CANADA POST | POSTES CANADA

Canada Post Corporation

Registered Pension Plan

2022 Financial Statements

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Management's Responsibility for Financial Reporting

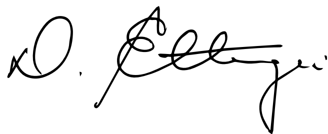
The financial statements of the Canada Post Corporation Registered Pension Plan (the Plan) have been prepared by management, which is responsible for the integrity and fairness of the data presented therein. The accounting policies followed in the preparation of these financial statements conform to Canadian Accounting Standards for Pension Plans. Where appropriate, the financial statements include amounts based on management's best estimates and judgments.

In support of its responsibilities, management maintains systems of internal control and supporting procedures to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. These controls include quality standards in hiring and training, the establishment of an organizational structure that provides a well-defined division of responsibilities and accountability for performance, and the communication of policies and guidelines. The Internal Audit group plans audits and reviews of pension activities as warranted through annual risk assessments.

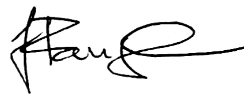
Ultimate responsibility for the financial statements rests with the Canada Post Corporation Board of Directors. The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal control principally through the Audit Committee and the Pension Committee. The Audit Committee oversees the internal audit activities of the Plan, reviews the annual financial statements and the external auditor's report, and recommends them to the Board of Directors for approval. The Pension Committee, which is composed of the Chairperson of the Board of Directors of Canada Post Corporation and four directors who are not employees of the Corporation, meets regularly with management to satisfy itself that the delegated responsibilities are properly discharged.

The Plan's actuary, Mercer (Canada) Limited, completed an actuarial assessment of the assets and going-concern obligations of the Plan as of December 31, 2022, for inclusion in the Plan's financial statements. The results of the actuaries' assessment are set out in the actuaries' opinion. This assessment was performed in accordance with accepted actuarial practice. The actuarial assumptions used in these financial statements reflect management's best estimate of future economic events.

The Plan's external auditors, Ernst & Young LLP, conducted an independent audit of the financial statements in accordance with Canadian generally accepted auditing standards and performed such tests and other procedures as they considered necessary to express an opinion. The external auditors have access to the Audit and Pension Committees to discuss their audit and related findings as to the fairness of the Plan's financial reporting and any internal control recommendations observed during the audit.



Doug Ettinger
President and Chief Executive Officer
March 23, 2023



Jan Faryaszewski
Chief Financial Officer
March 23, 2023

Actuaries’ Opinion

Ottawa
March 23, 2023

Mercer (Canada) Limited was retained by Canada Post Corporation to perform an actuarial assessment of the assets and going-concern obligations of the Registered Pension Plan as of December 31, 2022, for inclusion in the Plan’s financial statements.

The objective of the financial statements is to fairly present the financial position of the Plan as of December 31, 2022, as a going concern. While the actuarial assumptions used to estimate obligations for the Plan’s financial statements reflect management’s expectations of future events, and while in our opinion these assumptions are reasonable, the Plan’s future experience will inevitably differ, perhaps significantly, from the actuarial assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations, and will affect the financial position of the Plan at that time, as well as the contributions required to fund it.

As part of our assessment, we examined the Plan’s recent experience relative to the economic and non-economic assumptions and presented our findings to management. In addition, we provided management with statistical, survey and other information used to develop its long-term assumptions.

Our assessment of the Plan’s actuarial assets and obligations was based on:

- an extrapolation to December 31, 2022, of the results of our December 31, 2021, actuarial valuation of the Plan’s going-concern obligations;
- pension fund data provided by Canada Post Corporation as of December 31, 2022;
- standards prescribed by the Chartered Professional Accountants of Canada for pension plan financial statements; and
- Assumptions about future events that have been developed by management and Mercer (Canada) Limited, which reflect management’s expectations of these events.

We have tested the membership and pension fund data for reasonableness and consistency, and we believe it to be sufficient and reliable for the purposes of the valuation. We also believe that the assumptions and methods employed in the valuation and extrapolation are, on the whole, appropriate. Our opinions have been given and our valuation performed in accordance with accepted actuarial practice.

Cory Skinner
Fellow of the Canadian Institute of Actuaries
Fellow of the Society of Actuaries

Frédéric Gendron
Fellow of the Canadian Institute of Actuaries
Fellow of the Society of Actuaries

Mercer (Canada) Limited

Independent Auditor's Report

To the Board of Directors of Canada Post Corporation

Opinion

We have audited the financial statements of the Canada Post Corporation Registered Pension Plan (the "Plan"), which comprise the statement of financial position as at December 31, 2022, the statement of changes in net assets available for benefits, statement of changes in pension obligations and statement of changes in surplus for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects the financial position of the Plan as at December 31, 2022, and its changes in net assets available for benefits, its changes in pension obligations and its changes in surplus 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 *Auditor's responsibilities for the audit of the financial statements* section of our 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.

Other information

Management is responsible for the other information. The other information comprises the information included in the 2022 Annual Report to Members, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

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 has no realistic alternative but to do so.

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

Auditor's 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 auditor's 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 these 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 auditor's 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 auditor's 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.

We 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.

Ottawa, Canada
March 23, 2023

Chartered Professional Accountants
Licensed Public Accountants

Financial Statements

Statement of Financial Position

As at December 31 *(in millions of dollars)*	**2022**	2021
Net assets available for benefits		
Assets		
Investments (notes 5 and 6)	**$ 29,584**	$ 32,397
Investment-related receivables (note 5)	**247**	216
Contributions and other receivables (note 7)	**118**	114
	29,949	32,727
Liabilities		
Investment-related liabilities (note 5)	**187**	149
Accounts payable and accrued liabilities (notes 8 and 18)	**48**	41
	235	190
Net assets available for benefits	**$ 29,714**	$ 32,537
Pension obligations and surplus		
Pension obligations (note 14)	**$ 24,365**	$ 25,083
Surplus	**5,349**	7,454
Pension obligations and surplus	**$ 29,714**	$ 32,537

See accompanying notes to the financial statements.

Approved on behalf of the Board

Suromitra Sanatani
Chairperson of the Board of Directors

Claude Germain
Chairperson of the Audit Committee

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31 *(in millions of dollars)*	**2022**	2021
Net assets available for benefits, beginning of year	**$ 32,537**	$ 29,757
Increase in assets		
Investment income (note 10)	**897**	948
Changes in fair values of investment assets and liabilities (note 10)	**–**	2,408
Sponsor contributions (note 11)	**372**	377
Members contributions (note 11)	**310**	308
	1,579	4,041
Decrease in assets		
Changes in fair values of investment assets and liabilities (note 10)	**3,073**	–
Retirement and survivor pension benefits (note 12)	**1,079**	1,029
Commuted value transfers and other lump sum payments (note 12)	**101**	87
Administration expenses (notes 13 and 18)	**149**	145
	4,402	1,261
Increase (decrease) in net assets available for benefits	**(2,823)**	2,780
Net assets available for benefits, end of year	**$ 29,714**	$ 32,537

See accompanying notes to the financial statements.

Statement of Changes in Pension Obligations

For the year ended December 31 *(in millions of dollars)*	**2022**	2021
Pension obligations, beginning of year	**$ 25,083**	$ 24,149
Increase in pension obligations		
Interest on pension obligations	**1,180**	1,141
Benefits accrued	**647**	685
Changes in plan provisions (note 14.b)	**776**	–
Changes in actuarial assumptions (note 14.b)	**–**	9
Experience losses (note 14.c)	**341**	215
	2,944	2,050
Decrease in pension obligations		
Retirement and survivor pension benefits (note 12)	**1,079**	1,029
Commuted value transfers and other lump sum payments (note 12)	**101**	87
Changes in actuarial assumptions (note 14.b)	**2,482**	–
	3,662	1,116
Net increase (decrease) in pension obligations	**(718)**	934
Pension obligations, end of year	**$ 24,365**	$ 25,083

Statement of Changes in Surplus

For the year ended December 31 *(in millions of dollars)*	**2022**	2021
Surplus, beginning of year	**$ 7,454**	$ 5,608
Increase (decrease) in net assets available for benefits	**(2,823)**	2,780
Net decrease (increase) in pension obligations	**718**	(934)
Surplus, end of year	**$ 5,349**	$ 7,454

See accompanying notes to the financial statements.

Notes to the Financial Statements

1. Plan description

The following description of the Canada Post Corporation Registered Pension Plan (the Plan) is a summary only. An exact and complete description of the Plan provisions can be found in the official Plan document. If there is any conflict between this summary and the official Plan document, the official Plan document will govern.

a) General

The Plan is registered with the Canada Revenue Agency (CRA) under registration number 1063874. The Plan is a registered pension plan as defined in the *Income Tax Act* (ITA) and as such is not subject to income taxes on contributions or investment income received. The Plan is also registered with the Office of the Superintendent of Financial Institutions Canada (OSFI) under registration number 57136, and is subject to the *Pension Benefits Standards Act, 1985* (PBSA), and the regulations thereunder. Canada Post Corporation (the Corporation or Sponsor) sponsors and administers the Plan.

The Plan comprises both a defined benefit (DB) component and a defined contribution (DC) component. The DB component was established by the Corporation effective October 1, 2000, and covered all eligible employees. Effective January 1, 2010, the Corporation established the DC component for all newly hired Management and Exempt employees, along with those newly hired unionized employees who later transfer to a Management and Exempt position. As of June 1, 2014, all newly hired Union of Postal Communication Employees (UPCE) along with those newly hired unionized employees who later transfer to a UPCE position joined the DC component.

As of March 1, 2015, all newly hired Association of Postal Officials of Canada (APOC) employees along with those newly hired unionized employees who later transfer to an APOC position joined the DC component. As of September 1, 2016, all newly hired Canadian Postmasters and Assistants Association (CPAA) employees along with those newly hired unionized employees who later transfer to a CPAA position joined the DC component. Employees actively participating in the Canada Post Group RSP joined the DC component of the Plan on March 1, 2018.

The Plan is domiciled in Canada. The address of the Plan's registered office is 2701 Riverside Drive, Ottawa, Ontario.

A separate Supplementary Retirement Arrangement (SRA) (note 15) has been established by the Corporation to provide for benefits that exceed the maximum amount allowable under the ITA for registered pension plans.

b) Benefits

i. Defined benefit component

Retirement pensions
A member is eligible for pension benefits immediately upon joining the Plan. A retirement pension is available based on pensionable service, the highest average pensionable earnings for five consecutive years of employment, and the age of the member at retirement. Members are eligible for an early retirement pension within 10 years of pensionable age. An unreduced retirement pension is available at pensionable age.

For members represented by the Canadian Union of Postal Workers (CUPW), Urban Postal Operations (UPO) or Rural and Suburban Mail Carriers (RSMC), who became eligible to join the Plan on or after December 21, 2012, pensionable age is defined as (a) the later of age 65 or the age at which a member has completed two years of eligibility service or the age at which a member would have completed two years of Plan membership assuming that a member's Plan membership continues, or (b) age 60 if a member has at least 30 years of eligibility service.

For all other members, pensionable age is defined as (a) the later of age 60 or the age at which a member has completed two years of eligibility service or the age at which a member would have completed two years of Plan membership assuming that a member's Plan membership continues, or (b) age 55 if a member has at least 30 years of eligibility service.

Benefits payable on termination of employment
Benefits payable on termination of employment depend on a member's years of pensionable service and age and may include a lump sum amount equivalent to the commuted value of the pension or a deferred pension.

Bridge benefits
A bridge benefit is a temporary benefit in addition to a retirement pension. It is payable from retirement until the member reaches age 65, unless death or payment of Canada Pension Plan or Quebec Pension Plan disability benefits occurs first.

Disability pensions
A disability pension is an immediate pension payable on an unreduced basis. It is available to qualified members prior to pensionable age.

Death benefits
Death benefits may include ongoing financial support to survivors and dependent children, lump sum payments equal to the commuted value of the pension benefit, and a minimum payment guarantee on the death of the member.

Indexing of benefits
Pension and survivor benefits are automatically indexed for inflation in January by a percentage that reflects the average increase in the Consumer Price Index.

ii. Defined contribution component

Retirement benefits
Retirement benefits are based on the accumulation of contributions and investment income allocated to the member's account.

Benefits payable on termination of employment and death
Benefits payable on termination of employment and death would result in a return of the accumulation of contributions and investment income allocated to the member's account.

c) Funding

i. Defined benefit component

Plan benefits are funded by contributions and investment earnings. Contributions are required from both the Corporation and the members. These contributions, along with investment earnings, are designed to ensure the financial security of member benefits. The Plan's funding policy is reviewed annually and continually aims to achieve long-term stability in contribution rates for both the Corporation and Plan members. Contribution rates are established through actuarial funding valuations that are conducted annually to determine the funded position of the Plan. Employees, who are members of the Plan, are required to contribute a percentage of their pensionable earnings to the Plan at rates set by the Board of Directors. In 2022, member contributions were 9.9% (9.9% in 2021) of earnings up to the year's maximum pensionable earnings (YMPE) (defined by the Canada Pension Plan and Quebec Pension Plan as $64,900 in 2022) and 13.4% (13.4% in 2021) of earnings in excess of this maximum.

ii. Defined contribution component

Plan benefits are funded by contributions and investment earnings. For DC members who commenced employment before January 1, 2013, the Corporation contributes 4% of the member's pensionable earnings. For DC members who commenced employment on or after January 1, 2013, the Corporation contributes 2% of the member's eligible earnings. Member contributions are optional up to a maximum of 4%. Additional matching contributions of up to 5% can be made by the Corporation based upon each member's age, years of eligible service and member's contributions. These contributions are invested as directed by each member from a selection of investment options authorized by the Plan's Pension Committee. The Pension Committee periodically reviews the performance of the funds and proposes changes, if required.

2. Summary of significant accounting policies

a) Presentation

These financial statements are prepared in Canadian dollars, the Plan's functional currency, in accordance with the accounting standards for pension plans in Part IV of the Chartered Professional Accountants of Canada Handbook – Accounting (CPA Canada Handbook).

The Plan has elected to comply on a consistent basis with International Financial Reporting Standards (IFRS) for its accounting policies that do not relate to its investment portfolio or its pension obligations. To the extent that IFRS in Part I of the CPA Canada Handbook are inconsistent with CPA Canada Handbook Part IV, Section 4600, then CPA Canada Handbook Section 4600 takes precedence.

These financial statements are prepared on a going-concern basis and present the information of the Plan as a separate financial reporting entity independent of the Sponsor and Plan members.

In accordance with CPA Canada Handbook Part IV, Section 4600, investment assets, including those over which the Plan has control or significant influence, are measured at fair value and presented on a non-consolidated basis.

b) Investments

Valuation of investments

Investments are stated 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. In an active market, fair value is best evidenced by an independent quoted market price. In the absence of an active market, fair value is determined by valuation techniques that make maximum use of inputs observed from markets. The calculations of fair value are based on market conditions at a specific point in time and may not be reflective of future fair value.

Fair values of investments are determined as follows:

1. Short-term securities, which include short-term government securities and bank notes, are valued at cost or amortized cost that, together with accrued interest or discounts earned, which approximates fair value.
2. Fixed income securities quoted in an active market are valued at quoted closing market prices. Where a quoted year-end price in an active market is not available, an estimated value is calculated using discounted cash flows based on current market yields, comparable securities, and financial analysis, as appropriate.
3. Equities quoted in an active market are valued at quoted closing market prices. Where a quoted price in an active market is not available for an equity, a suitable method of valuation is used by management to determine fair value using appropriate valuation techniques. In making such valuations, consideration is given to the use of bid and ask prices, previous transaction prices, discounted cash flows, earnings multiples, prevailing market rates for instruments with similar characteristics and other valuation techniques that are judged relevant to the specific situation.
4. Pooled funds are valued at year-end net asset values, as provided by the pooled fund manager, using the closing market prices of underlying securities held in the pooled fund.
5. Derivative financial instruments, consisting of foreign exchange forward contracts, fixed income forward contracts, interest rate futures and interest rate swaps are valued at year-end quoted market prices, where available. Where quoted market prices are not readily available, appropriate alternative valuation techniques are used to determine fair value, such as discounted cash flows using current market yields or rates.
6. Real estate investments are composed of investments in limited partnership pooled funds and direct ownership of properties. Limited partnership pooled funds values are based on net asset values provided by the funds' General Partners. Real estate direct ownership values are presented net of all third-party financing. Income producing properties are valued by independent accredited appraisers at a minimum at each year-end. The fair values of the mortgages are estimated using mark to market costs to current market yields at each year-end. Direct investments are typically measured at cost in the year of acquisition, as an approximation of fair value, unless specific and conclusive reasons exist to change the value.
7. Investments in private equity and infrastructure include investments held directly and through ownership in limited partnership funds. These investments are valued by the funds' general partners under limited partnership agreements or through the use of appropriate valuation techniques. In determining such valuations, consideration is given to previous transaction prices, discounted cash flows, earnings multiples, prevailing market rates for instruments with similar characteristics and other valuation techniques that are judged relevant to the specific situation.
8. Investments in private debt are through ownership in limited partnership funds. Limited partnership funds value is based on financial information provided by the funds' General Partners under limited partnership agreements.

Investment transactions and income

All investment transactions are recorded when the risks and rewards of ownership are transferred. Purchases and sales of publicly traded investments are recognized on a trade-date basis. Real estate investment transactions are recognized on the date of closing for direct investments. Real estate and private equity pooled fund investment transactions are recognized on the cash call date. Investment income, including interest income, is recorded on an accrual basis. Dividend income is recognized on the ex-dividend date. Real estate, private equity, infrastructure and private debt income is recognized when dividends or distributions are received. Realized gains and losses on the sale of investments and the close of derivative contracts are recognized as gains and losses on disposition.

Change in unrealized gains and losses on investments represents the difference between the average cost and fair value of investments at the end compared to the beginning of each year. Change in Unrealized Gains and Losses on derivative contracts represents the difference on fair values of the contracts from previously reported amounts or since the inception of the contracts if they were entered into during the year.

Securities lending

The Plan may enter into securities lending transactions. These securities lending activities are fully collateralized by securities, and the securities loaned continue to be accounted for as investments on the Statement of Financial Position. Income from securities lending activities is included in investment income.

Investment transaction costs

Transaction costs are incremental costs incurred in the purchase and sale of investments. Transaction costs are expensed and included in administration expenses in the Statement of Changes in Net Assets Available for Benefits.

Management fees

Management fees for private equity funds, infrastructure, real estate, private debt and external portfolio management are expensed and included in administration expenses in the Statement of Changes in Net Assets Available for Benefits. Management fees for pooled funds where the Plan's investment return from the fund is net of fees are expensed in investment income as incurred in the Statement of Changes in Net Assets Available for Benefits.

c) Pension obligations

Pension obligations for the DB component are determined based on actuarial valuations prepared by an independent firm of actuaries using the projected unit credit actuarial cost method and management's best estimate of future events. The year-end value of pension obligations is based on the most recent going-concern actuarial valuation prepared for funding purposes extrapolated to the year-end reporting date using management's best estimate assumptions.

Pension obligations for the DC component are the sum of the accumulated value of contributions and net investment income allocated to members' accounts.

d) Contributions

Contributions for current service are recorded in the year in which the related payroll costs are incurred. Elective service contributions are recorded in the year in which the member commits to purchase elective service.

Contributions for approved leaves of absence without pay are recorded in the year in which the leave without pay occurred. Special payments and transfer deficiency payments are recorded in the year to which they relate.

e) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at year-end. Income and expenses are translated at the rate of exchange prevailing at the time of the transaction. The realized and unrealized gains and losses arising from these translations are included in the changes in fair values of investment assets and liabilities.

f) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities and pension obligations as at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Significant estimates are used primarily in the determination of the pension obligations and the valuation of real estate, private equity, infrastructure and private debt investments. Actual results may differ from these estimates and the differences could be material.

g) Benefits

Benefits include payments to retired members made during the year and accruals for due but unpaid benefits at December 31. Commuted value payments and transfers to other pension plans are recorded in the period in which the Plan is notified and any remaining unpaid amounts are included in accounts payable and accrued liabilities. Accrued benefits for members of the Plan are recognized as part of the pension obligations.

h) Approval of the financial statements

These financial statements were approved by the Board of Directors of the Corporation on March 23, 2023.

3. New standards, amendments and interpretations adopted January 1, 2022

There are no new standards, amendments or interpretations adopted in 2022.

4. Future changes in accounting standards

There were amendments issued for Accounting Standards for Pension Plans in December 2022 that will have an impact on financial statements disclosures of the Plan when it becomes effective on January 1, 2024. The amendments include separately disclosing Defined Benefits and Defined Contribution financial information. The Corporation's management is currently assessing the potential impact of the amendments on the Financial Statements of the Plan.

5. Investments

Summary of investments

As at December 31 *(in millions of dollars)*	2022 Fair value	2022 Cost	2021 Fair value	2021 Cost
Cash and short-term securities	$ 568	$ 567	$ 544	$ 546
Fixed income				
Canadian	8,147	9,516	9,284	9,061
United States	177	195	280	280
International	126	135	117	111
Real return bonds	3,077	3,231	3,811	3,348
	11,527	13,077	13,492	12,800
Public equities				
Canadian	2,995	2,124	3,682	2,249
United States	2,624	1,770	3,197	1,883
International	3,026	2,873	3,978	3,369
	8,645	6,767	10,857	7,501
Real estate (note 9.a) [1]				
Canadian	2,982	1,940	2,859	1,924
United States	954	521	668	437
International	287	334	184	229
	4,223	2,795	3,711	2,590
Private equity (note 9.c)				
Canadian	116	72	208	125
United States	1,414	890	1,076	795
International	534	215	500	240
	2,064	1,177	1,784	1,160
Infrastructure (note 9.e)				
Canadian	281	147	242	124
United States	706	498	321	246
International	968	661	906	673
	1,955	1,306	1,469	1,043
Private debt (note 9.g)				
Canadian	401	431	400	393
International	47	48	–	–
	448	479	400	393
Defined contribution plan assets	154	163	140	136
Investments	29,584	26,331	32,397	26,169
Accrued investment income	72	72	65	65
Investment trades to settle	55	54	132	133
Cash margin at broker	83	83	2	1
Derivatives	37	–	17	–
Investment-related receivables	247	209	216	199
Investment trades to settle	(42)	(42)	(132)	(132)
Derivatives	(145)	–	(17)	–
Investment-related liabilities	(187)	(42)	(149)	(132)
Net investment assets	$ 29,644	$ 26,498	32,464	$ 26,236

1. For entities where the Plan has effective control or significant influence, real estate assets are presented net of mortgage liabilities. These mortgage liabilities have a fair value of $656 million and cost of $673 million (2021 – fair value of $629 million and cost of $619 million).

a) Fair value measurements

i. Fair value hierarchy

Investment assets, investment related receivables and investment related liabilities, recognized at fair value in the Statement of Financial Position, must be classified in three fair value hierarchy levels, based on the transparency of the inputs used to measure the fair value as follows:

Level 1: Fair value is based on unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2: Fair value is based on observable inputs other than level 1 prices, such as quoted market prices for similar assets or liabilities in active markets, quoted market prices for identical assets or liabilities in markets that are not active and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on valuation. Non-observable inputs are supported by little or no market activity.

The classification of net investment assets by fair value hierarchy, as at December 31, 2022, is as follows:

(in millions of dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and short-term securities	**$ 299**	**$ 353**	**$ –**	**$ 652**
Defined contribution pooled funds	**–**	**154**	**–**	**154**
Fixed income	**1**	**11,553**	**36**	**11,590**
Public equities	**8,605**	**59**	**2**	**8,666**
Real estate	**–**	**–**	**4,223**	**4,223**
Private equity	**–**	**–**	**2,064**	**2,064**
Infrastructure	**–**	**–**	**1,955**	**1,955**
Private debt	**–**	**–**	**448**	**448**
Derivatives assets	**2**	**35**	**–**	**37**
Derivatives liabilities	**(1)**	**(144)**	**–**	**(145)**
	$ 8,906	**$ 12,010**	**$ 8,728**	**$ 29,644**

The classification of net investment assets by fair value hierarchy, as at December 31, 2021, is as follows:

(in millions of dollars)	Level 1	Level 2	Level 3	Total
Cash and short-term securities	$ 390	$ 156	$ –	$ 546
Defined contribution pooled funds	–	140	–	140
Fixed income	–	13,507	36	13,543
Public equities	10,783	85	3	10,871
Real estate	–	–	3,711	3,711
Private equity	–	–	1,784	1,784
Infrastructure	–	–	1,469	1,469
Private debt	–	–	400	400
Derivatives (net)	–	–	–	–
	$ 11,173	$ 13,888	$ 7,403	$ 32,464

ii. Significant transfers between level 1 and level 2

Changing market conditions during the year may result in transfers between the various fair value hierarchy levels particularly if there is a change in the availability of quoted market prices or observable market inputs. In 2022, there were no significant transfers from level 1 to level 2 (2021 – $4 million). In 2022, there were no significant transfers from level 2 to level 1 (2021 – no significant transfers). Transfers between levels of the fair value hierarchy, for the purpose of preparing the above table, are deemed to have occurred at the beginning of the period.

iii. Changes in level 3 fair value measurements

Level 3 investments include real estate, infrastructure, private equity, private debt and certain public securities. For these investments, trading activity is infrequent and fair values are derived using valuation techniques. The significant inputs used in the pricing models, such as occupancy rates, capitalization rates and discount rates are either non-observable or based on significant assumptions.

Changes in the fair value of level 3 investments during 2022 are as follows:

	Balance			Gains (Losses)		Balance
(in millions of dollars)	December 31, 2021	Contributed capital	Proceeds received	Realized	Unrealized	December 31, 2022
Public equities*	$ 3	$ –	$ (1)	$ –	$ –	$ 2
Public bonds	36	–	–	–	–	36
Real estate	3,711	381	(187)	11	307	4,223
Private equity	1,784	227	(469)	259	263	2,064
Infrastructure	1,469	432	(289)	120	223	1,955
Private debt	400	114	(19)	(9)	(38)	448
	$ 7,403	$ 1,154	$ (965)	$ 381	$ 755	$ 8,728

Changes in the fair value of level 3 investments during 2021 are as follows:

	Balance			Gains (Losses)		Balance
(in millions of dollars)	December 31, 2020	Contributed capital	Proceeds received	Realized	Unrealized	December 31, 2021
Public equities*	$ –	$ 3	$ –	$ –	$ –	$ 3
Public bonds	–	36	–	–	–	36
Real estate	3,143	335	(134)	19	348	3,711
Private equity	1,422	331	(609)	304	336	1,784
Infrastructure	1,284	228	(168)	34	91	1,469
Private debt	399	29	(8)	–	(20)	400
	$ 6,248	$ 962	$ (919)	$ 357	$ 755	$ 7,403

* Contributed capital and proceeds received for public equities include assets transferred from and to other levels.

Level 3 investments are based on valuation models that use non-observable inputs such as capitalization rates. The following analysis illustrates the sensitivity of real estate investments valuations to reasonably possible alternative capitalization rate assumptions. This analysis is performed for assets for which the Plan exercises a level of control of the assets. Direct real estate investments used capitalization rates that vary from 2.2% to 9.6% (2021 – 1.1% to 9.5%). An increase of 25 basis points in the capitalization rate would decrease the total value of the real estate investment by $172 million (2021 – $170 million) and a decrease of 25 basis points in the capitalization rate would increase the total value of the real estate investment by $197 million (2021 – $194 million). The impact on the valuation from changes to the capitalization rate has been calculated independently of the impact of changes in other key variables. In actual experience, the factors that would cause a change in the capitalization rate would also cause changes in other valuation assumptions, which could amplify or reduce the impact on the valuation.

b) Derivative financial instruments

Derivative financial instruments are financial contracts, the value of which is derived from the value of the underlying assets, indices, interest rates or currency rates. The Plan uses derivatives to manage financial risk and to enhance returns. Derivative contracts are transacted either in the over-the-counter (OTC) market or on regulated exchanges. Derivative financial instruments held by the Plan consist of foreign exchange forward contracts and interest rate futures.

Foreign exchange forward contracts are negotiated agreements that are transacted between counterparties in the OTC market. Foreign exchange forward contracts are contractual obligations to exchange one currency for another currency at a specified price at a predetermined future date.

Fixed income forward contracts are negotiated agreements that are transacted between counterparties in the OTC market. Fixed income forward contracts are contractual obligations to buy or sell a fixed income instrument at a specified price at a predetermined future date.

Interest rate futures are standard contracts traded on regulated futures exchanges. Interest rate futures contracts are contractual obligations to buy or sell an interest rate sensitive financial instrument at a specified price at a predetermined future date.

Interest rate swaps are negotiated agreements that are transacted between counter parties in the OTC market. Interest rate swap contracts are contractual obligations in which the counter parties agree to exchange periodic cash flows based on agreed-upon reference rates applied to a specified notional amount.

Notional amounts of derivative contracts represent the contracted amount to which a rate or price is applied for computing the cash flows to be exchanged. Notional amounts are the basis upon which the returns from, and the fair value of, the contract is determined. They are not recorded as assets or liabilities in these financial statements and they do not necessarily indicate the amount of future cash flow or the current fair value of the derivative contracts. Accordingly, notional amounts do not indicate the Plan's exposure to credit or market risks.

Derivative contracts are recorded in the Statement of Financial Position at fair value. Derivative contracts become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market rates or prices relative to their terms. Fair values of derivative contracts can fluctuate significantly.

The aggregate notional amount and fair value of derivative contracts, as at December 31, 2022, is as follows:

	Notional amount		Fair value	
(in millions of dollars)	**Long**	**Short**	**Assets**	**Liabilities**
Foreign exchange forward contracts	**$ 250**	**$ (3,505)**	**$ 30**	**$ (52)**
Fixed income forward contracts	**1,186**	**–**	**4**	**(41)**
Interest rate futures	**189**	**(132)**	**2**	**(1)**
Interest rate swaps	**551**	**(601)**	**1**	**(51)**
	$ 2,176	**$ (4,238)**	**$ 37**	**$ (145)**

The aggregate notional amount and fair value of derivative contracts, as at December 31, 2021, is as follows:

	Notional amount		Fair value	
(in millions of dollars)	Long	Short	Assets	Liabilities
Foreign exchange forward contracts	$ 374	$ (3,640)	$ 17	$ (17)
Future contracts	–	(61)	–	–
	$ 374	$ (3,701)	$ 17	$ (17)

The net fair value of derivative contracts as at December 31, 2022, is in a $108 million liability position (2021 – nil).

As at December 31, 2022, the foreign exchange forward and interest rate futures contracts' terms to maturity were all within one year.

The fair value of collateral pledged for derivative contracts as at December 31, 2022 is $252 million (2021 – $4 million). The collateral value is composed of $83 million in cash and $169 million in fixed income investments.

c) Securities lending

The Plan participates in a securities lending program where it lends securities it owns to approved borrowers for a fee. All securities lent are recallable on demand at the option of the Plan.

The fair value of loaned securities and the security collateral received in respect of these securities on loan, as at December 31, are as follows:

	2022		2021	
(in millions of dollars)	**Fair value**	**Collateral**	Fair value	Collateral
Securities lending	**$ 7,059**	**$ 7,203**	$ 8,175	$ 8,339

The collateral value is composed of $5,184 million of public equities (2021 – $6,142 million) and $2,019 million of fixed income securities (2021 – $2,197 million).

6. Risk management

Funding risk

One of the main risks that the Plan faces is funding risk, the risk that the Plan's investment asset growth and contribution rates will not be sufficient to cover the Plan's pension obligations, resulting in an unfunded liability.

The Plan's net funded position can change relatively quickly if there are changes in the value of the Plan's investment assets or pension obligations. Either can result in a mismatch between the Plan's assets and its liabilities. The most significant contributors to funding risk are declines in discount rates and investments failing to achieve expected returns. In addition, the Plan's pension obligations are affected by non-economic factors like changes in member demographics.

The Board manages funding risk by monitoring and reviewing the funded ratio on an ongoing basis and ensuring that investment decisions are made in accordance with the Statement of Investment Policies and Procedures (SIPP). The SIPP is designed to provide the Plan with a long-term rate of return, net of expenses, of 4.5% above inflation. Achieving the CPI + 4.5% target will assist the Plan in meeting its funding objectives and the ongoing growth of its pension obligations. Asset-liability studies are conducted periodically to ensure that the Plan's investment strategy remains appropriate in challenging economic environments.

The asset-liability strategy provides direction on how to maximize asset returns to meet pension promises while minimizing fluctuations in the Plan's funded status and potential solvency payment obligations from the plan sponsor. It is a multi-step strategy guided by the Plan's solvency ratio. Automatic shifts in asset allocation will occur as the solvency ratio increases to specified levels resulting in a better match between Plan assets and liabilities that will reduce funding volatility.

Financial risk management

The Plan is subject to a variety of financial risks as a result of its investment activities that could adversely affect its cash flows, financial position and investment income. The objective of investment risk management is to minimize the potential adverse effect of these risks and to optimize the gains over the entire portfolio.

The Board, with the assistance of the Pension Committee, staff, agents and advisors, is responsible for prudently managing, investing and administering the Plan in order to secure the pension benefits for Plan members. This requires the Board's oversight of the assets and liabilities to help ensure they are being managed in the best interest of the members. The Board has established an investment risk management framework, which outlines the Board's tolerance for risk and guides the development of investment strategies to meet the Plan's overall objectives.

Risk management for the Plan is performed by the Investment Management team through compliance with various processes and policies. Some of the policies in place include the SIPP and each of the fund manager mandates. The SIPP, approved by both the Pension Committee and the Board, prescribes a long-term debt-equity asset mix policy, requires portfolio investment diversification, sets guidelines on investment categories, and limits exposure to individual investments and major asset classes.

Risk assessment analysis for each risk category is performed and monitored regularly against the strategy and actions taken, when appropriate, according to the Plan's approved policies. In addition, as required, these risks are reviewed by the Investment Advisory Committee, the Pension Committee and the Board.

a) Credit risk

Credit risk is the risk of loss should the counterparty to a transaction default or otherwise fail to perform under the terms of the contract. The Plan is exposed to direct credit risk through its short-term securities, fixed income securities, derivative contracts and real estate investments. Credit risk on short-term securities is mitigated by only transacting with highly rated counterparties and establishing limits on the amount and term of short-term investments.

Credit risk on fixed income securities is mitigated by establishing limits on exposure to individual counterparties, monitoring credit ratings, and adhering to the investment criteria as set out in the Plan's SIPP.

The Plan's fixed income investment credit risk exposure as at December 31 is as follows:

(in millions of dollars)	**2022**		2021	
Credit rating				
AAA/AA	**$ 6,268**	**55%**	$ 7,446	55%
A	**3,953**	**34%**	4,349	32%
BBB	**1,292**	**11%**	1,671	13%
<BBB	**14**	**0%**	26	0%
	$ 11,527	**100%**	$ 13,492	100%

Credit risk on OTC derivative foreign exchange forward contracts and interest rate swaps is mitigated through the use of netting agreements with counterparties.

Credit risk on exchange traded interest rate futures derivatives is limited as these transactions are standardized contracts executed on established exchanges, each of which is associated with a clearing house that assumes the obligations of both counterparties and guarantees performance. Counterparty exposure is determined daily and collateral, consisting of cash and other acceptable securities, is either requested or delivered based on contracted terms.

Credit risk associated with the securities lending program is mitigated through receipt of non-cash security collateral with a minimum value of 102% of the fair value of the securities lent and is monitored on a daily basis. In addition, a full indemnity is provided by the Royal Bank of Canada, the Agent providing securities lending services to the Plan.

Credit risk on the Plan's real estate investments arises from the possibility that tenants may be unable to fulfill their lease commitments. The Plan mitigates this risk by diversifying investments by property type and geographic location and ensuring investments are managed by professional property managers.

b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, whether these changes are caused by factors specific to an individual investment or factors affecting all securities traded in the market. Market risk comprises interest rate risk, currency risk and other price risk.

i. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flow of the Plan's investments will fluctuate due to changes in market interest rates. It arises primarily on interest-bearing financial instruments held in the Plan's short-term securities and fixed income portfolio. Interest rate risk indirectly affects equities as earnings multiples change with changes in interest rates and the relative attractiveness of equities also changes with changes in interest rates. Excess cash is invested in short-term securities.

To properly manage the Plan's interest rate risk, guidelines on the weighting, term to maturity and duration for the short-term securities and fixed income securities are set and monitored. In addition, to further mitigate interest rate risk, the Plan may enter into interest rate futures and interest rate swap contracts.

The terms to contractual maturity of the Plan's fixed income securities as of December 31, are as follows:

(in millions of dollars)	**2022**				
	Terms to maturity				
Interest-bearing financial instruments	**Within 1 year**	**1 to 5 years**	**5 to 10 years**	**Over 10 years**	**Total**
Fixed income – Bonds					
Government of Canada	$ 3	$ 186	$ 139	$ 1,050	$ 1,378
Canadian corporate	12	740	781	1,519	3,052
United States corporate	–	86	74	17	177
International corporate	–	15	111	–	126
Provincial and municipal	2	34	38	3,644	3,718
Real return – Canada	–	325	384	1,753	2,462
Real return – provincial	–	117	69	368	554
Real return – corporate	–	–	60	–	60
	$ 17	$ 1,503	$ 1,656	$ 8,351	$ 11,527

(in millions of dollars)	2021				
	Terms to maturity				
Interest-bearing financial instruments	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total
Fixed income – Bonds					
Government of Canada	$ 3	$ 232	$ 442	$ 781	$ 1,458
Canadian Corporate	5	598	677	2,075	3,355
United States Corporate	–	60	214	6	280
International Corporate	–	27	90	–	117
Provincial and municipal	1	5	111	4,354	4,471
Real return – Canada	–	456	508	2,440	3,404
Real return – Provincial	–	46	36	257	339
Real return – Corporate	–	–	68	–	68
	$ 9	$ 1,424	$ 2,146	$ 9,913	$ 13,492

As at December 31, 2022, an increase or decrease of 1% in the prevailing interest rates, assuming a parallel shift in the yield curve, with all other variables remaining constant, would decrease or increase the value of net assets available for benefits by approximately $1,459 million (2021 – $1,729 million). The Plan's interest rate sensitivity was determined based on the weighted duration of the Plan's fixed income securities. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

ii. Currency risk

Currency risk is the risk that the value of the Plan's investments will fluctuate due to changes in foreign exchange rates. It arises from Plan investments that are denominated in a currency other than the Canadian dollar, which is the Plan's functional currency. The Plan is exposed to the risk that the value of securities denominated in other currencies will fluctuate due to changes in foreign currency exchange rates.

The Plan does not speculate in currencies or hold net short positions. To mitigate its overall currency exposure, the Plan enters into derivative contracts for the purchase or sale of foreign currencies, to adjust the exposure to a particular currency. To mitigate counterparty risk, all transactions settle on a net basis. The Plan hedges between 15% and 45% of its total foreign currency exposure. All current contracts expire within one year. The Plan only deals with highly rated counterparties, typically major financial institutions, with a minimum credit rating of "A" as reported by a recognized credit rating agency.

The Plan's net investment asset exposure, net of foreign exchange forward contracts, by geographical location of the issuer and by currency, as at December 31, is as follows:

(in millions of dollars)	**Geographical location**		**Currency**	
Currency – Canadian $ equivalent, net of foreign exchange forward contracts	**2022**	2021	**2022**	2021
Net investment assets				
Canadian dollar	**$ 21,916**	$ 24,351	**$ 22,091**	$ 24,636
United States dollar	**3,549**	3,281	**4,448**	4,126
Euro	**988**	1,023	**1,085**	1,114
Other European	**1,086**	1,239	**622**	787
Japanese yen	**264**	345	**264**	345
Other Pacific	**520**	671	**687**	957
Emerging markets	**1,321**	1,554	**447**	499
	$ 29,644	$ 32,464	**$ 29,644**	$ 32,464

Based on the Plan's net exposure as at December 31, 2022, if the Canadian dollar strengthened or weakened by 10% in relation to all foreign currencies, with all other factors remaining constant, net assets available for benefits would have decreased or increased by approximately $755 million (2021 – $783 million). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

The Plan's foreign currency forward contracts by currency as of December 31 are as follows:

(in millions of dollars)	2022				2021			
	Notional amount		**Fair**	**Average**	Notional amount		Fair	Average
Currency	**Long**	**Short**	**value**	**rate**	Long	Short	value	rate
United States	**$ –**	**$ (2,404)**	**$ 2**	**$ 1.36**	$ 259	$ (2,624)	$ (7)	$ 1.26
Euro	**217**	**(783)**	**(20)**	**1.38**	95	(662)	1	1.44
Japanese yen	**–**	**(138)**	**(11)**	**0.01**	–	(157)	5	0.01
British pound	**33**	**(180)**	**7**	**1.66**	20	(197)	1	1.71
	$ 250	**$ (3,505)**	**$ (22)**		$ 374	$ (3,640)	$ –	

iii. Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from interest rate risk or currency risk. Changes in market prices may be caused by factors specific to an individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Plan is subject to other price risk primarily through its public equity investments.

The Plan moderates other price risk through its policy of diversifying its investments across asset classes and geographical locations based on criteria established in the SIPP. Fund managers and investment staff regularly monitor the portfolio by sector, country, market capitalization and trading liquidity.

The Plan's exposure to other price risk as at December 31 is as follows:

	2022		2021	
(in millions of dollars)	**Effective other price risk exposure**	**% of total other price risk exposure**	Effective other price risk exposure	% of total other price risk exposure
Public equities				
Canadian	**$ 2,995**	**35%**	$ 3,682	34%
United States	**2,624**	**30%**	3,197	29%
International	**3,026**	**35%**	3,978	37%
	$ 8,645	**100%**	$ 10,857	100%

As at December 31, 2022, 29% (2021 – 34%) of the Plan's investments were in public equities. If public equity prices increased or decreased by 10% as at year-end, with all other factors remaining constant, net assets available for benefits would have increased or decreased by approximately $858 million (2021 – $1,086 million). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

c) Liquidity risk

Liquidity risk is the risk that the Plan will not be able to meet its financial obligations as they fall due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. The financial liabilities of the Plan include investment related liabilities, all of which will become due within the next year. The Plan is also exposed to the settlement of derivatives, margin calls on derivatives and pension related payments. Note 5.b provides the terms to contractual maturity of the Plan's derivative contracts.

The Plan forecasts its cash requirement over the short and long-term to determine whether sufficient funds will be available. The Plan's primary sources of liquidity are funds generated from investments and Sponsor and member contributions. The Plan primarily invests in securities that are traded in active markets and can be readily sold. Real estate, private equity, infrastructure and private debt investments are also subject to liquidity risk, which is mitigated by managing the overall amount invested in those asset classes and by limiting the amount invested in any one real estate property or pooled fund. The Plan retains sufficient cash and short-term security positions to maintain a reasonable level of liquidity.

The Plan's primary future liabilities include the pension obligations (note 14). In the normal course of operations, the Plan enters into mortgages and contracts that give rise to commitments (note 19), which may also impact liquidity.

7. Contributions and other receivables

(in millions of dollars)		**2022**	2021
Current service contributions	– Sponsor	$ 33	$ 33
	– Members	17	17
Other contributions[1]	– Leave of absence	52	45
	– Elective service	11	12
	– Special sponsor	–	2
Other		5	5
		$ 118	$ 114

1. Leave of absence contribution receivables for approved leave of absence without pay are generally payable over a period equal to twice the period of leave of absence. Elective service contribution receivables for eligible service are payable over a maximum payment period of 20 years for members 45 years or older at the date of election, or to age 65 for members less than age 45 at the date of election.

8. Accounts payable and accrued liabilities

(in millions of dollars)	**2022**	2021
Accounts payable and accrued liabilities	$ 21	$ 16
Accrued benefits payable	27	25
	$ 48	$ 41

9. Investment in real estate, private equity, infrastructure and private debt

a) Investment in real estate

The investment in real estate as at December 31 is as follows:

	2022		2021	
(in millions of dollars)	Fair value	Cost	Fair value	Cost
Direct investments	$ 2,160	$ 1,375	$ 2,057	$ 1,349
Pooled funds	2,063	1,420	1,654	1,241
	$ 4,223	$ 2,795	$ 3,711	$ 2,590

b) Real estate net investment income

Real estate net investment income for the year ended December 31 is as follows:

(in millions of dollars)	2022	2021
Investment income	$ 166	$ 247
Net realized gains	11	19
Changes in net unrealized gains	307	348
	$ 484	$ 614

c) Investment in private equity

The investment in private equity as at December 31 is as follows:

	2022		2021	
(in millions of dollars)	Fair value	Cost	Fair value	Cost
Direct investments	$ 140	$ 66	$ 69	$ 22
Pooled funds	1,924	1,111	1,715	1,138
	$ 2,064	$ 1,177	$ 1,784	$ 1,160

d) Private equity net investment income

Private equity net investment income for the year ended December 31 is as follows:

(in millions of dollars)	2022	2021
Investment income	$ 27	$ 19
Net realized gains	259	304
Changes in net unrealized gains	263	336
	$ 549	$ 659

e) Investment in infrastructure

The investment in infrastructure as at December 31 is as follows:

	2022		2021	
(in millions of dollars)	**Fair value**	**Cost**	Fair value	Cost
Direct investments	**$ 524**	**$ 340**	$ 292	$ 197
Pooled funds	**1,431**	**966**	1,177	846
	$ 1,955	**$ 1,306**	$ 1,469	$ 1,043

f) Infrastructure net investment income

Infrastructure net investment income for the year ended December 31 is as follows:

(in millions of dollars)	**2022**	2021
Investment income	**$ 34**	$ 50
Net realized gains	**120**	34
Changes in net unrealized gains	**223**	91
	$ 377	$ 175

g) Investment in private debt

The investment in private debt as at December 31 is as follows:

	2022		2021	
(in millions of dollars)	**Fair value**	**Cost**	Fair value	Cost
Pooled funds	**$ 448**	**$ 479**	$ 400	$ 393
	$ 448	**$ 479**	$ 400	$ 393

h) Private debt net investment income

Private debt net investment income for the year ended December 31 is as follows:

(in millions of dollars)	**2022**	2021
Investment income	**$ 20**	$ 16
Net realized losses	**(9)**	–
Changes in net unrealized losses	**(38)**	(20)
	$ (27)	$ (4)

10. Investment income and changes in fair values of investment assets and liabilities

Investment income by primary financial instrument type for the year ended December 31 is as follows:

(in millions of dollars)	2022	2021
Interest income		
Cash and short-term securities	$ 9	$ –
Canadian fixed income	370	321
United States fixed income	–	9
International fixed income	–	1
Dividend income		
Canadian equities	95	102
United States equities	79	69
International equities	97	86
Real estate income (note 9.b)	166	247
Private equity income (note 9.d)	27	19
Infrastructure income (note 9.f)	34	50
Private debt income (note 9.h)	20	16
Securities lending income	11	11
Derivatives	3	–
DC segregated investments income (loss)	(14)	17
Investment Income	897	948
Net realized gains (losses) on investment assets and liabilities		
Cash and short-term securities	–	(2)
Canadian fixed income	(522)	(48)
United States fixed income	–	5
International fixed income	–	1
Canadian equities	289	348
United States equities	40	936
International equities	(91)	159
Real estate (note 9.b)	11	19
Private equity (note 9.d)	259	304
Infrastructure (note 9.f)	120	34
Private debt (note 9.h)	(9)	–
Derivatives	(99)	112
	(2)	1,868
Changes in net unrealized gains (losses)	(3,071)	540
Changes in fair values of investment assets and liabilities	(3,073)	2,408
	$ (2,176)	$ 3,356

11. Contributions

(in millions of dollars)		**2022**	2021
Sponsor	– Current service	$ **341**	$ 345
	– Special payments	**31**	32
		$ **372**	$ 377
Members	– Current service	$ **308**	$ 305
	– Past service	**2**	3
		$ **310**	$ 308

Contributions consist of both DB and DC components.

12. Benefits

(in millions of dollars)	**2022**	2021
Retirement and survivor pension benefits	$ **1,079**	$ 1,029
Commuted value transfers	**78**	61
Lump sum death benefits	**13**	18
Refunds	**2**	1
Defined contribution termination payments	**8**	7
	$ **1,180**	$ 1,116

13. Administration expenses

(in millions of dollars)	**2022**	2021
Plan administration	$ **20**	$ 18
Investment management fees	**110**	109
Transaction costs	**6**	7
Professional fees	**6**	4
Custodial fees	**3**	3
Other	**4**	4
	$ **149**	$ 145

14. Pension obligations

(in millions of dollars)	**2022**	2021
DB obligations	**$ 24,211**	$ 24,943
DC obligations	**154**	140
	$ 24,365	$ 25,083

a) Actuarial methodology

The actuarial present value of the pension obligations is an estimate of the value of pension obligations of the Plan in respect of benefits accrued to date for all active and inactive members. The obligations are measured using the same actuarial assumptions and methods used for the Plan's going-concern funding valuation as required by OSFI and the PBSA, and reflect management's best estimates. The most recent actuarial valuation for funding purposes, prepared by Mercer (Canada) Limited as at December 31, 2021, was extrapolated to determine the pension obligations as at December 31, 2022. The valuation used the projected unit credit actuarial cost method with respect to benefits, and assumes that the Plan will continue on a going-concern basis. The next valuation for funding purposes will be prepared as of December 31, 2022.

b) Plan provisions and Actuarial assumptions

As per Office of the Superintendent of Financial Institutions (OSFI) guideline, each member's contributions with interest are tested against the commuted value of their pension entitlement upon retirement or pre-retirement death, to ensure that the member has not paid for more than half of such value. Refinement in the funding valuation program to reflect the application of this 50% rule has resulted in an estimated loss of $776 million as at December 31, 2022.

The actuarial assumptions used in determining the pension obligations reflect management's best estimates of future economic events and involve both economic and demographic assumptions. The demographic assumptions include considerations such as mortality, withdrawals and retirement rates. The primary economic assumptions include the discount rate, salary escalation rate and the inflation rate. The discount rate is based on the long-term expected fund return, less a margin for adverse deviations. The inflation rate is based on a consensus of economists' forecasts and the salary escalation rate incorporates the most recent collective agreements, the inflation rate assumption and the long-term expectation of growth in wages. Each of the assumptions is updated periodically based on a detailed review of the Plan's actual results and expectations for future trends.

A summary of the primary economic assumptions as at December 31 is as follows:

	2022	2021
Discount rate	**5.6%**	4.8%
Salary escalation rate		
– Union groups	**Per the most recent collective agreement**	Per the most recent collective agreement
– Following expiry of collective agreements and non-unionized groups – long-term	**2.5% per year**	2.5% per year
Inflation	**3.7% for 2023, 2.2% for 2024 and 2.0% per year thereafter**	2.0%

Changes in economic assumptions and recognition of new collective agreements resulted in a net decrease in the pension obligations of $2,015 million (2021 – net increase of $9 million). Changes in demographic assumptions resulted in a net decrease in pension obligations of $467 million for 2022 (2021 – no changes).

The life expectancy used in determining the mortality rates, as at December 31 is as follows:

	2022	2021
Life expectancy at age 60 at December 31, 2022, and 2021 (in years)		
Males	**26**	26
Females	**29**	29
Life expectancy at age 60 at December 31, 2042, and 2041 (in years)		
Males	**27**	27
Females	**30**	30

c) Experience gains and losses

Experience gains and losses represent the change in the pension obligations due to the difference between the expected experience and the actual results. During 2022, the experience losses were $341 million (2021 – losses of $215 million).

d) Sensitivity analysis

This sensitivity analysis is hypothetical and must be used with caution. Changes in amounts based on these variations in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in amounts may not be linear. The sensitivity analysis has been calculated independently of changes in other significant assumptions. Changes in one factor may result in changes in another, which could amplify or reduce certain sensitivities. Methods used in determining this sensitivity analysis are consistent with those used to determine the pension obligations in 2022.

The mortality tables' sensitivity demonstrates the impact of an increase or decrease in the probability of death within a year for plan members of various ages.

The discount rate used to estimate the present value of the pension obligations has a significant effect on the pension obligations at the end of the year. A decrease of 50 basis points in the discount rate would have increased the pension obligations by $1,416 million, and an increase of 50 basis points in the discount rate would have decreased the pension obligations by $1,282 million. The pension obligations are sensitive to changes in mortality rates. An increase in the assumed base mortality rates by 10% at every age would have decreased the pension obligations by $498 million, and a decrease in the assumed base mortality rates by 10% at every age would have increased the pension obligations by $545 million.

15. Supplementary Retirement Arrangement (SRA)

The SRA provides Plan members and their survivors with benefits that, because of limitations imposed by the ITA, cannot be provided under a registered pension plan. The SRA, together with the Plan, provides overall pension benefits to eligible members.

The SRA is registered with the CRA as a Retirement Compensation Arrangement under registration number RC4102229 and is administered in accordance with the applicable requirements of the ITA. Because the assets of the SRA are held in a separate fund, the net assets available for benefits and the pension obligations of the SRA are not included in these financial statements.

16. Funding valuation

In accordance with the PBSA and the ITA, an actuarial valuation is required to be filed every year, unless the funded status is greater than 120%, to estimate the Plan's surplus or deficit on a going-concern and solvency basis, and to determine the Plan's minimum funding requirements. The last actuarial valuation filed with OSFI and the CRA, as at December 31, 2021, disclosed a going-concern surplus of $4,897 million and a solvency deficit to be funded of $4,945 million.

The current extrapolated estimate of the financial position of the Plan as at December 31, 2022, based on existing rules and regulations, is a going-concern surplus of approximately $6,535 million and a solvency deficit to be funded of approximately $1,695. Actual results may differ significantly from these estimates as actuarial assumptions are being finalized.

In February 2014, the Government of Canada introduced the Canada Post Corporation Pension Plan Funding Regulations. Under these regulations, the Corporation was exempt from making special contributions into its Registered Pension Plan from 2014 to 2017. This temporary measure recognized the operational challenges encountered by the Corporation and provided immediate relief on its liquidities.

In 2018, the Corporation reverted back to the regulations in the PBSA. Under these regulations, aggregate solvency relief is available up to 15% of a plan's solvency liabilities, after which Canada Post Corporation, as plan sponsor, would be required to make special payments to eliminate any shortfalls of assets to liabilities based on the actuarial valuations over five years on a solvency basis. As a result of the relief outlined in these regulations, Canada Post Corporation did not have to make special payments in 2018 or 2019 but would have had to make $368 million in 2020 beyond the relief limit. However, due to COVID-19 effects on the economy, Solvency Special Payment Relief Regulations came into force in the second quarter of 2020, establishing a moratorium on solvency special payments for the remainder of the year for federally regulated, defined benefit pension plans. Under regulations of the Act, Canada Post Corporation did not have to make special payments of $165 million with respect to January and February 2022. In April 2022, the Government of Canada approved the Canada Post Corporation Pension Plan Funding Regulations to provide Canada Post Corporation with temporary relief from its solvency funding obligations until December 31, 2024. Based on the temporary relief, Canada Post Corporation did not have to make special solvency payments of $824 million with respect to the months of March to December 31, 2022, and will not be required to make estimated special solvency payments of $339 million for 2023, even though the solvency relief of 15% available under the *Pension Benefits Standards Act, 1985* was fully utilized.

The solvency (using the market value of plan assets) position as at December 31, 2022 is at a surplus (market basis) of approximately $2,353 million. The solvency and going-concern (using the smoothed value of RPP assets) positions of the Plan improved in 2022 such that the funding ratios are estimated to exceed 105% and 125%, respectively, for the Plan as at December 31, 2022. As a result, Canada Post Corporation may be required to make mandatory use of the surplus and not be permitted to make regular contributions once the actuarial valuation is filed with OSFI and CRA later in 2023. Final actuarial valuation results may differ significantly from these estimates.

The special payments made by Canada Post in 2022 and estimated to be made in 2023 are top-up payments (transfer deficiency). The top-up payments are required to pay the full commuted value when someone leaves the Plan because the solvency ratio is below 100%, and they include additional top-up payments required by the OSFI since 2014 given the deficit funding relief. In October 2022, OSFI withdrew the requirement for these additional top-up payments. This change allows funding requirements for these payments to be consistent with the rules applied to other federally regulated plans. The top-up payments will no longer be required once the 2022 solvency valuation report is filed with OSFI in 2023 as the solvency ratio is estimated to exceed 100% at December 31, 2022.

Under CPA Canada Handbook Section 4600, the actuarial asset value adjustment is not included in the valuation methodology for accounting purposes. Therefore, the Plan surplus in these financial statements is different from the surplus (deficit) determined by the funding valuation. The following table provides a reconciliation between the surplus recorded in the valuation for funding purposes to the amount recorded in these financial statements.

(in millions of dollars)	**Extrapolation 2022**	Filed valuation 2021
Surplus per valuation for funding purposes	**$ 6,535**	$ 4,897
Actuarial asset value adjustment	**(1,186)**	2,628
Other	**–**	(71)
Surplus per financial statements	**$ 5,349**	$ 7,454

17. Capital

Management of the Plan defines its capital as the funded status [surplus/(deficit)] based on the fair value of the investment assets less the pension obligations as determined annually by a funding valuation prepared by an independent actuary. The funding surplus or deficit is used to measure the long-term health of the Plan to meet its obligations to its members and their survivors.

Management's objective, when managing the Plan's capital, is to ensure the Plan is fully funded to meet its benefit obligations over the long term through the management of investments, contribution rates and benefits.

Management has adopted a SIPP for the Plan, which sets investment objectives, guidelines and benchmarks used in investing the Plan's assets, permitted categories of investments, asset mix diversification and rate of return expectations. The Plan's SIPP was last amended on August 25, 2022. The Pension Committee is responsible for ensuring that the Plan assets are managed in accordance with the SIPP and the objectives and goals outlined therein.

18. Related party transactions

The Plan had the following transactions with related parties:

a) Transactions with the Corporation

Transactions with the Corporation were conducted in the normal course of activities and measured at the exchange amount. Included in administration expenses is $15 million (2021 – $14 million) for administration services provided by the Corporation to the Plan. Included in accounts payable and accrued liabilities is $12 million (2021 – $4 million) due to the Corporation for administration services provided to the Plan, which is unsecured and will be settled in cash.

b) Key management personnel compensation

The Plan defines its key management personnel (KMP) as the Corporation's Board of Directors and senior executives responsible for planning, controlling and directing the activities of the Plan. As the Plan's KMP are employees of the Corporation, the remuneration, which includes short-term and post-employment benefits, is paid by the Corporation and the Plan reimburses the Corporation for a portion of these expenses.

The reimbursement for 2022 and 2021 for certain senior executives was $851 thousand and $831 thousand respectively, and is included in the amount disclosed in note 18a. No remuneration is charged from the Corporation to the Plan for the services provided by the Board of Directors of the Corporation and other senior executives. Full disclosure of the Board's remuneration can be found in the Corporation consolidated financial statements.

19. Commitments and guarantees

In addition to derivative contracts (note 5b), the Plan enters into commitments and guarantees related to the funding of investments. Future commitments to fund investments include investments in infrastructure, real estate, private equity and private debt limited partnership agreements. The future commitments are generally payable on demand based on the capital needs of the investments. As at December 31, 2022, these future commitments amounted to $2,280 million (2021 – $1,691 million). There was no payable under guarantees provided as part of investment transactions as at December 31, 2022 (2021 – nil). Guarantees and commitments are often provided as part of developing or holding an investment and as such often have no fixed expiration date.