

Financial Statements of

**CANADIAN BLOOD SERVICES
DEFINED BENEFIT PENSION PLAN**

Year ended December 31, 2016



KPMG LLP
150 Elgin Street, Suite 1800
Ottawa ON K2P 2P8
Canada
Telephone 613-212-5764
Fax 613-212-2896

INDEPENDENT AUDITORS' REPORT

To the Joint Board of Trustees of the Canadian Blood Services Defined Benefit Pension Plan

We have audited the accompanying financial statements of the Canadian Blood Services Defined Benefit Pension Plan, which comprise the statement of financial position as at December 31, 2016, the statements of changes in net assets available for benefits and changes in pension obligations for the year then ended, and notes, comprising 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 an 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 our 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, we consider 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 financial position of the Canadian Blood Services Defined Benefit Pension Plan as at December 31, 2016, and the changes in its net assets available for benefits and changes in its pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

May 26, 2017

Ottawa, Canada

CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

Statement of Financial Position

As at December 31, 2016, with comparative information for 2015

	2016	2015
Assets		
Contributions receivable:		
Employer - current service	\$ 266,894	\$ 175,218
Members - current service	186,310	122,187
Other amounts receivable	36,883	69,816
Accrued interest receivable	197,075	195,513
Investments (notes 3, 4 and 10)	349,703,360	320,113,472
	<u>350,390,522</u>	<u>320,676,206</u>
Liabilities		
Accounts payable and accrued liabilities (note 7)	424,178	545,647
Termination and pension benefits payable	1,484,868	1,317,859
	<u>1,909,046</u>	<u>1,863,506</u>
Net assets available for benefits	348,481,476	318,812,700
Pension obligations (note 5)	337,838,906	299,936,878
Surplus	<u>\$ 10,642,570</u>	<u>\$ 18,875,822</u>

See accompanying notes to financial statements.

On behalf of the Joint Board of Trustees:



Trustee



Trustee

CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Increase in assets:		
Contributions (note 9):		
Employer	\$ 12,136,041	\$ 12,108,255
Members	8,490,448	8,510,174
	<u>20,626,489</u>	<u>20,618,429</u>
Change in fair value (note 3(c)):		
Net realized gain on sales of investments	11,402,581	938,909
Change in net unrealized gains and losses	5,681,975	(5,100,509)
	<u>17,084,556</u>	<u>(4,161,600)</u>
Investment income (note 3(c))	8,599,127	10,896,313
Total increase in assets	<u>46,310,172</u>	<u>27,353,142</u>
Decrease in assets:		
Pension benefits	8,097,829	7,000,726
Termination benefits	6,307,597	4,536,363
Death benefits	504,017	179,030
Administration fees (note 6)	1,731,953	1,916,510
Total decrease in assets	<u>16,641,396</u>	<u>13,632,629</u>
Increase in net assets available for benefits	<u>29,668,776</u>	<u>13,720,513</u>
Net assets available for benefits, beginning of year	318,812,700	305,092,187
Net assets available for benefits, end of year	<u>\$ 348,481,476</u>	<u>\$ 318,812,700</u>

See accompanying notes to financial statements.

CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

Statement of Changes in Pension Obligations

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Increase in pension obligations:		
Interest on accrued benefits	\$ 18,181,914	\$ 16,637,173
Benefits accrued	19,161,708	19,154,222
Changes in actuarial assumptions	15,467,849	—
Total increase in pension obligations	52,811,471	35,791,395
Decrease in pension obligations:		
Pension, termination and death payments	14,909,443	11,716,119
Total decrease in pension obligations	14,909,441	11,716,119
Net increase in pension obligations	37,902,028	24,075,276
Pension obligations, beginning of year	299,936,878	275,861,602
Pension obligations, end of year	\$ 337,838,906	\$ 299,936,878

See accompanying notes to financial statements.

CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

Notes to Financial Statements

Year ended December 31, 2016

1. Description of the Plan:

The following description of the Canadian Blood Services Defined Benefit Pension Plan (the "Plan") is a summary only. For more complete information, reference should be made to the Plan Text and Trust Agreement. The Plan became effective September 28, 1998.

(a) General:

The Plan is administered by Trustees appointed by Canadian Blood Services ("CBS") and the Participating Unions, in accordance with terms of the Trust Agreement.

The Plan is a defined benefit plan covering members of Participating Unions and those other unionized and non-unionized employees of CBS who are eligible, and elect to join. Eligible employees who are not represented by Participating Unions may otherwise elect to join the Canadian Blood Services Defined Contribution Pension Plan. The Plan is registered under the Pension Benefits Act, 1990 (Ontario) and Regulations ("PBA"); Registration #1048800.

(b) Funding policy:

Members' and the employer's contribution rates may vary according to the cost of the Plan. If the cost of the Plan, determined in accordance with the provisions of the Plan, is between 9.5% and 11.5% of pensionable earnings, then members will contribute 4.75% of pensionable earnings and the employer will contribute the difference between the cost of the Plan and 4.75%. If the cost of the Plan becomes higher than 11.5% of pensionable earnings, then both the member and the employer will increase their contribution rate on a 50/50 shared basis. If the cost of the Plan becomes less than 9.5% of pensionable earnings, then both the member and the employer will decrease their contribution rate on a 50/50 shared basis. Effective January 1, 2012, members contribute an amount equal to 5.9% of pensionable earnings and the employer contributes an amount equal to 7.9% of the member's pensionable earnings.

(c) Benefits:

The Plan provides benefits based on a member's term of service and average earnings over a member's five highest consecutive annualized earnings. In addition, the accumulated additional optional contributions, plus the investment earnings thereon, are used to provide additional pension benefits on retirement.

(d) Income taxes:

The Plan is a Registered Pension Plan as defined in the Income Tax Act (Canada) and as such, the Plan is not subject to income tax.

CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

Notes to Financial Statements, page 2

Year ended December 31, 2016

2. Significant accounting policies:

(a) Basis of presentation:

These financial statements are prepared in accordance with Canadian accounting standards for pension plans. The financial statements present the aggregate financial position of the Plan as a separate financial reporting entity, independent of the employer and Plan members. They are prepared to assist Plan members and others in reviewing the activities of the Plan for the period but they do not portray the funding requirements of the Plan or the benefit security of individual Plan members.

In selecting or changing accounting policies that do not relate to its investment portfolio or pension obligations, the Plan has chosen to comply on a consistent basis with Canadian accounting standards for private enterprises in Part II of the CPA Canada Handbook – Accounting.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets available for benefits during the period. Actual results could differ from these estimates. Significant management estimates include assumptions used in calculating the obligations for pension benefits (note 5).

(b) Investments:

Investments are measured at fair value in the statement of financial position and investment transactions are recognized on a trade date basis. The change in the difference between the fair value and cost of investments at the beginning and end of each year is reflected in the statement of changes in net assets available for benefits as the change in net unrealized gains or losses.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Plan has applied IFRS 13, *Fair Value Measurement* (“IFRS 13”), in Part I of the CPA Handbook. As allowed under IFRS, if an asset or a liability measured at fair value has a bid and an ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value. The Plan uses closing market prices as a practical expedient for fair value measurement.

Fair values of pooled fund investments are the unit values supplied by the pooled fund manager, which represent the Plan’s proportionate share of underlying net assets at fair values determined using closing market prices. Fair values of all other investments are the values determined using closing market prices.

CANADIAN BLOOD SERVICES

DEFINED BENEFIT PENSION PLAN

Notes to Financial Statements, page 3

Year ended December 31, 2016

2. Significant accounting policies (continued):

(b) Investments (continued):

Financial instruments measured at fair value are categorized into one of three hierarchy levels. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

Level 1 – Inputs are unadjusted quoted market prices of identical instruments in active markets;

Level 2 – Inputs are other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 – One or more significant inputs used in a valuation technique are unobservable in determining fair values of the instruments.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of financial instrument in the hierarchy is based upon the lowest level of input if significant to the measurement of fair value.

(c) Net realized gains (losses) on sales of investments:

The net realized gains (losses) on sales of investments are the differences between proceeds received and the average cost of investments sold.

(d) Investment income:

Investment income, which is reported on the accrual basis, includes interest income and distributions from pooled fund investments. Distributions from pooled fund investments include the Plan's proportionate share of interest, dividends and realized gains or losses.

(e) Foreign currency translation:

The fair value of foreign currency denominated investments included in the statement of financial position is translated into Canadian dollars at year-end rates of exchange. Gains and losses arising from translation are included in the change in net unrealized gains or losses. Foreign currency denominated transactions are translated into Canadian dollars at the rates of exchange on the dates of the related transactions.

(f) Contributions:

Contributions for current service are recorded in the year in which the related payroll costs are incurred. Past service contributions are recognized as contributions in the year contributions are received or receivable by the Plan.

CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

Notes to Financial Statements, page 4

Year ended December 31, 2016

2. Significant accounting policies (continued):

(g) Pension obligations:

Pension obligations are determined based on actuarial valuations prepared by an independent firm of actuaries using the projected benefit method pro-rated on service and management's long-term best estimate assumptions of future experience. The year-end value of pension obligations is based on the most recent going-concern actuarial valuation prepared for funding purposes extrapolated to the reporting date using management's best estimate assumptions (note 5).

(h) Termination benefits payable:

Termination benefits are recognized in termination and benefits payable on the statement of financial position upon the member's election to transfer their commuted value amount at the time of termination of employment with CBS, death or retirement. Also included in termination and benefits payable are the termination benefits arising from regulatory or contractual requirements which are recognized upon termination of employment with CBS, death or retirement.

CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

Notes to Financial Statements, page 5

Year ended December 31, 2016

3. Investments:

(a) Investments are comprised of the following at December 31:

	Market value 2016		Market value 2015	
Custodian:				
Cash	\$ 3,453,877	1.0%	\$ 3,132,588	1.0%
BlackRock Pooled Funds:				
Hedged U.S. Equity Index Fund	62,501,163	17.9%	56,117,155	17.5%
Canadian Long Bond Index Fund	98,587,416	28.2%	96,207,826	30.1%
Harding Loevner:				
International Equity Fund	61,173,351	17.5%	37,899,457	11.8%
Schroders:				
Emerging Market Equity Fund	13,011,055	3.7%	–	0.0%
Triasima:				
Canadian Equity Fund	39,046,831	11.2%	52,991,105	16.6%
Leith Wheeler:				
Canadian Equity Fund	35,386,205	10.1%	38,017,324	11.9%
Federal Government Bonds	7,491,031	2.1%	8,116,148	2.5%
Provincial Government Bonds	17,505,862	5.0%	17,288,501	5.3%
Municipal Government Bonds	1,073,947	0.3%	865,346	0.3%
Corporate Bonds	10,472,622	3.0%	9,263,323	2.9%
T-bills	–	0.0%	214,699	0.1%
	\$ 349,703,360	100.0%	\$ 320,113,472	100.0%

CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

Notes to Financial Statements, page 6

Year ended December 31, 2016

3. Investments (continued):

(b) Whereas investments are stated at market value in the statement of financial position, the cost of these investments at December 31 is as follows:

	Book value 2016		Book value 2015	
Custodian:				
Cash	\$ 3,453,877	1.1%	\$ 3,132,588	1.1%
BlackRock Pooled Funds:				
Hedged U.S. Equity Index Fund	44,251,610	14.0%	37,679,352	12.9%
Canadian Long Bond Index Fund	101,159,748	31.9%	96,207,293	32.8%
Harding Loevner:				
International Equity Portfolio	53,800,581	17.0%	30,589,427	10.4%
Schroders:				
Emerging Market Equity Fund	13,212,662	4.2%	–	0.0%
Triasima:				
Canadian Equity Fund	35,377,520	11.1%	51,526,961	17.6%
Leith Wheeler:				
Canadian Equity Fund	29,660,292	9.4%	40,264,957	13.7%
Federal Government Bonds	7,344,534	2.3%	7,507,117	2.6%
Provincial Government Bonds	17,294,364	5.5%	15,938,754	5.4%
Municipal Government Bonds	1,027,575	0.3%	808,500	0.3%
Corporate Bonds	10,428,335	3.2%	9,233,537	3.1%
T-bills	–	0.0%	214,699	0.1%
	\$ 317,011,098	100.0%	\$ 293,103,185	100.0%

CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

Notes to Financial Statements, page 7

Year ended December 31, 2016

3. Investments (continued):

(c) Whereas investment income is recognized in the statement of changes in net assets available for benefits, the detail by investment is as follows:

2016	Investment Income	Change in net unrealized gain (loss)	Net realized gain (loss)	Total investment income
Custodian:				
Cash	\$ 41	\$ –	\$ –	\$ 41
BlackRock Pooled Funds:				
Hedged U.S. Equity Index Fund	1,476,789	(188,251)	5,095,470	6,384,008
Long Bond Index Fund	3,714,390	(2,572,864)	1,238,064	2,379,590
Harding Loevner:				
International Equity Portfolio	598,275	62,740	4,630	665,645
Schroders:				
Emerging Market Equity Funds	212,662	(201,607)	–	11,055
Triasima:				
Canadian Equity Fund	–	2,205,168	2,850,559	5,055,727
Leith Wheeler:				
Canadian Equity Fund	1,231,397	7,973,546	1,193,524	10,398,467
Federal Government Bonds	216,290	(462,534)	143,321	(102,923)
Provincial Government Bonds	713,282	(1,138,249)	926,457	501,490
Municipal Government Bonds	8,091	(10,474)	–	(2,383)
Corporate Bonds	427,763	14,500	(49,444)	392,819
T-bills	147	–	–	147
	\$ 8,599,127	\$ 5,681,975	\$ 11,402,581	\$ 25,683,683

CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

Notes to Financial Statements, page 8

Year ended December 31, 2016

3. Investments (continued):

(c) Investment income (continued):

2015	Investment Income	Change in net unrealized gain (loss)	Net realized gain (loss)	Total investment income
Custodian:				
Cash	\$ 27	\$ -	\$ -	\$ 27
BlackRock Pooled Funds:				
Hedged U.S. Equity Index Fund	1,613,274	(1,045,895)	-	567,379
Long Bond Index Fund	4,668,717	(1,254,353)	2,203	3,416,567
Harding Loevner:				
International Equity Portfolio	324,058	5,156,401	-	5,480,459
Triasima:				
Canadian Equity Fund	905,114	(210,843)	9,963	704,234
Leith Wheeler:				
Canadian Equity Fund	2,052,497	(7,574,834)	738,392	(4,783,945)
Federal Government Bonds	237,283	94,934	97,058	429,275
Provincial Government Bonds	653,885	39,155	46,925	739,965
Municipal Government Bonds	44,303	(7,959)	-	36,344
Corporate Bonds	395,565	(297,115)	44,368	142,818
T-bills	1,590	-	-	1,590
	\$ 10,896,313	\$ (5,100,509)	\$ 938,909	\$ 6,734,713

4. Risk management:

Investments are exposed to credit, liquidity, foreign currency, interest rate and price risk. The Plan has formal policies and procedures to monitor this risk exposure. The Statement of Investment Policies and Procedures ("SIP&P") establishes a target asset mix among fixed income, equity, and short-term investments to ensure diversification across asset classes (note 8). The policy also requires diversification of investments within asset classes and limits exposure to individual investments, private placements, and foreign equity.

CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

Notes to Financial Statements, page 9

Year ended December 31, 2016

4. Risk management (continued):

(a) Credit risk:

The Plan is exposed to the risk of financial loss resulting from the potential inability of a counterparty to a financial instrument to meet its contractual obligations. The carrying amount of investments represents the maximum exposure of the Plan to credit risk (note 3(a)).

The Plan limits credit risk through policies established within the SIP&P. Within the policy, the minimum quality standard for actively managed individual bonds and debentures is 'BBB' or equivalent as rated by at least two of the three Recognized Bond Rating Agencies operating in Canada. The minimum quality standard for passively managed bonds and debentures is 'BBB' or equivalent. At December 31, the concentration of credit ratings of the bonds and debentures were as follows:

2016	AAA	AA	A	BBB	Total
Leith Wheeler	25.0%	34.8%	30.5%	9.7%	100%
BlackRock	28.8%	10.8%	51.9%	8.5%	100%

2015	AAA	AA	A	BBB	Total
Leith Wheeler	33.3%	30.3%	28.0%	8.4%	100%
BlackRock	32.0%	7.7%	52.0%	8.3%	100%

The Plan's concentration limits are also restricted by the SIP&P. At December 31, the Plan's fixed income investment concentration was as follows:

2016	Corporate	Provincial	Federal	Municipal	Total
Leith Wheeler	\$ 10,472,622	\$ 17,505,862	\$ 7,491,031	\$ 1,073,947	\$ 36,543,462
BlackRock	22,429,361	51,862,907	21,830,712	2,464,436	98,587,416
Total	\$ 32,901,983	\$ 69,368,769	\$ 29,321,743	\$ 3,538,383	\$ 135,130,878
	24.4%	51.3%	21.7%	2.6%	100%

CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

Notes to Financial Statements, page 10

Year ended December 31, 2016

4. Risk management (continued):

(a) Credit risk (continued)

2015	Corporate	Provincial	Federal	Municipal	T-bills	Total
Leith						
Wheeler	\$ 9,263,323	\$ 17,288,501	\$ 8,116,148	\$ 865,346	\$ 214,699	\$ 35,748,017
BlackRock	21,412,997	49,989,579	22,530,788	2,274,463	–	96,207,827
Total	\$ 30,676,320	\$ 67,278,080	\$ 30,646,936	\$ 3,139,809	\$ 214,699	\$ 131,955,844
	23.2%	51.0%	23.2%	2.4%	0.2%	100%

(b) Liquidity risk:

Liquidity risk is the risk that the Plan will not be able to meet its financial obligations as they become due because of an inability to liquidate assets. With the exception of the bond holdings managed by Leith Wheeler, the investments are exposed to daily cash redemptions of redeemable units. Therefore, the fund managers invest the majority of their assets in investments that are traded in active markets and can be readily disposed of to meet any liquidity needs. Bonds in the Leith Wheeler segregated account are traded in active markets and can be readily disposed of to meet liquidity needs.

As at December 31, 2016, accounts payable and accrued liabilities and termination and pension benefits payable are due within one year.

(c) Foreign currency risk:

Foreign currency risk is the risk that the fair value of future cash flows of an investment will fluctuate because of changes in foreign currency rates. Investments denominated in currencies other than the Canadian dollar expose the Plan to fluctuations in foreign exchange rates. Fluctuations in the relative value of foreign currencies against the Canadian dollar can result in a significant impact on the fair value of investments.

CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

Notes to Financial Statements, page 11

Year ended December 31, 2016

4. Risk management (continued):

(c) Foreign currency risk (continued):

The SIP&P limits the foreign currency risk by restricting the asset mix to a maximum foreign equity investment of 53% (note 8). The Plan is exposed to foreign currency risk through its investments in US and international equities. To limit foreign currency exposure, as at December 31, 2016 and 2015, the Plan was invested in a hedged US equity pooled fund. The Plan's exposure to foreign currency arises from its investment in international equities as follows:

Currency	2016	2015
US Dollars	\$ 17,966,613	\$ 11,445,636
Euro	16,321,050	9,020,071
Japanese Yen	8,405,218	5,874,416
British Pound	6,857,533	3,789,946
Chinese Yuan	3,486,963	–
Swiss Franc	2,550,929	1,743,375
South African Rand	2,526,459	–
South Korean Won	2,394,034	–
Hong Kong Dollars	2,104,363	1,894,973
Thai Baht	1,574,338	–
Brazilian Real	1,353,150	–
Russian Ruble	1,197,017	–
Other currencies	7,446,739	4,131,040
	\$ 74,184,406	\$ 37,899,457

As at December 31, 2016, if the Canadian dollar had strengthened or weakened by 10% in relation to all foreign currencies, with all other variables held constant, the Plan's net assets would have increased or decreased respectively, by approximately \$7.4 million (2015 - \$3.8 million).

(d) Interest rate risk:

Interest rate risk pertains to the effect on the market value of the Plan's assets and liabilities due to fluctuations in interest rates.

The SIP&P has established restrictions on concentration, which are designed to mitigate the risk of interest rate volatility.

CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

Notes to Financial Statements, page 12

Year ended December 31, 2016

4. Risk management (continued):

(d) Interest rate risk (continued):

The value of the Plan's assets is affected by short-term changes in nominal interest rates. Holding all other factors constant, at December 31, 2016, a 1% increase or decrease in nominal interest rates would result in a decrease or increase in the Plan's net assets of approximately \$21.4 million (2015 - \$18.7 million).

	Fair value	2016 Weighted average term to maturity	Average effective yield	Fair value	2015 Weighted average term to maturity	Average effective yield
BlackRock Pooled Fund:						
Canadian Long Bond Index Fund	\$ 98,587,416	22.51 years	3.22%	\$ 96,207,826	22.74 years	3.13%
Leith Wheeler: Fixed Income Securities	36,543,462	18.95 years	2.82%	35,748,017	12.45 years	2.70%

(e) Price risk:

Price risk is the risk that the fair value of future cash flows of an investment will fluctuate because of changes in market prices (other than those arising from foreign currency risk and interest rate risk), whether those changes are caused by factors specific to an individual investment or its issuer or factors affecting all similar securities traded in the market. All investments present a risk of loss of capital. The maximum risk resulting from investments is equivalent to their fair value. As all of the Plan's investments are carried at fair value with fair value changes recognized in the statement of financial position, all changes in market conditions will directly result in an increase (decrease) in net assets.

At December 31, 2016, had the prices on the respective stock exchanges for equity securities increased or decreased by 10%, with all other variables held constant, net assets would have increased or decreased by approximately \$21.1 million (2015 - \$18.5 million) respectively.

CANADIAN BLOOD SERVICES

DEFINED BENEFIT PENSION PLAN

Notes to Financial Statements, page 13

Year ended December 31, 2016

4. Risk management (continued):

(f) Fair value:

The fair values of investments are determined as described in note 2(b) to the financial statements. The fair values of contributions receivable, accounts payable and accrued liabilities and termination and pension benefits payable approximate their fair value due to the short-term maturity of these instruments. At December 31, the fair values of investments (note 3(a)) have been measured using the following level of price inputs:

2016	Level 1	Level 2	Level 3	Total
Cash	\$ 3,453,877	\$ –	\$ –	\$ 3,453,877
Federal government bonds	–	7,491,031	–	7,491,031
Provincial government bonds	–	17,505,862	–	17,505,862
Municipal government bonds	–	1,073,947	–	1,073,947
Corporate bonds	–	10,472,622	–	10,472,622
Fixed income funds	–	98,587,416	–	98,587,416
Equity funds	148,617,442	62,501,163	–	211,118,605
	\$ 152,071,319	\$ 197,632,041	\$ –	\$ 349,703,360

2015	Level 1	Level 2	Level 3	Total
Cash	\$ 3,132,588	\$ –	\$ –	\$ 3,132,588
Treasury bills	–	214,699	–	214,699
Federal government bonds	–	8,116,148	–	8,116,148
Provincial government bonds	–	17,288,501	–	17,288,501
Municipal government bonds	–	865,346	–	865,346
Corporate bonds	–	9,263,323	–	9,263,323
Fixed income funds*	–	96,207,826	–	96,207,826
Equity funds	128,907,886	56,117,155	–	185,025,041
	\$ 132,040,474	\$ 188,072,998	\$ –	\$ 320,113,472

* Fixed income funds previously disclosed as level 1 are now disclosed as level 2 in the fair value hierarchy. Comparative figures reflect this assessment.

CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

Notes to Financial Statements, page 14

Year ended December 31, 2016

5. Obligations for pension benefits:

An actuarial valuation for funding purposes was performed as of December 31, 2013 by Mercer, a firm of actuaries. The year-end value of pension obligations is based on the most recent going-concern actuarial valuation prepared for funding purposes and has been extrapolated to the year-end reporting date. The next required actuarial valuation for funding purposes will be effective as of December 31, 2016.

A pension obligation of a defined benefit pension plan is the actuarial present value of accrued pension benefits determined by applying best estimate assumptions and the projected benefit method prorated on services.

The assumptions used in determining the actuarial value of accrued pension benefits were developed by reference to expected long-term market conditions and reflect management's long-term best estimate assumptions as follows:

	2016	2015
Inflation rate	2.00%	2.25%
Discount rate	5.50%	6.00%
Salary escalation rate	3.50%	3.75%
Mortality table	CPM 2014-B	CPM 2014-B

6. Administration fees:

Administration fees incurred by the Trustees, including expenses paid by CBS on behalf of the Plan, have been charged to the Plan. Included in other administration fees is a charge of \$27,500 (2015 - \$27,500) by CBS for shared administration fees.

	2016	2015
Investment management fees	\$ 600,162	\$ 651,737
Third party administration fees	697,571	744,350
Investment consulting fees	101,876	102,452
Actuarial fees	79,749	153,899
Custodial fees	61,428	75,305
Legal fees	95,602	88,576
Other administration fees	75,225	82,111
Audit fees	20,340	18,080
	<u>\$ 1,731,953</u>	<u>\$ 1,916,510</u>

CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

Notes to Financial Statements, page 15

Year ended December 31, 2016

7. Accounts payable and accrued liabilities:

At December 31, 2016, included in accounts payable and accrued liabilities is the net amount payable to Canadian Blood Services of \$259,618 (2015 - \$372,152).

8. Capital disclosures:

The capital of the plan is represented by the net assets available for benefits. The main objective of the Plan is to safeguard its ability to continue as a going concern and to maintain adequate assets to meet the pension obligations of the Plan. The Plan fulfills its primary objective by adhering to specific investment policies and objectives outlined in its SIP&P, which is reviewed at least annually by the Board of Trustees. The Plan manages net assets by engaging knowledgeable investment managers who are charged with the responsibility of investing existing funds and new funds (current year's employee and employer contributions) in accordance with the approved SIP&P. The SIP&P was established on February 29, 2000 and last amended effective December 31, 2016.

Increases in net assets available for benefits are a direct result of investment income generated by investments held by the Plan and contributions into the Plan by eligible employees and by CBS. A funding valuation is required to be filed with the Financial Services Commission of Ontario at least every three years. The Plan's Funding Policy is described in note 1(b). There is no change in the way capital is managed in the current year.

CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

Notes to Financial Statements, page 16

Year ended December 31, 2016

8. Capital disclosures (continued):

At December 31, investments for each asset class were as follows:

Assets	SIP&P Minimum %	SIP&P Maximum %	SIP&P Target %	2016	2015
Canadian Equities:					
Active	10%	25%	13%	21%	28%
Foreign Equities:					
US	12%	22%	17%	18%	18%
Non-North American Active	14%	25%	20%	18%	12%
Emerging Markets	0%	6%	4%	4%	0%
Real Estate Assets	0%	8%	6%	0%	0%
Fixed Income:					
Active Canadian Bonds	5%	13%	10%	10%	11%
Passive Canadian Bonds	25%	37%	30%	28%	30%
Short-term Investments	0%	12%	0%	1%	1%

The SIP&P articulates the Plan's overall investment return objective which is a minimum return of CPI plus 3.5% net of expenses measured over ten year cycles. The performance of investment managers is assessed regularly compared to the relevant benchmarks.

CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

Notes to Financial Statements, page 17

Year ended December 31, 2016

8. Capital disclosures (continued):

The benchmark and actual returns were as follows:

Fund	Benchmark	Asset Class	Return Benchmark	Return 2016
BlackRock Hedged U.S. Equity Index Fund	S&P 500 Hedged to \$CAD	U.S. Equity - Passive	11.4%	11.4%
BlackRock Canadian Long Bond Index Fund	FTSE TMX Long Term Bond	Fixed income - Passive	2.5%	2.5%
Leith Wheeler Canadian Equity Fund	S&P/TSX Capped Composite	Canadian equity - Active	21.1%	30.7%
Triasima Canadian Equity Fund	S&P/TSX Capped Composite	Canadian equity - Active	21.1%	9.6%
Harding Loevner International Equity Fund	MSCI ACWI ex US \$CAD	Non-North American - Active	1.4%	2.1%
Schroders Emerging Markets Equity Fund	MSCI Emerging Markets Index \$CAD	Non-North American - Active	-2.1%	-2.2%

Fund	Benchmark	Asset Class	Return Benchmark	Return 2015
BlackRock Hedged U.S. Equity Index Fund	S&P 500 Hedged to \$CAD	U.S. Equity - Passive	0.9%	1.0%
BlackRock Canadian Long Bond Index Fund	FTSE TMX Long Term Bond Value Added	Fixed income - Passive	3.8%	3.7%
Leith Wheeler Canadian Equity Fund	S&P/TSX Capped Composite	Canadian equity - Active	-8.3%	-11.7%
Triasima Canadian Equity	S&P/TSX Capped Composite	Canadian equity - Active	-8.3%	1.4%
Harding Loevner International Equity Fund	MSCI ACWI ex US \$CAD	Non-North American - Active	13.6%	17.5%

CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

Notes to Financial Statements, page 18

Year ended December 31, 2016

8. Capital disclosures (continued):

The Leith Wheeler liability-sensitive bond mandate is assessed based on a duration benchmark, specific to the mandate which is to match the duration of the cash flows of the Plan. The intent of this mandate is to optimally match the sensitivity of a portion of the Plan's investments and liabilities to changes in interest rates. This strategy is being implemented over time as the optimal market conditions exist to extend the duration of the bond mandate. The benchmark used to monitor performance is a custom liability-based benchmark consisting of 75% Ontario Provincial bonds and 25% Government of Canada bonds, matched to the shape of the Plan's cash flows.

The total fund return for 2016 was 8.1% (Benchmark 9.4%) (2015 - 2.3% (Benchmark - 0.6%)).

9. Contributions:

Pursuant to the filed actuarial valuation as at December 31, 2013, the Plan was in a going concern deficit and special payments, shared equally between employer and members, are required. Effective January 1, 2015, members required contribution of 5.9% of pensionable salaries and employer contribution of 7.9% of pensionable salaries, covering current service cost and special payments are required until the next filed valuation

Contributions to the Plan comprised:

	2016	2015
Employer:		
Current service	\$ 11,828,799	\$ 11,801,717
Special payments	307,242	306,538
	12,136,041	12,108,255
Members:		
Current service	8,202,636	8,221,693
Special payments	287,812	288,481
	8,490,448	8,510,174
Total contributions	\$ 20,626,489	\$ 20,618,429

No contributions remain past due as at December 31.

CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

Notes to Financial Statements, page 19

Year ended December 31, 2016

10. Statutory disclosure:

The following information is provided in respect of individual investments with a cost or fair value in excess of 1% of the cost or fair value of the investments held, as required by the Pension Benefits Act (Ontario).

Fund Name	Fund Operator	Nature of Investments	2016 Market Value	2015 Market Value
BlackRock Long Bond Index Fund	BlackRock Asset Management Canada Ltd.	Fixed income	\$ 98,587,416	\$ 96,207,826
BlackRock Hedged U.S. Equity Index Fund	BlackRock Asset Management Canada Ltd.	Hedged fund	62,501,163	56,117,155
Leith Wheeler Canadian Equity Fund	Leith Wheeler Investment Counsel Ltd.	Canadian equity	35,386,205	38,017,324
Canadian Government Series 3.5%	Leith Wheeler Investment Counsel Ltd.	Fixed income	2,672,773	3,291,144
Triasima Canadian Equity Fund	Triasima Portfolio Management Inc.	Canadian equity	39,046,831	52,991,105
Harding Loevner International Equity Fund	Harding Loevner	Foreign equity	61,173,351	37,899,457
Schroders Emerging Markets Equity Fund	Schroders	Emerging market	13,011,055	–
Province of Ontario Series 3.5%	Leith Wheeler Investment Counsel Ltd.	Fixed income	3,327,083	892,797
			\$ 315,705,877	\$ 285,416,808