corporation's claim liabilities. PIPP claim liabilities are also the most uncertain because of the long term nature of these benefits. A 5.00 per cent increase in net PIPP claim liabilities is equal to approximately $66.8 million (February 28, 2018 - $60.5 million). Such a change could occur if the actual future development of lifetime PIPP claimants was higher than expected.

The discount rate for the Corporation's claim liabilities is calculated based on the yield of the Corporation's fixed income portfolio. Approximately 70 per cent of the fixed income portfolio is composed of marketable bonds and the changes in the marketable bond yield have a direct impact on the estimated value of the Corporation's unpaid claim liabilities. A 1.00 per cent decrease in marketable bond interest rates would increase claim liabilities by approximately $165.9 million (February 28, 2018 - $144.1 million), while a 1.00 per cent decrease in the claim liabilities discount rate (equivalent to approximately 1.32 per cent decrease in marketable bond interest rates) would increase claim liabilities by approximately $173.0 million (February 28, 2018 - $196.5 million). However, this impact would be largely offset by gains on the Corporation's fixed income portfolio as described in the Interest Rate Risk section of Note 29.

19. Reinsurance

The Corporation follows the practice of obtaining reinsurance to limit its exposure to losses. Under agreements in effect at February 28, 2019, these reinsurance agreements limit the Corporation's exposure on a casualty basis to a maximum amount of $5.0 million (February 28, 2018 – $5.0 million) on any one occurrence.

The reinsurance arrangements also limit the Corporation's liability in respect to a series of claims arising out of a single occurrence, including catastrophic claims, to a retained maximum of $15.0 million (February 28, 2018 – $15.0 million). These arrangements protect the Corporation against losses up to $265.0 million (February 28, 2018 – $266.7 million).

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

20. Capital Management

The Corporation's objectives for managing capital are to ensure the Corporation is capitalized in a manner which provides a strong financial position, to protect its ability to meet policyholder obligations, and to maintain stable rates.

The capital structure of the Corporation is comprised of retained earnings and AOCI. Retained earnings are comprised of the accumulation of net income or losses for the Basic and non-Basic lines of business. Non-Basic lines of business consist of Extension and Special Risk Extension (SRE) lines of business and *The Drivers and Vehicles Act* operations.

Historically, the Corporation had a separate reserve for the Basic line of business called the Rate Stabilization Reserve (RSR) which was an appropriation of Basic retained earnings. As the stabilization of Basic rates are now based on the total equity of the Basic line of business, the funds in the RSR have been transferred back to Basic retained earnings. The purpose of the Basic capital reserve is to protect motorists from rate increases made necessary by unexpected events and losses arising from non-recurring events or factors.

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

The Corporation's Board of Directors' current capital target for Basic Insurance is 100 per cent MCT. This target was selected to align with industry best practice on capital targets and appropriately reflect the lower risk level of the Basic monopoly insurance program, while also aligning with industry best practice on capital targets. In Order No. 159/18, the Public Utilities Board established a lower total equity target of $140.0 million and an upper total equity target of $315 million. The MCT equivalent to the Public Utilities Board targets are 34% and 88% respectively. The Corporation ended the year within the Public Utilities Board's ordered range and has a framework in place to move towards the Board of Directors approved capital target which aligns to the Corporation's risk appetite.

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

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

The Corporation's Chief Actuary has prepared a Dynamic Capital Adequacy Test report for each insurance line of business to assess capital adequacy under adverse financial conditions. Basic, Extension and Special Risk Extension were all determined to have satisfactory future financial conditions as at February 28, 2019 based on the assessment of the Chief Actuary.

The below chart depict the components of Retained Earnings.

(in thousands of Canadian dollars)	**Basic Retained Earnings (B-RE)**	**Non-Basic Retained Earnings (NB-RE)**	**Total Retained Earnings**
Balance as at March 1, 2017	99,251	162,281	261,532
Net income from operations for the year	34,424	56,652	91,076
Transfer between B-RE & NB-RE	37,300	(37,300)	-
Balance as at February 28, 2018	170,975	181,633	352,608
Net income from operations for the year	**78,837**	**80,308**	**159,145**
Transfer between B-RE & NB-RE	**60,000**	**(60,000)**	**-**
Balance as at February 28, 2019	**309,812**	**201,941**	**511,753**

(in thousands of Canadian dollars)	**2019**	2018
Basic Retained Earnings (B-RE) before transfer from Non-Basic Retained Earnings (NB-RE)	**249,812**	133,675
Accumulated Other Comprehensive Income Basic (Note 21)	**(60,120)**	39,870
	189,692	173,545
Transfer between B-RE & NB-RE	**60,000**	37,300
Basic reserve based on total equity	**249,692**	210,845

21. Accumulated Other Comprehensive Income

AOCI reflects the net unrealized gain or loss on financial assets classified as AFS and net actuarial gain (loss) on employee future benefits. Changes in AOCI by type of asset are presented below.

(in thousands of Canadian dollars)	Equity Investments	Other Investments	Total AOCI
Balance as at March 1, 2017	136,417	(40,780)	95,637
Items that will not be reclassified to income			
Remeasurement of employee future benefits	-	(28,560)	(28,560)
Items that will be reclassified to income			
Unrealized gains (losses) on AFS assets	7,447	(143)	7,304
Reclassification of net realized gains related to AFS assets	(27,974)	-	(27,974)
Balance as at February 28, 2018	115,890	(69,483)	46,407
Items that will not be reclassified to income			
Remeasurement of employee future benefits	**-**	**3,918**	**3,918**
Items that will be reclassified to income			
Unrealized gains on AFS assets	**1,939**	**37**	**1,976**
Reclassification of net realized gains related to AFS assets	**(121,031)**	**(925)**	**(121,956)**
Balance as at February 28, 2019	**(3,202)**	**(66,453)**	**(69,655)**

(in thousands of Canadian dollars)	2019	2018
Basic AOCI at February 28	**(60,120)**	39,870
Non-Basic AOCI at February 28	**(9,535)**	6,537
Total AOCI at February 28	**(69,655)**	46,407

22. Revenue from Service Contracts and Other Revenues

The Corporation has recognized the following amounts relating to revenue from service contracts and other sources in the Statement of Operations.

(in thousands of Canadian dollars)	2019	2018
Revenue from service contracts		
DVA operations	**30,250**	30,179
Information	**189**	1,236
	30,439	31,415
Revenue from other sources		
Administration fees	**12,641**	12,460
Certificates, cards and passes	**1,683**	1,626
Interest	**21,144**	17,916
Salvage	**130**	91
Training	**605**	607
Miscellaneous	**590**	251
	36,793	32,951
Total fees and other income	**67,232**	64,366

DVA operations revenue is earned from services provided by the Corporation on behalf of the Province of Manitoba. Revenue is recognized for these services over the period.

Information revenue is earned when the Corporation has provided the information agreed to in the contract.

23. Service Fees and Other Revenue

(in thousands of Canadian dollars)	**2019**	2018
Transaction fees	**8,627**	8,465
Time payment fees	**3,071**	3,019
Time payment interest	**21,144**	17,916
Late payment fees	**1,001**	1,033
Dishonoured payment fees	**1,267**	1,140
Identity card/Enhanced identity card fees	**452**	436
Other miscellaneous revenue	**1,420**	2,178
Total	**36,982**	34,187

24. The Drivers and Vehicles Act Operations Recovery

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.

The Province of Manitoba provides funding to the Corporation to defray the cost borne by the Corporation for DVA operations. The annual Province of Manitoba payments to the Corporation, beginning April 1, 2017, is $30.2 million per year.

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

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

(in thousands of Canadian dollars)	**2019**	2018
Vehicle registration fees	**189,990**	188,953
Driver licensing fees	**25,404**	24,988
Total	**215,394**	213,941

25. Net Income From Operations

(in thousands of Canadian dollars)	**2019**	2018
Basic insurance	**78,837**	34,424
Extension insurance	**56,721**	44,922
Special risk extension insurance	**22,215**	10,886
The Drivers and Vehicles Act operations	**1,372**	844
	80,308	56,652
Net income from operations	**159,145**	91,076

26. Discontinued General Insurance Operations

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

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

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

Discontinued operations resulted in a net income of $0.2 million (February 28, 2018 – $0.2 million net loss) which is reported as part of the Special Risk Extension line of business (Note 25). Included in the provision for unpaid claims is $2.4 million (February 28, 2018 – $2.4 million) relating to discontinued operations.

27. Commitments

As of February 28, 2019, the Corporation has no material commitments.

28. Related-Party Transactions

Key Management Personnel

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

(in thousands of Canadian dollars)	**2019**	2018
Short term benefits	**2,042**	1,944
Post-employment benefits	**83**	270
Other long-term benefits	**31**	25
Termination Benefits	**-**	38
Total	**2,156**	2,277

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

Province of Manitoba

Investment management fees paid to the Department of Finance are disclosed in Note 4.

Accounts Payable and Accrued Liabilities includes $57.8 million (February 28, 2018 - $20.4 million) due to the Province of Manitoba.

The Province of Manitoba provides funding to the Corporation to defray the cost borne by the Corporation for DVA operations. The annual Province of Manitoba payments to the Corporation, beginning April 1, 2017, is $30.2 million per year.

29. Insurance and Financial Risk Management

Insurance Risk

The Corporation is exposed to insurance risk in that the risk under any one insurance contract creates the possibility that the insured event occurs and there is uncertainty regarding the amounts of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore, unpredictable.

Financial Risk

Investments carry certain financial risks including market risk, credit risk and liquidity risk. In accordance with Section 12(1) of *The Manitoba Public Insurance Corporation Act*, the Minister of Finance is responsible for the investments of the Corporation. The Minister has charged the Department of Finance with the operational management of the fund. The Corporation, through the Investment Committee of the Board, and the Department jointly determine appropriate policies and strategies to mitigate risk. The investment objectives and goals of the Corporation are embodied in an Investment Policy document, which sets target asset allocation and portfolio concentration limits as well as defining the credit quality of the counterparties and the percentage of highly liquid investments required to meet cash flow needs.

Market Risk

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

Currency Risk

Currency risk is the risk that changes in foreign exchange rates will result in fluctuation of the fair value or future cash flows of a financial instrument. The Corporation has low exposure to currency risk because the Corporation has limited non-Canadian financial instruments. As of February 28, 2019, total foreign denominated financial instruments was approximately 7.3 per cent (February 28, 2018 – 7.3 per cent) of the Corporation's investment portfolio and had carrying values noted below.

2019	**2019**	2018	2018
$135.1 million U.S.	**$177.9 million Cdn**	$130.8 million U.S.	$167.6 million Cdn
£8.9 million GBP	**$15.5 million Cdn**	£8.2 million GBP	$14.6 million Cdn
$14.1 million NZD	**$12.6 million Cdn**	$14.1 million NZD	$13.1 million Cdn

The Corporation has entered into a currency swap relating to a Province of Quebec provincial bond denominated in U.S. dollars for $10.0 million. The currency swap provides a fixed 5.76 per cent return in Canadian dollars. The agreement also provides that at predetermined future dates, the Corporation pays a fixed 7.5 per cent rate based on the U.S. $10.0 million par value of the bond and receives 5.76 per cent return based on a Canadian dollar notional value of $13.4 million. As of February 28, 2019 the fair value of the swap was $14.3 million (February 28, 2018 - $14.4 million). The maturity date of the currency swap and the bond is July 15, 2023.

Interest Rate Risk

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

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

Bonds	**Average Effective Rate - %**	
	2019	2018
Federal	**2.89**	3.13
Provincial	**2.77**	3.00
Municipal	**3.25**	3.30
Schools	**4.53**	4.58
Corporations	**3.40**	3.35

The Corporation monitors interest rate risk by calculating the duration of the fixed income portfolio and the duration of unpaid claims liabilities. The duration is an indicator of the sensitivity of the assets and liabilities to changes in current interest rates. The duration of the liabilities is determined by projecting expected cash flows from the contracts using best estimates of morbidity and mortality primarily relating to PIPP claims. The duration of the assets is calculated in a consistent manner. Any gap between the duration of the assets and the duration of the liabilities is minimized by purchasing and selling fixed interest securities in order to adjust the duration of the assets appropriately. As at February 28, 2019, the Corporation's duration gap was 0.0 years (February 28, 2018 – 0.0 years).

As at February 28, 2019, a 100 basis point increase in interest rates would result in a decrease in the fair value of the Corporation's fixed income portfolio of approximately $126.8 million (February 28, 2018 - $133.8 million), whereas a 100 basis point decrease in interest rates would result in an increase in the fair value of the Corporation's fixed income portfolio of approximately $150.0 million (February 28, 2018 - $161.4 million). As all of the Corporation's marketable fixed income assets are classified as FVTPL, all changes would affect net income.

Fluctuations in interest rates would also have an impact on the Corporation's unpaid claims. The Corporation's duration of its fixed income portfolio approximates the duration of its unpaid claims liability and therefore, any change in interest rates related to these investments is largely mitigated by an offsetting impact on the unpaid claims liability. As at February 28, 2019, a 100 basis point increase in interest rates would result in a decrease in the Corporation's unpaid claim liabilities of approximately $137.5 million (February 28, 2018 - $120.2 million), whereas a 100 basis point decrease in interest rates would result in an increase in the Corporation’s unpaid claim liabilities of approximately $165.9 million (February 28, 2018 - $144.1 million).

The resulting impact on net income of a 100 basis point increase in interest rates would be an increase of $10.7 million (February 28, 2018 – decrease of $13.6 million) whereas a 100 basis point decrease in interest rates would result in a decrease in the net income of $15.9 million (February 28, 2018 – increase of $17.3 million).

Equity Price Risk

The fair value of equity securities held by the Corporation can be affected by changes in market prices, other than currency and interest rate risks, which may be caused by factors specific to the individual financial instrument or factors affecting all similar financial instruments. General economic conditions, political conditions and other factors affect the equity market. As at February 28, 2019, a 10.0 per cent change in the fair value of the Corporation's equity portfolio would result in a $46.2 million (February 28, 2018 - $40.9 million) change in OCI.

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

Credit Risk

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

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

(in thousands of Canadian dollars)	**2019**	2018
Cash and cash equivalents	**193,108**	89,006
Bonds	**1,978,634**	1,887,058
Due from other insurance companies	**1,603**	3
Accounts receivable	**496,108**	477,908
Reinsurance receivable	**7,467**	2,292
Maximum credit risk exposure on the Statement of Financial Position	**2,676,920**	2,456,267

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

	2019		2018	
	Carrying Value (in thousands of Canadian dollars)	**Percentage of Portfolio**	Carrying Value (in thousands of Canadian dollars)	Percentage of Portfolio
Aaa	**200,211**	**10.1%**	187,369	9.9%
Aa	**1,659,658**	**83.9%**	1,570,101	83.2%
A	**106,031**	**5.4%**	129,588	6.9%
Baa	**12,734**	**0.6%**	-	0.0%
Total	**1,978,634**	**100.0%**	1,887,058	100.0%

Accounts Receivable Credit Risk
The Corporation's accounts receivable are comprised of customers with varying financial conditions as the Corporation is required to provide basic insurance to all vehicle owners and drivers in the Province of Manitoba. All significant past due receivables, including subrogation receivables, are fully provided for due to the uncertainty of collection. Substantially all remaining receivables are deemed to be collectible within 12 months. The credit risk pertaining to premiums receivable is mitigated as a customer's policy may be cancelled for default of payment.

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

(in thousands of Canadian dollars)	**2019**	2018
Policy and time payments	**462,911**	431,691
Accrued interest	**26,354**	26,538
Subrogation and other receivables	**34,419**	46,244
Allowance for doubtful accounts	**(27,576)**	(26,565)
Balance at February 28	**496,108**	477,908

Details of the allowance for doubtful accounts are as follows:

(in thousands of Canadian dollars)	**2019**	2018
Balance at March 1	**26,565**	28,767
Accounts written off	**(5,628)**	(6,810)
Current period provision	**6,639**	4,608
Balance at February 28	**27,576**	26,565

Reinsurance Receivable Credit Risk
The Corporation evaluates the financial condition of its reinsurers to minimize the exposure to significant losses from reinsurer insolvency. The Corporation holds collateral in regards to unregistered reinsurance in the form of amounts on deposit and letters of credit of which there were $2.3 million outstanding as of February 28, 2019 (February 28, 2018 – $0.2 million). The increase is due to a new hail event in June, 2018. Furthermore, a corporate guideline requiring reinsurers to have a minimum credit rating of A- from A.M. Best and BBB+ credit rating from Standard & Poors is in place.

For the 2018/19 fiscal year, eleven reinsurers share the Corporation's casualty reinsurance coverage, ranging from 2.5 per cent to 35.0 per cent on any one layer. The reinsurer exposed to 35.0 per cent of the losses is licensed in Canada by OSFI and, therefore, subject to minimum capital requirements.

For the 2018/19 fiscal year, nineteen reinsurers share the Corporation's catastrophe reinsurance coverage, none holding more than 28.25 per cent of the reinsurance exposure on any one layer.

No material amount due from reinsurers was considered uncollectible during 2018/19 and no allowance for doubtful accounts has been established as at February 28, 2019.

Structured Settlements Credit Risk
The Corporation has settled some insurance claims by purchasing structured settlements from life insurers. As of the Statement of Financial Position date, the present value of expected payments totals $136.3 million (February 28, 2018 – $137.0 million) based on various dates of purchase. The Corporation guarantees the future annuity payments to claimants and is thus exposed to a credit risk to the extent any of the life insurers fail to fulfill their obligations. The net risk to the Corporation is the credit risk related to the life insurance companies that the annuities are purchased from. This risk is reduced to the extent of coverage provided by Assuris, the life insurance compensation insurance plan.

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

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

Bonds - maturity profile

		2019		
(in thousands of Canadian dollars)	**Within One Year**	**One Year to Five Years**	**After Five Years**	**Total**
Federal	**-**	**-**	**29,402**	**29,402**
Manitoba				
Provincial	**10,773**	**-**	**116,565**	**127,338**
Municipal	**271**	**1,566**	**55,266**	**57,103**
Schools	**2,535**	**31,836**	**511,938**	**546,309**
Other Provinces				
Provincial	**3,522**	**227,453**	**807,719**	**1,038,694**
Municipal	**2,051**	**22,099**	**40,825**	**64,975**
Corporations	**-**	**32,289**	**82,524**	**114,813**
Total	**19,152**	**315,243**	**1,644,239**	**1,978,634**

		2018		
(in thousands of Canadian dollars)	Within One Year	One Year to Five Years	After Five Years	Total
Federal	-	-	28,133	28,133
Manitoba				
Provincial	-	10,576	117,061	127,637
Municipal	458	1,934	57,438	59,830
Schools	1,678	28,846	559,669	590,193
Other Provinces				
Provincial	-	63,501	831,821	895,322
Municipal	5,120	21,919	43,036	70,075
Corporations	-	30,251	85,617	115,868
Total	7,256	157,027	1,722,775	1,887,058

Liability Liquidity

(in thousands of Canadian dollars)	2019 Within One Year	One Year to Five Years	After Five Years	Total
Provision for unpaid claims Cash Flows - non-discounted, non-indexed	**360,888**	**353,989**	**1,316,902**	**2,031,779**

(in thousands of Canadian dollars)	2018 Within One Year	One Year to Five Years	After Five Years	Total
Provision for unpaid claims Cash Flows - non-discounted, non-indexed	332,743	322,680	1,247,906	1,903,329

30. Non-Current Assets and Liabilities

The following table presents financial assets and liabilities valued on the Corporation's Statement of Financial Position that the Corporation expects to recover or settle in 12 months or greater.

(in thousands of Canadian dollars)	2019	2018
Financial Assets		
Bonds	**1,959,482**	1,879,802
Pooled real estate	**283,316**	263,022
Infrastructure and other investments	**112,374**	101,436
Reinsurers' share of unpaid claims	**3,153**	1,687
	2,358,325	2,245,947
Financial Liabilities		
Financing lease obligations	**3,877**	3,988
Provision for unpaid claims - net	**1,717,628**	1,579,744
	1,721,505	1,583,732
Net assets due after one year	**636,820**	662,215

31. Rate Regulation

Under the provisions of *The Crown Corporations Governance and Accountability Act*, the Public Utilities Board has the authority to review and approve Basic Insurance rates, premiums and service fees charged with respect to compulsory driver and vehicle insurance provided by the Corporation. No new rates or fees for services can be introduced without the approval of the Public Utilities Board. This business comprises approximately 88 per cent (February 28, 2018 - 87 per cent) of the total business based on net claims incurred.

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

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

32. Contingent Liabilities

The Corporation is subject to litigation arising in the normal course of conducting its insurance business. The Corporation is of the opinion that this litigation will not have a significant effect on the financial position, financial performance or cash flows of the Corporation.