2013 Financial Statements

The MEPP Financial Statements are prepared by the Ministry of Treasury Board and Finance

MANAGEMENT EMPLOYEES PENSION PLAN

Financial Statements

Year Ended December 31, 2013

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Management Employees Pension Plan, which comprise the statement of financial position as at December 31, 2013, and the statements of changes in net assets available for benefits and changes in pension obligation 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Management Employees Pension Plan as at December 31, 2013, and changes in its net assets available for benefits and changes in its pension obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher, FCA]

Auditor General

April 16, 2014

Edmonton, Alberta

Statement of Financial Position

As at December 31, 2013

	($ thousands)	
	2013	**2012**
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 3,460,621	$ 2,984,755
Contributions receivable		
Employers	560	525
Employees	327	305
Accounts receivable and accrued investment income	2,482	1,350
Total Assets	3,463,990	2,986,935
Liabilities		
Accounts payable	365	585
Total Liabilities	365	585
Net assets available for benefits	$ 3,463,625	$ 2,986,350
Pension obligation and surplus or deficit		
Pension obligation (Note 5)	$ 3,413,168	$3,289,773
Surplus (Deficit) (Note 6)	50,457	(303,423)
Pension obligation and surplus or deficit	$ 3,463,625	$ 2,986,350

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2013

	($ thousands) 2013	2012
Increase in Assets		
Contributions (Note 7)	$ 174,493	$ 168,082
Investment income (Note 8)	478,612	340,083
Transfers from other plans, net	16,853	12,319
	669,958	520,484
Decrease in Assets		
Benefit payments (Note 10)	170,465	153,778
Investment expenses (Note 11)	19,820	14,032
Administrative expenses (Note 12)	2,398	2,180
	192,683	169,990
Increase in net assets	477,275	350,494
Net assets available for benefits at beginning of year	2,986,350	2,635,856
Net assets available for benefits at end of year	$ 3,463,625	$ 2,986,350

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2013

	($ thousands)	
	2013	**2012**
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 205,529	$ 195,418
Benefits earned	116,637	119,266
	322,166	314,684
Decrease in pension obligation		
Benefits, transfers and interest	153,612	141,459
Net decrease (increase) due to actuarial assumption changes (Note 5a)	34,802	(4,420)
Net experience gains (Note 5b)	10,357	41,454
	198,771	178,493
Net increase in pension obligation	123,395	136,191
Pension obligation at beginning of year	3,289,773	3,153,582
Pension obligation at end of year (Note 5)	$ 3,413,168	$ 3,289,773

The accompanying notes are part of these financial statements.

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Notes to the Financial Statements

Year ended December 31, 2013

(All dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Management Employees Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act,* Revised Statutes of Alberta 2000, Chapter P-41 and the *Management Employees Pension Plan* Alberta Regulation 367/93, as amended. Unless otherwise stated, all terms that are not defined below have the meaning prescribed to them in the Plan. Should anything in Note 1 or the financial statements conflict with the legislation, the legislation shall apply.

a) GENERAL

The Plan is a contributory defined benefit pension plan for eligible management employees of the Province of Alberta and certain approved provincial agencies and public bodies. Members of the former Public Service Management Pension Plan who were active contributors at August 1, 1992, and have not withdrawn from the Plan since that date, continue as members of this Plan. The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0570887. The President of Treasury Board and Minister of Finance is the legal trustee for the Plan and Alberta Treasury Board and Finance is management of the Plan. The Plan receives advice from the Management Employees Pension Board (the Board).

b) PLAN FUNDING

Current service costs and the Plan's actuarial deficiency (see Note 14) are funded by employees and employers at contribution rates, which together with investment earnings, are expected to provide for all benefits payable under the Plan. The contribution rates in effect at December 31, 2013 are unchanged at 11.16% (2012: 11.16%) of pensionable salary up to the maximum pensionable salary limit under the *Income Tax Act* for employees and 19.14% (2012: 19.14%) for employers.

The contribution rates were reviewed in 2013 and are reviewed at least once every three years by the President of Treasury Board and Minister of Finance, in consultation with the Board, based on recommendations of the Plan's actuary. As a result of this review, the contribution rates have been set at January 1, 2014 as follows: 12.80% of pensionable salary up to the maximum pensionable salary limit under the *Income Tax Act* for employees and 21.85% for employers.

c) RETIREMENT BENEFITS

The Plan provides a pension of 2.0% for each year of pensionable service based on the average salary of the highest five consecutive years. Pensionable earnings after December 31, 1991 are capped at the maximum pensionable salary limit under the *Income Tax Act*. The maximum service allowable under the Plan is 35 years.

Members are entitled to an unreduced pension on service before 1992 if they have attained age 55 and have at least five years of service.

Members are entitled to an unreduced pension on service after 1991 if they retire with at least five years of service and have either attained age 60, or age 55 and the sum of their age and years of service equals 80. Pensions on service after 1991 are reduced if the member is under age 60 and the 80 factor is not attained.

d) DISABILITY BENEFITS

Pensions may be payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions may be payable to members who become partially disabled and retire early with at least five years of service.

Individuals who became members after June 30, 2007 and had no combined pensionable service prior to July 1, 2007 are not entitled to disability benefits.

e) DEATH BENEFITS

Death benefits are payable on the death of a member. If the member has at least five years of service and a surviving pension partner, the surviving pension partner may choose to receive a survivor pension, or a lump sum payment. For a beneficiary other than a pension partner, or where service is less than five years, the benefits take the form of a lump sum payment.

f) TERMINATION BENEFITS AND REFUNDS TO MEMBERS

Members who terminate with fewer than five years of service receive a refund of their contributions plus interest. The refunds are accounted for as refunds to members on the statement of changes in net assets available for benefits.

Members who terminate with more than five years of service and are not immediately entitled to a pension may apply for a lump sum payment or a deferred pension. The lump sum payment is based on contributions and interest in relation to service before 1992 and commuted value for service after 1991. The commuted value portion of the lump sum payment is subject to the Plan's lock-in provisions.

g) OPTIONAL SERVICE AND TRANSFERS

All optional service purchases are to be cost-neutral to the Plan.

The actuarial present value of pension entitlements is paid when service is transferred out of the Plan under a transfer agreement. The cost to recognize service transferred into the Plan under a transfer agreement is the actuarial present value of the benefits that will be created as a result of the transfer.

h) COST-OF-LIVING ADJUSTMENTS

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Plan's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established under Part 5 of the *Financial Administration Act* of Alberta. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Plan does not report the financial instruments of the pools on its statement of financial position.

The Plan becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its units. The Plan reports its share of the financial risks in Note 4.

The fair value of units held by the Plan is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in units are recorded in the Plan's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Plan's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Alberta Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

Investments in units are recorded in the Plan's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

c) INVESTMENT INCOME

Investment income includes the following:

i) Income distributions from the pools are recorded in the Plan's accounts and included in investment income on the statement of changes in net assets (see Note 8). Income distributions are based on the Plan's pro-rata share of total units issued by the pools.

ii) Realized gains and losses on disposal of units and unrealized gains and losses on units are recorded in the Plan's accounts and included in investment income on the statement of changes in net assets. Realized gains and losses on disposal of units are determined on an average cost basis.

iii) Investment income is recorded on an accrual basis.

d) INVESTMENT EXPENSES

Investment expenses include all amounts, including transaction costs, charged to the Plan by AIMCo (see Note 11). Investment expenses are recorded on an accrual basis.

e) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

f) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's pension obligation, private investments, hedge funds and real estate investments. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the extrapolation of the Plan's pension obligation, and

ii) the estimated fair values of the Plan's private investments, hedge funds and real estate investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Plan's pension obligation, private investments, hedge funds and real estate investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in the Plan's pension obligation are disclosed as assumptions or other changes and net experience gains or losses in the statement of changes in pension obligation in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

g) INCOME TAXES

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

NOTE 3 INVESTMENTS

The Plan's investments are managed at the asset class level for purposes of evaluating the Plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Plan's assets in accordance with the MEPP Investment Policy (IP) approved by the Plan's board. The fair value of the pool units is based on the Plan's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Plan, and units of the pools, within the ranges approved for each asset class (see Note 4).

($ thousands)

	Fair Value Hierarchy [a]			2013	2012
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Money market and fixed income					
Deposits and short-term securities	$ -	$ 21,855	$ -	$ 21,855	$ 24,410
Bonds and mortgages	-	323,006	120,144	443,150	380,449
	-	344,861	120,144	465,005	404,859
Equities					
Canadian	302,334	180,792	-	483,126	413,627
Foreign	997,269	344,916	194,662	1,536,847	1,308,803
Private	-	-	196,929	196,929	133,082
	1,299,603	525,708	391,591	2,216,902	1,855,512
Inflation sensitive					
Real estate	-	-	231,810	231,810	211,335
Infrastructure	-	-	148,732	148,732	166,521
Private debt	-	-	38,597	38,597	-
Real return bonds	-	359,575	-	359,575	346,528
	-	359,575	419,139	778,714	724,384
Total investments	$ 1,299,603	$ 1,230,144	$ 930,874	$ 3,460,621	$ 2,984,755

a) **Fair Value Hierarchy:** The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $1,299,603 (2012: $1,169,256).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $1,230,144 (2012: $1,112,645). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and inflation sensitive investments $930,874 (2012: $702,854).

*** Reconciliation of Level 3 Fair Value Measurement**

	($ thousands)	
	2013	**2012**
Balance, beginning of year	$ 702,854	$ 638,561
Investment income	96,260	80,091
Purchases of Level 3 pooled fund units	229,750	96,091
Sale of Level 3 pooled fund units	(97,990)	(111,889)
Balance, end of year	$ 930,874	$ 702,854

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Money market and fixed income:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows. Cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Inflation sensitive:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows. Private debt and loans is valued similar to private mortgages. Infrastructure investments are valued similar to private equity investments. Real return bonds are valued similar to public interest bearing securities.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of pooled investment funds (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows

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NOTE 3 INVESTMENTS CONTINUED

using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT

The Plan is exposed to financial risks associated with the underlying securities held in the pooled investment funds created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Plan will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Plan are clearly outlined in the IP approved by the Board. The purpose of the IP is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Board manages the Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established the following asset mix policy ranges:

Asset Class	Target Asset Policy Mix	Actual Asset Mix December 31, 2013		December 31, 2012	
		($ thousands)	*%*	*($ thousands)*	*%*
Money market and fixed income	10 - 40%	$ 465,005	13.4	$ 404,859	13.5
Equities	40 - 70%	2,216,902	64.1	1,855,512	62.2
Inflation sensitive	15 - 40%	778,714	22.5	724,384	24.3
		$ 3,460,621	100.0	$ 2,984,755	100.0

a) Credit Risk

i) Debt securities

The Plan is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

The following table summarizes the Plan's investment in debt securities by counterparty credit rating at December 31, 2013:

Credit rating	**2013**	**2012**
Investment Grade (AAA to BBB-)	87%	89%
Speculative Grade (BB+ or lower)	0%	1%
Unrated	13%	10%
	100%	100%

ii) Counterparty default risk - derivative contracts

The Plan's maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The Plan can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Plan's net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At December 31, 2013, the Fund's share of securities loaned under this program is $148 million and collateral held totals $154 million. Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign Currency Risk

The Plan is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 49% of the Plan's investments, or $1,687 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (27%) and the Euro (5%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss to the Plan would be approximately 4.9% (2012: 4.5%).

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NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

The following table summarizes the Plan's exposure to foreign currency investments held in pooled investment funds at December 31, 2013:

	($ millions)			
	2013		2012	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 935	$ (94)	$ 711	$ (71)
Euro	185	(18)	162	(16)
British pound	114	(11)	105	(11)
Japanese yen	107	(11)	81	(8)
Swiss franc	51	(5)	33	(3)
Australian dollar	38	(4)	45	(5)
Other foreign currencies	257	(26)	215	(21)
Total foreign currency investments	$ 1,687	$ (169)	$ 1,352	$ (135)

c) Interest Rate Risk

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 2.1% (2012: 2.2%).

d) Price Risk

Price risk relates to the possibility that equity investments will change in value due to future fluctuations in market prices caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Plan is exposed to price risk associated with the underlying equity investments held in pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss to the Plan would be approximately 6.2% (2012: 6.4%). Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits.

e) Liquidity Risk

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by investing in pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. These sources of cash are used to pay pension benefits and operating expenses, purchase new investments, settle derivative transactions with counterparties and margin calls on futures contracts. The Plan's future liabilities include the accrued pension benefits obligation and exposure to net payables to counterparties (Note 4f).

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Plan has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

By counterparty	Number of counterparties	Plan's Indirect Share ($ thousands) 2013	2012
Contracts in favourable position (current credit exposure)	24	$ 48,198	$ 36,462
Contracts in unfavourable position	21	(25,942)	(16,641)
Net fair value of derivative contracts	45	$ 22,256	$ 19,821

(i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $48,198 (2012: $36,462) were to default at once.

(ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

(iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

Types of derivatives used in pools	Plan's Indirect Share ($ thousands) 2013	2012
Structured equity replication derivatives	$ 27,150	$ 21,481
Foreign currency derivatives	(4,994)	(1,701)
Interest rate derivatives	394	688
Credit risk derivatives	(294)	(647)
Net fair value of derivative contracts	$ 22,256	$ 19,821

(i) Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

(ii) Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

(iv) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

(v) Deposits: At December 31, 2013 deposits in futures contracts margin accounts totalled $23,058 (2012: $7,895) and deposits as collateral for derivative contracts totalled $6,773 (2012: $nil).

NOTE 5 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2012 by Aon Hewitt and was then extrapolated to December 31, 2013.

The actuarial assumptions used in determining the value of the pension obligation of $3,413,168 (2012: $3,289,773) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate and salary escalation rate. The discount rate is based on the average from a consistent modeled investment return, net of investment expenses, and an additive for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

The major assumptions used for accounting purposes were:

	2013	2012
	%	
Discount rate	6.90	6.30
Inflation rate	2.25	2.25
Salary escalation rate*	3.50	3.50
Mortality rate**		

* In addition to age specific merit and promotion increase assumptions.

** Mortality rate used for 2013 is the 2014 Canadian Pension Mortality Table (Public Sector) and for 2012 was the Uninsured Pensioner 1994 table projected generationally.

The next actuarial valuation of the Plan is expected to be completed as at December 31, 2015. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2016.

b) NET EXPERIENCE GAINS

Net experience gains of $10,357 (2012: $41,454) reflect the results of the valuation as at December 31, 2012 extrapolated to December 31, 2013.

c) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. 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.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2013:

	Changes in Assumptions %	($ thousands) Increase in Plan Deficiency $	Increase in Current Service Cost as a % of Pensionable Earnings *
Inflation rate increase holding discount rate and salary escalation assumptions constant	1.0	242,900	1.4
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	27,500	0.4
Discount rate decrease holding inflation rate and salary escalation assumptions constant	(1.0)	458,400	5.2

* The current service cost of accruing benefits (including 0.4% allowance for administration expenses) as a percentage of pensionable earnings as at December 31, 2012 valuation was 19.9%.

NOTE 6 SURPLUS (DEFICIT)

	($ thousands) 2013	2012
Deficit at beginning of year	$ (303,423)	$ (517,726)
Increase in net assets available for benefits	477,275	350,494
Net increase in pension obligation	(123,395)	(136,191)
Surplus (Deficit) at end of year	$ 50,457	$ (303,423)

NOTE 7 CONTRIBUTIONS

	($ thousands) 2013	2012
Current service		
Employers	$ 107,843	$ 104,139
Employees	62,887	60,726
Past service		
Employers	1,258	546
Employees	2,505	2,671
	$ 174,493	$ 168,082

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NOTE 8 INVESTMENT INCOME

The following is a summary of the Plan's investment income (loss) by asset class:

	($ thousands) 2013	2012
Money market and fixed income	$ 3,320	$ 24,361
Equities		
Canadian	65,065	44,848
Foreign	398,123	202,520
Private	14,277	17,992
	477,465	265,360
Inflation sensitive		
Real estate	26,904	29,051
Infrastructure	12,360	10,402
Private debt	3,973	-
Real return bonds	(45,410)	10,909
	(2,173)	50,362
	$ 478,612	$ 340,083

Investment income includes realized gains and losses from disposal of pool units, unrealized gains and losses on units and income distributions from the pools.

Income distributions from the pools is based on income earned by the pools determined on an accrual basis which includes interest, dividends, security lending income, realized gains and losses on sale of securities held by the pools, realized foreign exchange gains and losses, writedowns of securities held in the pools and income and expense earned on derivative contracts. Realized gains and losses are determined on an average cost basis. Impairment charges related to the writedown of securities held in the pools are indicative of a loss in value that is other than temporary.

NOTE 9 INVESTMENT RETURNS, CHANGE IN NET ASSETS AND PENSION OBLIGATION

The following is a summary of investment returns (losses), and the annual change in net assets compared to the annual change in the pension obligation and the per cent of pension obligation supported by net assets:

	2013	2012	2011	2010	2009
			in per cent		
Increase in net assets attributed to:					
Investment income					
Policy benchmark return on investments	15.1	9.8	1.5	10.7	15.1
Value added return (loss) by investment manager	(0.2)	2.5	0.9	(0.5)	-
Total return on investments [(a)]	**14.9**	**12.3**	**2.4**	**10.2**	**15.1**
Other sources [(b)]	1.1	1.0	0.4	0.9	2.0
Per cent change in net assets [(c)]	**16.0**	**13.3**	**2.8**	**11.1**	**17.1**
Per cent change in pension obligation [(c)]	**3.7**	**4.3**	**6.5**	**6.1**	**9.9**
Per cent of pension obligation supported by net assets	**101**	**91**	**84**	**87**	**83**

(a) All investment returns are provided by AIMCo and are net of investment expenses. The annualized total return and policy benchmark return (PBR) on investments over five years is 10.9% (PBR: 10.3%), ten years is 7.3% (PBR: 7.2%) and twenty years is 7.7% (PBR: 7.5%). The total return reported for 2012 was revised by

AIMCo to conform to valuation changes made by AIMCo subsequent to the completion of the 2012 financial statements. The total return in 2012 increased by 0.3% from 12.0% to 12.3% attributed to an increase in the value added return by the investment manager.

(b) Other sources includes employee and employer contributions and transfers from other plans, net of benefit payments, transfers to other plans and administration expenses.

(c) The percentage change in net assets and the pension obligation is based on the amounts reported on the statement of changes in net assets available for benefits and the statement of changes in pension obligation.

NOTE 10 BENEFIT PAYMENTS

	($ thousands) 2013	2012
Retirement benefits	$ 151,775	$ 139,803
Disability benefits	339	342
Termination benefits	15,062	8,929
Death benefits	3,289	4,704
	$ 170,465	$ 153,778

NOTE 11 INVESTMENT EXPENSES

	($ thousands) 2013	2012
Amount charged by:		
AIMCo [a]	$ 19,768	$ 13,980
Alberta Treasury Board and Finance [b]	52	52
Total investment expenses	$ 19,820	$ 14,032
Increase in expenses	41.2%	72.2%
Increase in average investments under management	14.7%	8.1%
Investment expenses as a percent of :		
Dollar earned	4.1%	4.1%
Dollar invested	0.61%	0.50%
Investment expenses per member	$ 1,908	$ 1,396

(a) For investment management services. Please refer to AIMCo's financial statements for a detailed breakdown of expenses. In 2013, investment expenses include external performance fees of $4,553. In 2012 and prior years, external performance fees were netted against investment income. External performance fees for 2012 totalled $3,218.

(b) For investment accounting and Plan reporting services.

NOTE 12 ADMINISTRATIVE EXPENSES

	($ thousands) 2013	2012
General administration costs	$ 1,874	$ 1,701
Board costs	98	95
Actuarial fees	164	105
Audit fees	-	50
Other professional fees	262	229
	2,398	2,180
Member service expenses per member	$ 231	$ 217

General Administration and the Board costs were paid to Alberta Pensions Services Corporation (APS) on a cost-recovery basis.

The Plan's share of APS's operating and plan specific costs was based on cost allocation policies approved by the President of Treasury Board and Minister of Finance.

NOTE 13 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 11 and member service expenses per Note 12 are $22,218 (2012: $16,212) or $2,139 (2012: $1,613) per member and 0.64% (2012: 0.54%) of net assets under administration.

NOTE 14 CAPITAL

The Plan defines its capital as the funded status. In accordance with the *Public Sector Pension Plans Act*, the actuarial surplus or deficit is determined by an actuarial funding valuation performed, at a minimum, every three years. The objective is to ensure that the Plan is fully funded over the long term through the management of investments, contribution rates and benefits. Investments, the use of derivatives and leverage are based on an asset mix and risk policies and procedures that are designed to enable the Plan to meet or exceed its long-term funding requirement within an acceptable level of risk, consistent with the Plan's IP approved by the Board.

The Plan's asset values are determined on the fair value basis for accounting purposes. However, for funding valuation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding valuation purposes amounted to $3,180,568 at December 31, 2013 (2012: $2,850,591).

In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiency determined by the December 31, 2012 actuarial funding valuation is being funded by special payments currently totalling 12.3% of pensionable earnings shared between employees and employers until December 31, 2014. Thereafter, the special payments will decrease successively to 10.2% until December 31, 2016; to 5.4% until December 31, 2017; to 5.0% until December 31, 2024 and to 2.9% until December 31, 2027.

The special payments have been included in the rates in effect at December 31, 2013 (see Note 1b).

NOTE 15 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2013 presentation.

NOTE 16 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance based on information provided by APS, AIMCo and the Plan's actuary, and after consultation with the Board.