

Canada Post Corporation
Registered Pension Plan
2014 Financial Statements



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Management's Responsibility for Financial Reporting

The financial statements of the Canada Post Corporation Registered Pension Plan (the Plan) have been prepared by management, which is responsible for the integrity and fairness of the data presented therein. The accounting policies followed in the preparation of these financial statements conform to Canadian Accounting Standards for Pension Plans. Where appropriate, the financial statements include amounts based on management's best estimates and judgments.

In support of its responsibilities, management maintains systems of internal control and supporting procedures to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. These controls include quality standards in hiring and training, the establishment of an organizational structure that provides a well-defined division of responsibilities and accountability for performance, and the communication of policies and guidelines. Internal Audit plans audits and reviews of pension activities as warranted through annual risk assessments.

Ultimate responsibility for the financial statements rests with the Canada Post Corporation Board of Directors. The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal control principally through the Audit Committee and the Pension Committee. The Audit Committee oversees the internal audit activities of the Plan, reviews the annual financial statements and the external auditors' report, and recommends them to the Board of Directors for approval. The Pension Committee, which is composed of the Chairperson of the Board of Directors of Canada Post Corporation and four directors who are not employees of the Corporation, meets regularly with management to satisfy itself that the delegated responsibilities are properly discharged.

The Plan's actuary, Mercer (Canada) Limited, completed an actuarial assessment of the assets and going-concern obligations of the Plan as of December 31, 2014, for inclusion in the Plan's financial statements. The results of the actuaries' assessment are set out in the actuaries' opinion. This assessment was performed in accordance with accepted actuarial practice. The actuarial assumptions used in these financial statements are management's best estimate of future economic events.

The Plan's external auditors, KPMG LLP, conducted an independent examination of the financial statements in accordance with Canadian generally accepted auditing standards and performed such tests and other procedures as they considered necessary to express an opinion. The external auditors have access to the Audit and Pension Committees to discuss their audit and related findings as to the fairness of the Plan's financial reporting and any internal control recommendations observed during the audit.



Deepak Chopra
President and Chief Executive Officer
March 12, 2015



Wayne Cheeseman
Chief Financial Officer
March 12, 2015

Actuaries' Opinion

Ottawa

March 11, 2015

Mercer (Canada) Limited was retained by Canada Post Corporation to perform an actuarial assessment of the assets and going-concern obligations of the Registered Pension Plan as of December 31, 2014, for inclusion in the Plan's financial statements.

The objective of the financial statements is to fairly present the financial position of the Plan as of December 31, 2014, as a going concern. While the actuarial assumptions used to estimate obligations for the Plan's financial statements reflect management's expectations of future events, and while in our opinion these assumptions are reasonable, the Plan's future experience will inevitably differ, perhaps significantly, from the actuarial assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations, and will affect the financial position of the Plan at that time, as well as the contributions required to fund it.

As part of our assessment, we examined the Plan's recent experience relative to the economic and non-economic assumptions and presented our findings to management. In addition, we provided management with statistical, survey and other information used to develop its long-term assumptions.

Our assessment of the Plan's actuarial assets and obligations was based on:

- an extrapolation to December 31, 2014 of the results of our December 31, 2013 actuarial valuation of the Plan's going-concern obligations,
- pension fund data provided by Canada Post Corporation as of December 31, 2014,
- standards prescribed by the Chartered Professional Accountants of Canada for pension plan financial statements, and
- assumptions about future events that have been developed by management and Mercer (Canada) Limited which reflect management's expectations of these events.

We have tested the membership and pension fund data for reasonableness and consistency, and we believe it to be sufficient and reliable for the purposes of the valuation. We also believe that the assumptions and methods employed in the valuation and extrapolation are, on the whole, appropriate. Our opinions have been given and our valuation performed in accordance with accepted actuarial practice.



Cory Skinner

Fellow of the Canadian Institute of Actuaries
Fellow of the Society of Actuaries



Frédéric Gendron

Fellow of the Canadian Institute of Actuaries
Fellow of the Society of Actuaries

Mercer (Canada) Limited

Independent Auditors' Report

To the Board of Directors of Canada Post Corporation

We have audited the accompanying financial statements of Canada Post Corporation Registered Pension Plan, which comprise the statement of financial position as at December 31, 2014, the statements of changes in net assets available for benefits, changes in pension obligations and changes in surplus for the year then ended, and notes, comprising 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.

Auditors' 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 an 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 our 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, we consider internal control relevant to the entity'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 entity'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 Canada Post Corporation Registered Pension Plan as at December 31, 2014, and the changes in its net assets available for benefits and the changes in its pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

The image shows a handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature is a single horizontal line that starts under the 'K' and extends to the right, ending under the 'P'.

Chartered Professional Accountants, Licensed Public Accountants
March 12, 2015
Ottawa, Canada

Financial Statements

Statement of Financial Position

As at December 31 (in millions of dollars)

2014

2013

Net Assets Available for Benefits

Assets

Investments (note 5)	\$ 20,824	\$ 19,145
Investment related receivables (note 5)	212	193
Contributions and other receivables (note 7)	112	102
	21,148	19,440

Liabilities

Investment related liabilities (note 5)	155	139
Accounts payable and accrued liabilities (notes 8 and 17)	48	31
	203	170

Net assets available for benefits

\$ 20,945	\$ 19,270
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Pension Obligations and Surplus

Pension obligations (note 13)	\$ 18,632	\$ 18,039
Surplus	2,313	1,231

Pension obligations and surplus

\$ 20,945	\$ 19,270
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See accompanying notes to the financial statements

Approved on behalf of the Board



Siân M. Matthews
Chairperson of the Board of Directors



Thomas Cryer
Chairperson of the Audit Committee

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31 <i>(in millions of dollars)</i>	2014	2013
Net assets available for benefits, beginning of year	\$ 19,270	\$ 16,775
Increase in Assets		
Net investment income (note 10)		
Investment income	612	558
Changes in fair values of investment assets and liabilities	1,471	2,291
	2,083	2,849
Sponsor contributions (note 11)	295	290
Members contributions (note 11)	245	212
	2,623	3,351
Decrease in Assets		
Retirement and survivor pension benefits	747	694
Commuted value transfers, lump sum death benefits and refunds	105	82
Administration expenses (notes 12 and 17)	96	80
	948	856
Increase in net assets available for benefits	1,675	2,495
Net assets available for benefits, end of year	\$ 20,945	\$ 19,270

See accompanying notes to the financial statements

Statement of Changes in Pension Obligations

For the year ended December 31 <i>(in millions of dollars)</i>	2014	2013
Pension obligations, beginning of year	\$ 18,039	\$ 16,461
Increase in pension obligations		
Interest on pension obligations	1,035	939
Benefits accrued	494	486
Changes in actuarial assumptions (note 13.b)	–	1,069
	1,529	2,494
Decrease in pension obligations		
Retirement and survivor pension benefits	747	694
Commutated value transfers, lump sum death benefits and refunds	105	82
Changes in actuarial assumptions (note 13.b)	70	–
Experience gains (note 13.c)	14	140
	936	916
Net increase in pension obligations	593	1,578
Pension obligations, end of year	\$ 18,632	\$ 18,039

Statement of Changes in Surplus

For the year ended December 31 <i>(in millions of dollars)</i>	2014	2013
Surplus, beginning of year	\$ 1,231	\$ 314
Increase in net assets available for benefits	1,675	2,495
Net increase in pension obligations	(593)	(1,578)
Surplus, end of year	\$ 2,313	\$ 1,231

See accompanying notes to the financial statements

Notes to the Financial Statements

1. Plan description

The following description of the Canada Post Corporation Registered Pension Plan (the Plan) is a summary only. An exact and complete description of the Plan provisions can be found in the official Plan document. If there is any conflict between this summary and the official Plan document, the official Plan document will govern.

a) General

The Plan is registered with the Canada Revenue Agency (CRA) under registration number 1063874. The Plan is a registered pension plan as defined in the *Income Tax Act* (ITA) and as such is not subject to income taxes on contributions or investment income received. The Plan is also registered with the Office of the Superintendent of Financial Institutions Canada (OSFI) under registration number 57136, and is subject to the *Pension Benefits Standards Act, 1985* (PBSA), and the regulations thereunder. Canada Post Corporation (the Corporation) sponsors and administers the Plan.

The Plan is comprised of both a Defined Benefit (DB) component and a Defined Contribution (DC) component. The DB component was established by the Corporation effective October 1, 2000 and covered all eligible employees. Effective January 1, 2010, the Corporation established the DC component for all newly hired Management and Exempt employees, along with those newly hired unionized employees who later transfer to a Management and Exempt position. As of June 1, 2014 all newly hired Union of Postal Communication Employees (UPCE) along with those newly hired unionized employees who later transfer to a UPCE position joined the DC component.

The Plan is domiciled in Canada. The address of the Plan's registered office is 2701 Riverside Drive, Ottawa, Ontario.

A separate Supplementary Retirement Arrangement (SRA) has been established by the Corporation to provide for benefits that exceed the maximum amount allowable under the ITA for registered pension plans.

b) Benefits

i. *Defined Benefit component*

Retirement pensions

A member is eligible for pension benefits immediately upon joining the Plan. A retirement pension is available based on pensionable service, the highest average pensionable earnings for five consecutive years of employment, and the age of the member at retirement. Members are eligible for an early retirement pension within 10 years of pensionable age. An unreduced retirement pension is available at pensionable age.

For members represented by the Canadian Union of Postal Workers (CUPW), Urban Postal Operations (UPO) or Rural and Suburban Mail Carriers (RSMC) who become eligible to join the Plan on or after December 21, 2012, pensionable age is defined as (a) the later of age 65 or the age at which a member has completed two years of eligibility service or the age at which a member would have completed two years of Plan membership assuming that a member's Plan membership continues, or (b) age 60 if a member has at least 30 years of eligibility service. For all other members, pensionable age is defined as (a) the later of age 60 or the age at which a member has

completed two years of eligibility service or the age at which a member would have completed two years of Plan membership assuming that a member's Plan membership continues, or (b) age 55 if a member has at least 30 years of eligibility service.

Benefits payable on termination of employment

Benefits payable on termination of employment depend on a member's years of pensionable service and age and may include a lump sum amount equivalent to the commuted value of the pension or a deferred pension.

Bridge benefits

A bridge benefit is a temporary benefit in addition to a retirement pension. It is payable from retirement until the member reaches age 65, unless death or payment of Canada Pension Plan or Quebec Pension Plan disability benefits occurs first.

Disability pensions

A disability pension is an immediate pension payable on an unreduced basis. It is available to qualified members prior to pensionable age.

Death benefits

Death benefits may include on-going financial support to survivors and dependent children, lump-sum payments equal to the commuted value of the pension benefit, and a minimum payment guarantee on the death of the member.

Indexing of benefits

Pension and survivor benefits are automatically indexed for inflation in January by a percentage that reflects the average increase in the Consumer Price Index.

ii. *Defined Contribution component*

Retirement benefits

Retirement benefits are based on the accumulation of contributions and investment income allocated to the member's account. For DC members who commenced employment before January 1, 2013, the Corporation contributes 4% of the member's pensionable earnings. For DC members who commenced employment on or after January 1, 2013, the Corporation contributes 2% of the member's pensionable earnings. Member contributions are optional up to a maximum of 4%. Additional matching contributions of up to 5% can be made by the Corporation based upon each member's age, years of eligible service and member's contributions. These contributions are invested as directed by each member from a selection of investment options authorized by the Plan's Pension Committee.

Benefits payable on termination of employment and death

Benefits payable on termination of employment and death would result in a return of the accumulation of contributions and investment income allocated to the member's account.

c) Funding

i. *Defined Benefit component*

Plan benefits are funded by contributions and investment earnings. Contributions are required from both the Corporation and the employee. These contributions, along with investment earnings, are designed to ensure the financial security of member benefits. The Plan's funding policy is reviewed annually and continually aims to achieve long-term stability in contribution rates for both the Corporation and Plan members. Contribution rates are established through actuarial funding valuations which are conducted annually to determine the funded position of the Plan. Employees, who are members of the Plan, are required to contribute a percentage of their pensionable earnings to the Plan at rates set by the Board of Directors.

For 2014, employee contribution rates were as follows:

As of January 1	As of July 1	
8.1%	8.5%	up to the Year's Maximum Pensionable earnings (\$52,500)
11.6%	12.0%	above the Year's Maximum Pensionable earnings (\$52,500)

For 2013, employee contribution rates were as follows:

As of January 1	As of July 1	
6.8%	7.5%	up to the Year's Maximum Pensionable earning (\$51,100)
10.3%	11.0%	above the Year's Maximum Pensionable earning (\$51,100)

Employee contributions increases, if any, will be determined based on the 2014 funding valuation, and will be effective July 1, 2015.

ii. *Defined Contribution component*

Plan benefits are funded by contributions and investment earnings. Contributions include minimum automatic contributions by the Corporation and optional employee contributions matched by additional employer contributions. Employees make their own investment choices from a menu of funds. The Corporation periodically reviews the performance of the funds and proposes changes, if required.

2. Summary of significant accounting policies

a) Presentation

These financial statements are prepared in Canadian dollars, the Plan's functional currency, in accordance with the accounting standards for pension plans in Part IV of the Chartered Professional Accountants Canada Handbook.

The Plan has elected to comply on a consistent basis with International Financial Reporting Standards (IFRS) for its accounting policies that do not relate to its investment portfolio or its pension obligations. To the extent that the IFRS in Part I of the CPA Canada Handbook are inconsistent with CPA Canada Handbook Part IV Section 4600, then CPA Canada Section 4600 takes precedence.

These financial statements are prepared on a going-concern basis and present the information of the Plan as a separate financial reporting entity independent of the sponsor and Plan members.

In accordance with CPA Canada Handbook Part IV Section 4600, investments assets, including those over which the Plan has control or significant influence, are measured at fair value and presented on a non-consolidated basis.

b) Investments

Valuation of investments

Investments are stated 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. In an active market, fair value is best evidenced by an independent quoted market price. In the absence of an active market, fair value is determined by valuation techniques that make maximum use of inputs observed from markets. The calculations of fair value are based on market conditions at a specific point in time and may not be reflective of future fair value.

Fair values of investments are determined as follows:

1. Short-term securities, which include short-term government securities and bank notes, are valued at cost or amortized cost that, together with accrued interest or discounts earned, approximate fair value.
2. Fixed income securities quoted in an active market are valued at quoted closing market prices. Where a quoted year-end price in an active market is not available, an estimated value is calculated using discounted cash flows based on current market yields, comparable securities, and financial analysis, as appropriate.
3. Equities quoted in an active market are valued at quoted closing market prices. Where a quoted price in an active market is not available for an equity, a suitable method of valuation is used by management to determine fair value using appropriate valuation techniques. In making such valuations, consideration is given to the use of bid and ask prices, previous transaction prices, discounted cash flows, earnings multiples, prevailing market rates for instruments with similar characteristics and other valuation techniques that are judged relevant to the specific situation.
4. Pooled funds are valued at year-end net asset values, as provided by the pooled fund manager, using the closing market prices of underlying securities held in the pooled fund.
5. Derivative financial instruments, including foreign exchange forward contracts, interest rate futures and interest rate swaps are valued at year-end quoted market prices, where available. Where quoted market prices are not readily available, appropriate alternative valuation techniques are used to determine fair value, such as discounted cash flows using current market yields or rates.
6. Real estate investments are valued annually by professionally qualified independent appraisers, certified by the Appraisal Institute of Canada. The appraisals are in accordance with generally accepted appraisal practices and procedures, based mainly on the discounted cash flows or income approach. Direct and pooled fund investments are typically measured at cost in the year of acquisition, as an approximation of fair value, unless specific and conclusive reasons exist to change the value. Mortgages held in entities in which the Plan has invested are netted as part of investment assets, even when the investment is an entity over which the Plan has effective control or can exercise significant influence. The fair value of the mortgage is estimated using discounted cash flows based on current market yields,
7. Investments in private equity and infrastructure include investments held directly and through ownership in limited partnership funds. These investments are valued using market quotes, values provided by the funds' General Partners under limited partnership agreements or through the use of appropriate valuation techniques. In determining such valuations, consideration is given to previous transaction prices, discounted cash flows, earnings multiples, prevailing market rates for instruments with similar characteristics and other valuation techniques that are judged relevant to the specific situation.

- **Investment transactions and income**

All investment transactions are recorded when the risks and rewards of ownership are transferred. Purchases and sales of publicly traded investments are recognized on a trade-date basis. Real estate investment transactions are recognized on the date of closing for direct investments. Real estate and private equity pooled fund investment transactions are recognized on the cash call date. Investment income, including interest income, is recorded on an accrual basis. Dividend income is recognized on the ex-dividend date. Real estate, private equity and infrastructure income is recognized as dividends or distributions are declared. Realized gains and losses on the sale of investments and the close of derivative contracts are recognized as gains and losses on disposition.

Unrealized gains and losses on investments represent the change in the difference between the cost and fair value of investments at the beginning compared to the end of each year. Unrealized gains and losses on derivative contracts represent the changes in fair values of the contracts from previously reported amounts or since the inception of the contracts if they were entered into during the year.

- **Investment transaction costs**

Transaction costs are incremental costs incurred in the purchase and sale of investments. Transaction costs are expensed and included in administration expenses in the statement of changes in net assets available for benefits.

- **Management fees**

Management fees for private equity funds, real estate and external portfolio management are expensed and included in administration expenses in the statement of changes in net assets available for benefits. Management fees for pooled funds where the Plan's investment return from the fund is net of fees are expensed in investment income as incurred in the statement of changes in net assets available for benefits.

c) Pension obligations

Pension obligations for the DB component are determined based on actuarial valuations prepared by an independent firm of actuaries using the projected accrued benefit actuarial cost method and management's estimate of future events. The year-end value of pension obligations is based on the most recent going-concern actuarial valuation prepared for funding purposes extrapolated to the year-end reporting date using management's best estimate assumptions.

Pension obligations for the DC component are the sum of the accumulated value of contributions and investment income allocated to members' accounts.

d) Contributions

Contributions for current service are recorded in the year in which the related payroll costs are incurred. Elective service contributions are recorded in the year in which the member commits to purchase elective service. Contributions for approved leaves of absence without pay are recorded in the year in which the leave without pay occurred. Special payments and transfer deficiency payments are recorded in the year to which they relate.

e) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at year-end. Income and expenses are translated at the rate of exchange prevailing at the time of the transaction. The realized and unrealized gains and losses arising from these translations are included in the change in fair values of investment assets and liabilities.

f) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities and pension obligations as at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Significant estimates are used primarily in the determination of the pension obligations and the valuation of real estate, private equity and infrastructure investments. Actual results may differ from these estimates and the differences could be material.

g) Benefits

Benefits include payments to retired members made during the year and accruals for due but unpaid benefits at December 31. Commuted value payments and transfers to other pension plans are recorded in the period in which the Plan is notified and any remaining unpaid amounts are included in accounts payable and accrued liabilities. Accrued benefits for members of the Plan are recognized as part of the pension obligations.

h) Approval of the financial statements

These financial statements were approved by the Board of Directors of the Corporation on March 12, 2015.

3. Changes in accounting policies

The Plan has adopted the following accounting standard, issued by the International Accounting Standards Board (IASB) effective January 1, 2014.

IAS 32 “Financial Instruments: Presentation” (IAS 32)

In December 2011, the IASB issued amendments to IAS 32, which provides additional guidance to the requirements for the offsetting of financial assets and financial liabilities. The amendments became effective for the Plan for the fiscal year ended December 31, 2014 and were applied retrospectively. The adoptions of these amendments has no significant impact on the Plan’s financial statements.

4. Future changes in accounting standards

The following new standard, issued by the International Accounting Standards Board (IASB), has been identified as having a possible impact on the Plan in the future. Management is currently determining the impact of this standard on its financial statements.

IFRS 9 “Financial Instruments” (IFRS 9)

In July 2014, the IASB issued the final version of IFRS 9, which includes guidance on recognition and derecognition of financial assets and financial liabilities applicable to pension plan financial statements. IFRS 9 is to be applied retrospectively for annual periods beginning on or after January 1, 2018, however early adoption is permitted.

5. Investments

Summary of investments

As at December 31 <i>(in millions of dollars)</i>	2014		2013	
	Fair Value	Cost	Fair Value	Cost
Cash and short-term securities	\$ 453	\$ 453	\$ 618	\$ 618
Fixed income				
Canadian	4,472	4,335	3,776	3,734
United States	407	377	488	464
International	139	135	184	174
Real return bonds	1,184	921	1,034	847
	6,202	5,768	5,482	5,219
Public equities				
Canadian	4,277	3,155	4,002	2,943
United States	4,578	3,218	4,030	2,982
International	3,181	2,813	3,108	2,573
	12,036	9,186	11,140	8,498
Real estate (note 9.a) ⁽ⁱ⁾	1,396	1,165	1,374	1,127
Private equity (note 9.c)				
Canadian	55	45	27	23
United States	306	217	195	151
International	57	45	26	22
	418	307	248	196
Infrastructure (note 9.e)				
Canadian	99	88	99	88
United States	1	1	–	–
International	206	161	176	155
	306	250	275	243
Defined contribution plan assets	13	13	8	8
Investments	20,824	17,142	19,145	15,909
Accrued investment income	53	53	52	52
Investment trades to settle	133	133	131	131
Derivatives	26	–	10	–
Investment related receivables	212	186	193	183
Investment trades to settle	(142)	(142)	(133)	(133)
Derivatives	(13)	–	(6)	–
Investment related liabilities	(155)	(142)	(139)	(133)
Net investment assets	\$ 20,881	\$ 17,186	\$ 19,199	\$ 15,959

(i) Real estate assets are net of mortgage liabilities incurred in entities where the Plan has effective control or significant influence with a fair value of \$420 million (December 31, 2013 – \$341 million).

a) Fair value measurements

i. Fair value hierarchy

Investment assets and investment related liabilities, recognized at fair value in the statement of financial position, must be classified in three fair value hierarchy levels, based on the transparency of the inputs used to measure the fair value as follows:

Level 1: Fair value is based on unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2: Fair value is based on observable inputs other than Level 1 prices, such as quoted market prices for similar assets or liabilities in active markets, quoted market prices for identical assets or liabilities in markets that are not active and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on valuation. Non-observable inputs are supported by little or no market activity.

The classification of net investment assets by fair value hierarchy, as at December 31, 2014, was as follows:

<i>(in millions of dollars)</i>	Level 1	Level 2	Level 3	Total
Cash and short-term securities	\$ 213	\$ 253	\$ –	\$ 466
Fixed income	24	6,211	–	6,235
Public equities	11,944	103	–	12,047
Real estate	–	–	1,396	1,396
Private equity	–	–	418	418
Infrastructure	–	–	306	306
Derivatives	–	13	–	13
	\$ 12,181	\$ 6,580	\$ 2,120	\$ 20,881

The classification of net investment assets by fair value hierarchy, as at December 31, 2013, was as follows:

<i>(in millions of dollars)</i>	Level 1	Level 2	Level 3	Total
Cash and short-term securities	\$ 188	\$ 438	\$ –	\$ 626
Fixed income	70	5,452	–	5,522
Public equities	11,019	131	–	11,150
Real estate	–	–	1,374	1,374
Private equity	–	–	248	248
Infrastructure	–	–	275	275
Derivatives	1	1	2	4
	\$ 11,278	\$ 6,022	\$ 1,899	\$ 19,199

ii. Significant transfers between level 1 and level 2

Changing market conditions during the year may result in transfers between the various fair value hierarchy levels particularly if there is a change in the availability of quoted market prices or observable market inputs. In 2014, equities with a fair value of \$2 million transferred from level 1 to level 2 (2013 – \$13 million). In 2014, public equities with a fair value of \$11 million transferred from level 2 to level 1 (2013 – fixed income \$19 million and public equities 17 million). Transfers between levels of the fair value hierarchy, for the purpose of preparing the above table, are deemed to have occurred at the beginning of the period.

iii. Changes in level 3 fair value measurements

Level 3 investments include real estate, infrastructure, private equity and some derivative contracts. For these investments, trading activity is infrequent and fair values are derived using valuation techniques. The significant inputs used in the pricing models, such as occupancy rates, capitalization rates and discount rates are either non observable or based on significant assumptions.

Changes in the fair value of level 3 investments during 2014 are as follows:

<i>(in millions of dollars)</i>	Balance December 31, 2013	Contributed Capital	Capital Returned	Gains (Losses)		Balance December 31, 2014
				Realized	Unrealized	
Real estate	\$ 1,374	\$ 200	\$ (206)	\$ 44	\$ (16)	\$ 1,396
Private equity	248	150	(59)	20	59	418
Infrastructure	275	11	(9)	5	24	306
Derivatives	2	–	(2)	–	–	–
	\$ 1,899	\$ 361	\$ (276)	\$ 69	\$ 67	\$ 2,120

Changes in the fair value of level 3 investments during 2013 are as follows:

<i>(in millions of dollars)</i>	Balance December 31, 2012	Contributed Capital	Capital Returned	Gains		Balance December 31, 2013
				Realized	Unrealized	
Real estate	\$ 1,207	\$ 203	\$ (118)	\$ 12	\$ 70	\$ 1,374
Private equity	162	66	(22)	7	35	248
Infrastructure	139	117	(10)	2	27	275
Derivatives	1	(2)	(3)	2	4	2
	\$ 1,509	\$ 384	\$ (153)	\$ 23	\$ 136	\$ 1,899

Level 3 investments are based on valuation models that use non-observable inputs such as capitalization rates. The following analysis illustrates the sensitivity of real estate investments valuations to reasonably possible alternative capitalization rate assumptions. Direct real estate investments used capitalization rates that vary from 4.3% to 7.4%. An increase/decrease of 25 basis points in the capitalization rate would decrease/increase the total value of the real estate investment by \$75.6 million (2013 – \$74.2 million). The impact on the valuation from changes to the capitalization rate has been calculated independently of the impact of changes in other key variables. In actual experience, the factors that would cause a change in the capitalization rate would also cause changes in other valuation assumptions which could amplify or reduce the impact on the valuation.

b) Derivative financial instruments

Derivative financial instruments are financial contracts, the value of which is derived from the value of the underlying assets, indices, interest rates or currency rates. The Plan uses derivatives to manage financial risk and to enhance returns. Derivative contracts are transacted either in the over-the-counter (OTC) market or on regulated exchanges. Derivative financial instruments held by the Plan include interest rate swaps, interest rate futures and foreign exchange forward contracts.

Interest rate swaps are negotiated agreements that are transacted between counterparties in the OTC market in which the counterparties agree to exchange periodic cash flows based on agreed-upon reference rates applied to a specified notional amount. No exchange of principal takes place.

Interest rate futures are standard contracts traded on regulated futures exchanges. Interest rate futures are contractual obligations to buy or sell an interest rate sensitive financial instrument on a predetermined future date at a specified price.

Foreign exchange forward contracts are negotiated agreements that are transacted between counterparties in the OTC market. Foreign exchange forward contracts are contractual obligations to exchange one currency for another currency at a specified price at a predetermined future date based on the notional amount specified in the contract.

Notional amounts of derivative contracts represent the contracted amount to which a rate or price is applied for computing the cash flows to be exchanged. Notional amounts are the basis upon which the returns from, and the fair value of, the contract is determined. They are not recorded as assets or liabilities in these financial statements and they do not necessarily indicate the amount of future cash flow or the current fair value of the derivative contracts. Accordingly, notional amounts do not indicate the Plan's exposure to credit or market risks.

Derivative contracts are recorded in the statement of financial position at fair value. Derivative contracts become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market rates or prices relative to their terms. Fair values of derivative contracts can fluctuate significantly.

The aggregate notional amount and fair value of derivative contracts, as at December 31, 2014, was as follows:

<i>(in millions of Canadian dollars)</i>	Notional Amount		Fair Value	
	Long	Short	Assets	Liabilities
Foreign exchange forward contracts	\$ 93	\$ (2,329)	\$ 26	\$ (13)

The aggregate notional amount and fair value of derivative contracts, as at December 31, 2013, was as follows:

<i>(in millions of Canadian dollars)</i>	Notional Amount		Fair Value	
	Long	Short	Assets	Liabilities
Foreign exchange forward contracts	\$ 79	\$ (2,222)	\$ 5	\$ (4)
Interest rate futures	729	(288)	1	–
Interest rate swaps	411	(84)	4	(2)
	<u>\$ 1,219</u>	<u>\$ (2,594)</u>	<u>\$ 10</u>	<u>\$ (6)</u>

The net fair value of derivative contracts as at December 31, 2014, is \$13 million asset position (2013 – \$4 million asset position). Note 6.a) provides the collateral or margin fair value of securities deposited with and received from various financial institutions.

As at December 31, 2014, the foreign exchange forward contracts' terms to maturity was within one year.

6. Risk management

Funding Risk

One of the main risks that the Plan faces is funding risk, the risk that the Plan's investment asset growth and contribution rates will not be sufficient to cover the Plan's pension obligations resulting in an unfunded liability.

The Plan's net funded position can change relatively quickly if there are changes in the value of the Plan's investment assets or pension obligations. Either can result in a mismatch between the Plan's assets and its liabilities. The most significant contributors to funding risk are the declines in discount rates and investments failing to achieve expected returns. In addition, the Plan's pension obligations are affected by non-economic factors like changes in member demographics.

The Board manages funding risk by monitoring and reviewing the funded ratio on an ongoing basis and ensuring that investment decisions are made in accordance with the Statement of Investment Policies and Procedures (SIPP). The SIPP is designed to provide the Plan with a long-term rate of return, net of expenses, of 4.5% above inflation. Achieving the 4.5% target will assist the Plan in meeting its funding objectives and the ongoing growth of its pension obligations. Asset-liability studies are conducted periodically to ensure that the Plan's investment strategy remains appropriate in challenging economic environments.

Financial Risk Management

The Plan is subject to a variety of financial risks as a result of its investment activities that could adversely affect its cash flows, financial position, and investment income. The objective of investment risk management is to minimize the potential adverse effect of these risks and to optimize the gains over the entire portfolio.

The Board, with the assistance of the Pension Committee, staff, agents and advisors, is responsible for prudently managing, investing, and administering the Plan in order to secure the pension benefit for Plan members. This requires the Board's oversight of the assets and liabilities to help ensure they are being managed in the best interest of the members. The Board has established an investment risk management framework, which outlines the Board's tolerance for risk and guides the development of investment strategies to meet the Plan's overall objectives.

Risk management for the Plan is performed by the Investment Management team through compliance with various processes and policies. Some of the policies in place include the SIPP and each of the Fund Manager Mandates. The SIPP, approved by both the Pension Committee and the Board, prescribes a long-term debt-equity asset mix policy, requires portfolio investment diversification, sets guidelines on investment categories, and limits exposure to individual investments and major asset classes.

Risk assessment analysis for each risk category is performed and monitored regularly against the strategy and actions taken, when appropriate, according to the Plan's approved policies. In addition, as required these risks are reviewed with the Investment Advisory Committee, the Pension Committee and the Board.

a) Credit risk

Credit risk is the risk of loss should the counterparty to a transaction default or otherwise fail to perform under the terms of the contract. The Plan is exposed to direct credit risk through its short-term securities, fixed income securities, derivative contracts, and real estate rental income. Credit risk on short-term securities is mitigated by only transacting with highly-rated counterparties and establishing limits on the amount and term of short-term investments.

Credit risk on fixed income securities is mitigated by establishing limits on exposure to individual counterparties, monitoring credit ratings, and adhering to the investment criteria as set out in the Plan's SIPP.

The Plan's fixed income investment credit risk exposure as at December 31 was as follows:

<i>(in millions of dollars)</i>	2014		2013	
Credit rating				
AAA /AA	\$ 3,169	51%	\$ 2,857	52%
A	1,722	28%	1,539	28%
BBB	850	14%	662	12%
<BBB	461	7%	424	8%
	\$ 6,202	100%	\$ 5,482	100%

Credit risk on OTC derivative foreign exchange forward contracts and interest rate swap contracts is mitigated through the use of master netting agreements with counterparties. In addition, for derivative interest rate swaps there is an exchange of collateral between the parties in the event the fair value of outstanding transactions between the parties exceeds an agreed threshold. Credit risk on exchange traded interest rate futures derivatives is limited as these transactions are standardized contracts executed on established exchanges, each of which is associated with a clearing house that assumes the obligations of both counterparties and guarantees performance. Counterparties also require a minimum credit rating of "A". Counterparty exposure is determined daily and collateral, consisting of cash and other acceptable securities, is either requested or delivered based on contracted terms.

No cash and securities (2013 – \$3 million) have been deposited with various financial institutions as collateral for margin. The Plan is not allowed to pledge the same securities with other financial institutions or sell them to another entity unless the Plan is able to substitute such securities with other securities that the counterparties accept.

Cash with a fair value of \$0.2 million (2013 – \$1 million) was received as collateral. The Plan holds the collateral received as long as the counterparty is not a defaulting party or an affected party in connection with a specified condition listed on the contractual agreements and there is no early termination of the contractual agreement. The Plan is permitted to sell or re-pledge the collateral in the event of default by the owner of the collateral. There have been no counterparty defaults for the year ended December 31, 2014.

Credit risk on the Plan's real estate investments arises from the possibility that tenants may be unable to fulfill their lease commitments. The Plan mitigates this risk by diversifying investments by property type and geographic location and ensuring investments are managed by professional property managers.

b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices whether these changes are caused by factors specific to an individual investment or factors affecting all securities traded in the market. Market risk comprises interest rate risk, currency risk, and other price risk.

i. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flow of the Plan's investments will fluctuate due to changes in market interest rates. It arises primarily on interest-bearing financial instruments held in the Plan's short-term securities, fixed income portfolio and derivative interest rate contracts. Interest rate risk indirectly affects equities as earnings multiples change with changes in interest rates and the relative attractiveness of equities also changes with changes in interest rates. Excess cash is invested in short-term securities.

To properly manage the Plan's interest rate risk, guidelines on the weighting, term to maturity and duration for the short-term securities and fixed income securities are set and monitored. In addition, to further mitigate interest rate risk the Plan may enter into interest rate futures and interest rate swap contracts.

The terms to contractual maturity of the Plan's fixed income securities, excluding interest rate swaps and futures, as of December 31, are as follows:

<i>(in millions of dollars)</i>	2014					2013			
	Terms to maturity					Total	Yield to Maturity	Total	Yield to Maturity
Interest-bearing financial instruments	Within 1 Year	1 to 5 Years	> 5 to 10 Years	Over 10 Years					
Fixed income – Bonds									
Government of Canada	\$ 60	\$ 544	\$ 10	\$ 276	\$ 890	1.5%	\$ 714	2.0%	
Canadian corporate	25	869	841	727	2,462	2.7%	2,068	3.5%	
Government of United States	–	22	–	–	22	1.6%	58	1.1%	
United States corporate	–	96	281	8	385	5.4%	430	6.6%	
International Government	–	–	–	–	–	– %	3	3.7%	
International corporate	–	37	100	2	139	5.4%	181	4.9%	
Provincial and municipal	1	242	492	385	1,120	2.6%	994	3.2%	
Real return – Canada	–	–	173	728	901	0.4%	795	1.0%	
Real return – Provincial	–	30	35	191	256	1.4%	217	1.7%	
Real return – Corporate	–	–	–	27	27	2.4%	22	2.9%	
	\$ 86	\$ 1,840	\$ 1,932	\$ 2,344	\$ 6,202	2.4%	\$ 5,482	3.1%	

As at December 31, 2014, an increase or decrease of 1% in the prevailing interest rates, assuming a parallel shift in the yield curve, with all other variables remaining constant, would decrease or increase the value of net assets available for benefits by approximately \$454 million (2013 – \$426 million). The Plan's interest rate sensitivity was determined based on the weighted duration of the Plan's fixed income securities. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

ii. Currency risk

Currency risk is the risk that the value of the Plan's investments will fluctuate due to changes in foreign exchange rates. It arises from Plan investments that are denominated in a currency other than the Canadian dollar, which is the Plan's reporting currency. The Plan is exposed to the risk that the value of securities denominated in other currencies will fluctuate due to changes in foreign currency exchange rates.

The Plan does not speculate in currencies or hold net short positions. To mitigate its overall currency exposure, the Plan enters into derivative contracts for the purchase or sale of foreign currency, to adjust the exposure to a particular currency. To mitigate counterparty risk, all transactions settle on a net basis. The Plan hedges between 15% and 45% of its total foreign currency exposure. No single foreign currency exposure can exceed 20% of Plan assets. All current contracts expire within 3 months. The Plan only deals with highly-rated counterparties, typically major financial institutions, with a minimum credit rating of "A" as reported by a recognized credit rating agency.

The Plan's net investment asset exposure, net of foreign exchange forward contracts, by geographical location of the issuer and by currency, as at December 31 was as follows:

<i>(in millions of dollars)</i>	Geographical location		Currency	
<i>Currency – Canadian \$ equivalent, net of foreign exchange forward contracts</i>	2014	2013	2014	2013
Canadian dollar	\$ 11,908	\$ 10,955	\$ 14,194	\$ 13,161
United States dollar	5,364	4,722	4,272	3,714
Euro	843	903	495	473
Other European	938	1,004	683	792
Japanese yen	418	408	269	291
Other Pacific	373	283	451	322
Emerging markets	1,037	924	517	446
	\$ 20,881	\$ 19,199	\$ 20,881	\$ 19,199

Based on the Plan's net investment asset exposure as at December 31, 2014, if the Canadian dollar strengthened or weakened by 10% in relation to all foreign currencies, with all other factors remaining constant, net assets available for benefits would have decreased or increased by approximately \$669 million (2013 – \$604 million). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

The Plan's foreign currency forward contracts by currency as of December 31 were as follows:

Currency	2014				2013			
	Notional Amount Long	Notional Amount Short	Fair value	Average rate	Notional Amount Long	Notional Amount Short	Fair value	Average rate
United States dollar	\$ 71	\$ (1,761)	\$ (3)	\$ 1.16	\$ 66	\$ (1,713)	\$ –	\$ 1.06
Euro	16	(259)	9	1.45	4	(259)	–	1.46
Japanese yen	–	(151)	5	0.01	–	(118)	3	0.01
British pound	6	(158)	2	1.83	9	(132)	(2)	1.74
	\$ 93	\$ (2,329)	\$ 13		\$ 79	\$ (2,222)	\$ 1	

iii. Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from interest rate risk or currency risk. Changes in market prices may be caused by factors specific to an individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Plan is subject to other price risk primarily through its public equity investment as well as its private equity investments as they are impacted by many market variables. The Plan moderates other price risk through its policy of diversifying its investments across asset classes and geographical locations based on criteria established in the SIPP. Fund managers and investment staff regularly monitor the portfolio by sector, country, market capitalization and trading liquidity.

The Plan's exposure to other price risk as at December 31 was as follows:

(in millions of dollars)	2014		2013	
	Effective other price risk exposure	% of total other price risk exposure	Effective other price risk exposure	% of total other price risk exposure
Public equities and private equity investments				
Canadian	\$ 4,332	35%	\$ 4,029	35%
United States	4,884	39%	4,225	37%
International	3,238	26%	3,134	28%
	\$ 12,454	100%	\$ 11,388	100%

As at December 31, 2014, 60% (2013 – 59%) of the Plan's investments were in equities. If public equity prices increased or decreased by 10% as at year-end, with all other factors remaining constant, net assets available for benefits would have increased or decreased by approximately \$1,178 million (2013 – \$1,190 million). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

c) Liquidity risk

Liquidity risk is the risk that the Plan will not be able to meet its financial obligations as they fall due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. The financial liabilities of the Plan include investment related liabilities, all of which will become due within the next year. The Plan is also exposed to the settlement of derivatives, margin calls on derivatives and pension related payments. Note 5(b) provides the terms to contractual maturity of the Plan's derivative contracts.

The Plan forecasts its cash requirements over the short and long-term to determine whether sufficient funds will be available. The Plan's primary sources of liquidity are funds generated from investments and employer and employee contributions. The Plan primarily invests in securities that are traded in active markets and can be readily sold. Real estate, private equity and infrastructure investments are also subject to liquidity risk which is mitigated by managing the overall amount invested in those asset classes and by limiting the amount invested in any one real estate property or pooled fund. The Plan retains sufficient cash and short-term security positions to maintain a reasonable level of liquidity.

The Plan's primary future liabilities include the pension obligations (note 13). In the normal course of operations, the Plan enters into mortgages and contracts that give rise to commitments (note 18) which may also impact liquidity.

7. Contributions and other receivables

<i>(in millions of dollars)</i>		2014	2013
Current service contributions	– Sponsor	\$ 30	\$ 31
	– Members	9	7
Other contributions ⁽¹⁾	– Leave of absence	37	31
	– Elective service	23	25
Other		13	8
		\$ 112	\$ 102

⁽¹⁾Leave of absence contribution receivables for approved leave of absence without pay are generally payable over a period equal to twice the period of leave of absence. Elective service contribution receivables for eligible service are payable over a maximum payment period of 20 years for members 45 years or older at the date of election, or to age 65 for members less than age 45 at the date of election.

8. Accounts payable and accrued liabilities

<i>(in millions of dollars)</i>		2014	2013
Accounts payable and accrued liabilities		\$ 27	\$ 18
Accrued benefits payable		21	13
		\$ 48	\$ 31

9. Investment in real estate, private equity and infrastructure

a) Investment in real estate

The investment in real estate as at December 31 was as follows:

<i>(in millions of dollars)</i>	2014		2013	
	Fair Value	Cost	Fair Value	Cost
Direct investments	\$ 928	\$ 801	\$ 877	\$ 756
Pooled funds	468	364	497	371
	\$ 1,396	\$ 1,165	\$ 1,374	\$ 1,127

b) Real estate net investment income

Real estate net investment income for the year ended December 31 was as follows:

<i>(in millions of dollars)</i>	2014	2013
Investment income	\$ 64	\$ 42
Net realized gains	44	12
Changes in net unrealized gains	(16)	70
	\$ 92	\$ 124

c) Investment in private equity

The investment in private equity as at December 31 was as follows:

<i>(in millions of dollars)</i>	2014		2013	
	Fair Value	Cost	Fair Value	Cost
Direct investments	\$ 25	\$ 24	\$ –	\$ –
Pooled funds	393	283	248	196
	\$ 418	\$ 307	\$ 248	\$ 196

d) Private equity net investment income

Private equity net investment income for the year ended December 31 was as follows:

<i>(in millions of dollars)</i>	2014	2013
Investment income	\$ 4	\$ 4
Net realized gains	20	7
Changes in net unrealized gains	59	35
	\$ 83	\$ 46

e) Investment in infrastructure

The investment in infrastructure as at December 31 was as follows:

<i>(in millions of dollars)</i>	2014		2013	
	Fair Value	Cost	Fair Value	Cost
Direct investments	\$ 163	\$ 139	\$ 157	\$ 139
Pooled funds	143	111	118	104
	\$ 306	\$ 250	\$ 275	\$ 243

f) Infrastructure net investment income

Infrastructure net investment income for the year ended December 31 was as follows:

<i>(in millions of dollars)</i>	2014	2013
Investment income	\$ 18	\$ 12
Net realized gains	5	2
Changes in net unrealized gains	24	27
	\$ 47	\$ 41

10. Net investment income

Net investment income by primary financial instrument type for the year ended December 31 was as follows:

<i>(in millions of dollars)</i>	2014	2013
Interest income		
Cash and short-term securities	\$ 6	\$ 4
Fixed income	179	171
Fixed income – real return bonds	29	28
Derivatives	(2)	(1)
	<u>212</u>	<u>202</u>
Dividend income		
Canadian equities	132	126
United States equities	110	109
International equities	72	63
	<u>314</u>	<u>298</u>
Real estate (note 9.b)	64	42
Private equity (note 9.d)	4	4
Infrastructure (note 9.f)	18	12
	<u>612</u>	<u>558</u>
Investment income	612	558
Net realized gains (losses) on investment assets and liabilities		
Short-term securities	1	1
Canadian fixed income	99	(1)
United States fixed income	10	(5)
International fixed income	(4)	(19)
Canadian equities	275	119
United States equities	390	561
International equities	175	155
Derivatives	1	2
Real estate (note 9.b)	44	12
Private equity (note 9.d)	20	7
Infrastructure (note 9.f)	5	2
	<u>1,016</u>	<u>834</u>
Changes in net unrealized gains	455	1,457
	<u>1,471</u>	<u>2,291</u>
Changes in fair values of investment assets and liabilities	1,471	2,291
	<u>\$ 2,083</u>	<u>\$ 2,849</u>

11. Contributions

<i>(in millions of dollars)</i>	2014	2013
Sponsor – Current service	\$ 254	\$ 262
– Special payments	41	28
	\$ 295	\$ 290
Members – Current service	\$ 240	\$ 207
– Past service	5	5
	\$ 245	\$ 212

Contributions consist of both DB and DC components.

12. Administration expenses

<i>(in millions of dollars)</i>	2014	2013
Plan administration	\$ 16	\$ 15
Investment management fees	60	51
Transaction costs	17	12
Professional fees	2	2
Custodial fees	2	2
Other	(1)	(2)
	\$ 96	\$ 80

13. Pension obligations

<i>(in millions of dollars)</i>	2014	2013
DB obligations	\$ 18,619	\$ 18,031
DC obligations	13	8
	\$ 18,632	\$ 18,039

a) Actuarial methodology

The actuarial present value of the pension obligations is an estimate of the value of pension obligations of the Plan in respect of benefits accrued to date for all active and inactive members. The obligations are measured using the same actuarial assumptions and methods required for the Plan's going-concern funding requirements as required by OSFI and the PBSA which reflect management's best estimate. The most recent actuarial valuation for funding purposes, prepared by Mercer (Canada) Limited as at December 31, 2013, was extrapolated to determine the pension obligations as at December 31, 2014. The valuation used the projected accrued benefit actuarial cost method with respect to benefits, and assumes that the Plan will continue on a going-concern basis. The next valuation for funding purposes will be prepared as of December 31, 2014.

b) Actuarial assumptions

The actuarial assumptions used in determining the pension obligations reflect management's best estimate of future economic events and involve both economic and demographic assumptions. The demographic assumptions include considerations such as mortality, withdrawals and retirement rates. The primary economic assumptions include the discount rate, salary escalation rate and the inflation rate. The discount rate is based on the long-term expected fund return. The inflation rate is based on the consumer price index and the salary escalation rate incorporates the most recent collective agreements, the inflation rate assumption and the long term expectation of growth in wages. Each of the assumptions is updated periodically based on a detailed review of the Plan's actual results and based on expectations for future trends.

A summary of the primary economic assumptions as at December 31 was as follows:

	2014	2013
Discount rate	5.8%	5.8%
Salary escalation rate		
– Union groups	Per the most recent collective agreement	
– Following expiry of collective agreements and non-unionized groups – average of	2.0% per year through 2019 and grading to 2.75% by 2022	
Consumer price index	2.25%	2.25%

The changes in the long-term economic assumptions resulted in a net decrease in the pension obligation of \$15 million (2013 – net decrease of \$176 million). Changes to demographic assumptions resulted in a net decrease of \$55 million (2013 – net increase of \$1,245 million). In 2013, the Plan's demographic assumptions were reviewed and revised, including the adoption of an updated mortality table that captures the recent experience of the Plan and the result of the study done by the Canadian Institute of Actuaries.

The life expectancy used in determining the mortality rates, as at December 31 is as follows:

	2014	2013
Life expectancy at age 60 at December 31, 2014, and 2013 (in years)		
Males	27	27
Females	29	29
Life expectancy at age 60 at December 31, 2034, and 2033 (in years)		
Males	28	28
Females	30	30

c) Experience gains and losses

Experience gains and losses represent the change in the pension obligation due to the difference between the expected experience and the actual results. During 2014, the experience gains were \$14 million (2013 – gains of \$140 million).

d) Sensitivity analysis

The discount rate used to estimate the present value of the pension obligations has a significant effect on the pension obligations at the end of the year. A decrease of fifty basis points in the discount rate would have increased the pension obligations by \$1,354 million and an increase of fifty basis points in the discount rate would have decreased the pension obligations by \$1,260 million.

14. Supplementary Retirement Arrangement (SRA)

The SRA provides Plan members and their survivors with benefits that, because of limitations imposed by the ITA, cannot be provided under a registered pension plan. The SRA, together with the Plan, provides overall pension benefits to eligible members.

The SRA is registered with CRA as a Retirement Compensation Arrangement under registration number RC4102229 and is administered in accordance with the applicable requirements of the ITA. Because the assets of the SRA are held in a separate fund, the net assets available for benefits and the pension obligations of the SRA are not included in these financial statements.

15. Funding valuation

In accordance with the PBSA and the ITA, an actuarial valuation is required to be filed every year unless the funded status is greater than 120%, to estimate the Plan's surplus or deficit on a going-concern and solvency basis, and to determine the Plan's minimum funding requirements. The last actuarial valuation filed with OSFI and CRA, as at December 31, 2013, disclosed a going-concern deficit to be funded of \$296 million and a solvency deficit to be funded of \$6.3 billion.

The current extrapolated estimate of the financial position of the Plan as at December 31, 2014, based on existing rules and regulations, is a going-concern surplus of approximately \$481 million and a solvency deficit to be funded of approximately \$6.8 billion. Actual results may differ significantly from these estimates as actuarial assumptions are being finalized.

Over the past few years, low solvency discount rates increased the pension plans' solvency obligations and deficits significantly. Changes to pension legislation were implemented by the Government of Canada providing Crown corporations with funding relief on special solvency contributions if certain conditions are met. Under these regulations, the aggregate amount of the relief used by the Corporation is limited to 15% of the fair value of plan assets. As at December 2014, the aggregate amount of the funding relief used by the Corporation was \$2.4 billion.

In February 2014, the Government of Canada introduced the *Canada Post Corporation Pension Plan Funding Regulations*. Under these regulations, the Corporation is exempt from making special contributions into its registered pension plan from 2014 to 2017. This temporary measure recognizes the operational challenges encountered by the Corporation and provides immediate relief on its liquidities. During the relief period, the Corporation will continue to restructure its operations and will start addressing the pension plan in order to ensure its long-term sustainability. The Corporation expects to resume special payments in 2018 at the end of the temporary relief period.

Without these pension reliefs, the Corporation would have to make special payments of an estimated \$1.4 billion in 2015.

Under CPA Canada Section 4600, the actuarial asset value adjustment is not included in the valuation methodology for accounting purposes. Therefore the Plan surplus in these financial statements is different from the surplus (deficit) determined by the funding valuation. The following table provides a reconciliation between the surplus recorded in the valuation for funding purposes to the amount recorded in these financial statements.

<i>(in millions of dollars)</i>	Extrapolation	Filed Valuation
	2014	2013
Surplus (deficit) per valuation for funding purposes	\$ 481	\$ (296)
Actuarial asset value adjustment	1,832	1,527
Surplus per financial statements	\$ 2,313	\$ 1,231

16. Capital

Management of the Plan defines its capital as the funded status [surplus/(deficit)] as determined annually based on the fair value of the investment assets less the pension obligations as determined by an actuarial valuation prepared by an independent actuary. The funding surplus or deficit is used to measure the long term health of the Plan to meet its obligations to its members and their survivors.

Management's objective, when managing the Plan's capital, is to ensure the Plan is fully funded to meet its benefit obligations over the long term through the management of investments, contribution rates and benefits.

Management has adopted a SIPP for the Plan which sets investment objectives, guidelines and benchmarks used in investing the Plan's assets, permitted categories of investments, asset mix diversification and rate of return expectations. The Plan's SIPP was last amended on November 19, 2014. The Pension Committee is responsible for ensuring the Plan assets are managed in accordance with the SIPP and the objectives and goals outlined therein.

17. Related party transactions

The Plan had the following transactions with related parties:

a) The Corporation

Transactions with the Corporation were conducted in the normal course of activities and measured at the exchange amount. Included in administration expenses is \$11 million (2013 – \$10 million) for administration services provided by the Corporation to the Plan. Included in accounts payable and accrued liabilities is \$12 million (2013 – \$2 million) due to the Corporation for administration services provided to the Plan which are unsecured and will be settled in cash.

b) Key Management Personnel Compensation

The Plan defines its key management personnel (KMP) as Canada Post Corporation's Board of Directors and senior executives responsible for planning, controlling and directing the activities of the Plan. As the Plan's KMP are employees of Canada Post Corporation, the remuneration, which includes short-term and post-employment benefits, is paid by the Corporation and the Plan reimburses the Corporation for a portion of these expenses.

The reimbursement for 2014 and 2013 for certain senior executives was \$823 thousand and \$724 thousand respectively and is included in the amount disclosed in note 17.a. No remuneration is charged from the Corporation to the Pension Plan for the services provided by the Board of Directors of Canada Post Corporation and certain senior executives. Full disclosure of the Board of Directors' remuneration can be found in the Canada Post Corporation consolidated financial statements.

18. Commitments and guaranties

In addition to derivative contracts (note 5.b), the Plan enters into commitments and guaranties related to the funding of investments. Future commitments to fund investments include investments in infrastructure, real estate and private equity limited partnership agreements. The future commitments are generally payable on demand based on the capital needs of the investment. As at December 31, 2014, these future commitments amounted to \$870 million (2013 – \$641 million). The maximum amount payable under guaranties provided as part of investment transactions was \$76 million as at December 31, 2014 (2013 – \$76 million). Guaranties and commitments are often provided as part of developing or holding an investment and as such often have no fixed expiration date.