

Investment and Claims Net Interest Rate Impact (Basic)

(in Millions of Dollars)

	2010/11	2011/12	2012/13 Actual	2013/14	2014/15	2015/16	2016/17	2017/18 Forecasted	2018/19	2019/20
Marketable Bond Yield	3.08%	2.75%	2.71%	2.80%	2.27%	3.13%	3.69%	4.47%	4.44%	4.42%
YoY Change	0.02%	-0.33%	-0.04%	0.09%	-0.53%	0.86%	0.56%	0.78%	-0.03%	-0.02%
Claims Discount Rate	4.10%	3.55%	3.53%	3.68%	2.92%	3.47%	3.97%	4.61%	4.63%	4.66%
YoY Change	0.10%	-0.55%	-0.02%	0.15%	-0.76%	0.55%	0.50%	0.64%	0.02%	0.02%
Duration Gap (Years)*	-2.2	-1.5	-1.7	-1.4	-0.7	0.0	0.0	0.0	0.0	0.0
Investments										
Basic Investment Income	83.8	101.2	72.4	147.7	188.5	-10.8	12.8	13.0	100.4	108.1
(1) Marketable Bond Gain/(Loss)**	5.5	51.8	1.7	-21.6	84.3	-90.6	-72.5	-79.2	3.8	4.0
Basic Investment Income excluding Marketable Bond G/L	78.4	49.4	70.7	169.4	104.2	79.8	85.4	92.2	96.6	104.2
Claims										
Basic Net Claims Incurred	333.1	612.0	661.3	747.4	745.8	588.9	677.1	691.7	823.6	862.2
(2) Claims Interest Rate Impact	-8.0	82.6	3.3	-26.1	122.4	-101.9	-85.5	-102.5	-3.5	-3.6
Claims Excluding Interest Rate Impact	341.1	529.4	658.0	773.5	623.4	690.8	762.6	794.2	827.1	865.9
Net Interest Rate Impact										
(1) Marketable Bond Gain/Loss	5.5	51.8	1.7	-21.6	84.3	-90.7	-72.5	-79.2	3.8	4.0
(2) Claims Interest Rate Impact	-8.0	82.6	3.3	-26.1	122.4	-101.9	-85.5	-102.5	-3.5	-3.6
Net Impact of Interest Rates [(1) - (2)]	13.5	-30.8	-1.6	4.5	-38.1	11.2	12.9	23.3	7.3	7.6

* Actual: Column 3 of CAC 1-63 a) based on average duration gap over year, and excludes PfAD. Forecasted: Forecasted Duration of 0.0 Years includes PfAD.

**includes amortization of bond premium or discount

Actual

Average duration gap has historically been negative. When marketable bond yield and claims discount rate fell in a year, the net impact of interest rates was negative. When marketable bond yield and claims discount rate increased, the net impact of interest rates was positive.

Forecasted

Fixed income portfolio is dollar matched to claims on a Corporate basis. As a result, the net impact of a rising interest rate forecast is positive for Basic even when there is a zero year duration gap.

Reduction of Interest Rate Risk: Historical versus Forecasted

In 2011/12 and 2014/15, there was a negative impact of interest rates of (\$30.8) and (\$38.1) million when the marketable bond yield fell by -0.33% and -0.53%, respectively. Interest rate risk is significantly lower in the forecasted years. For example, the forecasted marketable bond yield increased by 0.86% and 0.78% in 2015/16 and 2017/18, which had a relatively smaller net impact of \$11.2 and \$23.3 million, respectively.