



News Release

October 16, 2012

Manitoba Public Insurance reports stable financial results

Manitoba Public Insurance has completed its first six months of fiscal 2012 in a stable financial position, despite a decrease in investment income.

For the six months ended August 31, 2012, Manitoba's public auto insurer reported a net income of \$21.2 million – a decrease from \$34.2 million earned during the same period in 2011.

“Investment income decreased \$27.5 million primarily due to unrealized losses relating to investments in bonds,” said Heather Reichert, Vice President Finance and Chief Financial Officer, Manitoba Public Insurance.

“Our six-month results remain satisfactory due to stable claim costs. In our General Rate Application to the Public Utilities Board earlier this year, we applied for no overall rate increase – evidence that Manitobans continue to receive the most comprehensive coverage at affordable rates.”

Total earned revenues increased \$10.8 million from the previous year. Motor vehicle premiums earned revenue increased \$6.6 million (1.5 per cent) because of the continuing increase in the number and value of vehicles insured.

“Total claims costs were stable compared to last year with an increase of only 0.3 per cent (\$1.3 million),” said Reichert.

Reichert reminds Autopac customers that the financial performance of the province's public auto insurer remains closely tied to claims costs. Traditionally, Manitoba Public Insurance generates profits in the first two quarters of the year that are offset in winter months when claims volume increases.

“These results provide us with some cautious optimism as we head into winter,” Reichert said. “Manitobans can directly influence these results, and how much we all pay for auto insurance, by driving responsibly.”

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Quarterly Financial Report

2nd QUARTER

Six months ended
August 31, 2012



**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 August 31, 2012 included herein and the annual audited financial statements and supporting notes included in the Corporation’s 2011 Annual Report. 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.

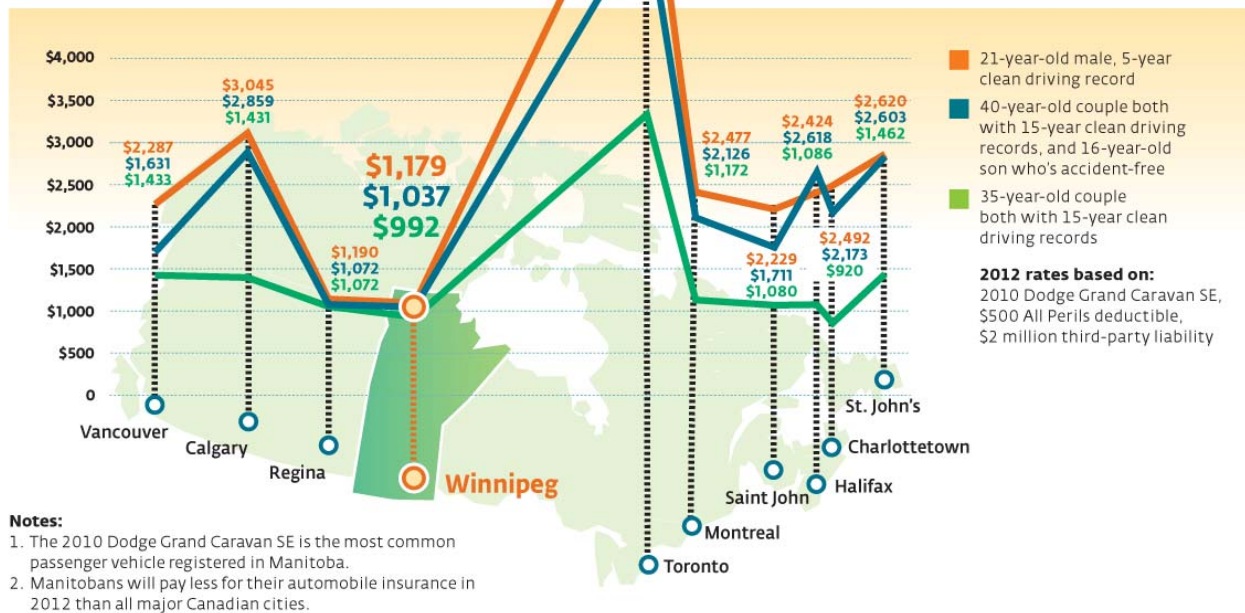
Goal 1

Universally available mandatory protection against the cost of automobile accidents. Rates, on average, will be lower than those charged by private insurance companies for comparable coverage and service.

Why? One reason for our creation was to deliver the best insurance value to Manitobans. This is the essence of our continuing success.

\$9,370
\$8,041
\$4,398

Among the lowest rates in Canada



Goal 2

The Basic plan will return at least 85 per cent of premium revenue to Manitobans in the form of claims benefits.

Why? Over the long-term, returns within this range strike the right balance. We pay back to Manitobans substantially more of their premiums than would private insurers, while keeping a sound financial footing.

Premium returned for each dollar earned



Past results for the 12 months ending

| | | | | | | | |
|-------------------|--------------------|--------------------|--------------------|--------------------|-------------------|--------------------|-------------------|
| 79% Q3 · 10/11 | 104% Q4 · 10/11 | 121% Q1 · 11/12 | 115% Q2 · 11/12 | 125% Q3 · 11/12 | 98% Q4 · 11/12 | 100% Q1 · 12/13 | 96% Q2 · 12/13 |
|-------------------|--------------------|--------------------|--------------------|--------------------|-------------------|--------------------|-------------------|

Goal 3

Manitoba Public Insurance will be a leader in automobile insurance and vehicle and driver licensing, providing Manitobans with superior products, coverage and service.

Why? By measuring key performance indicators, we can track the public's view of our performance.

Corporate Performance Index



Past Results

| | | | | | | | |
|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| 3.7 Q3 · 10/11 | 3.7 Q4 · 10/11 | 3.6 Q1 · 11/12 | 3.5 Q2 · 11/12 | 3.7 Q3 · 11/12 | 3.6 Q4 · 11/12 | 3.6 Q1 · 12/13 | 3.6 Q2 · 12/13 |
|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|

Goal 4

Manitoba Public Insurance will provide service that is responsive, fair, courteous and convenient. Manitoba Public Insurance will meet customer service standards that are based on customer expectations.

Overall, how often we meet/exceed standards



Why? We value our customers and put their interests first. Also, Manitobans expect more from us than from private insurers, because Manitoba Public Insurance is their company. We believe their higher expectations are justified.

Past Results (in per cent)

| | | | | | | | |
|------------|------------|------------|------------|------------|------------|------------|------------|
| 96% | 95% | 96% | 95% | 97% | 96% | 97% | 97% |
| Q3 · 10/11 | Q4 · 10/11 | Q1 · 11/12 | Q2 · 11/12 | Q3 · 11/12 | Q4 · 11/12 | Q1 · 12/13 | Q2 · 12/13 |

Customer satisfaction in major operational areas

Physical Damage Claims



Past Results (in per cent)

| | | | |
|------------|------------|------------|------------|
| 88% | 87% | 86% | 85% |
| Q3 · 10/11 | Q4 · 10/11 | Q1 · 11/12 | Q2 · 11/12 |
| 88% | 87% | 90% | 89% |
| Q3 · 11/12 | Q4 · 11/12 | Q1 · 12/13 | Q2 · 12/13 |

Bodily Injury Claims



Past Results (in per cent)

| | |
|------------|------------|
| 75% | 77% |
| Q3 · 10/11 | Q1 · 11/12 |
| 81% | 83% |
| Q3 · 11/12 | Q1 · 12/13 |

Driver and Vehicle Licensing



Past Results (in per cent)

| | | | |
|------------|------------|------------|------------|
| 94% | 92% | 93% | 92% |
| Q3 · 10/11 | Q4 · 10/11 | Q1 · 11/12 | Q2 · 11/12 |
| 91% | 93% | 93% | 94% |
| Q3 · 11/12 | Q4 · 11/12 | Q1 · 12/13 | Q2 · 12/13 |

Insurance Operations Policyholder Transactions



Past Results (in per cent)

| | | | |
|------------|------------|------------|------------|
| 92% | 93% | 93% | 91% |
| Q3 · 10/11 | Q4 · 10/11 | Q1 · 11/12 | Q2 · 11/12 |
| 90% | 91% | 90% | 93% |
| Q3 · 11/12 | Q4 · 11/12 | Q1 · 12/13 | Q2 · 12/13 |

Goal 5

Retained earnings and Rate Stabilization Reserve will be maintained within established target levels.

Basic Rate Stabilization Reserve



Why? Our long-term objective is to break even financially and to be financially self-sufficient. Maintaining the RSR within its target range helps us control rates when claim costs rise substantially. Manitobans deserve stable, affordable premiums over the long term.

Past Results (in per cent)

| | | | | | | | |
|--------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| 162% Q3 - 10/11 | 69% Q4 - 10/11 | 83% Q1 - 11/12 | 83% Q2 - 11/12 | 82% Q3 - 11/12 | 74% Q4 - 11/12 | 82% Q1 - 12/13 | 78% Q2 - 12/13 |
|--------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|

Extension Retained Earnings



Past Results (in per cent)

SRE Retained Earnings



Past Results (in per cent)

| | | | | | | | |
|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| 181% Q3 - 10/11 | 151% Q4 - 10/11 | 190% Q1 - 11/12 | 216% Q2 - 11/12 | 128% Q3 - 10/11 | 127% Q4 - 10/11 | 136% Q1 - 11/12 | 144% Q2 - 11/12 |
| 235% Q3 - 11/12 | 267% Q4 - 11/12 | 294% Q1 - 12/13 | 308% Q2 - 12/13 | 145% Q3 - 11/12 | 124% Q4 - 11/12 | 136% Q1 - 12/13 | 143% Q2 - 12/13 |

Goal 6

Manitoba Public Insurance will offer an environment and career opportunities that will encourage employees to strive for excellence. Our people will be treated with respect and fairness and their contributions will be recognized.

Why? We value our employees.

Level of employee satisfaction



Past Results

| | | |
|------------------|------------------|------------------|
| 76 Q4 - 07/08 | 74 Q4 - 09/10 | 73 Q1 - 11/12 |
|------------------|------------------|------------------|

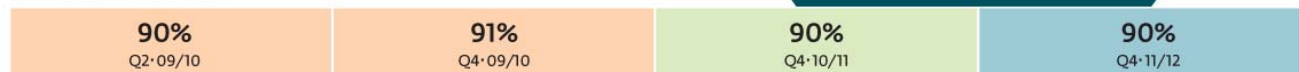
Goal 7

Manitoba Public Insurance will lead driver and vehicle safety initiatives that reduce risk and protect Manitobans, their streets and their neighbourhoods. Manitobans will recognize the Corporation is living its mission.

Why? Pursuing traffic safety and loss-prevention programs reflects our long standing commitment to the well-being of Manitobans and to affordable auto insurance. Manitobans have told us they support these efforts.



Past Results (in per cent)



Results of Operations

Manitoba Public Insurance reported net income of \$21.2 million for the six months ended August 31, 2012 compared to net income of \$34.2 million for the same period last year. This includes net income of \$5.0 million (2011 – net income of \$13.6 million) from the Basic insurance line of business. Net income decreased from the previous year by \$13.1 million due to:

- i) an increase in earned revenues of \$10.8 million;
- ii) offset by an increase in claims cost of \$1.3 million and an increase in total expenses \$6.1 million;
- iii) a decline in investment income of \$27.5 million due mainly to unrealized loss on Fair Value Through Profit or Loss bonds;
- iv) a one-time gain on disposal of property of \$3.2 million in 2011/12; and
- v) 2011 reflected a surplus distribution of \$14.3 million.

Current Year and Last Year

Total earned revenues for the six months increased from the previous year by \$10.8 million. This increase is primarily attributed to motor vehicle earned revenues which increased by \$6.6 million or 1.5% due mainly to increases in the number and value of vehicles insured. Revenue from drivers' premiums also increased during the six months by \$2.3 million.

Claims costs for the six months ended August 31, 2012 increased by \$1.3 million compared to last year due primarily to physical damage claims incurred that increased by \$8.6 million offset by a decrease in injury claims liabilities. Increase in severity of physical damage claims contributed to the increase in claims costs.

Total other expenses, including operating, commissions, premium taxes and regulatory/appeal, were \$110.4 million, an increase of \$6.1 million compared to last year. This is primarily due to compensation increases of \$3.2 million and higher pension costs of \$1.0 million.

On December 2, 2011 the Public Utilities Board released its ruling on Manitoba Public Insurance's rate application for the 2012/13 fiscal year. Effective March 1, 2012, overall Basic compulsory insurance premiums decreased by an average of 8.0 per cent. Average premiums decreased by 8.0 per cent for owners of private passenger vehicles, 8.8 per cent for commercial vehicles and 10.8 percent for the motorcycle major class. The ruling means that Manitoba Public Insurance has held the line or reduced auto insurance rates 13 of the last 14 years, without lowering service or reducing coverage.

Retained Earnings

Retained earnings of \$394.7 million (2011 - \$384.5million) are comprised of \$218.7 million for Basic insurance (2011 - \$219.1 million) and \$176.0 million for non-Basic lines (2011 - \$165.4 million). The Basic insurance retained earnings are allocated to the Rate Stabilization Reserve (\$155.7 million) and excess retained earnings (\$63.0 million). The non-Basic lines retained earnings are allocated to retained earnings \$160.8 million and the Extension Development Fund (EDF) \$15.2 million.

From its inception in 2007 to current, \$91.7 million has been appropriated from Extension retained earnings (\$33.3 million) and Special Risk Extension (\$58.4 million) to fund the EDF projects undertaken to maximize the opportunities presented by the 2004 merger of Manitoba Public Insurance and the Division of Driver and Vehicle Licensing. Activity for the six months ended August 31, 2012 has reduced the EDF by \$5.5 million to \$15.2 million.

Outlook

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

Manitoba Public Insurance is seeking to continue its record of long-term rate stability. In its 2013/14 Basic insurance rate application, filed with the Public Utilities Board on June 15, 2012, the Corporation is recommending no overall increase in Basic insurance rates compared to the previous year. In addition the Public Utilities Board in its last order indicated it would revisit the methodology used to determine the RSR target. If the PUB adopts the approach recommended by the corporation, the RSR is expected to be within this target at year end. The PUB is expected to rule on the application in the fourth quarter of the fiscal year.

While the proposal calls for average rates to remain stable, rates for individual drivers may change based on their driving record, the type of vehicle they drive, the vehicle use and where they live. With the proposed changes MPI will continue to have the lowest basic auto insurance rates of any major city in Canada.

Current projections indicate the Corporation is expected to realize a net loss of approximately \$8.4 million during the current fiscal year.

Condensed Interim Financial Statements

Condensed Interim Statement of Financial Position

| (Unaudited - in thousands of Canadian dollars) | Notes | August 31, 2012 | February 29, 2012 |
|--|-------|-----------------|-------------------|
| Assets | | | |
| Cash and investments | 5 | 1,554,630 | 1,550,606 |
| Equity investments | 5 | 495,594 | 502,675 |
| Investment property | 5 | 200,744 | 190,990 |
| Due from other insurance companies | | 1,575 | 2,545 |
| Accounts receivable | | 309,618 | 304,155 |
| Prepaid expenses | | 161 | 996 |
| Deferred policy acquisition costs | | 39,652 | 40,547 |
| Reinsurers' share of unearned premiums | | 7,531 | 3,340 |
| Reinsurers' share of unpaid claims | | 32,905 | 31,291 |
| Property and equipment | | 123,254 | 123,266 |
| Deferred development costs | | 40,058 | 36,799 |
| | | 2,805,722 | 2,787,210 |
| Liabilities | | | |
| Due to other insurance companies | | 5,905 | 5,791 |
| Accounts payable and accrued liabilities | | 47,244 | 57,849 |
| Financing lease obligation | | 4,520 | 4,536 |
| Unearned premiums and fees | | 459,840 | 479,592 |
| Provision for employee current benefits | | 20,408 | 21,109 |
| Provision for employee future benefits | | 309,559 | 301,261 |
| Provision for unpaid claims | 4 | 1,521,280 | 1,485,445 |
| | | 2,368,746 | 2,355,583 |
| Equity | | | |
| Retained Earnings | | | |
| Basic Insurance Retained Earnings | | | |
| Rate Stabilization Reserve | | 155,700 | 155,700 |
| Retained Earnings | | 63,006 | 57,983 |
| | | 218,706 | 213,683 |
| Non-Basic Retained Earnings | | | |
| Retained Earnings | | 160,772 | 139,060 |
| Extension Development Fund | | 15,220 | 20,769 |
| | | 175,992 | 159,829 |
| | | 394,698 | 373,512 |
| Accumulated Other Comprehensive Income | | 42,278 | 58,115 |
| Total Equity | | 436,976 | 431,627 |
| | | 2,805,722 | 2,787,210 |

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

Condensed Interim Statement of Operations

| (Unaudited - in thousands of Canadian dollars) | Notes | Three months ended | | Six months ended | |
|---|-------|--------------------|--------------------|--------------------|--------------------|
| | | August 31, 2012 | August 31, 2011 | August 31, 2012 | August 31, 2011 |
| Earned Revenues | | | | | |
| Gross premiums written | | 229,787 | 232,705 | 488,692 | 498,337 |
| Premiums ceded to reinsurers | | - | (2) | (12,434) | (3,992) |
| Net premiums written | | 229,787 | 232,703 | 476,258 | 494,345 |
| (Increase) decrease in gross earned premiums | | 19,570 | 12,310 | (374) | (20,697) |
| Increase (decrease) in reinsurers' share of unearned premiums | | (4,112) | (3,733) | 4,191 | (3,470) |
| Net premiums earned | | 245,245 | 241,280 | 480,075 | 470,178 |
| Service fees & other revenue | | 6,823 | 6,001 | 13,200 | 11,705 |
| <i>The Drivers and Vehicles Act operations recovery</i> | | 6,975 | 8,125 | 13,950 | 14,542 |
| Total Earned Revenues | | 259,043 | 255,406 | 507,225 | 496,425 |
| Claims Costs | | | | | |
| Direct claims incurred | | 196,639 | 209,796 | 364,631 | 366,924 |
| Claims incurred ceded to reinsurers | | (1,832) | (2,269) | (2,176) | (4,491) |
| Net claims Incurred | | 194,807 | 207,527 | 362,455 | 362,433 |
| Claims Expense | | 29,868 | 29,512 | 59,665 | 59,212 |
| Loss prevention/Road safety | | 4,668 | 4,237 | 7,745 | 6,960 |
| Total Claims Costs | | 229,343 | 241,276 | 429,865 | 428,605 |
| Expenses | | | | | |
| Operating | | 29,849 | 27,283 | 58,104 | 52,441 |
| Commissions | | 18,166 | 18,306 | 36,101 | 36,617 |
| Premium taxes | | 7,481 | 6,832 | 14,650 | 13,811 |
| Regulatory/Appeal | | 770 | 784 | 1,585 | 1,443 |
| Total Expenses | | 56,266 | 53,205 | 110,440 | 104,312 |
| Underwriting income (loss) | | (26,566) | (39,075) | (33,080) | (36,492) |
| Investment income | 6 | 17,648 | 46,410 | 54,266 | 81,789 |
| Gain (loss) on disposal of property | | - | 127 | - | 3,214 |
| Net income (loss) from annual operations | | (8,918) | 7,462 | 21,186 | 48,511 |
| Surplus distribution | | - | (17,420) | - | (14,266) |
| Net income (loss) after surplus distribution | | (8,918) | (9,958) | 21,186 | 34,245 |

Condensed Interim Statement of Comprehensive Income (Loss)

| (Unaudited - in thousands of Canadian dollars) | Three months ended | | Six months ended | |
|--|--------------------|--------------------|--------------------|--------------------|
| | August 31, 2012 | August 31, 2011 | August 31, 2012 | August 31, 2011 |
| Net income (loss) after surplus distribution | (8,918) | (9,958) | 21,186 | 34,245 |
| Other Comprehensive Income (Loss) | | | | |
| Unrealized gains (losses) on Available for Sale assets | 20,256 | (56,505) | (11,116) | (61,911) |
| Reclassification of net realized (gains) losses related to Available for Sale assets | (2,098) | (2,441) | (4,721) | (4,056) |
| Other Comprehensive Income (Loss) for the period | 18,158 | (58,946) | (15,837) | (65,967) |
| Total Comprehensive Income (Loss) | 9,240 | (68,904) | 5,349 | (31,722) |

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

Condensed Interim Statement of Changes in Equity

| (Unaudited - in thousands of Canadian dollars) | Basic | | | Non-Basic | | Corporate | | |
|--|---|--------------------------------|--------------------------------------|---------------------------------|---|----------------------|---|----------|
| | Rate Stabilization Reserve (RSR) | Retained Earnings (B-RE) | IT Optimization Fund (ITOF) | Retained Earnings (NB-RE) | Extension Development Fund (EDF) | Retained Earnings | Accumulated Other Comprehensive Income | Equity |
| Balance as at March 1, 2011 | 140,525 | | 65,000 | 101,457 | 43,227 | 350,209 | 83,552 | 433,761 |
| Net income for the period | | 13,566 | | 20,679 | | 34,245 | | 34,245 |
| Other comprehensive income (loss) for the period | | | | | | | (65,967) | (65,967) |
| Transfer between RSR & B-RE | 13,475 | (13,475) | | | | | | |
| Transfer between B-RE & ITOF | | 169 | (169) | | | | | |
| Transfer between NB-RE & EDF | | | | 6,762 | (6,762) | | | |
| Balance as at August 31, 2011 | 154,000 | 260 | 64,831 | 128,898 | 36,465 | 384,454 | 17,585 | 402,039 |
| Balance as at March 1, 2012 | 155,700 | 57,983 | | 139,060 | 20,769 | 373,512 | 58,115 | 431,627 |
| Net income for the period | | 5,023 | | 16,163 | | 21,186 | | 21,186 |
| Other comprehensive income (loss) for the period | | | | | | | (15,837) | (15,837) |
| Transfer between NB-RE & EDF | | | | 5,549 | (5,549) | | | |
| Balance as at August 31, 2012 | 155,700 | 63,006 | | 160,772 | 15,220 | 394,698 | 42,278 | 436,976 |

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

Condensed Interim Statement of Cash Flows

| (Unaudited - in thousands of Canadian dollars) | <i>Notes</i> | For the six months ended | |
|--|--------------|--------------------------|--------------------|
| | | August 31, 2012 | August 31, 2011 |
| Cash Flows from (to) Operating Activities: | | | |
| Net income (loss) after surplus distribution | | 21,186 | 34,245 |
| Non-cash items: | | | |
| Depreciation of property and equipment | | 3,394 | 3,424 |
| Amortization of deferred development costs | | 4,415 | 3,909 |
| Amortization of bond discount and premium | | 2,491 | 2,553 |
| (Gain) loss on sale of investments | | (20,111) | (14,698) |
| Unrealized (gain) loss on Fair Value Through Profit or Loss bonds | | 5,376 | (28,547) |
| Unrealized (gain) loss on investment in real estate | | (10,163) | (4,479) |
| Write-down of investments | | 45 | |
| | | 6,633 | (3,593) |
| Net change in non-cash balances: | | | |
| Due from other insurance companies | | 969 | 9,218 |
| Accounts receivable and prepaid expenses | | (4,628) | (8,443) |
| Deferred policy acquisition costs | | 895 | 217 |
| Reinsurers' share of unearned premiums and unpaid claims | | (5,805) | 1,185 |
| Due to other insurance companies | | 114 | (5,591) |
| Accounts payable and accrued liabilities | | (10,605) | (308,468) |
| Unearned premiums and fees | | (19,751) | 594 |
| Provision for employee current benefits | | (701) | (408) |
| Provision for employee future benefits | | 8,298 | 8,408 |
| Provision for unpaid claims | | 35,836 | 42,640 |
| | | 4,622 | (260,648) |
| | | 11,255 | (264,241) |
| Cash Flows from (to) Investing Activities: | | | |
| Purchase of investments | | (548,544) | (633,276) |
| Proceeds from sale of investments | | 491,726 | 917,920 |
| Acquisition of property and equipment net of proceeds from disposals | | (3,382) | (1,981) |
| Financing lease obligation | | (26) | (24) |
| Deferred development costs incurred | | (7,674) | (3,292) |
| | | (67,900) | 279,347 |
| Increase (decrease) in Cash and Short-Term Investments | | (56,645) | 15,106 |
| Cash and short-term investments beginning of year | | 135,888 | 65,556 |
| Cash and Short-Term Investments end of year | 5 | 79,243 | 80,662 |

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

Notes to Financial Statements

1) Status of the Corporation

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

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

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

2) Basis of Reporting

Statement of Compliance

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

Basis of Presentation

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

These statements are presented in thousands of Canadian dollars except as otherwise specified.

Seasonality

The automobile insurance business, that 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. Measurement of the financial instruments is detailed in Note 4 of the 2011 Annual Report.

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 from these estimates.

3) Summary of Significant Accounting Policies

Refer to the 2011 Annual Report for a summary outlining those accounting policies followed by the Corporation that have a significant effect on the condensed interim financial statements.

4) Provision for Unpaid Claims

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

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

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

5) Cash and Investments

Cash consists of cash net of cheques issued in excess of amounts on deposit. There is no amount held in trust on behalf of other insurance companies included in cash and short-term investments (2011 – nil).

Short-term investments have a total principal amount of \$87,377,000 (2011 - \$66,906,000) comprised of provincial short-term deposits with effective interest rates of 0.93% (2011 - 0.80%), 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. There were no drawdowns against this line of credit at August 31, 2012.

Cash and Investments

(Unaudited – in thousands of Canadian dollars)

| | Financial Instruments | | | Non-Financial Instruments | Total Carrying Value |
|---------------------------------|----------------------------------|--------------------------------|---|---------------------------|----------------------|
| | Classified as Available for Sale | Classified as Held to Maturity | Classified as Fair Value Through Profit or Loss | | |
| August 31, 2012 | | | | | |
| Cash and short-term investments | 79,243 | | | | 79,243 |
| Bonds | | | | | |
| Federal | | | 80,409 | | 80,409 |
| Manitoba: | | | | | |
| Provincial | | | 259,684 | | 259,684 |
| Municipal | | 17,295 | 47,157 | | 64,452 |
| Hospitals | | | 12,295 | | 12,295 |
| Schools | | 519,122 | | | 519,122 |
| Other provinces: | | | | | |
| Provincial | | | 411,927 | | 411,927 |
| Municipal | | | 59,030 | | 59,030 |
| Corporations | | | 48,244 | | 48,244 |
| | | 536,417 | 918,746 | | 1,455,163 |
| Other investments | 5,149 | | | | 5,149 |
| Infrastructure | | | 15,076 | | 15,076 |
| | 5,149 | | 15,076 | | 20,225 |
| Cash and investments | 84,392 | 536,417 | 933,822 | | 1,554,631 |
| Equity investments | 495,593 | | | | 495,593 |
| Investment property | | | 164,249 | 36,495 | 200,744 |
| | 579,985 | 536,417 | 1,098,071 | 36,495 | 2,250,968 |

Quarterly Financial Report

2nd QUARTER AUGUST 31, 2012

(Unaudited – in thousands of Canadian dollars)

| | Financial Instruments | | | Non-Financial Instruments | Total Carrying Value |
|---------------------------------|----------------------------------|--------------------------------|---|---------------------------|----------------------|
| | Classified as Available for Sale | Classified as Held to Maturity | Classified as Fair Value Through Profit or Loss | | |
| August 31, 2011 | | | | | |
| Cash and short-term investments | 80,662 | | | | 80,662 |
| Bonds | | | | | |
| Federal | | | 52,040 | | 52,040 |
| Manitoba: | | | | | |
| Provincial | | | 307,641 | | 307,641 |
| Municipal | | 20,068 | 38,037 | | 58,105 |
| Hospitals | | | 12,773 | | 12,773 |
| Schools | | 479,041 | | | 479,041 |
| Other provinces: | | | | | |
| Provincial | | | 424,764 | | 424,764 |
| Municipal | | | 31,220 | | 31,220 |
| Corporations | | | 47,573 | | 47,573 |
| | | 499,109 | 914,048 | | 1,413,157 |
| Other investments | 6,898 | | | | 6,898 |
| Infrastructure | | | 11,000 | | 11,000 |
| | 6,898 | | 11,000 | | 17,898 |
| Cash and investments | 87,560 | 499,109 | 925,048 | | 1,511,717 |
| Equity investments | 471,016 | | | | 471,016 |
| Investment property | | | 116,210 | 37,312 | 153,522 |
| | 558,576 | 499,109 | 1,041,258 | 37,312 | 2,136,255 |

6) Investment Income

(Unaudited – in thousands of Canadian dollars)

| | August 31, 2012 | August 31, 2011 |
|---|-----------------|-----------------|
| Interest income | 25,070 | 28,823 |
| Gain (loss) on sale of Fair Value Through Profit or Loss bonds | 15,346 | 10,642 |
| Unrealized gain (loss) on Fair Value Through Profit or Loss bonds | (5,376) | 28,547 |
| Unrealized gain (loss) on investment property | 10,163 | 4,479 |
| Gain (loss) on infrastructure investments | 195 | 308 |
| Dividend income | 5,585 | 6,231 |
| Gain (loss) on sale of equities | 4,769 | 4,056 |
| Gain (loss) on foreign exchange | | (1) |
| Income from investment property | 1,279 | 1,235 |
| Write-down of investments | (45) | |
| Investment management fees | (2,720) | (2,530) |
| Total | 54,266 | 81,790 |

7) Employee Future Benefits

The total benefits costs included in expenses are as follows:

| (Unaudited – in thousands of Canadian dollars) | August 31, 2012 | August 31, 2011 |
|--|----------------------------|----------------------------|
| Pension benefits | 11,552 | 10,463 |
| Other post-employment benefits | 1,070 | 993 |
| Total | 12,622 | 11,456 |

8) Depreciation and Amortization

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

| (Unaudited – in thousands of Canadian dollars) | August 31, 2012 | August 31, 2011 |
|--|----------------------------|----------------------------|
| Amortization – Deferred Development | 4,414 | 3,909 |
| Depreciation – Property and equipment | 3,394 | 3,424 |

Manitoba Public Insurance Locations

Customer Service

Winnipeg

Tel: 204-985-7000

Outside Winnipeg

Tel: 800-665-2410

Deaf Access TTY/TDD

Tel: 204-985-8832

Out-of-Province Claims

Tel: 800-661-6051

Administrative Offices

Winnipeg

234 Donald Street
Box 6300
R3C 4A4

Brandon

731-1st Street
R7A 6C3

Service Locations

Winnipeg Service Centres

15 Barnes Street
40 Lexington Park
1284 Main Street
930 St. Mary's Road
125 King Edward Street East
1103 Pacific Avenue
420 Pembina Highway

cityplace

Service Centre – Main Floor
ID Verification and Data Integrity
Rehabilitation
Management Centre
Serious and Long-Term
Case Management Centre
Bodily Injury Centre
234 Donald Street

Physical Damage Centre

Holding Compound/Receiving
Salvage
Commercial Claims
1981 Plessis Road

Arborg

Service Centre
323 Sunset Boulevard

Beausejour

Service Centre
848 Park Avenue

Brandon

Service Centre
731-1st Street

Dauphin

Service Centre
217 Industrial Road

Flin Flon

Claim Centre
8 Timber Lane

Portage la Prairie

Claim Centre
2007 Saskatchewan
Avenue West

Driver and Vehicle

Licensing Centre
25 Tupper Street North

Selkirk

Service Centre
1008 Manitoba Avenue

Steinbach

Claim Centre
91 North Front Drive

Service Centre

165 Park Road West
Clearspring Village Mall, Unit 2

Swan River

Claim Centre
125-4th Avenue North

The Pas

Claim Centre
424 Fischer Avenue

Thompson

Service Centre
53 Commercial Place

Winkler

Service Centre
355 Boundary Trail

For more information contact:

**Manitoba Public Insurance
Corporate Communications**

Room 820, 234 Donald Street
P.O. Box 6300
Winnipeg, MB R3C 4A4



**Manitoba
Public Insurance**