

November 3, 2022

Undertaking #42

MPI to provide two (2) alternative scenarios of PF's 1 through 3, under IFRS 1, reflecting MPI's current positions and the impact of those positions on the writing off of premium acquisition expenses, the marking to market of MUSH bonds, under IFRS 9, the risk adjustment selection under IFRS 17 and the interest rate provision for the calculation of the interest rate for the provision of adverse deviation based on the assumptions in Pre-Ask 1 and Pre-Ask 2.

RESPONSE:

The response to this question includes most (but not all) of MPI's current best estimate of one-time impacts related to IFRS. These impacts are expected to occur commencing the 2023/24 fiscal year. The IFRS analysis provided does not include the impacts related to the change in claims discount rate methodology and reflects changes in retained earnings only. Net income losses from Pfad adjustments are not included in this analysis.

Please refer to Appendix 1 and Appendix 2 which are alternate scenarios of Pre-Ask 1 and Pre-Ask 2 with IFRS adjustments to 2023/24 fiscal year. The IFRS adjustments have also been itemized below:

Full write-down of Deferred Policy Acquisition Expenses (Basic)	(\$37.1 million)
Revaluation of MUSH bonds to Fair Value through Profit and Loss (Basic)	(\$8.5 million)
Removal of Provision for Adverse Deviation of interest rates (Basic)	\$75.0 million
Increase in Risk Adjustment (Basic)	(\$10.6 million)
Estimated Impact on Retained Earnings - Basic	\$18.8 million

The above IFRS adjustments are point in time estimates. The MUSH bond valuation date is August 31, 2022. The DPAC assets are written down effective September 30, 2022. The risk adjustment and interest rate Pfad are calculated effective March 31, 2022. These values could change considerably upon implementation in 2023/24.

PF-1 Statement of Operations: -0.3% Basic Rate Change

Multi-year - Statement of Operations

Line No.	2023/24 Basic AAP Break even rate change of -0.3% with 2023/24 Rebate and IFRS adjustment (C\$ 000s, rounding may affect totals)	For the Years Ended March 31,					
		2022A	2023FB	2024F	2025F	2026F	2027F
1							
2	BASIC	2021/22A	2022/23FB	2023/24F	2024/25F	2025/26F	2026/27F
3	Motor Vehicles	1,092,643	1,116,144	1,153,724	1,194,462	1,237,318	1,281,676
4	Capital Release Provision	(73,275)	(57,857)	-	-	-	-
5	Drivers	61,511	59,444	63,390	65,996	68,165	70,094
6	Reinsurance Ceded	(15,659)	(16,386)	(16,843)	(17,348)	(17,868)	(18,404)
7	Total Net Premiums Written	1,065,220	1,101,345	1,200,271	1,243,110	1,287,615	1,333,366
8	Net Premiums Earned						
9	Motor Vehicles	1,094,496	1,105,705	1,135,264	1,174,451	1,216,266	1,259,887
10	Capital Release Provision	(36,176)	(66,536)	(28,420)	-	-	-
11	Drivers	63,747	60,389	61,452	64,716	67,100	69,147
12	Reinsurance Ceded	(15,659)	(16,363)	(16,843)	(17,348)	(17,868)	(18,404)
13	Total Net Premiums Earned	1,106,408	1,083,195	1,151,453	1,221,819	1,265,498	1,310,630
14	Service Fees & Other Revenues	24,652	28,073	27,841	27,285	28,488	28,569
15	Total Earned Revenues	1,131,060	1,111,268	1,179,294	1,249,104	1,293,986	1,339,199
16	Claims Incurred	838,574	923,837	938,522	987,381	1,035,893	1,084,514
17	DPAC \ Premium Deficiency Adjustment	-	-	-	-	-	-
18	(a) Claims Incurred - Interest Rate Impact	(132,765)	(134,263)	122	(1,215)	(2,880)	1,428
19	Total Claims Incurred	705,809	789,574	938,644	986,166	1,033,013	1,085,942
20	Claims Expense	146,277	151,542	157,376	158,005	156,360	153,311
21	Road Safety/Loss Prevention	10,337	12,469	14,975	14,054	14,403	14,813
22	Total Claims Costs	862,423	953,585	1,110,995	1,158,225	1,203,776	1,254,066
23	Expenses						
24	Operating	75,945	89,578	107,488	108,141	107,803	106,209
25	Commissions	44,925	47,913	51,740	58,503	58,310	57,346
26	Premium Taxes	28,966	32,988	32,698	37,177	38,503	35,685
27	Regulatory/Appeal	4,530	4,618	4,815	4,428	4,508	4,606
28	Total Expenses	154,366	175,097	196,741	208,249	209,124	203,846
29	Underwriting Income (Loss)	114,271	(17,414)	(128,442)	(117,370)	(118,914)	(118,713)
30	Investment Income	79,813	125,669	121,226	117,996	124,860	131,558
31	(b) Investment Income - Interest Rate Impact	(126,997)	(124,386)	(348)	(322)	(303)	(296)
32	Net Investment Income	(47,184)	1,283	120,878	117,674	124,557	131,262
33	Gain (Loss) on Sale of Property	104	-	-	-	-	-
34	Net Income (Loss) from Annual Operations	67,191	(16,131)	(7,564)	304	5,643	12,549
35	Total net Impact due to interest rate change (b) - (a)	5,768	9,877	(470)	893	2,577	(1,724)

PF-2 Statement of Financial Position: -0.3% Basic Rate Change**Multi-year - Statement of Financial Position**

Line No.		<i>For the Years Ended March 31,</i>					
<i>2023/24 Basic AAP Break even rate change of -0.3% with 2023/24 Rebate and IFRS adjustment</i>		2022A	2023FB	2024F	2025F	2026F	2027F
<i>(C\$ 000s, rounding may affect totals)</i>		2021/22A	2022/23FB	2023/24F	2024/25F	2025/26F	2026/27F
1							
2	BASIC						
3	Assets						
4	Cash and cash equivalents	153,131	205,333	77,283	70,848	61,426	27,350
5	Investments	2,750,044	2,713,812	2,844,076	2,960,700	3,084,238	3,150,775
6	Investment property	5,912	5,735	5,566	5,398	5,230	5,062
7	Due from other insurance companies	14	-	-	-	-	-
8	Accounts receivable	398,612	360,664	393,189	407,073	421,678	436,795
9	Deferred policy acquisition costs	37,672	37,111	-	-	-	-
10	Reinsurers' share of unearned premiums	-	23	23	23	23	23
11	Reinsurers' share of unpaid claims	2,457	-	-	-	-	-
12	Property and equipment	111,880	134,472	143,777	154,630	178,076	179,228
13	Deferred development costs	44,687	45,258	49,415	52,467	52,085	43,686
14	Total Assets	3,504,409	3,502,408	3,513,329	3,651,139	3,802,756	3,842,919
15	Liabilities						
16	Due to other insurance companies	369	325	325	325	325	325
17	Accounts payable and accrued liabilities	60,876	70,072	69,620	72,037	70,982	71,336
18	Financing lease obligation	5,361	5,282	5,159	5,036	4,913	4,791
19	Unearned premiums and fees	548,725	570,352	620,535	643,298	667,001	691,450
20	Provision for employee current benefits	19,281	19,995	20,672	21,349	22,026	22,703
21	Provision for employee future benefits	355,244	301,431	312,762	324,095	335,428	346,761
22	Provision for unpaid claims	2,103,789	2,071,586	2,072,156	2,128,383	2,183,430	2,244,090
23	Total Liabilities	3,093,645	3,039,043	3,101,229	3,194,523	3,284,105	3,381,456
24	Equity						
25	Retained Earnings	359,335	401,390	352,302	395,084	454,479	393,375
26	Accumulated Other Comprehensive Income	51,429	61,976	59,796	61,527	64,166	68,087
27	Total Equity	410,764	463,366	412,098	456,611	518,645	461,462
28	Total Liabilities & Equity	3,504,409	3,502,409	3,513,327	3,651,134	3,802,750	3,842,918

PF-3 Statement of Changes in Equity: -0.3% Basic Rate Change

Multi-year - Statement of Changes in Equity

Line No.	2023/24 Basic AAP Break even rate change of -0.3% with 2023/24 Rebate and IFRS adjustment (C\$ 000s, rounding may affect totals)	For the Years Ended March 31,					
		2022A	2023FB	2024F	2025F	2026F	2027F
1							
2	BASIC						
3	Total Equity						
4	Retained Earnings						
5	Beginning Balance	448,678	359,335	401,390	352,302	395,084	454,479
6	Restatement of MUSH Assets to FVTPL (IFRS 9)			(8,500)			
7	Restatement of Risk Adjustment (IFRS 17)			64,400			
8	Restatement of DPAC (IFRS 17)			(37,111)			
9	Net Income (Loss) from annual operations	67,191	(16,131)	(7,564)	304	5,643	12,549
10	Rebate to Policyholders	(156,534)	-	(78,425)	-	-	(139,571)
11	Transfer from Extension Retained Earnings	-	58,186	18,112	42,478	53,752	65,918
12	Total Retained Earnings	359,335	401,390	352,302	395,084	454,479	393,375
13	Total Accumulated Other Comprehensive Income						
14	Beginning Balance	(14,700)	51,429	61,976	59,667	60,483	61,691
15	Other Comprehensive Income on Available for Sale Assets	25,485	(51,545)	(2,309)	816	1,208	3,411
16	Change in Remeasurement of Employee Future Benefits	40,644	62,092	-	-	-	-
17	Total Accumulated Other Comprehensive Income	51,429	61,976	59,796	61,527	64,166	68,087
18	Total Accumulated Other Comprehensive Income Balance						
19	Employee Future Benefits Portfolio						
20	Available for Sale Assets	44,591	22,983	22,856	23,179	23,935	25,063
21	Employee Future Benefits Liabilities	(26,941)	35,382	35,382	35,382	35,382	35,382
22	Rate Stabilization Reserve Portfolio						
23	Available for Sale Assets	33,778	3,611	1,557	2,966	4,848	7,642
24	Total Accumulated Other Comprehensive Income Balance	51,429	61,976	59,796	61,527	64,166	68,087
25	Total Equity Balance	410,764	463,366	412,098	456,611	518,645	461,462
26	MINIMUM CAPITAL TEST (C\$ 000s)						
27	Total Equity Balance	410,761	463,366	412,098	456,611	518,645	461,462
28	Less: Assets Requiring 100% Capital	44,687	45,258	49,415	52,467	52,085	43,686
29	Capital Available	366,074	418,108	362,683	404,144	466,560	417,776
30	Minimum Capital Required (100% MCT)	384,411	365,811	362,666	383,967	408,235	417,931
31	MCT Ratio % (Line 29) / (Line 30)	95.2%	114.3%	100.0%	105.3%	114.3%	100.0%
32	MCT Ratio % - (Excludes AOCI unrealized gains on EFB Liability)	95.2%	103.8%	89.4%	95.3%	104.9%	90.8%

PF-1 Statement of Operations: -0.3% Basic Rate Change

Multi-year - Statement of Operations

Line No.		2023/24 Basic AAP Break even rate change of -0.3% with -4.96% Capital Release and IFRS adjustments (C\$ 000s, rounding may affect totals)					
		For the Years Ended March 31,					
		2022A	2023FB	2024F	2025F	2026F	2027F
1							
2	BASIC	2021/22A	2022/23FB	2023/24F	2024/25F	2025/26F	2026/27F
3	Motor Vehicles	1,092,643	1,116,144	1,153,725	1,194,462	1,237,318	1,281,676
4	Capital Release Provision	(73,275)	(57,857)	(58,866)	-	-	-
5	Drivers	61,511	59,444	63,390	65,996	68,165	70,094
6	Reinsurance Ceded	(15,659)	(16,386)	(16,843)	(17,348)	(17,868)	(18,404)
7	Total Net Premiums Written	1,065,220	1,101,345	1,141,406	1,243,110	1,287,615	1,333,366
8	Net Premiums Earned						
9	Motor Vehicles	1,094,496	1,105,705	1,135,264	1,174,452	1,216,266	1,259,887
10	Capital Release Provision	(36,176)	(66,536)	(58,370)	(28,916)	-	-
11	Drivers	63,747	60,389	61,452	64,716	67,100	69,147
12	Reinsurance Ceded	(15,659)	(16,363)	(16,843)	(17,348)	(17,868)	(18,404)
13	Total Net Premiums Earned	1,106,408	1,083,195	1,121,503	1,192,904	1,265,498	1,310,630
14	Service Fees & Other Revenues	24,652	28,073	27,562	27,283	27,903	28,563
15	Total Earned Revenues	1,131,060	1,111,268	1,149,065	1,220,187	1,293,401	1,339,193
16	Claims Incurred	838,574	923,837	938,522	987,374	1,035,891	1,084,519
17	DPAC \ Premium Deficiency Adjustment	-	-	-	-	-	-
18	(a) Claims Incurred - Interest Rate Impact	(132,765)	(134,263)	(140)	(1,067)	(2,515)	774
19	Total Claims Incurred	705,809	789,574	938,382	986,307	1,033,376	1,085,293
20	Claims Expense	146,277	151,542	157,376	158,005	156,360	153,311
21	Road Safety/Loss Prevention	10,337	12,469	14,975	14,054	14,403	14,813
22	Total Claims Costs	862,423	953,585	1,110,733	1,158,366	1,204,139	1,253,417
23	Expenses						
24	Operating	75,945	89,578	107,488	108,141	107,803	106,209
25	Commissions	44,925	47,913	50,658	57,054	58,310	57,346
26	Premium Taxes	28,966	32,988	34,152	36,309	38,503	39,873
27	Regulatory/Appeal	4,530	4,618	4,815	4,428	4,508	4,606
28	Total Expenses	154,366	175,097	197,113	205,932	209,124	208,034
29	Underwriting Income (Loss)	114,271	(17,414)	(158,781)	(144,111)	(119,862)	(122,258)
30	Investment Income	79,813	125,669	120,668	119,145	125,727	131,548
31	(b) Investment Income - Interest Rate Impact	(126,997)	(124,386)	(348)	(322)	(303)	(296)
32	Net Investment Income	(47,184)	1,283	120,320	118,823	125,424	131,252
33	Gain (Loss) on Sale of Property	104	-	-	-	-	-
34	Net Income (Loss) from Annual Operations	67,191	(16,131)	(38,461)	(25,288)	5,562	8,994
35	Total net Impact due to interest rate change (b) - (a)	5,768	9,877	(208)	745	2,212	(1,070)

PF-2 Statement of Financial Position: -0.3% Basic Rate Change**Multi-year - Statement of Financial Position**

Line		<i>For the Years Ended March 31,</i>					
No. (C\$ 000s, rounding may affect totals)		2022A	2023FB	2024F	2025F	2026F	2027F
<i>2023/24 Basic AAP Break even rate change of -0.3% with -4.96% Capital Release and IFRS adjustments</i>							
1							
2	BASIC	2021/22A	2022/23FB	2023/24F	2024/25F	2025/26F	2026/27F
3	Assets						
4	Cash and cash equivalents	153,131	205,333	155,470	148,432	137,086	127,712
5	Investments	2,750,044	2,713,813	2,804,454	2,904,166	3,028,348	3,205,048
6	Investment property	5,912	5,735	5,566	5,398	5,230	5,062
7	Due from other insurance companies	14	-	-	-	-	-
8	Accounts receivable	398,612	360,664	373,128	407,073	421,678	436,795
9	Deferred policy acquisition costs	37,672	37,111	-	-	-	-
10	Reinsurers' share of unearned premiums	-	23	23	23	23	23
11	Reinsurers' share of unpaid claims	2,457	-	-	-	-	-
12	Property and equipment	111,880	134,472	143,777	154,630	178,076	179,228
13	Deferred development costs	44,687	45,258	49,415	52,467	52,085	43,686
14	Total Assets	3,504,409	3,502,409	3,531,833	3,672,189	3,822,526	3,997,554
15	Liabilities						
16	Due to other insurance companies	369	325	325	325	325	325
17	Accounts payable and accrued liabilities	60,876	70,072	69,620	72,037	70,982	71,336
18	Financing lease obligation	5,361	5,282	5,159	5,036	4,913	4,791
19	Unearned premiums and fees	548,725	570,352	591,620	643,298	667,001	691,450
20	Provision for employee current benefits	19,281	19,995	20,672	21,349	22,026	22,703
21	Provision for employee future benefits	355,244	301,431	312,762	324,095	335,428	346,761
22	Provision for unpaid claims	2,103,789	2,071,586	2,071,894	2,128,263	2,183,673	2,243,684
23	Total Liabilities	3,093,645	3,039,043	3,072,052	3,194,403	3,284,348	3,381,050
24	Equity						
25	Retained Earnings	359,335	401,390	400,112	417,302	476,485	551,403
26	Accumulated Other Comprehensive Income	51,429	61,976	59,667	60,483	61,691	65,102
27	Total Equity	410,764	463,366	459,779	477,785	538,176	616,505
28	Total Liabilities & Equity	3,504,409	3,502,409	3,531,831	3,672,188	3,822,524	3,997,555

PF-3 Statement of Changes in Equity: -0.3% Basic Rate Change

Multi-year - Statement of Changes in Equity

Line No.	2023/24 Basic AAP Break even rate change of -0.3% with -4.96% Capital Release and IFRS adjustments (C\$ 000s, rounding may affect totals)	For the Years Ended March 31,					
		2022A	2023FB	2024F	2025F	2026F	2027F
1							
2	BASIC						
3	Total Equity	2021/22A	2022/23FB	2023/24F	2024/25F	2025/26F	2026/27F
4	Retained Earnings						
5	Beginning Balance	448,678	359,335	401,390	400,112	417,302	476,485
6	Restatement of MUSH Assets to FVTPL (IFRS 9)			(8,500)			
7	Restatement of Risk Adjustment (IFRS 17)			64,400			
8	Restatement of DPAC (IFRS 17)			(37,111)			
9	Net Income (Loss) from annual operations	67,191	(16,131)	(38,461)	(25,288)	5,562	8,994
10	Rebate to Policyholders	(156,534)	-	-	-	-	-
11	Transfer from Extension Retained Earnings	-	58,186	18,394	42,478	53,621	65,924
12	Total Retained Earnings	359,335	401,390	400,112	417,302	476,485	551,403
13	Total Accumulated Other Comprehensive Income						
14	Beginning Balance	(14,700)	51,429	61,976	59,667	60,483	61,691
15	Other Comprehensive Income on Available for Sale Assets	25,485	(51,545)	(2,309)	816	1,208	3,411
16	Change in Remeasurement of Employee Future Benefits	40,644	62,092	-	-	-	-
17	Total Accumulated Other Comprehensive Income	51,429	61,976	59,667	60,483	61,691	65,102
18	Total Accumulated Other Comprehensive Income Balance						
19	Employee Future Benefits Portfolio						
20	Available for Sale Assets	44,591	22,983	22,857	23,179	23,936	25,064
21	Employee Future Benefits Liabilities	(26,941)	35,382	35,382	35,382	35,382	35,382
22	Rate Stabilization Reserve Portfolio						
23	Available for Sale Assets	33,778	3,611	1,428	1,921	2,372	4,655
24	Total Accumulated Other Comprehensive Income Balance	51,429	61,976	59,667	60,483	61,690	65,101
25	Total Equity Balance	410,764	463,366	459,779	477,785	538,176	616,505
26	MINIMUM CAPITAL TEST (C\$ 000s)						
27	Total Equity Balance	410,761	463,366	459,779	477,785	538,176	616,505
28	Less: Assets Requiring 100% Capital	44,687	45,258	49,415	52,467	52,085	43,686
29	Capital Available	366,074	418,108	410,364	425,318	486,091	572,819
30	Minimum Capital Required (100% MCT)	384,411	365,811	362,531	377,520	396,850	422,670
31	MCT Ratio % (Line 29) / (Line 30)	95.2%	114.3%	113.2%	112.7%	122.5%	135.5%
32	MCT Ratio % - (Excludes AOCI unrealized gains on EFB Liability)	95.2%	103.8%	102.6%	102.5%	112.8%	126.5%