

October 25, 2023

**Undertaking #029**

MPI to show how the Corporation determined the \$30 million capital impact on implementation of the bond strategy, plus any assumptions that were built into the analysis. And then to the extent that they change pro formas 1, 2, and 3.

**RESPONSE:**

The \$30M quoted in the Investment hearing panel was based on the difference in the unpaid claims (LIC) balances as of June 30th, 2023 between the estimates with the bank's forecast of inflation and the 2% break-even assumption assuming 100% hedge ratio in place via the bond-overlay strategy.

MPI has assumed that the bond-overlay strategy would be in place prior to March 31, 2024 and therefore the first period where the break-even 2% applies is as of March 31, 2024. There is no change to fiscal year 2023. MPI has also assumed that the yield curve and forward rates are the same as in the rate update (i.e. yield curve is not naïve) and therefore there will be some interest rate impact in the forecast years. Also, it should be noted that the amount and timing of the cashflows depend on the selected hedge ratio and as noted above, MPI has assumed 100% in their response.

The impact to the income statement (PF-1) is mostly seen in 2023-2024 and is approximately a decrease of \$36M to claims incurred with an impact to the MCT of 8%. There are smaller impacts in the PF-1 in the other forecast years which is due to discounting reduced claims incurred. There are no anticipated significant changes to investment income throughout the forecast period.

Figures 1, 2, 3 and 4 for PF-1, PF-2, PF-3 and PF-1(a) are provided below.

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**Figure 1 PF- 1 - Statement of Operations: - Reduce Forecasted Claims Inflation Reserve to 2% - 0% Rate Change**

2024 GRA Rate Update - Reduce Forecasted Claims Inflation Reserve to 2% - 0% Rate Change										
Line No.		Reclass Adj. from / (to)	IFRS 4	IFRS 17	IFRS 17	IFRS 17	IFRS 17	IFRS 17		
			2023A	IFRS 17 Adj.*	2023A	2024F	2025F	2026F	2027F	2028F
For the Years Ended March 31,										
1										
2	<b>BASIC</b>									
3	Motor Vehicles		1,121,811	-	1,121,811	1,112,046	1,148,089	1,184,975	1,220,445	1,258,751
4	Capital Release Provision		(57,026)	-	(57,026)	-	-	-	-	-
5	Drivers		59,085	-	59,085	62,520	64,822	66,634	67,982	70,043
6	Reinsurance Ceded		(16,392)	-	(16,392)	(16,386)	(16,878)	(17,384)	(17,906)	(18,443)
7	<b>Total Net Premiums Written</b>		<b>1,107,478</b>	<b>-</b>	<b>1,107,478</b>	<b>1,158,180</b>	<b>1,196,033</b>	<b>1,234,225</b>	<b>1,270,521</b>	<b>1,310,351</b>
8	<b>Net Premiums Earned</b>									
9	Motor Vehicles		1,103,695	-	1,103,695	1,119,108	1,130,299	1,166,769	1,202,938	1,239,844
10	Capital Release Provision		(65,568)	-	(65,568)	(28,558)	-	-	-	-
11	Drivers		59,896	-	59,896	61,180	63,693	65,745	67,321	69,032
12	Reinsurance Ceded		(16,392)	-	(16,392)	(16,386)	(16,878)	(17,384)	(17,906)	(18,443)
13	<b>Total Net Premiums Earned</b>		<b>1,081,631</b>	<b>-</b>	<b>1,081,631</b>	<b>1,135,344</b>	<b>1,177,114</b>	<b>1,215,130</b>	<b>1,252,353</b>	<b>1,290,433</b>
14	Service Fees & Other Revenues	(a)	27,277	(436)	26,841	26,904	27,117	27,703	28,333	28,999
15	<b>Total Earned Revenues</b>		<b>1,108,908</b>	<b>(436)</b>	<b>1,108,472</b>	<b>1,162,248</b>	<b>1,204,231</b>	<b>1,242,833</b>	<b>1,280,686</b>	<b>1,319,432</b>
16	Claims Incurred	(b)	903,129	604	903,733	879,114	966,550	1,003,232	1,038,633	1,075,681
17	DPAC \ Premium Deficiency Adjustment		-	-	-	-	-	-	-	-
18	(a) Claims Incurred - Interest Rate Im	(b)	(101,437)	(31,794)	(133,231)	(57,950)	13,533	6,080	(465)	(4,204)
19	<b>Total Claims Incurred</b>		<b>801,692</b>	<b>(31,190)</b>	<b>770,502</b>	<b>821,164</b>	<b>980,083</b>	<b>1,009,312</b>	<b>1,038,168</b>	<b>1,071,477</b>
20	Claims Expense		146,265	(1,408)	144,857	150,855	145,989	140,867	134,089	133,037
21	Road Safety/Loss Prevention		10,530	-	10,530	14,461	12,134	12,060	12,137	12,285
22	<b>Total Claims Costs</b>		<b>958,487</b>	<b>(32,598)</b>	<b>925,889</b>	<b>986,480</b>	<b>1,138,206</b>	<b>1,162,239</b>	<b>1,184,394</b>	<b>1,216,799</b>
23	<b>Expenses</b>									
24	Operating		86,526	(1,408)	85,118	94,979	93,960	90,487	87,121	86,207
25	Commissions	(c)	47,548	297	47,845	50,817	56,280	56,078	56,311	56,596
26	Premium Taxes	(c)	32,941	775	33,716	35,239	36,389	37,550	38,655	39,866
27	Regulatory/Appeal		4,769	-	4,769	4,637	4,239	4,328	4,346	4,366
28	<b>Total Expenses</b>		<b>171,784</b>	<b>(336)</b>	<b>171,448</b>	<b>185,672</b>	<b>190,868</b>	<b>188,443</b>	<b>186,433</b>	<b>187,035</b>
29	<b>Underwriting Income (Loss)</b>	a,b,c	<b>(21,363)</b>	<b>32,498</b>	<b>11,135</b>	<b>(9,904)</b>	<b>(124,843)</b>	<b>(107,849)</b>	<b>(90,141)</b>	<b>(84,402)</b>
30	<b>Investment Income</b>		98,194	-	98,194	113,953	134,689	142,130	150,639	162,028
31	(b) Investment Income - Interest Rate Impact		(115,602)	-	(115,602)	(103,531)	-	-	-	-
32	<b>Net Investment Income</b>		<b>(17,408)</b>	<b>-</b>	<b>(17,408)</b>	<b>10,422</b>	<b>134,689</b>	<b>142,130</b>	<b>150,639</b>	<b>162,028</b>
33	<b>Gain (Loss) on Sale of Property</b>		112	-	112	-	-	-	-	-
34	<b>Net Income (Loss) from Operations</b>		<b>(38,659)</b>	<b>32,498</b>	<b>(6,161)</b>	<b>518</b>	<b>9,846</b>	<b>34,281</b>	<b>60,498</b>	<b>77,626</b>
36	Total net Impact due to interest rate change (b) - (a)		(14,165)	31,794	17,629	(45,581)	(13,533)	(6,080)	465	4,204
37	<b>Net Income (Loss) from Operations</b>					<b>518</b>	<b>9,846</b>	<b>34,281</b>	<b>60,498</b>	<b>77,626</b>
38	Adjust for Initiative Expenses (BO 12.1 d)					(27,608)	(24,017)	(24,202)	(6,935)	(1)
39	<b>Net Income (Loss) for for Rate Setting Purposes</b>					<b>28,126</b>	<b>33,863</b>	<b>58,483</b>	<b>67,433</b>	<b>77,627</b>

\* IFRS 17 Adjustments are for fiscal year 2022-23 only.

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**Figure 2 PF- 2 - Statement of Financial Position: - Reduce Forecasted Claims Inflation Reserve to 2% - 0% Rate Change**

		<i>2024 GRA Rate Update - Reduce Forecasted Claims Inflation Reserve to 2% - 0% Rate Change</i>					
Line		<i>IFRS 17</i>	<i>IFRS 17</i>	<i>IFRS 17</i>	<i>IFRS 17</i>	<i>IFRS 17</i>	<i>IFRS 17</i>
No.	(C\$ 000s, rounding may affect totals)						
		<u>2023A</u>	<u>2024F</u>	<u>2025F</u>	<u>2026F</u>	<u>2027F</u>	<u>2028F</u>
2	<b>BASIC</b>						
3	<b>Assets</b>						
4	Cash and cash equivalents	101,407	59,555	51,545	40,799	32,939	25,185
5	Investments	2,768,029	2,811,664	2,887,725	3,009,225	3,193,757	3,401,852
6	Investment property	5,759	5,604	5,449	5,295	5,140	4,985
7	Accounts receivable	117,843	-	-	-	-	-
8	Prepaid expenses	2,732					
9	Reinsurance asset	3,838	-	-	-	-	-
10	Property and Equipment	117,471	133,543	144,396	167,842	168,994	170,146
11	Deferred development costs	45,518	33,972	36,441	34,092	27,910	22,032
12	<b>Total Assets</b>	<b>3,162,596</b>	<b>3,044,338</b>	<b>3,125,556</b>	<b>3,257,253</b>	<b>3,428,740</b>	<b>3,624,200</b>
13	<b>Liabilities</b>						
14	Due to other insurance companies						
15	Accounts payable and accrued liabilities	45,687	69,113	66,856	64,607	61,987	61,517
16	Reinsurance Liability	-	320	320	320	320	320
17	Lease obligation	5,014	5,276	5,153	5,031	4,908	4,785
18	Insurance contract liability	2,288,292	2,121,647	2,183,389	2,243,428	2,300,791	2,358,780
19	Provision for employee current benefits	18,889	20,670	21,347	22,024	22,701	23,378
20	Provision for employee future benefits	313,985	327,878	339,210	350,543	361,876	373,208
21	<b>Total Liabilities</b>	<b>2,671,867</b>	<b>2,544,904</b>	<b>2,616,275</b>	<b>2,685,953</b>	<b>2,752,583</b>	<b>2,821,988</b>
22	<b>Equity</b>						
23	Retained Earnings	435,784	477,181	487,028	549,048	653,905	779,959
24	Accumulated Other Comprehensive Income	54,946	22,251	22,251	22,251	22,251	22,251
25	<b>Total Equity</b>	<b>490,729</b>	<b>499,432</b>	<b>509,279</b>	<b>571,299</b>	<b>676,156</b>	<b>802,210</b>
26	<b>Total Liabilities &amp; Equity</b>	<b>3,162,596</b>	<b>3,044,335</b>	<b>3,125,554</b>	<b>3,257,252</b>	<b>3,428,739</b>	<b>3,624,199</b>

\* Includes April 1, 2022 and fiscal 2022-23 adjustments

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**Figure 3 PF- 3 - Statement of Changes in Equity: - Reduce Forecasted Claims Inflation Reserve to 2% - 0% Rate Change**

<i>2024 GRA Rate Update - Reduce Forecasted Claims Inflation Reserve to 2% - 0% Rate Change</i>									
Line No. (C\$ 000s, except where noted)	IFRS 4	IFRS 17	IFRS 17	IFRS 17	IFRS 17	IFRS 17	IFRS 17		
	2023A	IFRS 17 Adj.	2023A	2024F	2025F	2026F	2027F	2028F	
<b>BASIC</b>									
1	<b>Total Equity</b>								
2	<b>Retained Earnings</b>								
3	Beginning Balance	359,335	435,784	435,784	477,181	487,027	549,046	653,902	
4	Restatement of AOCI on AFS Assets (IFRS 9)			46,845	-	-	-	-	
5	Restatement of MUSH Assets to FVTPL (IFRS 9)			(5,966)	-	-	-	-	
6	Restatement of Claims Discount Rate (IFRS 17)*	-	(30,155)	-	-	-	-	-	
7	Restatement of Risk Adjustment (IFRS 17)*	-	116,438	-	-	-	-	-	
8	Restatement of DPAC (IFRS 17)*	-	(37,673)	-	-	-	-	-	
9	Net Income (Loss) from Operations	(38,659)	32,498	518	9,846	34,281	60,498	77,626	
10	Rebate to Policyholders	-	-	-	-	-	-	-	
11	Transfer (to) / from Non-Basic Retained Earnings	34,000	-	-	-	27,738	44,358	48,425	
12	<b>Total Retained Earnings</b>	<b>354,676</b>	<b>81,108</b>	<b>435,784</b>	<b>477,181</b>	<b>487,027</b>	<b>549,046</b>	<b>779,953</b>	
13	<b>Total Accumulated Other Comprehensive Income</b>								
14	Beginning Balance	51,428	51,428	54,946	22,251	22,251	22,251	22,251	
15	Other Comprehensive Income on Available for Sale Assets	(31,291)	(31,480)	1,846	-	-	-	-	
16	Restatement of AOCI on AFS Assets (IFRS 9)			(46,845)	-	-	-	-	
17	Change in Remeasurement of Employee Future Benefits	36,656	34,998	12,304	-	-	-	-	
18	<b>Total Accumulated Other Comprehensive Income</b>	<b>56,793</b>	<b>(1,847)</b>	<b>54,946</b>	<b>22,251</b>	<b>22,251</b>	<b>22,251</b>	<b>22,251</b>	
19	<b>Total Accumulated Other Comprehensive Income Balance</b>								
20	<b>Employee Future Benefits Portfolio</b>								
21	Available for Sale Assets	30,889	29,492	0	0	0	0	0	
22	Employee Future Benefits Liabilities	9,946	9,496	22,251	22,251	22,251	22,251	22,251	
23	<b>Rate Stabilization Reserve Portfolio</b>								
24	Available for Sale Assets	15,957	15,957	0	0	0	0	0	
25	<b>Total Accumulated Other Comprehensive Income Balance</b>	<b>56,793</b>	<b>54,946</b>	<b>22,251</b>	<b>22,251</b>	<b>22,251</b>	<b>22,251</b>	<b>22,251</b>	
26	<b>Total Equity Balance</b>	<b>411,469</b>	<b>79,261</b>	<b>490,730</b>	<b>499,432</b>	<b>509,278</b>	<b>571,297</b>	<b>676,153</b>	<b>802,204</b>
	<i>*Restatement calculated as at April 1, 2022</i>								
27	<b>MINIMUM CAPITAL TEST (C\$ 000s)</b>								
28	Total Equity Balance	411,467	79,263	490,730	499,432	509,278	571,297	676,153	802,204
29	Less: Assets Requiring 100% Capital	28,366	28,366	28,366	33,972	36,441	34,092	27,910	22,032
30	Capital Available (a)	383,101	79,263	462,364	465,460	472,837	537,205	648,243	780,172
31	Minimum Capital Required (100% MCT) (b)	345,847	(4,518)	341,329	408,945	444,395	463,395	485,703	517,180
32	<b>MCT Ratio % (a) / (b)</b>	<b>110.8%</b>	<b>24.7%</b>	<b>135.5%</b>	<b>113.8%</b>	<b>106.4%</b>	<b>115.9%</b>	<b>133.5%</b>	<b>150.9%</b>

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**Figure 4 PF- 1(a) Statement of Operations – IFRS 17 view: - Reduce Forecasted Claims Inflation Reserve to 2% - 0% Rate Change**

		<i>2024 GRA Rate Update - Reduce Forecasted Claims Inflation Reserve to 2% - 0% Rate Change</i>					
Line		<i>IFRS 17</i>	<i>IFRS 17</i>	<i>IFRS 17</i>	<i>IFRS 17</i>	<i>IFRS 17</i>	<i>IFRS 17</i>
No.	<i>(C\$ 000s, rounding may affect totals)</i>	<i>For the Years Ended March 31,</i>					
		<u>2023A</u>	<u>2024F</u>	<u>2025F</u>	<u>2026F</u>	<u>2027F</u>	<u>2028F</u>
2	<b>BASIC</b>						
3	Insurance revenue	1,113,717	1,167,950	1,210,341	1,249,216	1,287,341	1,326,360
4	Insurance service expenses	1,058,088	1,033,182	1,126,187	1,157,054	1,185,232	1,219,579
5	Recovered claims from reinsurance contracts	2,963	(112)	(23)	(8)	(8)	(9)
6	Expenses from reinsurance contracts held	16,392	16,386	16,878	17,384	17,906	18,443
7	<b>Insurance service result</b>	<b>42,200</b>	<b>118,382</b>	<b>67,277</b>	<b>74,778</b>	<b>84,203</b>	<b>88,339</b>
8	<b>Net investment income</b>	<b>(17,408)</b>	<b>10,422</b>	<b>134,689</b>	<b>142,130</b>	<b>150,639</b>	<b>162,028</b>
9	Finance expenses from insurance contracts issued	(51,466)	36,731	105,851	99,832	95,593	94,923
10	Finance income from reinsurance contracts held	(90)	44	147	119	104	95
11	<b>Net insurance finance expenses</b>	<b>(51,376)</b>	<b>36,688</b>	<b>105,704</b>	<b>99,713</b>	<b>95,489</b>	<b>94,828</b>
12	<b>Net insurance and investment result</b>	<b>76,167</b>	<b>92,004</b>	<b>96,238</b>	<b>117,188</b>	<b>139,346</b>	<b>155,530</b>
13	Other Income	11,148	10,684	10,768	11,001	11,251	11,516
14	Other Operating expenses	93,588	102,170	97,159	93,907	90,098	89,416
15	Gain (loss) on disposal of property and equipment	112	-	-	-	-	-
17	<b>Net Income (Loss) from Operations</b>	<b>(6,161)</b>	<b>518</b>	<b>9,848</b>	<b>34,282</b>	<b>60,499</b>	<b>77,630</b>
18	Adjust for Initiative Expenses (BO 12.1 d)	-	(27,608)	(24,017)	(24,202)	(6,935)	(1)
19	<b>Net Income (Loss) for for Rate Setting Purposes</b>	<b>(6,161)</b>	<b>28,126</b>	<b>33,865</b>	<b>58,484</b>	<b>67,434</b>	<b>77,631</b>