PF.3 STATEMENT OF CHANGES IN EQUITY

2017 GRA - 2.0% Rate Change
(C$ 000s, except where noted)

	For the Years Ended February,					
	2016A	**2017B**	**2018F**	**2019F**	**2020F**	**2021F**
BASIC						
Retained Earnings						
Beginning Balance	177,817	194,497	181,103	180,297	188,308	194,479
Net Income (Loss) from annual operations	(56,050)	(13,394)	(806)	8,011	6,171	6,323
Premium Rebate	-	-	-	-	-	-
Transfer (to) / from Non-Basic Retained Earnings	72,729	-	-	-	-	-
Total Retained Earnings	**194,496**	**181,103**	**180,297**	**188,308**	**194,479**	**200,801**
Retained Earnings						
~~DCAT~~ Equity Reserve	194,496	181,103	180,297	~~182,922~~	~~174,687~~	~~166,411~~2
Excesss Retained Earnings	-	-	-	~~5,386~~	~~19,792~~	~~34,390~~
Total Retained Earnings	194,496	181,103	180,297	188,308	194,479	200,801
Total Accumulated Other Comprehensive Income						
Beginning Balance	35,262	36,504	36,025	40,191	48,078	56,313
Other Comprehensive Income for the Year	1,242	(479)	4,166	7,887	8,235	8,276
Total Accumulated Other Comprehensive Income	36,504	36,025	40,191	48,078	56,313	64,589
Total Equity Balance	**231,000**	**217,128**	**220,488**	**236,386**	**250,792**	**265,390**
RESERVE TARGETS						
DCAT Total Equity Target	231,000	181,000	181,000	181,000	181,000	181,000
MCT Total Equity Target	366,000	404,000	404,000	404,000	404,000	404,000

Comment [A1]:

2019F: 188,308
2020F: 194,479
2021F: 200,801

Manitoba Public Insurance

PF.4 STATEMENT OF OPERATIONS 2015/16 COMPARATIVE

(C$ 000s, except where noted)	2016 GRA 2016B	2017 GRA 2016A	Inc (dec)	Ref.	Increase / (Decrease)
	$	$	$		%
Net Premiums Written					
Motor Vehicles	854,303	854,170	(133)		(0.02)
Drivers	48,269	46,618	(1,650)		(3.42)
Reinsurance Ceded	(12,396)	(12,423)	(27)		0.22
Total Net Premiums Written	**890,176**	**888,365**	**(1,810)**	(1)	(0.20)
Net Premiums Earned					
Motor Vehicles	828,135	827,701	(434)		(0.05)
Drivers	46,782	45,787	(995)		(2.13)
Reinsurance Ceded	(12,396)	(12,423)	(27)		0.22
Total Net Premiums Earned	**862,521**	**861,065**	**(1,456)**		(0.17)
Service Fees & Other Revenues	20,922	20,351	(571)		(2.73)
Total Earned Revenues	**883,443**	**881,416**	**(2,027)**		(0.23)
Net Claims Incurred	690,835	742,664	51,829		7.50
(a) Claims Incurred – Interest rate impact	(101,935)	(75,300)	26,635		26.13
Total Claims Incurred	**588,900**	**666,404**	**77,504**	(2)	13.16
Claims Expense	121,045	118,614	(2,431)	(4)	(2.01)
Road Safety/Loss Prevention	11,496	13,027	1,531	(4)	13.32
Total Claims Costs	**721,441**	**798,045**	**76,604**		10.62
Expenses					
Operating	71,401	71,641	240	(4)	0.34
Commissions	35,405	33,862	(1,543)		(4.36)
Premium Taxes	26,247	26,205	(42)		(0.16)
Regulatory/Appeal	3,154	3,675	521	(4)	16.52
Total Expenses	**136,207**	**135,383**	**(824)**		(0.60)
Underwriting Income (Loss)	**25,795**	**(52,012)**	**(77,807)**		(301.64)
Investment Income	74,971	48,477	(26,494)		(35.34)
(b) Investment Income – Interest rate impact	(85,801)	(52,515)	33,286		38.79
Total Investment Income	(10,830)	(4,038)	6,792	(3)	(62.71)
Net Income (Loss) from Operations	**14,965**	**(56,050)**	**(71,015)**		(474.54)
Allocated Corporate Expenses					
Claims Expense	121,045	118,614	(2,431)		(2.01)
Road Safety/Loss Prevention	11,496	13,027	1,531		13.32
Operating	71,401	71,641	240		0.34
Regulatory/Appeal	3,154	3,675	521		16.52
Total Allocated Corporate Expenses	207,096	206,957	(139)		(0.07)
Allocated Corporate Expenses					
Normal Operations	197,059	202,370	5,312	(4)	2.70
Initiatives Implementation	6,801	3,117	(3,685)	(4)	(54.18)
Initiatives Ongoing	3,236	1,470	(1,766)	(4)	(54.56)
Total Allocated Corporate Expenses	207,095	206,957	(139)		(0.07)
*Total net positive impact due to interest rates (b) – (a)	**16,134**	**22,785**	**6,651**		**41.22**

PF.3 STATEMENT OF CHANGES IN EQUITY

2017 GRA - 2.0% Rate Change

(C$ 000s, except where noted)

	For the Years Ended February,					
	2016A	2017B	2018F	2019F	2020F	2021F
BASIC						
Retained Earnings						
Beginning Balance	177,817	194,497	181,103	180,297	188,308	194,479
Net Income (Loss) from annual operations	(56,050)	(13,394)	(806)	8,011	6,171	6,323
Premium Rebate	-	-	-	-	-	-
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Total Retained Earnings	**194,496**	**181,103**	**180,297**	**188,308**	**194,479**	**200,801**
Retained Earnings						
Equity Reserve	194,496	181,103	180,297	188,308	194,479	200,801
Excesss Retained Earnings	-	-	-	-	-	-
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Total Equity Balance	**231,000**	**217,128**	**220,488**	**236,386**	**250,792**	**265,390**
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DCAT Total Equity Target	231,000	181,000	181,000	181,000	181,000	181,000
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PF.4 STATEMENT OF OPERATIONS 2015/16 COMPARATIVE

(C$ 000s, except where noted)	2016 GRA 2016B	2017 GRA 2016A	Inc (dec)	Ref.	Increase / (Decrease)
	$	$	$		%
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Underwriting Income (Loss)	**25,795**	**(52,012)**	**(77,807)**		(301.64)
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*Total net positive impact due to interest rates (b) – (a)	**16,134**	**22,785**	**6,651**		**41.22**

This Year's Forecast and Comparison to Last Year's Forecast

The table below provides a comparison of this year's forecast to last year's forecast.

Upgrade Forecast Comparison

	Vehicle Upgrade			DSR Upgrade		
Year	This Year	Last Year	Difference	This Year	Last Year	Difference
2015/16 (a)	2.54% (a)	2.60%	-0.06%	-0.16% (a)	-0.20%	0.04%
2016/17	2.60%	2.60%	0.00%	0.08%	0.10%	-0.02%
2017/18	2.60%	2.60%	0.00%	0.22%	0.24%	-0.02%
2018/19	2.60%	2.60%	0.00%	0.11%	0.13%	-0.02%
2019/20	2.60%	2.60%	0.00%	0.18%	0.18%	0.00%
2020/21	2.60%			0.19%		

The vehicle upgrade factor is forecasted at 2.60% for the entire forecast period, which is the same forecast used last year. The forecast is supported by the latest three year average.

The DSR upgrade factor is forecasted based on the DSR simulation model (described in section *REV.2*). Driver movement on the DSR scale has largely stabilized, which has resulted in a more consistent DSR upgrade forecast over the past couple years.

REV.1.3 Net Fleet Rebates

Net Fleet Rebates Attributed to Basic Only Forecast ($000)

Fiscal Year	2016/17	2017/18	2018/19	2019/20	2020/21
Net Fleet Rebates	(14,330)	(14,959)	(15,618)	(16,301)	(17,016)

Description

Customers are deemed to be a fleet owner when they have ten or more vehicles registered on the first day of any customer month. Fleet premiums are determined on a retrospective basis on the actual loss experience of the fleet in the policy year. The loss experience is the ratio between all losses ~~paid~~ incurred by the Corporation and fleet premiums. Claims are included according to the degree of responsibility with the exception of comprehensive claims, which are fully included in the loss ratio calculation. The current maximum amount used for any individual loss is $25,000.

Manitoba Public Insurance

At the end of their experience period, fleet owners will receive either a rebate, a surcharge, or have no change in premiums from the base premiums paid at the start of the policy year.

Rebates and surcharges will vary depending on the loss ratio. For the 2017/18 policy year, the maximum rebate is 33% of fleet premiums and the maximum surcharge is 50% of fleet premiums. These percentages were chosen to reflect a fleet program break-even loss ratio of 80% to 85%. *Volume I Application Rate Table (ART)* 5 shows the fleet rebate and surcharge scale. Further information on the fleet program can be found in *Volume III AI.4 Vehicle Classification System*.

Forecast Methodology

Fleet premiums are assumed to grow based on (i) the overall rate change for all vehicles, (ii) the HTA volume factor, and (iii) the vehicle (HTA) upgrade factor (see sections *REV.1.1 Volume* and *REV.1.2 Upgrade*).

The percentage of rebates and surcharges are forecasted based on the historical experience of the fleet program. In the 2012/13 policy year the fleet scale was changed to include rebates from a maximum 25% up to 33%. To account for this change the Corporation restated the historical results based on the current scale.

Historical Results

The table below shows the historical results for the fleet program, on a corporate basis, under the previous and current fleet scale. The figures in bold represent the actual fleet results. The remaining figures represent historical data that was adjusted to reflect the current fleet scale. Note: Since fleets are rated on a retrospective basis, the net fleet rebates are not calculated until after the policy year. For example, fiscal year 2015/16 (shown in the table below) represents the net fleet premiums from the 2014/15 policy year.

This Year's Forecast and Comparison to Last Year's Forecast

The table below provides a comparison of this year's forecast to last year's forecast.

Upgrade Forecast Comparison

	Vehicle Upgrade			DSR Upgrade		
Year	This Year	Last Year	Difference	This Year	Last Year	Difference
2015/16 (a)	2.54% (a)	2.60%	-0.06%	-0.16% (a)	-0.20%	0.04%
2016/17	2.60%	2.60%	0.00%	0.08%	0.10%	-0.02%
2017/18	2.60%	2.60%	0.00%	0.22%	0.24%	-0.02%
2018/19	2.60%	2.60%	0.00%	0.11%	0.13%	-0.02%
2019/20	2.60%	2.60%	0.00%	0.18%	0.18%	0.00%
2020/21	2.60%			0.19%		

The vehicle upgrade factor is forecasted at 2.60% for the entire forecast period, which is the same forecast used last year. The forecast is supported by the latest three year average.

The DSR upgrade factor is forecasted based on the DSR simulation model (described in section *REV.2*). Driver movement on the DSR scale has largely stabilized, which has resulted in a more consistent DSR upgrade forecast over the past couple years.

REV.1.3 Net Fleet Rebates

Net Fleet Rebates Attributed to Basic Only Forecast ($000)

Fiscal Year	2016/17	2017/18	2018/19	2019/20	2020/21
Net Fleet Rebates	(14,330)	(14,959)	(15,618)	(16,301)	(17,016)

Description

Customers are deemed to be a fleet owner when they have ten or more vehicles registered on the first day of any customer month. Fleet premiums are determined on a retrospective basis on the actual loss experience of the fleet in the policy year. The loss experience is the ratio between all losses incurred by the Corporation and fleet premiums. Claims are included according to the degree of responsibility with the exception of comprehensive claims, which are fully included in the loss ratio calculation. The current maximum amount used for any individual loss is $25,000.

At the end of their experience period, fleet owners will receive either a rebate, a surcharge, or have no change in premiums from the base premiums paid at the start of the policy year.

Rebates and surcharges will vary depending on the loss ratio. For the 2017/18 policy year, the maximum rebate is 33% of fleet premiums and the maximum surcharge is 50% of fleet premiums. These percentages were chosen to reflect a fleet program break-even loss ratio of 80% to 85%. *Volume I Application Rate Table (ART)* 5 shows the fleet rebate and surcharge scale. Further information on the fleet program can be found in *Volume III AI.4 Vehicle Classification System*.

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Historical Results

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The historical PIPP enhancement ultimate loss estimates remained relatively unchanged from last year apart from the addition of the Caregiver Death Benefit enhancement.

Although the year-to-year changes in PIPP enhancement ultimate losses are highly variable, the long term trend appears to be relatively flat. The 2016/17 ultimate losses were selected based on the 10 year average. For 2017/18 and thereafter, the ultimate losses were assumed to grow at 0%.

Fiscal Year Claims Incurred Forecast

The table below shows the historical and projected fiscal year claims incurred for PIPP Enhancements. The reported incurreds, which are calculated in *Table 3 of each exhibit*, are based on the projected ultimate losses and the incurred development assumptions. The change in IBNR, which is shown in *Table 8 of each exhibit*, is based on the projected ultimate losses, assumed paid development factors, claims liability discount rates, and provisions for adverse deviation. The change in IBNR is shown with and without the impact of changing interest rates in the table below. Historical interest rate impact figures by coverage are not available prior to 2013/14.

PIPP Enhancements Claims Incurred ($000)

		Change in IBNR						
Fiscal Year	Reported	Interest Rate Impact	Interest Rate Margin Change	All Other Changes	Total Change in IBNR	Claims Incurred	Last Year's Forecast	Variance to Forecast
2011/12	20,278	n/a	0	n/a	(6,371)	13,907	13,907	0
2012/13	7,050	n/a	0	n/a	(14,720)	(7,670)	(7,670)	0
2013/14	5,623	(2,330)	0	(6,584)	(8,915)	(3,292)	(3,292)	0
2014/15	4,905	12,477	0	(7,393)	5,084	9,989	9,989	0
2015/16	4,264	(6,607)	(3,285)	1,350	(8,542)	(4,278)	(7,380)	3,103
Forecast/Projections								
2016/17	9,466	(5,737)	0	565	(5,172)	4,294	2,396	1,899
2017/18	9,936	(6,071)	0	1,602	(4,468)	5,468	1,152	4,316
2018/19	10,503	(7,107)	0	1,070	(6,038)	4,465	7,808	(3,343)
2019/20	10,738	(898)	0	867	(31)	10,706	7,919	2,788
2020/21	10,995	(243)	0	914	672	11,666		

The 2015/16 PIPP Enhancements claims incurred was over budget by ~~$2.6~~ $3,103,000 ~~million~~ as a result of lower than expected interest rates offset by a lower reported.

The reported incurred forecast in 2016/17 increases significantly as the development assumptions assume that a large percentage of the current IBNR for PIPP Enhancements will be reported. Thereafter, the reported incurred is more reflective of the ultimate forecast and assumed loss development factors.

Over the forecast period, the PIPP Enhancement net claims incurred forecast is significantly impacted as a result of the assumed increase in the claims liability discount rate. Excluding the new Caregiver Death Benefit and interest rate impacts, the 2017/18 net claims incurred is $8.5 million or 3.7% higher than last year's forecast of $8.2 million.

The historical PIPP enhancement ultimate loss estimates remained relatively unchanged from last year apart from the addition of the Caregiver Death Benefit enhancement.

Although the year-to-year changes in PIPP enhancement ultimate losses are highly variable, the long term trend appears to be relatively flat. The 2016/17 ultimate losses were selected based on the 10 year average. For 2017/18 and thereafter, the ultimate losses were assumed to grow at 0%.

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2012/13	7,050	n/a	0	n/a	(14,720)	(7,670)	(7,670)	0
2013/14	5,623	(2,330)	0	(6,584)	(8,915)	(3,292)	(3,292)	0
2014/15	4,905	12,477	0	(7,393)	5,084	9,989	9,989	0
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The 2015/16 PIPP Enhancements claims incurred was over budget by $3,103,000 as a result of lower than expected interest rates offset by a lower reported.

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CI.6 COMPREHENSIVE

Claims Incurred ($000)

Fiscal Year	2016/17	2017/18	2018/19	2019/20	2020/21
Total Comprehensive	$84,789	$89,224	$93,194	$97,447	$101,907

Description

Comprehensive provides coverage for damages to the insured's vehicle not covered under Collision coverage (e.g. hail, theft, vandalism, glass, etc).

There are many different perils under Comprehensive coverage. ~~Peril-by-peril forecasts are not provided in this document~~.

Comprehensive Frequency

The table below shows the historical ultimate comprehensive frequency per HTA unit by claim type.

Ultimate Comprehensive Frequency per HTA Unit by Claim Type

Accident Year	Repair Frequency	% Change	Total Loss Frequency	% Change	Total Frequency	% Change
2006/07	0.081	8.50%	0.013	-5.90%	0.094	6.23%
2007/08	0.071	-12.07%	0.017	28.54%	0.088	-6.41%
2008/09	0.052	-26.41%	0.006	-61.85%	0.059	-33.20%
2009/10	0.064	23.12%	0.010	61.87%	0.075	27.36%
2010/11	0.062	-3.69%	0.009	-11.45%	0.071	-4.77%
2011/12	0.061	-1.43%	0.009	-5.53%	0.070	-1.96%
2012/13	0.063	2.66%	0.008	-13.41%	0.070	0.66%
2013/14	0.059	-6.14%	0.007	-1.25%	0.066	-5.62%
2014/15	0.058	-0.71%	0.007	-8.51%	0.065	-1.59%
2015/16	0.074	26.08%	0.012	76.46%	0.086	31.33%
Straight Average						
3-year	0.064	6.41%	0.009	22.23%	0.072	8.04%
5-year	0.063	4.09%	0.008	9.55%	0.071	4.57%
10-year	0.064	0.99%	0.010	5.90%	0.074	1.20%
Exponential Trend						
5-year	0.069	3.09%	0.010	5.58%	0.079	3.43%
7-year	0.065	0.90%	0.008	-1.17%	0.073	0.66%
All-year	0.058	-1.90%	0.008	-3.89%	0.066	-2.16%

The 2015/16 accident year resulted in the highest comprehensive frequency since the 2007/08 year. As shown in the table below, the additional frequency was caused mainly by a poor hail year; however, crime related claims (e.g. vandalism claims) and glass only claims also increased over the previous year. The Corporation believes that the increase in glass claims is at least partially correlated to the higher amount of storm activity in 2015/16, which is not expected to continue.

Ultimate Comprehensive Frequency per HTA Unit by Comprehensive Peril Category

Accident Year	Hail	% Change	Crime Related Perils	% Change	Glass	% Change	Other	% Change
2006/07	0.007	-1.62%	0.046	10.30%	0.023	9.25%	0.007	-26.39%
2007/08	0.025	268.23%	0.032	-31.07%	0.024	3.52%	0.007	-4.03%
2008/09	0.002	-91.04%	0.021	-33.77%	0.028	16.11%	0.007	6.07%
2009/10	0.014	540.63%	0.020	-6.55%	0.033	18.40%	0.008	2.62%
2010/11	0.009	-34.99%	0.017	-13.13%	0.034	4.08%	0.010	34.86%
2011/12	0.010	3.71%	0.014	-20.16%	0.037	9.12%	0.009	-13.78%
2012/13	0.009	-2.47%	0.013	-5.76%	0.038	1.66%	0.010	9.63%
2013/14	0.008	-14.21%	0.011	-15.94%	0.038	-0.36%	0.009	-5.89%
2014/15	0.004	-51.56%	0.011	-2.27%	0.040	5.02%	0.010	11.38%
2015/16	0.015	273.76%	0.012	11.51%	0.046	15.26%	0.012	16.30%

For forecasting purposes, the Corporation has assumed that the claim frequency for glass claims will continue to increase, while the number of claims for all other Comprehensive coverages will remain flat (i.e. declining frequency per unit). This assumption is supported by the following graph.

CI.6 COMPREHENSIVE

Claims Incurred ($000)

Fiscal Year	2016/17	2017/18	2018/19	2019/20	2020/21
Total Comprehensive	$84,789	$89,224	$93,194	$97,447	$101,907

Description

Comprehensive provides coverage for damages to the insured's vehicle not covered under Collision coverage (e.g. hail, theft, vandalism, glass, etc).

There are many different perils under Comprehensive coverage.

Comprehensive Frequency

The table below shows the historical ultimate comprehensive frequency per HTA unit by claim type.

Ultimate Comprehensive Frequency per HTA Unit by Claim Type

Accident Year	Repair Frequency	% Change	Total Loss Frequency	% Change	Total Frequency	% Change
2006/07	0.081	8.50%	0.013	-5.90%	0.094	6.23%
2007/08	0.071	-12.07%	0.017	28.54%	0.088	-6.41%
2008/09	0.052	-26.41%	0.006	-61.85%	0.059	-33.20%
2009/10	0.064	23.12%	0.010	61.87%	0.075	27.36%
2010/11	0.062	-3.69%	0.009	-11.45%	0.071	-4.77%
2011/12	0.061	-1.43%	0.009	-5.53%	0.070	-1.96%
2012/13	0.063	2.66%	0.008	-13.41%	0.070	0.66%
2013/14	0.059	-6.14%	0.007	-1.25%	0.066	-5.62%
2014/15	0.058	-0.71%	0.007	-8.51%	0.065	-1.59%
2015/16	0.074	26.08%	0.012	76.46%	0.086	31.33%
Straight Average						
3-year	0.064	6.41%	0.009	22.23%	0.072	8.04%
5-year	0.063	4.09%	0.008	9.55%	0.071	4.57%
10-year	0.064	0.99%	0.010	5.90%	0.074	1.20%
Exponential Trend						
5-year	0.069	3.09%	0.010	5.58%	0.079	3.43%
7-year	0.065	0.90%	0.008	-1.17%	0.073	0.66%
All-year	0.058	-1.90%	0.008	-3.89%	0.066	-2.16%

The 2015/16 accident year resulted in the highest comprehensive frequency since the 2007/08 year. As shown in the table below, the additional frequency was caused mainly by a poor hail year; however, crime related claims (e.g. vandalism claims) and glass only claims also increased over the previous year. The Corporation believes that the increase in glass claims is at least partially correlated to the higher amount of storm activity in 2015/16, which is not expected to continue.

Ultimate Comprehensive Frequency per HTA Unit by Comprehensive Peril Category

Accident Year	Hail	% Change	Crime Related Perils	% Change	Glass	% Change	Other	% Change
2006/07	0.007	-1.62%	0.046	10.30%	0.023	9.25%	0.007	-26.39%
2007/08	0.025	268.23%	0.032	-31.07%	0.024	3.52%	0.007	-4.03%
2008/09	0.002	-91.04%	0.021	-33.77%	0.028	16.11%	0.007	6.07%
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For forecasting purposes, the Corporation has assumed that the claim frequency for glass claims will continue to increase, while the number of claims for all other Comprehensive coverages will remain flat (i.e. declining frequency per unit). This assumption is supported by the following graph.

RSR.1 Rate Stabilization Reserve (RSR)

RSR.1.1 Application and the Corporation's Position on the RSR

RSR.1.1.1 Application

1. That the Board approve a minimum (lower) RSR target of $181 million in Total Equity based on the results of the 2016 DCAT report.

2. That the Board approve a maximum (upper) RSR target of $404 million based on a projected Minimum Capital Test (MCT) ratio of 100% as of the start of the 2017/18 fiscal year.

RSR.1.1.2 Purpose of the RSR

The current 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

In Order 128/15 the Board made the following order:

> *"10.15 MPI file with next year's GRA a proposed, revised definition of the RSR"*

The Corporation is proposing the following revised purpose (i.e. definition) of the RSR:

> To protect motorists from rate increases that would otherwise have been ~~made~~ necessary due to *unexpected* ~~by~~ *variances from forecasted results and* ~~by~~ ~~unexpected~~ due to events and losses arising from non-recurring events or factors

The revised RSR purpose reflects how the RSR has historically been used in practice. As described in the following sections, the Corporation determines the minimum RSR target based on a 1-in-40 year adverse event using the Dynamic Capital Adequacy Test (DCAT). An adverse event can include one large adverse deviation from forecast (e.g. a large stock market crash) or several smaller deviations from forecast (e.g. interest rates lower than forecast for four consecutive years). Regardless of how the event occurs, the RSR is required to protect motorists from rate increases made necessary by these events. The revised definition of the RSR reflects that all variations from budget, favourable or unfavourable, flow through to the RSR.

RSR.1.1.3 Competitive Lines Excess Total Equity Strategy

Information request PUB (MPI) 1-4 of the 2016 GRA posed the following question to the Corporation:

> *"Why does the Corporation refuse to develop a transparent strategy for the disposition of excess retained earnings in the Extension and SRE lines of business, to the benefit of Basic ratepayers, when an RSR rebuilding increase is requested?"*

The Corporation has developed a strategy on the use of Competitive Lines Excess Equity, which is included in *RSR.1.3 Appendix A*.

RSR.1.1.3.1 Transfer to the Basic RSR

The Corporation's Board of Directors directed that $72.7 million be transferred from the Extension line of business to the Basic RSR as at February 29, 2016. This transfer was made to ensure that Basic Total Equity was $231 million, which was the amount required for Basic to have a satisfactory financial condition in the 2015 DCAT report and was the lower RSR target that was approved by the Board in Order 128/15 of the 2016 GRA.

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Any amount to be transferred and when is wholly within the discretion of the Board of Directors of Manitoba Public Insurance. Should there be an unusual and extreme need in the future to consider a future transfer of excess retained earnings to the Basic RSR, the Board (PUB) will be advised based upon the circumstances at that time. In the meantime, Manitoba Public Insurance remains compliant to the legislation on this matter."

Conditions underlying the decision framework

The Board of Directors in exercising this discretion will consider the following conditions and framework for the use of excess equity from the competitive lines of business as it pertains to the Basic insurance line of business.

The purpose of the RSR has been modified to articulate how it has been applied since it was first introduced:

The Purpose of the RSR is to protect motorists from rate increases that would otherwise have been necessary due to *unexpected* *variances from forecasted results and* due to events and losses arising from non-recurring events and factors.

The Minimum RSR target will be based on the 1-in-40 year plausible adverse scenarios determined by the Dynamic Capital Adequacy test (DCAT). The DCAT must be signed off by the Chief Actuary and the Appointed (external) Actuary.

The Maximum RSR target will be based on the 100% Minimum Capital Test calculation.

The Rates approved by the Public Utilities Board cannot create a systemic deficiency in premiums. This means that the PUB cannot approve rates that will create a deficiency in the Basic premium thereby reducing the RSR to unacceptable levels.

Guidelines for the Board of Directors in determining whether a transfer should occur

The conditions noted above will need to exist before the Board of Directors can contemplate any transfer of excess equity from competitive lines to the Basic line of business.

The use of excess equity from the competitive lines, with regards to the Basic line of business, will only be considered in order to prevent the need for a Basic Rate Stabilization Reserve rebuilding fee.

Clearly, the amount of transfer in any given year cannot exceed the amount available in the competitive lines excess equity and the amount and years over which the shortfall to the minimum target will be removed will be at the sole discretion of the Board of Directors.

The Board of Directors will also consider the impact of current financial forecasts in determining the number of years over which the transfer may occur.

As well, the amount of transfer cannot result in the Basic Rate Stabilization Reserve minimum target being exceeded at the time of transfer.

It is also within the Board of Directors discretion to transfer any excess equity (above the maximum Basic RSR amount) from the Basic line of business back to the competitive lines of business up to the amount of the previous transfers made to the Basic line of business.

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