

Financial statements of

**The University of British Columbia
Faculty Pension Plan**

December 31, 2006

The University of British Columbia Faculty Pension Plan

December 31, 2006

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Auditors' report

To the Members of
The University of British Columbia Faculty Pension Plan

We have audited the statement of net assets available for benefits of The University of British Columbia Faculty Pension Plan as at December 31, 2006 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the Plan's net assets available for benefits as at December 31, 2006 and the changes in its net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
February 16, 2007

The University of British Columbia Faculty Pension Plan

Statement of net assets available for benefits
as at December 31, 2006

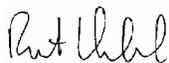
(Expressed in thousands of dollars)

	2006	2005
	\$	\$
Assets		
Assets held by RBC Dexia Investor Services Trust		
Investments (Note 3)		
Short-term notes	41,139	43,558
Bonds	398,835	370,653
Equities	696,163	594,961
Mortgage	-	669
Real estate	113,368	100,274
	1,249,505	1,110,115
Cash	472	589
Investment income receivable	4,870	4,687
	1,254,847	1,115,391
Contributions receivable		
Members	1,335	1,100
University	1,659	1,534
	2,994	2,634
Deferred and other assets		
	-	50
	1,257,841	1,118,075
Liabilities		
Accounts payable and accrued liabilities	2,657	1,789
Plan withdrawals payable to members	6,800	9,374
	9,457	11,163
Net assets available for benefits (Note 4)	1,248,384	1,106,912

Approved on behalf of the Board of Trustees



Chair



Vice-Chair

The University of British Columbia

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Statement of changes in net assets available for benefits year ended December 31, 2006

(Expressed in thousands of dollars)

	2006	2005
	\$	\$
Increase in net assets		
Members' required contributions	12,888	11,903
University's required contributions	25,781	23,299
Members' additional voluntary contributions	362	230
Transfers from other plans	3,680	3,266
	42,711	38,698
Return on investments, including changes in market values (Note 6)	154,055	123,924
	196,766	162,622
Decrease in net assets		
Payments to or on behalf of members		
Retirement benefits to members and beneficiaries	11,506	8,335
Death benefits	2,700	2,208
Members' accounts transferred and refunded	36,276	46,612
	50,482	57,155
Operations		
Actuarial services	37	76
Audit and consulting	22	26
Legal	37	94
Office and administrative	777	846
	873	1,042
Investment administration fees	3,939	4,218
	55,294	62,415
Increase in net assets available for benefits	141,472	100,207
Net assets available for benefits, beginning of year	1,106,912	1,006,705
Net assets available for benefits, end of year	1,248,384	1,106,912

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Notes to the financial statements

December 31, 2006

(Expressed in thousands of dollars)

1. Description of plan

The following description of The University of British Columbia Faculty Pension Plan (the "Plan") is a summary only. For more complete information, reference should be made to the Plan text.

(a) *General*

The Plan is sponsored by The University of British Columbia (the "University") and covers all full-time academic and administrative executive staff, as defined in the Plan text, appointed for one year or more, as well as other members defined in the Plan text. The Plan is registered under the Pension Benefits Standards Act of British Columbia (registration no. 85435). As a registered pension plan under the Income Tax Act of Canada, the Plan is exempt from taxation.

(b) *Funding policy*

The Plan text requires members and the University to make contributions of 5% and 10%, respectively, of basic salary up to the YBE, 3.2% and 8.2%, respectively, of basic salary between the YBE and the YMPE, and 5% and 10%, respectively, of basic salary over the YMPE. YBE is the "year's basic exemption" under Canada Pension Plan requirements, while the YMPE is the "year's maximum pensionable earnings" under the Canada Pension Plan requirements.

The Trustees are authorized to receive as contributions only such amounts as are authorized by the Income Tax Act, and in the event excess funds are received these are refunded to whoever made the contribution.

(c) *Investment options*

Members in the Money Purchase account, Registered Retirement Income Fund ("RRIF") type payment account or Life Income Fund ("LIF") type payment account can choose to invest their individual account balances in a balanced fund, bond fund, short-term investment fund, or two equity funds.

(d) *Retirement benefits*

Normal retirement is the first day of July or January following the member's 65th birthday, whichever comes first. However, a member may retire anytime after attaining the age of 55, or may postpone retirement benefits until December 1 of the calendar year of the member's 69th birthday.

(e) *Forms of retirement benefit*

Upon retirement, the balance in a member's account may be:

- transferred to the Variable Payment Life Annuity account to provide a variable annuity administered by the Plan;
- transferred to the LIF-type payment account (maximum withdrawal, which is based on the member's age, changes each year based on rates for long-term Government of Canada bonds) or RRIF-type payment account (no maximum withdrawal) administered by the Plan;

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Notes to the financial statements

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(Expressed in thousands of dollars)

1. Description of plan (continued)

(e) *Forms of retirement benefit (continued)*

- transferred to an approved LIF, Registered Retirement Savings Plan or RRIF administered externally;
- used to purchase an annuity from a financial institution authorized to issue such products;
- withdrawn as cash from non-locked in balances;
- deferred until December 1 in the year the member turns 69; or
- used for a combination of options.

(f) *Termination and death benefits*

Benefits are also paid on termination of employment or in the event of death of the member prior to retirement.

Benefits on death subsequent to retirement are paid in accordance with the form of retirement benefit payment selected by the retired member.

2. Significant accounting policies

(a) *Basis of presentation*

The financial statements are prepared on the going concern basis and present the aggregate financial position of the Plan as a separate financial reporting entity independent of the University and Plan members. The financial statements are prepared to assist Plan members and others in reviewing the activities of the Plan for the fiscal period. The statement of net assets available for benefits shows the assets under control of the Trustees of the Plan, and does not purport to show their adequacy to meet the obligations of the Plan. The obligations for pension benefits are not presented in the statement of net assets available for benefits but are disclosed in Note 5.

(b) *Use of estimates*

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of increases and decreases in net assets for the reporting period. Actual results could differ from those estimates.

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Notes to the financial statements

December 31, 2006

(Expressed in thousands of dollars)

2. Significant accounting policies (continued)

(c) Investments

Investments are recorded at fair value. Fair value is an estimate of the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values of investments are determined as follows:

- (i) Short-term notes, bonds and publicly traded equities are valued using published market quotations.
- (ii) Real estate equities are valued using published market quotations. Direct real estate investments are valued quarterly by the real estate investment managers using a combination of internal and external appraisals to establish current market values.

Adjustments to investments due to the fluctuation of fair values are reflected as part of the return on investments in the statement of changes in net assets available for benefits. Investment transactions are recognized in the financial statements based on the settlement date. Realized gains and losses are calculated based on the average cost of the investments. Investment income is recognized in the period earned.

(d) Allocation of net assets

In the allocation of net assets (Note 4), the return on investments, and operational and investment administrative expenses are allocated monthly based on the opening account balances.

3. Investments

The Plan's investments are exposed to market risk due to changing market conditions, including changes in interest rates and foreign exchange rates. The Plan manages market risk by establishing and monitoring asset allocation strategies and by diversifying investments within the various asset classes to control overall market risk. The Plan is also exposed to foreign exchange risk as the value of equities held in foreign currencies varies with changes in currency exchange rates. The Plan does not use derivative financial instruments to manage these risks.

Details of significant terms and conditions and exposures to interest rate and credit risks on investments are as follows:

(a) Short-term notes

The short-term notes are primarily securities issued by the federal government, Canadian chartered banks or corporations, maturing at various dates within the next fiscal year, as well as investments in pooled money market funds. The effective interest rates of the short-term notes held at year end range from 3.12% to 6.50% (2005 - 3.30% to 4.10%).

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Notes to the financial statements

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(Expressed in thousands of dollars)

3. Investments (continued)

(b) Bonds

The Plan has invested in a number of individual bonds as well as pooled bond funds. The market values and terms to maturity of the bonds are summarized as follows:

	Total market value	
	2006	2005
	\$	\$
Term to maturity		
Government of Canada		
Up to one year	2,729	73,098
After one year through five years	50,159	-
After five years	35,896	51,266
Canadian provincial, municipal and public authorities		
Up to one year	-	15,457
After one year through five years	9,904	-
After five years	89,972	76,593
Canadian corporate		
Up to one year	9,978	403
After one year through five years	42,312	45,190
After five years	107,605	82,998
Pooled bond fund	50,280	25,648
	398,835	370,653

The ranges of effective interest rates for bonds held are summarized as follows:

	2006	2005
	%	%
Government of Canada	3.6 to 6.1	0.6 to 5.9
Canadian provincial, municipal and public authorities	3.2 to 6.9	3.2 to 6.7
Canadian corporate	3.2 to 10.3	1.7 to 9.7
Pooled bond fund	1.8 to 2.1	1.4 to 1.7

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Notes to the financial statements

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(Expressed in thousands of dollars)

3. Investments (continued)

(c) Equities

The market value of the equity investments, by category, is summarized as follows:

	2006	2005
	\$	\$
Canadian		
Corporations	218,770	192,793
Pooled equity funds	73,932	92,600
Foreign		
Pooled equity funds		
Australia	6,419	6,763
France	25,629	19,275
Germany	16,981	13,240
Hong Kong	8,042	5,617
Italy	6,649	6,370
Japan	35,975	34,748
Netherlands	10,801	8,523
Spain	9,169	7,503
Switzerland	21,509	18,420
UK	37,912	35,789
US	186,040	4,350
Other	38,335	148,970
	696,163	594,961

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Notes to the financial statements

December 31, 2006

(Expressed in thousands of dollars)

3. Investments (continued)

(c) Equities (continued)

The Plan manages its equity market risk by allocating its equities component across six (2005 - six) investment managers, with differing investment styles and mandates, none of which manages in excess of 30% of the equities component. The Plan's collective equity holdings managed by these managers are invested as follows:

	2006	2005
	%	%
Canadian		
Financial services	13	11
Oil and gas	6	6
Metals and minerals	2	3
Industrial products	4	3
Consumer products	1	2
Merchandising	2	2
Communication and media	3	2
Other sectors	3	3
Pooled equity funds	12	12
	46	44
Foreign		
Pooled equity funds	54	56
	100	100

(d) Real estate

All real estate investments are in Canadian property.

(e) Securities lending

The Plan participates in a security lending program whereby it lends securities it owns to others. For securities lent, the Plan receives a fee as well as receiving, as collateral, securities with a minimum market value of 105% of the market value of securities lent. The program is managed by a federally regulated financial institution, which also guarantees the Plan's exposure under the program. At December 31, 2006, the Plan had securities with an estimated market value of \$54,327 (2005 - \$79,271) on loan and it held, as collateral, securities with an estimated market value of \$57,941 (2005 - \$84,360).

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Notes to the financial statements

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(Expressed in thousands of dollars)

4. Net assets available for benefits

The net assets available for benefits as at December 31 have been allocated as follows:

	2006	2005
	\$	\$
Money Purchase account	1,087,956	980,053
Variable Payment Life Annuity account	79,113	72,930
RRIF-type payment account	59,489	39,601
Minimum Retirement Benefit account	5,092	4,997
LIF-type payment account	16,734	9,331
	1,248,384	1,106,912

The Money Purchase account represents assets held by the Plan for the individual accounts of all active and deferred members prior to their retirement.

The Variable Payment Life Annuity account represents assets held by the Plan for the individual accounts of retired members receiving a variable annuity administered by the Plan.

The RRIF-type payment account represents assets held by the Plan for the individual accounts of retired members receiving Registered Retirement Income Fund type payments administered by the Plan.

The Minimum Retirement Benefit pension option, which is no longer available to new retirees, offered monthly pension benefits to retired members who had elected that option, based on the member's salary while employed by the University and their years of contributing service.

The LIF-type payment account represents assets held by the Plan for the individual accounts of retired members receiving Life Income Fund type payments administered by the Plan.

5. Obligations for pension benefits - minimum retirement benefit account

The present value of accrued pension benefits was determined using the projected benefit method prorated on service based on economic assumptions as of January 1, 2005, which forecast economic patterns for the next few years, gradually modifying into the long-term. An actuarial valuation was made as of January 1, 2005 and was subsequently extrapolated to December 31, 2006 by Aon Consulting Inc., a firm of consulting actuaries. The actuarial valuation at January 1, 2005 resulted in an increase of \$1,339 to the actuarial present value of accrued pension benefits at the beginning of the year. The extrapolation was based on the January 1, 2005 assumptions, and does not take into account actual experience since that date, which will not be measured until the next actuarial valuation as of January 1, 2008. The actuarial valuation was conducted in respect of the Minimum Retirement Benefit account only.

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(Expressed in thousands of dollars)

5. Obligations for pension benefits - minimum retirement benefit account (continued)

The actuarial present value of benefits as at December 31, and the principal components of changes in the actuarial present value during the year were as follows:

	2006	2005
	\$	\$
Actuarial present value of accrued pension benefits, beginning of year	2,073	1,161
Valuation adjustment	-	1,339
Interest accrued on benefits	117	144
Benefits paid	(539)	(571)
Actuarial present value of accrued pension benefits, end of year	1,651	2,073

The assumptions used in determining the actuarial present value of accrued pension benefits were developed by reference to expected long-term market conditions. Significant long-term actuarial assumptions used in the valuation were as follows:

	2006-2007	2008 and later
	%	%
Annual interest rates	6.50	6.75
Annual rates of inflation	2.00	2.50

6. Return on investments

	2006	2005
	\$	\$
Interest income	18,737	17,793
Pooled fund distributions	21,784	23,611
Real estate income	2,227	4,555
Dividend income	1,669	2,899
Realized gains on investments	25,449	57,824
Unrealized gains on investments	84,189	17,242
	154,055	123,924

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7. Financial instruments

Canadian generally accepted accounting principles require disclosure of the fair value of financial instruments. The fair values of the Plan's cash, investment income receivable, contributions receivable, accounts payable and accrued liabilities, and plan withdrawals payable to members approximate their carrying values due to the short-term nature of these financial instruments. The Plan's investments are carried at fair value in accordance with the significant accounting policy disclosed in Note 2 (c).

8. Comparative amounts

Certain comparative amounts have been reclassified to comply with the current year's presentation.