

**Investment and Claims Net Interest Rate Impact (Basic)**

(in Millions of Dollars)

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
			<b>Actual</b>					<b>Forecasted</b>		
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
	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
<b>Investments</b>										
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
<b>Claims</b>										
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
<b>Net Interest Rate Impact</b>										
(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)]	<b>13.5</b>	<b>-30.8</b>	<b>-1.6</b>	<b>4.5</b>	<b>-38.1</b>	<b>11.2</b>	<b>12.9</b>	<b>23.3</b>	<b>7.3</b>	<b>7.6</b>
Budgeted Net Interest Rate Impact	-	-	-	<b>-1.3</b>	<b>31.5</b>					
Variance from Budget	<b>13.5</b>	<b>-30.8</b>	<b>-1.6</b>	<b>5.8</b>	<b>-69.6</b>					

\* 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.

**Budget**

The Corporation did not commence budgeting for interest rate impacts until 2013/14