

Undertaking #46

MPI to run the financial model for 4 the 2016/'17 year first assuming a hundred basis point interest rate increase, and then run it again secondly assuming a hundred basis point interest rate decrease during that '16/'17 year.

RESPONSE:

To illustrate the impact of +/- 100 bps change in the Government of Canada 10 year bond rate in 2016/17, the table below shows net income for the 2016 GRA base, +100 bps, flat interest rate and -100 bps scenarios.

For the Flat interest rate scenario, basic net income was (\$34.3) million in 2016/17.

- From Flat to +100 bps increases net income by \$33 million.
- From Flat to -100 bps decreases net income by \$43 million.
- The reason why the results are not symmetrical (\$33 vs. \$43) is due to convexity when interest rates fall to very low levels (1.04% for the -100 bps scenario).

Basic Net Income for Interest Rate Scenarios in 2016/17

(C\$ 000s)

	Base Forecast (March 2015)	+100 bps	Flat	-100 bps
2015/16	2.04%	2.04%	2.04%	2.04%
2016/17	2.70%	3.04%	2.04%	1.04%
Change	0.66%	1.00%	0.00%	-1.00%
Net Income	(11,402)	(1,562)	(34,309)	(77,140)