TORONTO TRANSIT COMMISSION
REPORT NO.

MEETING DATE: May 24, 2013

SUBJECT: TTC PENSION FUND SOCIETY AND TTC SICK BENEFIT ASSOCIATION ANNUAL REPORT, AUDITED FINANCIAL STATEMENTS FOR THE FISCAL PERIOD ENDED DECEMBER 31, 2012 AND BYLAW AMENDMENTS FOR APPROVAL

ACTION ITEM

RECOMMENDATION

It is recommended that the TTC Board:

1. Approve the TTC Pension Fund Society Bylaw Amendments, as disclosed on pages 49 to 56 of the appended 2013 TTC Pension Newsletter;

2. Receive for information the appended 2013 TTC Pension Newsletter and audited Financial Statements for the fiscal period ended December 31, 2012 of the TTC Pension Fund Society (pages 19 to 48) and TTC Sick Benefit Association (pages 63 to 68).

FUNDING

The existing TTC Pension Fund Society contribution rates will remain unchanged in 2013 and 2014 and are sufficient to meet the going concern funding requirements as defined under the Pension Benefits Act for the plan and a compliant actuarial report as at January 1, 2013 will be filed with the Regulators. This has been confirmed by the TTC Pension Fund Society's actuary, Mercer. As a result of the Society's positive investment performance in 2012 coupled with the fact that the pension formula's base period currently stands December 31, 2008, four years lagged, the Board has approved a 2 year base period update along with a 2% ad hoc pensioner increase. These changes will be made without increasing contributions.

BACKGROUND

Bylaw 3.09(1) of the Pension Fund Society requires that the TTC Board sanction any amendments to the Bylaws. All changes to the Society's Bylaws must be passed by a majority of the Directors, sanctioned by the TTC Board and approved by the Members at the Society's Annual General Meeting.

The Pension Fund Society was established on January 3, 1940 and as of December 31, 2012 has net assets of $4.2 Billion. The Society has approximately 12,745 Active Members and 6,935 Pensioners as of February 28, 2012.

Pursuant to Bylaw 7.03, the TTC Pension Fund Society Board evaluated plan benefit changes based on funding actuarial reports. Consideration was given to the affordability of benefit improvements given the financial position of the plan for the year ended December 31, 2012 and the existing benefit levels as detailed on the appended "History of Pension Improvements". After careful assessment of the valuation reports with the Fund's Actuary, on May 8, 2013, the Board approved a 2 year base period update (to move the base year to December 31, 2010) and a 2% ad hoc pensioner increase. The funded ratio of the plan, based on a 5.25% discount rate will be 94.5% (97.5% at January 1, 2012) and the existing contributions rates sufficiently sustain the improved benefit levels.

The TTC Sick Benefit Association was incorporated in 1960 and provides benefits to approximately 9,000 unionized members each year.

DISCUSSION

The Bylaw amendments for approval in this report do not change the funding requirements for the TTC or the Members. Any new wording or significant changes are included in the Newsletter and the changes are highlighted. The following describes the reasons for the amendments:

Bylaws 2, 11 and 12

These Bylaws were adjusted to reflect the changes to the immediate vesting rules under the Pension Benefits Act, which were effective July 1, 2012. The change means that once an employee of the TTC becomes a Member of the Society effective July 1, 2012 they will become vested immediately. Previously, a Member had to achieve two years of membership in the Society before they became vested.

Bylaw 12.04

This Bylaw titled Termination of Furlough Drivers was deleted due to the elimination of the Greyhound Bylaw as there are no longer any furlough drivers.

Bylaw 15.14

This Bylaw addition titled, Sponsor Election reflects the TTC and ATU Local 113's decision to opt out of the Pension Benefits Act grow in provision rules effective August 1, 2012.

Bylaws 6.02, 9.01, 13.02 and 2

These Bylaw amendments are to implement the plan improvements effective January 1, 2013 for a 2 year update to the base period, a 2 year update to the Survivor Benefit Date and a 2% ad hoc indexing increase for pensioners.

JUSTIFICATION

Pursuant to Pension Fund Bylaw 3.09(1), the TTC Board must sanction all Bylaw amendments adopted by the PFS Board. Membership approval of these amendments will be requested at the Annual General Meeting of the Society to be held on Saturday, June 22, 2013.

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May 14, 2013
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Attachments: 1. History of Pension Improvements
2. Pension Newsletter June, 2013

HISTORY OF PENSION IMPROVEMENTS

YEAR	UPDATE TO BASE PERIOD	PENSIONER INCREASE	YMPE	CONTRIBUTIONS	CHANGE(S)
2013			$51,100	9.25%/10.85%	
2012	Formula update – base up to 2008	1%	$50,100	9.25%/10.85%	Survivor benefit date to 2008; contributions unchanged
2011	Formula update – base up to 2007	2%	$48,300	9.25%/10.85%	Society became a JSPP; mortality assumptions updated; survivor benefit date to 2007; ad hoc pensioner increase; contributions increased 0.5%
2010	No update - 2005-2009 not included in base	0%	$47,200	8.75%/10.35%	Contributions increased 0.5%
2009	No update – 2005-2008 not included in base	0%	$46,300	8.25%/9.85%	Contributions unchanged
2008	No update – 2005-2007 not included in base	0%	$44,900	8.25%/9.85%	Contributions increased 1%; formula used to calculate indexing changed, threshold raised from 4.75% to 5.75%
2007	Formula update – 2003 & 2004 included in base	1.1%	$43,700	7.25%/8.85%	Contributions increased 0.5%; survivor benefit date extended to January 1, 2005
2006	Formula update – base up to 2002; 2003-2005 not included	1.2%	$42,100	6.75%/8.35%	Contributions increased 0.5%
2005	No update – 2002-2004 not included in base	0%	$41,100	6.25%/7.85%	Contribution increases negotiated for 2006, 2007 and 2008
2004	No update – 2002 and 2003 not included in base	0%	$40,500	6.25%/7.85%	
2003	No update – 2002 not included	1.7%	$39,900	6.25%/7.85%	Formula used to calculate indexing reduced

In preparation for the Annual General Meetings (AGM) of the Pension Fund Society (PFS) and the Sick Benefit Association (SBA), the annual reports from the Boards of Directors, the audited financial statements, and Bylaw amendments for approval are being published in this edition of the Newsletter.

The publication of these documents is required by law.
It is important information which you should read thoroughly.
You are urged to attend the Annual General Meetings on:

Saturday, June 22, 2013
Ontario Institute for Studies in Education (OISE)
Auditorium Room G162
252 Bloor Street West
(East of St. George Avenue, on the north side of Bloor Street)

Coffee will be served at 8:30 a.m.
The Pension Fund meeting will commence at 9:00 a.m. and the Sick Benefit meeting will follow.

The purpose of the Annual General Meetings is to provide for approval by the Membership, the annual reports, financial statements, Bylaw amendments and new business. In attendance at the PFS Annual Meeting are the Board and its advisors including the Society's Actuary, Mr. Marvin Ens of Mercer, the Auditors, PricewaterhouseCoopers and the Board's Financial Advisor, Mr. James Knowles. These advisors make themselves available to answer questions and to address concerns that Members and Associate Members may have. Please bring your TTC transportation pass for identification as voting cards will be distributed.

IN THIS ISSUE:

PENSION FUND SOCIETY 72ND DIRECTOR'S REPORT FOR 2012

TO THE MEMBERS OF THE TTC PENSION FUND SOCIETY

Your Board of Directors is pleased to report to you on the affairs of the Society for its 73rd year, which ended December 31, 2012. It is important that Members read and understand the financial information and other issues addressed in this Newsletter. As this information tends to be complex, we encourage all Members to attend the Annual General Meeting on Saturday, June 22nd. Ms. Mary Darakjian, Head of Pensions will be presenting the 2012 audited financial statements and other important information related to the Fund. Our advisors will also be in attendance to answer questions raised by the Membership.

CHANGE IN DIRECTORS AND OFFICERS

There have been several changes in Directors and Officers since the last AGM. The Board of Directors of the TTC Pension Fund Society welcome Mr. Kevin Morton as a Director and Mr. James Clarkson as the Treasurer. Mr. Morton replaced Mr. Rocco Signorile on the Board effective January 1, 2013. Mr. Clarkson joined the TTC on August 7, 2012 as the Director of Pension Accounting and became Treasurer of the TTC Pension Fund Society effective February 22, 2013. Ms. Mary Darakjian who was Acting Treasurer continues in her role as the TTC's Head of Pensions. On April 16, 2013, Mr. Andy Byford resigned from the Board. At the time of writing this newsletter, this position had not been filled.

CHANGES TO THE PENSION BENEFITS ACT FOR GROW–IN AND IMMEDIATE VESTING PROVISIONS

Effective July 1, 2012, the Pension Benefits Act was changed to include a provision which extends "grow-in benefits" to plan Members who are involuntarily terminated of their employment or upon the unlikely event of a full or partial plan wind-up. The grow-in benefits state that members with 55 points (any combination of age plus service) are treated as being eligible for enhanced early retirement benefits even though they do not satisfy the normal eligibility requirements for an unreduced pension. This is a higher level of benefit than allowed under the Society's Bylaws.

Section 74.1 of the Pension Benefits Act allows Jointly Sponsored Pension Plans (JSPP's) to opt out of the grow-in benefits provision. Opting out of this provision means that the normal rules for early retirement benefits under the TTC Pension Fund Society Bylaws would apply, which takes into account the Member's eligibility for such benefits based on age and years of service.

The grow-in benefits would affect a very small group of TTC Pension Fund Society Members whose employment is terminated involuntarily. The impact on the going concern funding liability under normal circumstances is a small increase however this may vary with valuation results and could increase considerably in the future.

After careful consideration, the TTC Pension Fund Society Board determined that opting out of the grow-in provision was the more equitable option for the Society and its Members. As required under the Sponsor Agreement, the ATU and the Toronto Transit Commission agreed to opt out of the grow-in benefits under Section 74.1 of the Pension Benefits Act effective August 1, 2012.

Also effective July 1, 2012, the Pension Benefit Act was changed to provide for immediate vesting of pension benefits. Prior to July 1st, Members had to complete 2 years of Membership in the Society in order to become vested. The term “vesting” in regards to pension means a Member has a right to a future benefit. This change means that once an employee becomes a Member of the Society they become vested immediately and his or her pension benefit is locked in. Immediate vesting applies to pension benefits earned before July 1, 2012.

2012 Ontario Budget Pension Initiatives

The 2012 Ontario Budget contained proposed reforms to the framework governing public sector defined benefit pension plans. The goal of these changes was to make broader public sector (BPS) plans more sustainable and affordable for pension plan members and taxpayers. The two proposed reforms that directly affected the Society were:

- Initiatives to help make Jointly Sponsored Pension Plans (JSPP’s) sustainable and affordable for members as well as all Ontarians in light of demographic and financial market challenges (JSPP Sustainability Framework); and
- Explore economies of scale, lower costs and higher returns potentially achievable through consolidation of smaller plans to create larger investment pools (Pooled Asset Management).

JSPP Sustainability Framework

To achieve its stated objective, the government was proposing a legislative framework to restrict future plan contribution rate increases by requiring management of escalating pension deficits through benefit reductions and 50-50 funding between employers and employees.

After consulting with their legal and actuarial advisors, the TTC, ATU Local 113 and the Society’s Board of Directors each made separate submissions to the Ministry of Finance. All submissions advised the Ministry of Finance that the Society’s benefit structure, administered through its Bylaws and the Sponsors Memorandum of Agreement, already supported most of the government’s stated objectives. The Board’s submission reiterated the points made by both the TTC and ATU Local 113 and repeated the request that the government not impose new terms and conditions on the Society, but accommodate the arrangement already existing in the plan.

In October 2012, the Ministry of Finance advised the Society that the Fund would not be required to enter into an agreement or be subject to any framework legislation.

Pooled Asset Management

In May 2012, the Minister of Finance appointed Mr. Bill Morneau as Pension Investment Advisor to lead the implementation process and provide recommendations on the appropriate model for managing the pooling of BPS pension fund assets. In June 2012, the TTC Pension Fund Society was invited to participate in the consultation process and was asked to provide input on a number of key questions such as, what is the appropriate mechanism for pooling investments of BPS pension plans and should participation be voluntary or mandatory.

On July 6, 2012, representatives from the TTC, ATU Local 113, pension office staff, the Fund's investment advisor, actuarial and legal representatives met with Mr. Morneau and Ministry of Finance staff. The group provided a comprehensive presentation outlining the Society's background, a summary of previous and current plan submissions and the reasons why mandatory pooling would not benefit the Society. Several days after the meeting, a written submission detailing the presentation was also forwarded to Mr. Morneau.

In October 2012 the Advisor issued his report recommending that pension plans with less than $40 billion in assets be compelled to participate in any pooling framework. After careful consideration, the government determined than any legislation, if passed, should permit JSPP's to invest any or all assets with a new investment management corporation on strictly a voluntary basis. This was confirmed in a letter to the Society in December 2012.

OMERS Update

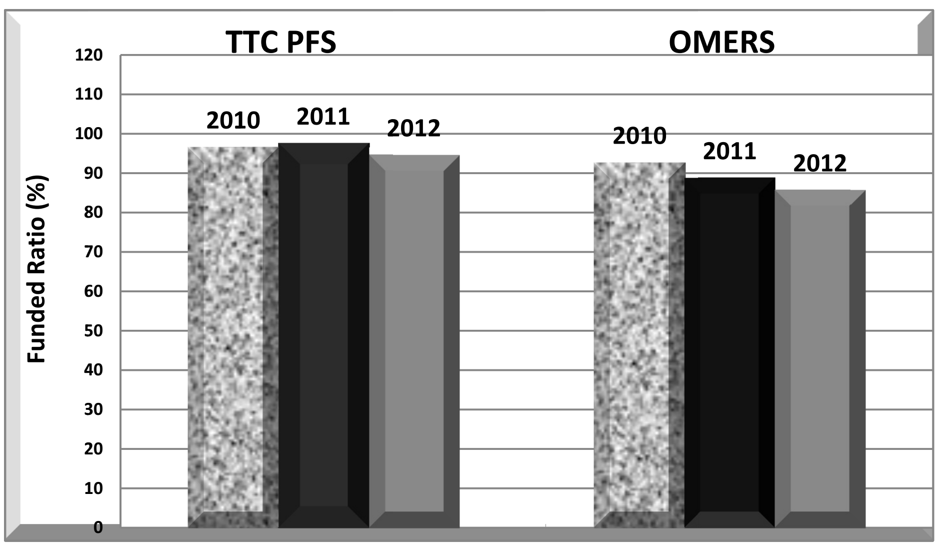
Pursuant to an overall City of Toronto initiative to find cost savings and streamline operations, in May 2011 City Council directed The Chief General Manager of the TTC, working co-operatively with OMERS staff, develop a detailed work plan to evaluate options available to the TTC Pension Fund Society and report back to the Government Management Committee (GMC). As the City Council does not have direct authority over the affairs of the Society, the Society's Board of Directors decided not to participate in such an analysis.

After much deliberation between the GMC and the Society's Board on this matter, in October 2012, the GMC recommended an independent review be completed of various options, one of which being a merger between the OMERS and TTC PFS plans. The review was to focus on the interests of the City of Toronto and the fiduciary responsibilities of the Society.

The third party consultant's review was completed early in 2013 and their findings were reported to the GMC on April 8, 2013. At the time of writing this newsletter, the GMC is recommending that City Council consider at its May 7, 2013 meeting, among several other recommendations, that the TTC and PFS re-assess the benefits of a PFS/OMERS merger on finalization of the related Pension Benefits Act (PBA) regulations. The full GMC report and the associated PFS Board response letter is publicly available and may be viewed through the following internet link http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.GM21.9.

Although OMERS is a highly regarded pension fund, the Board of Directors believe there are many valid reasons why a merger with OMERS would not be in the best interest of the plan Members and would not necessarily result in cost savings to the City. Primarily, the Society is a well managed Jointly Sponsored Pension Plan (JSPP) with a superior risk management model. The third party consultant hired by the City also acknowledged this fact. As you are well aware, the PFS Board approves base year updates and pensioner indexing only when actuarial valuations support that such plan improvements are affordable. This is the basis of our superior risk management model. For example between 2008 and 2011 when most pension plans faced serious financial challenges in light of poor investment market conditions, the Board made some very tough yet prudent decisions to contain costs by forgoing base year updates and pensioner indexing, decisions which affected the Directors personally as plan Members. During this period the base year for benefits was as much as five years lagged and pensioners endured three consecutive years of 0% ad hoc increases. We communicated these decisions to you through newsletters and at the Annual General Meetings and these decisions were supported as the long term sustainability of the plan is important to all stakeholders. This ability to control costs in tough times is a very powerful tool that is not available to OMERS.

The following chart compares the Society's and OMERS funded status on a going concern basis over recent years:



The Board's decisions and your support has contributed to our strong and stable funding position since December 31, 2010, while allowing reinstatement of some base year updates and pensioner ad hoc indexing. During this same period our contribution rates have remained unchanged while OMERS contribution rates have steadily increased commensurate with their deteriorating funded ratio. In 2013 members of the OMERS NRA 60 plan (the plan most comparable to that of the PFS) are paying contribution rates which are approximately 17% higher than that of PFS Members.

In addition to a strong and steady funded status, the PFS investment returns have been at or above benchmarks, with appropriate levels of investment risk. This is because the PFS Board manages investment risk through its prudent investment policies and the Fund has access to best of breed investment managers across the world and has the ability to terminate managers who do not perform to expectations. The Fund also has relatively low investment management costs. Because of the plan size we are able to negotiate competitively low investment management fees.

Lastly, a decision to merge the two plans would require agreement by the TTC and ATU Local 113 jointly as Sponsors and would also have to be approved by Members of the plan.

For all the above reasons, the PFS Board strongly believes that a plan merger with OMERS would not result in significant cost savings and would not serve to the benefit of our Members. They are also opposed to dedicating additional resources and incurring more costs to continue with an evaluation of a potential PFS, OMERS merger.

Asset-Liability Study and Revised Asset Mix Policy

The asset mix policy of the Fund, outlined in the Plan's Statement of Investment Policies and Procedures (SIP&P), is intended to manage investment risk through asset diversification, and to help the Fund achieve sufficient returns to meet the Plan's pension benefit obligations over the long term. The Plan's Directors review the SIP&P at least annually, and approve any changes.

During 2012, a comprehensive asset-liability (AL) study evaluated the Plan's current and projected funded status, taking into consideration the projected size and timing of future pension payments, the size and investment characteristics of the Fund, and current and alternative asset mix policies. This provided an updated assessment of:

- the sensitivity of the Plan's liabilities to potential interest rate changes (the amount that must be invested to meet the Plan's future pension obligations tends to increase when interest rates decline, and to decrease when interest rates rise),
- the likelihood that the Fund's assets will be sufficient to meet all future pension obligations, with no increase in contribution rates
- investment market scenarios under which future contribution rates could decline or increase;
- the potential effects of alternative asset mix policies on Fund earnings, the Plan's funded status, and future contribution rates.

A variety of investment scenarios and potential asset mix policies were considered, focusing on asset mix policies which can be expected to limit the risk that future contribution rate increases may be needed. This approach favours interest rate sensitive asset types which tend to move in the same direction as the Plan's liabilities. In addition, effective fund risk management through asset diversification and avoidance of unduly risky asset types were key objectives of the study.

ASSET – LIABILITY (AL) STUDY RESULTS

The table below shows the asset mix policy that applied throughout 2012, and new policy weights adopted early in 2013 based on the AL study.

Fund Asset Mix: Revised Policy Weights (%)

	2012 Policy Weight	2013 Policy Weight
Fixed Income – Bonds	41.0	34.0
Public Equity	50.0	38.0
Private Equity	0.0	5.0
Real Estate	5.0	12.0
Infrastructure	1.0	8.0
Cash and Equivalents	3.0	3.0
	100.0	100.0

Reduced exposure to traditional asset classes: The revised asset mix policy de-emphasizes public-market equities, with the overall weight for this asset class declining from 41% to 34% of the Fund. However, within the public equity category, reductions in developed economy exposures will be partially counter-balanced by a new 5% policy allocation to emerging markets.

The fixed income allocation, while reduced overall from 50% to 38%, calls for increased exposure to non-government (credit) bonds and, over time, an increase in the average maturity (duration) of the Fund’s bond holdings.

Increased exposure to alternative asset classes: Reduced investment in public equities and fixed income are counterbalanced in the new asset mix policy by increased investment in alternative asset classes - primarily private equity, real estate, and infrastructure. These are expected, over time, to grow at higher rates than the Plan’s liabilities, with enhanced return diversification potential and lower return volatility relative to public equities.

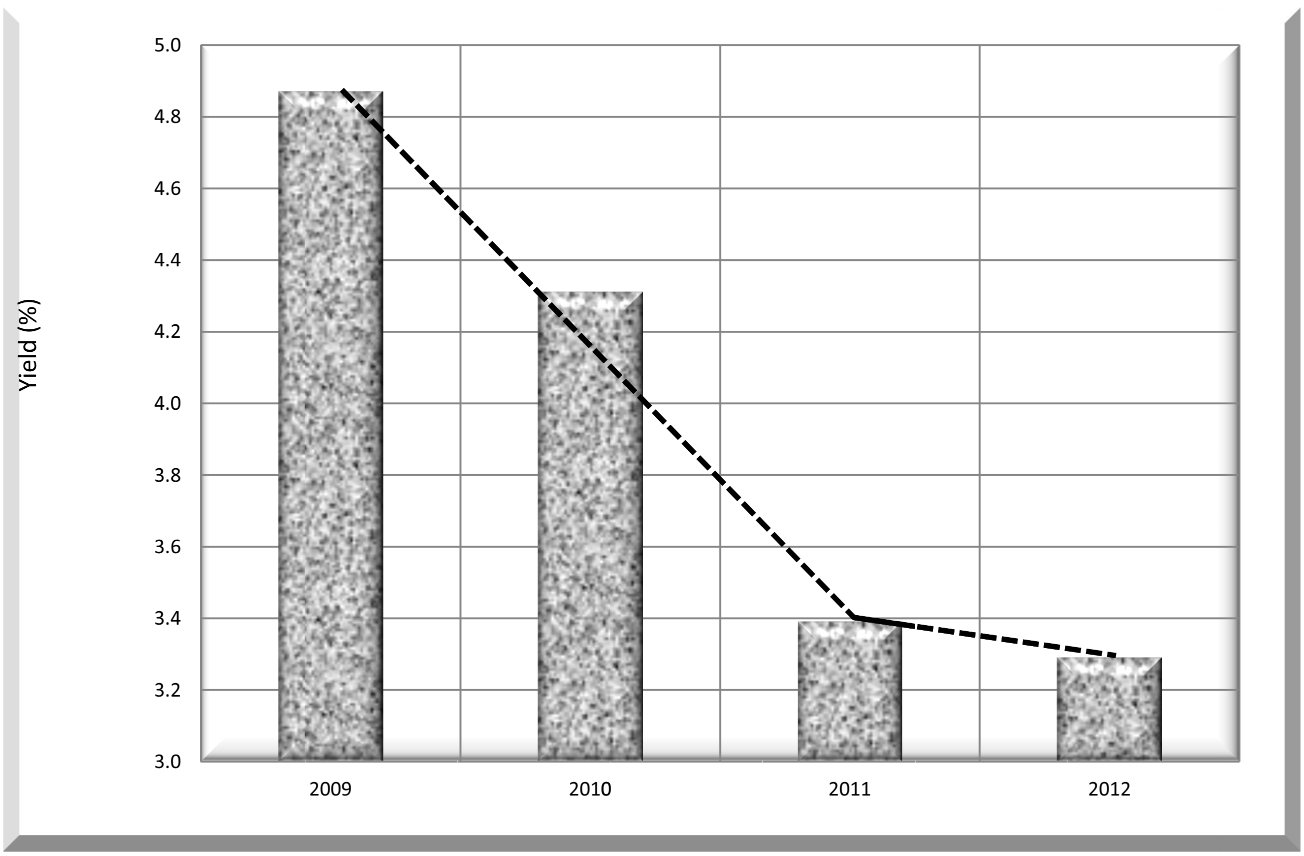
NEW ASSET MIX POLICY: INCREASED EXPOSURE TO ALTERNATIVES

Implementation of the new asset mix policy will take place over several years. During this time, the Fund will invest opportunistically, taking advantage of good investment and divestment opportunities as they arise; this is expected to be less costly than implementation on a fixed schedule.

MARKET OVERVIEW: FIXED INCOME AND INTEREST RATES

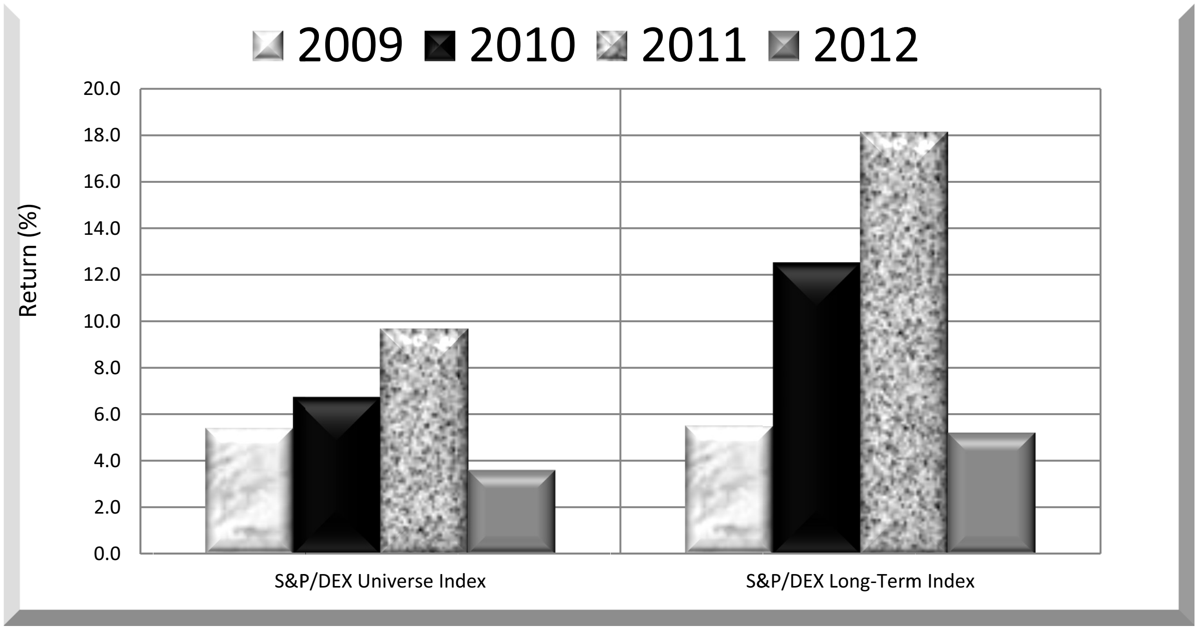
Flattening interest rate trend: The steep interest rate reductions experienced in recent years did not continue in 2012, with 20-year Canadian Government bond yields declining by just 0.14%. However, any decline in bond yields generates higher bond prices, thus bond market returns exceed beginning of year embedded bond yields. The S&P/DEX long-term bond index (which represents bonds maturing in 10+ years) gained 5.2% in 2012, and the S&P/DEX Universe index (mixed-maturity bonds) returning 3.6%. Returns in 2011 were 18.1% and 9.7% respectively.

Average Yield, S&P/DEX Long-Term Bond Index



Like bond prices, pension liabilities increase as interest rates decline, and good bond returns are generally accompanied by increases in the estimated cost of meeting future payment obligations . Sizeable liability increases, accumulated due to persistent declines in interest rates over many years, remain the most pressing problem facing many Canadian pension funds, as pension liabilities have in most cases grown more quickly than assets in recent years. However, the modest interest declines and strong equity returns (see below) of 2012 provided some relief from this trend.

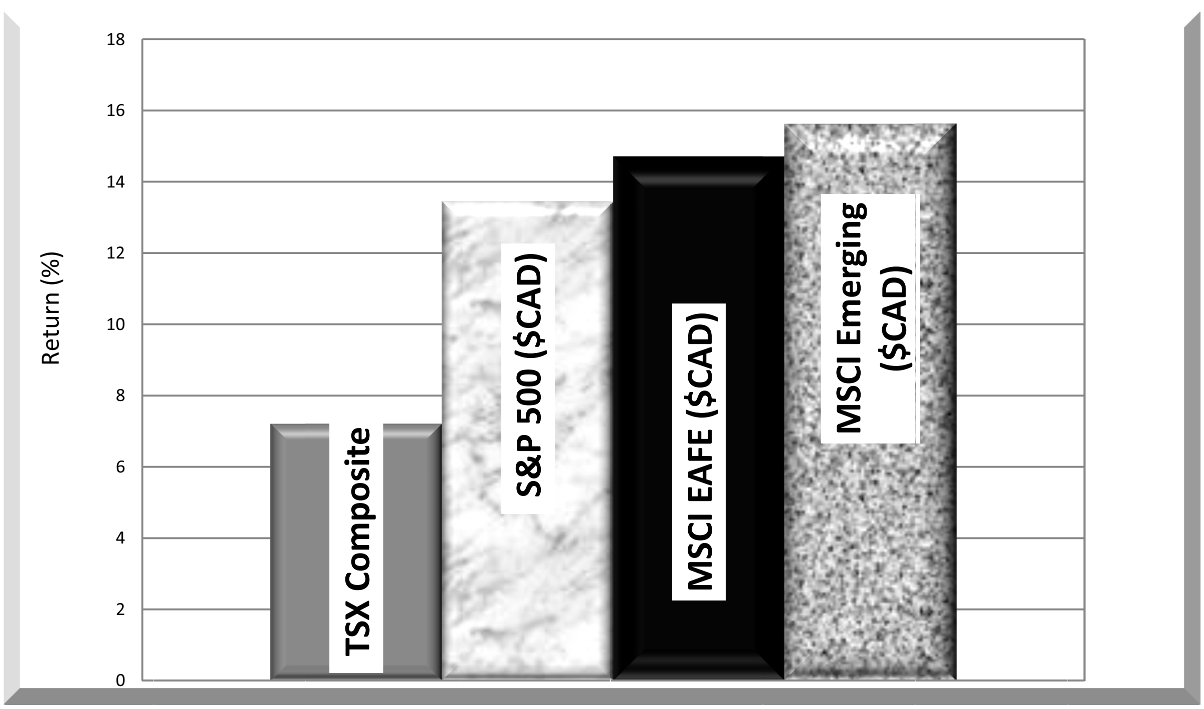
Canadian Bonds: Calendar Year Returns



MARKET OVERVIEW: EQUITIES

All major equity markets performed well in 2012. Foreign markets generated returns of about 14% in $CAD , while the Toronto Stock Exchange Composite index gained 7.2%. Among foreign markets, emerging economies were particularly strong (+15.6%), as were northern European developed economies such as Germany (+28%), the nordic countries (+19.4%), the Netherlands (+17.9%) and Switzerland (+17.7%).

Equity Markets: Total Return (%) in 2012



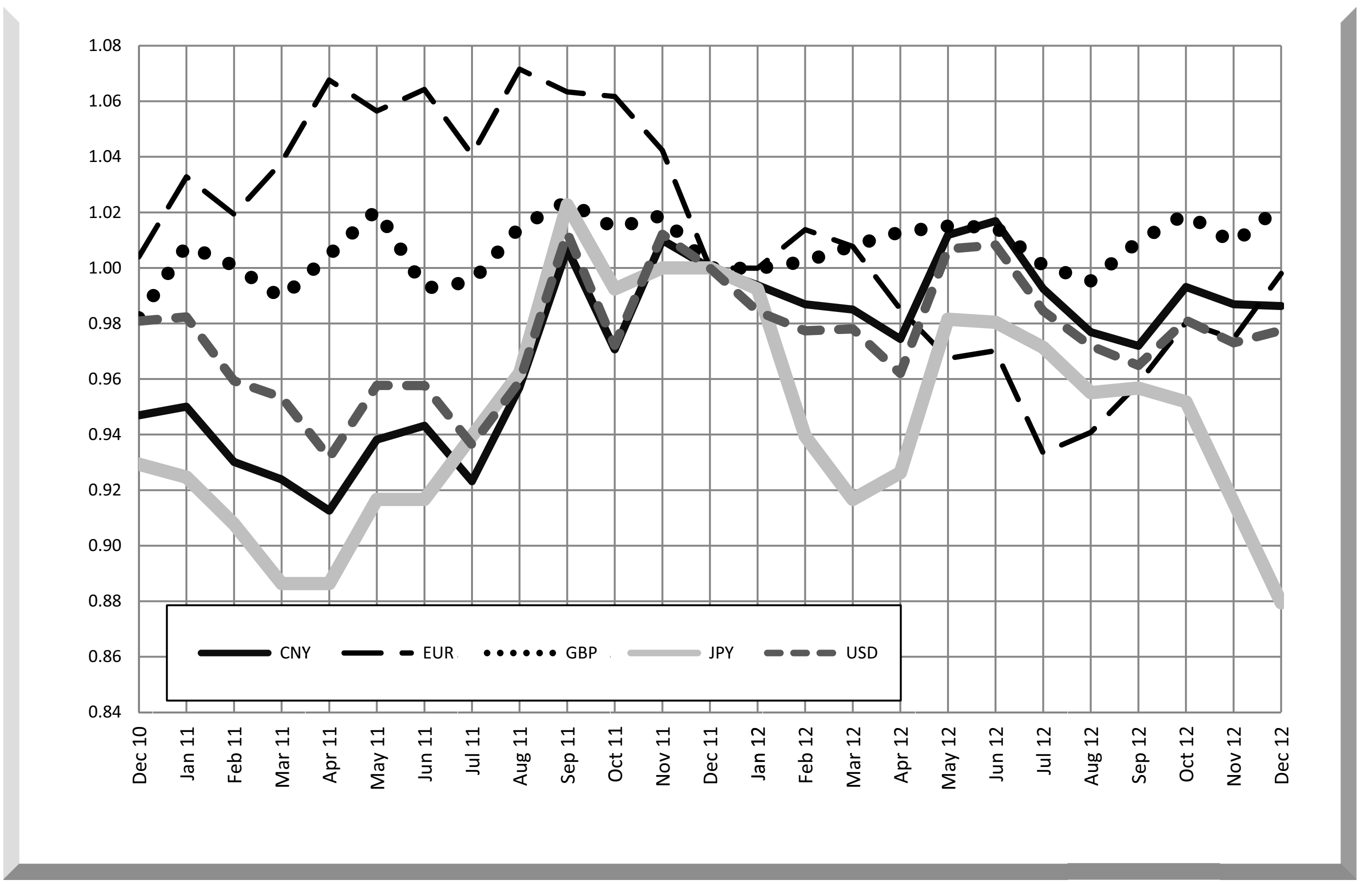
MARKET OVERVIEW: CURRENCIES

The comparative weakness of the $CAD seen in 2011 changed to broad currency neutrality in 2012, with most major currencies declining slightly against $CAD but ending the year within 2% of their beginning of year value. Strong Yen depreciation reflected a widening trade deficit and expansionary Japanese monetary policy.

Relatively modest changes in exchange rates meant that, on net, currency effects in the Fund were generally minor in 2012.

Note: all currencies set = $CAD 1.00 at December 31, 2011

Currency Relative Values in $CAD, 2011 - 2012



CURRENCY HEDGING

Over the long term, fluctuations in currency exchange rates are not expected to have a material effect on the value of the Fund. Over shorter periods, however, exchange rate movements can create sizeable "windfall" gains or unexpected losses. To limit the effects of short-term currency-related volatility on overall Fund value, the Society's policy is to hedge away one-half of the currency risk associated with the Fund's equity investments, and all of the currency risk related to its hedge fund and foreign bond investments. In 2012, the currency hedging program increased overall Fund return slightly.

2012 Fund Asset Mix

2012 saw an increase in the Fund weights of Real Estate, Infrastructure and Hedge Funds, due to strong returns in these asset classes and to increased investment by the Fund. The Fund's exposure to public equities also increased as a result of high returns in most equity markets during 2012.

The Fund's overall allocation to bonds and other fixed income securities declined correspondingly, in part because of relatively low returns in bond markets. Within this component of the Fund, there was a modest decrease in public market debt, in favour of an increased investment in private debt.

Infrastructure and Real Estate investments are long-term in their orientation and represent a good match for long-term pension obligations. Along with Private Equity, they are expected, over time, to generate a return premium associated with their relative lack of liquidity. The long-term investment horizon of pension funds makes liquidity risk an attractive source of long-term return enhancement, a consideration taken into account in the development of the Plan's new asset mix policy as described above.

The Plan's hedge fund investment is expected to provide a return comparable to that of equity, with a commensurate degree of risk.

Asset Mix, Year-End (%)	2011	2012
Fixed Income	44.5	40.5
Public Equity	48.4	51.4
Real Estate	5.0	5.6
Infrastructure	0.7	1.8
Hedge Funds	0.4	1.5
Cash and Equivalents	1.0	-0.8
	100.0	100.0

Investment Performance

The Society's investment returns on key asset classes and the total Fund are shown below.

	% Return in 2012		Annualized % Return, 2008-2012	
	Fund	Benchmark	Fund	Benchmark
Fixed Income	5.9	4.7	7.2	7.5
Canadian Equity	14.9	7.2	3.4	0.8
U.S. Equity	15.3	13.3	2.6	1.8
International Equity	14.3	14.7	-1.8	-3.5
Real Estate	12.4	8.2	1.5	6.5
Total Fund	**11.8**	**8.8**	**4.2**	**4.0**

The Fund's returns exceeded the benchmark in 4 of 5 major asset classes, and by about 3% in total, during 2012.

Fixed Income: Five-year return differences vs. the benchmark remain negative within the fixed income asset class, where steep declines in long-term interest rates during 2009-2011 resulted in under-performance of bond portfolios positioned for stable or rising interest rates. In 2011 these effects were accompanied by modest increases in the yield spreads on corporate bonds, which also tended to generate under-performance relative to the benchmark. However, spreads contracted in 2012, boosting the performance of the credit bond component of the Fund.

Equity: The plan reviewed its foreign equity investments in 2012, resulting in a decision to replace one of the existing EAFE (Europe, Australia, Far East) accounts with an Emerging Markets (EM) equity account. A search to appoint a new EM equity manager is planned for the first half of 2013, and will represent the first significant step toward implementing the newly-adopted asset mix policy. While the Fund's equity gains were strong in 2012, and although many of its equity managers have out-performed their market benchmarks, trailing 5-year equity returns remain weak overall, and equity markets continue to act as a drag on longer-term performance.

As in 2011, strong returns on the Fund's real estate holdings in 2012 were a welcome contributor to performance. Concern remains however that domestic real estate markets (particularly residential real estate, to which the fund has minimal exposure) may decline from current levels.

The Society's mid-term Total Fund returns are still negatively influenced by the near-collapse of many securities markets in 2008 and early 2009. However, the Society's assets continue to be invested with the twin objectives of achieving sufficient returns with acceptable levels of risk over the long term.

Base Period Update and Pensioner Indexing

After careful consideration of affordable plan improvements based on the Plan's actuarial reports, the Board of Directors are pleased to advise all Members of the following changes to the Pension Plan effective January 1, 2013.

For Members who retired on or after January 1, 2013, your pensionable earnings in 2009 and 2010 will now be included in the base period for calculating pension benefits. The base period formula will now be the average of your best four years of pensionable earnings up to December 31, 2010.

In lock-step with this formula update, the Survivor Benefit Date has been moved to January 1, 2011. This means that for married Members, the 60% survivor option will have no cost for all pension service prior to January 1, 2011.

Also, Pensioners will receive a 2% ad hoc cost of living increase effective January 1, 2013.

The Bylaw Amendments to effect the improvements will be presented to the Commission on May 24, 2013 and to the Members at the Annual General Meeting on Saturday, June 22, 2013.

PROFESSIONAL ADVISORS

Your Pension Fund Society Board of Directors is committed to protecting the Member's interests by retaining the best talent available to advise them on financial, real estate, actuarial, and legal issues. These advisors include:

- Northern Trust is the Society's custodian.
- Morningstar Canada provides performance measurement of the Fund's investment managers.
- Actuarial services to the Society are provided by Mercer (Canada) Limited.
- Mr. James Knowles, President, James A. Knowles Inc. is the Society's Financial Advisor.
- PricewaterhouseCoopers, are the Society's external auditors.
- Triovest Realty Advisors are the real estate consultants.
- Osler, Hoskin & Harcourt, is external legal counsel.
- Other professional advisors are retained from time to time as required.

ACKNOWLEDGEMENTS

The Board of Directors of the TTC Pension Fund Society wishes to express to the Members, the TTC and administrative staff of the Pension Office, its sincere appreciation for their support and co-operation throughout the year.

Bob Kinnear
President

YOUR FUND'S FINANCIAL HIGHLIGHTS AND STATISTICS AT A GLANCE

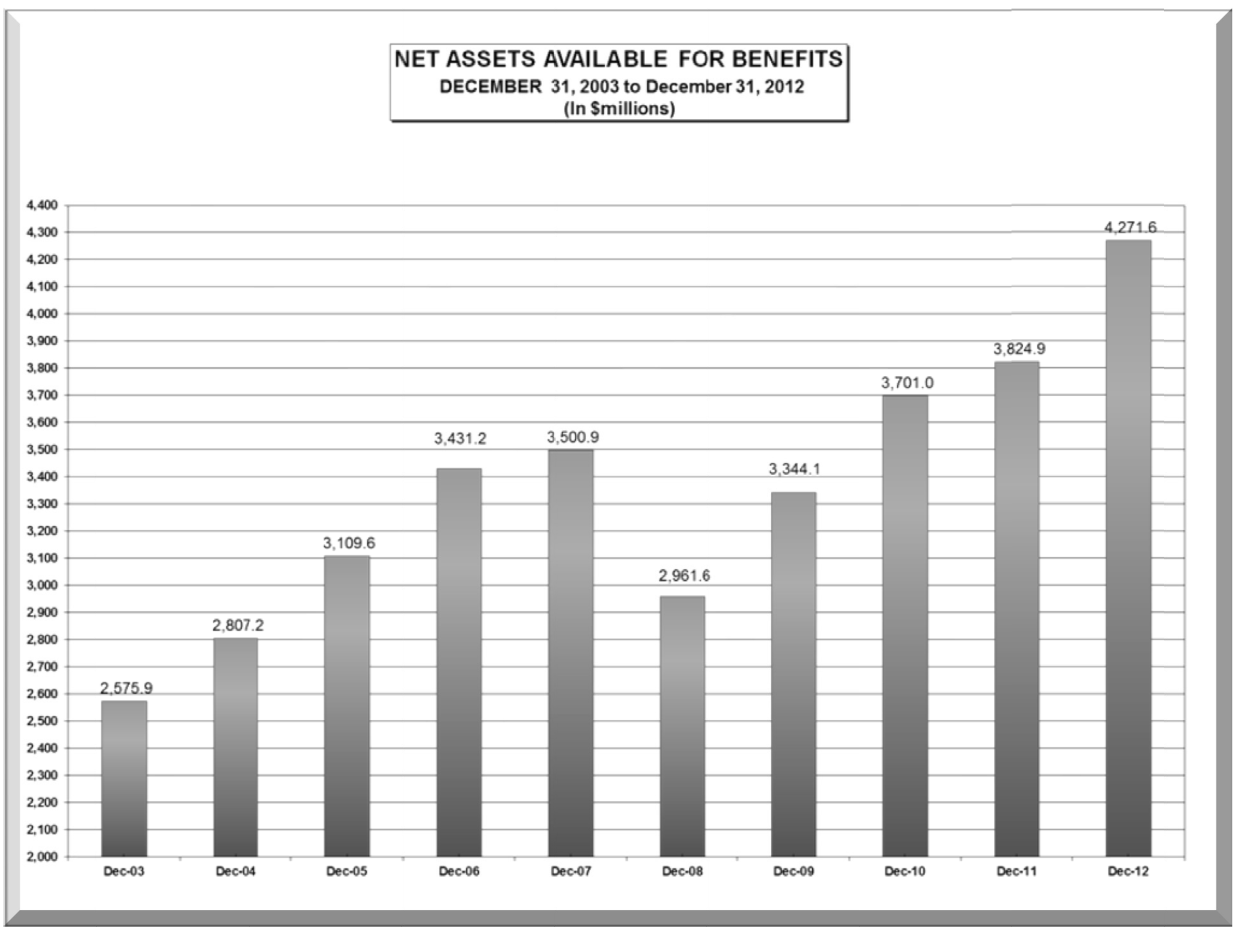
Net assets available for benefits increased by $446.6 million or 11.7% in 2012 to $4.27 billion at year end. The increase was much stronger than the previous year of $123.9 million, reflecting the overall poor equity market returns in 2011 relative to 2012.

The Society's investments generated a net investment income of $456.5 million compared to $120.6 million in 2011. The 2012 net income was comprised of interest and dividends earned, and real estate income totalling $142.5 million, realized gains on investments sold of $106.2 million and unrealized "paper" gains of $207.8 million arising from holding investments during the year.

Total contributions into the Fund increased from $182.0 million in 2011 to $193.6 million in 2012 or $11.6 million ($14.4 million in 2011).

Contributions received into the Fund continue to exceed benefits and refunds paid out of the Fund. This excess amount of $5.3 million in 2012 compares to $15.8 million in 2011.

Investment and Plan administration expenses increased to $15.2 million compared to $12.4 million in 2011, representing approximately 0.36% (0.33% in 2011) of average Plan assets at market.



Membership Data	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Active Members	12,765	12,689	12,584	12,400	11,681	11,244	10,896	10,689	10,538	10,489
Pensioners	6,827	6,502	6,307	6,143	6,026	5,870	5,713	5,563	5,397	5,180
Ratio Active Member/Pensioner	1.87	1.95	2.00	2.02	1.94	1.92	1.91	1.92	1.95	2.03

Pension Administration Statistics	2012	2011	2010	2009	2008
Pre-Retirement Seminar Attendees	0	379	448	450	496
Pension Estimates	1,513	1,992	1,653	1 ,407	1,458
Refunds Processed	109	81	74	59	68
Retirements	513	373	299	257	267
Benefits Paid to Pensioners*	$173,696	$159,388	$150,998	$146,597	$143,264
Members’ Contributions*	$95,647	$89,957	$82,855	$74,495	$66,854
Employers’ Contributions*	$97,950	$92,055	$84,785	$76,599	$69,270

in thousands

Pre-Retirement Seminars

Pre-retirement seminars were suspended in 2012 due to the significant number of staffing changes in the Pension Office. In 2013, we have resumed our regular schedule of providing seminars in the spring and fall.

If you have never applied to attend a pre-retirement seminar and you would like to add your name to the waiting list, you qualify to do so if you are at least 40 years of age OR have at least 20 years of T.T.C. service. All we need is your name, employee number, work location and whether your spouse/partner is interested in attending.

The pre-retirement seminars are two full days with lunch included. The seminars provide information regarding your T.T.C. pension plan, health benefits and life insurance available upon retirement, financial planning, budget and debt management, RRSP information, tax planning and estate planning. Attendance is limited to one-time only and the information is probably most beneficial to those employees who are approximately 10 years away from their retirement date. One of the most common comments we receive from employees after attending a seminar is that they wished they had attended sooner.

To apply to attend a seminar you can complete an application form at your work location or call us at 416-393-4368 or 416-393-4367 or email anna.puccia@ttc.ca or rita.monaco@ttc.ca.

The fall 2013 seminar dates are: October 9 & 10 and October 31 & November 1. The seminars will be held at the Radisson Hotel Toronto East, 55 Hallcrown Place.

Getting a Pension Estimate

We advise all Members who are age 50 or who have 28 years of service to keep their pension estimate updated. Even if you do not plan to retire for up to 10 years, getting a pension estimate is smart financial planning that will help ensure that you are ready for retirement.

By reviewing your estimate you will become familiar with your entitlement, how it's growing and changing, any optional forms of pension, costs for any health benefits, etc.

All it takes is a quick phone call to the Pension Office. We need your name, employee/badge number, current marital status (single, married, common law or designated spouse), your spouse's date of birth so we can calculate survivorship costs, and whether you would like the estimate mailed to your home or work location. It's that easy. You can telephone the office anytime 7 days a week, 24 hours a day, as in non-business hours the phones will go to voicemail. Give us a call at (416) 393-4367 or 1 (800) 663-6820.

Credited Interest Rates

In 2013, the rate of interest to be credited to a Member's Required Contributions is 1.59%, compared to 1.72% in 2012. This is the interest rate that shows on all Members entitlement statements that are issued in late May or June of the following year.

TORONTO TRANSIT COMMISSION - PENSION FUND SOCIETY

FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND DECEMBER 31, 2011

(IN THOUSANDS OF CANADIAN DOLLARS)

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DRAFT

Actuaries' Opinion

Mercer (Canada) Limited was retained by the Board of the Toronto Transit Commission Pension Fund Society (the Society) to perform an actuarial valuation of the assets and CICA 4600 accounting liabilities of the Society as at December 31, 2012, for inclusion in the Society's financial statements. We have completed such a valuation and provided our report to the Board.

The valuation of the Society's Section 4600 accounting liabilities was based on:

- Membership data as at January 1, 2012, supplied by the Society and used to extrapolate valuation results to December 31, 2012,
- Methods prescribed by Section 4600 of the Canadian Institute of Chartered Accountants Handbook for pension plan financial statements, and
- Assumptions about future events (including mortality levels, future investment returns, and future pay levels), which have been developed by the Board with input from the actuaries and the auditors, and have been adopted by the Board as its best estimates for accounting purposes, in accordance with Section 4600 of the CICA Handbook.

The valuation of the Society's assets was based on information provided by the Society.

The objective of the financial statements is to fairly present the financial position of the Society on December 31, 2012, in accordance with accounting practices. This is very different from the statutory funding valuation required by the Pension Benefits Act to ensure that the Society meets the funding requirements for the benefits being provided. As a result, the valuation results presented in the financial statements and notes are not indicative of the Society's ability to meet its funding requirements or of the benefit levels which it is able to provide.

While the actuarial assumptions used to estimate liabilities for the Society's financial statements represent the Board's best estimate of future events and market conditions at the end of 2012, the Society'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 and losses in future valuations.

We have tested the data used for the valuation for reasonableness and consistency, and in our opinion, the data are sufficient and reliable for purposes of the valuation. We believe that the methods employed are appropriate for purposes of the valuation, and that the assumptions used are in accordance with Section 4600 of the CICA Handbook and accepted actuarial practice. Our opinions have been given, and our valuation has been prepared, in accordance with accepted actuarial practice in Canada.

Marvin Ens
Fellow of the Society of Actuaries
Fellow of the Canadian Institute of Actuaries
May 8, 2013

Loyd Zadorozny

Loyd Zadorozny
Fellow of the Society of Actuaries
Fellow of the Canadian Institute of Actuaries
May 8, 2013

May 8, 2013

Independent Auditor's Report

To the Board of Directors of the Toronto Transit Commission Pension Fund Society

We have audited the accompanying financial statements of Toronto Transit Commission Pension Fund Society (the Plan), which comprise the statement of financial position as at December 31, 2012 and the statements of changes in net assets available for benefits and changes in pension benefit obligation for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

pwc

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Toronto Transit Commission Pension Fund Society as at December 31, 2012 and the changes in its net assets available for benefits and changes in its pension benefit obligation for the year then ended in accordance with Canadian accounting standards for pension.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Toronto Transit Commission Pension Fund Society

Statement of Financial Position

As at December 31, 2012

	2012 $	2011 $
Assets		
Cash	13,475	19,311
Investments (note 3)	4,472,375	3,797,299
Investment-related receivables (note 3)	275,057	43,648
Contributions receivable		
Members	12,121	10,942
Employers	180	14
Other assets	1,131	1,021
	4,774,339	3,872,235
Liabilities		
Investment-related liabilities (note 3)	490,450	36,766
Other liabilities (note 6)	12,299	10,491
	502,749	47,257
Net Assets Available for Benefits	4,271,590	3,824,978
Pension benefit obligation (note 7)	3,833,264	3,771,488
Surplus	438,326	53,490

Approved by the Board of Directors

B. Kinnear Director

Vincent Rodo Director

The accompanying notes are an integral part of these financial statements.

Toronto Transit Commission Pension Fund Society

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31, 2012

	2012 $	2011 $
Increase in net assets available for benefits		
Investment income (note 10)	142,500	124,751
Net increase in fair values of investments (note 10)	314,037	-
Contributions		
Members	95,647	89,957
Employers	97,950	92,055
	650,134	306,763
Decrease in net assets available for benefits		
Pension benefits	173,696	159,388
Net decrease in fair values of investments (note 10)	-	4,120
Investment and Plan administration expenses (note 11)	15,204	12,453
Death benefits	5,411	3,876
Termination refunds	8,916	2,985
Marriage breakdown	295	-
	203,522	182,822
Increase in net assets available for benefits during the year	446,612	123,941
Net assets available for benefits - Beginning of year	3,824,978	3,701,037
Net assets available for benefits - End of year	4,271,590	3,824,978

The accompanying notes are an integral part of these financial statements.

Toronto Transit Commission Pension Fund Society

Statement of Changes in Pension Benefit Obligation

For the year ended December 31, 2012

	2012 $	2011 $
Pension benefit obligation - Beginning of year	3,771,488	3,386,074
Benefits accrued	126,925	120,710
Benefits paid	(188,319)	(166,249)
Interest accrued on benefits	222,342	213,304
Changes in actuarial assumptions	(143,635)	111,846
Experience (gains) losses	(18,096)	(25,598)
Plan amendments	62,473	131,401
Immediate vesting	86	-
Net increase in pension benefit obligation	61,776	385,414
Pension benefit obligation - End of year (note 7)	3,833,264	3,771,488

The accompanying notes are an integral part of these financial statements.

(tabular amounts in thousands of Canadian dollars)

1 Description of Plan

The following description of the pension plan operated by the Toronto Transit Commission Pension Fund Society (the Plan) is a summary only. For more complete information, reference should be made to the bylaws of the Plan.

General

The Plan commenced operations on January 3, 1940 as a corporation pursuant to letters patent under Part XVI of the Corporations Act of the Province of Ontario. The Board of Directors (the Board), which consists of ten voting members, five of whom are appointed from the Toronto Transit Commission (TTC) and five of whom are appointed by Amalgamated Transit Union Local 113 (ATU), administers the affairs of the Plan. Pursuant to the Sponsors' Agreement between ATU and TTC (the Sponsors), the Plan is registered as a Jointly Sponsored Pension Plan (JSPP) effective January 1, 2011.

The Plan covers substantially all employees of the TTC and ATU who have completed six months of continuous service. Under the Plan, contributions are made by members and matched by their employers. The Plan is registered under the Pension Benefits Act of the Province of Ontario (PBA) and the Income Tax Act (Canada) (registration number 0317586) and, therefore, is exempt from taxation on its income under Part I of the Income Tax Act (Canada).

The Plan is a defined benefit plan. The Board of the Plan sets the employer and employee contribution rates, subject to the funding requirements determined in the actuarial report and subject to limitations in the Sponsors' Agreement between the ATU and TTC. Members' benefits are determined using a modified career average formula based on pensionable earnings and years of credited service. Plan improvements, including increases to the career average base period and pension indexing may be adopted by the Board, depending on the Plan's funded status.

Funding

The Plan is funded by contributions and investment earnings. The Board has adopted a Funding Policy that aims to achieve long-term funding stability, with the objective of supporting benefit levels higher than the contractual benefits, including base period updates and pension increases specified by the bylaws. Actuarial funding valuations are conducted at least triennially to determine pension liabilities and the funded position and contribution rates of the Plan.

Contributions

In 2012, each member employed by the TTC and ATU contributed 9.25% (2011 - 9.25%) of earnings to the Plan up to the year's maximum pensionable earnings (YMPE) of $50,100 (2011 - $48,300) and 10.85% (2011 - 10.85%) of earnings above the YMPE. The TTC and ATU contributed an amount equivalent to each member's annual contribution.

(tabular amounts in thousands of Canadian dollars)

The TTC is also obligated to make contributions for certain early retirement benefits after 29 years of service and some temporary supplements.

Benefits

Pensions are payable from the Plan based primarily on years of credited service and members' highest four-year career average pensionable earnings up to the current base period-end date December 31, 2008 (2011 - December 31, 2007). The benefits provided are those that can be actuarially supported by the Plan's assets and the contributions to the Plan based on funding requirements specified in the PBA and priorities outlined in the bylaws. Death benefits and lump sum payments on termination before eligibility for retirement are also available from the Plan.

2 Summary of significant accounting policies

Basis of accounting and adoption of Canadian accounting standards for pension plans

In 2010, the Canadian Institute of Chartered Accountants (CICA) Handbook - Accounting was revised to create Part IV, Canadian accounting standards for pension plans, to incorporate therein Section 4600, Pension Plans, and to require pension plans to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Plan established accounting policies and commenced reporting on this basis as is further described below. 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 sponsors and members.

Investment assets and investment liabilities

Investment assets and investment liabilities are recorded at fair value in accordance with International Financial Reporting Standard (IFRS) 13, Fair Value Measurement. Purchases and sales of investments are recorded as of the trade date (the date on which the substantial risks and rewards have been transferred). Transactions that have not been settled are reflected in the statement of financial position as investment-related receivables/liabilities.

Fair values

The fair values of the investments are determined as follows:

- short-term investments are valued at cost, which together with accrued income, approximates fair value;
- bonds are valued based on quoted market prices obtained from independent third party pricing sources; where quoted market prices are not available, estimated values are calculated using discounted cash flows based on current market yields for comparable securities;
- publicly traded Canadian and non-Canadian stocks are valued at the last published closing price on the applicable stock exchange;

(tabular amounts in thousands of Canadian dollars)

- real estate property values are generally based on the most recent annual independent appraisal of the property; the associated mortgages payable are measured at amortized cost, which approximates fair value;

- infrastructure and hedge fund secondary investments, held through a limited partnership arrangement, are valued by the general partner based on the most appropriate industry valuation models applied on an investment by investment basis;

- the investment values of pooled funds and funds of hedge funds are supplied by the fund administrators based on fair value quotations or appraisals, as appropriate; and

- exchange traded derivatives, such as futures, are valued at quoted market prices; for other derivative financial instruments, where market prices are not available, appropriate valuation techniques are used to estimate fair values.

Investment income

Dividend income is recognized based on the ex-dividend date and interest income is recognized on the accrual basis as earned.

Net realized gain (loss) on sale and settlement of investment assets and investment liabilities during the year represents the difference between sale or settlement proceeds and cost. The net change in unrealized gains (losses) on investment assets and investment liabilities represents the change in the difference between the fair value and cost of investment assets and investment liabilities at the beginning and end of the year. All realized and net changes in unrealized gains and losses on investment assets and investment liabilities are recorded in the statements of change in net assets available for benefits in the year in which they occur.

Policy for items not related to investment portfolio or pension obligation

The Plan's accounting policies not related to the investment portfolio or pension obligation are based on Canadian accounting standards for private enterprises in Part II of the CICA Handbook - Accounting.

Foreign currency translation

Transactions denominated in foreign currencies are translated into Canadian dollars at the rates of exchange prevailing at the dates of the transactions. Assets and liabilities denominated in foreign currencies are translated at the rates in effect at year-end. The resulting realized and unrealized gains or losses are included in net investment income.

(tabular amounts in thousands of Canadian dollars)

Pension benefit obligation

Valuation of the pension benefit obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is based on data as at the beginning of the year extrapolated to the year-end. It uses the projected benefit method pro-rated on service and the Board's best estimate of various economic and non-economic assumptions.

Contributions

Contributions from members and employers due to the Plan at year-end are recorded on an accrual basis. Contributions for past service purchases are recorded when received.

Benefits

Benefits paid to pensioners are recorded in the year in which they are due. Refunds to former members and the estates of deceased members are recorded in the year in which they are paid. Refunds attributable to the current year but paid after year-end are reflected in accrued pension benefits.

Cash

Cash includes short-term investments with a term to maturity of 90 days or less on issuance.

Administrative expenses

Administrative expenses incurred are paid directly from the Plan and are treated as expenses in the financial statements, with the exception of certain actuarial and audit expenses, which are paid directly by the Sponsors.

Use of estimates

The preparation of financial statements in accordance with Canadian accounting standards for pension plans requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets available for benefits during the reporting period. Significant estimates are used, primarily in the determination of the pension obligation and the fair value of certain investments. Actual results could materially differ from those estimates.

(tabular amounts in thousands of Canadian dollars)

3 Investments

The following schedule summarizes the Plan's investments and investment-related receivables and liabilities before allocating the effect of derivative financial instruments:

	2012		2011	
	Fair value $	**Cost $**	**Fair value $**	**Cost $**
Investments (note 3(a))				
Fixed income				
Invested cash	64,967	64,967	44,650	44,650
Short-term money market securities	100,776	100,650	100,733	100,649
Canadian bonds	1,652,172	1,517,710	1,417,592	1,270,273
Non-Canadian bonds	73,356	70,099	73,966	76,073
Funds of hedge funds	163,328	168,807	146,425	156,839
	2,054,599	1,922,233	1,783,366	1,648,484
Equities				
Canadian	859,566	711,078	759,582	681,437
Non-Canadian	1,180,636	1,100,302	1,023,309	1,054,505
	2,040,202	1,811,380	1,782,891	1,735,942
Alternative investments				
Real estate	240,273	189,175	188,392	161,575
Infrastructure (note 3(b))	75,900	67,700	27,650	24,600
Hedge fund secondaries (note 3(b))	61,400	41,400	15,000	15,000
	377,573	298,275	231,042	201,175
	4,472,375	4,031,888	3,797,299	3,585,601
Investment-related receivables				
Derivative financial instruments receivable (note 5(c))	265,345	-	33,767	-
Pending trades	1,623	1,623	1,865	1,865
Accrued investment income	8,089	8,090	8,016	8,016
	275,057	9,713	43,648	9,881
Investment-related liabilities				
Bonds sold under repurchase agreements	210,722	210,722	-	-
Derivative financial instruments payable (note 5(c))	275,909	-	23,328	-
Pending trades	3,819	3,819	13,438	13,438
	490,450	214,541	36,766	13,438
	4,256,982	3,827,060	3,804,181	3,582,044

(tabular amounts in thousands of Canadian dollars)

a) Includes investments in pooled funds, details of which are provided in note 13(c).

b) The Plan is committed to investing up to an additional US$7.3 million (2011 - US$52.4 million) into an existing infrastructure fund by September 2014 and up to an additional US$33.6 million (2011 - US$61.1 million) into the hedge fund secondaries.

4 Financial risk management

Capital management

The capital of the Plan is represented by the net assets available for benefits less the statutory actuarial valuation referred to in note 8. The Plan's objective when managing the capital is to safeguard its ability to continue as a going concern and to maintain adequate assets to support pension obligations.

The Plan's administrator has adopted a Statement of Investment Policies and Procedures (the SIP&P) which states investment objectives, guidelines and benchmarks used in investing the capital of the Plan, permitted categories of investments, asset-mix diversification and rate of return expectations. The SIP&P was last amended effective December 2011.

The Plan's absolute return expectation over a long-term investment horizon has been set in the SIP&P at 5.25% annualized rate of return, before investment management fees. The Plan's annualized five-year average rate of investment return, after investment management fees, as of December 31, 2012 was 3.9% (2.2% as of December 31, 2011).

The mismatch of duration of the Plan assets and liabilities also creates risk. The Board monitors the going concern funded status on a monthly basis. In 2013, the Plan assets will start to be de-risked in order to reduce the going concern funded status volatility and reduce contributions. This will be done by adjusting the Plan's asset mix to be more in line with the duration of the liabilities.

The Plan's investment portfolio is subject to various risks, which may adversely affect its income, cash flows and net assets available for benefits. These risks include market risk (including foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Plan manages investment-related risks through the statement of investment policies and procedures (SIP&P), which is reviewed and approved by the Board at least annually. The SIP&P establishes long-term asset mix policies for the investment portfolio as a whole, to promote investment diversification and limit exposure to individual investments, major asset classes, geographic markets and currencies. It also establishes mandate-specific policies for each investment manager of the Plan. The investment managers' compliance with the policies is confirmed quarterly.

(tabular amounts in thousands of Canadian dollars)

Asset categories	Index/Benchmark	Asset mix policy weight %	2012 Benchmark return %	2011 Benchmark return %
Fixed income	Composite	44	4.7	13.1
Cash and foreign overlay	DEX 91-day T-Bill	3	1.0	1.0
Long-term bonds	DEX long- term	17	5.2	18.1
Universe bonds	DEX Universe	17	3.6	9.7
Credit bonds	DEX Universe Corporate	7	6.2	8.2
Equities	Composite	50	12.5	(5.4)
Canadian	S&P/TSX Composite	20	7.2	(8.7)
U.S.[1]	S&P 500	15	13.4	4.5
Non-North American [1]	MSCI Europe, Australia, Far East	15	14.7	(10.0)
Real estate	DEX Long Term Bonds + 3%	5	8.2	21.1
Infrastructure	DEX Long Term Bonds + 3%	1	8.2	21.1
Total portfolio	Composite	100	8.8	3.8

1) Index expressed in $CAD used as basis for manager evaluation. Index half-hedged into $CAD in total portfolio and total equities benchmarks.

Asset category*	2012 Portfolio weight year-end %	2012 Post-fee return %	2012 Post-fee return vs. benchmark %	2011 Post-fee return %	2011 Post-fee return vs. benchmark %
Fixed Income	39.7	5.7	1.0	10.3	(2.8)
Equities					
Canadian	20.6	14.4	7.2	(5.8)	2.9
U.S.	15.2	14.8	1.4	4.1	(0.4)
Non-North American	15.6	13.6	(1.1)	(8.1)	1.9
Real estate	5.6	12.4	4.2	21.3	0.2
Infrastructure	1.8	5.7	(2.5)	17.8	(3.3)
Hedge fund secondaries	1.5	65.6	52.2	-	-
	100.0	11.4	2.6	3.0	(0.8)

* Note that the Pension Plan returns noted above are after management fees, whereas, the benchmark returns do not include any management fee provision.

a) Market risk

- Currency

Market risk is the risk that the value of an investment will be adversely affected by changes in market prices, whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market.

(tabular amounts in thousands of Canadian dollars)

The Plan mitigates market risk through diversification of its investment portfolio, based on asset and risk limits established in the SIP&P and through the use of derivative financial instruments.

The Plan invests in assets denominated in currencies other than the Canadian dollar in order to improve its risk and return profile. Exposure to these assets creates currency risk, which may significantly increase or decrease the fair value and returns due to fluctuations in the value of the Canadian dollar relative to foreign currencies. The Plan's currency hedging policies are designed to limit the overall impact of long term currency fluctuations.

The Plan's currency managers passively hedge 50% of the total amount of equity-related foreign currency exposure and 100% of funds of hedge funds and non-Canadian bond investments. Through a separately managed active currency hedging program, the foreign currency exposure on some or all foreign equity holdings may be fully hedged or unhedged on a tactical basis, subject to risk constraints based on the Plan's SIP&P.

The following sensitivity analysis summarizes the impact on the Plan's net assets available for benefits, following a reasonably possible 5% change in foreign currency exchange rates, for each currency to which the Plan has a significant exposure.

	Changes in net assets available for benefits	
	2012 **$**	**2011** **$**
United States dollar	31,029	19,318
Euro	1,688	(1,043)
British pound sterling	3,492	5,371
Japanese yen	4,891	826
Swiss franc	2,733	1,008
Australian dollar	(2,167)	1,643
Chinese yuan renminbi	1,996	3,139
Swedish krona	1,363	539
Other	5,973	2,188
	50,998	32,989

(tabular amounts in thousands of Canadian dollars)

The following schedule summarizes the Plan's investments by currency exposure, the impact of the currency hedging program and the net currency exposure:

	Net currency exposure	
	2012 $	2011 $
United States dollar	620,576	386,361
Euro	33,757	(20,862)
British pound sterling	69,845	107,413
Japanese yen	97,813	16,512
Swiss franc	54,660	20,153
Australian dollar	(43,346)	32,867
Chinese yuan renminbi	39,928	62,786
Swedish krona	27,268	10,787
Other	119,470	43,766
	1,019,971	659,783

- Interest rate risk

The Plan holds interest-bearing financial instruments. The Plan is therefore exposed to interest rate risk, as the value of interest-bearing financial instruments will fluctuate with changes in interest rates. The Plan administrator views interest rate risk on interest-bearing financial instruments as a hedge that offset the larger interest rate risk on pension benefit liabilities. In order for this offset to significantly reduce the overall level (on assets and pension benefit liabilities) of the Plan's interest rate risk, the SIP&P has a target of 17% of its holdings to be held in interest-bearing financial instruments with long maturities.

The following sensitivity analysis summarizes the impact on the Plan's net assets available for benefits following a reasonably possible change in interest rates for all maturities (a parallel shift in the yield curve).

		Change in net assets available for benefits	
	Interest rates	2012 $	2011 $
Interest bearing financial instruments	+ / 1%	160,200	144,200

- Equity prices risk

The Plan holds equity financial instruments. The Plan is therefore exposed to equity price risk as the value of equity financial instruments will fluctuate due to changes in equity prices.

(tabular amounts in thousands of Canadian dollars)

The following sensitivity analysis summarizes the impact on the Plan's net assets available for benefits, following reasonably possible changes in equity prices for each stock market benchmark to which the Plan has a significant exposure.

	Stock benchmark	Change in price index	2012 $	2011 $
Canadian equities	S&P/TSX Comp	+ / 10%	85,956	75,960
Non-Canadian equities	various	+ / 10%	118,064	102,330
			204,020	178,290

b) Credit risk

The Plan is subject to indirect exposure to credit risk, which is the risk that counterparty will be unable to pay amounts in full when they are due.

Credit risk is mitigated by adherence to investment policies that require:

- having a minimum rating of Ri "low" by DBRS or equivalent for all cash and short-term investments;
- limiting the maximum exposure to bonds issued or guaranteed by any one non-governmental entity or group of affiliated entities to 3% of the fair value of the Plan;
- limiting the maximum exposure to non-investment grade bonds (defined as below BBB - or equivalent) to 3% of the fair value of the Plan;
- dealing with counterparties to derivative transactions that have credit quality comparable to that of a Schedule I bank; and
- entering into International Swaps and Derivative Association Inc. agreements with over-the-counter derivative counterparties to limit the Plan's exposure to credit losses.

The Plan limits credit related risk on the foreign exchange forward contracts by:

- dealing with counterparties with a credit standard of no less than an A rating;
- entering into derivative financial instruments only on an unlevered basis; and
- by hiring a manager who has entered into master netting agreements.

Credit risk on equity and bond futures is minimal as the counterparty to every futures trade is a clearing corporation, which acts as a third party that matches trades and collects and maintains margins. These contracts are marked-to-market and margin receivables and payables are settled in cash daily.

(tabular amounts in thousands of Canadian dollars)

The following are the interest bearing financial instruments, the exposure to credit risk and the Plan's share of it.

	AAA* $	AA $	A $	BBB $	R1 or Equiv $	Non-inv. grade / unrated $	Total $
December 31, 2012	488,590	388,316	570,362	153,567	36,721	92,074	1,729,630
December 31, 2011	408,878	391,272	404,514	139,509	73,652	74,843	1,495,667

*Includes cash balances from fixed income accounts and accrued interest.

c) Liquidity risk

Liquidity risk is the risk that the Plan may be unable to meet pension payment obligations in a timely manner and at a reasonable cost.

Management of liquidity seeks to ensure that even under adverse conditions, the Plan has access to immediate cash that is necessary to cover benefits payable, withdrawals and other liabilities. The SIP&P requires a significant portion of the Plan's investments to be highly liquid so they can be converted into cash on short notice. The Plan's exposure to liquidity risk is considered negligible. Typically, the employee and employer contributions will cover the benefits required to be paid each month.

The following is a maturity analysis of the investments that are held for managing liquidity risk.

	1 year $	1 - 5 years $	5 - 10 years $	10 - 20 years $	20 years $	Total $
December 31, 2012	47,674	451,998	264,149	326,201	639,608	1,729,630
December 31, 2011	84,093	333,089	224,527	276,839	577,119	1,495,667

Fair value hierarchy

IFRS 7, Financial Instruments: Disclosures, requires disclosure of a three-level hierarchy for fair value measurements based on the transparency of inputs to the valuation of a financial asset or financial liability as at the financial statement date. The three levels are defined as follows:

- Level 1 - fair value is based on quoted market prices in markets for identical financial assets or financial liabilities. Level 1 financial assets generally include equity investments traded in an active market.

(tabular amounts in thousands of Canadian dollars)

- Level 2 - fair value is based on observable inputs, other than quoted prices included within Level 1, such as quoted market prices for identical financial assets or financial 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 financial assets or financial liabilities. Level 2 financial assets and financial liabilities generally include pooled funds, short-term money market securities, Government of Canada, provincial and other government bonds, Canadian corporate bonds and certain derivative financial instruments.

- Level 3 - fair value is based on non-observable inputs that are supported by little or no market activity and are based on valuation methodologies deemed appropriate by the fund administrators and independent appraisals of real estate properties. Level 3 financial assets and financial liabilities include the funds of hedge funds, real estate, infrastructure and hedge fund secondary investments.

The following table presents the level within the fair value hierarchy for each of the financial assets and financial liabilities measured at fair value. The table excludes other financial assets and financial liabilities that are valued at their carrying amount, which represents a reasonable approximation of fair value due to their short-term nature.

				2012
	Level 1 $	Level 2 $	Level 3 $	Total $
Invested cash and short-term money market securities	64,967	100,776	-	165,743
Bonds	-	1,514,805	-	1,514,805
Funds of hedge funds	-	-	163,328	163,328
Equities	1,901,463	138,739	-	2,040,203
Real estate	-	-	240,273	240,273
Infrastructure	-	-	75,900	75,900
Hedge fund secondaries	-	-	61,400	61,400
Derivative financial instruments	-	(10,564)	-	(10,564)
Other investment-related assets and liabilities	-	5,894	-	5,894
	1,966,430	1,749,650	540,901	4,256,982

*Bonds total is net of bonds sold under repurchase agreements of $210,723.

				2011
	Level 1 $	Level 2 $	Level 3 $	Total $
Invested cash and short-term money market securities	44,650	100,733	-	145,383
Bonds	-	1,491,558	-	1,491,558
Funds of hedge funds	-	-	146,425	146,425
Equities	1,656,308	126,583	-	1,782,891
Real estate	-	-	188,392	188,392
Infrastructure	-	-	27,650	27,650

(tabular amounts in thousands of Canadian dollars)

				2011
	Level 1 $	**Level 2** $	**Level 3** $	**Total** $
Hedge fund secondaries	-	-	15,000	15,000
Derivative financial instruments	-	10,439	-	10,439
Other investment-related assets and liabilities	-	(3,557)	-	(3,557)
	1,700,958	1,725,756	377,467	3,804,181

There have been no transfers between Levels 1 and 2 in the reporting period.

The following table summarizes the changes in the fair values of financial instruments classified in Level 3. The Plan classifies financial instruments in this level when the valuation technique is based on at least one significant input that is not observable in the markets or due to a lack of liquidity in certain markets. The valuation technique may also be based in part on observable market inputs. The gains and losses presented hereafter may, therefore, include changes in fair values based on observable and unobservable inputs.

	Funds of hedge funds $	**Real estate** $	**Infrastructure** $	**Hedge fund secondaries** $	**Total** $
Fair value - December 31, 2010	126,160	161,107	11,500	-	298,767
Total unrealized gains	494	25,655	3,050	-	29,199
Purchases	19,771	1,630	13,100	15,000	49,501
Fair value - December 31, 2011	146,425	188,392	27,650	15,000	377,467
Total unrealized gains	4,935	24,281	5,150	20,000	54,366
Purchases	11,968	27,600	43,100	26,400	109,068
Fair value - December 31, 2012	163,328	240,273	75,900	61,400	540,901

(tabular amounts in thousands of Canadian dollars)

5 Derivative financial instruments

Derivative financial instruments are financial contracts, the value of which is derived from the value of the underlying assets, interest rates, indices or foreign currency exchange rates.

a) Derivative products and investment objectives

The Plan enters into the following types of derivative financial instruments:

- Equity and bond futures

  Futures contracts involve an agreement to buy or sell standardized amounts of equity or bond indices at a predetermined future date and price in accordance with the terms specified by a regulated futures exchange and are subject to daily cash margining. These contracts are purchased and/or sold with the primary objective of rebalancing the Plan's actual asset mix to closely align with that specified in the SIP&P.

- Foreign exchange forward contracts

  A foreign exchange forward contract is a customized agreement negotiated between two parties to buy or sell a specific amount of a foreign currency at a price specified at the origination of the contract, with settlement at a specified future date. Foreign exchange forward contracts are used to hedge the Plan's foreign currency risk.

- Bond index swaps

  A bond index swap is a contractual agreement between two parties to exchange a series of cash flows based on a bond index return. Bond index swaps have been used in conjunction with the funds of hedge funds for yield enhancement purposes.

b) Notional amounts

Notional amounts of derivative financial instruments represent the dollar value of the market exposure gained through the purchase/sale of a contract. Notional amounts are not recorded as financial assets or financial liabilities on the annual statements of financial position and accrued pension benefits and surplus.

(tabular amounts in thousands of Canadian dollars)

The following is a schedule of notional amounts and fair values of derivative financial instruments:

	2012		2011	
	Notional amount $	Fair value receivable/ (payable) $	Notional amount $	Fair value receivable $
Fixed income futures	32,549	-	65,235	-
Canadian equity futures	18,354	-	7,061	-
Non-Canadian equity futures	129,641	-	50,830	
Bond index swaps	-	-	196,086	3,061
Foreign exchange forward contracts	31,360,186	(10,564)	5,609,498	7,378

Derivative financial instruments held by the Plan generally have at least quarterly resets and all settle within one year.

c) Net investments after allocating market exposure of derivative financial instruments

The following table summarizes the effective fair value of the Plan's investments after the allocation of market exposure of derivative financial instruments and investment-related receivables and liabilities:

	2012		2011	
	Effective net investments at fair value $	Effective asset mix %	Effective net investments at fair value $	Effective asset mix %
Fixed income				
Invested cash and short-term money market securities	(34,769)	(0.8)	38,027	1.0
Canadian bonds	1,489,295	35.0	1,473,939	38.7
Non-Canadian bonds	73,356	1.7	73,966	1.9
Funds of hedge funds	163,329	3.8	146,425	3.9
	1,691,211	39.7	1,732,357	45.5
Equities				
Canadian	877,921	20.6	766,643	20.2
Non-Canadian	1,310,277	30.8	1,074,139	28.2
	2,188,198	51.4	1,840,782	48.4
Real estate	240,273	5.6	188,392	5.0
Infrastructure	75,900	1.8	27,650	0.7
Hedge fund secondaries	61,400	1.5	15,000	0.4
	4,256,982	100.0	3,804,181	100.0

(tabular amounts in thousands of Canadian dollars)

6 Other liabilities

Other liabilities consist of the following:

	2012 $	2011 $
Accrued pension payroll	7,263	6,796
Fees payable to custodian, investment consultants and other advisers	4,081	2,577
Other accounts payable	955	1,118
	12,299	10,491

7 Pension benefit obligation

An estimate of the Plan's obligation for pension benefits has been made as at December 31, 2012 for inclusion in the Plan's financial statements by Mercer (Canada) Limited, a firm of consulting actuaries. The estimate is an extrapolation of the January 1, 2012 actuarial valuation based on membership data on that date, using the methods and assumptions summarized below. This note to the financial statements should be read in conjunction with the actuaries' opinion found in the annual general meeting newsletter.

Methods and assumptions

The valuation is based on the requirements outlined in CICA Handbook Section 4600, Pension Plans. The estimated actuarial present value of accrued pension benefits is determined using the projected benefit method, pro-rated on service. The pension formula in effect in the Plan's bylaws, including the current base period (average of the four calendar years before 2008 with the highest average pensionable earnings) for credited service before 2008, is used to project the pension at retirement, without provision for future updates in the base period or other changes in the bylaws. The pro rata portion of the projected pension, which relates to past service, is then valued as the accrued pension.

Assets were valued at fair value as at December 31, 2012.

The major assumptions used as best estimates of the Plan's future experience for calculating the actuarial present value of accrued pension benefits are summarized as follows:

	2012 %	2011 %
Discount rate - net of expenses	5.75	5.75
Rate of inflation	2.00	2.25
Weighted average rate of salary increase*	3.50	3.75

*Assumed salary increases from April 1, 2011 through March 30, 2014 are based on wage increases as per the June 4, 2012 arbitration award with an additional 0.5% provision for individual factors. The assumed salary increase on and after April 1, 2012 is 3.50% per annum.

(tabular amounts in thousands of Canadian dollars)

Statutory actuarial valuations

In accordance with the PBA and the Income Tax Act (Canada), an actuarial valuation is required to be filed at least every three years to estimate the Plan's surplus or deficit, and to determine the Plan's funding requirements. The most recent actuarial valuation for funding purposes was conducted as at January 1, 2012 and filed with regulators on September 21, 2012. The next required funding valuation filing with the regulators will be as at January 1, 2015. The two valuations required by the PBA, the going concern basis and the solvency basis, are determined using different valuation methods and assumptions and yield different surplus or deficit amounts than those disclosed in these financial statements. A solvency (hypothetical windup) valuation must be performed on the Plan, even though the risk of its being wound up, in management's view, is remote. As a JSPP, the Plan is permitted and has elected an exemption from solvency funding requirements. Funding requirements resulting from the January 1, 2012 and future valuations will be determined on a going concern valuation basis, plus solvency funding requirements established prior to January 1, 2012.

8 Capital management

Management of the Plan defines capital as the surplus or deficit position of the Plan based on the statutory actuarial valuation referred to in note 7.

The objective of managing the Plan's capital is to ensure it is fully funded and sufficient assets are available to pay for the benefit obligations over the long term. The Board manages the Plan's capital by mandating an annual actuarial valuation on both the going concern and solvency bases to determine the Plan's funded status. Based on the results of this valuation and the priorities set out in the Plan's bylaws and the funding policy, the Board makes decisions with respect to pension formula updates, pension indexing and Plan improvements. Investments and the use of derivatives are based on an asset mix that is projected to enable the Plan to meet or exceed its long-term funding requirements within an acceptable level of risk, consistent with the Plan's SIP&P approved by the Board.

9 Related party transactions and balances

Related parties include the Plan's Sponsors, the TTC and ATU, and the Plan's subsidiaries. They employ and pay the salaries of the staff that administer the day-to-day operations of the Plan and also pay for certain administrative costs of the Plan. These costs are not charged back to the Plan.

Alternative investments held in subsidiary corporations are managed on behalf of the Plan by external advisers through investment management agreements. The Plan has eight wholly owned subsidiary corporations, namely:

- 5160 Orbitor Drive Ltd. - incorporated on April 19, 1999 to hold the Plan's 100% interest in an office building located in Mississauga, Ontario;

- PFS Exchange Inc. - incorporated on January 16, 2002 and commenced operations on March 12, 2002 by acquiring the Plan's 25% interest in the Exchange Tower in Toronto, Ontario;

(tabular amounts in thousands of Canadian dollars)

- PFS Industrial One Inc. - incorporated on September 8, 2004 and commenced operations on October 1, 2004 by acquiring the Plan's 100% interest in an industrial building located in Calgary, Alberta, known as Calgary Business Park;

- PFS Retail One Inc. - incorporated on January 18, 2005 and commenced operations on January 31, 2005 by acquiring the Plan's 100% interest in a shopping centre located in Calgary, Alberta, known as Country Hills Village;

- PFS GTA Industrial Inc. - incorporated on November 25, 2005 and commenced operations on December 22, 2005 by acquiring the Plan's 100% interest in a portfolio of eight industrial properties located in the Greater Toronto Area of Ontario, known as GTA Industrial;

- PFS Retail Two Inc. - incorporated on February 28, 2008 and commenced operations on March 13, 2008 by acquiring the Plan's 100% interest in a shopping centre located in Lloydminster, Alberta, known as Lloyd Mall;

- 1793177 Ontario Inc. - incorporated on March 13, 2009 and commenced operations on March 17, 2009 by subscription in a limited partnership interest in the Brookfield Americas Infrastructure Fund L.P.; and

- TTC PFS Secondaries Inc. - incorporated on July 8, 2011 and commenced operations on July 15, 2011 by subscription in a limited partnership interest in the Crestline Offshore Recovery Fund II L.P.

The following schedule summarizes the Plan's net alternative investments:

	2012		2011	
	Fair value $	Cost $	Fair value $	Cost $
5160 Orbitor Drive Ltd.	6,810	3,700	6,545	3,700
PFS Exchange Inc.	137,658	77,100	123,555	77,334
PFS Industrial One Inc.	8,799	6,417	7,970	6,507
PFS Retail One Inc.	27,300	16,172	25,817	16,607
PFS GTA Industrial Inc.	106,003	142,600	103,439	142,600
PFS Retail Two Inc.	50,617	40,100	46,339	40,100
Debt on real estate properties	(96,914)	(96,914)	(125,273)	(125,273)
Net investment in real estate	240,273	189,175	188,392	161,575
1793177 Ontario Inc.	75,900	67,700	27,650	24,600
TTC PFS Secondaries Inc.	61,400	41,400	15,000	15,000
Net alternative investments	377,573	298,275	231,042	201,175

(tabular amounts in thousands of Canadian dollars)

The debt on real estate properties consists of the following mortgages payable, which are collateralized by the specific real estate properties:

	2012			2011		
	$	Interest rate %	Maturity date	$	Interest rate %	Maturity date
5160 Orbitor Drive Ltd.	-	-	-	-	-	-
PFS Exchange Inc.	-	-	-	27,834	6.83	April 2012
PFS Industrial One Inc.	2,692	6.05	November 2014	2,782	6.05	November 2014
PFS Retail One Inc.	6,222	5.24	June 2013	6,657	5.24	June 2013
PFS GTA Industrial Inc.	88,000	5.19	May 2016	88,000	5.19	May 2016
	96,914			125,273		

The annual principal repayments due within the next five years and thereafter are as follows:

	$
2013	6,317
2014	2,597
2015	-
2016	88,000
2017 and thereafter	-
	96,914

Dividend income from real estate subsidiaries totalled $7.38 million (2011 - $6.0 million).

(tabular amounts in thousands of Canadian dollars)

10 Net investment income

The following schedule summarizes investment income (loss) before and after allocation of net realized and unrealized gains (losses) on investments to asset classes:

	2012		2011	
	Before allocation $	After allocation $	Before allocation $	After allocation $
Fixed income				
Invested cash	443	443	312	312
Short-term money market securities	939	1,076	1,445	1,423
Canadian bonds	76,278	82,015	66,489	187,222
Non-Canadian bonds	4,745	10,807	3,625	2,048
Funds of hedge funds	-	4,935	-	494
	82,405	99,276	71,871	191,499
Equities				
Canadian	23,683	118,480	21,240	(62,020)
Non-Canadian	29,032	181,970	25,640	(43,553)
	52,715	300,450	46,880	(105,573)
Alternative investments				
Real estate	7,380	31,661	6,000	31,655
Infrastructure	-	5,150	-	3,050
Hedge fund secondaries	-	20,000	-	-
Investment income	142,500	456,537	124,751	120,631
Net realized gains on investments	106,251	-	9,607	-
Net change in unrealized gains (losses) on investments	207,786	-	(13,727)	-
Net change in fair values of investments	314,037	-	(4,120)	-
	456,537	456,537	120,631	120,631

11 Investment and Plan administration expenses

Administration expenses, such as salaries and benefits, furniture and equipment, materials and supplies, accommodation and audit fees, are borne by the TTC and are, therefore, not included in these financial statements. The following summarizes the expenses paid by the Plan:

(tabular amounts in thousands of Canadian dollars)

	2012 $	2011 $
Investment managers' fees	12,715	9,711
Other Plan administration expenses	307	332
Custodial fees	494	470
Actuarial fees	640	911
Investment consultants' fees	738	404
Legal fees	310	625
	15,204	12,453

12 Significant investments

a) Significant individual securities*

As at December 31, 2012, the Plan held no individual investments with fair value or cost exceeding 1% of the fair value or cost of the Plan's net assets (excludes pooled fund investments (note 12(c)) and alternative investments (note 9)).

b) Significant issuers*

The Plan has invested in the following issuers of fixed income and equity securities an amount that exceeds 1% of the fair value or cost of the Plan's net assets:

	2012		2011	
	Fair value $	Cost $	Fair value $	Cost $
Government of Canada	-	-	44,815	43,476
Province of Ontario	54,938	51,014	53,628	47,549

*Excludes pooled fund investments (note 12(c)) and alternative investments (note 9).

(tabular amounts in thousands of Canadian dollars)

c) Pooled fund investments

The Plan owns the following pooled fund investments as at December 31. The fair value of these pooled fund investments is included in the statement of financial position under the investment type to which they relate.

	2012		2011	
	Fair value $	Cost $	Fair value $	Cost $
Fixed income				
Conso. Corp. & Infrastructure Debt	17,229	16,629	15,960	15,115
Canso Private Loan Fund	25,130	25,136	1,522	1,729
PHN Foreign Bond Fund, Series O	1,494	1,831	285,843	266,483
Barclays (BlackRock) Universe Bond Fund	250,564	238,031	427,824	356,948
Barclays (BlackRock) Long Bond Index Fund	448,339	383,053	233,563	194,805
PHN Long Bond Pension Trust	243,088	206,327	117,590	117,279
PHN Investment Grade Corp. Bond Trust	116,539	115,441	836	836
PHN Institution Short-Term Investment Fund	16,969	16,969	13,896	13,184
PHN Mortgage Pension Trust Fund	14,856	14,320	71,116	101,950
Crestline Offshore Fund, Ltd.	78,336	110,054	75,308	101,950
Mesirow Absolute Return Fund (Institutional)	84,992	110,054	4,561	4,623
PHN High Yield Bond Fund, Series O	7,995	7,825	610	610
TDAM TD Emerald Can Treas.	9,963	9,963	-	-
	1,315,494	1,255,633	1,248,629	1,175,512
Non-Canadian equities				
Brandes International Equity Unit Trust	138,739	215,524	126,583	209,765
	1,454,233	1,471,157	1,375,212	1,385,277

BY-LAW AMENDMENTS

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The following Bylaw amendments were approved by the Board since the last Annual General Meeting. For your reference any changes to the wording is shown with tracked changes which have been highlighted. These amendments have been filed with the Regulators and TTC Board sanction will be requested prior to the AGM. Membership approval of these Bylaws will be requested at the AGM.

Bylaws 2, 11 and 12 have been adjusted to reflect changes to the immediate vesting rules under the Pension Benefit Act, effective July 1, 2012.

2 DEFINITIONS

(24) "Post-1986 Pension" shall mean the Member's total ~~vested~~ pension entitlement, less any entitlement calculated as Pre-1987 Pension.

(25) "Pre-1987 Pension" shall mean the Member's ~~vested~~ pension entitlement, with respect to Credited Service prior to 1987 as calculated under the Bylaws in force as of December 31, 1987.

11.01 DEATH BEFORE ELIGIBILITY FOR EARLY RETIREMENT

(1) In the event of the death of a Regular Member who does not have a Spouse at the time of death, and who is not eligible for normal or early retirement, the Member's Designated Beneficiary shall receive a refund of the Member's Required Contributions with Credited Interest to the date of the Member's death for service prior to 1987.

(previously #2) ~~In the event of the death of a Regular Member who does not have a Spouse at the time of death, and who is not eligible for normal or early retirement, and who has completed less than two years of membership in the Society, the Member's Designated Beneficiary shall receive a refund of the Member's Required Contributions with Credited Interest to the date of the Member's death for service after 1986.~~

(2) In the event of the death of a Regular Member who does not have a Spouse at the time of death, and who is not eligible for normal or early retirement, ~~and who has completed at least two years of membership in the Society,~~ the Member's Designated Beneficiary shall receive the Commuted Value of the Member's Post-1986 Pension plus such other additional benefit, if any, as is calculated in accordance with Bylaw 15.10(1).

(3) Upon the death of a Regular Member who is not eligible for normal or early retirement, and who has a Spouse at the time of death, benefits will be paid as if the Member were 50 years old at the time of death, and as if the Member has retired on the day after the day of death, and then died after commencement of an immediate pension, except that there shall be no reduction applied to the Member's pension for early retirement.

(4) If the Commuted Value of the benefits which are payable under Bylaw 11.01(3) are less than the benefits which the Member's Designated Beneficiary would receive under Bylaws 11.01(1) and 11.01(2), if the Member did not have a Spouse at the time of his or her death, the benefits payable under Bylaw 11.01(3) will be increased so that the Commuted Value of these benefits shall be equal to the benefits which would otherwise be payable under Bylaw 11.01 if the Member did not have a Spouse at the time of his or her death.

12 TERMINATION OF EMPLOYMENT BEFORE ELIGIBILITY FOR RETIREMENT

12.01 TERMINATION BEFORE VESTING

1) ~~In the event that a Regular Member ceases to be employed before attaining age 45, or before completing 10 years of Continuous Service or 10 years of membership in the Society, and before eligibility for early retirement, the Member shall receive a refund of his or her Required Contributions for the period prior to January 1, 1987, plus Credited Interest to the date of termination of employment.~~

2) ~~In the event that a Regular Member ceases to be employed before completing 2 years of membership in the Society, and before eligibility for early retirement, the member shall receive a refund of his or her Required Contributions for the period after December 31, 1986, plus Credited Interest to the date of termination of employment.~~

12.01 TERMINATION ~~AFTER VESTING~~ BENEFITS

3) ~~In the event that a Regular Member ceases to be employed before eligibility for early retirement but after attaining age 45 and completing 10 years of Continuous Service or 10 years of membership in the Society, and the Member has Credited Service for a period prior to 1987, the member shall be eligible for a deferred pension for the amount of the member's Pre-1987 Pension, and the Member becomes an Inactive Member.~~

~~(2)~~(1) In the event that a Regular member ceases to be employed before eligibility for early retirement ~~but after completing 2 years of membership in the Society~~, the Member shall be eligible for a deferred pension with respect to all of the Member's Credited Service ~~for the amount of the member's Post 1986 Pension~~ plus such other additional benefit if any as is calculated in accordance with Bylaw 15.10(1) and the Member becomes an Inactive Member.

~~(3)~~(2) A Member who terminates employment and is eligible for a deferred pension may receive a pension commencing on his or her Normal Retirement Date provided the Member applies for his or her pension. The amount of pension shall be determined as provided by Bylaw 9 as in effect on the date of the Member's termination of employment. The member may elect to receive the deferred pension in an optional form pursuant to Bylaw 10, consistent with the normal form of pension in effect on the date of the Member's termination of employment.

~~(4)~~(3) In lieu of the pension under Bylaw ~~12.02(iii)~~, 12.01(1) a Member who is entitled to a deferred pension may elect, at the time of termination of employment, to receive a pension commencing at any time on or after attainment of age 50. The amount of the Member's pension shall be the annual pension calculated as in Bylaw 9.01 multiplied by the early retirement factor from Actuarial Table 20A/20B as applicable to the Member as of his or her pension commencement date, provided that the Commuted Value of the Member's pension shall be no less than the Commuted Value of the pension that would have commenced at the Member's Normal Retirement Date. The Member may elect to receive his or her pension in an optional form pursuant to Bylaw 10.

~~(5)~~(4) A Member entitled to a pension under Bylaw ~~12.02 (i)~~ 12.01(1) above may elect in partial discharge of his or her entitlement a lump sum equal to 25% of the Commuted Value of the Member's Pre-1987 Pension ~~lifetime pension accrued by the Member after January 1, 1965, and before January 1, 1987, and the bridging supplement based on credited service prior to 1987~~, that would be payable in the normal form commencing on his or her Retirement Date in lieu of 25% of such pension and supplement.

~~(6)~~(5) In the event of the death of an Inactive Member entitled to a deferred pension before the Member's pension commencement date, benefits will be payable to the Member's Spouse or Designated Beneficiary in accordance with Bylaw 11 and the Member's election, as if the Inactive Member were a Regular Member at the time of his or her death.

~~(7)~~(6) If the Commuted Value of the Member's deferred pension entitlement under Bylaw ~~12.02(i)~~ 12.01(1) is less than the total of the Member's Required Contributions for the period prior to January 1, 1987, plus Credited Interest on these Required Contributions, to the date of termination of employment, the Member's deferred pension shall be increased until its Commuted Value equals the value of his or her Required Contributions for the period prior to January 1, 1987 plus Credited Interest on these Required Contributions to the date of termination of employment.

~~(8)~~(7) Notwithstanding Bylaw ~~12.02 (iii)~~ 12.01(2) and (3(~~iv~~), a Member who is entitled to a deferred pension under this Bylaw, and who also is a Regular Member of the Society, shall not receive a pension from the Society until he or she has ceased to be a Regular Member. If payment of a Member's deferred pension is postponed beyond his or her Normal Retirement Date by this Bylaw, when the Member ceases to be a Regular Member he or she shall receive a pension which is actuarially adjusted so that it has a Commuted Value equal to the pension which the Member would have received commencing on his or her Normal Retirement Date had he or she not been a Regular Member.

This Bylaw change was due to the elimination of the Greyhound Bylaw as there are no longer any furlough drivers.

~~12.04 TERMINATION OF FURLOUGH DRIVERS~~

~~Notwithstanding Bylaws 12.01 and 12.02, a furlough drive who is a Regular member and who ceases to be employed shall have the right to elect to receive a deferred pension in lieu of any other benefits to which the member may be entitled under Bylaws 12.01, 12.02, and 16.10.~~

This Bylaw reflects the Sponsors' decision to opt out of the Pension Benefits Act grow in provision rules effective August 1, 2012. (The Sponsors' of the TTC Pension Fund Society are the ATU Local 113 and the Toronto Transit Commission).

15.14 SPONSOR ELECTION

Effective July 1, 2012, the Society is required to comply with Section 74 of the Pension Benefits Act with respect to the benefits of Regular Members whose termination of employment is an activating event, subject to an election under Section 74.1 of the Pension Benefits Act. Effective August 1, 2012, pursuant to Section 74.1, the Commission and Local 113 of the Amalgamated Transit Union elected to exclude the Society and its members from the operation of Section 74.

The following Bylaw amendments were approved by the Board of Directors at their meeting of May 8, 2013. These Bylaw amendments are to implement the plan improvements effective January 1, 2013 for a 2 year update to the base period, a 2 year update to the Survivor Benefit Date and a 2% ad hoc indexing increase for pensioners.

6.02 PENSIONABLE EARNINGS

1) Average Base Period Earnings

Effective January 1, 201~~2~~3 for Members retiring on or after January 1, 201~~2~~3 pursuant to Bylaw 8 and effective May ~~2~~8, 201~~2~~3, for Members terminating on or after May ~~2~~8, 201~~2~~3 for the purposes of calculating the amount of Regular Member's pension for Credited Service accrued to December 31, 20~~08~~10, Average Base Period Earnings shall be the greater of:

(a) the average of the highest consecutive four calendar year's Pensionable Earnings prior to 20~~09~~11 and for this purpose two calendar years will be considered consecutive even if they include a temporary break in service, and

(b) the average of the highest four calendar year's Pensionable Earnings after December 31, 1985 and prior to 20~~09~~11.

A Member's Base Period shall mean the four years used for computing his or her Average Base Period Earnings. For a Member who does not have four calendar years of Pensionable Earnings prior to 20~~09~~11, the Member's Base Period shall be his or her total number of calendar years, including fractional years, of Pensionable Earnings prior to 20~~09~~11.

The YMPE used in the calculation of pension entitlements for the Base Period pursuant to Bylaw 9.01 and 9.04 shall be the YMPE under the Canada Pension Plan for each of the corresponding calendar years used in determining the Member's Average Base Period Earnings**,** or if the Member's Pensionable Earnings are less than the YMPE in a corresponding calendar year, the Member's Pensionable Earnings in that year.

9.01 NORMAL OR POSTPONED RETIREMENT PENSION

1) A Regular Member who retires pursuant to Bylaw 8.01 or 8.02 on or after January 1, 20~~2~~3, shall receive an annual amount of pension determined as the sum of:

(a) 1.6% of the Member's Average Base Period Earnings Below YMPE plus 2% of the Average Base Period Earnings Above YMPE,

multiplied by

the number of calendar years in the Member's Base Period divided by the number of years of Credited Service in the Member's Base Period,

multiplied by

the years of Credited Service accrued to December 31, 20~~08~~10; plus

(b) 1.6% of Pensionable Earnings Below the YMPE plus 2% of Pensionable Earnings above the YMPE for the period of Credited Service after December 31, 20~~08~~10; plus

(c) 0.4% of the Member's Average Base Period Earnings Below YMPE multiplied by the number of calendar years of Credited Service before 1987 during which the Member:

(i) was at least age 65 for the entire year; and,

(ii) did not contribute any amount to the Canada pension Plan during the calendar year.

2) The total amount of pension payable to any Member under this Subsection shall not be less than the total amount of accrued pension payable to such Member in respect of years of service up to December 31, 20~~1~~2, determined in accordance with the Bylaws of the Society in effect as at December 31, 201~~1~~2.

3) Notwithstanding Bylaw 9.01(1), for each calendar year in which a Member is sick or injured and is credited with Pensionable Earnings pursuant to Bylaw 6.02 but not Contributory Earnings, the level of YMPE for purposes of Bylaw 9.01(1) shall be based on the YMPE in the year such sickness or injury was incurred or, if later, the year in which the Member's Pensionable Earnings ceased to be adjusted for general increases that are granted to all other employees in the Member's job class.

4) The annual pension of a Member who retires in accordance with Bylaw 8.01(2) and who:

(a) has Credited Service and Continuous Service which are each less than 30 years, and

(b) has age plus Continuous Service which equal less than 80 years

shall be multiplied by the early retirement factor applicable to the Member as of his or her pension commencement date shown in the Table of Early Retirement Factors adopted by the Board, and shall be further reduced if necessary so that the total reduction is at least that required under Bylaw 9.02(2).

13.02 AD HOC ADJUSTMENTS

1) Notwithstanding Bylaw 13.01, and subject to Bylaw 16.13 and Bylaw 13.02(2) and (3), pensions in the course of payment to Associate Members may be increased in accordance with this Bylaw 13.02. Increases approved by the Board shall be set out in Bylaw 13.02(4) and shall specify the effective date, the pensions to which the increase is applicable and the amount of the increase.

2) An increase under Bylaw 13.02(1) that applies to a pension which first becomes payable in the year prior to the effective date of the increase shall be the full increase multiplied by the ratio of the number of days for which the pension was payable to the total number of days in the corresponding calendar year.

3) Increases under Bylaw 13.02(1) shall be applied equally to pensions in the normal form or optional forms available to Members under Bylaw 10.

4) Effective January 1, 2011, pensions in the course of payment shall be increased by 2.0%. The pensions to which the increase is applicable shall be determined in the same manner as provided under Bylaw 13.01.

5) Effective January 1, 2012, pensions in the course of payment shall be increased by 1.0%. The pensions to which the increase is applicable shall be determined in the same manner as provided under Bylaw 13.01.

6) Effective January 1, 2013, pensions in the course of payment shall be increased by 2.0%. The pensions to which the increase is applicable shall be determined in the same manner as provided under Bylaw 13.01.

2 DEFINITIONS

(31) "Survivor Benefit Date" shall mean January 1, 20~~09~~11.

End Of Bylaw Amendments

NOTICE OF MOTION
(TO BE DISCUSSED UNDER NEW BUSINESS AT THE AGM)

Under Bylaw 3.10(3)(a), a Regular Member of the Society may introduce new business for an Annual General Meeting. The following Notice of Motion has been included on the agenda under New Business.

Notice #1 – submitted by Otis Leow, Employee #51421

The Government Management Committee has made several recommendations which are outlined in document GM21.9. As a Member of the TTC Pension Fund Society I do not believe a merger of the Society with the OMERS pension plan would be in the best interests of our Members and is contrary to Bylaw 3.09(4). Also, I do not agree with the Society having to incur further costs and use its resources to carry out these useless recommendations. Therefore, I would like to put forward the following motion:

That the TTC Pension Fund Society Board of Directors should terminate any further assessment of a possible merger of the TTC Pension Fund Society with the OMERS pension plan pursuant to GM21.9.

PENSION OFFICE CONTACTS

Mary Darakjian	Head of Pensions	416-393-3610	Email: mary.darakjianl@ttc.ca
Cheryl Uroda	Director - Pension Administrator	416-393-6816	Email: cheryl.uroda@ttc.ca
Lisa Cook	Administrative Assistant	416-393-4372	Email: lisa.cook@ttc.ca
Susan Munshaw	Pension Fund Administrator	416-393-2810	Email: susan.munshaw@ttc.ca
Helen Redmond	Supervisor - Pension Benefits	416-393-3685	Email: helen.redmond@ttc.ca
Andrea Ho Shue	Pension Benefits Specialist	416-393-3684	Email: andrea.hoshue@ttc.ca
Angie Chiappetta	Pension Estates & Estimates Assistant	416-393-2603	Email: angie.chiappetta@ttc.ca
Katelyn Steadman	Pension Payroll Clerk	416-393-4521	Email: katelyn.steadman@ttc.ca
Anna Puccia	Pension Officer - Retirees	416-393-4368	Email: anna.puccia@ttc.ca
Rita Monaco	Pension Estimates Assistant	416-393-4367	Email: rita.monaco@ttc.ca
James Clarkson	Director – Pension Accounting	416-393-6781	Email: james.clarkson@ttc.ca
Nicole Carrington	Senior Investment Analyst	416-393-4992	Email: nicole.carrington@ttc.ca
Johana Vigneswaran	Pension Investment Accounting Analyst	416-393-3260	Email: johana.vigneswaran@ttc.ca
Xiaofang (April) Liu	Pension Fund Accounting Analyst	416-393-6574	Email: xiaofang.liu@ttc.ca

Toll Free #: 1-800-663-6820

Fax #: 416-338-0122

While this Newsletter and Financial Statements are intended to provide information about your Pension Plan, they do not change or replace any of the provisions governing the Plan as stated in the Pension Fund Society Bylaws and Regulations.

A copy of the Pension Fund Society Bylaws is available for your information in the Supervisor's office at each work location, or by calling the Pension Office at 416-393-4372.

Please Note New Mailing Address:

TORONTO TRANSIT COMMISSION
PENSION FUND SOCIETY
1920 Yonge Street
6th Floor (use north elevators)
Toronto, Ontario
M4S 3E2

TORONTO TRANSIT COMMISSION

SICK BENEFIT ASSOCIATION

FINANCIAL STATEMENTS

DECEMBER 31, 2012

CURRENT LANGUAGE

BY-LAW NO.4

A By-law to provide sick benefits to eligible Members. BE IT ENACTED by the Members of Toronto Transit Commission Sick Benefit Association as a by-law as follows:

SICK BENEFITS

SECTION 1 - WHEN SICK BENEFITS PAYABLE

(4) (a) As of January 1, 2006 Members will not be required to provide a medical note for the first five (5) days of absence from work in each calendar year as a result of sickness, illness or injury("Medical Note free Period").For the purpose of this By-law, "calendar year" shall mean January 1st to December 31st, inclusive. A Member continues to be qualified for sick benefits after the Medical Note free Period if the Member is: (i) under the care of a licensed medical practitioner (Le. seen, clinically assessed and treated) within two (2) calendar days following the expiration of the Medical Note free Period (ii) follows the instructions of the licensed medical practitioner and (iii) submission to the Association of an appropriate Association claim form signed by the licensed medical practitioner. The attending licensed medical practitioner must certify the reason for and the extent of the disability of the Member on the proper claim form of the Association before benefit payment will be made.

Notwithstanding the foregoing, certification by licensed dentists will be accepted for disabilities arising from dental conditions. Also certifications will be accepted for periods not in excess of three weeks in any 12 month period for chiropractors, chiropodists, podiatrists, or osteopaths who are recognized by O.H.I.P. Periods in excess of three weeks will be accepted if accompanied by a referral statement signed by a licensed medical practitioner. After the expiration of the Medical Note free Period, in the event that a Member's sickness, illness or injury commences the day preceding a statutory holiday or on a statutory holiday and/or weekend, payment for this period will be made by the Association provided the Member is under the care of a licensed medical practitioner (i.e. seen, clinically assessed and treated) on the first day following these said periods.

All other situation not addressed by this By-law, may be referred to the Board for whatever disposition it deems fit. For the period of April 15, 2005 to December 31, 2005, Members will not be required to provide a medical note for the first three (3) days of absence from work for sickness, illness or injury ("2005 Medical Note free Period"). Following the utilization of the 2005 Medical Note free Period, all applicable rules and regulations as outlined under By-law 4 Section 1 (4)(a) will govern the administration of sick benefit applications.

NEW LANGUAGE

BY-LAW NO.4

A By-law to provide sick benefits to eligible Members. BE IT ENACTED by the Members of Toronto Transit Commission Sick Benefit Association as a by-law as follows:

SICK BENEFITS

SECTION 1 - WHEN SICK BENEFITS PAYABLE

(4)(a) A Member to qualify for sick benefits, must be under the care of and follow the instructions of a licensed medical practitioner during the period for which application for benefits is made.

To qualify for benefits from the first day, a Member must be under the care of i.e., seen, clinically assessed and treated within two days following the first date of disability claimed by a license medical practitioner.

In the event that a Member's sickness, illness or injury commences the day preceding a statutory holiday or on a statutory holiday and/or weekend, payment for this period will be made by the Association provided the Member is under the care of a licensed medical practitioner (i.e. seen, clinically assessed and treated) on the first day following these said periods.

All other situation not addressed by this By-law, may be referred to the Board for whatever disposition it deems fit.

The attending licensed medical practitioner must certify the reason for and the extent of the disability of the Member on the proper claim form of the Association before benefit payment will be made.

Notwithstanding the foregoing, certification by licensed dentists will be accepted for disabilities arising from dental conditions. Also certifications will be accepted for periods not in excess of three weeks in any 12 month period for chiropractors, chiropodists, podiatrists, or osteopaths who are recognized by O.H.I.P. Periods in excess of three weeks will be accepted if accompanied by a referral statement signed by a licensed medical practitioner. After the expiration of the Medical Note free Period, in the event that a Member's sickness, illness or injury commences the day preceding a statutory holiday or on a statutory holiday and/or weekend, payment for this period will be made by the Association provided the Member is under the care of a licensed medical practitioner (i.e. seen, clinically assessed and treated) on the first day following these said periods.

****

The TTC Sick Benefit Association Board of Directors approved on a **"trial basis",** a revision to the **<u>48</u>** hour by-law - increasing it to **<u>72</u>** hours from the first day of illness. This **"trial period"** will commence **January 1, 2013 and end June 30, 2013.** During this **"trial period"**, a Member has **<u>3 days</u>** to seek medical attention; please see specific examples outlined below and also alternatives on seeking medical attention:

<u>By-law 4, Section 1(4)(a) sates in part:</u>

To qualify for benefits from the first day of disability, a Member must be under the care of i.e. seen, clinically assessed and treated within **<u>three days</u>** following the first date of disability claimed by a licensed medical practitioner."

TORONTO TRANSIT COMMISSION
SICK BENEFIT ASSOCIATION
SIXTY-SEVENTH ANNUAL REPORT - YEAR OF 2012

Board of Directors:

G. Piemontese	-	President
B. Kinnear	-	Vice-President
M. Darakjian	-	Treasurer
M. Sforza		
P. Daniels		
F. Grimaldi		
S. Gordon		
O. Kobylansky		

J.A. Iorio - Secretary

To the Members of the Toronto Transit Commission Sick Benefit Association

Your Board of Directors is pleased to report to you on the affairs of the Association for the fiscal year ended December 31, 2012.

By-Law Amendments

Since the last Annual General Meeting By-law 4 Section 1(4)(a) was amended.

Membership

At the beginning of 2012, membership for those eligible for sick benefits totaled 9,917. By the end of the year, membership had increased to 10,145.

Benefits and Claims

Benefit claims expenses were approximately $29,400,000 in 2012 compared to $26,500,000 in 2011. A total of 140,976 sick days were paid during 2012, compared to 147,518 in 2011 or decrease of 6,542 days from 2011.

The average cost to the Commission for providing Sick Benefit Association benefits was approximately $244 per Member per month in 2012, as compared to the average cost of approximately $224 per Member per month in 2011.

During 2012, Members appealed a total of 139 claims to the Board.

Acknowledgements

The Board of Directors appreciates the co-operation and support of the Members and the Commission during the year of 2012.

Gemma Piemontese – President

May 8, 2013

Independent Auditor's Report

To the Board of Directors of the Toronto Transit Commission Sick Benefit Association

We have audited the accompanying financial statements of the Toronto Transit Commission Sick Benefit Association, which comprise the statement of financial position as at December 31, 2012 and the statement of operations and accumulated surplus for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, 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.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215, www.pwc.com/ca

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Toronto Transit Commission Sick Benefit Association as at December 31, 2012 and the results of its operations, changes in its net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

DRAFT

TORONTO TRANSIT COMMISSION
SICK BENEFIT ASSOCIATION
(incorporated under the laws of the Province of Ontario)

Statement of Financial Position
As at December 31, 2012, with comparative figures
(in Canadian dollars)

	December 31, 2012	December 31, 2011
FINANCIAL ASSETS		
Cash	-	2,082,130
Accounts receivable	11,298	39,190
Amount due from the Toronto Transit Commission (note 3)	3,264,193	-
Total Financial Assets	3,275,491	2,121,320
LIABILITIES AND ACCUMULATED SURPLUS		
Bank overdraft	136,958	-
Amount due to the Toronto Transit Commission (note 3)	-	$916,286
Accounts payable and accrued liabilities	421,401	862,902
Provision for payroll taxes and outstanding claims (note 4)	2,625,000	250,000
Total Liabilities	3,183,359	2,029,188
Net Financial Assets and Net Assets	92,132	92,132
Accumulated Surplus	92,132	92,132

See accompanying notes to the financial statements

On behalf of the Board:

G. Piemontese
Director

M. Darakjian
Director

TORONTO TRANSIT COMMISSION
SICK BENEFIT ASSOCIATION
(incorporated under the laws of the Province of Ontario)

Statement of Operations and Accumulated Surplus
For the year ended December 31, 2012, with comparative figures
(in Canadian dollars)

	2012 Budget	2012 Actual	2011 Actual
REVENUE			
Contributions from the Toronto Transit Commission	25,325,000	29,408,026	26,523,184
Interest income	25,000	13,892	25,202
Total Revenue	25,350,000	29,421,918	26,548,386
EXPENSES			
Sick benefit claims	25,350,000	29,421,918	26,548,386
Total Expenses	25,350,000	29,421,918	26,548,386
Surplus for the year	-	-	-
Accumulated surplus, beginning of year	92,132	92,132	92,132
Accumulated Surplus, end of year	92,132	92,132	92,132

1. NATURE OF OPERATIONS

The Sick Benefit Association (the "Association") was incorporated in Ontario by Letters Patent dated December 29, 1960. The Association was established to pay benefits to eligible Members of the Association unable to work due to illness or disability, as defined in the By-Laws. The Toronto Transit Commission (the "Commission") contributes funds to the Association for the payment of benefits and is directly responsible for the payment of all administrative expenses incurred by the Association.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

These financial statements are prepared in accordance with Public Sector Accounting Standards.

A Statement of Change in Net Debt has not been presented as the Company does not have any non-financial assets and does not generate a surplus or deficit. Therefore, the presentation of a Statement of Change in Net Debt would not provide any information that could not be obtained from the Statement of Financial Position or the Statement of Operations and Accumulated Surplus.

(b) Measurement Uncertainty

The preparation of financial statements in conformity with Public Sector accounting standards requires management to make estimates and assumptions that affect the reported amounts. In particular the provision for unreported claims is based on the best information available at the time of financial statement presentation, including trends from past experience. Actual amounts could differ from those estimates.

(c) Cash

Cash consists of funds on deposit with a chartered bank, which are accessible at any time and are unrestricted.

(d) Revenue Recognition

Contributions from the Commission are recognized as revenue when the benefits are accrued by eligible members.

(e) Income Taxes

The Association is an employee mutual benefit society and as such is exempt from income tax under the *Income Tax Act* (Canada).

3. AMOUNT DUE TO OR FROM THE TORONTO TRANSIT COMMISSION

The amount due to or from the Toronto Transit Commission is non-interest bearing and due on demand.

4. PROVISION FOR PAYROLL TAXES AND OUTSTANDING CLAIMS

The Association has recorded an amount payable to the Canada Revenue Agency based on Management's estimate of the amount payable for a retrospective legal obligation to pay payroll taxes on claim payments for the period January 1 to July 21, 2012.

The Association recognizes claims expenses as incurred and has recorded an estimate of claims paid after the year-end for absences occurring prior to year-end. As most claims are submitted shortly after the related absence, management derives this estimate by analyzing actual claims paid after year-end and estimating an amount for late claims based on historical experience.

5. STATEMENT OF CASH FLOWS

A statement of cash flows has not been presented as the related information is readily apparent from the other financial statements. All cash flows are classified as operating in nature.