

PUB Exhibit Interest Rate Impact for 2014/15

The table below provides a comparison of the basic interest rate impact of the 2015 GRA, Pre-Ask 5 from last year's hearing and Actual for the 2014/15 fiscal year.

Basic Interest Rate Impact (\$000,000's)

(in millions of dollars)

	2015 GRA	Pre-Ask 5	Actual
	2014/15	2014/15	2014/15
Feb 28, 2014 (Q4 2013/14)	2.43%	2.43%	2.43%
Feb 28, 2015 (Q4 2014/15)	3.14%	2.39%	1.30%
Change in GoC 10 Year Bonds	0.71%	-0.04%	-1.13%
Gain(loss) on Marketable Bonds	-51.9	-5.2	84.3
Impact on Claims Liabilities	-78.1	11.8	122.4
Net Impact of Interest Rate Movements	26.2	-17.0	-38.1
Basic Net Income for 2014/15	-38.0	-82.5	2.4

The impact of interest rate movements between Pre-Ask 5 and the 2015 GRA was (\$17.0) - \$26.2 = (\$43.2) million. Income from investments was (\$1.3) million lower in Pre-Ask 5 due to lower interest rates. The combined impact of (\$43.2) million and (\$1.3) million equals (\$44.5) million, matching the difference between basic net income for 2014/15 [(\$82.5) - (\$38.0) = (\$44.5)], as shown in the last row of the table.

Explanation

2015 GRA

Forecasted interest rates increased by 71 bps. As expected, with the forecasted negative duration gap, the Corporation benefits from rising interest rates.

Pre-Ask 5

For Pre-Ask 5, there was a fiscal year forecasted capital loss of (\$5.2) million for marketable bonds, which occurred despite a 0.04% decrease in interest rates. Generally, when interest rates decrease, marketable bonds gain in market value. However, the path of forecasted interest rates during the year fell from 2.43% (Q4 2013/14) to 2.00% in Q2 2014/15 and then were forecasted to increase back up to 2.39% by 2014/15.

This varying path of interest rates occurred while the forecasted duration gap was in transition from -2.0 years in Q4 2013/14 to -1.0 years by Q2 2014/15. As a result, there was a lower marketable bond duration in the first half of the year relative to the second half of the year (8.1 years in Q4 2013/14 to 10.0 years in Q4 2014/15). Due to this difference in duration, the marketable bond gain was smaller during the first half of the year compared to the capital loss during the second half of the year.

Actual Results

There was a negative duration gap in 2014/15 with a very large decrease in interest rates of -1.13%. As expected, the Corporation was negatively impacted by falling interest rates.