Grant Thornton

Financial statements

Shared Risk Pension Plan for Certain Bargaining Employees of New Brunswick Hospitals

December 31, 2016

Contents

Grant Thornton

Independent auditor's report

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To the Board of Trustees of the Shared Risk Pension Plan for Certain Bargaining Employees of New Brunswick Hospitals

We have audited the accompanying financial statements of the Shared Risk Pension Plan for Certain Bargaining Employees of New Brunswick Hospitals which comprise the statement of financial position as at December 31, 2016, and the statement of changes in net assets available for benefits and statement of changes in pension obligations for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the plans's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Shared Risk Pension Plan for Certain Bargaining Employees of New Brunswick Hospitals as at December 31, 2016, and the changes in net assets available for benefits and changes in pension obligations for the year then ended in accordance with the Canadian accounting standards for pension plans.

Grant Thornton LLP

Fredericton, Canada
September 12, 2017

Grant Thornton LLP
Chartered Professional Accountants

Shared Risk Pension Plan for Certain Bargaining Employees of New Brunswick Hospitals
Statement of financial position
(In thousands of Canadian dollars)

December 31,		2016		2015
Assets				
Investments (note 3)	$	1,905,470	$	1,777,470
Prepaid – pension payroll		5,152		-
Prepaid expenses		254		185
		1,910,876		1,777,655
Contributions receivable (note 4)				
Employee contributions		4,850		4,203
Employer contributions		5,930		5,597
Reciprocal transfers		363		143
		1,922,019		1,787,598
Liabilities				
Payables		1,712		1,585
Pension refunds payable		221		444
Commuted value payable (note 5)		86		121
		2,019		2,150
Net assets available for benefits		1,920,000		1,785,448
Pension obligations (note 6)		1,811,800		1,716,500
Surplus	$	108,200	$	68,948

ON BEHALF OF THE BOARD OF TRUSTEES

See accompanying notes to the financial statements.

Shared Risk Pension Plan for Certain Bargaining Employees of New Brunswick Hospitals
Statement of changes in net assets available for benefits

(In thousands of Canadian dollars)

Year ended December 31,	**2016**	2015
Contributions		
Employee current	**$ 43,417**	$ 42,113
Employee past	**1,595**	1,861
Employer current	**43,396**	42,079
Employer past	**204**	99
Reciprocal transfers	**2,737**	1,551
	91,349	87,703
Net investment income (note 7)	**111,520**	99,081
	202,869	186,784
Expenses		
Benefit payments		
Retirement benefit payments	**56,433**	50,823
Termination benefit payments	**2,179**	2,190
Death benefit payments	**1,390**	1,239
Marriage breakdown	**229**	53
Phased retirement	**1,615**	1,340
	61,846	55,645
Fees and expenses		
Performance measurement service	**101**	103
Custodial fees	**131**	133
Investment management fees	**4,514**	5,925
Administration expenses (note 8)	**1,538**	1,410
Transaction costs	**187**	366
	6,471	7,937
	68,317	63,582
Increase in net assets available for benefits	**134,552**	123,202
Net assets available for benefits, beginning of year	**1,785,448**	1,662,246
Net assets available for benefits, end of year	**$ 1,920,000**	$ 1,785,448

See accompanying notes to the financial statements.

Shared Risk Pension Plan for Certain Bargaining Employees of New Brunswick Hospitals
Statement of changes in pension obligations

(In thousands of Canadian dollars)

Year ended December 31,	**2016**	2015
Pension obligations, beginning of year	**$ 1,716,500**	$ 1,411,700
Change in pension obligations		
Change in valuation methodology (note 6)	**(39,100)**	-
Experience loss on interest rate change (note 6)	**-**	205,700
Miscellaneous net experience gains	**-**	(4,800)
Improvements to accrued pensions	**22,600**	-
Other actions	**200**	-
Normal cost and benefits accrued	**62,900**	53,400
Net transfers	**4,500**	3,500
Benefit payments	**(61,800)**	(55,600)
Interest	**81,700**	81,200
Cost of indexing	**24,300**	21,400
Pension obligations, end of year	**$ 1,811,800**	$ 1,716,500

See accompanying notes to the financial statements.

1. Description of plan

The following description of the Shared Risk Plan for Certain Bargaining Employees of New Brunswick Hospitals ("the Plan") is a summary only. For more information, reference should be made to the Plan Document.

On July 1, 2012, the Pension Plan for Certain Bargaining Employees of New Brunswick Hospitals was converted to the Shared Risk Plan for Certain Bargaining Employees of New Brunswick Hospitals. This model, governed by the Board of Trustees, introduced changes to address the funding deficiency in the Plan. The Shared Risk Plan for Certain Bargaining Employees for New Brunswick Hospitals is reported as a continuation of the pre-existing Pension Plan for Certain Bargaining Employees of New Brunswick Hospitals. The shared risk model provides additional funding through increased member and employer contributions. It also introduces risk management procedures, funding goals and sharing of benefit risks to prudently manage the variability of funding results over time.

The shared risk pension model is not defined in existing accounting standards. Under current standards, a pension plan must be accounted for as either a defined contribution plan or a defined benefit plan. Determining the appropriate accounting treatment for these plans requires a high degree of professional judgement. Based on research performed, enabling legislation and specific plan documents, management has concluded that the defined benefit method represents appropriate accounting treatment for the Plan at this time.

(a) General

The Plan is a shared risk pension plan covering employees who are members of the New Brunswick Nurses Union, the New Brunswick Union of Public and Private Employees (Specialized Health Care Professionals and Paramedical), union staff members of the New Brunswick Nurses Union (effective July 1, 2013), and union staff members of the New Brunswick Union of Public and Private Employees (effective October 1, 2015).

Full-time and part-time employees of these groups are required to join the Plan immediately. Effective July 1, 2014, all other employees of these groups (e.g. casuals, temporary employees, etc.) are required to join the Plan if certain eligibility criteria are met.

(b) Funding policy

Contributions are made by the Plan members and the Employers to fund the benefits as determined under the provisions of the Plan Document and Funding Policy.

(c) Pension benefits

The base benefits described in Article V of the Plan Document (summarized below) are the intended benefits under this Plan. Notwithstanding any other provision of the Plan, the Funding Policy will allow or require the Board of Trustees to make changes to the base benefits. Such changes may be positive or negative and will affect all classes of plan members.

1. Description of plan (continued)

(c) Pension benefits (continued)

I. For each year (or part year) of pensionable service on and after July 1, 2012:
1.4% X annualized pensionable earnings accrued during the year up to the YMPE for the year
Plus
2.0% X annualized pensionable earnings accrued during the year in excess of the YMPE for the year multiplied by number of hours worked (and contributed) / 1950 hours.

II. For all pensionable service between January 1, 1990 and June 30, 2012:
Pensionable service X 1.3% X best 5 year average earnings at June 30, 2012 up to the average YMPE at the same date
Plus
Pensionable service X 2.0% X best 5 year average earnings at June 30, 2012 in excess of the average YMPE at the same date.

III. For all pensionable service prior to January 1, 1990:
Pensionable service X 2.0% X best 5 year average earnings at June 30, 2012

All benefits (paid or payable) may be adjusted annually by any cost of living increases granted in accordance with the Funding Policy.

A member may elect a basic pension, providing a life pension with a guarantee period of 5 years, or one of four optional forms of pensions being: 1) life pension with a guarantee period of 10 years; 2) joint life and survivor pension at 60%; 3) joint life and survivor pension at 75%; 4) joint life and survivor pension at 100%.

Normal retirement age is 65 at which time unreduced pension benefits are available with five or more years of continuous employment, two or more years of pensionable service, or two or more years of plan membership. Reduced benefits are available between age 55 and age 65 with five or more years of continuous employment, two or more years of pensionable service, or two or more years of plan membership. A member who elects to take an early retirement will also receive a temporary bridge benefit payable to age 65 equal to $27 per month per year of pensionable service.

(d) Death benefits

If a member dies prior to retirement and before completing one of the following criteria; five years continuous employment; two years of pensionable service; or two years of membership in the Plan, the benefit payable to the member's surviving spouse (or the member's beneficiary if there is no spouse) is a refund of the member's own contributions with accumulated interest.

If a member dies prior to retirement and has completed five or more years of continuous employment, two or more years of pensionable service, or has two years or more of

1. Description of plan (continued)

(d) Death benefits (continued)

membership in the Plan, the member's surviving spouse (or the member's beneficiary if there is no spouse) will receive a lump sum equal to the termination value amount the member would have received if the member had terminated just before death.

If a member dies after retirement, the death benefit payable is determined in accordance with the provisions of the form of pension selected by the member at the time of retirement.

(e) Benefits on termination

A member who is terminated and who has less than five years of continuous employment, less than two years of pensionable service, and less than two years of membership in the Plan will receive a refund of the member's own contributions with accumulated interest.

A member with five or more years continuous employment, two or more years of pensionable service, or two or more years of membership in the Plan who is terminated and who is not eligible to receive an immediate pension benefit may elect to receive a deferred pension commencing as early as age 55 or an amount equal to the termination value of the pension benefit as at the date of the member's termination. The termination value of the pension benefit is to be transferred on a locked-in basis to any registered retirement savings arrangement where the transfer is allowed under the *Pension Benefits Act* ("the Act"). Members who terminate their employment and are immediately eligible to receive a monthly pension benefit may elect an immediate or deferred pension only.

(f) Income taxes

The Plan is a Registered Pension Plan as defined in the *Income Tax Act* and is not subject to income taxes.

(g) Reciprocal transfer agreements

The Board of Trustees may, in its discretion, from time to time, enter into reciprocal agreements with the sponsors of other pension plans. Effective June 11, 2016, the Board of Trustees entered into a new reciprocal transfer agreement between the Plan and the Pension Plan for Employees of New Brunswick Union of Public and Private Employees. A reciprocal agreement is also in place between the Plan and the Pension Plan for Part-Time and Seasonal Employees of the Province of New Brunswick.

2. Statement of compliance with Canadian accounting standards for pension plans and summary of significant accounting policies

These financial statements have been prepared in accordance with Canadian accounting standards for pension plans.

Accounting standards for pension plans require entities to select accounting policies for accounts that do not relate to its investment portfolio or pension obligations in accordance with either Part I (International Financial Reporting Standards ("IFRS")) or Part II (Canadian accounting standards for private enterprises ("ASPE")) of the CPA Canada Handbook. The Plan selected to apply Part II for such accounts on a consistent basis and to the extent that these standards do not conflict with the requirements of the Canadian accounting standards for pension plans.

(a) Basis of presentation

These financial statements present the aggregate financial position of the Plan as a financial reporting entity independent of the plan sponsors and plan members. These statements are prepared to assist any plan members and others in reviewing the activities of the Plan for the fiscal period but they do not portray the funding requirements of the Plan or the benefit security of individual plan members.

(b) Financial instruments

Financial assets and financial liabilities are recognized when the Plan becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expired.

All financial assets and financial liabilities are initially measured at fair value. Fair value is an estimate of the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act.

Financial assets and financial liabilities are subsequently measured as described below.

Cash and cash equivalents

Cash and cash equivalents are measured at amortized cost and are defined as cash on hand, demand deposits and short-term highly liquid investments that are readily convertible to known amounts of cash within three months of deposit.

2. Statement of compliance with Canadian accounting standards for pension plans and summary of significant accounting policies (continued)

(b) Financial instruments (continued)

Investment assets and investment liabilities

All portfolio investments are designated by the Plan as financial assets at fair value through profit or loss on initial recognition, and are recorded at fair value because the portfolio is managed and its performance is evaluated on a fair value basis, in accordance with the policies and directives that document the Plan's investment strategy and risk controls. The portfolio investments are held to provide for the pension obligations. The most relevant measure to assess whether the investments are sufficient to pay for the obligations is fair value.

The carrying value of receivables and payables approximates their fair value because of the short-term nature of these instruments.

All investment assets and investment liabilities are measured at fair value at the date of the statement of financial position in accordance with IFRS 13 Fair Value Measurement in Part I of the CPA Canada Handbook. Fair values of investment assets and liabilities are determined as follows:

1. Short-term notes and deposits are valued at cost plus accrued interest which approximates fair value.
2. Derivatives consist of currency forwards which are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or exchange rates.
3. Bonds and other fixed income securities are valued at closing bid prices. Where the bid price is not available, fair value is calculated using discounted cash flows based on current market yields of instruments with similar characteristics.
4. Pooled funds are valued at the unit value supplied by the pooled fund administrator and which represent the Plan's proportionate share of underlying net assets at fair value determined using closing bid prices.
5. Equities are valued at quoted year end closing prices. Where the bid price is not available or reliable, fair value is determined using accepted industry valuation methods.
6. Real estate consists of an investment in a pooled fund. The fund invests in a real estate, participating mortgages and property for development or resale. The investment is valued at the unit value supplied by the pooled fund administrator and which represents the Plan's proportionate share of underlying net assets at fair value.
7. Infrastructure consists of an investment in a limited partnership. The partnership invests in infrastructure assets and assets with similar characteristics located predominantly in Canada and the United States. The investment is valued at the Plan's partnership capital per the partnership's audited financial statements.
8. Alternative investments involve absolute return strategies with long and short positions in publically traded equities designed with a low correlation to general market trends. Short positions have cash underlay to avoid leverage.

2. Statement of compliance with Canadian accounting standards for pension plans and summary of significant accounting policies (continued)

(b) Financial instruments (continued)

Transaction costs are not included in the fair value of investment assets and investment liabilities either on initial recognition or on subsequent re-measurement. Transaction costs are included in the statement of changes in net assets available for benefits as part of expenses incurred in the period.

Investment income is presented in the statement of changes in net assets available for benefits.

Contributions and other receivables

Contributions and other receivables are measured at amortized cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. A provision for impairment is made and an impairment loss is recognized in profit and loss when there is objective evidence that the Plan will not be able to collect all of the amounts due. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible.

Financial liabilities

Financial liabilities are measured subsequently at amortized cost using the effective interest method.

(c) Pension contributions

Contributions from Members and the Hospitals are recorded in the period that payroll deductions are made, and accrued up to year-end for payroll periods that extend to the subsequent fiscal year.

(d) Pension obligations

The Plan is a shared risk plan. However, based on current accounting standards, the Plan has been categorized as a defined benefit plan established for members. The pension obligations recognized in the statement of financial position are equal to the actuarial present value of benefits earned by members for services prior to the valuation date determined by using the accrued benefit (or unit credit) actuarial cost method in accordance with the requirement of paragraph 14(7)(a) of Regulation 2012-75 under the Act and actuarial assumptions which reflect management’s best estimate for the future.

(e) Net investment income

Interest, dividend income, realized gains and losses and unrealized gains and losses on all portfolio investments are included in net investment income. Interest and dividend income is recognized in the period earned. Realized gains and losses and unrealized gains and losses are recognized in the period in which they arise. All purchases and sales of securities classified as portfolio investments are recognized using trade-date accounting.

2. Statement of compliance with Canadian accounting standards for pension plans and summary of significant accounting policies (continued)

(f) Translation of foreign currencies

Transactions denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing on the transaction date. Investments and other monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing on the year end date with any resulting foreign exchange gain or loss included in net investment income.

(g) Estimation uncertainty

When preparing the financial statements, management undertakes a number of judgments, estimates and assumptions about recognition and measurement of assets, liabilities, revenue and expenses. The actual results are likely to differ from the judgments, estimates and assumptions made by management, and will seldom equal the estimated results. Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, revenue and expenses are discussed below.

Fair value of financial instruments

Management uses valuation techniques in measuring the fair value of financial instruments, where active market quotes are not available. Details of the assumptions used are given in the notes regarding financial assets and liabilities. In applying the valuation techniques management makes maximum use of market inputs, and uses estimates and assumptions that are, as far as possible, consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about the assumptions that market participants would make. These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Pension obligations

An independent actuary estimates the pension obligations using assumptions provided by management; however, the actual outcome may vary due to estimation uncertainties. The estimate is based on the following demographic assumptions: retirement age, mortality, rates in terminations and disability incidence rates. The economic assumptions used in the estimate are the rate of return on assets (which is also used as the discount rate), rate of salary increases, pension cost of living indexation rate, real rate of return, and inflation.

(In thousands of Canadian dollars)

3. Investments

On July 29, 2016 the Plan entered into an Investment Management Agreement with Vestcor Investment Management Corporation (VIMC). Under the terms of this agreement, VIMC assumed custody of most of the assets of the pension fund and began a transition to pooled unit trust funds managed by VIMC. Each New Brunswick Investment Management Corporation (NBIMC) Pooled Fund has a specific investment mandate. Investing in the NBIMC Pooled Funds enables the Plan to achieve its required asset class weights in accordance with its Statement of Investment Policies and Goals (SIP&G).

	2016	2015
Investments		
Short term	**$ 3,985**	$ 40,017
Fixed income	**1,032,685**	945,480
Equities	**497,696**	624,003
Alternative assets	**37,990**	1,281
Real estate	**161,888**	146,504
Infrastructure	**171,226**	24,957
Derivatives	**-**	(9,125)
Accrued income	**-**	4,353
	$ 1,905,470	$ 1,777,470

4. Contributions receivable

All of the Plan's contributions receivable have been reviewed for indicators of impairment. No contributions receivable were found to be impaired at year end.

	2016	2015
Employee – current	**$ 4,699**	$ 4,173
Employee – past	**151**	30
	4,850	4,203
Employer – current	**5,901**	5,522
Employer – past	**29**	75
	5,930	5,597
Reciprocal transfers	**363**	143
	$ 11,143	$ 9,943

(In thousands of Canadian dollars)

5. Commuted value payable

A motion was passed at the September 15, 2009 pension committee meeting to apply a transfer ratio to future commuted value payouts. As determined by the valuation, the percentage to be paid at date of initial payout was 47.1% and the remaining balance was to be paid no later than 5 years from the initial payout.

As of July 1, 2012, commuted value is no longer paid under the Plan, therefore, during the October 29, 2012 Board of Trustees meeting, a motion was passed to instruct the Vestcor Pension Services Corporation (formerly Pension and Employee Benefits Division of the Department of Human Resources) to pay out the residual commuted values payables to members who had funds withheld as per the transfer ratio. The pension commuted value payables include accumulated interest. A small payable still remains as Vestcor Pension Services Corporation is awaiting contact from clients while actively attempting to contact these clients.

6. Pension obligations

The funding policy valuation actuarial liabilities and normal costs were calculated using the accrued benefit (or unit credit) actuarial cost method in accordance with the requirement of paragraph 14(7) (a) of Regulation 2012-75 under the Act. The last actuarial valuation was performed as of December 31, 2016 by Morneau Shepell, a firm of consulting actuaries.

The funding policy valuation actuarial liabilities at December 31, 2016 are equal to the actuarial present value of benefits earned by members for services prior to December 31, 2016. The pension obligations do not take into account the impact of any future salary increases or the impact of any future cost-of-living adjustments that may be granted by the Board of Trustees in accordance with the Plan terms and the Funding Policy.

This approach provides a shared risk benefit to members with a high degree of certainty, but without an absolute guarantee.

Significant long-term assumptions used in the December 31, 2016 valuation are:

Interest	4.75%
Mortality	2014 Public Sector Mortality Table (CPM 2014 Publ) projected using Improvement Scale B (CPM-B) with size adjustment factors of 106% for males and 116% for females

The next actuarial valuation for funding purposes is expected to be performed as of December 31, 2017.

(In thousands of Canadian dollars)

7. Net Investment income	**2016**	2015
Interest and dividends		
Canadian Equities	**3,389**	6,694
Foreign Equities	**8,971**	29,576
Fixed Income	**22,312**	41,131
Short term investments	**53**	184
Securities lending income	**189**	180
Infrastructure	**-**	2,477
Real Estate	**6,321**	7,216
	41,235	87,458
Realized gain on sale of investments	**29,325**	28,025
Unrealized current period change in market value of investments	**40,960**	(16,402)
	$ 111,520	$ 99,081

8. Administration expenses	**2016**	2015
Administration fees	**$ 1,317**	$ 1,195
Audit fees	**24**	8
Actuarial and related consulting	**196**	200
Legal fees	**1**	7
	$ 1,538	$ 1,410

9. Related party transactions

Until September 30, 2016, the Plan was provided with certain services from departments of the Province of New Brunswick. These related party transactions are in the ordinary course of business and measured at amounts agreed to by the parties.

During the first 9 months of 2016, the Plan was charged $489 (2015 – $573) for employee salaries and benefits and $47 (2015 – $55) for information technology services.

Other services provided without consideration during the year include human resource functions.

Since October 1, 2016, the plan obtains such services from an arm's length party, Vestcor Pension Services Corporation (VPSC).

Included in the Plan's investments are New Brunswick provincial and municipal bonds of $12,780 (2015 - $8,285).

10. Funding policy

As a result of the conversion to a shared risk plan, a Funding Policy was established at inception in accordance with section 100.4(1)(b) of the *Pension Benefit Act.*

The Funding Policy is the tool used by the Board of Trustees to manage the risks inherent in a shared risk plan. The Funding Policy provides guidance and rules regarding decisions that must, or can, be made by the Board of Trustees around funding levels, contributions and benefits.

The Funding Policy describes the timing and the actions that the Board of Trustees must take, or consider, as applicable, based on the results of the funding policy actuarial valuation of the Plan and the application of the required risk management procedures to the Plan.

The initial contribution rate cannot be less than 15.6% of earnings as defined in the Plan text.

The initial contribution rate for members is 7.8%. These contributions are to remain the same unless contributions adjustments are triggered under the Funding Policy.

11. Risk management

In the normal course of business, the Plan is exposed to a variety of financial risks: credit risk, interest rate risk, currency risk, liquidity risk and other price risk. The value of investments within the Plan's portfolio can fluctuate on a daily basis as a result of changes in interest rates, economic conditions and market news related to specific securities within the Plan. The level of risk depends on the Plan's investment objectives and the type of securities it invests in.

For all of the risks noted below, there has been no change in how the Plan manages those risks from the previous year.

Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Plan. Where the Plan invests in debt instruments, this represents the main concentration of credit risk. The market value of debt instruments includes consideration of the credit worthiness of the issuer, and accordingly, represents the maximum credit risk exposure of the Plan. All transactions executed by the Plan in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

(In thousands of Canadian dollars)

11. Risk management (continued)

As at December 31, 2016, the Plan invested in debt instruments with the following credit ratings:

	Percentage of value	
	2016	2015
Debt instrument by credit rating		
AAA	23.07%	15.71%
AA	10.83%	6.84%
A	45.98%	39.43%
BBB	4.67%	15.00%
Non-investment grade	9.01%	16.91%
Short Term Investments		
R-1	4.17%	3.75%
Assets held within managers' fixed income pooled funds		
Other	2.27%	2.36%

Credit ratings are obtained from Standard & Poor's, Moody's, Fitch or Dominion Bond Rating Service. Where one or more rating is obtained for a security, the lowest rating has been used.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. Interest rate risk arises when the Plan invests in interest-bearing financial instruments. The Plan is exposed to the risk that the value of such financial instruments will fluctuate due to changes in the prevailing levels of market interest rates.

As at December 31, 2016, the Plan's exposure within its pooled fund investments to debt instruments by maturity and the impact on net assets had the yield curve shifted in parallel by 25 basis points with all other variables held constant ("sensitivity analysis"), is as follows:

Debt instruments by maturity date		**2016**
	Duration (years)	**Market Values**
NBIMC Money Market Fund	0.4	**$ 2,917**
NBIMC Quantitative Strategies Fund	4.8	**1,457**
NBIMC Corporate Bond Fund	6.5	**39,781**
T Rowe Price Global Bond Fund	7.0	**179,819**
NBIMC Nominal Bond Fund	8.5	**88,994**
PH&N Canadian Bond	16.3	**399,274**
		$ 712,242
Sensitivity		**$ 87,552**

(In thousands of Canadian dollars)

11. Risk management (continued)

As at December 31, 2015, the Plan's exposure to debt instruments by maturity and the impact on net assets had the yield curve shifted in parallel by 25 basis points with all other variables held constant ("sensitivity analysis"), is as follows:

Debt instruments by maturity date

	2015
Less than 1 year	$ 45,582
1-3 years	24,246
3-5 years	68,957
Greater than 5 years	824,032
Others	23,452
	$ 986,269
Sensitivity	$ 25,855

In practice actual trading results may differ from the above sensitivity analysis and the difference could be material.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises from financial instruments (including cash and cash equivalents) that are denominated in a currency other than Canadian dollars, which represents the functional currency of the Plan.

The Plan is exposed to the following currencies:

	2016		2015	
	Currency Exposure ($)	**Percentage of Net Assets (%)**	Currency Exposure ($)	Percentage of Net Assets (%)
US Dollar	**$ 359,623**	**18.85**	$ 347,592	19.55
Euro	**26,310**	**1.38**	78,700	4.43
Japanese Yen	**26,527**	**1.39**	41,215	2.32
Pounds Sterling	**18,522**	**0.97**	18,216	1.02
Others	**33,806**	**1.78**	17,646	0.99

This amount is based on the market value of the Plan's financial instruments. Other financial assets and financial liabilities that are denominated in foreign currencies do not expose the Plan to significant currency risk.

As at December 31, 2016, if the Canadian dollar strengthened or weakened by 1% in relation to the respective exchange rates, with all other variables held constant, net assets would have an increase or decrease, respectively, of approximately $4,648 (2015 - $5,033).

In practice actual trading results may differ from the above sensitivity analysis and the difference could be material.

11. Risk management (continued)

Liquidity risk

Liquidity risk is the risk that the plan does not have adequate liquid resources to meet its present payment demands and to purchase investments in a timely and cost-efficient manner. Liquidity risk is a normal part of Plan operations but can be heightened by market events or investment specific circumstances.

The Plan committed to Canadian real estate investments in June 2013, and at year end represents 7.6% of the total investments (7.6% in 2015). After the initial investment period, and after expiry of a 12 month hold period, the Plan can submit a redemption request to the investment manager at least thirty (30) days prior to a quarter date.

The Plan committed to global real estate investments in September 2016, and at year end represents 0.9% of the total investments (0.6% in 2015). The global real estate manager invests in both closed-ended funds, as well as open-ended commingled funds. For the closed-ended funds, redemption requests from the Plan are not allowed. The open-ended commingled funds allows the Plan to request redemption of their investment by giving notice at least sixty (60) days prior to the end of the quarter for which the request is to be effective, however, the approval of a redemption request is not guaranteed.

The Plan committed to infrastructure investments in January 2015, and at year end represents 6.9% of the total investments (1.6% in 2015). The investments are closed-ended funds and redemption requests from the Plan are not allowed.

Other price risk

Other price risk is the risk that the market value or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). All investments represent a risk of loss of capital. The portfolio managers moderate this risk through a careful selection and diversification of securities and other financial instruments within the limits of the Plan's investment objectives and strategy. The maximum risk resulting from financial instruments is determined by the market value of the financial instruments. The Plan's overall market positions are monitored on a daily basis by the portfolio managers. Financial instruments held by the Plan are susceptible to market price risk arising from uncertainties about future prices of the instruments.

Note 3 classifies securities by market segment.

The impact on net assets of the Plan due to a 1 percent change in the benchmark, using historical correlation between the Plan's return as compared to the Plan's benchmark return, with all other variables held constant, as at December 31, 2016 is estimated to be 0.97%, or $18,453 (2015 - 0.97%, or $17,163).

The historical correlation may not be representative of the future correlation, and accordingly the impact on net assets could be materially different.

(In thousands of Canadian dollars)

11. Risk management (continued)

Fair value disclosures

The Plan has designated all of its investments to be held for trading. Accordingly, investments are valued at fair value with changes in fair values over time recognized in net income. The determination of fair value is dependent upon the use of measurement inputs with varying degrees of subjectivity. Quoted market prices are the most reliable input for fair value measurement and are referred to as a Level 1 input. Level 2 inputs include prices of comparable investments where a quoted market price for the specific security is not available. Level 3 inputs are subjective factors not observable in a public market. The levels of input for valuation of the Plan's investments are shown in the following tables.

The following fair value hierarchy table presents information about the Plan's assets measured at fair value on a recurring basis as of December 31, 2016.

	Level 1	Level 2	Level 3	**Total**
Equities	$ 61,931	$ 435,765	$ -	**$ 497,696**
Fixed income	-	1,032,685	-	**1,032,685**
Real estate	-	-	161,888	**161,888**
Infrastructure	-	39,803	131,423	**171,226**
Cash and short term	3,501	484	-	**3,985**
Alternative Assets	-	37,990	-	**37,990**
	$ 65,432	$ 1,546,727	$ 293,311	**$ 1,905,470**

The following fair value hierarchy table presents information about the Plan's assets measured at fair value on a recurring basis as of December 31, 2015.

	Level 1	Level 2	Level 3	**Total**
Equities	$ 399,723	$ 224,295	$ -	**$ 624,018**
Fixed income	3,236	941,985	256	**945,477**
Real estate	-	-	146,504	**146,504**
Infrastructure	-	-	24,957	**24,957**
Cash and short term	27,544	3,336	-	**30,880**
Alternative Assets	-	-	1,281	**1,281**
	$ 430,503	$ 1,169,616	$ 172,998	**1,773,117**
Accrued income				**4,353**
Total investments				**$ 1,777,470**

(In thousands of Canadian dollars)

11. Risk management (continued)

A reconciliation of the changes during the year for those investments that are measured at fair value using level 3 input are as follows:

		2016		2015
Balance beginning of year	$	172,998	$	129,314
Purchases		110,510		36,006
Transfers		(256)		-
Gain (loss)		13,946		8,738
Sales		(3,887)		(1,060)
Balance end of year	$	293,311	$	172,998

12. Capital management

The Plan employs a capital management plan, a Statement of Investment Policies and Goals (“SIP&G”), that is reviewed annually by the Board of Trustees. The SIP&G formulates investment principles and guidelines which are appropriate to the needs and objectives of the pension plan.

The SIP&G investment guidelines outline the Board of Trustees selection of long term asset mix policy. This selection is based on the actuary’s analysis that such a portfolio efficiently meets the risk management goals set out in the Funding Policy and the regulations under the Act. Subject to restrictions, the asset mix and related target weights are as follows: Canadian Equity (10%), Global Equity (15%), Canadian Bonds (40%), Global Bonds (15%), Real Estate (9%), Infrastructure (9%) and Absolute Return Strategies (2%).

For more information, reference should be made to the SIP&G.

13. Commitments

The Plan has made capital commitments to its global real estate manager. At December 31, 2016, one commitment of $13,566 Euro dollars had undrawn capital of $12,833 (2015 - $13,398) Euro dollars, while another commitment of $15,338 US dollars had undrawn capital of $11,744 US dollars.

The Plan has also made a capital commitment to its infrastructure manager of $135,000 US dollars. The undrawn capital commitment as at December 31, 2016 was $38,062 (2015 - $115,708) US dollars.

14. Comparative figures

Certain of the comparative figures have been reclassified to conform with the presentation adopted for the year ending December 31, 2016.

15. Subsequent event

On June 26, 2017, the Board of Trustees approved a change to the target asset mix and have instructed VIMC to proceed with a transition plan aimed at achieving the new asset mix by the end of 2017. The new asset mix targets will be: Canadian Equity (9%), Global Equity (15%), Canadian Bonds (37.5%), U.S. High Yield Bonds (5%), Real Estate (11%), Infrastructure (11%) and Absolute Return Strategies (7.5%).