FINANCIAL STATEMENTS

The City of Saint John – Pension Plan

December 31, 2012

Ernst & Young

Quality In Everything We Do

CONTENTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
The City of Saint John – Pension Plan

We have audited the accompanying financial statements of **The City of Saint John – Pension Plan**, which comprise the statement of net assets available for benefits as at December 31, 2012, and the statement of changes in net assets available for benefits for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management to comply with the financial reporting requirements of the New Brunswick Pension Benefit Act.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the New Brunswick Pension Benefit Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the net assets available for benefits of **The City of Saint John – Pension Plan** as at December 31, 2012, and the changes in its net assets available for benefits for the year then ended in accordance with the financial reporting requirements of the New Brunswick Pension Benefit Act.

Basis of accounting
Without modifying our opinion, we draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist **The City of Saint John – Pension Plan** to meet the requirements of the New Brunswick Pension Benefit Act. As a result, the financial statements may not be suitable for another purpose.

Ernst & Young LLP

Saint John, Canada,
July 24, 2013.

Chartered Accountants

The City of Saint John – Pension Plan

STATEMENT OF
NET ASSETS AVAILABLE FOR BENEFITS

As at December 31

	2012 $	2011 $
Cash and short-term deposits [note 2]	**16,650,736**	8,526,391
Due from the City of Saint John	**292,430**	31,018
Funding due from the City of Saint John	**4,774,701**	8,699,453
Accrued interest and dividends	**870,030**	740,542
Investments, at market		
Bonds and fixed income pooled funds;		
[Cost 2012 – $68,676,375; 2011 – $65,513,126]	**74,935,983**	71,911,661
Stocks and equity pooled funds;		
[Cost 2012 – $225,191,239; 2011 – $216,331,362]	**257,889,428**	240,026,791
Real estate funds		
[Cost 2012 – $31,436,034; 2011 – $31,717,802]	**44,603,668**	40,797,365
Net assets available for benefits	**400,016,976**	370,733,221

See accompanying notes

On behalf of the Trustees:

Trustee ______________ Trustee ______________

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Year ended December 31

	2012 $	2011 $
Increase in assets		
Contributions [note 9]		
The City of Saint John	**26,470,886**	20,997,103
Employees	**5,663,470**	5,729,453
	32,134,356	26,726,556
Investment income		
Interest	**3,078,297**	2,906,251
Dividends	**5,917,140**	5,584,925
	8,995,437	8,491,176
Realized gain (loss) in market value of investments	**6,056,936**	(12,288,860)
Unrealized gain in market value of investments	**12,587,891**	2,900,408
Hedging gain realized	**450,711**	78,910
Hedging gain unrealized	**4,184**	42,944
	19,099,722	(9,266,598)
	60,229,515	25,951,134
Decrease in assets		
Pensions paid	**25,641,680**	23,348,924
Contributions and interest refunded to participants	**1,421,790**	1,047,494
Administrative expenses *[schedule]*	**3,882,290**	3,049,560
	30,945,760	27,445,978
Net increase (decrease) in net assets available for benefits	**29,283,755**	(1,494,844)
Net assets available for benefits, beginning of the year	**370,733,221**	372,228,065
Net assets available for benefits, end of year	**400,016,976**	370,733,221

See accompanying notes

The City of Saint John – Pension Plan

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

1. PLAN SUMMARY

The City of Saint John – Pension Plan [the "Plan"] is the accumulation of Plan assets formerly used to fund pensions under the revised *City of Saint John Pension Act* [the "Act"] as enacted on May 12, 1994, as amended to June 18, 2008, and repealed in 2012. The Act was administered by a Board of Trustees representing Common Council of the City of Saint John ["the City"], management, unionized employees, non-unionized employees and retired employees. The Plan was also subject to the provisions of the *New Brunswick Pension Benefits Act* which became effective January 1, 1992.

During 2012, the Act was repealed and the *New Brunswick Pension Benefits Act* was amended to allow for the Plan to be converted to a shared risk model. On December 21st, 2012, a redesigned pension plan was adopted by the Unions and the Employer by virtue of a memorandum of understanding [the "MOU"]. The conversion date set by the MOU was January 1, 2013.

The assets of the Plan are held by RBC Dexia Investor Services which acts as custodian of the Plan. The assets of the Plan are managed by eight different investment managers who have discretionary investment authority within the investment mandates given to them by the Board of Trustees. The performance of the Plan relative to others is measured on a regular basis by API Asset Performance Inc.

Significant features of the Plan are as follows:

- Pre-conversion, the Plan provided for pensions on the defined benefit basis at the rate of 2% per year of service times the average of the three consecutive years of service having the highest salary. The Plan also provided for disability allowances and survivor benefits. Upon conversion to shared risk, the Plan no longer provides disability allowances and the targeted benefit basis for service earned after the conversion date is now 1.8% per year of service times the salary (excluding overtime pay) earned during the relevant year to a maximum salary of $120,000.

- Pre-conversion, the Plan provided indexing at the rate of 1% per year on the basis of service between January 1, 1975 and December 31, 1992 and at the rate of 2% after January 1, 1993. The shared risk pension plan extinguishes all accrued rights to automatic future indexing. These automatic adjustments have been replaced by contingent indexing as permitted by the Funding Policy.

- Pre-conversion, the Plan was funded by eligible employees contributing 50% of the current service cost to the Plan to a maximum of 9% of aggregate salaries and the employer contributing the balance of the current service cost. Based on the 2011 actuarial valuation, the current service cost of the Plan was 21.4% of payroll. At no time could the overall employer contribution rate be less than 7.5% of aggregate salaries. The employer was obligated to make additional contributions, if necessary, to adequately amortize any unfunded liability. In 2012,

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

1. PLAN SUMMARY (continued)

required employer contributions to amortize the unfunded liability amounted to $19,098,800. Under the shared risk model, initial required contributions will based on covered payroll (excluding overtime) and will be 9% for employees in CUPE 18 and 486 and 12% for employees in IAFF and SJPA with the employer making initial matching contributions of 11.4% and 15.2% respectively, representing an average contribution rate of 13% of covered payroll. The initial contribution rates for both employee and employer may be subject to change as a result of the triggering mechanism and limitations imposed by the shared risk funding policy. Also, commencing April 1, 2013, the employer shall also be required to make temporary contributions of 17% of covered payroll (excluding overtime) that will cease in 15 years or when the Plan achieves a minimum funding level of 150% of liabilities using a 15 year open group method.

- Pre-conversion, contributions became vested after two years. Under shared risk, the vesting date is defined as the earlier of five years of continuous employment with the employer or two years of membership in the City of Saint John Shared Risk Plan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements are prepared on the going concern basis and present the aggregate net assets of the Plan as a separate financial reporting entity independent of the sponsor and plan members. They are prepared to assist in reviewing the activities of the Plan for the fiscal period year December 31, 2012 but they do not portray the funding requirements of the Plan or the benefit security of individual Plan members.

Basis of valuation of investment assets

Investments are stated at market value which approximates fair value, using published market valuations, where applicable, or market-related determinations.

Pooled fund and earnings

Certain of the Plan's investments are held via units of pooled funds. Income earned on these funds is retained within the fund and reflected as part of the current-period change in market values of investments. Market value approximates fair value.

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

Investments denominated in United States ["US"] dollars are translated at the year-end rate of exchange. Foreign exchange gains and losses are included as a component of the current-period change in market value of investments.

Hedging

The Plan utilizes currency hedges to offset market fluctuations in its investments denominated in US dollars. At year-end, the hedges are fair valued and recorded as an increase or decrease in the change in the value of market value of investments.

Cash and short-term deposits

Cash and short-term deposits are net of accounts payable and accounts receivable.

	2012 $	2011 $
Assets		
Cash	**727,366**	2,036,278
HST receivable	**21,068**	—
Notes and deposits	**16,283,039**	7,609,108
Prepaids	—	565
Commitments	**20,377**	3,605
	17,051,850	9,649,556
Liabilities		
HST payable	—	403,622
Accounts payable	**401,114**	719,543
	401,114	1,123,165
	16,650,736	8,526,391

3. ACTUARIAL VALUATION

(a) The 2011 actuarial valuation indicated that the present value of accumulated plan benefits amounted to $566,633,000 and the market value of net assets available to provide benefits amounted to $370,733,000 with an estimated unfunded liability of $195,900,000 on a going concern basis.

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

3. ACTUARIAL VALUATION (continued)

As of December 31, 2011, the liabilities on a solvency basis were greater than the solvency assets by an amount of $384,363,000.

The significant actuarial assumptions adopted for purposes of the going concern funding valuation in the 2011 report were as follows:

- Retirement will occur at the earlier of age 65 or attainment of combined age and service of 88 years.
- Valuation assets were accounted for as the market value of assets.
- The following are the assumed rates used in the valuation:

Investment earnings rate	6.00% per annum after investment fees
Inflation rate	2.50% per annum
Real rate of return	2.6% per annum for 10 years and 4.1% thereafter
Salary increases	3.00% per annum

The projected unit credit actuarial cost method was used for purposes of the going concern funding valuation.

The benefit at retirement is projected for each member based on the assumed increases in earnings. Equal units of this projected benefit are assumed to accrue in each year of service. The present value of the portion of the projected benefit deemed to be accrued for service to the valuation date is calculated for each member based on the assumptions outlined above.

The total accrued liability is the aggregate of the accrued liabilities determined for each individual member. The total accrued liability is then compared with the assets as at the valuation date to determine the surplus or unfunded liability at that date.

Similarly, the present value of the portion of the projected benefit deemed to accrue in respect of the years of service following the valuation date is determined for each individual member. The total normal actuarial cost is equal to the sum of the individual normal actuarial costs so calculated for each member. The residual normal actuarial cost is the excess of the total normal actuarial cost over the member's required contributions.

The Plan is required to have its next actuarial review for the period ended December 31, 2012.

(b) An extrapolation of the Plan as of December 31, 2012 was not completed prior to the issuance of these financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

3. ACTUARIAL VALUATION (continued)

(c) During 2012, the City of Saint John paid the Plan an amount of $ 14,410,325 which represented special contributions and interest toward the unfunded liability [2011 — $ 13,611,732]. Since the required contributions related to the unfunded liability for 2012 amounted to $19,098,800 [2011 — $13,193,800], the City owes the Plan an amount of $ 4,774,701, which consists of contributions not yet made to the Plan. These payments were subsequently received in 2013, in accordance with the New Brunswick Pension Benefits Act and its Regulations. The City of Saint John was required to make special going concern payments until 2025, however post conversion, the City will be making monthly payments equal to 17% of payroll, starting April 2013 and continuing for 15 years.

(d) On December 21, 2007, the Regulations to the *New Brunswick Pension Benefit Act* were modified with the intention of requiring pension plans with a solvency ratio below 90% to file actuarial valuations annually [from the current triennial requirement]. The 2011 actuarial valuation is in the process of being prepared.

4. SOLVENCY FUNDING EXEMPTION

The *New Brunswick Pension Benefits Act* requires that a solvency deficiency be funded over a period of five years unless an exemption from making solvency special payments is granted by the Superintendent of Pensions. In 2007, this exemption from making solvency special payments to the Plan was sought and received.

5. FINANCIAL INSTRUMENTS

The Plan's financial instruments consist of cash and short-term notes, accounts receivable, temporary and long-term investments, accounts payable and amounts due from related parties.

All items except investments are recorded at cost which, due to their nature and short-term maturities, approximates fair value.

The Plan is subject to financial risks as a result of its investment activities. These risks include market risk, credit risk and liquidity risk. The Plan manages these financial risks in accordance with the *New Brunswick Pension Benefits Act*, applicable regulations, and the Plan's investment policies and procedures.

The investments of the Plan are managed utilizing a balanced approach, where the Plan invests in bonds, stocks, pooled funds and real estate funds.

5. FINANCIAL INSTRUMENTS (continued)

Market risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market processes. In accordance with the Plan's policies, the Plan manages market risk by investing in diversified investments and by utilizing fund performance managers.

Market risk is comprised of the following:

(a) Foreign currency risk

Foreign currency risk arises from investments that are denominated in foreign currencies. Fluctuations in the relative value of foreign currencies against the Canadian dollar can result in a positive or negative effect on the fair value of investments. As at December 31, 2012, the Plan has equity investments denominated in foreign currencies through investments of pooled funds and direct equities.

The Plan utilizes currency hedges to minimize this risk to an approved percentage of these investments.

The Plan's underlying currency exposures in Canadian dollars consist of the following:

	Fair value	Impact of 1% absolute change in foreign exchange rates on net assets
	$	$
Foreign equities and pooled funds	49,654,378	496,543

Approximately 13% of the Plan's investment funds are invested in foreign securities.

(b) Interest rate risk

Interest rate risk refers to the effect on the fair value or future cash flows of an investment due to fluctuations in interest rates. The Plan's interest rate exposure arises from its investment in bonds and in fixed income pooled funds, where those funds have underlying investments in fixed income securities, which are all denominated in Canadian dollars.

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

5. FINANCIAL INSTRUMENTS (continued)

(c) Price risk

Price risk is the risk that the fair value of an investment will fluctuate because of changes in market prices [other than those arising from foreign currency or interest rate risk], whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. This applies to all of the Plan's investments.

The following table demonstrates the sensitivity of the Plan's net assets to a 1% absolute change in the fair value of investments which are exposed to price risk:

	Fair value	Impact of 1% absolute change in fair value on net assets
	$	$
Total investments, at market	377,429,079	3,774,290

(d) Credit risk

Credit risk on financial instruments is the risk of financial loss occurring as a result of default or insolvency of a counterparty on its obligations to the Plan. The Plan's exposure to credit risk is limited to its investments in bonds and fixed income pooled funds where those funds have underlying investments in debt securities. Approximately 20% of the Plan's investment funds are invested in debt securities.

(e) Liquidity risk

Liquidity risk is the risk of being unable to settle or meet commitments as they come due. These commitments include payment of the Plan's pension obligations. Liquidity risk is managed by ensuring that the Plan invests in high quality investments which can be easily disposed of in an active market.

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

6. COMPARATIVE FIGURES

The comparative figures for 2011 have been reclassified from statements previously presented to conform to the presentation adopted for the current year.

7. CONTINGENCIES

In accordance with the *Excise Tax Act*, the Plan is defined as a selected listed financial institution [SFLI]. As such, the Plan is subject to special attribution rules that require it to account for Harmonized Sales Tax [HST] in each participating province in which it has beneficiaries. As of 2010, the Plan was required to register for GST/HST and file SFLI returns annually. Management confirmed with Canada Revenue Agency [CRA] that an HST liability existed for administrative expenses that were either not assessed fully for HST or were imported from outside Canada for previous years. A settlement for amounts relating to the period 2007-2009 was expensed in 2010 and paid early in 2012. As at the end of 2012, the Plan received a notice of assessment from CRA indicating that amounts were assessed as filed.

8. PENSION REFUNDS DUE TO FORMER MEMBERS

Section 37 of the Pension Benefits Act [PBA] restricts, under certain circumstances, the amount of deferred pension commuted value transferred to a member/beneficiary from a defined benefit pension plan where the plan is in a deficit position.

The ratio of a plan's transfer assets to its solvency liabilities is defined as the plan's "transfer ratio". The full amount the transferring member/beneficiary is entitled to transfer is defined as the "commuted value". The commuted value is subject to reduction where the plan's transfer ratio is less than 1; the reduced amount is defined as the "transfer value". The Plan's December 31, 2011 actuarial valuation showed a transfer ratio of 49.1%.

The balance of the commuted value, plus interest at the prescribed rate, may be paid into the Plan by the Plan's sponsor over a maximum of five years, and payment of this balance of the commuted value to the member/beneficiary will be delayed accordingly. As at December 31, 2012, this amount was $1,361,085.

8. PENSION REFUNDS DUE TO FORMER MEMBERS (continued)

In the event that the transfer ratio improves over time, the Plan would be permitted, by virtue of the PBA, to participate in funding refunds payable. The amount of the funding would increase in proportion to the improvement in the transfer ratio. If the transfer ratio remains the same or decreases, the amount payable by the Plan sponsor remains unchanged

9. CONTRIBUTIONS

	2012	**2011**
	$	**$**
Members		
Current Service	**5,089,252**	5,323,735
Voluntary Purchase of Past Service	**574,218**	405,718
	5,663,470	5,729,453
The City of Saint John		
Current Service	**6,860,040**	6,852,021
Voluntary Purchase of Past Service	**425,820**	357,306
Going Concern Payments	**19,185,026**	13,611,732
Funding Pension Refunds	**—**	176,044
	26,470,886	20,997,103
	32,134,356	26,726,556

The City of Saint John – Pension Plan

SCHEDULE OF ADMINISTRATIVE EXPENSES

Year ended December 31

	2012 $	2011 $
Investment management fees	**1,757,750**	1,699,624
Administration fees paid to the City of Saint John	**151,706**	224,628
Performance measurement services	**100,076**	100,840
Custodian fees	**107,716**	117,588
Conference and seminar expenses	**5,223**	24,292
Actuarial and consulting services	**221,052**	254,922
Legal fees	**1,442,910**	557,206
Audit fees	**17,157**	16,711
Consultants' fees	**7,209**	9,769
Miscellaneous	**36,799**	11,267
Insurance	**34,692**	32,713
	3,882,290	3,049,560