

Financial Statements of

**CANADIAN BLOOD SERVICES  
DEFINED BENEFIT PENSION PLAN**

Year ended December 31, 2018



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## INDEPENDENT AUDITORS' REPORT

To the Members of the Canadian Blood Services Defined Benefit Pension Plan

### *Opinion*

We have audited the financial statements of the Canadian Blood Services Defined Benefit Pension Plan (the "Plan"), which comprise:

- the statement of financial position as at December 31, 2018
- the statement of changes in net assets available for benefits for the year then ended
- the statement of changes in pension obligations for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Plan as at December 31, 2018, and the changes in net assets available for benefits and changes in the pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

### *Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Plan in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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



## ***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Plan's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Plan or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Plan's financial reporting process.

## ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Plan's internal control.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Plan's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Plan to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*KPMG LLP*

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Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada

May 29, 2019

# CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

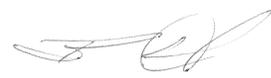
Statement of Financial Position

As at December 31, 2018, with comparative information for 2017

	2018	2017
<b>Assets</b>		
Contributions receivable:		
Employer - current service	\$ 268,961	\$ 216,677
Members - current service	190,274	151,914
Other amounts receivable	105,391	165,004
Accrued interest receivable	218,965	197,233
Investments (notes 3, 4 and 10)	380,951,522	397,783,881
	<u>381,735,113</u>	<u>398,514,709</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities (note 7)	966,131	1,048,668
Termination and pension benefits payable	1,254,778	1,279,079
	<u>2,220,909</u>	<u>2,327,747</u>
Net assets available for benefits	379,514,204	396,186,962
Pension obligations (note 5)	387,003,393	351,175,533
Surplus (deficit)	<u>\$ (7,489,189)</u>	<u>\$ 45,011,429</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, 2018, with comparative information for 2017

	2018	2017
Increase in assets:		
Contributions (note 8):		
Employer	\$ 11,971,137	\$ 11,558,125
Members	8,406,000	8,055,798
	<u>20,377,137</u>	<u>19,613,923</u>
Transfer in	96,373	96,567
Change in fair value (note 3(c)):		
Net realized gain on sales of investments	7,320,415	27,638,488
Change in net unrealized gains and losses	(37,555,175)	8,841,658
	<u>(30,234,760)</u>	<u>36,480,146</u>
Investment income (note 3(c))	10,315,426	9,059,838
Total increase in assets	<u>554,176</u>	<u>65,250,474</u>
Decrease in assets:		
Pension benefits	10,294,658	9,497,755
Termination benefits	4,668,945	5,092,974
Death benefits	164,602	868,277
Administration fees (note 6)	2,098,729	2,085,982
Total decrease in assets	<u>17,226,934</u>	<u>17,544,988</u>
Increase (decrease) in net assets available for benefits	<u>(16,672,758)</u>	<u>47,705,486</u>
Net assets available for benefits, beginning of year	396,186,962	348,481,476
Net assets available for benefits, end of year	<u>\$ 379,514,204</u>	<u>\$ 396,186,962</u>

See accompanying notes to financial statements.

# CANADIAN BLOOD SERVICES

## DEFINED BENEFIT PENSION PLAN

### Statement of Changes in Pension Obligations

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Increase in pension obligations:		
Interest on accrued benefits	\$ 19,258,092	\$ 18,375,035
Benefits accrued	18,855,920	19,567,002
Changes in actuarial assumptions	7,524,094	–
Actuarial experience losses revealed through formal valuation	361,512	–
Change in provision for adverse deviation	4,956,447	–
<b>Total increase in pension obligations</b>	<b>50,956,065</b>	<b>37,942,037</b>
Decrease in pension obligations:		
Pension, termination and death payments	15,128,205	15,459,006
Changes in actuarial assumptions	–	4,835,678
Actuarial experience losses revealed through formal valuation	–	4,310,726
<b>Total decrease in pension obligations</b>	<b>15,128,205</b>	<b>24,605,410</b>
<b>Net increase in pension obligations</b>	<b>35,827,860</b>	<b>13,336,627</b>
Pension obligations, beginning of year	351,175,533	337,838,906
<b>Pension obligations, end of year</b>	<b>\$ 387,003,393</b>	<b>\$ 351,175,533</b>

See accompanying notes to financial statements.

# CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

Notes to Financial Statements

Year ended December 31, 2018

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## 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.

### (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 (continued)

Year ended December 31, 2018

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## 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 (continued)

Year ended December 31, 2018

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## 2. Significant accounting policies (continued):

### (b) Investments (continued):

Real estate funds consist mainly of investments in segregated funds in Canada. The estimated fair value of these funds is determined through real estate appraisals by independent and accredited appraisers on at least an annual basis.

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.

# CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2018

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## 2. Significant accounting policies (continued):

### (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.

### (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 (continued)

Year ended December 31, 2018

## 3. Investments:

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

	Market value 2018		Market value 2017	
Custodian:				
Cash	\$ 5,321,652	1.4%	\$ 3,195,901	0.8%
BlackRock Pooled Funds:				
Hedged U.S. Equity Index Fund	71,357,236	18.7%	75,748,660	19.0%
Canadian Long Bond Index Fund	105,759,365	27.7%	105,518,624	26.5%
Harding Loevner:				
International Equity Fund	70,071,491	18.4%	74,714,315	18.8%
Schroders:				
Emerging Market Equity Fund	16,074,416	4.2%	17,282,468	4.3%
Triasima:				
Canadian Equity Fund	36,168,301	9.5%	43,938,614	11.0%
Leith Wheeler:				
Canadian Equity Fund	34,501,890	9.1%	38,952,909	9.9%
Federal Government Bonds	7,085,261	1.9%	7,167,426	1.8%
Provincial Government Bonds	17,406,431	4.6%	17,656,944	4.4%
Municipal Government Bonds	1,014,467	0.3%	1,056,613	0.3%
Corporate Bonds	13,099,095	3.4%	12,551,407	3.2%
Great West Life:				
Real Estate Fund	3,091,917	0.8%	–	0.0%
	\$ 380,951,522	100.0%	\$ 397,783,881	100.0%

# CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2018

### 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 2018		Book value 2017	
Custodian:				
Cash	\$ 5,321,652	1.4%	\$ 3,195,901	0.9%
BlackRock Pooled Funds:				
Hedged U.S. Equity Index Fund	77,016,605	20.4%	70,167,364	19.7%
Canadian Long Bond Index Fund	109,286,937	29.0%	105,222,817	29.5%
Harding Loevner:				
International Equity Portfolio	56,522,678	15.0%	55,507,404	15.6%
Schroders:				
Emerging Market Equity Fund	16,696,539	4.4%	15,440,403	4.3%
Triasima:				
Canadian Equity Fund	38,714,227	10.3%	38,773,555	10.9%
Leith Wheeler:				
Canadian Equity Fund	31,676,253	8.4%	30,444,135	8.5%
Federal Government Bonds	6,984,660	1.9%	7,122,727	2.0%
Provincial Government Bonds	17,383,963	4.6%	16,942,632	4.8%
Municipal Government Bonds	994,090	0.3%	994,090	0.3%
Corporate Bonds	13,375,173	3.5%	12,438,933	3.5%
Great West Life:				
Real Estate	3,000,000	0.8%	–	0.0%
	<b>\$ 376,972,777</b>	<b>100.0%</b>	<b>\$ 356,249,961</b>	<b>100.0%</b>

# CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2018

### 3. Investments (continued):

#### (c) Investment income:

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

2018	Investment Income	Change in net unrealized gain (loss)	Net realized gain (loss)	Total investment income
BlackRock Pooled Funds:				
Hedged U.S. Equity Index Fund	\$ 1,496,501	\$ (11,240,665)	\$ 5,352,741	\$ (4,391,423)
Long Bond Index Fund	3,950,675	(3,823,379)	113,444	240,740
Harding Loevner:				
International Equity Portfolio	1,030,727	(5,658,097)	2,433	(4,624,937)
Schroders:				
Emerging Market Equity Funds	466,898	(2,464,188)	789,238	(1,208,052)
Triasima:				
Canadian Equity Fund	824,753	(7,710,985)	1,115,918	(5,770,314)
Leith Wheeler:				
Canadian Equity Fund	1,232,118	(5,683,138)	(3,652)	(4,454,672)
Federal Government Bonds	205,213	42,924	(34,117)	214,020
Provincial Government Bonds	545,532	(678,867)	3,586	(129,749)
Municipal Government Bonds	69,664	(42,146)	–	27,518
Corporate Bonds	493,345	(388,551)	(19,176)	85,618
Great West Life:				
Real Estate	–	91,917	–	91,917
	\$ 10,315,426	\$ (37,555,175)	\$ 7,320,415	\$(19,919,334)

# CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2018

## 3. Investments (continued):

(c) Investment income (continued):

2017	Investment Income	Change in net unrealized gain (loss)	Net realized gain (loss)	Total investment income
Custodian:				
Cash	\$ 15	\$ –	\$ –	\$ 15
BlackRock Pooled Funds:				
Hedged U.S. Equity Index Fund	1,587,967	(12,668,256)	24,327,785	13,247,496
Long Bond Index Fund	3,713,995	2,868,138	349,075	6,931,208
Harding Loevner:				
International Equity Portfolio	669,560	11,834,140	579,246	13,082,946
Schroders:				
Emerging Market Equity Funds	429,254	2,043,672	1,797,213	4,270,139
Triasima:				
Canadian Equity Fund	535,453	1,495,748	524,820	2,556,021
Leith Wheeler:				
Canadian Equity Fund	783,844	2,782,860	–	3,566,704
Federal Government Bonds	198,265	(101,798)	164,793	261,260
Provincial Government Bonds	680,461	502,814	(82,591)	1,100,684
Municipal Government Bonds	–	16,151	20,220	36,371
Corporate Bonds	461,024	68,189	(42,073)	487,140
	\$ 9,059,838	\$ 8,841,658	\$ 27,638,488	\$ 45,539,984

# CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2018

## 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.

### (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:

2018	AAA	AA	A	BBB	Total
Leith Wheeler	18.6%	44.3%	27.6%	9.5%	100.0%
BlackRock	26.7%	21.6%	42.2%	9.5%	100.0%
2017	AAA	AA	A	BBB	Total
Leith Wheeler	20.8%	38.4%	30.9%	9.9%	100.0%
BlackRock	27.0%	20.6%	43.7%	8.7%	100.0%

# CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2018

## 4. Risk management (continued):

### (a) Credit risk (continued):

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:

2018	Corporate	Provincial	Federal	Municipal	Total
Leith Wheeler	\$ 13,099,095	\$ 17,406,431	\$ 7,085,261	\$ 1,014,467	\$ 38,605,254
BlackRock	24,144,079	56,204,946	22,782,051	2,628,289	105,759,365
<b>Total</b>	<b>\$ 37,243,174</b>	<b>\$ 73,611,377</b>	<b>\$ 29,867,312</b>	<b>\$ 3,642,756</b>	<b>\$ 144,364,619</b>
	25.8%	51.0%	20.7%	2.5%	100.0%

2017	Corporate	Provincial	Federal	Municipal	Total
Leith Wheeler	\$ 12,551,407	\$ 17,656,944	\$ 7,167,426	\$ 1,056,613	\$ 38,432,390
BlackRock	24,425,607	56,593,070	21,760,030	2,739,917	105,518,624
<b>Total</b>	<b>\$ 36,977,014</b>	<b>\$ 74,250,014</b>	<b>\$ 28,927,456</b>	<b>\$ 3,796,530</b>	<b>\$ 143,951,014</b>
	25.7%	51.6%	20.1%	2.6%	100.0%

### (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 and real estate holdings managed by Great West Life, 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 portfolio are held directly and are traded in active markets and can be readily disposed of to meet liquidity needs. The Great-Est Life Real Estate Fund offers daily liquidity with a 5-day notice period and make up less than 1% of total investments.

As at December 31, 2018, accounts payable and accrued liabilities and termination and pension benefits payable are due within one year.

# CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2018

## 4. Risk management (continued):

### (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.

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, 2018 and 2017, 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	2018	2017
US Dollars	\$ 19,486,882	\$ 21,936,123
Euro	18,393,766	20,292,408
Japanese Yen	9,943,145	10,295,633
Chinese Yuan	4,822,325	5,150,175
Swiss Franc	4,708,804	2,420,744
British Pound	4,421,511	7,082,917
Swedish Krona	2,774,831	2,196,601
Hong Kong Dollars	2,746,802	3,197,773
South Korean Won	2,652,279	3,266,386
South African Rand	2,648,702	3,675,944
Thai Baht	1,623,516	1,814,659
Brazilian Real	1,591,367	1,399,880
Russian Ruble	948,391	1,348,033
Other currencies	9,383,586	7,919,507
	\$ 86,145,907	\$ 91,996,783

As at December 31, 2018, 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 \$8.6 million (2017 - \$9.2 million).

# CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2018

## 4. Risk management (continued):

### (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.

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, 2018, a 1% increase or decrease in nominal interest rates would result in a decrease or increase in the Plan's net assets of approximately \$22.8 million (2017 - \$23.0 million).

		2018	Average		2017	Average
	Fair	Weighted	effective	Fair	Weighted	effective
	value	average	yield	value	average	yield
		term to			term to	
		maturity			maturity	
BlackRock Pooled Fund:						
Canadian Long Bond Index Fund	\$ 105,759,365	22.3 years	3.18%	\$105,518,624	22.44 years	2.99%
Leith Wheeler:						
Fixed Income Securities	38,824,219	18.6 years	3.03%	38,629,623	18.60 years	2.79%

### (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, 2018, 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 \$22.8 million (2017 - \$25.1 million) respectively.

# CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2018

## 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:

2018	Level 1	Level 2	Level 3	Total
Cash	\$ 5,321,652	\$ –	\$ –	\$ 5,321,652
Federal government bonds	–	7,085,261	–	7,085,261
Provincial government bonds	–	17,406,431	–	17,406,431
Municipal government bonds	–	1,014,467	–	1,014,467
Corporate bonds	–	13,099,095	–	13,099,095
Fixed income funds	–	105,759,365	–	105,759,365
Equity funds	156,816,098	71,357,236	–	228,173,334
Real Estate	–	–	3,091,917	3,091,917
	\$ 162,137,750	\$ 215,721,855	\$ 3,091,917	\$ 380,951,522

2017	Level 1	Level 2	Level 3	Total
Cash	\$ 3,195,901	\$ –	\$ –	\$ 3,195,901
Federal government bonds	–	7,167,426	–	7,167,426
Provincial government bonds	–	17,656,944	–	17,656,944
Municipal government bonds	–	1,056,613	–	1,056,613
Corporate bonds	–	12,551,407	–	12,551,407
Fixed income funds	–	105,518,624	–	105,518,624
Equity funds	174,888,306	75,748,660	–	250,636,966
	\$ 178,084,207	\$ 219,699,674	\$ –	\$ 397,783,881

# CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2018

## 4. Risk management (continued):

The table below reconciles the Plan's Level 3 investments from December 31, 2017 to December 31, 2018:

	December 31, 2017	Purchases	Sales/ Redemptions	Realized gain/(loss)	Change in unrealized gain/(loss)	December 31, 2018
Real estate	\$ -	\$ 3,000,000	\$ -	\$ -	\$ 91,917	\$ 3,091,917

During 2018, there were no transfers of assets into or out of Level 3.

## 5. Obligations for pension benefits:

An actuarial valuation for funding purposes was performed as of December 31, 2017 by Mercer, a firm of actuaries. This valuation has been prepared in accordance with the new Ontario pension plan funding regulations which were effective on May 1, 2018. 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. In addition, and as required under the new funding regulations, the Plan has included a prescribed provision for adverse deviation (Pfad) as determined by the Plan's asset mix. The impact of the Pfad on the most recent funding valuation has been included in the Statement of Changes in Pension Obligation as a change in provision for adverse deviation. The next required actuarial valuation for funding purposes will be effective as of December 31, 2020.

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:

	2018	2017
Inflation rate	2.00%	2.00%
Discount rate	5.75%	5.50%
Salary escalation rate	3.50%	3.50%
Mortality table	110 % of CPM 2014-B	CPM 2014-B

# CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2018

## 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 \$30,000 (2017 - \$27,500) by CBS for shared administration fees.

	2018	2017
Investment management fees	\$ 807,400	\$ 756,775
Third party administration fees	759,056	848,325
Investment consulting fees	114,908	103,154
Actuarial fees	149,439	125,677
Custodial fees	65,773	52,128
Legal fees	110,758	94,812
Other administration fees	67,834	81,205
Audit fees	23,561	23,906
	\$ 2,098,729	\$ 2,085,982

## 7. Accounts payable and accrued liabilities:

At December 31, 2018, included in accounts payable and accrued liabilities is the net amount payable to Canadian Blood Services of \$306,377 (2017 - \$410,352).

## 8. Contributions:

Pursuant to the filed actuarial valuation as at December 31, 2016, the Plan was in a going concern deficit and special payments, shared equally between employer and members, are required. Effective December 25, 2017, members and employers were required to make contributions of 6.1% and 8.1%, respectively, of pensionable salaries, covering current service cost through to December 23, 2018.

Pursuant to the filed actuarial valuation as at December 31, 2017, the Plan was in a going concern surplus and no special payments are required. Effective December 24, 2018, members and employers are required to make contributions of 6.35% and 8.35%, respectively, of pensionable salaries, covering current service cost until the next filed valuation.

# CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2018

## 8. Contributions (continued):

Contributions to the Plan comprised:

	2018	2017
Employer:		
Current service	\$ 11,971,137	\$ 11,265,514
Special payments	–	292,611
	11,971,137	11,558,125
Members:		
Current service	8,406,000	7,782,720
Special payments	–	273,078
	8,406,000	8,055,798
<b>Total contributions</b>	<b>\$ 20,377,137</b>	<b>\$ 19,613,923</b>

No contributions remain past due as at December 31.

## 9. 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, 2018.

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 (continued)

Year ended December 31, 2018

## 9. Capital disclosures (continued):

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

Assets	SIP&P Minimum %	SIP&P Maximum %	SIP&P Target %	2018	2017
Canadian Equities:					
Active	10%	25%	13%	19%	21%
Foreign Equities:					
US	12%	22%	17%	19%	19%
Non-North American Active	14%	25%	20%	18%	19%
Emerging Markets	0%	6%	4%	4%	4%
Real Estate Assets	0%	8%	6%	1%	0%
Fixed Income:					
Active Canadian Bonds	5%	13%	10%	10%	10%
Passive Canadian Bonds	25%	37%	30%	28%	26%
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 (continued)

Year ended December 31, 2018

## 9. Capital disclosures (continued):

The 2018 benchmark and actual returns were as follows:

Fund	Benchmark	Asset Class	Return Benchmark	Return 2018
BlackRock Hedged U.S. Equity Index Fund	S&P 500 Hedged to \$CAD	U.S. Equity - Passive	(5.7)%	(5.8)%
BlackRock Canadian Long Bond Index Fund	FTSE TMX Long Term Bond	Fixed income - Passive	0.3%	0.2%
Leith Wheeler Canadian Equity Fund	S&P/TSX Capped Composite	Canadian equity - Active	(8.9)%	(11.4)%
Leith Wheeler Canadian Bonds	Blended Benchmark	Fixed income - Passive	0.6%	0.6%
Triasima Canadian Equity Fund	S&P/TSX Capped Composite	Canadian equity - Active	(8.9)%	(14.0)%
Harding Loevner International Equity Fund	MSCI ACWI ex US \$CAD	Non-North American - Active	(6.0)%	(6.2)%
Schroders Emerging Markets Equity Fund	MSCI Emerging Markets Index \$CAD	Non-North American - Active	(6.6)%	(7.0)%

The 2017 benchmark and actual returns were as follows:

Fund	Benchmark	Asset Class	Return Benchmark	Return 2017
BlackRock Hedged U.S. Equity Index Fund	S&P 500 Hedged to \$CAD	U.S. Equity - Passive	21.2%	21.2%
BlackRock Canadian Long Bond Index Fund	FTSE TMX Long Term Bond	Fixed income - Passive	7.0%	7.0%
Leith Wheeler Canadian Equity Fund	S&P/TSX Capped Composite	Canadian equity - Active	9.1%	10.1%
Leith Wheeler Canadian Bonds	Blended Benchmark	Fixed income - Passive	5.7%	5.3%
Triasima Canadian Equity Fund	S&P/TSX Capped Composite	Canadian equity - Active	9.1%	6.3%
Harding Loevner International Equity Fund	MSCI ACWI ex US \$CAD	Non-North American - Active	19.4%	21.3%
Schroders Emerging Markets Equity Fund	MSCI Emerging Markets Index \$CAD	Non-North American - Active	28.7%	32.8%

# CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2018

## 9. 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 2018 was (5.0)% (Benchmark (3.7%)) (2017 - 13.0% (Benchmark - 12.0%)).

## 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	2018 Market Value	2017 Market Value
BlackRock Long Bond Index Fund	BlackRock Asset Management Canada Ltd.	Fixed income	\$ 105,759,365	\$ 105,518,624
BlackRock Hedged U.S. Equity Index Fund	BlackRock Asset Management Canada Ltd.	Hedged fund	71,357,236	75,748,660
Harding Loevner International Equity Fund	Harding Loevner	Foreign equity	70,071,491	74,714,315
Triasima Canadian Equity Fund	Triasima Portfolio Management Inc.	Canadian equity	36,168,301	43,938,614
Leith Wheeler Canadian Equity Fund	Leith Wheeler Investment Counsel Ltd.	Canadian equity	34,501,890	38,952,909
Schroders Emerging Markets Equity Fund	Schroders	Emerging market	16,074,416	17,282,468
			\$ 333,932,699	\$ 356,155,590