Quarterly Financial Report

2nd Quarter

Six months ended
September 30, 2021

MANITOBA PUBLIC INSURANCE

Management Discussion and Analysis

Management's discussion and analysis provides a review of the financial results and future outlook of Manitoba Public Insurance. It should be read in conjunction with the unaudited condensed interim financial statements and supporting notes for the second quarter ended September 30, 2021 included herein and the 2020/21 annual audited financial statements and supporting notes found in the Corporation's 2020 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.

Q2 Corporate Performance Measures and Targets

Year-to-date second quarter results 2021/22

Financial Performance

Net Income after Surplus Distribution

In millions

Actual Q2 2021/22	Target Q2 2021/22	Annual Target 2021/22	Past Q2 2020/21
$195.6	$85.3	$84.4	$78.6

Net Premiums Earned

In millions

Actual Q2 2021/22	Target Q2 2021/22	Annual Target 2021/22	Past Q2 2020/21
$706.3	$702.7	$1,396.1	$700.7

Net Claims Incurred

In millions

Actual Q2 2021/22	Target Q2 2021/22	Annual Target 2021/22	Past Q2 2020/21
$381.2	$468.0	$1,023.7	$523.5

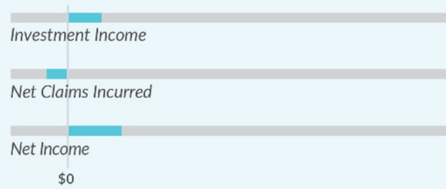
Loss Ratio

(Net Claims Incurred / Net Premiums Earned)

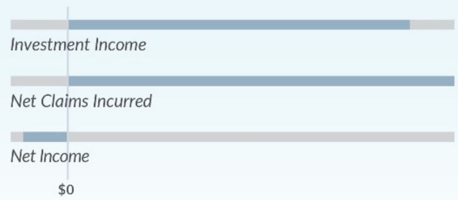
Actual Q2 2021/22	Target Q2 2021/22	Annual Target 2021/22	Past Q2 2020/21
54.0%	66.6%	73.3%	74.7%

Asset-Liability Management — Interest Rate Impact on:

In millions



	Actual Q2 2021/22
Investment Income	$12.7
Net Claims Incurred	($7.8)
Net Income	$20.5



	Past Q2 2020/21
Investment Income	$132.4
Net Claims Incurred	$149.8
Net Income	($17.4)

Total Return — Investments

Actual Q2 2021/22	Target Q2 2021/22	Annual Target 2021/22	Past Q2 2020/21
2.85%	1.97%	3.97%	8.19%

Organizational Health

Capital Adequacy (Minimum Capital Test)

	Actual Q2 2021/22	Target Q2 2021/22	Past Q2 2020/21
Basic	142%	100%	107%
Extension	282%	200%	255%
Special Risk Extension	285%	300%	278%

Operational Excellence

Combined Expense Ratio

(Claims Expenses + Operating Expenses) / Net Premiums Earned)

Actual Q2 2021/22	Target Q2 2021/22	Annual Target 2021/22	Past Q2 2020/21
21.7%	24.4%	24.5%	19.3%

Total Full-Time Equivalent (Average)

Actual Q2 2021/22	Target Q2 2021/22	Annual Target 2021/22	Past Q2 2020/21
1,844	2,019	2,017	1,778

Results of Operations

Manitoba Public Insurance reported Corporate net income from operations of $195.5 million for the six months ended September 30, 2021 compared to $78.6 million net income after surplus distribution for the same period last year. This includes net income from operations of $153.0 million (September 30, 2020 - $86.2 million net income after surplus distribution) for the Basic insurance line of business. Corporate net income increased from the previous year due to:

i. an increase in earned revenue of $4.3 million;

ii. a decrease in claims incurred of $142.3 million comprised of a favourable year-over-year interest rate impact of $157.5 million offset by an increase in claims of $15.2 million; and

iii. no surplus distribution in the second quarter of 2021/22 compared to $110.1 million last year; offset by

iv. a decrease in investment income of $115.3 million mainly due to lower unrealized gain on bonds of $110.0 million, $13.4 million lower in recovery of previously written down AFS investments, lower realized gain on bonds of $9.8 million and lower realized gains on infrastructure of $2.8 million offset by higher unrealized gains on pooled real estate of $11.5 million and unrealized gains on infrastructure of $4.4 million;

v. an increase in commissions and premium taxes of $2.9 million and $3.5 million respectively; and

vi. an increase in other expenses of $18.2 million.

Current Year and Last Year

Total earned revenues for the six months ended September 30, 2021, increased from the previous year by $4.3 million. This increase is primarily attributed to Special Risk Extension premiums which increased $15.7 million; offset by decreases in motor vehicle premiums of $7.5 million, drivers' premiums of $1.2 million and services fees and other revenue of $1.3 million as well as an increase in reinsurance of $1.4 million.

Claims costs for the six month ended September 30, 2021, decreased $136.9 million or 22.8 per cent compared to last year due primarily to a decrease of $157.0 million in bodily injury claims incurred offset by an increase in physical damage claims incurred of $14.7 million. The decrease in bodily injury claims is primarily due to a favourable interest rate impact on unpaid claims of $157.5 million compared to last year. The favourable impact on unpaid claims caused by changes in prevailing interest rates is largely offset by corresponding impact on investment income through the Corporation's asset-liability management program. The $14.7 million increase in physical damage claims is primarily due to an increase in the collision claims incurred. Excluding the impact of changing interest rates, net claims incurred increased year over year by $15.2 million. Claims expenses and loss prevention/road safety expenses increased $4.2 million and $1.3 million respectively compared to the same period last year.

Total expenses increased $19.2 million or 16.1 per cent compared to last year. These increases were related to increased operating expenses of $12.9 million, commission expenses of $2.9 million and premium taxes of $3.5 million.

Retained Earnings

Net income from operations of $195.5 million for the first six months of the 2021/22 fiscal year increased retained earnings to $914.8 million (March 31, 2021 - $719.3 million). Retained earnings are comprised of $601.7 million for Basic insurance (March 31, 2021 - $448.7 million) and $313.1 million from non-Basic lines of business (March 31, 2021 - $270.6 million).

Total Equity

Total equity of $959.3 million (March 31, 2021 - $722.0 million) is comprised of $914.8 million retained earnings and $44.5 million accumulated other comprehensive income (March 31, 2021 - $2.7 million).

Capital Management

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 Corporations 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. Use of the MCT framework aligns with industry best practice and this target was selected to appropriately reflect the lower risk level of the Basic monopoly insurance program. On April 12, 2019, the Manitoba Public Insurance Corporation Act Reserves Regulation 76/2019 specified 100 per cent MCT as the capital requirement for Basic. In Order No. 176/19, issued December 3, 2019, the Public Utilities Board approved the Basic target capital level of 100 per cent MCT.

The Corporation ended the quarter with Basic MCT of 142 per cent which is above the target for the Reserves Regulation target of 100 per cent.

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 ended the quarter with Extension MCT at 282 per cent.

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 ended the quarter with Special Risk Extension at 285 per cent.

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.

As approved by the Public Utilities Board, effective April 1, 2021, there was an 8.8 per cent overall rate decrease to the average Basic insurance rates for the 2021/22 insurance year. On June 28, 2021, Manitoba Public Insurance filed its general rate application for the 2022/23 fiscal year with the Public Utilities Board requesting a provisional 2.8 per cent rate decrease. On October 5, 2021, Manitoba Public Insurance updated its financials in the general rate application for the 2022/23 fiscal year with the Public Utilities Board requesting a revised 1.2 per cent rate decrease. This decrease consists of a 0.3 per cent anticipated decrease due to movement of registered owners on the Driver Safety Rating scale and a 0.9 per cent decrease for vehicles.

The requested 0.9 per cent overall rate decrease does not mean that rates for all vehicles within each major class will decrease by this amount. Based on the Corporation's rate design, major vehicle classes will be impacted as follows:

- Private passenger (-1.0 per cent change)
- Commercial (+0.9 per cent change)
- Public (+4.8 per cent change)
- Motorcycles (+0.5 per cent change)
- Trailers (-8.9 per cent change)
- Off-road vehicles (0.0 per cent change)
- Total overall (-0.9 per cent change)

Over 816,896 vehicles (68.6 per cent) 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:

- 694,842 (58.4 per cent) of vehicles receiving a decrease in rate
- 122,054 (10.2 per cent) of vehicles receiving no change in rate
- 373,785 (31.4 per cent) of vehicles receiving an increase in rate

Also in this application to the Public Utilities Board, Manitoba Public Insurance requested the removal of the Capital Release provision, which previously had translated into a five per cent discount as part of the overall rate. To replace the removal of this discount and return surplus capital to Manitobans sooner, Manitoba Public Insurance separately applied to the Public Utilities Board to return excess capital to ratepayers by way of a rebate. Manitoba Public Insurance updated its rebate application, formalizing its rebate request at $335 million from the original forecasted amount of $202 million.

Condensed Interim Financial Statements

Condensed Interim Statement of Financial Position

(Unaudited - in thousands of Canadian dollars)	*Notes*	**September 30 2021**	March 31, 2021
Assets			
Cash and cash equivalents	*4*	**204,721**	182,123
Investments	*4*	**3,680,320**	3,448,747
Investment property	*4*	**13,937**	14,115
Due from other insurance companies		**121**	126
Accounts receivable		**497,560**	506,597
Prepaid expenses		**6,794**	4,369
Deferred policy acquisition costs		**63,594**	64,586
Reinsurers' share of unearned premiums		**10,328**	644
Reinsurers' share of unpaid claims		**7,041**	6,759
Property and equipment		**141,075**	142,601
Deferred development costs		**61,702**	45,883
		4,687,193	4,416,550
Liabilities			
Due to other insurance companies		**5,544**	721
Accounts payable and accrued liabilities		**243,348**	237,996
Lease obligation		**7,004**	7,027
Unearned premiums and fees		**698,981**	727,179
Provision for employee current benefits		**24,795**	25,374
Provision for employee future benefits		**529,466**	514,537
Provision for unpaid claims	*6*	**2,218,753**	2,181,678
		3,727,891	3,694,512
Equity			
Retained earnings		**914,840**	719,284
Accumulated other comprehensive income		**44,462**	2,754
		959,302	722,038
		4,687,193	4,416,550

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

Condensed Interim Statement of Operations

(Unaudited - in thousands of Canadian dollars)	Notes	**3 months ended September 30, 2021**	3 months ended September 30, 2020	**6 months ended September 30, 2021**	6 months ended September 30, 2020
Earned Revenues					
Gross premiums written		**357,460**	361,959	**696,926**	699,007
Premiums ceded to reinsurers		**(11)**	(68)	**(20,540)**	(18,421)
Net premiums written		**357,449**	361,891	**676,386**	680,586
Increase in gross unearned premiums		**9,229**	1,987	**20,256**	11,190
Increase in reinsurers' share of unearned premiums		**(5,410)**	(4,653)	**9,683**	8,953
Net premiums earned		**361,268**	359,225	**706,325**	700,729
Service fees and other revenue		**9,644**	10,703	**18,286**	19,595
The Drivers and Vehicles Act operations recovery		**7,563**	7,563	**15,125**	15,125
Total Earned Revenues		**378,475**	377,491	**739,736**	735,449
Claims Costs					
Direct claims incurred—gross		**186,257**	235,989	**381,617**	524,288
Claims recovered ceded to reinsurers		**(300)**	(587)	**(423)**	(755)
Net claims incurred		**185,957**	235,402	**381,194**	523,533
Claims expense		**38,852**	37,178	**79,099**	74,916
Loss prevention/Road safety		**2,276**	1,987	**4,399**	3,143
Total Claims Costs		**227,085**	274,567	**464,692**	601,592
Expenses					
Operating		**33,097**	26,784	**68,233**	55,350
Commissions		**23,887**	22,624	**46,752**	43,821
Premiums taxes		**10,654**	10,918	**21,516**	18,001
Regulatory/Appeal		**781**	988	**1,624**	1,797
Total Expenses		**68,419**	61,314	**138,125**	118,969
Underwriting income		**82,971**	41,610	**136,919**	14,888
Investment income	*5*	**(3,185)**	37,017	**58,597**	173,883
Gain on disposal of property and equipment		**-**	-	**40**	-
Net income from operations		**79,786**	78,627	**195,556**	188,771
Surplus distribution		**-**	-	**-**	(110,156)
Net income from operations after surplus distribution		**79,786**	78,627	**195,556**	78,615

Condensed Interim Statement of Comprehensive Income (Loss)

(Unaudited - in thousands of Canadian dollars)	Notes	**3 months ended September 30, 2021**	3 months ended September 30, 2020	**6 months ended September 30, 2021**	6 months ended September 30, 2020
Net income from operations after surplus distribution		**79,826**	78,627	**195,556**	78,615
Other Comprehensive Income (Loss)					
Items that will not be reclassified to income					
Remeasurement of employee future benefits		**11,102**	507	**(6,490)**	(94,678)
Items that will be reclassified to income					
Unrealized gains (losses) on available for sale assets		**7,083**	14,895	**50,733**	86,759
Reclassification of net realized losses (gains) related to available for sale assets		**(1,268)**	(13,389)	**(2,535)**	(13,389)
Net unrealized gain on Available for Sale assets		**5,815**	1,506	**48,198**	73,370
Other comprehensive income for the period		**16,917**	2,013	**41,708**	(21,308)
Total comprehensive income		**96,743**	80,640	**237,264**	57,307

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 (Loss)	Equity
Balance as at April 1, 2020	691,912	(44,923)	646,989
Net income from operations after surplus distribution for the period	78,615	-	78,615
Other comprehensive income for the period	-	(21,308)	(21,308)
Balance as at September 30, 2020	770,527	(66,231)	704,296
Balance as at April 1, 2021	**719,284**	**2,754**	**722,038**
Net income from operations after surplus distribution for the year	**195,556**	-	**195,556**
Other comprehensive income for the year	-	**41,708**	**41,708**
Balance as at September 30, 2021	**914,840**	**44,462**	**959,302**

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

Condensed Interim Statement of Cash Flows

(Unaudited - in thousands of Canadian dollars)	Notes	6 months ended September 30, 2021	6 months ended September 30, 2020
Cash Flows from (to) Operating Activities:			
Net income from operations after surplus distribution		**195,556**	78,615
Non-cash items:			
Depreciation of property and equipment, and investment property		**3,239**	3,235
Amortization of deferred development costs		**6,836**	9,147
Amortization of bond discount and premium		**4,020**	(4,176)
Gain on sale of investments		**(6,069)**	(15,813)
Unrealized gain on fair value through profit or loss bonds		**(9,040)**	(118,921)
Unrealized (gain) loss on pooled real estate fund		**(7,265)**	4,235
Unrealized loss on infrastructure investments		**(429)**	3,950
Unrealized gain on private debt		**(1,166)**	(959)
Impairment (recovery) of available for sale investments		**-**	(13,388)
Impairment of deferred development costs		**199**	92
		185,881	(53,983)
Net change in non-cash balances:			
Due from other insurance companies		**5**	353
Accounts receivable and prepaid expenses		**6,612**	(17,430)
Deferred policy acquisition costs		**992**	396
Reinsurers' share of unearned premiums and unpaid claims		**(9,966)**	(8,534)
Due to other insurance companies		**4,823**	4,414
Accounts payable and accrued liabilities		**5,352**	(3,037)
Unearned premiums and fees		**(28,198)**	(17,824)
Provision for employee current benefits		**(579)**	205
Provision for employee future benefits		**8,439**	8,727
Provision for unpaid claims		**37,075**	161,793
		24,555	129,063
		210,436	75,080
Cash Flows from (to) Investment Activities:			
Purchase of investments		**(586,263)**	(451,914)
Proceeds from sale of investments		**422,837**	303,548
Acquisition of property and equipment net of proceeds from disposals		**(1,535)**	(978)
Lease obligation		**(23)**	(20)
Deferred development costs incurred		**(22,854)**	(5,994)
		(187,838)	(155,358)
Increase in cash and cash equivalents		**22,598**	(80,278)
Cash and cash equivalents beginning of year		**182,123**	236,815
Cash and cash equivalents end of year	4	**204,721**	156,537

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

Notes to Financial Statements

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).

Appointment of Actuary

The external actuary is appointed by the Board of Directors of the Corporation as the Appointed Actuary. 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 and 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 (including right-of-use assets), deferred development costs, lease obligations, 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.

Emergency measures enacted by the federal and provincial governments in response to the COVID–19 pandemic, including physical distancing, travel restrictions, and the temporary closure of non-essential businesses, have created significant additional estimation uncertainty in the determination of reported amounts as at September 30, 2021. The Corporation has made assumptions with respect to the duration and severity of these emergency measures as well as the duration of the subsequent economic recovery in estimating the amount and timing of reported amounts as at September 30, 2021. As a result of this significant estimation uncertainty there is a risk that the assumptions used as at September 30, 2021, may change as more information becomes available, resulting in a material adjustment to reported amounts in future reporting periods.

3. Summary of Significant Accounting Policies

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

Investments

Funds available for investments are managed by the Manitoba Department of Finance or administered by external managers that are under contract with 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 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

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 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 net income (loss) in the period. Subsequent declines in value continue to be recorded through net income (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 net income (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 net income (loss) are not reversed through net income (loss). Any increase in fair value subsequent to an impairment loss is recognized in OCI.

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.

Fair Value Determination

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

Property and Equipment

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

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

Land & 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.

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 property is deemed available for use.

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, effective March 31, 2021, the Corporation considers only property that is 100 per cent investment property. As a result, portions of the cityplace building previously considered investment property are now classified as Property and Equipment.

The Corporation's investment property, which is property held 100 per cent 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 fair value of the investment property is disclosed based on an external valuation that occurs, at a minimum, every other year. The fair value disclosed is based on the most recent valuation which was conducted for March 31, 2021.

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*. Based on this assessment it was determined the investment property was not impaired as at March 31, 2021.

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:

- parkade 40 years
- surface parking lot held 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 (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.

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

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 (loss) in the current period. Actuarial gains and losses are recognized in OCI in the current period.

   The Corporation has its pension benefit plan valued annually at the pension plan year-end date, the most recent of which is December 31, 2020. Additionally the Corporation has its pension benefit plan revalued at the Corporation fiscal year end of March 31, 2021.

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 (loss) 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 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.

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.

Comprehensive Income

Comprehensive income consists of net income from operations and other comprehensive income. 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.

4. Cash, Cash Equivalents 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 $167.9 million (September 30, 2020—$156.6 million) comprised of provincial short-term deposits with effective interest rates of 0.068 per cent to 0.08 per cent (September 30, 2020—0.88 per cent to 0.09 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 (September 30, 2020—$5.0 million). The unsecured operating line of credit remained unutilized at September 30, 2021 (September 30, 2020—nil).

Cash, Cash Equivalents and Investments

	Financial Instruments				
As at September 30, 2021 (Unaudited- in thousands of Canadian dollars)	Classified as AFS	Classified as HTM	Classified as FVTPL	Non-Financial Instruments	Total Carrying Value
Cash and cash equivalents	204,721	-	-	-	204,721
Bonds					
Federal	20,041	-	51,048	-	71,089
Manitoba:					
Provincial	14,287	-	121,448	-	135,735
Municipal	-	61,023	35,003	-	96,026
Schools	-	434,387	-	-	434,387
Other provinces:					
Provincial	128,845	-	944,166	-	1,073,011
Municipal	-	-	68,841	-	68,841
Corporations	173,464	-	527,491	-	700,955
	336,637	495,410	1,747,997	-	2,580,044
Private debt	202,844	-	41,340	-	244,184
Other investments	671	-	-	-	671
Infrastructure	-	-	113,763	-	113,763
Equity investments	603,056	-	-	-	603,056
Pooled real-estate fund	-	-	138,602	-	138,602
Investments	1,143,208	495,410	2,041,702	-	3,680,320
Investment property	-	-	-	13,937	13,937
Total	1,347,929	495,410	2,041,702	13,937	3,898,978

As at September 30, 2020 (Unaudited-in thousands of Canadian dollars)	Financial Instruments Classified as AFS	Classified as HTM	Classified as FVTPL	Non-Financial Instruments	Total Carrying Value
Cash and cash equivalents	156,537	-	-	-	156,537
Bonds					
Federal	-	-	40,292	-	40,292
Manitoba:					
Provincial	6,174	-	133,798	-	139,972
Municipal	-	41,800	40,003	-	81,803
Schools	-	475,936	-	-	475,936
Other provinces:					
Provincial	134,535	-	1,028,035	-	1,162,570
Municipal	-	-	78,474	-	78,474
Corporations	157,649	-	451,113	-	608,762
	298,358	517,736	1,771,715	-	2,587,809
Private debt	136,150	-	18,516	-	154,666
Other investments	349	-	-	-	349
Infrastructure	-	-	108,992	-	108,992
Equity investments	469,402	-	-	-	469,402
Pooled real-estate fund	-	-	115,602	-	115,602
Investments	904,259	517,736	2,014,825	-	3,436,820
Investment property	-	-	-	48,184	48,184
Total	1,060,796	517,736	2,014,825	48,184	3,641,541

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

As at September 30, 2021 (Unaudited- in thousands of Canadian dollars)	**Book Value**	**Unrealized Gains/Losses**	**Fair Value**
Equity investments			
With unrealized gains	**458,392**	**144,664**	**603,056**
Subtotal—equity investments	**458,392**	**144,664**	**603,056**
Bonds			
With unrealized gains	**203,239**	**2,424**	**205,663**
With unrealized losses	**136,984**	**(6,010)**	**130,974**
Subtotal—bonds	**340,223**	**(3,586)**	**336,637**
Private debt			
With unrealized losses	**93,644**	**(1,435)**	**92,209**
Subtotal—private debt	**202,987**	**(143)**	**202,844**
Other investments			
With unrealized gains	**314**	**357**	**671**
Subtotal—other investments	**314**	**357**	**671**
Total AFS equity and other investments	**1,001,916**	**141,292**	**1,143,208**

As at September 30, 2020 (Unaudited-in thousands of Canadian dollars)	Book Value	Unrealized Gains/Losses	Fair Value
Equity investments			
With unrealized gains	415,251	54,151	469,402
Subtotal—equity investments	415,251	54,151	469,402
Bonds			
With unrealized gains	284,916	13,442	298,358
With unrealized losses	-	-	-
Subtotal—bonds	284,916	13,442	298,358
Private debt			
With unrealized gains	130,850	5,300	136,150
Subtotal—private debt	130,850	5,300	136,150
Other investments			
With unrealized gains	314	35	349
Subtotal—other investments	314	35	349
Total AFS equity and other investments	831,331	72,928	904,259

AFS financial assets where the investment's underlying cost is greater than the fair value, the loss has not been recognized in net income (loss) 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 the period ended September 30, 2021, or period ended September 30, 2020.

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 September 30, 2021 (Unaudited- in thousands of Canadian dollars)	**Level 1**	**Level 2**	**Level 3**
FVTPL financial assets			
Bonds	23,886	1,709,573	14,538
Private debt	-	41,340	-
Infrastructure	-	-	113,763
Pooled real estate fund	-	138,602	-
Total FVTPL financial assets	**23,886**	**1,889,515**	**128,301**
AFS financial assets			
Cash and cash equivalents	204,721	-	-
Bonds	-	336,637	-
Private debt	-	110,635	92,209
Other investments	-	-	671
Equity investments	-	603,056	-
Total AFS financial assets	**204,721**	**1,050,328**	**92,880**
Total assets measured at fair value	**228,607**	**2,939,843**	**221,181**

As at September 30, 2020 (Unaudited-in thousands of Canadian dollars)	Level 1	Level 2	Level 3
FVTPL financial assets			
Bonds	3,833	1,753,243	14,639
Private debt	-	18,516	-
Infrastructure	-	-	108,992
Pooled real estate fund	-	115,602	-
Total FVTPL financial assets	3,833	1,887,361	123,631
AFS financial assets			
Cash and cash equivalents	156,537	-	-
Bonds	-	298,358	-
Private debt	-	136,150	-
Other investments	-	-	349
Equity investments	24,807	444,595	-
Total AFS financial assets	181,344	879,103	349
Total assets measured at fair value	185,177	2,766,464	123,980

The following table presents the fair-value measurement of instruments included in Level 3.

	FVTPL		**AFS**	
(Unaudited - in thousands of Canadian dollars)	**2021**	2020	**2021**	2020
Balance at April 1	**127,872**	138,302	**87,325**	349
Total gains/(losses)				
Included in net income	**429**	(1,573)	**-**	-
Included in OCI	**-**	-	**4,848**	-
Purchases	**-**	-	**707**	-
Sales	**-**	(13,098)	**-**	-
Return of capital	**-**	-	**-**	-
Balance at September 30	**128,301**	123,631	**92,880**	349

The fair value of HTM bonds, which include schools and certain municipalities, is based on their carrying value, which approximates fair value. As of September 30, 2021, the fair value of municipal, utilities, schools and hospital bonds held to maturity is $495.4 million (September 30, 2020—$517.7 million).

5. Investment Income

For the six months ended (Unaudited - in thousands of Canadian dollars)	**September 30, 2021**	September 30, 2020
Interest income	**33,078**	31,200
Gain on sale of FVTPL bonds	**3,650**	13,436
Unrealized gain on FVTPL bonds	**9,040**	118,921
Unrealized gain (loss) on pooled real estate fund	**7,265**	(4,235)
Unrealized gain on private debt	**1,166**	959
Dividends on infrastructure investments	**814**	305
Realized gain on instrastructure investments	**-**	2,782
Unrealized loss on infrastructure investments	**429**	(3,950)
Foreign exchange loss on infrastructure investments	**-**	(405)
Dividend income	**4,010**	3,379
Gain on sale of equities and other investments	**2,419**	-
Income from investment property	**123**	785
Recovery/(Impairment) of AFS investments	**-**	13,388
Investment management fees	**(3,397)**	(2,682)
Total	**58,597**	173,883

Investment income is net of investment management fees paid to the Department of Finance in the amount of $3.4 million (September 30, 2020—$2.7 million). This includes $1.4 million (September 30, 2020—$1.6 million) of fees the Province paid to outside managers on the Corporation's behalf.

6. 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-term 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 effect of inflationary trends contribute to this variability.

The determination of the provision for unpaid claims, including adjustment expenses, relies on judgment, analysis of historical claims 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.

7. Employee Future Benefits Expense

The total benefit costs included in expenses are as follows:

For the six months ended September 30 (Unaudited - in thousands of Canadian dollars)	**2021**	2020
Pension benefits	**8,638**	7,813
Other post-retirement benefits	**1,403**	1,049
Total	**10,041**	8,862

8. Depreciation and Amortization

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

For the six months ended September 30 (Unaudited-in thousands of Canadian dollars)	**2021**	2020
Amortization - Deferred Development	**6,836**	9,147
Depreciation - Property and Equipment & Investment Property	**3,239**	3,235
Total	**10,075**	12,382

For more information contact:

Manitoba Public Insurance
Communications & Customer Experience
Room 820, 234 Donald Street
P.O. Box 6300
Winnipeg, MB R3C 4A4