

# Notes to Basic Financial Statements

March 31, 2021 - All notes are unaudited.

## A. 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 \$87.5 million (March 31, 2020—\$107.4 million) comprised of provincial short-term deposits with effective interest rates of 0.056 per cent to 0.06 per cent (March 31, 2020—0.64 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 (March 31, 2020—\$5.0 million). The unsecured operating line of credit remained unutilized at March 31, 2021 (March 31, 2020—nil).

### Cash, Cash Equivalents and Investments

As at March 31, 2021 (in thousands of Canadian dollars)	Financial Instruments			Non-Financial Instruments	Total Carrying Value
	Classified as AFS	Classified as HTM	Classified as FVTPL		
Cash and cash equivalents	138,600	-	-	-	138,600
Bonds					
Federal	20,107	-	29,755	-	49,862
Manitoba:					
Provincial	14,132	-	119,927	-	134,059
Municipal	-	40,505	34,878	-	75,383
Schools	-	453,304	-	-	453,304
Other provinces:					
Provincial	89,036	-	849,269	-	938,305
Municipal	-	-	73,378	-	73,378
Corporations	124,861	-	492,063	-	616,924
	248,136	493,809	1,599,270	-	2,341,215
Private debt	115,070	-	-	-	115,070
Other investments	-	-	-	-	-
Infrastructure	-	-	73,401	-	73,401
Equity investments	337,901	-	-	-	337,901
Pooled real-estate fund	-	-	79,790	-	79,790
Investments	701,107	493,809	1,752,461	-	2,947,377
Investment property	-	-	-	6,065	6,065
<b>Total</b>	<b>839,707</b>	<b>493,809</b>	<b>1,752,461</b>	<b>6,065</b>	<b>3,092,042</b>

## Notes to Basic Financial Statements – March 31, 2021 – All notes are unaudited.

As at March 31, 2020 (in thousands of Canadian dollars)	Financial Instruments			Non-Financial Instruments	Total Carrying Value
	Classified as AFS	Classified as HTM	Classified as FVTPL		
Cash and cash equivalents	186,635	-	-	-	186,635
Bonds					
Federal	-	-	32,908	-	32,908
Manitoba:					
Provincial	5,835	-	123,198	-	129,033
Municipal	-	22,391	33,832	-	56,223
Schools	-	497,462	-	-	497,462
Other provinces:					
Provincial	75,118	-	853,863	-	928,981
Municipal	-	-	74,220	-	74,220
Corporations	98,980	-	379,663	-	478,643
	179,933	519,853	1,497,684	-	2,197,470
Private debt	79,688	-	-	-	79,688
Other investments	-	-	-	-	-
Infrastructure	-	-	77,316	-	77,316
Equity investments	218,695	-	-	-	218,695
Pooled real-estate fund	-	-	75,831	-	75,831
Investments	478,316	519,853	1,650,831	-	2,649,000
Investment property	-	-	-	20,969	20,969
Total	664,951	519,853	1,650,831	20,969	2,856,604

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

As at March 31, 2021 (in thousands of Canadian dollars)	Book Value	Unrealized Gains/Losses	Fair Value
Equity investments			
With unrealized gains	276,110	61,791	337,901
With unrealized losses	-	-	-
Subtotal—equity investments	276,110	61,791	337,901
Bonds			
With unrealized gains	143,946	1,459	145,405
With unrealized losses	107,334	(4,603)	102,731
Subtotal—bonds	251,280	(3,144)	248,136
Private debt			
With unrealized gains	-	-	-
With unrealized losses	120,671	(5,601)	115,070
Subtotal—private debt	120,671	(5,601)	115,070
Other investments			
With unrealized gains	-	-	-
With unrealized losses	-	-	-
Subtotal—other investments	-	-	-
<b>Total AFS equity and other investments</b>	<b>648,061</b>	<b>53,046</b>	<b>701,107</b>

## Notes to Basic Financial Statements – March 31, 2021 – All notes are unaudited.

As at March 31, 2020 (in thousands of Canadian dollars)	Book Value	Unrealized Gains/Losses	Fair Value
Equity investments			
With unrealized gains	111,059	-	111,059
With unrealized losses	108,241	(605)	107,636
Subtotal—equity investments	219,300	(605)	218,695
Bonds			
With unrealized gains	126,567	739	127,306
With unrealized losses	53,420	(793)	52,627
Subtotal—bonds	179,987	(54)	179,933
Private debt			
With unrealized gains	79,688	-	79,688
With unrealized losses	-	-	-
Subtotal—private debt	79,688	-	79,688
Other investments			
With unrealized gains	-	-	-
With unrealized losses	-	-	-
Subtotal—other investments	-	-	-
Total AFS equity and other investments	478,975	(659)	478,316

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 year ended March 31, 2021, or period ended March 31, 2020.

## Notes to Basic Financial Statements – March 31, 2021 – All notes are unaudited.

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 March 31, 2021 (in thousands of Canadian dollars)	Level 1	Level 2	Level 3
<b>FVTPL financial assets</b>			
Bonds	8,475	1,576,257	14,538
Private debt	-	-	-
Infrastructure	-	-	73,401
Pooled real estate fund	-	79,790	-
<b>Total FVTPL financial assets</b>	<b>8,475</b>	<b>1,656,047</b>	<b>87,939</b>
<b>AFS financial assets</b>			
Cash and cash equivalents	138,600	-	-
Bonds	73,418	174,718	-
Private debt	-	50,089	64,981
Other investments	-	-	-
Equity investments	15,855	322,046	-
<b>Total AFS financial assets</b>	<b>227,873</b>	<b>546,853</b>	<b>64,981</b>
<b>Total assets measured at fair value</b>	<b>236,348</b>	<b>2,202,900</b>	<b>152,920</b>

As at March 31, 2020 (in thousands of Canadian dollars)	Level 1	Level 2	Level 3
<b>FVTPL financial assets</b>			
Bonds	11,356	1,471,689	14,639
Private debt	-	-	-
Infrastructure	-	-	77,316
Pooled real estate fund	-	75,831	-
<b>Total FVTPL financial assets</b>	<b>11,356</b>	<b>1,547,520</b>	<b>91,955</b>
<b>AFS financial assets</b>			
Cash and cash equivalents	186,635	-	-
Bonds	-	179,933	-
Private debt	-	20,212	59,476
Other investments	-	-	-
Equity investments	-	218,695	-
<b>Total AFS financial assets</b>	<b>186,635</b>	<b>418,840</b>	<b>59,476</b>
<b>Total assets measured at fair value</b>	<b>197,991</b>	<b>1,966,360</b>	<b>151,431</b>

## Notes to Basic Financial Statements – March 31, 2021 – All notes are unaudited.

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

(in thousands of Canadian dollars)	FVTPL		AFS	
	2021	2020	2021	2020
Balance at period beginning*	91,955	107,929	59,476	323
Total gains/(losses)				
Included in net income	1,845	8,030	4,474	(4,472)
Included in OCI	-	-	(4,746)	-
Purchases	755	-	5,718	63,948
Sales	(6,681)	-	-	-
Return of capital	-	(404)	-	-
Allocation adjustment**	65	(23,600)	59	(323)
<b>Balance at period ended*</b>	<b>87,939</b>	<b>91,955</b>	<b>64,981</b>	<b>59,476</b>

\*Due to the change in the fiscal year, the fiscal year ending March 31, 2020, is from March 1, 2019 to March 31, 2020, whereas year ending March 31, 2021, is from April 1, 2020, to March 31, 2021.

\*\* In accordance with approved allocation formulas, items included in the Statement of Operations and Comprehensive Income are allocated to the Basic Insurance line of business utilizing monthly allocation percentages and the ending asset balances are allocated at the end of the fiscal year. The allocation variance is the amounts required to adjust monthly allocations to the annual balances.

The fair value of HTM bonds, which include schools and certain municipalities, is based on their carrying value, which approximates fair value. As of March 31, 2021, the fair value of municipal, utilities, schools and hospital bonds held to maturity is \$493.8 million (March 31, 2020—\$519.9 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 2020/21. For 2019/20, impaired investments included in the Corporation's portfolio include the following:

As at March 31, 2020 (in thousands of Canadian dollars)	Gross	Impaired	Net
By investment type			
Bonds	104,008	(5,028)	98,980
Equities	143,587	(32,654)	110,933
Private debt	84,682	(4,994)	79,688
<b>Total</b>	<b>332,277</b>	<b>(42,676)</b>	<b>289,601</b>

## Notes to Basic Financial Statements – March 31, 2021 – All notes are unaudited.

## Investment Income

(in thousands of Canadian dollars)	Year ended March 31, 2021	13 months ended March 31, 2020
Interest income	67,900	73,727
Gain on sale of FVTPL bonds	11,296	22,286
Unrealized gain (loss) on FVTPL bonds	(10,645)	23,978
Unrealized loss on pooled real estate fund	(878)	(50,977)
Unrealized loss on private debt	-	-
Dividends on infrastructure investments	1,621	2,528
Realized gain on infrastructure investments	1,740	-
Unrealized gain (loss) on infrastructure investments	459	7,708
Foreign exchange loss on infrastructure investments	(253)	(10)
Dividend income	4,099	6,522
Gain on sale of equities and other investments	9,040	8,039
Loss on foreign exchange	-	560
Income (loss) from investment property	(765)	-
Realized gain on pooled real estate fund	-	58,265
Recovery/(Impairment) of AFS investments	10,025	(42,676)
Investment management fees	(4,111)	(3,785)
<b>Total</b>	<b>89,528</b>	<b>107,249</b>

Investment income is net of investment management fees paid to the Department of Finance in the amount of \$4.1 million (March 31, 2020—\$3.8 million). This includes \$2.4 million (March 31, 2020—\$2.4 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 December 31, 2015, 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 March 31, 2021 (in thousands of Canadian dollars)	Fair Value	Change in Fair Value During the Year
SPPI	2,291,240	38,980
Other	794,737	122,156
<b>Total</b>	<b>3,085,977</b>	<b>161,136</b>

As at March 31, 2020 (in thousands of Canadian dollars)	Fair Value	Change in Fair Value During the Year
SPPI	2,205,875	48,523
Other	629,760	67,051
<b>Total</b>	<b>2,835,635</b>	<b>115,574</b>

## Notes to Basic Financial Statements – March 31, 2021 – All notes are unaudited.

*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 March 31, 2021 (in thousands of Canadian dollars)	Fair Value	Carrying Value
Aaa	234,013	234,013
Aa	1,345,051	1,345,051
A	339,795	339,795
Baa	285,718	285,718
Ba	11,778	11,778
Not rated	74,885	74,885
<b>Total</b>	<b>2,291,240</b>	<b>2,291,240</b>

As at March 31, 2020 (in thousands of Canadian dollars)	Fair Value	Carrying Value
Aaa	209,193	209,193
Aa	1,341,319	1,341,319
A	326,661	326,661
Baa	219,618	219,618
Ba	1,699	1,699
Not rated	107,385	107,385
<b>Total</b>	<b>2,205,875</b>	<b>2,205,875</b>

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## B. Investment Property—Non-Financial Instruments

(in thousands of Canadian dollars)	Cityplace Building*	Surface Parking Lot	Parkade	Total
<b>Cost</b>				
Balance at March 1, 2019	36,115	888	13,830	50,833
Additions	477	-	-	477
Allocation adjustments**^	(17,954)	(440)	(6,875)	(25,269)
Balance at March 31, 2020	18,638	448	6,955	26,041
Transfer to property & equipment	(17,627)	-	-	(17,627)
Disposal	(1,012)	-	-	(1,012)
Allocation adjustments*	1	(1)	-	-
<b>Balance at March 31, 2021</b>	<b>-</b>	<b>447</b>	<b>6,955</b>	<b>7,402</b>
<b>Accumulated Depreciation</b>				
Balance at March 1, 2019	6,918	-	2,023	8,941
Depreciation	409	-	166	575
Allocation adjustments**^	(3,439)	-	(1,005)	(4,444)
Balance at March 31, 2020	3,888	-	1,184	5,072
Depreciation	368	-	153	521
Transfer to property & equipment	(3,905)	-	-	(3,905)
Disposal	(351)	-	-	(351)
Allocation adjustments*	-	-	-	-
<b>Balance at March 31, 2021</b>	<b>-</b>	<b>-</b>	<b>1,337</b>	<b>5,242</b>
<b>Carrying Amounts</b>				
At March 31, 2020	14,750	448	5,771	20,969
<b>At March 31, 2021</b>	<b>-</b>	<b>447</b>	<b>5,618</b>	<b>2,160</b>
<b>Fair Value at March 31, 2021**</b>	<b>N/A</b>	<b>2,114</b>	<b>7,172</b>	<b>9,286</b>

\* 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.

\*\* In accordance with approved allocation formulas, items included in the Statement of Operations and Comprehensive Income are allocated to the Basic Insurance line of business utilizing monthly allocation percentages and the ending asset balances are allocated at the end of the fiscal year. The allocation variance is the amounts required to adjust monthly allocations to the annual balances.

^ A portion of the allocation adjustment is due to the changes resulting from the work completed in a recent asset-liability study. As a result, a number of significant changes were implemented, which better align portfolio objectives with the underlying characteristics of the liabilities which the portfolios support. The previously co-mingled portfolio has been segregated into five new portfolios to uniquely match the various lines of business and employee future benefits obligations. The result of the new portfolio construction and target asset allocations is a tighter matching of assets to liabilities and a reduction in overall risk which supports the Corporation's objective of managing volatility and delivering rate stability.

\*\*\* The fair value of the parkade and surface parking lots is determined using an appraisal performed by an external valuator on, at a minimum, a bi-annual basis. The last appraisal conducted was at March 2021.



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## C. Deferred Policy Acquisition Costs

(in thousands of Canadian dollars)	Premium Taxes	Commissions	Writedown	Total
Balance at March 1, 2019	14,991	18,989	(27,917)	6,063
Deferred during the period	37,178	46,359	17,406	100,943
Expensed during the period	(35,741)	(45,683)	-	(81,424)
Balance at March 31, 2020	16,428	19,665	(10,511)	25,582
Deferred during the year	24,712	43,816	10,511	79,039
Expensed during the year	(23,978)	(43,384)	-	(67,362)
<b>Balance at March 31, 2021</b>	<b>17,162</b>	<b>20,097</b>	<b>-</b>	<b>37,259</b>

Premium deficiencies are recognized first by writing down deferred policy acquisition costs with any remainder recognized as a liability.

## D. Property and Equipment

(in thousands of Canadian dollars)	Land & Buildings (1)	Furniture & Equipment(2)	Right-of-Use Assets (3)	Property Under Construction(4)	Total
<b>Cost</b>					
Balance at March 1, 2019	105,769	26,316	10,393	392	142,870
IFRS 16 transition adjustment	-	-	1,229	-	1,229
Additions	-	304	1,180	1,089	2,573
Disposals	-	(2,176)	-	-	(2,176)
Transfer from property under construction	68	354	-	(422)	-
Allocation adjustment*	237	3	22	48	310
Balance at March 31, 2020	106,074	24,801	12,824	1,107	144,806
Transfer from investment property	31,681	-	-	-	31,681
Additions	-	247	-	1,293	1,540
Disposals	-	(754)	-	-	(754)
Transfer from property under construction	848	554	-	(1,402)	-
Allocation adjustment*	(271)	93	(33)	(15)	(226)
<b>Balance at March 31, 2021</b>	<b>138,332</b>	<b>24,941</b>	<b>12,791</b>	<b>983</b>	<b>177,047</b>
<b>Accumulated Depreciation</b>					
Balance at March 1, 2019	30,125	21,446	2,316	-	53,887
Disposals	-	(2,151)	-	-	(2,151)
Depreciation	2,497	1,600	448	-	4,545
Allocation adjustment*	93	(43)	10	-	60
Balance at March 31, 2020	32,715	20,852	2,774	-	56,341
Transfer from investment property	7,018	-	-	-	7,018
Disposals	-	(859)	-	-	(859)
Depreciation	2,309	1,418	410	-	4,137
Allocation adjustment*	(47)	195	-	-	148
<b>Balance at March 31, 2021</b>	<b>41,995</b>	<b>21,606</b>	<b>3,184</b>	<b>-</b>	<b>66,785</b>
<b>Carrying Amounts</b>					
At March 31, 2020	73,359	3,949	10,050	1,107	88,465
<b>At March 31, 2021</b>	<b>96,337</b>	<b>3,335</b>	<b>9,607</b>	<b>983</b>	<b>110,262</b>

1. Includes land, land improvements, leasehold improvements, buildings and building components: elevators, escalators, HVAC systems, roofing systems. 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.

2. Includes furniture, equipment, computer equipment, vehicles and demountable wall systems.

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3. Includes right-of-use assets land and buildings accounted for under IFRS 16 Leases. Refer to Note 12 for the corresponding lease obligations. The below right-of-use assets are included in the property and equipment table above, totaling the “Right-of-Use Assets” column (1284 Main Street—Building portion; 1284 Main Street—Land portion; Brandon—Royal Canadian Legion Branch #3 Building):

Right-Of-Use Assets (in thousands of Canadian dollars)	1284 Main Street Building	1284 Main Street Land	Brandon-Royal Canadian Legion #3	Total
Balance at March 1, 2019	12,824	-	-	12,824
IFRS 16 transition adjustment	-	1,209	20	1,229
Allocation adjustment*	22	2	-	24
Balance at March 31, 2020	12,846	1,211	20	14,077
Allocation adjustment*	(1,281)	(5)	-	(1,286)
<b>Balance at March 31, 2021</b>	<b>11,565</b>	<b>1,206</b>	<b>20</b>	<b>12,791</b>

4. Includes renovations to service centres roof, lighting and security systems.

\* In accordance with approved allocation formulas, items included in the Statement of Operations and Comprehensive Income are allocated to the Basic Insurance line of business utilizing monthly allocation percentages and the ending asset balances are allocated at the end of the fiscal year. The allocation variance is the amounts required to adjust monthly allocations to the annual balances.

## E. Deferred Development Costs

(in thousands of Canadian dollars)	Internally Developed Intangible Assets
<b>Cost</b>	
Balance at March 1, 2019	171,087
Additions	6,365
Impairments	(1,380)
Balance at March 31, 2020	176,072
Additions	12,290
Impairments	(743)
Allocation adjustment*	888
<b>Balance at March 31, 2021</b>	<b>188,507</b>
<b>Accumulated Depreciation</b>	
Balance at March 1, 2019	125,161
Amortization	15,937
Allocation adjustment*	10
<b>Balance at March 31, 2020</b>	<b>141,108</b>
Amortization	14,774
Allocation adjustment*	583
<b>Balance at March 31, 2021</b>	<b>156,465</b>
<b>Carrying Amounts</b>	
At March 31, 2020	34,964
<b>At March 31, 2021</b>	<b>32,042</b>

Deferred development costs of \$5.8 million (March 31, 2020—\$1.7 million) have not yet been put into use and are currently not being amortized. Impairments of \$0.7 million (March 31, 2020—\$1.4 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.

\* In accordance with approved allocation formulas, items included in the Statement of Operations and Comprehensive Income are allocated to the Basic Insurance line of business utilizing monthly allocation percentages and the ending asset balances are allocated at the end of the fiscal year. The allocation variance is the amounts required to adjust monthly allocations to the annual balances.

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## F. Unearned Premiums and Fees

(in thousands of Canadian dollars)	March 31, 2021		
	Gross	Reinsurers' Share	Net
Unearned premiums			
Balance at April 1	547,586	-	547,586
Premiums written	1,158,693	13,761	1,144,932
Premiums earned	(1,134,230)	(13,761)	(1,120,469)
<b>Balance at March 31</b>	<b>572,049</b>	<b>-</b>	<b>572,049</b>
Prepaid premiums	16,464	-	16,464
Unearned fees	4,426	-	4,426
<b>Balance at March 31</b>	<b>592,939</b>	<b>-</b>	<b>592,939</b>

  

(in thousands of Canadian dollars)	March 31, 2020		
	Gross	Reinsurers' Share	Net
Unearned premiums			
Balance at March 1	499,704	-	499,704
Premiums written	1,239,263	15,441	1,223,822
Premiums earned	(1,191,381)	(15,441)	(1,175,940)
<b>Balance at March 31</b>	<b>547,586</b>	<b>-</b>	<b>547,586</b>
Prepaid premiums	16,528	-	16,528
Unearned fees	5,592	-	5,592
<b>Balance at March 31</b>	<b>569,706</b>	<b>-</b>	<b>569,706</b>

## G. 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 full actuarial valuation was conducted by an external actuary as at December 31, 2020, with the next scheduled actuarial valuation being December 31, 2021. Additionally the Corporation had the external actuary revalue the benefit plans at the Corporation fiscal year end of March 31, 2021.

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 17.0 years (March 31, 2020—17.3 years). Results from the most recent actuarial valuations, projected to March 31, 2021, and the corresponding economic assumptions are as follows:

### Assumptions:

	Pension Benefit Plan		Other Benefit Plans	
	March 31, 2021	March 31, 2020	March 31, 2021	March 31, 2020
Discount rate on plan obligation	3.34%	3.98%	3.34%	3.98%
Discount rate on benefit costs	3.98%	3.69%	3.98%	3.69%
Inflation rate	1.20%	1.80%	N/A	N/A
Expected salary increase	0.00%	0.00%	N/A	N/A
Expected health care cost increase (out of scope)	N/A	N/A	4.80%	4.70%
Expected health care cost increase (in scope)	N/A	N/A	1.20%	1.80%

## Notes to Basic Financial Statements – March 31, 2021 – All notes are unaudited.

## Change in benefit obligations:

(in thousands of Canadian dollars)	Pension Benefit Plan		Other Benefit Plans	
	March 31, 2021	March 31, 2020	March 31, 2021	March 31, 2020
Balance at beginning of period	296,074	299,179	40,233	42,867
Current service cost	12,999	11,681	4,252	2,330
Interest cost	11,249	11,050	1,164	1,074
Benefits paid	(12,765)	(13,278)	(1,887)	(2,537)
Remeasurement (gains)/losses recognized in other comprehensive income	35,254	(13,198)	(865)	(3,625)
Allocation adjustment*	122	640	16	124
<b>Balance at March 31</b>	<b>342,933</b>	<b>296,074</b>	<b>42,913</b>	<b>40,233</b>
Employee contribution for the period	7,942	7,567	-	-

## Funding

The Employee Future Benefits (EFB) investment portfolio is a separate investment portfolio established to support the liabilities for Pension, Employee Post Retirement Benefits and Severance. The EFB portfolio has a unique asset allocation strategy in order to meet its objective of ensuring pension and other future employee benefit obligations are paid as they become due. When the portfolio requires funding to match an increase in the employee future benefit liabilities, it is funded by all lines of business.

The carrying value of the assets in the EFB investment portfolio as at March 31, 2021, and March 31, 2020, are as follows:

## Employee Future Benefits Investment Portfolio

	March 31, 2021		March 31, 2020	
	Carrying Value (in thousands of Canadian dollars)	Percentage of Portfolio	Carrying Value (in thousands of Canadian dollars)	Percentage of Portfolio
Cash & cash equivalents	2,126	0.6%	462	0.1%
Bonds	70,987	18.6%	62,962	18.4%
Private debt	64,981	17.0%	59,475	17.3%
Equity investment	143,212	37.5%	106,919	31.1%
Pooled real-estate fund	56,313	14.7%	57,041	16.6%
Infrastructure	44,394	11.6%	56,665	16.5%
<b>Total</b>	<b>382,013</b>	<b>100.0%</b>	<b>343,524</b>	<b>100.0%</b>

The Corporation contributes the employer share of the cost of employee future benefits to the Civil Service Superannuation Fund (CSSF) on a pay-as-you-go method of funding. The interest cost associated with the various benefit plans is based on market interest rates at the most recent valuation date.

## Benefit Plan Expenses

(in thousands of Canadian dollars)	Pension Benefit Plan		Other Benefit Plans	
	March 31, 2021	March 31, 2020	March 31, 2021	March 31, 2020
Current service cost	17,334	15,583	5,670	3,109
Interest cost	15,001	14,742	1,552	1,433
<b>Total</b>	<b>32,335</b>	<b>30,325</b>	<b>7,222</b>	<b>4,542</b>

## Sensitivity Analysis

Based on the December 31, 2020, actuarial valuation, changes to the actuarial assumptions would change the benefit obligation as follows:

## Pension Benefit Plan

Gain due to discount rate increasing from 3.34% to 3.84% (plus .50%)	(38,761)
Loss due to discount rate decreasing from 3.34% to 2.84% (minus .50%)	44,498
Loss due to mortality life expectancy at age 65 up one year	13,870
Loss due to inflation indexing (2/3rd COLA) increasing 0.25%	14,573
Gain due to inflation indexing (2/3rd COLA) decreasing from 0.25%	(13,378)

## Notes to Basic Financial Statements – March 31, 2021 – All notes are unaudited.

*Other Benefit Plans*

Gain due to discount rate increasing from 3.34% to 3.84% (plus .50%)	(526)
Loss due to discount rate decreasing from 3.34% to 2.84% (minus .50%)	607
Loss due to mortality life expectancy at age 65 up one year	92
Loss due to health care cost inflation indexing increasing 0.25%	295
Gain due to health care cost inflation indexing decreasing 0.25%	(276)

*Out-of-Scope Retirement Benefits*

Gain due to discount rate increasing from 3.34% to 3.84% (plus .50%)	(2,271)
Loss due to discount rate decreasing from 3.34% to 2.84% (minus .50%)	2,631
Loss due to mortality life expectancy at age 65 up one year	616
Loss due to health care cost inflation indexing increasing 0.25%	1,243
Gain due to health care cost inflation indexing decreasing 0.25%	(1,162)

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	13,361	14,756	52,636	719,144	799,897
Other benefit plans	610	671	2,381	52,032	55,694
<b>At March 31, 2021</b>	<b>13,971</b>	<b>15,427</b>	<b>55,017</b>	<b>771,176</b>	<b>855,591</b>

(in thousands of Canadian dollars)	Less than a year	Between 1 & 2 years	Between 2 & 5 years	Over 5 years	Total
Pension benefit plan	13,270	14,542	51,257	705,955	785,024
Other benefit plans	629	698	2,508	54,723	58,558
<b>At December 31, 2019</b>	<b>13,899</b>	<b>15,240</b>	<b>53,765</b>	<b>760,678</b>	<b>843,582</b>

## H. Insurance Contracts

The following is a summary of the insurance contract provisions and related reinsurance assets as at March 31, 2021, and March 31, 2020.

(in thousands of Canadian dollars)	March 31, 2021		Net
	Gross	Reinsurance Ceded	
<b>Insurance Contract Provisions</b>			
Outstanding case reserves	1,339,234	2,879	1,336,355
Provision for incurred but not reported claims	405,190	(803)	405,993
Provision for internal loss adjusting expenses	198,252	-	198,252
Effect of discounting	(153,565)	(20)	(153,545)
Provision for adverse deviation	256,886	116	256,770
Premium deficiency	-	-	-
Provision for unpaid claims	2,045,997	2,172	2,043,825
Provision for unearned premiums (Note f)	572,049	-	572,049
<b>Total insurance contract provisions</b>	<b>2,618,046</b>	<b>2,172</b>	<b>2,615,874</b>

(in thousands of Canadian dollars)	March 31, 2020		Net
	Gross	Reinsurance Ceded	
<b>Insurance Contract Provisions</b>			
Outstanding case reserves	1,350,196	3,912	1,346,284
Provision for incurred but not reported claims	418,913	983	417,930
Provision for internal loss adjusting expenses	198,099	-	198,099
Effect of discounting	(189,014)	(87)	(188,927)
Provision for adverse deviation	253,142	264	252,878
Provision for unpaid claims	2,031,336	5,072	2,026,264
Provision for unearned premiums (Note f)	547,586	-	547,586
<b>Total insurance contract provisions</b>	<b>2,578,922</b>	<b>5,072</b>	<b>2,573,850</b>

Notes to Basic Financial Statements – March 31, 2021 – All notes are unaudited.

## I. 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. All historical accident years are restated as period from April 1 to March 31 of the subsequent year to reflect the new fiscal 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.

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**Notes to Basic Financial Statements – March 31, 2021 – All notes are unaudited.**

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 Corporation uses separate investment portfolios to support the claim liabilities by lines of business. For Basic, between the March 31, 2020, valuation and the March 31, 2021, valuation, the discount rate, determined based on the market value weighted yield for the investment portfolio, decreased by 21 basis points from 3.09 per cent to 2.88 per cent. The decrease in the discount rate increased the discounted net claim liability by \$40.0 million and ILAE provision by \$4.2 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 \$14.9 million and an increase in the ILAE provision of \$2.8 million.

*Change in the Weight Allocation for the Bornheutter-Ferguson Method*

The weight allocations in the Bornheutter-Ferguson method were changed to give more weight to recent years to recognize lower frequency and COVID-19 impact. This change decreased the discounted net claim liabilities by \$41.3 million and decreased the ILAE provision by \$7.7 million.

*Change in ABO-Non-Indexed 2015 and 2016 IBNR Selection Method*

The ABO-Non-Indexed IBNR selection method was changed from Nil due to adequate case reserves to the Bornheutter-Ferguson Incurred method. There were consistent redundancies caused by a backlog in processing payments and reserves for permanent impairment. That has been rectified and the redundancies have declined to almost nothing. This change increased the discounted net claim liabilities by \$1.6 million and increased the ILAE provision by \$0.3 million.

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

Balance at March 31, 2021 (in thousands of Canadian dollars)	Gross	Reinsurance Ceded	Net
Automobile Insurance Division			
Liability	1,930,642	1,540	1,929,102
Physical damage	115,355	632	114,723
<b>Total</b>	<b>2,045,997</b>	<b>2,172</b>	<b>2,043,825</b>

Balance at March 31, 2020 (in thousands of Canadian dollars)	Gross	Reinsurance Ceded	Net
Automobile Insurance Division			
Liability	1,878,264	1,871	1,876,393
Physical damage	153,072	3,201	149,871
<b>Total</b>	<b>2,031,336</b>	<b>5,072</b>	<b>2,026,264</b>

Notes to Basic Financial Statements – March 31, 2021 – All notes are unaudited.

**Changes in Unpaid Claims and ILAE Provision****Gross**

(in thousands of Canadian dollars)	March 31, 2021	March 31, 2020
Discounted unpaid claims at beginning of period	1,833,237	1,789,337
Effect of discounting and Provision for Adverse Deviation	(64,128)	(26,979)
Undiscounted unpaid claims at beginning of period	1,769,109	1,762,358
Ultimate claims for current accident year	596,016	793,226
Payment on current accident year claims	(378,636)	(496,827)
Change in ultimate claims from prior accident years	(1,022)	(2,300)
Payments on prior accident year claims	(241,043)	(287,348)
Undiscounted unpaid claims at the period end date	1,744,424	1,769,109
Effect of discounting and Provision for Adverse Deviation	103,321	64,128
Discounted unpaid claims at the period end date	1,847,745	1,833,237
ILAE provision	198,252	198,099
<b>Total unpaid claims provision</b>	<b>2,045,997</b>	<b>2,031,336</b>

**Reinsurance Ceded**

(in thousands of Canadian dollars)	March 31, 2021	March 31, 2020
Discounted unpaid claims at beginning of period	5,072	8,463
Effect of discounting and provision for adverse deviation	(177)	(270)
Undiscounted unpaid claims at beginning of period	4,895	8,193
Change in ultimate claims from prior accident years	1,664	1,185
Payments on prior accident year claims	(4,483)	(4,483)
Undiscounted unpaid claims at the period end date	2,076	4,895
Effect of discounting and provision for adverse deviation	96	177
Discounted unpaid claims at the period end date	2,172	5,072
<b>Total unpaid claims provision</b>	<b>2,172</b>	<b>5,072</b>

**Net of Reinsurance Ceded**

(in thousands of Canadian dollars)	March 31, 2021	March 31, 2020
Discounted unpaid claims at beginning of period	1,828,165	1,780,874
Effect of discounting and provision for adverse deviation	(63,951)	(26,709)
Undiscounted unpaid claims at beginning of period	1,764,214	1,754,165
Ultimate claims for current accident year	596,016	793,226
Payment on current accident year claims	(378,636)	(496,827)
Change in ultimate claims from prior accident years	(2,686)	(3,485)
Payments on prior accident year claims	(236,560)	(282,865)
Undiscounted unpaid claims at the period end date	1,742,348	1,764,214
Effect of discounting and provision for adverse deviation	103,225	63,951
Discounted unpaid claims at the period end date	1,845,573	1,828,165
ILAE provision	198,252	198,099
<b>Total unpaid claims provision</b>	<b>2,043,825</b>	<b>2,026,264</b>

According to accepted actuarial practice, the discounted net claim liabilities include a provision for adverse deviation (PfAD) of \$256.8 million (March 31, 2020—\$252.9 million). This provision is comprised of a claims development PfAD of \$174.0 million (March 31, 2020—\$172.8 million), an interest rate PfAD of \$82.7 million (March 31, 2020—\$79.9 million), and a reinsurance PfAD of \$0.1 million (March 31, 2020—\$0.2 million).

Net claims incurred and adjustment expenses do not include any catastrophes in the current fiscal year (March 31, 2020—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.



## Notes to Basic Financial Statements – March 31, 2021 – All notes are unaudited.

## Development of Ultimate Claims

The following tables show the development of the estimated gross and net provision for unpaid claims for the ten most recent accident years as estimated at each reporting date. The Corporation changed its year end from February 28/29 to March 31, effective March 31, 2020. Current loss estimates (gross and net) are based on the 12-month (April to March) accident year and are shaded. Due to the year-end transition, the March 31, 2020, accident year estimates are for a 13-month period of March 1, 2019, to March 31, 2020, and are in red font. All other accident years are for the 12-month period of March 1 to February 28/29.

## Current Ultimate Loss Estimates

Gross (in thousands of Canadian dollars)	Accident Year										Total	
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021		
Estimate of ultimate claims costs for the most recent ten years:												
At end of accident year	530,058	565,938	634,333	589,243	681,244	725,741	724,819	774,260	793,226	596,016		
One year later	535,899	593,100	638,464	598,444	693,483	747,403	734,346	776,904	728,120			
Two years later	552,896	599,571	646,880	606,559	710,476	764,130	741,779	766,680				
Three years later	547,124	593,288	654,820	589,796	708,334	766,294	736,231					
Four years later	557,045	600,882	640,172	591,707	708,060	768,016						
Five years later	563,151	621,488	637,770	591,037	710,954							
Six years later	569,366	620,031	629,401	587,764								
Seven years later	574,511	611,420	630,424									
Eight years later	573,909	612,397										
Nine years later	578,783											
Current estimate of cumulative claims cost	578,783	612,397	630,424	587,764	710,954	768,016	736,231	766,680	728,120	596,016	6,715,385	
Cumulative payments to date	506,298	551,827	579,317	527,152	629,980	662,130	629,973	638,043	577,421	378,636	5,680,777	
Effect of discounting and PfAD on above	4,519	3,511	2,895	3,277	4,523	6,150	5,946	7,116	12,141	16,178	66,256	
Discounted gross unpaid claims in respect of years prior to 2012												746,881
ILAE provision												198,252
Total gross unpaid claims												2,045,997
Current estimate of surplus (deficiency)	(48,725)	(46,459)	3,909	1,479	(29,710)	(42,275)	(11,412)	7,580	65,106	-		
Percentage surplus (deficiency) of initial gross reserve	(9.2%)	(8.2%)	0.6%	0.3%	(4.4%)	(5.8%)	(1.6%)	1.0%	8.2%	0.0%		

## Notes to Basic Financial Statements – March 31, 2021 – All notes are unaudited.

Net of Reinsurance Ceded (in thousands of Canadian dollars)	Accident Year										Total
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
Estimate of ultimate claims costs for the most recent ten years:											
At end of accident year	530,059	565,938	634,333	589,242	681,244	725,741	724,819	759,270	793,226	596,016	
One year later	535,899	593,101	638,203	598,444	693,483	747,403	734,346	761,388	728,120		
Two years later	552,897	599,571	646,435	606,559	710,476	764,129	741,779	752,493			
Three years later	547,124	593,287	654,397	589,796	708,333	766,293	736,232				
Four years later	556,532	600,882	639,793	591,707	708,060	768,016					
Five years later	562,623	621,488	637,348	591,036	710,954						
Six years later	568,847	620,031	628,949	587,764							
Seven years later	574,321	611,421	629,957								
Eight years later	573,720	612,397									
Nine years later	578,261										
Current estimate of cumulative claims cost	578,261	612,397	629,957	587,764	710,954	768,016	736,232	752,493	728,120	596,016	6,700,210
Cumulative payments to date	506,108	551,827	579,123	527,152	629,980	662,130	629,973	624,475	577,421	378,636	5,666,826
Effect of discounting and PfAD on above	4,496	3,511	2,878	3,277	4,523	6,150	5,946	7,102	12,141	16,178	66,202
Discounted net unpaid claims in respect of years prior to 2012											745,986
ILAE provision											198,252
Total net unpaid claims											2,043,825
Current estimate of surplus (deficiency)	(48,202)	(46,458)	4,376	1,478	(29,710)	(42,276)	(11,413)	6,777	65,106	-	
Percentage surplus (deficiency) of initial net reserve	(9.1%)	(8.2%)	0.7%	0.3%	(4.4%)	(5.8%)	(1.6%)	0.9%	8.2%	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 \$72.1 million (March 31, 2020—\$70.2 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. In the March 31, 2020 report, it was assumed that the real liability discount rate would be capped at a minimum of 0.0 per cent. However, this constraint has been removed in the current year's analysis as the capping of the liability discount rate at 0.0 per cent reduces the effectiveness of the Corporation's asset-liability management strategy.

Approximately 75 per cent of the fixed income portfolio is composed of marketable bonds. 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 \$183.2 million (March 31, 2020—\$174.3 million; \$129.9 million with the cap on the discount rate), while a 1.00 per cent decrease in the claim liabilities discount rate would increase claim liabilities by approximately \$231.9 million (March 31, 2020—\$223.8 million; \$135.2 million with the cap on the discount rate). The above interest rate impacts would be largely offset by gains/losses on the Corporation's fixed income portfolio as described in the Interest Rate Risk section of Note L.

Notes to Basic Financial Statements – March 31, 2021 – All notes are unaudited.

## J. Capital Management

This note is an exact replication of the Corporate Note 20.

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 (loss) 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.

The capital backing Basic is comprised of the total equity position of the line of business, referred to as the Rate Stabilization Reserve (RSR). The purpose of the RSR 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.

Reserves Regulation 76/2019, of *The Manitoba Public Insurance Corporation Act* sets out the Corporation's capital targets expressed as a MCT percentage by line of business as follows:

- Basic 100 per cent
- Extension 200 per cent
- SRE 300 per cent

In Order No. 176/19, the Public Utilities Board approved the Corporation's Capital Management Plan, including the 100 per cent MCT Basic target capital level for the next two subsequent insurance years. The Capital Management Plan determines the mechanism for building and releasing capital within the Basic line of business as well as the capital transfer protocols between lines of business.

Use of the MCT framework aligns with industry best practice and allows for comparisons to the private insurance market. The 100 per cent MCT target for Basic reflects the lower risk level of the Basic monopoly insurance program while the 200 per cent MCT target for Extension reflects the higher risks of operating in a competitive environment. SRE's 300 per cent MCT target reflects the higher risk exposure of commercial trucking fleets operating out-of-province.

As at March 31, 2021, Basic's MCT was 100 per cent (March 31, 2020—104 per cent), Extension's MCT was 196 per cent (March 31, 2020—317 per cent), and SRE's MCT was 288 per cent (March 31, 2020—241 per cent)

The Corporation's Chief Actuary has prepared a Financial Condition 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 March 31, 2021, based on the assessment of the Chief Actuary.

The below chart depicts the components of retained earnings.

	Basic Retained Earnings	Non-Basic Retained Earnings	Total Retained Earnings
Balance as at March 1, 2019	309,812	201,941	511,753
Net income from operations for the period	130,710	49,449	180,159
Balance as at March 31, 2020	440,522	251,390	691,912
Net income from operations after surplus distribution for the year	8,156	19,216	27,372
<b>Balance as at March 31, 2021</b>	<b>448,678</b>	<b>270,606</b>	<b>719,284</b>

Notes to Basic Financial Statements – March 31, 2021 – All notes are unaudited.

## K. Accumulated Other Comprehensive Income (Loss)

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	Employee Future Benefits	Other Investments	Total AOCI
Balance as at March 1, 2019	(2,765)	(49,859)	(7,496)	(60,120)
Items that will not be reclassified to income				
Remeasurement of employee future benefits	-	16,823	-	16,823
Items that will be reclassified to income				
Unrealized losses on AFS assets	(23,593)	-	(10,112)	(33,705)
Reclassification of net realized losses related to AFS assets	23,839	-	8,913	32,752
Allocation adjustment**^	1,889	(306)	8,372	9,955
Balance as at March 31, 2020	(630)	(33,342)	(323)	(34,295)
Items that will not be reclassified to income				
Remeasurement of employee future benefits	-	(34,389)	-	(34,389)
Items that will be reclassified to income				
Unrealized gains on AFS assets	71,548	-	1,821	73,369
Reclassification of net realized gains related to AFS assets	(9,151)	-	(10,141)	(19,292)
Allocation adjustment*	23	(14)	(103)	(94)
<b>Balance as at March 31, 2021</b>	<b>61,790</b>	<b>(67,745)</b>	<b>(8,746)</b>	<b>(14,701)</b>

\* In accordance with approved allocation formulas, items included in the Statement of Operations and Comprehensive Income are allocated to the Basic Insurance line of business utilizing monthly allocation percentages and the ending asset balances are allocated at the end of the fiscal year. The allocation variance is the amounts required to adjust monthly allocations to the annual balances.

^ A portion of the allocation adjustment is due to the changes resulting from the work completed in a recent asset-liability study. As a result, a number of significant changes were implemented, which better align portfolio objectives with the underlying characteristics of the liabilities which the portfolios support. The previously co-mingled portfolio has been segregated into five new portfolios to uniquely match the various lines of business and employee future benefits obligations. The result of the new portfolio construction and target asset allocations is a tighter matching of assets to liabilities and a reduction in overall risk which supports the Corporation's objective of managing volatility and delivering rate stability.

## L. 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.

## Notes to Basic Financial Statements – March 31, 2021 – All notes are unaudited.

**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 March 31, 2021, total foreign denominated financial instruments was approximately 3.7 per cent (March 31, 2020—1.3 per cent) of the Corporation's investment portfolio and had carrying values noted below.

March 31, 2021	March 31, 2021	March 31, 2020	March 31, 2020
\$77.4 million USD	\$97.4 million CAD	\$10.1 million USD	\$14.3 million CAD
£6.5 million GBP	\$11.3 million CAD	£6.1 million GBP	\$10.8 million CAD
		\$9.6 million NZD	\$8.1 million CAD

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 March 31, 2021, the fair value of the swap was \$14.5 million (March 31, 2020—\$14.6 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.

	Average Effective Rate—%	
	2021	2020
Federal	1.66	2.48
Provincial	2.03	2.11
Municipal	2.61	2.69
Schools	4.44	4.49
Corporations	2.31	2.71

The Corporation monitors interest rate risk by calculating the duration of the fixed income portfolio and the duration of unpaid claims and employee future benefit 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 March 31, 2021, the Corporation's Basic claims duration gap was 0.2 years (March 31, 2020—0.9 years). The Corporation does not specifically match employee future benefit obligations with fixed income but rather a balanced asset allocation approach.

The approximate impact of an increase of 100 basis points in interest rates as at March 31, 2021, would decrease the net income of Basic by \$13.9 million (March 31, 2020—\$18.5 million decrease) and increase the OCI of Basic by \$33.3 million (March 31, 2020—\$46.9 million increase). The approximate impact of a decrease of 100 basis points in interest rates as at March 31, 2021, would decrease the net income of Basic by \$17.6 million (March 31, 2020—\$28.6 million increase) and decrease OCI of Basic by \$40.4 million (March 31, 2020—\$54.6 million decrease).

**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 March 31, 2021, a 10.0 per cent change in the fair value of the Corporation's equity portfolio would result in a \$33.8 million (March 31, 2020—\$24.2 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. The Corporation has policies in place to limit and monitor its exposure to individual issuers and classes of issuers of equity securities.

## Notes to Basic Financial Statements – March 31, 2021 – All notes are unaudited.

**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)	March 31, 2021	March 31, 2020
Cash and cash equivalents	138,600	186,635
Bonds	2,341,215	2,197,470
Private debt	115,070	79,688
Due from other insurance companies	109	381
Accounts receivable	403,232	406,261
Reinsurance receivable	1,782	4,409
<b>Maximum credit risk exposure on the Statement of Financial Position</b>	<b>3,000,008</b>	<b>2,874,844</b>

**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 the period end date. 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.

	March 31, 2021		March 31, 2020	
	Carrying Value (in thousands of Canadian dollars)	Percentage of Portfolio	Carrying Value (in thousands of Canadian dollars)	Percentage of Portfolio
Aaa	234,013	9.5%	209,193	9.2%
Aa	1,345,051	54.8%	1,341,319	58.9%
A	339,795	13.8%	326,661	14.4%
Baa	285,718	11.6%	219,618	9.6%
Ba	11,778	0.5%	1,699	0.00
Not Rated	239,930	9.8%	178,668	0.08
<b>Total</b>	<b>2,456,285</b>	<b>100.0%</b>	<b>2,277,158</b>	<b>100.0%</b>

**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)	March 31, 2021	March 31, 2020
Policy and time payments	339,170	330,452
Accrued interest	20,011	25,300
Subrogation and other receivables	76,276	76,598
Allowance for doubtful accounts	(32,225)	(26,089)
<b>At period end</b>	<b>403,232</b>	<b>406,261</b>

Details of the allowance for doubtful accounts are as follows:

(in thousands of Canadian dollars)	March 31, 2021	March 31, 2020
Balance at beginning of period	26,089	19,227
Accounts written off	(2,828)	(649)
Current period provision	8,964	7,511
<b>Balance at March 31</b>	<b>32,225</b>	<b>26,089</b>

**Notes to Basic Financial Statements – March 31, 2021 – All notes are unaudited.****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 \$0.4 million outstanding as of March 31, 2021 (March 31, 2020—\$0.7 million).

Furthermore, a corporate guideline requiring reinsurers to have a minimum credit rating of A- from A.M. Best and BBB+ credit rating from S&P Global Ratings is in place.

For the 2020/21 fiscal year, eleven reinsurers share the Corporation's casualty reinsurance coverage, ranging from 5.0 per cent to 31.5 per cent on any one layer. The reinsurer exposed to 31.5 per cent of the losses is licensed in Canada by OSFI and, therefore, subject to minimum capital requirements.

For the 2020/21 fiscal year, nineteen reinsurers share the Corporation's catastrophe reinsurance coverage, none holding more than 29.25 per cent of the reinsurance exposure on any one layer.

No material amount due from reinsurers was considered uncollectible during 2020/21 and no allowance for doubtful accounts has been established as at March 31, 2021.

**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 \$127.7 million (March 31, 2020—\$128.0 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**

(in thousands of Canadian dollars)	March 31, 2021			Total
	Within One Year	One Year to Five Years	After Five Years	
Federal	20,107	-	29,755	49,862
Manitoba				
Provincial	-	-	134,059	134,059
Municipal	247	5,975	69,161	75,383
Schools	2,514	66,389	384,401	453,304
Other Provinces				
Provincial	-	339,465	598,840	938,305
Municipal	19,038	5,263	49,077	73,378
Corporations	-	44,892	572,032	616,924
<b>Total</b>	<b>41,906</b>	<b>461,984</b>	<b>1,837,325</b>	<b>2,341,215</b>

## Notes to Basic Financial Statements – March 31, 2021 – All notes are unaudited.

(in thousands of Canadian dollars)	Within One Year	March 31, 2020		Total
		One Year to Five Years	After Five Years	
Federal	-	-	32,908	32,908
Manitoba				
Provincial	-	-	129,033	129,033
Municipal	96	2,553	53,574	56,223
Schools	2,164	37,351	457,947	497,462
Other Provinces				
Provincial	21,295	197,043	710,643	928,981
Municipal	-	24,790	49,430	74,220
Corporations	98,980	7,948	371,715	478,643
<b>Total</b>	<b>122,535</b>	<b>269,685</b>	<b>1,805,250</b>	<b>2,197,470</b>

## Liability Liquidity

(in thousands of Canadian dollars)	Within One Year	March 31, 2021		Total
		One Year to Five Years	After Five Years	
<b>Provision for unpaid claims</b>				
<b>Cash Flows—undiscounted basis</b>	<b>268,998</b>	<b>346,498</b>	<b>1,303,256</b>	<b>1,918,752</b>

(in thousands of Canadian dollars)	Within One Year	March 31, 2020		Total
		One Year to Five Years	After Five Years	
Provision for unpaid claims				
Cash Flows—undiscounted basis	304,412	351,008	1,290,192	1,945,612