Supplementary Retirement Plan For Public Service Managers 2011 Annual Report

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Plan Profile

The Supplementary Retirement Plan for Public Service Managers (SRP) was established on July 1, 1999.

The Plan provides additional pension benefits to public service managers of designated employers who participate in the Management Employees Pension Plan (MEPP) and whose annual salary exceeds the maximum pensionable salary limit under the *Income Tax Act*.

Alberta government employees who are part of MEPP and whose annual salary exceeds the maximum pensionable salary limit under the *Income Tax Act* accrue benefits under SRP effective July 1, 1999, or from their date of participation in MEPP, if later. Agencies, boards and commissions associated with the Government of Alberta have the option of participating in SRP, if their employees are contributing members of MEPP and their application is approved by the President of Treasury Board and Minister of Finance.

SRP is supplementary to MEPP. Years of service under MEPP are used to determine eligibility for vesting and early retirement. A member's pension commencement date is the same under both plans and the pension payable is in the same form.

SRP and MEPP are two distinct pension plans, each with its own separate funding, investments, accounting, pension benefits and entitlements. SRP is funded as a Retirement Compensation Arrangement, which under the federal tax rules is an acceptable means of providing a supplementary pension on salary above the yearly maximum pensionable salary limit.

Current service costs for SRP are funded by employee and employer contributions, which together with investment earnings, income tax refunds and transfers from the SRP Reserve Fund, are expected to provide for all benefits payable under SRP.

The contribution rate in effect at January 1, 2011 was 11.16 per cent of pensionable salary in excess of the yearly maximum pensionable earnings limit for participating employees and designated employers.

Employers also make additional contributions to the SRP Reserve Fund. The employer contribution rate to the Reserve Fund is 22.6 per cent on salary above the yearly maximum pensionable limit.

An actuarial valuation is performed at least every three years to determine the accrued assets and liabilities of SRP. The last actuarial valuation was performed as at December 31, 2009.

Plan Administration

The President of Treasury Board and Minister of Finance is responsible for the administration of the SRP and has delegated this responsibility to Alberta Pensions Services Corporation (APS).

The SRP Advisory Committee was established by the Minister pursuant to Treasury Board Directive 01/06 (previously 01/99 as amended by Directive 04/99). The mandate of the committee is to oversee the administration, investment, and funding of SRP. The committee is composed of three members, all of which are Government of Alberta employees.

Investment Management

The President of Treasury Board and Minister of Finance is responsible for the investment of the Plan assets through its provincial corporation, Alberta Investment Management Corporation (AIMCo).

Financial Highlights

- Contributions made to SRP for 2011 totalled $10,904,000 up from $9,288,000 in 2010. This included $3,127,000 from active members, $3,130,000 from employers and $4,647,000 from employers to the SRP Reserve Fund.
- Payments from the SRP totalled $2,942,000 up from $2,225,000 in 2010. Payments included $2,458,000 in benefit payments ($1,700,000 in 2010) and $484,000 in administration expenses ($525,000 in 2010).
- The rules governing the SRP require an actuarial valuation be completed every three years.
- The latest actuarial valuation was performed as at December 31, 2009, by Aon Hewitt.
- The contribution rate for eligible employees and designated employers is 11.16 per cent of pensionable salary (in excess of the yearly maximum pensionable earnings limit). This parallels the member contribution rate for MEPP.
- For 2011, the employer contribution to the SRP Reserve Fund is 22.6 per cent.

Operational Highlights

- At December 31, 2011, the SRP had 1,027 active members, 120 deferred members and 619 pensioners. In 2010, there were 1,067 active members, 107 deferred members and 541 pensioners.
- In comparison, at December 31, 2011, MEPP had 5,215 active members, 998 deferred members, and 3,636 pensioners.
- Approximately 20 per cent of active MEPP members participate in the SRP.
- The average monthly pension paid from the SRP in 2011 was $245 to members and $99 to deferred pensioners (2010: $217 to members and $78 to non-member recipients).
- The highest monthly pension paid from the SRP was $3,250 ($3,230 in 2010).

Investment Highlights

The SRP consists of a Retirement Compensation Arrangement Fund (RCA Fund) and a refundable income tax account. Half of the contributions from participating employees and participating employers are deposited in the RCA Fund. The other half of contributions and 50 per cent of the RCA Fund's realized income are forwarded to Canada Revenue Agency and held in a refundable income tax account. The refundable income tax account does not earn interest. Refundable income tax is returned to the Plan at the same rate when pension benefits are paid to Plan members and beneficiaries.

Additionally, due to the tax treatment of the RCA Fund, contributions to and investment income from the RCA Fund are not large enough to provide for all expected future benefit payments. As a result, the Government of Alberta established a regulated Reserve Fund which is administered by the President of Treasury Board and Minister of Finance. Contributions are collected from participating employers; the funds are invested and then reserved to meet future benefits of the SRP.

Investment Performance

Alberta Investment Management Corporation (AIMCo) manages and invests the assets of the Plan on behalf of the President of Treasury Board and Minister of Finance. The primary investment objective for funding purposes for the Plan is to earn a before-tax long-term rate of return of 6.25 per cent, which includes the real rate of return of 4.00 per cent and expected inflation of 2.25 per cent. The real rate of return is the return earned above inflation; it measures the return after taking into account the decrease in the purchasing power of the Canadian dollar. Additionally, the investment manager is expected to achieve a value-added target of 0.5 per cent measured by comparing actual returns against the return of the policy benchmark (measured on a before tax basis) over a rolling four-year time horizon.

In 2011, the Plan's actual before-tax return was 3.1 per cent compared to its policy benchmark of 3.7 per cent.

Investment Performance
Investment Returns
Ending December 31, 2011
(in percent)

	One Year Return				Four Year Compound **Annualized Return**
	2011	**2010**	**2009**	**2008**	
Actual gain (loss)	**3.1**	**9.4**	**13.3**	**(16.2)**	**1.7**
*Benchmark gain (loss)**	***3.7***	***9.1***	***12.6***	***(11.7)***	***3.0***
Value added (lost) by investment manager	**(0.6)**	**0.3**	**0.7**	**(4.5)**	**(1.3)**

* The policy benchmark return is the product of the weighted average policy sector weights and sector returns.

Asset Allocation

The table below shows the Plan's long-term target asset mix in comparison to the Plan's actual asset mix at December 31, 2011 and 2010.

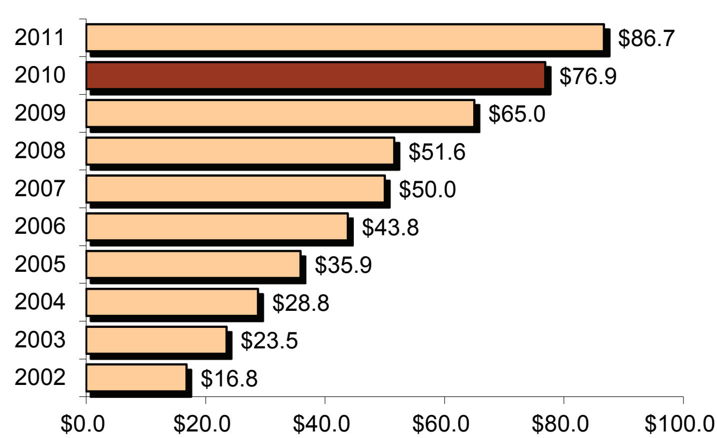
ASSET MIX %

	Target Policy	Actual 2011	Actual 2010
Fixed income			
Cash & short term	*0.5*	1.7	1.9
Bonds and mortgages	*36.0*	36.9	37.2
	36.5	**38.6**	**39.1**
Equities			
Canadian	*16.0*	15.4	15.2
Foreign	*30.0*	30.4	33.6
	46.0	**45.8**	**48.8**
Inflation Sensitive and alternative investments			
Real return bonds	*4.5*	5.0	4.9
Real estate	*5.0*	3.7	3.6
Infrastructure and private debt	*4.0*	3.7	1.6
Private equities	*2.0*	2.3	1.6
Timberland	*2.0*	0.9	0.4
	17.5	**15.6**	**12.1**
Total	*100.0*	100.0	100.0

Change in Assets

Net assets available to pay benefits at the end of 2011 for the SRP were $86.7 million including $18.2 million in the RCA Fund, $22.5 million in the refundable income tax account and $46 million in the Reserve Fund.

Net Assets* (in mllions)



Additional Information

- The Management Employees Pension Board provides advice to the President of Treasury Board and Minister of Finance on the interface of the SRP with MEPP.
- Financial statements for the SRP Reserve Fund are included in the Treasury Board and Alberta Finance annual reports.
- Additional information on the SRP is available on the MEPP website at www.mepp.ca.

Employers Participating in the SRP as at December 31, 2011

- Agriculture Financial Services Corporation
- Alberta Gaming and Liquor Commission
- Alberta Innovates - Technology Futures [1]
- Alberta Livestock and Meat Agency Ltd.
- Alberta Local Authorities Pension Plan Corp.
- Alberta Pensions Services Corporation
- Energy Resources Conservation Board [2]
- Government of Alberta
- Natural Resources Conservation Board
- The Alberta Utilities Commission [2]
- Travel Alberta

1 Previously known as Alberta Research Council.

2 Previously known as the Alberta Energy and Utilities Board.

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

Financial Statements

Year Ended December 31, 2011

Independent Auditor's Report

AUDITOR GENERAL
Alberta

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Supplementary Retirement Plan for Public Service Managers, which comprise the statements of financial position as at December 31, 2011 and 2010, and the statements of changes in net assets available for benefits and changes in pension obligation for the years 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 audits. I conducted my audits 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 in my audits 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 Supplementary Retirement Plan for Public Service Managers as at December 31, 2011 and 2010, and changes in net assets available for benefits and changes in pension obligation for the years then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher, FCA]

Auditor General

June 8, 2012

Edmonton, Alberta

Statements of Financial Position

As at December 31

	($ thousands) 2011	2010
Net assets available for benefits		
Assets		
Portfolio investments (Note 3)	$ 18,324	$ 16,516
Refundable income tax (Note 1(f) and Note 5)	22,497	19,327
Contributions receivable		
Employer	21	23
Employee	21	22
Other receivables	2	-
Due from (due to) from Alberta Pensions Services Corportion	57	(36)
Due from SRP Reserve Fund (Note 6)	46,002	41,114
Total Assets	86,924	76,966
Liabilities		
Income tax payable	255	48
Other payables	13	-
Liability for investment purchases	-	50
Total Liabilities	268	98
Net assets available for benefits	86,656	76,868
Pension obligation and deficit		
Pension obligation (Note 7)	140,145	116,427
Deficit (Note 8)	(53,489)	(39,559)
Pension obligation and deficit	$ 86,656	$ 76,868

The accompanying notes are part of these financial statements.

Statements of Changes in Net Assets Available for Benefits

Year ended December 31

	($ thousands) 2011	2010
Increase in assets		
Contributions (Note 9)	$ 6,257	$ 5,971
Investment income (Note 10)	1,679	1,380
Increase in SRP Reserve Fund (Note 6)	4,888	6,842
	12,824	14,193
Decrease in assets		
Benefit payments (Note 11)	2,458	1,700
Investment expenses (Note 12)	94	62
Administrative expenses (Note 13)	484	525
	3,036	2,287
Increase in net assets	9,788	11,906
Net assets available for benefits at beginning of year	76,868	64,962
Net assets available for benefits at end of year	$ 86,656	$ 76,868

The accompanying notes are part of these financial statements.

Statements of Changes in Pension Obligation

Year ended December 31

	($ thousands) 2011	2010
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 5,425	$ 4,836
Benefits earned	10,729	8,779
Net increase due to actuarial assumption changes (Note 7a)	10,022	5,150
	26,176	18,765
Decrease in pension obligation		
Benefits paid	2,458	1,700
Net experience gains (Note 7b)	-	5,116
	2,458	6,816
Net increase in pension obligation	23,718	11,949
Pension obligation at beginning of year	116,427	104,478
Pension obligation at end of year (Note 7)	$ 140,145	$ 116,427

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

December 31

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

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Supplementary Retirement Plan for Public Service Managers (the Plan) is a summary only. For a complete description of the Plan, reference should be made to sections 5, 7 and 98 of the *Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000 and the *Supplementary Retirement Plan - Retirement Compensation Arrangement Directive* (Treasury Board Directive 01/06). The President of Treasury Board and Minister of Finance has overall responsibility for the operations of the Plan and is responsible for investments. Alberta Finance is management of the Plan. 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 was established on July 1, 1999 to provide additional pension benefits to certain public service managers of designated employers who participate in the Management Employees Pension Plan (MEPP) and whose annual salary exceeds the *maximum pensionable salary limit* under the *Income Tax Act*. The Plan is supplementary to the MEPP. Service under MEPP is used to determine eligibility for vesting and early retirement. A member's pension commencement date is the same under both Plans and the pension is payable in the same form. Members of MEPP who had attained 35 years of combined pensionable service at the Plan's inception are not eligible to participate in the Plan.

b) PLAN FUNDING

Current service costs are funded by employee and employer contributions which together with investment earnings and transfers from the SRP Reserve Fund (see Note 6) are expected to provide for all benefits payable under the Plan. The contribution rate for designated employers equals or exceeds the rate for eligible employees. The contribution rates in effect at December 31, 2011 were 11.16% (2010: 10.5%) of pensionable salary in excess of the maximum pensionable salary limit for eligible employees and designated employers. An actuarial valuation of the Plan is required to be performed at least once every three years. The rates are to be reviewed periodically by the Minister of Alberta Finance. As a result of this review, the contribution rates increased at January 1, 2011 to 11.16% of pensionable salary in excess of the maximum pensionable salary limit for eligible employees and designated employers.

c) BENEFITS

The Plan provides a pension of 2.0% of pensionable earnings that are in excess of the *maximum pensionable salary limit* under the *Income Tax Act* for each year of pensionable service after July 1, 1999 in which the employer was a participating employer, based on the average salary of the highest five consecutive years.

Members are entitled to an unreduced pension on service if they retire with at least five years of combined pensionable service and have either attained age 60, or age 55 and the

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN CONTINUED

sum of their age and combined pensionable service equals 80. Pensions are reduced if the member is under age 60 and the 80 factor is not attained.

Disability, death, termination benefits and cost-of-living adjustments under this Plan follow those of the MEPP.

d) GUARANTEE

Designated employers guarantee payment of all benefits arising under the Plan. If assets held in the Plan are insufficient to pay for benefits as they become due, the amount due is payable by designated employers.

e) SURPLUS PLAN ASSETS

The Province of Alberta has the right to amend or discontinue the Plan in whole or in part at any time. Any assets remaining in the Plan after provision for benefits payable to or in respect of members on the complete wind-up of the Plan accrue to the Province of Alberta.

f) INCOME TAXES

The Plan is a *Retirement Compensation Arrangement* (RCA) as defined in the *Income Tax Act*. Refundable income tax is remitted on any cash contributions from eligible employees and designated employers and net investment income received at the rate of 50%. Refundable income tax is returned to the Plan at the same rate when pension benefit payments are made to Plan members and beneficiaries.

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 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.

The Accounting Standards Board (AcSB) issued revised Canadian accounting standards for pension plans. The Plan adopted the new standards under CICA Section 4600 on January 1, 2011 on a retrospective basis. There is no impact on the net assets available for benefits, the pension obligation, or plan deficits with the implementation of this new section. Additional disclosures have been made to derivative financial instruments (Note 3e) and investment risk management (Note 4) in accordance with IFRS 7, Financial Instruments, and to contributions (Note 9) and benefit payments (Note 11).

Plan investments are held in pooled investment funds established and administered by Alberta Investment Management Corporation (AIMCo). Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

b) VALUATION OF INVESTMENTS

Investments in units of pooled investment funds are recorded in the financial statements at fair value. The Plan's cut-off policy for valuation of investments and investment income is based on valuations provided by AIMCo at the close of the 6th business day following the year end. Differences in valuation estimates provided to Alberta 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 year.

The fair value of the units is based on the fair value of the underlying investments in the pooled investment funds. 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.

The methods used by AIMCo to determine the fair value of investments held by pooled investment funds is explained in the following paragraph:

i) Short-term securities and public fixed income securities are valued at the year-end closing sale price or average of the latest bid and ask prices quoted by an independent securities valuation company.

c) INCOME RECOGNITION

Investment income and expenses are recorded on the accrual basis. Gains or losses on investments, including those from derivative contracts, are recognized concurrently with changes in fair value. Administrative expenses are recorded on an accrual basis.

Transaction costs are incremental costs directly attributable to the acquisition or issue of a financial asset or liability. Transaction costs are expensed, and include fees and commissions paid to agents, advisors and brokers.

d) FOREIGN EXCHANGE

Foreign currency transactions are translated into Canadian dollars using average rates of exchange. At the year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of investment income.

e) VALUATION OF DERIVATIVE CONTRACTS

Derivative contracts (see Note 3e) include bond index swaps, interest rate swaps, forward foreign exchange contracts, futures contracts,credit default swaps, cross-currency interest rate swaps, and swap option contracts. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

i) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and year-end exchange rates.

ii) Credit default swaps are valued based on discount cash flows using current market yields and calculated default probabilities.

iii) Forward foreign exchange contracts and futures contracts are based on quoted market prices.

iv) 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

f) 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.

g) 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 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 magnitude of the calculation of the Plan's pension obligation. Uncertainty arises because the Plan's actual experience may differ, perhaps significantly, from assumptions used in the calculation.

While best estimates have been used in the calculation, 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 are disclosed as actuarial assumption changes and net experience gains or losses in the note describing changes in the benefit obligation in the year when actual results are known.

NOTE 3 INVESTMENTS

($ thousands)

	2011 Fair Value	%	2010 Fair Value	%
Interest bearing securities				
Cash and short-term securities [a]	$ 633	3.4	$ 647	3.9
Bonds [b]	14,491	79.1	13,070	79.1
Real return bonds [c]	3,200	17.5	2,799	17.0
Total Investment [d] [e]	$ 18,324	100.0	$ 16,516	100.0

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 Statement of Investment Policies and Guidelines (SIP&G) approved by the Plan's board. The Plan invests in units of pooled investment funds established and administered by AIMCo. The fair value of pool units (see Note 2b) is based on the Plan's share of the net asset value of the pooled investment funds. Pooled investment funds 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).

a) Cash and short-term securities includes deposits in the Consolidated Cash Investment Trust Fund (CCITF). Terms to maturity and market yield at December 31, 2011 are reported in Note 4b.

b) The bond portfolio includes investments in government direct and guaranteed bonds, mortgage-backed securities, corporate bonds, asset-backed securities, private debt issues, private mortgages, repurchase agreements, debt related derivatives and loans. Terms to maturity and market yield at December 31, 2011 are reported in Note 4b.

c) The inflation sensitive real return bond portfolio is primarily made up of bonds that are issued by the Government of Canada, and bear interest at a fixed rate adjusted for inflation. Terms to maturity and market yield at December 31, 2011 are reported in Note 4b.

d) The table below provides a summary of management's estimate of the relative reliability of data or inputs used by AIMCo to measure the fair value of the Plan's investments. The measure of reliability is determined based on the following three levels:

Level One: Fair value is based on unadjusted quoted prices in active markets for identical assets or liabilities traded in active markets. Level one primarily includes publicly traded listed equity investments.

Level Two: Fair value is based on valuation methods that make use of inputs, other than quoted prices included within level one, that are observable by market participation either directly through quoted prices for similar but not identical assets or indirectly through observable market information used in valuation models. Level two primarily includes debt securities and derivative contracts not traded on a public exchange and public equities not traded in an active market. For these investments, fair values are 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 Three: Fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation. Level three primarily includes real estate, hedge funds, private equities, infrastructure and private debt investments. For these investments trading activity is infrequent and fair values are derived using valuation techniques.

	($ thousands)			
Investment:	Level one	Level two	Level three	Total
Interest-bearing securities	$ -	$ 18,324	$ -	$ 18,324
2011 - Total Amount	$ -	$ 18,324	$ -	$ 18,324
- Percent	0%	100%	0%	100%
2010 - Total Amount	$ -	$ 16,516	$ -	$ 16,516
- Percent	0%	100%	0%	100%
Increase during the year	$ -	$ 1,808	$ -	$ 1,808

e) Included in the fair value of the Plan's investments in various pooled funds, summarized in Note 3 by asset class, is the fair value of derivative contracts. A derivative is a financial contract with the following three characteristics: (1) its value changes in response to the change in a specified interest rate, equity or bond index price, foreign exchange rate or credit rating; (2) it requires no initial net investment, or the initial investment is smaller than required for exposure to a similar investment market; and (3) it is settled in the future. AIMCo uses various types of derivative contracts through pooled investment funds to gain access to equity markets and enhance returns, manage

NOTE 3 INVESTMENTS CONTINUED

exposure to interest rate risk, currency risk, and credit risk, and for asset mix purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows with a counterparty. At December 31, 2011, the net fair value of derivative related investments, including cash collateral and deposits in futures contracts margin accounts, totalled $59 or 0.3% of total investments (2010: $56 or 0.3% of total investments).

The following is a summary of the Plans proportionate share of the notional amount and fair value for each class of derivative financial instrument included in the fair value of portfolio investments at December 31, 2011:

($ thousands)

	2011					2010	
	Maturity						
	Under 1 year	1 to 3 Years	Over 3 Years	Notional Amount [a]	Net Fair Value [b]	Notional Amount [a]	Net Fair Value [b]
		%					
Interest rate derivatives [c]	51	-	49	$ 7,019	$ 138	$ 2,941	$ 119
Foreign currency derivatives [d]	100	-	-	838	6	512	18
Credit risk derivatives [e]	15	21	64	6,086	(118)	7,920	(85)
Derivative related receivables, net					26		52
Deposits in futures margin accounts					34		4
Deposits as collateral for derivative contracts					(1)		-
Net derivative related investments					$ 59		$ 56

Net derivative related receivables of $26 are comprised of net receivables from counterparties of $174 and net payables to counterparties of $148. The current credit exposure is represented by the amount of net receivables from counterparties. Cash flows associated with receivables and payables on derivative contracts is generally settled every three months.

(a) The notional amounts upon which payments are based are not indicative of the credit risk associated with derivative contracts.

(b) The method of determining fair value of derivative contracts is described in Note 2e.

(c) Interest rate derivatives allow the Plan to exchange interest rate cash flows (fixed, floating and bond index) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, bond index swaps, futures contracts and options.

(d) 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.

(e) Credit risk derivatives include credit default swaps, allowing the Plan 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.

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 SIP&G approved by the Advisory Committee. The purpose of the SIP&G 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 Advisory Committee 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 3e).

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments, including assets held in the Supplementary Retirement Plan Reserve Fund (SRP Reserve Fund). In order to earn the best possible return at an acceptable level of risk, the Advisory Committee has established policy asset mix ranges of 33-45% fixed income instruments, 40-55% equities, and 7.5-19.5% alternative investments.

a) CREDIT RISK

Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations with the Plan. 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 the Plan's investments in debt securities are with counterparties considered to be investment grade.

The Plan's maximum credit risk in respective of derivative financial instruments is the fair value of all derivative-related receivables from counterparties (see Note 3e). 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.

To generate additional income, the Plan participates in a securities-lending program. Under this program, the custodian may lend investments held in pooled funds to eligible third parties for short periods. Securities borrowers are required to provide 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) INTEREST RATE RISK

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in pooled investment funds 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 to the Plan would be approximately $1.2 million (2010: $1.1 million).

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

The following table summarizes the terms to maturity of interest-bearing securities held in pooled investment funds at December 31, 2011:

Asset Class	< 1 year	1 - 5 years	Over 5 years	Average Effective Market Yield
Deposits and short term securities	90%	10%	0%	1.3%
Bonds and mortgages	3%	39%	58%	4.0%
Real return bonds	7%	2%	91%	0.5%

c) 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 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 3e).

NOTE 5 REFUNDABLE INCOME TAX

	($ thousands) 2011	2010
Refundable income tax at beginning of year	$ 19,327	$ 16,348
Tax on employees and employers contributions received	3,130	3,014
Tax on net investment income received plus adjustments of prior year taxes less tax refunds on benefits and refunds payments, net	40	(35)
Refundable income tax at end of year	$ 22,497	$ 19,327

NOTE 6 SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND (SRP RESERVE FUND)

Designated employers guarantee payment of all benefits arising under the Plan (see Note 1d). To provide for their future obligations to the Plan, designated employers contribute to the SRP Reserve Fund at rates established by the President of Treasury Board and Minister of Finance . The employer contribution rate is 22.6% of pensionable salary of eligible employees in excess of the *maximum pensionable salary limit* under the *Income Tax Act*.

The SRP Reserve Fund is a regulated fund established and administered by the President of Treasury Board and Minister of Finance to collect contributions from designated employers and to invest the funds, which are reserved to meet future benefit payments of the Plan.

As at December 31, 2011, the SRP Reserve Fund had net assets with fair value totalling $46,002 (2010: $41,114), comprising of $46,002 (2010: $41,114) in portfolio investments and $nil (2010: $nil) in receivables. The increase during the year of $4,888 (2010: $6,842) is attributed to contributions from employers of $4,647 (2010: $3,317) and investment gain of $241 (2010: $3,525).

NOTE 7 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out in 2010 as at December 31, 2009 by Aon Hewitt and was then extrapolated to December 31, 2011.

The actuarial assumptions used in determining the value of the pension obligation of $140,145 (2010: $116,427) 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 the salary escalation rate. The investment rate of return 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:

	2011	2010
	%	
Discount rate on an after-tax basis	4.10	4.50
Inflation rate	2.25	2.25
Discount rate	5.50	6.00
Salary escalation rate *	3.50	3.50
Pension cost-of-living increase as a percentage of Alberta Consumer Price Index	60.0	60.0

* In addition to age specific merit and promotion increases.

The next actuarial valuation of the Plan is expected to be completed as at December 31, 2012. 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 2013.

b) NET EXPERIENCE GAINS

Net experience gains of $nil (2010: gains of $5,116) arose from differences between the actuarial assumptions used in the 2010 valuation and 2011 extrapolation for reporting compared to actual results.

c) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

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

NOTE 7 PENSION OBLIGATION CONTINUED

The following is a summary of the sensitivities of the Plan's net assets and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2011:

	($ thousands)		
	Changes in Assumptions	Decrease in Net Assets	Increase in Benefits Earned
	%	$	$
Inflation rate increase holding discount rate and salary escalation assumptions constant	1.0	9,257	1,191
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	23,346	10,410
Discount rate decrease holding inflation rate and salary escalation assumptions constant*	(1.0)	29,085	4,093

* Sensitivities includes investment return of assets held by the SRP Reserve Fund (Note 6).

NOTE 8 DEFICIT

	($ thousands)	
	2011	2010
Deficit at beginning of year	$ (39,559)	$ (39,516)
Net increase in pension obligation	23,718	11,949
Increase in net assets available for benefits	9,788	11,906
Deficit at end of year	$ (53,489)	$ (39,559)

NOTE 9 CONTRIBUTIONS

	($ thousands)	
	2011	2010
Employers	$ 3,130	$ 2,980
Employees	3,127	2,991
	$ 6,257	$ 5,971

NOTE 10 INVESTMENT INCOME

Investment income is comprised of income from investments in units of pooled funds which are created and managed by AIMCo.

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

	($ thousands)	
	2011	2010
Interest-bearing securities	$ 1,679	$ 1,380
	$ 1,679	**$ 1,380**

NOTE 11 BENEFIT PAYMENTS

	($ thousands) 2011	2010
Retirement benefits	$ 1,662	$ 1,253
Termination benefits	737	365
Death benefits	59	82
	$ 2,458	$ 1,700

NOTE 12 INVESTMENT EXPENSES

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income of the Plan. The Plan recognizes portfolio management and administration expenses incurred directly by Plan and its share of expenses through pool investment funds.

Investment services provided by AIMCo are charged directly to the Plan and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized. Investment services include daily trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit.

Alberta Finance provides investment accounting, reporting and treasury management services for the Plan. A portion of these costs is charged to the Plan.

Investment expenses by asset class are provided below:

	($ thousands) 2011	2010
Interest-bearing securities	$ 94	$ 62
Total investment expenses	$ 94	$ 62
Average fair value of investments	$ 17,420	$ 15,534
Percent of investments at average fair value	0.54%	0.40%
Investment expenses per member	$ 53	$ 37

NOTE 13 ADMINISTRATION EXPENSES

Administration expenses of $484 (2010: $525) were charged to the Plan on a cost recovery basis.

	($ thousands) 2011	2010
General administration costs	$ 469	$ 497
Actuarial fees	15	22
Other professional fees	-	6
	$ 484	$ 525
Member service expenses per member	$ 274	$ 312

NOTE 13 ADMINISTRATION EXPENSES CONTINUED

The Plan's share of the Alberta Pensions Services Corporation's (APS) operating and plan specific costs was based on cost allocation formula approved by the President of Treasury Board and Minister of Finance.

NOTE 14 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 12 and administration expenses per Note 13 are $578 (2010: $587) or $327 (2010: $348) per member and 1.42% (2010: 1.64%) of net assets under administration.

NOTE 15 CAPITAL

The Plan defines its capital as the funded status as described in Notes 1b, 1e, Note 6 and Note 8.

NOTE 16 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2011 presentation.

NOTE 17 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 Advisory Committee for the Supplementary Retirement Plan for Public Service Managers.