Financial statements of

The University of British Columbia Faculty Pension Plan

December 31, 2008

The University of British Columbia
Faculty Pension Plan
December 31, 2008

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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, 2008 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, 2008 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 27, 2009

The University of British Columbia
Faculty Pension Plan

Statement of net assets available for benefits
as at December 31, 2008

(Expressed in thousands of dollars)

	2008	2007
	$	$
Assets		
Assets held by RBC Dexia Investor Services Trust		
Investments (Note 4)		
Short-term notes	**69,899**	48,154
Bonds	**396,917**	447,072
Equities	**526,946**	655,941
Real estate	**98,942**	129,354
	1,092,704	1,280,521
Cash and cash equivalent	**3,312**	745
Investment income receivable	**1,080**	991
	1,097,096	1,282,257
Contributions receivable		
Members	**4**	533
University	**46**	-
	50	533
	1,097,146	1,282,790
Liabilities		
Accounts payable and accrued liabilities	**761**	3,127
Plan withdrawals payable to members	**6,464**	5,424
	7,225	8,551
Net assets available for benefits (Note 5)	**1,089,921**	1,274,239

Approved on behalf of the Board of Trustees

Chair

Vice-Chair

See accompanying notes to the financial statements.

The University of British Columbia Faculty Pension Plan

Statement of changes in net assets available for benefits year ended December 31, 2008

(Expressed in thousands of dollars)

	2008	2007
	$	$
Increase in net assets		
Members' required contributions	**14,843**	13,810
University's required contributions	**29,423**	27,427
Members' additional voluntary contributions	**446**	373
Transfers from other plans	**6,094**	5,861
	50,806	47,471
Return on investments, including changes in market values (Note 7)	**(176,628)**	40,024
	(125,822)	87,495
Decrease in net assets		
Payments to or on behalf of members		
Purchase of Sun Life annuity for minimum retirement benefits (Note 6)	**2,449**	-
Distribution of surplus in minimum retirement benefit account (Note 6)	**2,073**	-
Retirement benefits to members and beneficiaries	**16,654**	13,441
Death benefits	**890**	1,050
Members' accounts transferred and refunded	**32,508**	42,188
	54,574	56,679
Operations		
Actuarial services	**56**	65
Audit and consulting services	**23**	23
Legal services	**20**	2
Office and administrative costs	**956**	854
	1,055	944
Investment transaction and administration fees	**2,867**	4,017
	58,496	61,640
Net (decrease) increase in net assets available for benefits	**(184,318)**	25,855
Net assets available for benefits, beginning of year	**1,274,239**	1,248,384
Net assets available for benefits, end of year	**1,089,921**	1,274,239

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 5.0% 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 5.0% and 10.0%, 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.

(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. The most significant estimates relate to the fair values of investments. 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. Transaction costs should be included in the statement of changes in net assets available for benefits in the period incurred.

(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. Adoption of new accounting standards

In December, 2006 the Canadian Institute of Chartered Accountants ("CICA") issued Section 3862, *Financial Instruments - Disclosures*, and Section 3863, *Financial Instruments - Presentation*, which are applicable for the year ended December 31, 2008. These presentation and disclosure sections for financial instruments replace Section 3861, *Financial Instruments - Disclosure and Presentation*. The new presentation and disclosure standards modify and increase requirements pertaining to disclosures and substantially maintain existing presentation requirements. These new sections give greater importance to disclosures in terms of the nature and scope of the risks associated with financial instruments, and the way entities manage these risks. The adoption of the new disclosure requirements does not impact the reported balances in the financial statements. The new disclosures are presented in Note 9.

(Expressed in thousands of dollars)

3. Adoption of new accounting standards (continued)

CICA Section 1535, *Capital Disclosures*, became applicable to the Plan in 2008. This section specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data and qualitative information about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv), if it has not complied, the consequences of such non-compliance. The adoption of section 1535 did not impact the reported balances in the financial statements. The new disclosures are presented in Note 10.

4. Investments

(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 0.8% to 1.3% (2007 - 3.8% to 4.7%).

(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:

	2008	2007
	$	$
Canadian		
Corporations	**172,227**	283,444
Pooled equity funds	**58,418**	80,600
Foreign		
Corporations	**3,013**	-
Pooled equity funds	**293,288**	291,897
	526,946	655,941

(d) Real estate

All real estate investments are in Canadian property.

(Expressed in thousands of dollars)

4. Investments (continued)

(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, 2008, the Plan had securities with an estimated market value of $17,395 (2007 - $29,920) on loan and it held, as collateral, securities with an estimated market value of $18,491 (2007 - $32,165).

5. Net assets available for benefits

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

	2008	2007
	$	$
Money Purchase account	**928,332**	1,086,466
RRIF-type payment account	**70,580**	78,100
Variable Payment Life Annuity account	**67,854**	81,132
LIF-type payment account	**23,155**	23,806
Minimum Retirement Benefit account	**-**	4,735
	1,089,921	1,274,239

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 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 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 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. Settlement of obligations for pension benefits - minimum retirement benefit account

On March 11, 2008, the Plan purchased an annuity from Sun Life Assurance Company of Canada Limited to provide for the payment of pension benefits required under the terms of the minimum retirement benefit ("MRB") account. The purchase price was $2,449 and the remaining surplus funds in the MRB account of $2,073 was distributed to participating members of the Plan.

(Expressed in thousands of dollars)

7. Return on investments

	2008	2007
	$	$
Pooled fund distributions	**22,849**	33,413
Interest income	**20,691**	13,785
Net realized gains on investments	**7,726**	50,588
Dividend income	**7,663**	6,766
Real estate income	**1,600**	2,694
Unrealized gains (losses) on investments	**(237,157)**	(67,222)
	(176,628)	40,024

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. Risk management

As a pension plan, the Plan is fundamentally concerned with the management of risk. This note summarizes and quantifies these risks and the way the Plan manages them.

The Plan employs a Statement of Investment Policies and Goals ("Policy") to identify, assess, manage and monitor the risks. The Policy provides asset mix ranges and limitations the Plan is to follow. The Policy is overseen by the Board of Trustees ("Board").

The Board oversees management of the Plan with a view to promoting effective plan design, governance, investment policy, financing, administration and legal compliance. The Board monitors the investment performance of the Plan, including total fund, asset class, and manager performance against specified benchmarks.

A majority of the Plan's assets are invested in pooled funds. Pooled funds provide a more cost effective means of achieving diversification within selected asset classes, given the size of the mandates granted to the investment managers. The manager of the investment fund is governed by the manager's own investment policy for the pooled fund. The Board is responsible for ensuring that the detailed investment policy statement setting out the investment constraint for the managers of such funds are prepared and agreed to by the managers.

(Expressed in thousands of dollars)

9. Risk management (continued)

(a) *Credit risk*

Credit risk is the risk of financial loss to the Plan if a counterparty to a financial instrument fails to meet its contractual obligations. The Plan's investments in short-term investments, bonds, and debentures are subject to credit risk. The Plan manages this risk by limiting the credit exposure allowed by the investment managers. The maximum exposure to credit risk for these instruments as at December 31, 2008 is their carrying value of $470,128. The investment policies of the various bond managers provides limits to the credit exposure and/or sets a minimum overall average portfolio quality allowed by each manager.

The overall credit ratings of fixed income securities held in the Plan are as follows:

	%
A1/P1	3.0
AAA	47.5
AA	26.7
A	17.7
BBB	4.5
BB and below	0.6

(b) *Liquidity risk*

Liquidity risk refers to the likelihood of a potential loss arising from a large percentage of requests for redemptions by Plan members. This risk is mitigated as active members and those in the Variable Payment Life Annuity ("VPLA") program cannot withdraw their funds from the Plan. The percentage of the Plan's assets with deferred, retired and LIF/RRIF members that could withdraw their funds on short notice is approximately 33%.

The table below analyzes the Plan's financial liabilities into maturity grouping based on their contractual maturity dates.

At December 31, 2008	Less than 1 month	No stated maturity
	$	$
Accounts payable and accrued expenses	761	-
Plan withdrawals payable to members	6,272	-
Other liabilities	-	192
	7,033	192

Most of the Plan's assets are invested in large pooled funds of which the Plan is just one of many parties invested in these pooled funds which provides a high degree of liquidity. The Plan's managers typically invest in equities and bonds that are very marketable and that have a high degree of liquidity should they need to be sold in a relatively short timeframe.

(Expressed in thousands of dollars)

9. Risk management (continued)

(c) *Price risk*

Investments in the various fund options are subject to price risk. The value of the various holdings in the funds may move up or down, sometimes rapidly. Different types of investments have historically reflected higher levels of risk, as measured by the volatility of their returns. Given the overall asset class holdings of the Plan we would expect most annual returns to be within a +/- 13.0% range of an expected long-term return of roughly +6.5% (i.e. results ranging from -6.5% to +19.5%). This is based on the following volatility figures:

	%
Canadian and foreign equities	+/- 20.0
Bonds	+/- 8.0
Real estate	+/- 8.0
Short-term holdings	+/- 2.0

Based on the estimated range of volatility by asset class this would equate to the following dollar amounts, with all other variables held constant:

	Market value at December 31, 2008	Investments
	$	%
Securities held for trading		
Canadian bonds	396,917	36
Canadian equities	237,159	22
U.S. equities	153,241	14
Non-North American equities	118,879	11
Real estate	99,537	9
Short-term investment fund	66,883	6
Hedge fund	21,171	2
	1,093,786	100

Benchmark for investments	% change	Net impact on market value
	%	$
S&P/TSX Composite Capped	+/- 20.0	+/- 47,432
S&P 500 Cdn$	+/- 20.0	+/- 32,765
MSCI EAFE Cdn$	+/- 20.0	+/- 25,893
DEX Universe	+/- 8.0	+/- 31,753
IPD Cdn Property Index	+/- 8.0	+/- 7,963
DEX 91-Day T-Bill	+/- 2.0	+/- 1,338

Figures shown are based on December 31, 2008 fair values.

(Expressed in thousands of dollars)

9. Risk management (continued)

(c) *Price risk (continued)*

The Plan also manages its equity price risk by allocating its equities component across six (2007 - six) investment managers, with differing investment styles and mandates. The Plan's collective equity holdings managed by these managers are invested as follows:

	2008	2007
	%	%
Canadian		
Other sectors	**15**	12
Pooled equity funds	**10**	11
Financial services	**9**	9
Oil and gas	**5**	5
Industrial products	**3**	4
Communication and media	**3**	2
Consumer products	**2**	1
Metals and minerals	**1**	2
Merchandising	**1**	2
	49	48
Foreign		
Pooled equity funds	**50**	52
Consumer products	**1**	-
	51	52
	100	100

(d) *Interest rate risk*

The Plan is subject to interest rate risk. Interest rate risk is the risk that fixed-income securities will decline in value because of changes in market interest rates. Rising interest rates cause a decrease in bond prices. Duration is the most common measure of this risk and quantifies the effect of changes in bond prices due to a change in interest rates. The bond portfolio has an average duration of roughly 7.5 years. Therefore, if the interest rates increased by 1.0%, the bond portfolio would fall in value by approximately 7.5%.

9. Risk management (continued)

(e) *Currency risk*

Currency risk is the risk that the value of non-Canadian investments, measured in Canadian dollars, will decrease because of unfavorable changes in currency exchange rates. Two of the Plan's three bond managers may invest a portion of their portfolio outside of Canada but they only hold a small exposure to unhedged foreign currencies as they mostly hedge their currency exposure. Otherwise, the Plan's investments in U.S. and international equities are generally unhedged in terms of their currency exposure. These foreign securities as of December 31, 2008 represent roughly 27% of the Plan's assets which consist of 15% in U.S. currencies and 12% in EAFE currencies. A 10% strengthening (weakening) of the Canadian dollar versus the U.S. dollar at December 31, 2008 would have decreased (increased) the U.S. equity portfolio's value by roughly $16,383. Since the Plan has invested in more than 20 countries in the international equities, it is not feasible to do a sensitivity analysis on each of these different currencies. However, generally when there is a 10% strengthening (weakening) of the Canadian dollar versus the corresponding currency, there would be a 10% decrease (increase) in the value of the corresponding country's portion of the portfolio from this currency movement. This assumes that all other variables remain constant.

10. Capital management

The Plan's objectives when managing capital are to safeguard the ability to continue as a going concern, so that the Fund can provide sufficient benefits to the plan members.

The Plan manages the capital structure and makes adjustments to it in light of changes in economic conditions and risk characteristics of underlying assets. To maintain or adjust the capital structure, the Plan may sell assets to meet immediate obligations where appropriate. The Plan is not subject to externally imposed capital requirements.

The Board is responsible for monitoring and evaluating the fund performance on a regular basis.

11. Future accounting changes

In February 2008, the CICA announced that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. The Plan is the process of evaluating the impact on the financial statements as a result of the changeover to IFRS.