Financial statements of

The University of British Columbia Faculty Pension Plan

December 31, 2007

The University of British Columbia
Faculty Pension Plan
December 31, 2007

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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 (the "Plan") as at December 31, 2007 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, 2007 and the changes in its net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
February 8, 2008 (except as to Note 10 which is as of March 7, 2008)

The University of British Columbia
Faculty Pension Plan

Statement of net assets available for benefits
as at December 31, 2007

(Expressed in thousands of dollars)

	2007	2006
	$	$
Assets		
Assets held by RBC Dexia Investor Services Trust		
Investments (Note 4)		
Short-term notes	**48,154**	41,139
Bonds	**447,072**	398,835
Equities	**655,941**	696,163
Real estate	**129,354**	113,368
	1,280,521	1,249,505
Cash	**745**	472
Investment income receivable	**991**	4,870
	1,282,257	1,254,847
Contributions receivable		
Members	**533**	1,335
University	**-**	1,659
	533	2,994
	1,282,790	1,257,841
Liabilities		
Accounts payable and accrued liabilities	**3,127**	2,657
Plan withdrawals payable to members	**5,424**	6,800
	8,551	9,457
Net assets available for benefits (Note 5)	**1,274,239**	1,248,384

Subsequent event (Note 10)

Approved on behalf of the Board of Trustees

Chair

Vice-Chair

The University of British Columbia Faculty Pension Plan

Statement of changes in net assets available for benefits year ended December 31, 2007

(Expressed in thousands of dollars)

	2007	2006
	$	$
Increase in net assets		
Members' required contributions	**13,810**	12,888
University's required contributions	**27,427**	25,781
Members' additional voluntary contributions	**373**	362
Transfers from other plans	**5,861**	3,680
	47,471	42,711
Return on investments, including changes in market values (Notes 3 and 7)	**40,024**	154,055
	87,495	196,766
Decrease in net assets		
Payments to or on behalf of members		
Retirement benefits to members and beneficiaries	**13,441**	11,506
Death benefits	**1,050**	2,700
Members' accounts transferred and refunded	**42,188**	36,276
	56,679	50,482
Operations		
Actuarial services	**65**	37
Audit and consulting services	**23**	22
Legal services	**2**	37
Office and administrative costs	**854**	777
	944	873
Investment transaction and administration fees (Note 3)	**4,017**	3,939
	61,640	55,294
Increase in net assets available for benefits	**25,855**	141,472
Net assets available for benefits, beginning of year	**1,248,384**	1,106,912
Net assets available for benefits, end of year	**1,274,239**	1,248,384

See accompanying notes to the financial statements.

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 71st 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;

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 71; 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 year. 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 6.

(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.

2. Significant accounting policies (continued)

(c) Investments

Investments are recorded on a settlement basis and 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 on an accrual basis.

(d) Allocation of net assets

In the allocation of net assets (Note 5), the return on investments, and operational and investment transaction and administrative expenses are allocated monthly based on the opening account balances.

(e) Members' accounts transferred or refunded

Members' accounts transferred or refunded are recognized as a decrease in net assets on the accrual basis.

3. Change in accounting policy

Effective January 1, 2007, the Plan adopted the new recommendations of the CICA Emerging Issues Committee Abstract – 168 ("EIC-168"), *Accounting for Transaction Costs by Pension Plans*.

The Committee reached a consensus that pension plans should not include transaction costs in the fair value of investments either on initial recognition or on subsequent re-measurement. Transaction costs should be included in the statement of changes in net assets available for benefits in the period incurred.

The change in accounting policy has been applied retrospectively, without restatement of prior periods.

The impact of this accounting change was to increase investment transaction and administration fees by $284 and to increase the return on investment by $284 for the year ended December 31, 2007. There is no impact on the net assets available for benefits at December 31, 2007.

(Expressed in thousands of dollars)

4. 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 3.8% to 4.7% (2006 - 3.12% to 6.50%).

(b) Bonds

The Plan's investment in bonds consists of units held in Canadian pooled bond funds.

(c) Equities

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

	2007	2006
	$	$
Canadian		
Corporations	**283,444**	218,770
Pooled equity funds	**80,600**	73,932
Foreign		
Pooled equity funds	**291,897**	403,461
	655,941	696,163

(Expressed in thousands of dollars)

4. Investments (continued)

(c) *Equities (continued)*

The Plan manages its equity market risk by allocating its equities component across six (2006 - 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:

	2007	2006
	%	%
Canadian		
Financial services	**9**	13
Oil and gas	**5**	6
Metals and minerals	**2**	2
Industrial products	**4**	4
Consumer products	**1**	1
Merchandising	**2**	2
Communication and media	**2**	3
Other sectors	**12**	3
Pooled equity funds	**11**	12
	48	46
Foreign		
Pooled equity funds	**52**	54
	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 the 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, 2007, the Plan had securities with an estimated market value of $29,920 (2006 - $54,327) on loan and it held, as collateral, securities with an estimated market value of $32,165 (2006 - $57,941).

(Expressed in thousands of dollars)

5. Net assets available for benefits

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

	2007	2006
	$	$
Money Purchase account	**1,086,466**	1,087,956
Variable Payment Life Annuity account	**81,132**	79,113
RRIF-type payment account	**78,100**	59,489
Minimum Retirement Benefit account	**4,735**	5,092
LIF-type payment account	**23,806**	16,734
	1,274,239	1,248,384

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.

6. 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, 2007 by Aon Consulting Inc., a firm of consulting actuaries. The actuarial valuation was conducted in respect of the Minimum Retirement Benefit account only.

(Expressed in thousands of dollars)

6. 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:

	2007	2006
	$	$
Actuarial present value of accrued pension benefits, beginning of year	**1,651**	2,073
Interest accrued on benefits	**92**	117
Benefits paid	**(485)**	(539)
Actuarial present value of accrued pension benefits, end of year	**1,258**	1,651

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:

	2005-2007	2008 and later
	%	%
Annual interest rates	6.50	6.75
Annual rates of inflation	2.00	2.50

7. Return on investments

	2007	2006
	$	$
Interest income	**13,785**	18,737
Pooled fund distributions	**33,413**	21,784
Real estate income	**2,694**	2,227
Dividend income	**6,766**	1,669
Net realized gains on investments	**50,588**	25,449
Unrealized (losses) gains on investments	**(67,222)**	84,189
	40,024	154,055

8. Financial instruments

The fair values of the Plan's cash, investment income receivable, contributions receivable, accounts payable 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).

9. Future accounting changes

The Canadian Institute of Chartered Accountants has issued CICA Handbook Section 3862, *Financial Instruments - Disclosures*, ("HB-3862") and Section 3863, *Financial Instruments - Presentation* ("HB-3863"). These new sections establish standards for disclosures about financial instruments, including disclosures about fair value and the credit, liquidity and market risks associated with the financial instruments, and for presentation of financial instruments and non-financial derivatives. These new standards supersede Handbook Section 3861.

Both sections are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. These new standards relate to presentation and disclosure only and will not impact the net assets available for benefits of the Plan.

10. Subsequent event

On March 7, 2008, the Trustees approved the purchase of a special annuity from Sun Life Assurance Company of Canada Limited ("Sun Life") that will provide for the payment of pension benefits required under the terms of the minimum retirement benefit ("MRB") account (see Notes 5 and 6). The purchase price for the MRB annuity was $2,449 and the purchase date was March 11, 2008. MRB pensioners will receive their monthly pensions from Sun Life, commencing May 1, 2008. The purchase of this annuity will allow the release of the remaining surplus funds to those members who contributed to the MRB account.