

PUB (MPI) Pre-Ask 2

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|----------------------------|--------------------------------------|------------------|--|
| Volume and Chapter: | PUB (MPI) 2-10(a), 2-11, 2-38 | Page No.: | |
| Topic: | | | |
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| Issue: | | | |

Preamble to IR (If Any):**Question:**

- a) Please provide, with supporting schedules as appropriate, an estimate of a Capital Maintenance provision (conceptually similar to that used by Saskatchewan Auto Fund, making provision in the rate indications to maintain Basic's capital position into the next rating year).
- b) Please provide an update to the response to PUB (MPI) 2-11 now also including the estimated Capital Maintenance provision from a) above, including:
- i. an update to Figure RM-11; and
 - ii. a corresponding updated response to PUB (MPI) 2-36.

Rationale for Question:**RESPONSE:**

While MPI has no issues responding to this request, MPI would be concerned if the PUB, on its own initiative, adopted a Capital Maintenance provision methodology without the full and proper considerations. MPI has not applied for a Capital Maintenance provision as this not been considered, nor approved, by MPI's Board of Directors and Executives.

The concept has been only lightly canvassed in this proceeding, through one previous information request to generally describe the process, that is 'conceptually similar' to that of SGI. Essentially, MPI has been asked to develop an entirely new mechanism for the Rate Stabilization Reserve (RSR) framework, at a very late stage in the general rate application process, and under the significant time constraints of the oral hearing.

The development of this framework requires significantly more time in order to understand the following: purpose and design of Basic's RSR framework, amelioration of Basic's thinly capitalized state, rebate of RSR investment income in premium rates, necessity of capital build/release provisions, and interdependencies of these factors with the ultimate request on ratepayers and MPI's mandate. MPI has not considered these factors to its satisfaction, and suggests that if the PUB wishes to consider alternative approaches to the RSR framework, that it direct MPI to bring such a proposal in the next GRA. This would allow both MPI, the PUB and other interveners, to fully consider the range of implications of any new proposal. In MPI's respectful submission, it would also allow MPI to adopt and support such a holistic approach, and avoid the strong resistance to incremental changes that in isolation are not appropriate for current circumstances of Basic.

- a) The capital maintenance provision methodology used by Saskatchewan Government Insurance (SGI) is provided on PDF page 4 of [PUB \(MPI\) 2-38 Attachment A](#). The purpose of the Capital Maintenance provision (as described by SGI) is "an additional amount of capital is required in order to maintain the Minimal Capital Test (MCT) at its current level". MPI has used this policy to show how MPI would respond *if* it calculated a Capital Maintenance amount to "maintain the MCT at its current level" of 42.76% MCT as of February 28, 2018. However, as described below, the question is actually only taking a portion of SGI's framework in isolation. Grafting one aspect of SGI's capital framework on to MPI's rate-setting, and disregarding the other elements of the framework, is problematic given the current financial condition of Basic.

A Capital Maintenance provision, such as the one used by SGI works as follows. The MCT calculation is the ratio of capital available to capital required, expressed

as a percentage. When the business grows, the denominator (capital required) also grows because more capital is required to backstop the greater potential for claims. The Capital Maintenance provision is the amount by which the rate would have to increase to ensure that the numerator (capital available) kept pace with the growth of the denominator, yielding the same percentage. A Capital Maintenance provision only maintains the MCT, and does not build it in circumstances where the MCT is deficient.

Capital Maintenance Provision in the Event that Investment Income on Total Equity Remains in the RSR

Figure 1 below is reproduced from the DCAT report. This figure is predicated on the investment income on total equity remaining in the RSR. As described later in this response, if that is not the case, then the Capital Maintenance provision would be higher.

Figure DCAT- 1: 1.2 Base Scenario: Includes proposed 2.7% rate increase in 2018/19

| Line No. | | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|----------|---|---------|---------|---------|---------|---------|
| 1 | <i>(in millions)</i> | | | | | |
| 2 | Net Income | \$58 | (\$21) | (\$8) | (\$7) | (\$17) |
| 3 | Retained Earnings | \$157 | \$136 | \$127 | \$120 | \$103 |
| 4 | AOCI¹ | \$63 | \$69 | \$76 | \$80 | \$89 |
| 5 | Total Equity² | \$220 | \$205 | \$204 | \$201 | \$192 |
| 6 | MCT Ratio³ | 42.76% | 33.83% | 30.77% | 28.65% | 26.05% |
| 7 | 1. Accumulated Other Comprehensive Income | | | | | |
| 8 | 2. Total Equity = Retained Earnings + AOCI | | | | | |
| 9 | 3. Minimum Capital Test Ratio based on the 2016 MCT Guideline | | | | | |

The projected MCT score for Basic at the end of FY 2017/18 is 42.76%. In Figure 1 below, MPI has calculated the required Capital Maintenance provisions for each rate application such that Basic would maintain an MCT ratio of 42.76% over the entire forecast period. The rating years beyond FY 2018/19 assume no rate changes in the forecast, so the calculated Capital Maintenance provisions would be higher or lower depending on the approved rate changes in those years.

Figure 1: Capital Maintenance Provision Schedule for 42.76% MCT Target

| Line No. | Provision Schedule | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|----------|---------------------|---------|---------|---------|---------|
| 1 | Rate Change | 2.70% | 0.00% | 0.00% | 0.00% |
| 2 | Capital Maintenance | 4.26% | 0.83% | 0.95% | 0.95% |
| 3 | MCT Ratio | 42.76% | 42.76% | 42.76% | 42.76% |

Please see [Appendix 1](#) for the supporting schedules to support the above Capital Maintenance calculations.

Capital Maintenance Provision in the Event that Investment Income on Total Equity is Rebated in Rates

As calculated in Undertaking #15, if the investment income on total equity is used to set premiums below cost, then the Capital Maintenance provision would be higher because it must overcome the -1.0% to -1.5% negative profit provision inherent in the use of income on total equity to reduce rates. It will be noted that MPI's proposal to retain the income on total equity within the RSR actually has a lower impact on ratepayers than this approach below.

SGI has a Capital Build Provision as Well as a 100% MCT Target

Although not referenced in this Pre-Ask, SGI also has a Capital Build and Release Provision that is an integral part of their Capital Management Policy. The Capital Build and Release provision "requires that SAF [Saskatchewan Auto Fund] recover 1/5 in the deficiency in capital below 100% MCT every year in the base insurance rate". If Basic had an equivalent Capital Build provision as SGI and SGI's capital target, then the provision would be calculated by taking 1/5th of the difference between the target MCT score (100.00% MCT) and the forecasted fiscal year end 2017/18 MCT (42.76%), which equates to an increase in the MCT score from 42.76% in 2017/18 to 54.21%. Based on these calculations, MPI Basic would require an additional 13.85% Capital Build provision *in addition to* the 4.26% Capital Maintenance provision calculated above. MPI believes that a Capital

Maintenance and rebuild provision in excess of 18%, in addition to the indicated rate increase, would not be in the public interest, but the magnitude of a such as capital provision does emphasize the difference in the financial positions of two otherwise comparable crown auto insurers.

- b) For the purposes of answering this question, MPI has assumed a FY 2018/19 Capital Maintenance provision of 4.26% for the 2018/19 rating year. Figure 2 below presents the experience rate changes by major class and overall, including the Capital Maintenance provision of 4.26%. Two sets of experience rate changes are provided. The first set is based on the initial filing per *Volume II Ratemaking, Figure RM-11*. The second set is based on the response to PUB (MPI) 2-36, which is based on no changes to the DSR scale. MPI did not run the rate model to obtain the proposed rate changes since the proposed rate changes are, in general, approximately equal to the experience rate changes.

Figure 2: Experience Rate Change

| Line No. | Major Class | Experience Rate Change per RM.11 | Experience Rate Change per PUB 2-36 |
|----------|-------------------|----------------------------------|-------------------------------------|
| 1 | Private Passenger | 6.9% | 8.5% |
| 2 | Commercial | 5.6% | 7.9% |
| 3 | Public | 5.3% | 6.3% |
| 4 | Motorcycles | 7.1% | 9.3% |
| 5 | Trailers | 21.6% | 21.5% |
| 6 | Off-Road Vehicles | -41.6% | -41.5% |
| 7 | Overall | 7.0% | 8.6% |

Appendix 1a
Capital Maintenance Provision Scenario with 42.76% MCT Target
Statement of Operations

*(C\$ 000s, except where noted)**For the Years Ended February,*

| | 2015A | 2016A | 2017A | 2018P | 2019P | 2020P | 2021P | 2022P |
|--|------------------|-----------------|------------------|-----------------|------------------|------------------|------------------|------------------|
| BASIC | | | | | | | | |
| Motor Vehicles | 794,052 | 854,170 | 886,998 | 958,740 | 1,068,733 | 1,076,253 | 1,122,906 | 1,169,158 |
| Drivers | 44,642 | 46,619 | 48,426 | 50,334 | 69,148 | 71,252 | 73,311 | 75,162 |
| Reinsurance Ceded | (13,829) | (12,423) | (11,635) | (11,291) | (11,517) | (11,747) | (11,982) | (12,222) |
| Total Net Premiums Written | 824,865 | 888,365 | 923,789 | 997,783 | 1,126,364 | 1,135,758 | 1,184,234 | 1,232,098 |
| Net Premiums Earned | | | | | | | | |
| Motor Vehicles | 774,784 | 827,701 | 871,174 | 925,950 | 1,017,938 | 1,072,780 | 1,101,361 | 1,147,798 |
| Drivers | 42,926 | 45,787 | 47,606 | 49,265 | 59,702 | 70,196 | 72,277 | 74,233 |
| Reinsurance Ceded | (13,829) | (12,423) | (11,635) | (11,291) | (11,517) | (11,747) | (11,982) | (12,222) |
| Total Net Premiums Earned | 803,881 | 861,065 | 907,145 | 963,924 | 1,066,123 | 1,131,229 | 1,161,656 | 1,209,809 |
| Service Fees & Other Revenues | 19,476 | 20,351 | 20,748 | 22,204 | 24,328 | 26,659 | 28,581 | 30,908 |
| Total Earned Revenues | 823,358 | 881,416 | 927,893 | 986,129 | 1,090,451 | 1,157,888 | 1,190,237 | 1,240,717 |
| Net Claims Incurred | 623,437 | 742,604 | 869,023 | 827,183 | 864,917 | 907,882 | 953,351 | 1,000,665 |
| (a) Claims Incurred - Interest Rate Impact | 122,400 | (76,200) | (8,988) | (75,641) | 8,465 | 1,930 | 42 | (294) |
| Total Claims Incurred | 745,837 | 666,404 | 860,035 | 751,542 | 873,382 | 909,812 | 953,393 | 1,000,371 |
| Claims Expense | 745,837 | 666,404 | 860,035 | 739,414 | 848,973 | 924,144 | 955,565 | 1,006,372 |
| Road Safety/Loss Prevention | - | - | - | - | - | - | - | - |
| Total Claims Costs | 116,578 | 118,614 | 120,972 | 134,294 | 137,885 | 139,759 | 142,796 | 144,197 |
| Expenses | | | | | | | | |
| Operating | - | - | - | - | - | - | - | - |
| Commissions | - | - | - | - | - | - | - | - |
| Premium Taxes | 74,283 | 71,641 | 72,785 | 72,563 | 74,921 | 75,428 | 77,255 | 79,264 |
| Regulatory/Appeal | 32,845 | 33,862 | 35,086 | 37,655 | 41,190 | 43,647 | 44,729 | 46,543 |
| Total Expenses | 24,531 | 26,205 | 27,563 | 29,256 | 32,329 | 34,289 | 35,209 | 36,661 |
| Underwriting Income (Loss) | 135,594 | 135,383 | 140,323 | 143,528 | 152,573 | 157,581 | 161,495 | 166,856 |
| Investment Income | (270,278) | 503 | (187,219) | (44,317) | (62,071) | (76,536) | (82,828) | (90,153) |
| (b) Investment Income - Interest Rate Impact | 84,267 | (52,515) | (18,748) | (0) | (0) | (0) | 0 | (0) |
| Net Investment Income | (186,011) | (52,012) | (205,967) | (44,317) | (62,071) | (76,536) | (82,828) | (90,153) |
| Net Income (Loss) from Operations | 188,451 | (4,038) | 82,897 | 101,827 | 78,605 | 81,038 | 84,118 | 86,972 |
| DPAC / Premium Deficiency writedown Adj. | - | - | - | - | - | - | - | - |
| Net Income (Loss) | 2,440 | (56,050) | (123,070) | 57,510 | 16,535 | 4,503 | 1,290 | (3,181) |
| Total net Impact due to interest rate change (b) - (a) | (38,133) | 23,685 | (9,760) | 75,641 | (8,465) | (1,930) | (42) | 294 |

Appendix 1b
Capital Maintenance Provision Scenario with 42.76% MCT Target
Statement of Changes in Equity

(C\$ 000s, except where noted)

| | For the Years Ended February, | | | | | | | |
|---|-------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2015A | 2016A | 2017A | 2018P | 2019P | 2020P | 2021P | 2022P |
| Retained Earnings | | | | | | | | |
| Beginning Balance | 99,878 | 177,818 | 194,497 | 99,251 | 156,760 | 173,295 | 177,798 | 179,087 |
| Net Income (Loss) from annual operations | 2,440 | (56,050) | (123,070) | 57,510 | 16,535 | 4,503 | 1,290 | (3,181) |
| Premium Rebate | - | - | - | - | - | - | - | - |
| Transfer (to) / from Non-Basic Retained Earnings | 75,500 | 72,729 | 27,824 | - | - | - | - | - |
| Total Retained Earnings | 177,818 | 194,497 | 99,251 | 156,760 | 173,295 | 177,798 | 179,087 | 175,907 |
| Total Accumulated Other Comprehensive Income | | | | | | | | |
| Beginning Balance | - | - | - | - | - | - | - | - |
| Other Comprehensive Income for the Year | - | - | - | - | - | - | - | - |
| Total Accumulated Other Comprehensive Income | - | - | - | - | - | - | - | - |
| Total Equity Balance | - | - | - | - | - | - | - | - |
| Total Equity | | | | | | | | |
| Rate Stabilization Reserve | | | | | | | | |
| Retained Earnings | 177,818 | 194,497 | 99,251 | 156,760 | 173,295 | 177,798 | 179,087 | 175,907 |
| Accumulated Other Comprehensive Income | 35,262 | 36,504 | 81,749 | 63,369 | 69,650 | 77,290 | 85,506 | 93,759 |
| Total Rate Stabilization Reserve | 213,080 | 231,001 | 181,000 | 220,129 | 242,945 | 255,088 | 264,593 | 269,666 |
| Retained Earnings in excess of Rate Stabilization Reserve | - | - | - | - | - | - | - | - |
| Total Equity Balance | 213,080 | 231,001 | 181,000 | 220,129 | 242,945 | 255,088 | 264,593 | 269,666 |

RESERVE TARGETS

| | | | | | | | | |
|--------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| DCAT Total Equity Lower Target | 213,000 | 231,000 | 231,000 | 181,000 | 181,000 | 181,000 | 181,000 | 181,000 |
| MCT Total Equity Upper Target | 325,000 | 325,000 | 325,000 | 366,000 | 411,000 | 438,000 | 438,000 | 438,000 |

Appendix 1c
Capital Maintenance Provision Scenario with 42.76% MCT Target
Balance Sheet

(C\$ 000s, except where noted)

| | For the Years Ended February, | | | | | | | |
|--|-------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2015A | 2016A | 2017A | 2018P | 2019P | 2020P | 2021P | 2022P |
| BASIC | | | | | | | | |
| Assets | | | | | | | | |
| Cash and investments | 2,061,262 | 2,083,349 | 2,189,534 | 2,317,540 | 2,430,616 | 2,538,247 | 2,642,445 | 2,746,142 |
| Equity investments | 35,087 | 35,789 | 35,615 | 35,939 | 37,933 | 38,021 | 37,974 | 37,225 |
| Investment property | 108 | 25 | 16 | - | - | - | - | - |
| Due from other insurance companies | 348,697 | 375,262 | 355,389 | 334,047 | 370,450 | 375,074 | 389,892 | 404,613 |
| Accounts receivable | - | - | - | - | - | - | - | - |
| Prepaid expenses | - | 4,782 | - | 3,286 | 30,872 | 16,757 | 15,933 | 11,268 |
| Deferred policy acquisition costs | - | - | - | - | - | - | - | - |
| Reinsurers' share of unearned premiums | 2,565 | 998 | 611 | - | - | - | - | - |
| Reinsurers' share of unearned claims | 90,474 | 88,740 | 89,847 | 88,665 | 90,237 | 90,615 | 88,071 | 84,746 |
| Property and equipment | 56,992 | 65,414 | 72,866 | 69,306 | 68,993 | 73,052 | 74,346 | 72,608 |
| Deferred development costs | 2,650,693 | 2,683,473 | 2,805,484 | 2,860,291 | 3,039,993 | 3,146,239 | 3,266,018 | 3,379,147 |
| | - | - | - | - | - | - | - | - |
| Liabilities | | | | | | | | |
| Due to other insurance companies | 34,157 | 38,860 | 40,443 | 31,263 | 32,225 | 32,454 | 33,083 | 33,631 |
| Accounts payable and accrued liabilities | 3,224 | 3,278 | 3,239 | 2,983 | 2,907 | 2,826 | 2,726 | 2,618 |
| Financing lease obligation | 426,137 | 453,389 | 472,041 | 508,231 | 571,816 | 579,968 | 606,474 | 633,018 |
| Unearned premiums and fees | 16,240 | 16,871 | 16,919 | 17,362 | 18,087 | 18,822 | 19,568 | 20,325 |
| Provision for employee current benefits | 286,581 | 281,209 | 301,245 | 310,108 | 323,746 | 338,675 | 354,155 | 370,177 |
| Provision for employee future benefits | 1,671,275 | 1,658,713 | 1,790,450 | 1,770,101 | 1,848,154 | 1,918,292 | 1,985,305 | 2,049,599 |
| Provision for unpaid claims | 2,437,614 | 2,452,472 | 2,624,484 | 2,640,162 | 2,797,048 | 2,891,151 | 3,001,425 | 3,109,481 |
| | - | - | - | - | - | - | - | - |
| Equity | | | | | | | | |
| Retained earnings | 35,262 | 36,504 | 81,749 | 63,369 | 69,650 | 77,290 | 85,506 | 93,759 |
| Accumulated Other Comprehensive Income | 213,081 | 231,001 | 181,000 | 220,129 | 242,945 | 255,088 | 264,593 | 269,666 |
| Total Equity | 2,650,695 | 2,683,473 | 2,805,484 | 2,860,291 | 3,039,993 | 3,146,239 | 3,266,018 | 3,379,147 |
| Total Liabilities & Equity | - | - | - | - | - | - | - | - |

Appendix 1d
Capital Maintenance Provision Scenario with 42.76% MCT Target
Minimum Capital Test

(All figures in \$000s)

| | | 2017 - 2018 | 2018 - 2019 | 2019 - 2020 | 2020 - 2021 | 2021 - 2022 |
|--|-----------|-------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | | Current Year (01) | Forecast Year (02) | Forecast Year (03) | Forecast Year (04) | Forecast Year (05) |
| Capital Available: | | | | | | |
| Capital available (from page 30.62 - capital available) | 01 | 150,823 | 173,952 | 182,036 | 190,247 | 197,058 |
| Phase-in of capital available | 03 | 0 | 0 | 0 | 0 | 0 |
| Total Capital Available | 09 | 150,823 | 173,952 | 182,036 | 190,247 | 197,058 |
| Assets Available: | | | | | | |
| Net Assets Available (from page 30.92 - net assets available) | 11 | 0 | 0 | 0 | 0 | 0 |
| Phase-in of net assets available | 13 | 0 | 0 | 0 | 0 | 0 |
| Total Net Assets Available | 19 | 0 | 0 | 0 | 0 | 0 |
| Capital (Margin) Required at Target: | | | | | | |
| Insurance Risk: | | | | | | |
| Premium liabilities | 20 | 87,650 | 98,932 | 99,780 | 104,009 | 108,183 |
| Unpaid claims | 22 | 186,823 | 195,207 | 202,858 | 210,237 | 217,392 |
| Catastrophes | 24 | 0 | 0 | 0 | 0 | 0 |
| Margin required for reinsurance ceded to unregistered insurers | 26 | 0 | 0 | 0 | 0 | 0 |
| Subtotal: Insurance risk margin | 29 | 274,473 | 294,139 | 302,638 | 314,246 | 325,575 |
| Market Risk: | | | | | | |
| Interest rate risk | 30 | 6,928 | 23,764 | 26,306 | 27,029 | 26,367 |
| Foreign exchange risk | 32 | 16,542 | 20,897 | 21,842 | 23,971 | 25,909 |
| Equity risk | 34 | 140,755 | 173,744 | 189,577 | 201,012 | 209,708 |
| Real estate risk | 36 | 58,295 | 61,009 | 62,976 | 64,696 | 66,266 |
| Other market risk exposures | 38 | 0 | 0 | 0 | 0 | 0 |
| Subtotal: Market risk margin | 39 | 222,520 | 279,414 | 300,701 | 316,708 | 328,250 |
| Credit Risk: | | | | | | |
| Counterparty default risk for balance sheet assets | 40 | 32,995 | 38,324 | 37,885 | 39,259 | 40,251 |
| Counterparty default risk for off-balance sheet exposures | 42 | 0 | 0 | 0 | 0 | 0 |
| Counterparty default risk for unregistered reinsurance collateral and SIRs | 44 | 0 | 0 | 0 | 0 | 0 |
| Subtotal: Credit risk margin | 49 | 32,995 | 38,324 | 37,885 | 39,259 | 40,251 |
| Operational risk margin | 50 | 69,994 | 80,169 | 82,898 | 86,573 | 89,798 |
| Less: Diversification credit | 52 | 70,907 | 81,845 | 85,617 | 89,417 | 92,606 |
| Total Capital (Margin) Required at Target | 59 | 529,075 | 610,201 | 638,505 | 667,369 | 691,268 |
| Minimum Capital (Margin) Required (line 59 / 1.5) | 60 | 352,716 | 406,801 | 425,670 | 444,912 | 460,846 |
| Phase-in of Capital (Margin) Required | 62 | 0 | 0 | 0 | 0 | 0 |
| Total Minimum Capital (Margin) Required | 69 | 352,716 | 406,801 | 425,670 | 444,912 | 460,846 |
| Excess Capital (Net Assets Available) over Minimum Capital (Margin) Required | 79 | (201,893) | (232,849) | (243,634) | (254,665) | (263,788) |
| MCT (BAAT) Ratio (Line 09 or line 19 as a % of line 69) | 90 | 42.76% | 42.76% | 42.76% | 42.76% | 42.76% |

Appendix 1e
Capital Maintenance Provision Scenario with 42.76% MCT Target
Net Claims Incurred Summary

| <i>(C\$ 000s, except where noted)</i> | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|--|----------------|----------------|----------------|----------------|----------------|------------------|
| Claims Incurred before Financial Provisions | | | | | | |
| Collision | 392,497 | 417,031 | 444,957 | 474,905 | 506,936 | 541,164 |
| Comprehensive | 117,204 | 106,810 | 113,435 | 120,000 | 126,907 | 134,207 |
| Property Damage | 42,769 | 44,363 | 46,001 | 47,674 | 49,432 | 51,272 |
| Public Liability - BI | 5,443 | 4,362 | 4,594 | 4,598 | 4,629 | 4,672 |
| PIPP | 240,544 | 141,676 | 213,880 | 210,962 | 211,956 | 213,445 |
| Total | 798,458 | 714,241 | 822,868 | 858,139 | 899,859 | 944,760 |
| Unallocated Loss Adjustment Expenses | 39,869 | 42,205 | 43,912 | 45,902 | 47,910 | 50,195 |
| Change in Internal Loss Adjustment Expense Provision | 10,168 | (4,904) | 6,602 | 5,771 | 5,624 | 5,416 |
| Change in Reinsurance Ceded Provision | 786 | 0 | 0 | 0 | 0 | 0 |
| Other Financial Adjustments | (2,217) | 0 | 0 | 0 | 0 | 0 |
| Change in DPAC / Premium Deficiency Provision | 12,971 | (12,128) | (24,409) | 14,332 | 2,172 | 6,001 |
| Total Net Claims Incurred | 860,035 | 739,415 | 848,973 | 924,144 | 955,565 | 1,006,373 |

Appendix 1f
Capital Maintenance Provision Scenario with 42.76% MCT Target
Deferred Policy Acquisition Expenses and Premium Deficiency

A. Claims (Including External Adjustment Expense) Data

| | Accident Year | | | | | | | | | | Selected Undisc | Selected Disc |
|--|---------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-----------------|---------------|
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | | |
| 1. Ultimate Loss Ratio - Total All Coverage | 78.66% | 85.02% | 74.77% | 79.56% | 79.13% | 77.83% | 73.84% | 73.08% | 74.77% | 74.81% | | |
| 2. Trend/Rate Adjustment for Fiscal Year | | | | | | | | | | | | |
| 2016 | 0.9434 | 0.9218 | 0.9370 | 0.9705 | 0.9861 | | | | | | | |
| 2017 | | 0.9165 | 0.9273 | 0.9559 | 0.9667 | 0.9910 | | | | | | |
| 2018 | | | 0.8843 | 0.9047 | 0.9080 | 0.9239 | 0.9760 | | | | | |
| 2019 | | | | 0.9398 | 0.9439 | 0.9611 | 1.0159 | 1.0302 | | | | |
| 2020 | | | | | 0.9464 | 0.9635 | 1.0184 | 1.0327 | 1.0134 | | | |
| 2021 | | | | | | 0.9753 | 1.0295 | 1.0425 | 1.0217 | 1.0155 | | |
| 3. Adjusted Loss Ratio for Fiscal Year [(1) x (2)] | | | | | | | | | | | | |
| 2016 | 74.21% | 78.37% | 70.06% | 77.21% | 78.03% | | | | | | 76.49% | 80.98% |
| 2017 | | 77.92% | 69.34% | 76.05% | 76.50% | 77.13% | | | | | 76.56% | 80.37% |
| 2018 | | | 66.12% | 71.98% | 71.86% | 71.90% | 72.07% | | | | 71.91% | 75.56% |
| 2019 | | | | 74.78% | 74.70% | 74.79% | 75.02% | 75.29% | | | 74.86% | 78.67% |
| 2020 | | | | | 74.89% | 74.98% | 75.20% | 75.46% | 75.77% | | 75.22% | 79.04% |
| 2021 | | | | | | 75.90% | 76.02% | 76.18% | 76.39% | 75.97% | 76.06% | 79.91% |

B. Actual Data Other Than Losses

| | Fiscal Year | | | | | | | | | |
|--|-------------|---------|---------|---------|---------|---------|-----------|-----------|-----------|-----------|
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| 4. Net Earned Premium | 756,751 | 764,671 | 803,881 | 861,065 | 904,850 | 963,924 | 1,066,123 | 1,131,229 | 1,161,656 | 1,209,809 |
| 5. Operating Expenses as % of Earned Premium | 10.82% | 11.06% | 11.1% | 10.3% | 9.8% | 9.3% | 8.6% | 8.2% | 8.2% | 8.0% |
| 6. Maintenance Expense Rate [(5) x 1/3] | 3.61% | 3.69% | 3.71% | 3.42% | 3.25% | 3.11% | 2.88% | 2.73% | 2.72% | 2.68% |
| Selected | | | | | 3.46% | 3.26% | 3.08% | 2.91% | 2.78% | 2.71% |
| 7. ILAE Ratio to Losses - Selected | | | | | 18.40% | 18.40% | 18.40% | 18.40% | 18.40% | 18.40% |

C. Equity in Unearned Premium

| | | | | | | | | | | |
|---|--|--|--|--|---------|---------|----------|---------|---------|---------|
| 8. Net Unearned Premium | | | | | 437,172 | 468,021 | 528,262 | 532,791 | 555,369 | 577,658 |
| 9. Additional Expected Cost of Non-Proportional Reinsurance | | | | | 5,646 | 5,758 | 5,874 | 5,991 | 6,111 | 6,127 |
| 10. Expected Claims (Including Ext Adj Expenses) [(8) - (9)] x (3)] | | | | | 354,751 | 371,506 | 394,691 | 414,438 | 434,150 | 456,710 |
| 11. Reinsurance PFAD | | | | | 4 | - | - | - | - | - |
| 12. Maintenance Expense [a] | | | | | 14,279 | 15,065 | 16,086 | 15,300 | 15,244 | 15,470 |
| 13. Internal Loss Adjustment Expense [Sheet 1, Row 11] | | | | | 65,289 | 68,357 | 72,623 | 76,257 | 79,884 | 84,035 |
| 14. Expected Claims (Including Ext Adj Expenses) - PIPP Enhancement | | | | | 4,048 | 4,048 | 4,048 | 4,048 | 4,048 | 4,048 |
| 15. Equity in Unearned Premium [(8) - Sum((9) to (14))] | | | | | (6,844) | 3,286 | 34,940 | 16,757 | 15,933 | 11,268 |
| 16. Carried Deferred Policy Acquisition Expenses | | | | | 29,692 | 27,695 | 30,872 | 31,089 | 32,437 | 33,773 |
| 17. Write Down Deferred Policy Acquisition Expenses [b] | | | | | 29,692 | 24,409 | - | 14,332 | 16,503 | 22,505 |
| Change | | | | | 6,127 | (5,283) | (24,409) | 14,332 | 2,172 | 6,001 |
| 18. Premium Deficiency [c] | | | | | 6,844 | - | - | - | - | - |
| Change | | | | | 6,844 | (6,844) | - | - | - | - |

Notes:

- [a] ((8) - (9)) x (6) x Discount to Valuation Date Without Margin
- [b] Min((16) - (15), (16)) if greater than 0, otherwise 0
- [c] Negative of (15) if greater than 0, otherwise 0

Appendix 1g
Capital Maintenance Provision Scenario with 42.76% MCT Target
Summary of Corporate Investment Income

| | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| | Forecasted | | | | |
| Interest Income During Period | | | | | |
| Cash/Short Term Investments | 93 | 0 | 0 | 34 | 125 |
| Marketable Bonds | 40,119 | 39,256 | 41,175 | 44,155 | 47,259 |
| MUSH | 28,780 | 27,859 | 26,868 | 25,859 | 24,800 |
| Total | 68,993 | 67,115 | 68,043 | 70,048 | 72,184 |
| Dividend and other Income | | | | | |
| Canadian Equities | 8,103 | 10,323 | 12,356 | 13,485 | 14,271 |
| US Equities | 3,149 | 3,960 | 4,787 | 5,423 | 6,051 |
| Investment Properties (Cityplace) | 2,784 | 2,688 | 2,580 | 2,508 | 2,448 |
| Infrastructure | 1,645 | 2,094 | 2,257 | 2,381 | 2,512 |
| Total | 15,681 | 19,065 | 21,980 | 23,797 | 25,282 |
| Gains During Period - Profit & Loss | | | | | |
| Marketable Bonds Unrealized Gains/(Loss) | 261 | 1,265 | 1,247 | 1,291 | 1,335 |
| Marketable Bonds Realized Gains/(Loss) | (261) | (1,265) | (1,247) | (1,291) | (1,335) |
| Amortization on Marketable Bonds (Prem) / Discount | (6,573) | (7,489) | (7,676) | (7,946) | (8,403) |
| MUSH | - | - | - | - | - |
| Canadian Equities Realized Gains | 26,949 | 12,090 | 12,457 | 13,830 | 14,410 |
| US Equities Realized Gains | 12,775 | - | - | - | 1,006 |
| Real Estate (Pooled Fund) | 14,507 | 15,158 | 15,819 | 16,768 | 17,774 |
| Infrastructure | 5,923 | 7,532 | 8,111 | 8,557 | 9,027 |
| Total | 53,580 | 27,291 | 28,711 | 31,209 | 33,815 |
| Other | | | | | |
| Investment Fees Paid | (4,784) | (5,887) | (6,177) | (6,537) | (6,873) |
| Pension Expense | (13,739) | (14,282) | (14,845) | (15,429) | (16,035) |
| Investment Write-Down | - | - | - | - | - |
| Total | (18,523) | (20,169) | (21,022) | (21,966) | (22,908) |
| Total Corporate Investment Income | 119,731 | 93,302 | 97,712 | 103,088 | 108,372 |
| Total Basic Investment Income | 101,827 | 78,605 | 81,038 | 84,118 | 86,972 |
| % - Basic to Total Investment Income | 85% | 84% | 83% | 82% | 80% |
| Equity Unrealized Gains/(Losses) | | | | | |
| Canadian Equities Unrealized Gains | 11,953 | 12,867 | 14,571 | 15,902 | 16,828 |
| US Equities Unrealized Gains | 6,645 | 7,385 | 8,407 | 9,525 | 10,628 |
| Total Corporate Unrealized Gains/(Losses) | 18,598 | 20,251 | 22,978 | 25,427 | 27,456 |
| Ending Values and Allocations | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
| | Forecasted | | | | |
| Ending Asset Values for Corporate (\$Millions) | | | | | |
| Cash/Short Term Investments | - | - | 4.3 | 7.8 | 14.2 |
| Canadian Fixed Income | 1,287.4 | 1,303.9 | 1,399.4 | 1,512.4 | 1,641.1 |
| MUSH | 638.7 | 631.4 | 621.9 | 611.1 | 598.4 |
| Canadian Equities | 284.6 | 361.6 | 404.8 | 428.5 | 453.3 |
| US Equities | 139.0 | 177.3 | 200.8 | 227.8 | 244.1 |
| Real Estate | 290.8 | 308.7 | 325.4 | 342.8 | 360.4 |
| Infrastructure & Venture Capital | 128.4 | 149.0 | 157.1 | 165.6 | 174.7 |
| Total Corporate Assets | 2,769.0 | 2,931.7 | 3,113.7 | 3,296.1 | 3,486.2 |
| Total Basic Assets | 2,365.0 | 2,479.4 | 2,590.7 | 2,697.8 | 2,805.9 |
| Ending Rebalanced Allocations (%) | | | | | |
| Cash/Short Term Investments | 0.0% | 0.0% | 0.1% | 0.2% | 0.4% |
| Canadian Fixed Income | 46.5% | 44.5% | 44.9% | 45.9% | 47.1% |
| MUSH | 23.1% | 21.5% | 20.0% | 18.5% | 17.2% |
| Canadian Equities | 10.3% | 12.3% | 13.0% | 13.0% | 13.0% |
| US Equities | 5.0% | 6.0% | 6.4% | 6.9% | 7.0% |
| Real Estate | 10.5% | 10.5% | 10.4% | 10.4% | 10.3% |
| Infrastructure & Venture Capital | 4.6% | 5.1% | 5.0% | 5.0% | 5.0% |
| Total Corporate | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Appendix 2a
Capital Maintenance Provision Scenario with 100% MCT Target
Statement of Operations

*(C\$ 000s, except where noted)**For the Years Ended February,*

| | 2015A | 2016A | 2017A | 2018P | 2019P | 2020P | 2021P | 2022P |
|--|------------------|-----------------|------------------|-----------------|------------------|------------------|------------------|------------------|
| BASIC | | | | | | | | |
| Motor Vehicles | 794,052 | 854,170 | 886,998 | 958,740 | 1,166,263 | 1,067,689 | 1,155,039 | 1,196,093 |
| Drivers | 44,642 | 46,619 | 48,426 | 50,334 | 69,148 | 71,252 | 73,311 | 75,162 |
| Reinsurance Ceded | (13,829) | (12,423) | (11,635) | (11,291) | (11,517) | (11,747) | (11,982) | (12,222) |
| Total Net Premiums Written | 824,865 | 888,365 | 923,789 | 997,783 | 1,223,895 | 1,127,194 | 1,216,368 | 1,259,033 |
| Net Premiums Earned | | | | | | | | |
| Motor Vehicles | 774,784 | 827,701 | 871,174 | 925,950 | 1,070,428 | 1,113,211 | 1,114,700 | 1,177,134 |
| Drivers | 42,926 | 45,787 | 47,606 | 49,265 | 59,702 | 70,196 | 72,277 | 74,233 |
| Reinsurance Ceded | (13,829) | (12,423) | (11,635) | (11,291) | (11,517) | (11,747) | (11,982) | (12,222) |
| Total Net Premiums Earned | 803,881 | 861,065 | 907,145 | 963,924 | 1,118,614 | 1,171,659 | 1,174,995 | 1,239,145 |
| Service Fees & Other Revenues | 19,476 | 20,351 | 20,748 | 22,204 | 24,328 | 27,128 | 28,538 | 31,089 |
| Total Earned Revenues | 823,358 | 881,416 | 927,893 | 986,129 | 1,142,941 | 1,198,788 | 1,203,534 | 1,270,233 |
| Net Claims Incurred | 623,437 | 742,604 | 869,023 | 827,183 | 864,049 | 907,149 | 952,114 | 999,094 |
| (a) Claims Incurred - Interest Rate Impact | 122,400 | (76,200) | (8,988) | (75,641) | 8,465 | 1,930 | 42 | (294) |
| Total Claims Incurred | 745,837 | 666,404 | 860,035 | 751,542 | 872,514 | 909,079 | 952,156 | 998,800 |
| Claims Expense | 745,837 | 666,404 | 860,035 | 739,414 | 848,105 | 928,219 | 934,593 | 1,007,858 |
| Road Safety/Loss Prevention | - | - | - | - | - | - | - | - |
| Total Claims Costs | 116,578 | 118,614 | 120,972 | 134,294 | 137,885 | 139,759 | 142,811 | 144,126 |
| Expenses | | | | | | | | |
| Operating | - | - | - | - | - | - | - | - |
| Commissions | - | - | - | - | - | - | - | - |
| Premium Taxes | 74,283 | 71,641 | 72,785 | 72,563 | 74,921 | 75,428 | 77,262 | 79,229 |
| Regulatory/Appeal | 32,845 | 33,862 | 35,086 | 37,655 | 42,537 | 45,357 | 45,012 | 47,517 |
| Total Expenses | 24,531 | 26,205 | 27,563 | 29,256 | 33,904 | 35,502 | 35,609 | 37,541 |
| Underwriting Income (Loss) | 135,594 | 135,383 | 140,323 | 143,528 | 155,494 | 160,504 | 162,185 | 168,676 |
| Investment Income | (270,278) | 503 | (187,219) | (44,317) | (11,633) | (42,634) | (49,266) | (63,863) |
| (b) Investment Income - Interest Rate Impact | 84,267 | (52,515) | (18,748) | (0) | (0) | (0) | (0) | (0) |
| Net Investment Income | (186,011) | (52,012) | (205,967) | (44,317) | (11,633) | (42,634) | (49,266) | (63,863) |
| Net Income (Loss) from Operations | 188,451 | (4,038) | 82,897 | 101,827 | 79,713 | 83,111 | 87,012 | 89,562 |
| DPAC / Premium Deficiency writedown Adj. | - | - | - | - | - | - | - | - |
| Net Income (Loss) | 2,440 | (56,050) | (123,070) | 57,510 | 68,081 | 40,476 | 37,746 | 25,699 |
| Total net Impact due to interest rate change (b) - (a) | (38,133) | 23,685 | (9,760) | 75,641 | (8,465) | (1,930) | (42) | 294 |

Appendix 2b
Capital Maintenance Provision Scenario with 100% MCT Target
Statement of Changes in Equity

(C\$ 000s, except where noted)

| | For the Years Ended February, | | | | | | | |
|---|-------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2015A | 2016A | 2017A | 2018P | 2019P | 2020P | 2021P | 2022P |
| Retained Earnings | | | | | | | | |
| Beginning Balance | 99,878 | 177,818 | 194,497 | 99,251 | 156,760 | 224,841 | 265,317 | 303,063 |
| Net Income (Loss) from annual operations | 2,440 | (56,050) | (123,070) | 57,510 | 68,081 | 40,476 | 37,746 | 25,699 |
| Premium Rebate | - | - | - | - | - | - | - | - |
| Transfer (to) / from Non-Basic Retained Earnings | 75,500 | 72,729 | 27,824 | - | - | - | - | - |
| Total Retained Earnings | 177,818 | 194,497 | 99,251 | 156,760 | 224,841 | 265,317 | 303,063 | 328,762 |
| Total Accumulated Other Comprehensive Income | | | | | | | | |
| Beginning Balance | - | - | - | - | - | - | - | - |
| Other Comprehensive Income for the Year | - | - | - | - | - | - | - | - |
| Total Accumulated Other Comprehensive Income | - | - | - | - | - | - | - | - |
| Total Equity Balance | - | - | - | - | - | - | - | - |
| Total Equity | | | | | | | | |
| Rate Stabilization Reserve | | | | | | | | |
| Retained Earnings | 177,818 | 194,497 | 99,251 | 156,760 | 224,841 | 265,317 | 303,063 | 328,762 |
| Accumulated Other Comprehensive Income | 35,262 | 36,504 | 81,749 | 63,369 | 70,604 | 79,277 | 88,222 | 97,875 |
| Total Rate Stabilization Reserve | 213,080 | 231,001 | 181,000 | 220,129 | 295,445 | 344,594 | 391,285 | 426,637 |
| Retained Earnings in excess of Rate Stabilization Reserve | - | - | - | - | - | - | - | - |
| Total Equity Balance | 213,080 | 231,001 | 181,000 | 220,129 | 295,445 | 344,594 | 391,285 | 426,637 |

RESERVE TARGETS

| | | | | | | | | |
|--------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| DCAT Total Equity Lower Target | 213,000 | 231,000 | 231,000 | 181,000 | 181,000 | 181,000 | 181,000 | 181,000 |
| MCT Total Equity Upper Target | 325,000 | 325,000 | 325,000 | 366,000 | 411,000 | 438,000 | 438,000 | 438,000 |

Appendix 2c
Capital Maintenance Provision Scenario with 100% MCT Target
Balance Sheet

(C\$ 000s, except where noted)

| | For the Years Ended February, | | | | | | | |
|--|-------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2015A | 2016A | 2017A | 2018P | 2019P | 2020P | 2021P | |
| BASIC | | | | | | | | |
| Assets | | | | | | | | |
| Cash and investments | 2,061,262 | 2,083,349 | 2,189,534 | 2,317,540 | 2,497,915 | 2,624,723 | 2,750,436 | 2,888,403 |
| Equity investments | 35,087 | 35,789 | 35,615 | 35,939 | 38,233 | 38,249 | 38,317 | 37,647 |
| Investment property | 108 | 25 | 16 | - | - | - | - | - |
| Due from other insurance companies | 348,697 | 375,262 | 355,389 | 334,047 | 396,481 | 372,788 | 398,468 | 411,802 |
| Accounts receivable | - | - | - | - | - | - | - | - |
| Prepaid expenses | - | 4,782 | - | 3,286 | 33,689 | 11,702 | 31,788 | 23,917 |
| Deferred policy acquisition costs | - | - | - | - | - | - | - | - |
| Reinsurers' share of unearned premiums | 2,565 | 998 | 611 | - | - | - | - | - |
| Reinsurers' share of unearned claims | 90,474 | 88,740 | 89,847 | 88,665 | 90,237 | 90,615 | 88,071 | 84,746 |
| Property and equipment | 56,992 | 65,414 | 72,866 | 69,306 | 68,993 | 73,052 | 74,345 | 72,609 |
| Deferred development costs | 2,650,693 | 2,683,473 | 2,805,484 | 2,860,291 | 3,136,664 | 3,230,188 | 3,404,711 | 3,544,147 |
| | - | - | - | - | - | - | - | - |
| Liabilities | | | | | | | | |
| Due to other insurance companies | 34,157 | 38,860 | 40,443 | 31,263 | 32,225 | 32,454 | 33,083 | 33,631 |
| Accounts payable and accrued liabilities | 3,224 | 3,278 | 3,239 | 2,983 | 2,907 | 2,826 | 2,726 | 2,618 |
| Financing lease obligation | 426,137 | 453,389 | 472,041 | 508,231 | 616,856 | 576,013 | 621,313 | 645,457 |
| Unearned premiums and fees | 16,240 | 16,871 | 16,919 | 17,362 | 18,087 | 18,822 | 19,568 | 20,325 |
| Provision for employee current benefits | 286,581 | 281,209 | 301,245 | 310,108 | 323,746 | 338,675 | 354,155 | 370,177 |
| Provision for employee future benefits | 1,671,275 | 1,658,713 | 1,790,450 | 1,770,101 | 1,847,286 | 1,916,691 | 1,982,467 | 2,045,189 |
| Provision for unpaid claims | 2,437,614 | 2,452,472 | 2,624,484 | 2,640,162 | 2,841,220 | 2,885,594 | 3,013,426 | 3,117,510 |
| | - | - | - | - | - | - | - | - |
| Equity | | | | | | | | |
| Retained earnings | 35,262 | 36,504 | 81,749 | 63,369 | 70,604 | 79,277 | 88,222 | 97,875 |
| Accumulated Other Comprehensive Income | 213,081 | 231,001 | 181,000 | 220,129 | 295,445 | 344,594 | 391,285 | 426,637 |
| Total Equity | 2,650,695 | 2,683,473 | 2,805,484 | 2,860,291 | 3,136,664 | 3,230,188 | 3,404,711 | 3,544,147 |
| Total Liabilities & Equity | - | - | - | - | - | - | - | - |

Appendix 2d
Capital Maintenance Provision Scenario with 100% MCT Target
Minimum Capital Test

(All figures in \$000s)

| | | 2017 - 2018 | 2018 - 2019 | 2019 - 2020 | 2020 - 2021 | 2021 - 2022 |
|---|-----------|-------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | | Current Year (01) | Forecast Year (02) | Forecast Year (03) | Forecast Year (04) | Forecast Year (05) |
| Capital Available: | | | | | | |
| Capital available (from page 30.62 - capital available) | 01 | 150,823 | 226,452 | 271,542 | 316,940 | 354,028 |
| Phase-in of capital available | 03 | 0 | 0 | 0 | 0 | 0 |
| Total Capital Available | 09 | 150,823 | 226,452 | 271,542 | 316,940 | 354,028 |
| Assets Available: | | | | | | |
| Net Assets Available (from page 30.92 - net assets available) | 11 | 0 | 0 | 0 | 0 | 0 |
| Phase-in of net assets available | 13 | 0 | 0 | 0 | 0 | 0 |
| Total Net Assets Available | 19 | 0 | 0 | 0 | 0 | 0 |
| Capital (Margin) Required at Target: | | | | | | |
| Insurance Risk: | | | | | | |
| Premium liabilities | 20 | 87,650 | 107,367 | 99,040 | 106,788 | 110,512 |
| Unpaid claims | 22 | 186,823 | 195,120 | 202,697 | 209,952 | 216,949 |
| Catastrophes | 24 | 0 | 0 | 0 | 0 | 0 |
| Margin required for reinsurance ceded to unregistered insurers | 26 | 0 | 0 | 0 | 0 | 0 |
| Subtotal: Insurance risk margin | 29 | 274,473 | 302,487 | 301,737 | 316,740 | 327,461 |
| Market Risk: | | | | | | |
| Interest rate risk | 30 | 6,928 | 18,320 | 19,389 | 16,734 | 12,519 |
| Foreign exchange risk | 32 | 16,542 | 22,033 | 23,935 | 25,055 | 27,309 |
| Equity risk | 34 | 140,755 | 181,358 | 199,545 | 208,918 | 218,850 |
| Real estate risk | 36 | 58,295 | 61,420 | 63,299 | 65,201 | 66,921 |
| Other market risk exposures | 38 | 0 | 0 | 0 | 0 | 0 |
| Subtotal: Market risk margin | 39 | 222,520 | 283,131 | 306,168 | 315,908 | 325,599 |
| Credit Risk: | | | | | | |
| Counterparty default risk for balance sheet assets | 40 | 32,995 | 40,363 | 37,879 | 42,044 | 42,856 |
| Counterparty default risk for off-balance sheet exposures | 42 | 0 | 0 | 0 | 0 | 0 |
| Counterparty default risk for unregistered reinsurance collateral and SIRs | 44 | 0 | 0 | 0 | 0 | 0 |
| Subtotal: Credit risk margin | 49 | 32,995 | 40,363 | 37,879 | 42,044 | 42,856 |
| Operational risk margin | 50 | 69,994 | 84,418 | 83,072 | 87,758 | 90,628 |
| Less: Diversification credit | 52 | 70,907 | 83,764 | 86,119 | 90,028 | 92,887 |
| Total Capital (Margin) Required at Target | 59 | 529,075 | 626,635 | 642,737 | 672,422 | 693,657 |
| Minimum Capital (Margin) Required (line 59 / 1.5) | 60 | 352,716 | 417,757 | 428,492 | 448,281 | 462,438 |
| Phase-in of Capital (Margin) Required | 62 | 0 | 0 | 0 | 0 | 0 |
| Total Minimum Capital (Margin) Required | 69 | 352,716 | 417,757 | 428,492 | 448,281 | 462,438 |
| Excess Capital (Net Assets Available) over Minimum Capital (Margin) Required | 79 | (201,893) | (191,305) | (156,950) | (131,341) | (108,410) |
| MCT (BAAT) Ratio (Line 09 or line 19 as a % of line 69) | 90 | 42.76% | 54.21% | 63.37% | 70.70% | 76.56% |

Appendix 2e
Capital Maintenance Provision Scenario with 100% MCT Target
Net Claims Incurred Summary

| <i>(C\$ 000s, except where noted)</i> | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|--|----------------|----------------|----------------|----------------|----------------|------------------|
| Claims Incurred before Financial Provisions | | | | | | |
| Collision | 392,497 | 417,031 | 444,954 | 474,902 | 506,930 | 541,157 |
| Comprehensive | 117,204 | 106,810 | 113,434 | 119,999 | 126,906 | 134,205 |
| Property Damage | 42,769 | 44,363 | 46,000 | 47,674 | 49,431 | 51,270 |
| Public Liability - BI | 5,443 | 4,362 | 4,592 | 4,597 | 4,626 | 4,669 |
| PIPP | 240,544 | 141,676 | 213,143 | 210,339 | 210,906 | 212,112 |
| Total | 798,458 | 714,241 | 822,123 | 857,511 | 898,799 | 943,413 |
| Unallocated Loss Adjustment Expenses | 39,869 | 42,205 | 43,912 | 45,902 | 47,910 | 50,195 |
| Change in Internal Loss Adjustment Expense Provision | 10,168 | (4,904) | 6,478 | 5,667 | 5,448 | 5,191 |
| Change in Reinsurance Ceded Provision | 786 | 0 | 0 | 0 | 0 | 0 |
| Other Financial Adjustments | (2,217) | 0 | 0 | 0 | 0 | 0 |
| Change in DPAC / Premium Deficiency Provision | 12,971 | (12,128) | (24,409) | 19,140 | (17,563) | 9,058 |
| Total Net Claims Incurred | 860,035 | 739,415 | 848,105 | 928,219 | 934,593 | 1,007,857 |

Appendix 2f
Capital Maintenance Provision Scenario with 100% MCT Target
Deferred Policy Acquisition Expenses and Premium Deficiency

A. Claims (Including External Adjustment Expense) Data

| | Accident Year | | | | | | | | | | Selected Undisc | Selected Disc |
|--|---------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-----------------|---------------|
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | | |
| 1. Ultimate Loss Ratio - Total All Coverage | 78.66% | 85.02% | 74.77% | 79.56% | 79.13% | 77.83% | 70.38% | 70.55% | 73.92% | 73.04% | | |
| 2. Trend/Rate Adjustment for Fiscal Year | | | | | | | | | | | | |
| 2016 | 0.9434 | 0.9218 | 0.9370 | 0.9705 | 0.9861 | | | | | | | |
| 2017 | | 0.9165 | 0.9273 | 0.9559 | 0.9667 | 0.9910 | | | | | | |
| 2018 | | | 0.8113 | 0.8300 | 0.8330 | 0.8476 | 0.9394 | | | | | |
| 2019 | | | | 0.9503 | 0.9544 | 0.9717 | 1.0777 | 1.0789 | | | | |
| 2020 | | | | | 0.9202 | 0.9368 | 1.0389 | 1.0400 | 0.9967 | | | |
| 2021 | | | | | | 0.9546 | 1.0573 | 1.0569 | 1.0115 | 1.0181 | | |
| 3. Adjusted Loss Ratio for Fiscal Year [(1) x (2)] | | | | | | | | | | | | |
| 2016 | 74.21% | 78.37% | 70.06% | 77.21% | 78.03% | | | | | | 76.49% | 80.98% |
| 2017 | | 77.92% | 69.34% | 76.05% | 76.50% | 77.13% | | | | | 76.56% | 80.37% |
| 2018 | | | 60.66% | 66.03% | 65.92% | 65.96% | 66.12% | | | | 65.97% | 69.31% |
| 2019 | | | | 75.60% | 75.53% | 75.62% | 75.85% | 76.12% | | | 75.69% | 79.53% |
| 2020 | | | | | 72.82% | 72.91% | 73.12% | 73.37% | 73.67% | | 73.13% | 76.82% |
| 2021 | | | | | | 74.29% | 74.41% | 74.57% | 74.77% | 74.36% | 74.44% | 78.18% |

B. Actual Data Other Than Losses

| | Fiscal Year | | | | | | | | | |
|--|-------------|---------|---------|---------|---------|---------|-----------|-----------|-----------|-----------|
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| 4. Net Earned Premium | 756,751 | 764,671 | 803,881 | 861,065 | 904,850 | 963,924 | 1,118,614 | 1,171,659 | 1,174,995 | 1,239,145 |
| 5. Operating Expenses as % of Earned Premium | 10.82% | 11.06% | 11.1% | 10.3% | 9.8% | 9.3% | 8.2% | 7.9% | 8.1% | 7.8% |
| 6. Maintenance Expense Rate [(5) x 1/3] | 3.61% | 3.69% | 3.71% | 3.42% | 3.25% | 3.11% | 2.75% | 2.63% | 2.69% | 2.61% |
| Selected | | | | | 3.46% | 3.26% | 3.04% | 2.83% | 2.69% | 2.64% |
| 7. ILAE Ratio to Losses - Selected | | | | 18.40% | 18.40% | 18.40% | 18.40% | 18.40% | 18.40% | 18.40% |

C. Equity in Unearned Premium

| | | | | | | | | | |
|---|--|--|--|---------|---------|----------|---------|----------|---------|
| 8. Net Unearned Premium | | | | 437,172 | 468,021 | 573,302 | 528,836 | 570,209 | 590,097 |
| 9. Additional Expected Cost of Non-Proportional Reinsurance | | | | 5,646 | 5,758 | 5,874 | 5,991 | 6,111 | 6,127 |
| 10. Expected Claims (Including Ext Adj Expenses) [(8) - (9)] x (3)] | | | | 354,751 | 371,506 | 393,303 | 415,802 | 433,356 | 456,560 |
| 11. Reinsurance PFAD | | | | 4 | - | - | - | - | - |
| 12. Maintenance Expense [a] | | | | 14,279 | 15,065 | 17,217 | 14,785 | 15,167 | 15,439 |
| 13. Internal Loss Adjustment Expense [Sheet 1, Row 11] | | | | 65,289 | 68,357 | 72,368 | 76,508 | 79,738 | 84,007 |
| 14. Expected Claims (Including Ext Adj Expenses) - PIPP Enhancement | | | | 4,048 | 4,048 | 4,048 | 4,048 | 4,048 | 4,048 |
| 15. Equity in Unearned Premium [(8) - Sum((9) to (14))] | | | | (6,844) | 3,286 | 80,492 | 11,702 | 31,788 | 23,917 |
| 16. Carried Deferred Policy Acquisition Expenses | | | | 29,692 | 27,695 | 33,689 | 30,842 | 33,365 | 34,551 |
| 17. Write Down Deferred Policy Acquisition Expenses [b] | | | | 29,692 | 24,409 | - | 19,140 | 1,576 | 10,634 |
| Change | | | | 6,127 | (5,283) | (24,409) | 19,140 | (17,563) | 9,058 |
| 18. Premium Deficiency [c] | | | | 6,844 | - | - | - | - | - |
| Change | | | | 6,844 | (6,844) | - | - | - | - |

Notes:

- [a] ((8) - (9)) x (6) x Discount to Valuation Date Without Margin
- [b] Min((16) - (15), (16)) if greater than 0, otherwise 0
- [c] Negative of (15) if greater than 0, otherwise 0

Appendix 2g
Capital Maintenance Provision Scenario with 100% MCT Target
Summary of Corporate Investment Income

| | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| | Forecasted | | | | |
| Interest Income During Period | | | | | |
| Cash/Short Term Investments | 93 | 0 | 43 | 169 | 292 |
| Marketable Bonds | 40,119 | 39,504 | 41,945 | 45,331 | 49,135 |
| MUSH | 28,780 | 27,859 | 26,868 | 25,859 | 24,800 |
| Total | 68,993 | 67,362 | 68,856 | 71,359 | 74,227 |
| Dividend and other Income | | | | | |
| Canadian Equities | 8,103 | 10,599 | 12,920 | 13,898 | 14,780 |
| US Equities | 3,149 | 4,067 | 5,257 | 5,911 | 6,286 |
| Investment Properties (Cityplace) | 2,784 | 2,688 | 2,580 | 2,508 | 2,448 |
| Infrastructure | 1,645 | 2,094 | 2,257 | 2,381 | 2,512 |
| Total | 15,681 | 19,448 | 23,014 | 24,699 | 26,027 |
| Gains During Period - Profit & Loss | | | | | |
| Marketable Bonds Unrealized Gains/(Loss) | 261 | 1,272 | 1,266 | 1,268 | 1,219 |
| Marketable Bonds Realized Gains/(Loss) | (261) | (1,272) | (1,266) | (1,268) | (1,219) |
| Amortization on Marketable Bonds (Prem) / Discount | (6,573) | (7,535) | (7,815) | (8,331) | (8,809) |
| MUSH | - | - | - | - | - |
| Canadian Equities Realized Gains | 26,949 | 12,121 | 12,643 | 13,818 | 14,319 |
| US Equities Realized Gains | 12,775 | - | - | 795 | 710 |
| Real Estate (Pooled Fund) | 14,507 | 15,158 | 15,819 | 16,768 | 17,774 |
| Infrastructure | 5,923 | 7,532 | 8,111 | 8,557 | 9,027 |
| Total | 53,580 | 27,276 | 28,757 | 31,607 | 33,021 |
| Other | | | | | |
| Investment Fees Paid | (4,784) | (5,887) | (6,177) | (6,537) | (6,873) |
| Pension Expense | (13,739) | (14,282) | (14,845) | (15,429) | (16,035) |
| Investment Write-Down | - | - | - | - | - |
| Total | (18,523) | (20,169) | (21,022) | (21,966) | (22,908) |
| Total Corporate Investment Income | 119,731 | 93,918 | 99,605 | 105,699 | 110,366 |
| Total Basic Investment Income | 101,827 | 79,713 | 83,111 | 87,012 | 89,562 |
| % - Basic to Total Investment Income | 85% | 85% | 83% | 82% | 81% |
| Equity Unrealized Gains/(Losses) | | | | | |
| Canadian Equities Unrealized Gains | 11,953 | 13,210 | 15,236 | 16,389 | 17,429 |
| US Equities Unrealized Gains | 6,645 | 7,586 | 9,232 | 10,382 | 11,041 |
| Total Corporate Unrealized Gains/(Losses) | 18,598 | 20,795 | 24,468 | 26,772 | 28,470 |
| Ending Values and Allocations | | | | | |
| | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
| | Forecasted | | | | |
| Ending Asset Values for Corporate (\$Millions) | | | | | |
| Cash/Short Term Investments | - | - | 9.4 | 14.3 | 16.2 |
| Canadian Fixed Income | 1,287.4 | 1,336.0 | 1,449.5 | 1,589.9 | 1,750.4 |
| MUSH | 638.7 | 631.4 | 621.9 | 611.1 | 598.4 |
| Canadian Equities | 284.6 | 377.9 | 416.6 | 442.7 | 471.3 |
| US Equities | 139.0 | 185.4 | 224.3 | 238.4 | 253.8 |
| Real Estate | 290.8 | 308.7 | 325.4 | 342.8 | 360.4 |
| Infrastructure & Venture Capital | 128.4 | 149.0 | 157.1 | 165.6 | 174.7 |
| Total Corporate Assets | 2,769.0 | 2,988.4 | 3,204.2 | 3,404.9 | 3,625.2 |
| Total Basic Assets | 2,365.0 | 2,547.3 | 2,682.0 | 2,812.0 | 2,951.1 |
| Ending Rebalanced Allocations (%) | | | | | |
| Cash/Short Term Investments | 0.0% | 0.0% | 0.3% | 0.4% | 0.4% |
| Canadian Fixed Income | 46.5% | 44.7% | 45.2% | 46.7% | 48.3% |
| MUSH | 23.1% | 21.1% | 19.4% | 17.9% | 16.5% |
| Canadian Equities | 10.3% | 12.6% | 13.0% | 13.0% | 13.0% |
| US Equities | 5.0% | 6.2% | 7.0% | 7.0% | 7.0% |
| Real Estate | 10.5% | 10.3% | 10.2% | 10.1% | 9.9% |
| Infrastructure & Venture Capital | 4.6% | 5.0% | 4.9% | 4.9% | 4.8% |
| Total Corporate | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |