Quarterly Financial Report

3rd QUARTER

Nine months ended
November 30, 2018

MANITOBA PUBLIC INSURANCE

Management Discussion and Analysis

Management's discussion and analysis provides a review of the financial results and future outlook of Manitoba Public Insurance. It should be read in conjunction with the unaudited condensed interim financial statements and supporting notes for the third quarter ended November 30, 2018 included herein and the annual audited financial statements and supporting notes and the Corporation's 2017 Annual Report available at mpi.mb.ca. Certain information in this report may consist of forward-looking statements. These statements are based on various techniques and assumptions including predictions about future events which may not occur. Actual results could deviate significantly from the forward-looking statements.

Q3 Corporate Performance Measures and Targets

Third quarter results 2018/19

MANITOBA PUBLIC INSURANCE

FINANCIAL PERFORMANCE

Net Premiums Earned
In millions

$964.8	$958.9	$900.4 PAST Q3 17/18
ACTUAL Q3 18/19	TARGET Q3 18/19	$1,276.5 ANNUAL TARGET 18/19

Net Claims Incurred
In millions

$699.0	$711.4	$727.7 PAST Q3 17/18
ACTUAL Q3 18/19	TARGET Q3 18/19	$959.0 ANNUAL TARGET 18/19

Corporate Claims Cost Ratio
(Total Claims Cost / Net Premiums Earned)

84.6%	87.5%	93.8% PAST Q3 17/18
ACTUAL Q3 18/19	TARGET Q3 18/19	88.5% ANNUAL TARGET 18/19

Corporate Claims Cost Ratio excluding Catastrophic Claims

83.0%
ACTUAL Q3 18/19

Total Return – Investments

1.90%	2.85%	5.24% PAST Q3 17/18
ACTUAL Q3 18/19	BENCHMARK Q3 18/19	4.62% ANNUAL TARGET 18/19

OPERATIONAL EXCELLENCE

Total Full-Time Equivalent (Average)

1,768	1,887	1,882 PAST Q3 17/18
ACTUAL Q3 18/19	TARGET Q3 18/19	1,884 ANNUAL TARGET 18/19

Operating Expense Ratio
(Operating Expenses / Net Premiums Earned)

9.9%	9.6%	9.8% PAST Q3 17/18
ACTUAL Q3 18/19	TARGET Q3 18/19	9.7% ANNUAL TARGET 18/19

CUSTOMER SERVICE

Customer Satisfaction Index

84%	89%
ACTUAL Q3 18/19	TARGET

Note: Manitoba Public Insurance is conducting a review of our Customer Experience metrics during the 2018/19 year.

ORGANIZATIONAL HEALTH

Employee Engagement

73%	71%	75%
ACTUAL 2016	ACTUAL 2018	TARGET 2018

Capital Adequacy (Minimum Capital Test)

Basic

48%	75–100%	75–100%
ACTUAL Q3 18/19	TARGET Q3 18/19	ANNUAL TARGET 18/19

Extension

493%	200%	200%
ACTUAL Q3 18/19	TARGET Q3 18/19	ANNUAL TARGET 18/19

Special Risk Extension

374%	300%	300%
ACTUAL Q3 18/19	TARGET Q3 18/19	ANNUAL TARGET 18/19

Results of Operations

Manitoba Public Insurance reported net income of $87.4 million for the nine months ended November 30, 2018, compared to net income of $61.3 million for the same period last year. This includes net income of $42.3 million (2017 – $11.0 million) from the Basic insurance line of business. Corporate net income increased from the previous year by $26.1 million due to:

i) an increase in earned revenues of $65.8 million, offset by an increase in total expenses of $12.2 million;
ii) a decrease in claims cost of $28.6 million;
iii) a decrease in investment income of $57.8 million mainly due to lower unrealized gains on Fair Value Through Profit or Loss bonds of $63.4 million offset primarily by gains on sale of Fair Value Through Profit or Loss bonds of $10.9 million.

Current Year and Last Year

Total earned revenues for the nine months ended November 30, 2018, increased from the previous year by $65.8 million. This increase is primarily attributed to motor vehicle earned revenues which increased by $50.4 million or 6.2%. The increase in earned revenues is primarily due to the growth in the number of vehicles on the road in Manitoba and the value of these vehicles as well as increases associated with demerit drivers on the Driver Safety Rating scale which resulted in higher premiums.

Claims costs for the nine months ended November 30, 2018, decreased by $28.6 million or 3.4% compared to last year due primarily to a decrease of $33.2 million or 12.7% in bodily injury claims incurred offset by an increase of $4.5 million or 1.0% in physical damage claims incurred. The decrease in bodily injury claims is primarily due to a favorable interest rate impact on unpaid claims of $42.0 million offset by an increase of $5.3 million in personal injury plan costs compared to last year. The favorable impact on unpaid claims caused by changes in prevailing interest rates is largely offset by corresponding impacts on investment income through the Corporations asset-liability matching program. The $4.5 million increase in physical damage claims is primarily due to a $22.7 increase in comprehensive claims offset by a $17.9 million decrease in collision costs. Claims expenses increased by $0.3 million or 0.2% from the previous year, road safety and loss prevention expenses decreased by $0.1 million or 1.6%.

Total expenses increased by $12.2 million compared to last year due primarily to an increase of $6.7 million or 7.6% in operating expenses, $3.7 million or 6.2% in commissions and $1.9 million or 7.1% in premium taxes.

Retained Earnings

Net income of $87.4 million for the first nine months ending November 30, 2018, increased retained earnings from $352.6 million to $440.0 million (November 30, 2017 – $322.8 million). Retained earnings are comprised of $213.2 million for Basic insurance (November 30, 2017 - $110.3 million) and $226.8 million for non-Basic lines (November 30, 2017 - $212.5 million).

Total Equity

Total equity of $455.4 million (November 30, 2017 – $410.3 million) are comprised of $440.0 million retained earnings and $15.4 million accumulated other comprehensive income (November 30, 2017 - $87.5 million).

In the 2018 Dynamic Capital Adequacy Test (DCAT) report, the Corporation's Chief Actuary concluded that a minimum total equity level of 34% MCT, or $143 million, would be required for Basic to achieve satisfactory future financial condition. At the end of the third quarter, Basic insurance reported total equity of $226.4 million (November 30, 2017 – $185.9 million). Extension's current capital target level for total equity is 200% MCT, or $64.0 million, based on the Corporation's most recent DCAT analysis. At the end of the third quarter, Extension insurance reported total equity of $136.9 million (November 30, 2017 - $132.7 million). Special Risk Extension's current capital target level for total equity is 300% MCT, or $65.0 million, based on the Corporation's most recent DCAT analysis. At the end of the third quarter, Special Risk Extension insurance reported total equity of $94.8 million (November 30, 2017 - $91.6 million).

Outlook

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

On December 3, 2018, the Public Utilities Board (PUB) released its ruling (Order 159/18) on the Corporation's rate application for the 2019/20 fiscal year. Effective March 1, 2019, overall average Basic insurance rates will increase by 1.8% from the previous year. There will be no change to permit and certificate rates, vehicle premium discounts, service and transaction fees, or fleet rebates or surcharges.

PUB Order 159/18 established a lower total equity target of $140.0 million and an upper target total equity target of $315.0 million. The PUB ordered total equity targets are based on updated information filed during the 2019 General Rate Application hearings in October 2018. Although the Corporation's preference is to set capital targets based on Minimum Capital Test ratios, the PUB ordered capital targets are consistent with the Corporation's original application for a 34% MCT ($143 million) lower total equity target and an 85% MCT ($305 million) upper total equity target.

The approved 1.8% overall general rate increase does not mean that rates for all vehicles within each major class will increase by this amount. Based on MPI's rate design, major vehicle classes will be impacted as follows:

- Private passenger (+2.0% change)
- Commercial (+1.9% change)
- Public (Taxi) (+0.1% change)
- Motorcycle (+2.1% change)
- Trailers (-4.9% change)
- Off-road vehicles (-20.0% change)
- Total overall (+1.8% change)

Over 569,350 vehicles (49.6%) will experience either no change or a reduction in rates from the previous year. Rates paid by individual policyholders within each class will be determined based on their driving record, the registered vehicle (make and model and year), the purpose for which the vehicle is driven and the territory in which the policyholder resides. The breakdown of vehicles receiving a reduction, no change or an increase is as follows:

- 482,213 (42.0%) of vehicles receiving a decrease in rate
- 87,137 (7.6%) of vehicles receiving no change in rate
- 579,790 (50.4%) of vehicles receiving an increase in rate

Manitoba Public Insurance is committed to keeping rates stable over the long term. Manitoba Public Insurance continues to have one of the lowest rates of year-over-year premium increases of all Canadian provinces.

Condensed Interim Financial Statements

Condensed Interim Statement of Financial Position

(Unaudited - in thousands of Canadian dollars)	*Notes*	November 30, 2018	February 28, 2018
Assets			
Cash and cash equivalents	*5*	**102,741**	89,006
Investments	*5*	**2,778,469**	2,660,850
Investment property	*5*	**49,233**	40,646
Due from other insurance companies		**3,074**	3
Accounts receivable		**497,179**	477,908
Prepaid expenses		**2,920**	1,227
Deferred policy acquisition costs		**26,689**	24,727
Reinsurers' share of unearned premiums		**3,857**	133
Reinsurers' share of unpaid claims		**11,655**	2,452
Property and equipment		**113,764**	116,754
Deferred development costs		**61,274**	69,191
		3,650,855	3,482,897
Liabilities			
Due to other insurance companies		**3,788**	171
Accounts payable and accrued liabilities		**92,756**	69,217
Financing lease obligation		**4,015**	4,092
Unearned premiums		**635,466**	628,837
Provision for employee current benefits		**22,501**	22,373
Provision for employee future benefits		**457,755**	446,458
Provision for unpaid claims	*4*	**1,979,176**	1,912,734
		3,195,457	3,083,882
Equity			
Retained Earnings		**440,001**	352,608
Accumulated Other Comprehensive Income		**15,397**	46,407
Total Equity		**455,398**	399,015
		3,650,855	3,482,897

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

Condensed Interim Statement of Operations

(Unaudited - in thousands of Canadian dollars)	Notes	Three Months Ended November 30, 2018	Three Months Ended November 30, 2017	Nine Months Ended November 30, 2018	Nine Months Ended November 30, 2017
Earned Revenues					
Gross premiums written		**326,022**	307,190	**1,005,514**	941,782
Premiums ceded to reinsurers		**(377)**	(71)	**(15,521)**	(15,266)
Net premiums written		**325,645**	307,119	**989,993**	926,516
(Increase) decrease in gross unearned premiums		**(84)**	(1,906)	**(28,932)**	(29,890)
Increase (decrease) in reinsurers' share of unearned premiums		**(3,754)**	(3,771)	**3,724**	3,747
Net premiums earned		**321,807**	301,442	**964,785**	900,373
Service fees & other revenue		**9,873**	9,146	**27,761**	26,393
The Drivers and Vehicles Act operations recovery		**7,561**	7,562	**22,689**	22,616
Total Earned Revenues		**339,241**	318,150	**1,015,235**	949,382
Claims Costs					
Direct claims incurred - gross		**227,557**	262,456	**713,805**	728,125
Claims (recovered) incurred ceded to reinsurers		**22**	(33)	**(14,840)**	(473)
Net claims incurred		**227,579**	262,423	**698,965**	727,652
Claims Expense		**36,136**	34,992	**107,918**	107,668
Loss prevention/Road safety		**3,840**	3,753	**9,209**	9,359
Total Claims Costs		**267,555**	301,168	**816,092**	844,679
Expenses					
Operating		**32,340**	28,556	**95,083**	88,393
Commissions		**21,222**	20,019	**63,417**	59,717
Premium taxes		**9,777**	9,158	**29,298**	27,357
Regulatory/Appeal		**1,072**	1,207	**3,022**	3,149
Total Expenses		**64,411**	58,940	**190,820**	178,616
Underwriting income (loss)		**7,275**	(41,958)	**8,323**	(73,913)
Investment income (loss)	*6*	**7,280**	60,907	**77,333**	135,185
Gain (loss) on disposal of property		**(18)**	-	**1,737**	-
Net income (loss) from operations		**14,537**	18,949	**87,393**	61,272

Condensed Interim Statement of Comprehensive Income (Loss)

(Unaudited - in thousands of Canadian dollars)	Three Months Ended November 30, 2018	Three Months Ended November 30, 2017	Nine Months Ended November 30, 2018	Nine Months Ended November 30, 2017
Net income (loss) from operations	**14,537**	18,949	**87,393**	61,272
Other Comprehensive Income (Loss)				
Items that will be reclassified to income				
Unrealized gains (losses) on Available for Sale assets	**(29,528)**	33,007	**(6,498)**	19,782
Reclassification of net realized (gains) losses related to Available for Sale assets	**(5,178)**	(13,801)	**(24,512)**	(27,878)
Total Available for Sale assets	**(34,706)**	19,206	**(31,010)**	(8,096)
Other Comprehensive Income (Loss) for the period	**(34,706)**	19,206	**(31,010)**	(8,096)
Total Comprehensive Income (Loss)	**(20,169)**	38,155	**56,383**	53,176

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

Condensed Interim Statement of Changes in Equity

(Unaudited - in thousands of Canadian dollars)	Retained Earnings	Accumulated Other Comprehensive Income	Equity
Balance as at March 1, 2017	261,532	95,637	357,169
Net income (loss) from operations for the period	61,272	-	61,272
Other comprehensive income (loss) for the period	-	(8,096)	(8,096)
Balance as at November 30, 2017	**322,804**	**87,541**	**410,345**
Balance as at March 1, 2018	352,608	46,407	399,015
Net income (loss) from operations for the period	87,393	-	87,393
Other comprehensive income (loss) for the period	-	(31,010)	(31,010)
Balance as at November 30, 2018	**440,001**	**15,397**	**455,398**

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

Condensed Interim Statement of Cash Flows

(Unaudited - in thousands of Canadian dollars)	*Notes*	Nine months ended November 30, 2018	November 30, 2017
Cash Flows from (to) Operating Activities:			
Net income (loss) from operations		**87,393**	61,272
Non-cash items:			
Depreciation of property and equipment		**3,587**	3,714
Amortization of deferred development costs		**18,082**	15,572
Amortization of bond discount and premium		**3,013**	2,698
(Gain) loss on sale of investments		**(32,633)**	(23,357)
Unrealized (gain) loss on Fair Value Through Profit or Loss bonds		**23,459**	(39,998)
Unrealized (gain) loss on investment in real estate		**(16,570)**	(20,726)
Unrealized (gain) loss on investment in infrastructure		**468**	(1,239)
Impairment of deferred development costs		**2,947**	-
		89,716	(2,064)
Net change in non-cash balances:			
Due from other insurance companies		**(3,071)**	20
Accounts receivable and prepaid expenses		**(20,964)**	(26,258)
Deferred policy acquisition costs		**(1,962)**	(2,393)
Reinsurers' share of unearned premiums and unpaid claims		**(12,927)**	(4,191)
Due to other insurance companies		**3,617**	15
Accounts payable and accrued liabilities		**23,539**	(8,128)
Unearned premiums		**6,629**	3,900
Provision for employee current benefits		**128**	(216)
Provision for employee future benefits		**11,297**	10,468
Provision for unpaid claims		**66,442**	84,271
		72,728	57,488
		162,444	55,424
Cash Flows from (to) Investing Activities:			
Purchase of investments		**(639,116)**	(747,297)
Proceeds from sale of investments		**504,162**	703,360
Acquisition of property and equipment net of proceeds from disposals		**(596)**	(4,621)
Financing lease obligation		**(77)**	(72)
Deferred development costs incurred		**(13,082)**	(13,459)
		(148,709)	(62,089)
Increase (decrease) in Cash and Cash Equivalents		**13,735**	(6,665)
Cash and Cash Equivalents beginning of period		**89,006**	73,434
Cash and Cash Equivalents end of period	*5*	**102,741**	66,769

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

Notes to Financial Statements

1) Status of the Corporation

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

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

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

2) Basis of Reporting

Statement of Compliance

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

Basis of Presentation

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

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

Seasonality

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

Basis of Measurement

The Corporation prepares its financial statements as a going concern, using the historical cost basis, except for financial instruments and insurance contract liabilities and reinsurers' share of unpaid claims. Measurement of the financial instruments is detailed in Note 3 of the 2017 Annual Report. Insurance contract liabilities and reinsurers' share of unpaid claims are measured on a discounted basis in accordance with accepted actuarial practice (which in the absence of an active market provides a reasonable proxy for fair value).

Estimates and Judgments

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

3) Summary of Significant Accounting Policies

Refer to the 2017/18 Annual Audited Financial Statements for a summary outlining those accounting policies followed by the Corporation that have a significant effect on the condensed interim financial statements.

4) Provision for Unpaid Claims

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

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

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

5) Cash and Investments

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

Cash equivalent investments have a total principal amount of $102.7 million (November 30, 2017 – $70.6 million) comprised of provincial short-term deposits with effective interest rates of 1.77% (2017 - 0.85%), 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 (2017 - $5.0 million). The unsecured operating line of credit remained unutilized at November 30, 2018 (2017 – nil).

Cash and Investments

As at November 30, 2018 (in thousands of Canadian dollars)	**Financial Instruments** Classified as AFS	Classified as HTM	Classified as FVTPL	**Non-Financial Instruments**	**Total Carry Value**
Cash and cash equivalents	**102,741**	**-**	**-**	**-**	**102,741**
Bonds					
Federal	**-**	**-**	**27,716**	**-**	**27,716**
Manitoba:					
Provincial	**-**	**-**	**124,267**	**-**	**124,267**
Municipal	**-**	**26,334**	**31,346**	**-**	**57,690**
Schools	**-**	**554,234**	**-**	**-**	**554,234**
Other provinces:					
Provincial	**-**	**-**	**1,000,473**	**-**	**1,000,473**
Municipal	**-**	**-**	**68,698**	**-**	**68,698**
Corporations	**-**	**-**	**112,302**	**-**	**112,302**
	-	**580,578**	**1,364,802**	**-**	**1,945,380**
Other investments	**520**	**-**	**-**	**-**	**520**
Infrastructure	**-**	**-**	**101,388**	**-**	**101,388**
Equity investments	**451,590**	**-**	**-**	**-**	**451,590**
Pooled Real Estate Fund	**-**	**-**	**279,591**	**-**	**279,591**
Investments	**452,110**	**580,578**	**1,745,781**	**-**	**2,778,469**
Investment property	**-**	**-**	**-**	**49,233**	**49,233**
	554,851	**580,578**	**1,745,781**	**49,233**	**2,930,443**

As at November 30, 2017 (in thousands of Canadian dollars)	Financial Instruments Classified as AFS	Classified as HTM	Classified as FVTPL	Non-Financial Instruments	Total Carry Value
Cash and cash equivalents	66,769	-	-	-	66,769
Bonds					
Federal	-	-	29,105	-	29,105
Manitoba:					
Provincial	-	-	130,710	-	130,710
Municipal	-	20,802	33,261	-	54,063
Schools	-	597,728	-	-	597,728
Other provinces:					
Provincial	-	-	902,230	-	902,230
Municipal	-	-	71,619	-	71,619
Corporations	-	-	108,238	-	108,238
	-	618,530	1,275,163	-	1,839,693
Other investments	1,493	-	-	-	1,493
Infrastructure	-	-	95,502	-	95,502
Equity investments	418,907	-	-	-	418,907
Pooled Real Estate Fund	-	-	254,708	-	254,708
Investments	420,400	618,530	1,625,373	-	2,664,303
Investment property	-	-	-	40,976	40,976
	487,169	618,530	1,625,373	40,976	2,772,048

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

As at November 30, 2018

(in thousands of Canadian dollars)	**Book Value**	**Unrealized Gains/(Losses)**	**Fair Value**
Equity Investments			
With unrealized gains	**176,971**	**98,200**	**275,171**
With unrealized (losses)	**188,993**	**(12,574)**	**176,419**
Subtotal – Equity Investments	**365,964**	**85,626**	**451,590**
Other Investments			
With unrealized gains	**314**	**205**	**520**
With unrealized (losses)	**-**	**-**	**-**
Subtotal – Other Investments	**314**	**205**	**520**
Total AFS Equity and Other Investments	**366,278**	**85,831**	**452,110**

As at November 30, 2017

(in thousands of Canadian dollars)	Book Value	Unrealized Gains/(Losses)	Fair Value
Equity Investments			
With unrealized gains	260,975	130,977	391,952
With unrealized (losses)	29,611	(2,656)	26,955
Subtotal – Equity Investments	290,586	128,321	418,907
Other Investments			
With unrealized gains	28	1,126	1,154
With unrealized (losses)	371	(32)	339
Subtotal – Other Investments	399	1,094	1,493
Total AFS Equity and Other Investments	290,985	129,415	420,400

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

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

Fair Value Measurement

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

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

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

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

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

As at November 30, 2018 (in thousands of Canadian dollars)	**Level 1**	**Level 2**	**Level 3**
FVTPL financial assets			
Bonds	**32,029**	**1,318,411**	**14,362**
Infrastructure	**-**	**-**	**101,388**
Pooled real estate	**-**	**279,591**	**-**
Total FVTPL financial assets	**32,029**	**1,598,002**	**115,750**
AFS financial assets			
Cash and cash equivalents	**102,741**	**-**	**-**
Other investments	**-**	**-**	**520**
Equity investments	**451,590**	**-**	**-**
Total AFS financial assets	**554,331**	**-**	**520**
Total assets measured at fair value	**586,360**	**1,598,002**	**116,270**

As at November 30, 2017 (in thousands of Canadian dollars)	Level 1	Level 2	Level 3
FVTPL financial assets			
Bonds	-	1,260,052	15,111
Infrastructure	-	-	95,502
Pooled real estate	-	254,708	-
Total FVTPL financial assets	-	1,514,760	110,613
AFS financial assets			
Cash and short term investments	66,769	-	-
Other investments	-	-	1,493
Equity investments	418,907	-	-
Total AFS financial assets	485,676	-	1,493
Total assets measured at fair value	485,676	1,514,760	112,106

Fair value measurement of instruments included in Level 3	FVTPL		AFS	
(in thousands of Canadian dollars)	**2018**	2017	**2018**	2017
Balance at March 1	**114,447**	110,121	**1,351**	1,493
Total gains/(losses)				
Included in net income	**(469)**	1,239	**-**	-
Included in other comprehensive income	**-**	-	**(746)**	-
Purchases	**30,635**	-	**-**	-
Sales	**(28,863)**	-	**(85)**	-
Return of Capital	**-**	(747)	**-**	-
Balance at August 31	**115,750**	110,613	**520**	1,493

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

6) Investment Income

(in thousands of Canadian dollars)	**November 30, 2018**	November 30, 2017
Interest income	**42,118**	38,986
Gain (loss) on sale of FVTPL bonds	**6,349**	(4,553)
Unrealized gain(loss) on FVTPL bonds	**(23,459)**	39,998
Unrealized gain (loss) on pooled real estate	**16,570**	20,726
Dividends on infrastructure investments	**1,416**	1,452
Realized gain on infrastructure investments	**1,771**	-
Unrealized gain (loss) on infrastructure investments	**(468)**	1,239
Dividend income	**8,982**	9,950
Gain (loss) on sale of equities and other investments	**24,513**	27,878
Gain (loss) on foreign exchange	**(20)**	(28)
Income from investment property	**2,640**	2,379
Investment management fees	**(3,079)**	(2,842)
Total Investment income (loss)	**77,333**	135,185

7) Employee Future Benefits Expense

The total benefits costs included in expenses are as follows:

(in thousands of Canadian dollars)	**November 30, 2018**	November 30, 2017
Pension benefits	**21,203**	20,914
Other post-employment benefits	**1,597**	1,384
Total	**22,880**	22,298

8) Depreciation and Amortization

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

(in thousands of Canadian dollars)	**November 30, 2018**	November 30, 2017
Amortization – Deferred Development	**18,082**	15,572
Depreciation – Property and equipment	**3,587**	3,714
Total	**21,669**	19,286

For more information contact:

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