Your TTC Pension Fund Society

ANNUAL GENERAL MEETING NEWSLETTER

June, 2012

In preparation for the Annual General Meetings (AGM) of the Pension Fund Society and the Sick Benefit Association on Saturday, June 16, 2012, 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 16, 2012
Ontario Institute for Studies in Education (OISE)
252 Bloor Street West
(east of St. George Avenue, on the north side of Bloor)

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.**

If you would like an advance copy of the Minutes of last year's meeting, please call the Pension Office at (416) 393-4372.

In This Issue:

PENSION FUND SOCIETY SEVENTY FIRST DIRECTOR'S REPORT FOR 2011

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 72nd year, which ended December 31, 2011. It is important that Members read and understand the financial information and other issues addressed in this Newsletter. As this information is complex, we encourage all Members to attend the Annual General Meeting on Saturday, June 16th. Ms. Mary Darakjian, Treasurer will be presenting the 2011 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.

Changes to the Board

After many dedicated years, this spring, Messrs. Scott Blakey and John Cannell resigned their positions as Directors for the Society and elected to retire. Ms. Lynn Stanley, Secretary for the Society has also elected to retire.

We wish them well in their retirement and on behalf of the Membership, thank them for all their dedication and hard work.

With the resulting vacancies created, the Board is pleased to announce the appointments of Messrs. Andy Byford and Dave Dixon as new Directors of the Pension Fund Society. Ms. Cheryl Uroda has taken over the role as Corporate Secretary for the Society.

The Board has elected Mr. Bob Kinnear as President and Mr. Vincent Rodo as Vice-President.

Pension Office Moved

We are pleased to announce that the Pension Office has moved from 1900 Yonge Street to a new location at 1920 Yonge Street. All the phone numbers remain the same but if you are visiting the Pension Office, the new location is 1920 Yonge just north of Davisville, use the North elevators to the 6th Floor.

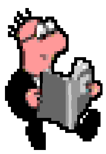
Actuarial Status as at January 1, 2011

At the time of writing this Newsletter, the Board had received preliminary results of the Society's actuarial status. Reviewing the valuation takes careful thought, consideration and discussion so Members need to be patient as no decisions have been made at this time whether the Fund can afford any plan improvements. As in the past, if there are changes adopted to the plan, notices will be posted Commission wide and letters will be sent to all Associate Members.

Bylaw Restatement – Effective July 1, 2012

As announced in our Winter Newsletter, the Board has approved a restated plan text effective July 1, 2012 and will be requesting Membership approval at the AGM. The last restatement was done July 1, 2005. The purpose of a restatement is to incorporate all the Bylaw amendments that have been approved by the Board, the Commission and the Membership since the last restatement so there is an updated document. It also gives staff an opportunity to update legislative references, like changes to the Employment Standards Act, correct typing errors, wording inconsistencies, delete obsolete sections that are no longer needed, etc. In this restatement, the font and Bylaw numbering have also been updated. Bylaws that have changed due to the restatement or have not yet been approved by the Membership are printed in the Newsletter starting on page 40.

If approval is received at the AGM, the Pension Office will have the document printed and bound. If you are interested in receiving a copy please call the Pension Office at (416) 393-4372.



Financial Highlights at a Glance

- Net assets available for benefits increased by $123.9 million or 3.3% in 2011 to $3.82 billion at year end. The increase was not as strong as the previous year of $356.9 million, reflecting the overall poor equity market returns in 2011 relative to 2010.

- The Society's investments generated a net investment income of $120.6 million compared to $358.8 million in 2010. The 2011 net income was comprised of interest and dividends earned, and real estate income totalling $124.7 million, realized gains on investments sold of $9.6 million and unrealized "paper" loss of $13.7 million arising from holding investments during the year.

- Total contributions into the Fund increased from $167.6 million in 2010 to $182.0 million in 2011 or $14.4 million ($16.5 million in 2010).

- Contributions received into the Fund continue to exceed benefits and refunds paid out of the Fund. This excess amount of $15.8 million in 2011 compares to $8.7 million in 2010. These excess contributions resulted primarily from the 0.50% increase in contribution rates effective January 1, 2011 as negotiated in 2008.

- Investment and Plan administration expenses increased to $12.4 million compared to $10.7 million in 2010, representing approximately 0.33% (0.30% in 2010) of average Plan assets at market. Increased expenses (approximately $0.8 million or 0.02%) were primarily due to non-recurring legal and actuarial services related to the JSPP conversion.

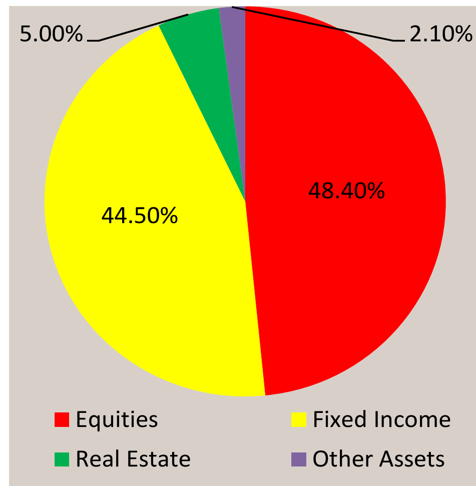
Market Overview

Asset Mix

The asset mix of the Fund, as outlined in the Plan's Statement of Investment Policies and Procedures (SIP&P), is intended to diversify the Fund's assets, reduce risk, and help the Fund to achieve sufficient returns to meet the Plan's pension benefit obligations over the long term. The Board reviews and approves the details of the SIP&P at least annually. The table below shows the Fund's actual asset mix at year end, compared to the target weights and acceptable ranges as set out in the SIP&P.

Asset Mix at December 31, 2011

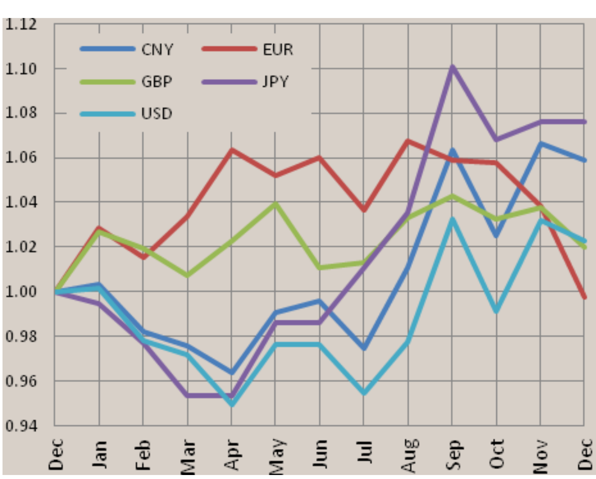
	Actual	Target Weight	Acceptable Ranges
Equities - Stocks	48.4%	50.0%	40% - 60%
Fixed Income - Bonds	44.5%	41.0%	29% - 54%
Real Estate	5.0%	5.0%	0% - 10%
Cash and Equivalents	0.7%	2.0%	0% - 5%
Infrastructure	0.7%	1.0%	0% - 3%
Active Currency Overlay	0.3%	1.0%	0% - 2%
Hedge Fund Secondaries	0.4%	0%	0% - 2.5%
	100.0%	**100.0%**	



In 2011, the weights of key asset classes in the Fund remained quite steady. Increased allocations to Infrastructure assets and to hedge funds were offset by slight decreases in equity and bond weights. Infrastructure investments are long-term in their orientation and represent a good match for long-term pension obligations. The hedge fund investment is expected to have return volatility (risk levels) comparable to that of equity.

Market Overview: Currencies

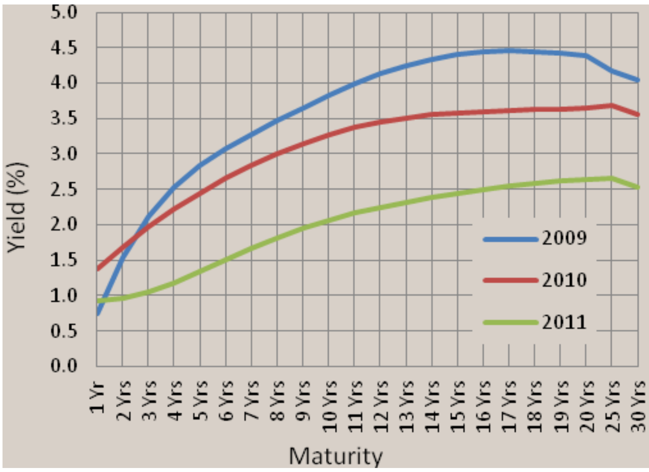
Relative Value of Foreign Currencies in $CAD, 2011



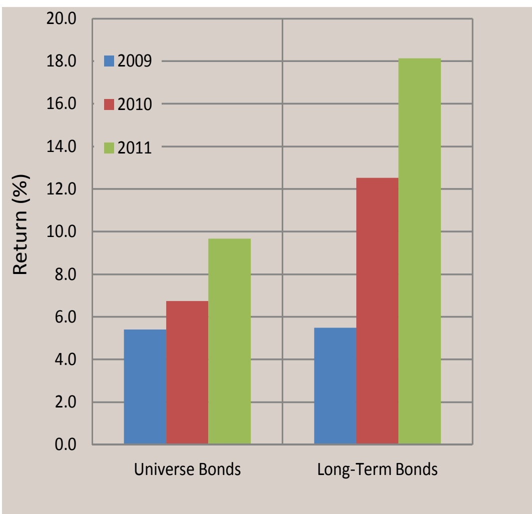
Events and circumstances such as the Japanese tsunami, Greek debt reorganization, low growth rates among developed economies, and constant uncertainty regarding the stability of European banks and some national governments, led to weakness in some commodity prices and in the Canadian dollar ($CAD). Amongst major currency spot rates, only the Euro declined relative to the $CAD; other currencies appreciated by 2% to 8% in 2011.

Market Overview: Fixed Income and Interest Rates

Canadian Bond Yields at December 31



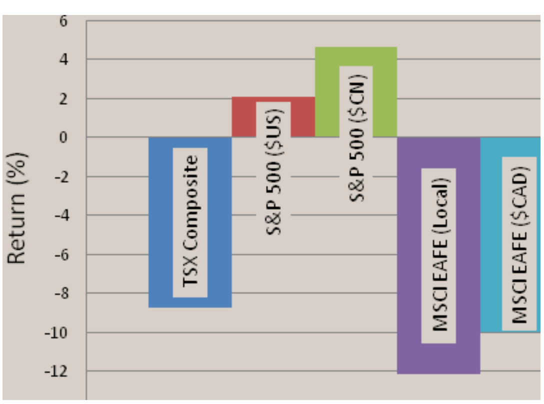
For pension plans, the most important investment trend of 2011 was the continuing decline in interest rates. 2011 marked the third successive year in which bond yields declined, with decreases ranging from 0.5% for short-term bonds, to a full percentage point for long-term bonds. Declining yields translate into higher bond prices and strong bond market returns. The S&P/DEX long-term bond index (long-term bonds have a maturity of 10 years or greater) had an 18.1% gain in 2011, and the S&P/DEX Universe bond index (representing the performance of a mix of short to long-term bonds) returned 9.7%. Corresponding 2010 returns were 12.5% and 6.7% respectively.



Like bond prices, pension liabilities increase as interest rates decline. Thus, high returns on bonds in recent years have been accompanied by steep increases in the estimated cost of meeting the Society's future payment obligations. Liability increases remain the most pressing problem facing many Canadian pension funds, as pension liabilities have in most cases grown more quickly than assets.

Market Overview: Equities

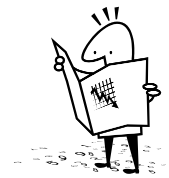
Equity Markets: Total Return (%) in 2011



Most major equity markets were weak in 2011. While the S&P 500 index, the Society's benchmark for assessing US Equity returns, gained 4.6%, both the Toronto Stock Exchange (TSX) Composite index and the MSCI EAFE (Europe, Australia, Far East) index, the benchmark for non-North American equities, declined sharply. $CAD returns on foreign equity were slightly higher than local currency returns, due to the decline in the Canadian dollar.

Currency Hedging and Active Currency

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 the 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 2011, the currency hedging program reduced overall Fund return by 0.2%.



Investment Performance

The Society's investment returns on key asset classes and the total portfolio appear in the table below.

	% Return in 2011		Annualized % Return, 2007-2011	
	Fund	Benchmark	Fund	Benchmark
Bonds	12.0	13.7	6.9	7.3
Canadian Equity	-7.8	-8.7	1.1	1.3
U.S. Equity	2.2	4.5	-2.5	-2.9
International Equity	-6.6	-10.0	-6.0	-7.3
Real Estate	21.3	21.1[1]	1.5	11.3
Total Fund	**3.3**	**4.1**	**2.4**	**2.7**

[1] Benchmark is DEX Long bond index + 3% annually

While the Fund returns exceeded benchmark returns in 3 of 5 major asset classes, overall the Fund trailed its return benchmark slightly in 2011. Most of the overall return difference was attributable to the bond asset class, where continued declines in long-term interest rates resulted in under-performance of portfolios positioned for stable or rising interest rates. 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.

Investment Performance continued…

As indicated in last year's Annual Report, the Plan reviewed its Canadian equity investments in 2011, resulting in the introduction of two new Canadian equity managers late in the year. While the Fund's equity investments generally out-performed their respective benchmarks, overall equity market returns were poor in 2011. On a trailing 5-year basis, combined Canadian and foreign equity returns are also negative, and weak equity markets continue to act as a drag on longer-term Fund performance.

Strong returns on the Fund's real estate holdings in 2011 were a welcome contributor to performance. However, this is to some degree a rebound effect from sharp declines and subsequent weakness in 2008/2009, and real estate returns are not expected to persist at their recent buoyant levels.

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

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.

Redcliff 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.

Credited Interest Rates

In 2012, the rate of interest to be credited to a Member's Required Contributions is 1.72%, compared to 1.85% in 2011. This is the interest rate that shows on all Members entitlement statements that are issued in late May or June of the following year.

Government of Canada Announces Changes to Old Age Security and the Guaranteed Income Supplement

In the 2012 Federal Budget, the government announced changes to the eligibility for the Old Age Security Pension (OAS) and Guaranteed Income Supplement (GIS) by gradually increasing the age of eligibility for OAS and the GIS between 2023 and 2029 from 65 to 67. Members who are currently in receipt of OAS will not be affected by this change.

The governments reasoning for the change is that OAS is the single, largest federal program. It is financed from general government revenue and provides benefits to most Canadians 65 years of age and over. As Canadians are living longer and healthier lives; there will be nearly twice as many seniors in 2030 as there were in 2011, growing from 5 million to 9.4 million, which will place significant pressures on the OAS program. As noted above the new changes will be phased in over a number of years.

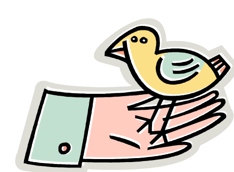
The following table gives some examples of the phased in approach that has been adopted by the government and the impact for Members growing into eligibility for OAS and GIS:

Date of Birth	**Age of Eligibility**	**Date of Eligibility**	**Date of First Payment**
Before 1958	At 65	65	Month after 65 birthday
April, 1958	65 & 1 month	May, 2023	June, 2023
April, 1959	65 & 7 months	November, 2024	December, 2025
April, 1960	66 & 1 month	May, 2026	June, 2026
April, 1961	66 & 7 months	November, 2027	December, 2027
April, 1962	67	April, 2029	May, 2029
On or after 1963	At 67		Month after 67 birthday

It should be noted that the changes to OAS do not affect the Canada Pension Plan (CPP). Normal retirement for CPP is still age 65, with eligibility for early retirement commencing at age 60.

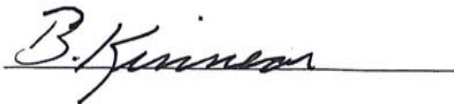
For Members born after 1957 considering to retire in the future, when making your elections for optional forms of pension, you should keep in mind that the Bridge Benefit ceases at age 65 and that will not change. Also for Members considering to elect the Level Income Option, the Level Reductions payback will still commence the first full month after your 65th birthday. This may mean there is as much as a 2 year gap between the start of the Level Reduction payback and the actual commencement of your OAS.

When considering retirement, it is important to get all the information needed to make an informed decision. That includes an updated estimate from the TTC Pension Fund, plus an estimate of what and when you can expect to receive benefits from CPP and OAS. For information about your government pension plans please refer to the Service Canada Website at: ***www.servicecanada.gc.ca***



Acknowledgements

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



Bob Kinnear
President

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**.

YOUR FUND'S STATISTICS AT A GLANCE

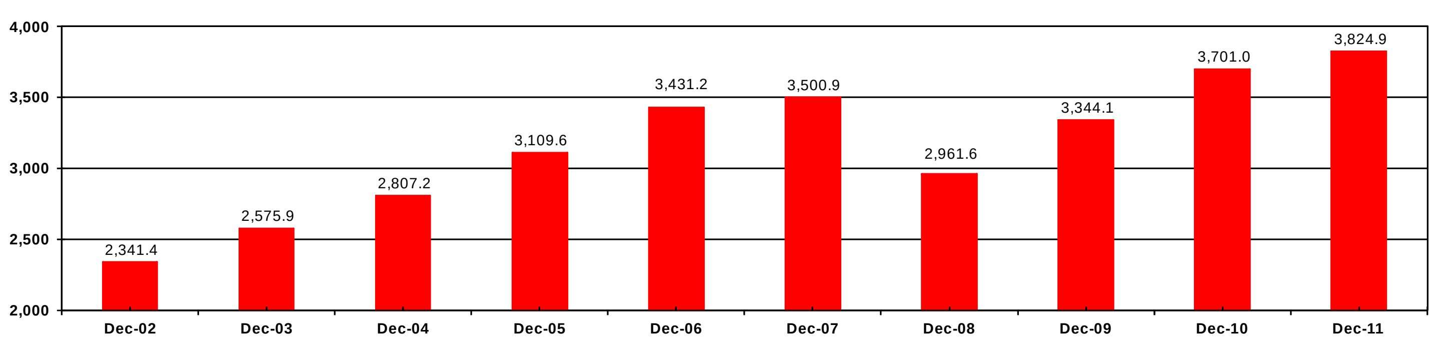
Fund Established	January 3, 1940
Net Assets (at 31/12/11)	$3.82 billion

Membership Data:	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**
Active Members	12,689	12,584	12,400	11,681	11,244	10,896	10,689	10,538	10,489	10,411
Pensioners	6,502	6,307	6,143	6,026	5,870	5,713	5,563	5,397	5,180	4,936
Ratio Active Member/Pensioner	1.95	2.00	2.02	1.94	1.92	1.91	1.92	1.95	2.03	2.11

Pension Administration Statistics	**2011**	**2010**	**2009**	**2008**	**2007**
Pre-Retirement Seminar Attendees	379	448	450	496	450
Pension Estimates	1,992	1,653	1 ,407	1,458	1,781
Refunds Processed	81	74	59	68	75
Retirements	373	299	257	267	248
Benefits Paid to Pensioners*	$159,388	$150,998	$146,597	$143,264	$138,953
Members' Contributions*	$89,957	$82,855	$74,495	$66,854	$55,682
Employers' Contributions*	$92,055	$84,785	$76,599	$69,270	$57,889

***in thousands**

NET ASSETS AVAILABLE FOR BENEFITS
DECEMBER 31, 2002 to December 31, 2011
(In $millions)



Asset Mix as at December 31, 2011

(In $ thousands)

The following schedule summarizes the market values of the Plan's investments including the effects of derivative financial instruments used by State Street in the asset mix rebalancing overlay strategy.

PORTFOLIO MANAGER	MANDATE	CASH & EQUIVALENT	CDN. EQUITY	* U.S. EQUITY	* INT'L. EQUITY	FIXED INCOME	REAL ESTATE	INFRA - STRUCTURE	HEDGE FUND SECONDARIES	TOTAL $	TOTAL %
BlackRock	Replicate bond indices - passive					713,667				$ 713,667	18.8%
Phillips, Hager & North	Canadian bonds active (Note 1)	1,240				463,442				$ 464,682	12.2%
State Street	US equities - passive	1,044		311,175						$ 312,219	8.2%
Letko Brosseau	Canadian equities - active	1,908	269,958							$ 271,866	7.1%
Mawer	Canadian equities - active	14,885	236,634							$ 251,519	6.6%
Burgundy	Canadian equities - active	1,943	248,443							$ 250,386	6.6%
In-House	Alternative investments	3,615	83				188,392	27,650	15,000	$ 234,740	6.2%
Invesco	Non-north American equities - active	11,830			205,069					$ 216,899	5.7%
Thornburg	Non-north American equities - active	12,693	3,911	7,421	181,603					$ 205,628	5.4%
Crestline	Funds of hedge funds - portable alpha	52,426				146,425				$ 198,851	5.2%
Wellington	US equities - active	1,262	553	185,145	6,312					$ 193,272	5.1%
TDAM	Credit strategy - active	2,913				151,280				$ 154,193	4.1%
Canso	Credit strategy - active	1,561				147,773				$ 149,334	3.9%
Brandes	Non-north American equities - active				126,583					$ 126,583	3.3%
Cambridge	Currency Overlay - active	11,451								$ 11,451	0.3%
Mesirow	Currency Hedge - passive and active	4,656								$ 4,656	0.1%
State Street	Asset mix rebalancing overlay strategy	28,840				15,395				$ 44,235	1.2%
		(114,240)	7,061	80,418	(29,587)	56,348					
TOTALS		$ 38,027	$ 766,643	$ 584,159	$ 489,980	$ 1,694,330	$ 188,392	$ 27,650	$ 15,000	$ 3,804,181	
TOTALS (%)		1.0%	20.2%	15.3%	12.9%	44.5%	5.0%	0.7%	0.4%		100.0%

***** All foreign investments are valued in Canadian dollars.

Note 1 - Manager mandate changed from Canadian balanced to bonds in December 2011

Toronto Transit Commission Pension Fund Society

Financial Statements
December 31, 2011 and December 31, 2010
(in thousands of Canadian dollars)

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, 2011, 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, 2011, supplied by the Society and used to extrapolate valuation results to December 31, 2011,
- 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, 2011, 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 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 2011, 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, 2012

Loyd Zadorozny
Fellow of the Society of Actuaries
Fellow of the Canadian Institute of Actuaries
May 8, 2012

April 25, 2012

Independent Auditor's Report

To the Members of
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, 2011 and December 31, 2010 and the statement of changes in net assets available for benefits and statement of changes in pension obligation for the years 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP, Chartered Accountants
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, 2011 and December 31, 2010 and the changes in its net assets available for benefits and changes in its pension obligations for the years then ended in accordance with Canadian accounting standards for pension plans.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Toronto Transit Commission Pension Fund Society

Statements of Financial Position

As at December 31, 2011 and December 31, 2010

(in thousands of Canadian dollars)

	2011 $	2010 $
Assets		
Cash	19,311	13,305
Investments (note 4)	3,797,299	3,670,833
Investment-related receivables (note 4)	43,648	41,136
Contributions receivable		
Members	10,942	11,403
Employers	14	1,882
Other assets	1,021	691
	3,872,235	3,739,250
Liabilities		
Investment-related liabilities (note 4)	36,766	28,593
Other liabilities (note 7)	10,491	9,620
	47,257	38,213
Net Assets Available for Benefits	3,824,978	3,701,037
Net assets available for benefits	3,824,978	3,701,037
Pension benefit obligation (note 8)	3,771,488	3,386,074
Surplus	53,490	314,963

Approved by the Board of Directors

B Kinnear ____________ Director   Vincent Rodo ____________ Director

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

Toronto Transit Commission Pension Fund Society

Statements of Changes in Net Assets Available for Benefits

For the years ended December 31, 2011 and December 31, 2010

(in thousands of Canadian dollars)

	2011 $	2010 $
Increase in net assets available for benefits		
Investment income (note 11)	124,751	115,958
Net increase in fair values of investments (note 11)	-	242,878
Contributions		
Members	89,957	82,855
Employers	92,055	84,785
	306,763	526,476
Decrease in net assets available for benefits		
Pension benefits	159,388	150,998
Net decrease in fair values of investments (note 11)	4,120	-
Investment and Plan administration expenses (note 12)	12,453	10,676
Death benefits	3,876	5,930
Termination refunds	2,985	2,017
	182,822	169,621
Increase in net assets available for benefits during the year	123,941	356,855
Net assets available for benefits - Beginning of year	3,701,037	3,344,182
Net assets available for benefits - End of year	3,824,978	3,701,037

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

Toronto Transit Commission Pension Fund Society

Statements of Changes in Pension Benefit Obligation

For the years ended December 31, 2011 and December 31, 2010

(in thousands of Canadian dollars)

	2011 $	2010 $
Pension benefit obligation - Beginning of year	3,386,074	3,128,205
Benefits accrued	120,710	100,427
Benefits paid	(166,249)	(158,945)
Interest accrued on benefits	213,304	196,822
Changes in actuarial assumptions	111,846	102,634
Experience (gains) losses	(25,598)	8,634
Plan amendments	131,401	8,297
Net increase in pension benefit obligation	385,414	257,869
Pension benefit obligation - End of year (note 8)	3,771,488	3,386,074

The accompanying notes are an integral part of these annual 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 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 Plan 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

Contribution rates increased 0.5% effective January 1, 2011 for both employees and employers.

In 2011, each member employed by the TTC and ATU contributed 9.25% (2010 - 8.75%) of earnings to the Plan up to the year's maximum pensionable earnings (YMPE) of $48,300 (2010 - $47,200) and 10.85% (2010 - 10.35%) 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, 2007 (2010 - December 31, 2004). 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 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 sponsor and Plan members. In these financial statements, the term Canadian generally accepted accounting principles (GAAP) refers to Canadian GAAP before the adoption of CICA Section 4600. Note 3 discloses the impact of the adoption of Canadian accounting standards for pension plans.

Investment assets and investment liabilities

Investment assets and investment liabilities are recorded at fair value in accordance with International Financial Reporting Standards (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 statements 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 changes 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.

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.

(tabular amounts in thousands of Canadian dollars)

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 actuarial 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 annual 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.

3 Transition to CICA Section 4600

The transition to CICA Section 4600 did not affect the Plan's net assets available for benefits and changes therein. In accordance with Canadian GAAP, the Plan's subsidiaries were consolidated in prior years. In accordance with CICA Section 4600, they are now accounted for as investment assets recorded at fair value. This change does not affect the ending balance of net assets or changes in net assets available for benefits but does impact the individual balances within the statements of financial position. The following table summarizes the differences:

(tabular amounts in thousands of Canadian dollars)

Statement of financial position

	Canadian GAAP $	Adjustments $	CICA Section 4600 $
December 31, 2010			
Investments	3,803,748	(132,915)	3,670,833
Investment-related liabilities	161,508	(132,915)	28,593

4 Investments

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

	2011		2010	
	Fair value $	Cost $	Fair value $	Cost $
Investments (note 4(a))				
Fixed income				
Invested cash	44,650	44,650	23,644	23,644
Short-term money market securities	100,733	100,649	229,498	229,235
Canadian bonds	1,417,592	1,270,273	1,280,772	1,219,403
Non-Canadian bonds	73,966	76,073	48,612	48,699
Funds of hedge funds	146,425	156,839	126,160	137,068
	1,783,366	1,648,484	1,708,686	1,658,049
Equities				
Canadian	759,582	681,437	803,438	604,992
Non-Canadian	1,023,309	1,054,505	986,102	1,008,574
	1,782,891	1,735,942	1,789,540	1,613,566
Alternative investments				
Real estate	188,392	161,575	161,107	159,945
Infrastructure (note 4(b))	27,650	24,600	11,500	11,500
Hedge fund secondaries (note 4(b))	15,000	15,000	-	-
	231,042	201,175	172,607	171,445
	3,797,299	3,585,601	3,670,833	3,443,060
Investment-related receivables				
Derivate financial instruments receivable (note 6(c))	33,767	-	34,308	-
Pending trades	1,865	1,865	711	711
Accrued investment income	8,016	8,016	6,117	6,117
	43,648	9,881	41,136	6,828

(tabular amounts in thousands of Canadian dollars)

	2011		2010	
	Fair value $	Cost $	Fair value $	Cost $
Investment-related liabilities				
Derivative financial instruments payable (note 6(c))	23,328	-	26,217	-
Pending trades	13,438	13,438	2,376	2,376
	36,766	13,438	28,593	2,376
	3,804,181	3,582,044	3,683,376	3,447,512

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$52.4 million (2010 - US$67.1 million) into an existing infrastructure fund by September 2014 and up to an additional US$61.1 million into the hedge fund secondaries.

5 Financial risk management

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.

The allowable asset mix range, target asset allocations and actual allocations, after taking into account the market exposures related to derivative financial instruments as at December 31, 2011, are detailed in the following table:

Asset category	Acceptable range	Target	Actual
Equity securities	40% - 60%	50%	48.4%
Bonds	29% - 54%	41%	44.5%
Real estate	0% - 10%	5%	5.0%
Cash and short-term money market securities	0% - 5%	2%	0.7%
Infrastructure	0% - 3%	1%	0.7%
Active currency overlay	0% - 2%	1%	0.3%
Hedge fund secondaries	0% - 2.5%	0%	0.4%

(tabular amounts in thousands of Canadian dollars)

Market risk

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.

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. Market risk comprises the following:

- Foreign currency risk

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

	2011			2010
	Currency exposure $	Impact of derivative financial instruments $	Net currency exposure $	Net currency exposure $
US dollar	837,542	(451,181)	386,361	386,501
Euro	119,675	(140,537)	(20,862)	92,591
British pound sterling	135,952	(28,539)	107,413	73,696
Japanese yen	70,258	(53,746)	16,512	62,605
Swiss franc	45,321	(25,168)	20,153	25,620
Australian dollar	11,636	21,231	32,867	15,220
Chinese yuan renminbi	18,818	43,968	62,786	5,501
Swedish krona	19,016	(8,229)	10,787	8,205
Other	102,514	(58,748)	43,766	59,598
	1,360,732	(700,949)	659,783	729,537

(tabular amounts in thousands of Canadian dollars)

Since all other variables are held constant in assessing foreign currency risk sensitivity, it is possible to extrapolate a 1% absolute change in foreign currency exchange rates to any absolute percentage change in foreign currency exchange rates. A 1% absolute change in foreign currency exchange rates would have a $6.6 million (2010 - $7.3 million) impact on the net assets available for benefits of the Plan.

- Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The value of the Plan's assets is affected by changes in nominal interest rates and the pension benefit obligation is affected by fluctuations in long-term interest rates. The Plan manages the interest rate risk through guidelines in the SIP&P designed to mitigate the interest rate risk at a level deemed acceptable by the Board.

As at December 31, 2011, an increase/decrease of 1% in nominal interest rates would result in a decrease/increase in the value of fixed income investments of approximately $144.2 million or 3.8% (2010 - $128.5 million or 3.5%) of the Plan's assets. This is based on the duration of the securities valued and assumes a parallel shift in the yield curve, with all other variables remaining constant.

- Price risk

Price risk is the risk that the fair value of an investment will fluctuate because of changes in market prices (other than those arising from foreign currency or interest rate risk), whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market.

The following table demonstrates the sensitivity of the Plan's net assets available for benefits to a 1% absolute change in the fair value of the Plan's publicly traded investments, which are exposed to price risk:

	2011	
	Fair value $	**Impact of 1% absolute change in fair value on net assets available for benefits $**
Canadian equities	759,582	7,596
Non-Canadian equities	1,023,309	10,233
	1,782,891	17,829

(tabular amounts in thousands of Canadian dollars)

		2010
	Fair value $	Impact of 1% absolute change in fair value on net assets available for benefits $
Canadian equities	803,438	8,034
Non-Canadian equities	986,102	9,861
	1,789,540	17,895

Credit risk

Credit risk refers to the risk that a loss could arise from a counterparty's being unable to meet its financial obligations. The Plan is exposed to credit risk principally through its cash, short-term money market and bond investments, counterparties to derivative financial instrument transactions and securities lending activities.

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

- having a minimum rating of R1 "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 Plan's maximum credit risk exposure to investments and derivative financial instrument counterparties is $1.7 billion (2010 - $1.6 billion); however, the likely exposure is far less due to the risk mitigating factors described above.

To enhance portfolio returns, the Plan lends securities to approved borrowers. Credit risk associated with the securities lending program is mitigated by requiring the borrowers to provide daily collateral in the form of readily marketable investments, with fair values exceeding the fair value of the loaned securities. As at December 31, 2011, the Plan's investments included loaned securities with an estimated fair value of $314.8 million (2010 - $331.7 million). The fair value of collateral received in respect of these loans was $329.5 million (2010 - $348.8 million).

	2011 $	2010 $
Operating cash	19,311	13,305
Invested cash	44,650	23,644
Short-term notes	100,733	229,498
Canadian bonds	1,417,592	1,280,772
Non-Canadian bonds	73,966	48,612
Derivative receivables	33,767	34,308
	1,690,019	1,630,139

Liquidity risk

Liquidity risk is the risk of being unable to settle or meet obligations as they come due. These commitments include payment of the Plan's pension obligations. Liquidity risk is managed by ensuring the Plan invests in high-quality investments that can be easily disposed of in an active market.

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 annual 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.

- 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.

(tabular amounts in thousands of Canadian dollars)

- 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.

				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
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

				2010
	Level 1 $	Level 2 $	Level 3 $	Total $
Invested cash and short-term money market securities	23,644	229,498	-	253,142
Bonds	-	1,329,384	-	1,329,384
Funds of hedge funds	-	-	126,160	126,160
Equities	1,536,816	252,724	-	1,789,540
Real estate	-	-	161,107	161,107
Infrastructure	-	-	11,500	11,500
Derivative financial instruments	-	8,091	-	8,091
Other investment-related assets and liabilities	-	4,452	-	4,452
	1,560,460	1,824,149	298,767	3,683,376

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.

(tabular amounts in thousands of Canadian dollars)

	Funds of hedge funds $	Real estate $	Infrastructure $	Hedge fund secondaries $	Total $
Fair value - December 31, 2009	115,971	154,178	11,500	-	281,649
Total unrealized gains	257	6,929	-	-	7,186
Purchases	9,932	-	-	-	9,932
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

6 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.

(tabular amounts in thousands of Canadian dollars)

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.

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

	2011		2010	
	Notional amount $	Fair value receivable $	Notional amount $	Fair value receivable $
Fixed income futures	65,235	-	153,031	-
Canadian equity futures	7,061	-	(17,336)	-
Non-Canadian equity futures	50,830		165,048	-
Bond index swaps	196,086	3,061	164,041	58
Foreign exchange forward contracts	5,609,498	7,378	2,764,203	8,033

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:

	2011		2010	
	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	38,027	1.0	(43,929)	(1.2)
Canadian bonds	1,473,939	38.7	1,442,674	39.2
Non-Canadian bonds	73,966	1.9	48,612	1.3
Funds of hedge funds	146,425	3.9	126,160	3.4
	1,732,357	45.5	1,573,517	42.7

(tabular amounts in thousands of Canadian dollars)

	2011		2010	
	Effective net investments at fair value $	Effective asset mix %	Effective net investments at fair value $	Effective asset mix %
Equities				
Canadian	766,643	20.2	786,102	21.3
Non-Canadian	1,074,139	28.2	1,151,150	31.3
	1,840,782	48.4	1,937,252	52.6
Real estate	188,392	5.0	161,107	4.4
Infrastructure	27,650	0.7	11,500	0.3
Hedge fund secondaries	15,000	0.4	-	-
	3,804,181	100.0	3,683,376	100.0

7 Other liabilities

Other liabilities consist of the following:

	2011 $	2010 $
Accrued pension payroll	6,796	6,315
Fees payable to custodian, investment consultants and other advisers	2,577	2,748
Other accounts payable	1,118	557
	10,491	9,620

8 Pension benefit obligation

An estimate of the Plan's obligation for pension benefits has been made as at December 31, 2011 for inclusion in the Plan's annual financial statements by Mercer (Canada) Limited, a firm of consulting actuaries. The estimate is an extrapolation of the January 1, 2011 actuarial valuation based on membership data on that date, using the methods and assumptions summarized below. This note to the annual 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 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

(tabular amounts in thousands of Canadian dollars)

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, 2011.

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:

	2011 %	2010 %
Discount rate - net of expenses	5.75	6.00
Rate of inflation	2.25	2.25
Weighted average rate of salary increase	3.75	3.75

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, 2011 and filed with regulators on November 17, 2011. The next required funding valuation filing with the regulators will be as at January 1, 2014. 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 annual 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, 2011 and future valuations will be determined on a going concern valuation basis, plus solvency funding requirements established prior to January 1, 2011.

9 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 8.

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.

(tabular amounts in thousands of Canadian dollars)

10 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;

- 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.

(tabular amounts in thousands of Canadian dollars)

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

	2011		2010	
	Fair value $	Cost $	Fair value $	Cost $
5160 Orbitor Drive Ltd.	6,545	3,700	6,143	3,753
PFS Exchange Inc.	123,555	77,334	117,096	78,321
PFS Industrial One Inc.	7,970	6,507	7,611	6,591
PFS Retail One Inc.	25,817	16,607	23,273	17,019
PFS GTA Industrial Inc.	103,439	142,600	97,588	142,600
PFS Retail Two Inc.	46,339	40,100	37,835	40,100
Debt on real estate properties	(125,273)	(125,273)	(128,439)	(128,439)
Net investment in real estate	188,392	161,575	161,107	159,945
1793177 Ontario Inc.	27,650	24,600	11,500	11,500
TTC PFS Secondaries Inc.	15,000	15,000	-	-
Net alternative investments	231,042	201,175	172,607	171,445

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

	2011			2010		
	$	Interest rate %	Maturity date	$	Interest rate %	Maturity date
5160 Orbitor Drive Ltd.	-	-	-	1,683	7.24	August 2011
PFS Exchange Inc.	27,834	6.83	April 2012	28,821	6.83	April 2012
PFS Industrial One Inc.	2,782	6.05	November 2014	2,866	6.05	November 2014
PFS Retail One Inc.	6,657	5.24	June 2013	7,069	5.24	June 2013
PFS GTA Industrial Inc.	88,000	5.19	May 2016	88,000	5.19	May 2016
	125,273			128,439		

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

	$
2012	28,359
2013	6,317
2014	2,597
2015	-
2016 and thereafter	88,000
	125,273

Dividend income from real estate subsidiaries totalled $6.0 million (2010 - $6.8 million).

(tabular amounts in thousands of Canadian dollars)

11 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:

	2011		2010	
	Before allocation $	After allocation $	Before allocation $	After allocation $
Fixed income				
Invested cash	312	312	228	228
Short-term money market securities	1,445	1,423	1,021	8,747
Canadian bonds	66,489	187,222	66,550	129,441
Non-Canadian bonds	3,625	2,048	197	612
Funds of hedge funds	-	494	-	7,058
	71,871	191,499	67,996	146,086
Equities				
Canadian	21,240	(62,020)	18,653	102,974
Non-Canadian	25,640	(43,553)	22,544	96,082
	46,880	(105,573)	41,197	199,056
Alternative investments				
Real estate	6,000	31,655	6,765	13,694
Infrastructure	-	3,050	-	
Investment income	124,751	120,631	115,958	358,836
Net realized gains on investments	9,607	-	94,816	-
Net change in unrealized gains (losses) on investments	(13,727)	-	148,062	-
Net change in fair values of investments	(4,120)	-	242,878	-
	120,631	120,631	358,836	358,836

(tabular amounts in thousands of Canadian dollars)

12 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 annual financial statements. The following summarizes the expenses paid by the Plan:

	2011 $	2010 $
Investment managers' fees	9,711	8,642
Other Plan administration expenses	332	403
Custodial fees	470	455
Actuarial fees	911	528
Investment consultants' fees	404	386
Legal fees	625	262
	12,453	10,676

13 Significant investments

a) Significant individual securities*

As at December 31, the Plan held individual investments with fair value or cost exceeding 1% of the fair value or cost of the Plan's net assets as follows:

	2011		2010	
	Fair value $	Cost $	Fair value $	Cost $
Government of Canada, 0%, treasury bill, 03/03/11	-	-	40,434	40,374
The Toronto-Dominion Bank, common shares	-	-	40,311	23,044
Royal Bank of Canada, common shares	-	-	37,642	24,448
	-	-	118,387	87,866

*Excludes pooled fund investments (note 13(c)) and alternative investments (note 10).

(tabular amounts in thousands of Canadian dollars)

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:

	2011		2010	
	Fair value $	Cost $	Fair value $	Cost $
Government of Canada	44,815	43,476	112,950	112,634
Province of Ontario	53,628	47,549	62,185	60,402
Royal Bank of Canada	-	-	50,506	37,137
The Bank of Nova Scotia	-	-	40,593	28,577
The Toronto-Dominion Bank	-	-	47,655	30,391

*Excludes pooled fund investments (note 13(c)) and alternative investments (note 10).

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 annual statements of financial position under the investment type to which they relate.

	2011		2010	
	Fair value $	Cost $	Fair value $	Cost $
Fixed income				
Conso. Corp. & Infrastructure Debt	15,960	15,115	-	-
PHN Foreign Bond Fund, Series O	1,522	1,729	-	-
Barclays (BlackRock) Universe Bond Fund	285,843	266,483	265,284	257,517
Barclays (BlackRock) Long Bond Index Fund	427,824	356,948	361,720	334,296
PHN Long Bond Pension Trust	233,563	194,805	209,916	194,023
PHN Investment Grade Corp. Bond Trust	117,590	117,279	107,827	105,977
PHN Institution Short-Term Investment Fund	836	836	9,594	9,594
PHN Mortgage Pension Trust Fund	13,896	13,184	12,861	12,352
Crestline Offshore Fund, Ltd.	71,116	101,950	60,934	68,534
Mesirow Absolute Return Fund (Institutional)	75,308	101,950	65,226	68,534
PHN High Yield Bond Fund, Series O	4,561	4,623	-	-
TDAM TD Emerald Can Treas.	610	610	-	-
	1,248,629	1,175,512	1,093,362	1,050,827

(tabular amounts in thousands of Canadian dollars)

	2011		2010	
	Fair value $	Cost $	Fair value $	Cost $
Canadian equities				
PHN Small Float Fund	-	-	30,870	27,197
Jarislowsky Fraser Special Equity Fund	-	-	19,438	17,493
	-	-	50,308	44,690
Non-Canadian equities				
Brandes International Equity Unit Trust	126,583	209,765	202,416	296,840
	1,375,212	1,385,277	1,346,086	1,392,357

BYLAW AMENDMENTS

The following Bylaw amendments were approved by the Board since the last Annual General Meeting. For easier reference the wording is shown with tracked changes bolded. These amendments have been filed with the Regulators and Commission sanction will be requested prior to the AGM. Membership approval will be requested at the AGM. The amendments are broken into two parts, the first set of Bylaws are the new Bylaws approved since the last AGM to implement the plan improvements effective January 1, 2011 for an update to the base period and ad hoc indexing to Pensions in payment. The second sections are the amendments that are as a result of the restated plan text.

Bylaws 2, 6.02, 9.01, 13.04 and 17.07 *– Reason for Change - Plan Improvements effective January 1, 2011*

The following amendments to Bylaws 2, 6.02, 9.01, 13.04 and 17.07 were required to implement a three year update to the Base Period, to move the Survivor Benefit Date forward in lock step to the end of the new base period and to provide ad hoc indexing for pensions in payment. Current funding was sufficient to implement these changes.

Effective: January 1, 2011

2 DEFINITIONS

(xxxiii) "Survivor Benefit Date" shall mean **January 1, ~~2005~~ 2008.**

6.02 PENSIONABLE EARNINGS

(i) Average Base Period Earnings

Effective **~~January 1, 2007~~ January 1, 2011** for Members retiring on or after January **1, ~~2007~~ 2011** pursuant to Bylaw 8 and effective **~~June 1, 2007~~ September 1, 2011**, for Members terminating on or after **~~June 1, 2007~~ September 1, 2011** for the purposes of calculating the amount of Regular Member's pension for Credited Service accrued to **~~December 31, 2004~~ December 31, 2007**, Average Base Period Earnings shall be the greater of:

(a) the average of the highest consecutive four calendar year's Pensionable Earnings prior to **~~2005~~ 2008** 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 **~~2005~~ 2008.**

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 **~~2005~~ 2008**, the Member's Base Period shall be his or her total number of calendar years, including fractional years, of Pensionable Earnings.

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 the determining the Member's Average Base Period Earnings, or if the Member's Pensionable Earnings are less than the YMPE, the Member's Pensionable Earnings.

9.01 NORMAL OR POSTPONED RETIREMENT PENSION

(i) A Regular Member who retires pursuant to Bylaw 8.01 or 8.02 on or after **January 1, ~~2007~~ 2011**, 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, ~~2004~~ 2007**; 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, ~~2004~~ 2007**; 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

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

(2) did not contribute any amount to the Canada Pension Plan during the calendar year.

(ii) 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, ~~2006~~ 2010**, determined in accordance with the Bylaws of the Society in effect as at **December 31, ~~2006~~ 2010.**

13.04 AD HOC ADJUSTMENTS (NEW)

(i) Notwithstanding Bylaw 13.03, and subject to Bylaw 17.13 and Subsections (ii) and (iii) below, pensions in the course of payment to Associate Members may be increased in accordance with this Bylaw 13.04. Increases approved by the Board shall be set out in Subsection (iv) below and shall specify the effective date, the pensions to which the increase is applicable and the amount of the increase.

(ii) An increase under Subsection (i) above 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.

(iii) Increases under Subsection (i) above shall be applied equally to pensions in the normal form or optional forms available to Members under Bylaw 10.

(iv) 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 13.03.

17.07 LIMIT ON INDEXING (NEW)

In no event shall the aggregate percentage increase to a pension provided under Bylaws 13.03 and 13.04 from the date on which pension payments commenced exceed the aggregate percentage increase in the Average Consumer Price Index for Canada (as published by Statistics Canada) as defined for this purpose by the Income Tax Act from the date on which pension payments commenced.

Restated Plan Text – Reason for Change - *The following changes were implemented to create a restated plan text effective July 1, 2012. This restatement incorporates all the changes that have already been approved by the Members and Commission since July 1, 2005 up to last year's AGM. In addition, the restatement has some housekeeping changes that updates legislative references, corrects any tying errors, deletes old references that are no longer needed, etc. Staff also took the opportunity to update the numbering of the Bylaws by removing the Roman Numerals and used an updated font. The new restatement will also include all the updated Regulations such as the Fund's Statement of Investment Policy and Procedures, Actuarial Tables, etc.*

***Bylaw #1** – Reason for Change - Amendment creates the restatement*

Bylaw #1

This text represents a restatement of the Bylaws, effective July 1, ~~**2005**~~ **2012** except where specifically noted otherwise. It applies to Members in active service or on authorized leave of absence on June 30, ~~**2005**~~**2012**, to employees who become Members on or after that date, and to adjustments on or after July 1, ~~**2005**~~ **2012** to pensions in payment on June 30, ~~**2005**~~**2012.** Except for adjustments on or after July 1, ~~**2005**~~ **2012** to pensions in payment, benefits payable to or in respect of Members who retired, died or otherwise terminated their employment before July 1, ~~**2005**~~ **2012** will be governed by the provisions of the Bylaws as then in effect.

***Bylaw #2 – Definitions (New)** - Clarification*

(15) "Income Tax Act" shall mean the Income Tax Act, Statutes of Canada and the Regulations there under, as amended from time to time.

***Bylaw 3.10(5) and (6) (New)** – Reason for Change - allows the Chair at the AGM to change the order of business*

3.10 GENERAL MEETINGS OF THE SOCIETY

(5) **Subject to Bylaw 3.10(6) t**~~T~~his order of business at an Annual General Meeting shall be as follows:

(a) Minutes of the previous Annual General Meeting and any intervening Special General Meeting;
(b) Annual Financial Statements and Auditors' Report;
(c) Directors' Report;
(d) Unfinished Business, if any;
(e) New Business, if any;
(f) Appointment of Auditors;
(g) Adjournment.

(6) The Chair of an Annual General Meeting may change the sequence in which the items of business in Bylaw 3.10(5)(a) to (f) are addressed.

***Bylaw 5.02(5), 5.05(1) and (2) and Bylaw 6.02(3)** Reason for Change – To allow Credited Service for family medical leave **as required under the Employment Standards Act**, if the Member elects to repurchase the service under Bylaw 5.05 – Interruption in Service. Contributions are based on the rate of pay at the start of the leave and the Commission matches the Member's contribution.*

5.02 CREDITED SERVICE

(5) Credited Service includes a period of unpaid leave or absence which is one of the following:

~~(a)~~**(a)** a period of total disability while receiving payment from the Sick Benefit Association, Work Place Safety Insurance Board, Staff Short-Term Plan, EI Sick Pay and a Long Term Disability Plan;

~~(a)~~**(b)** leave for Regular Members who are granted leave to fill salaried positions with Local 113 of the Amalgamated Transit Union;

~~(a)~~**(c)** authorized maternity**,** ~~or~~ parental **or emergency** leave;

~~(a)~~**(d)** authorized periods of active service in the Canadian Armed Forces; and

~~(a)~~**(e)** ~~**emergency**~~**family medical** leave required under the Employment Standards Act **provided that the Member makes Required Contributions for the period of the leave pursuant to Bylaw 5.05.**

5.05 PURCHASE OF INTERRUPTION IN SERVICE

(1) Notwithstanding Bylaw 5.02**(4)**~~**(iv)**~~, a Member who is employed by the Commission and who has an Interruption in Service may elect to purchase this period of Credited Service by contributing to the Society an amount equal to the sum of~~,~~:

(a) what the Member would have been required to contribute under Bylaw 7.01; and,

(b) **except in the case of family medical leave under Bylaw 5.02(5)(c),** what the Commission would have been required to contribute under Bylaw 7.01.

(2) For purposes of determining the amount of contributions payable under Bylaw 5.05**(1)**~~**(i)**~~, the wages or salary that the Member would have earned during the Interruption in Service will be calculated based on the Member's normal hours of work and rate of pay at the time the Member elects to purchase the Interruption in Service**, or in the case of family medical leave, at the time the leave commenced.**

Bylaw 6.02 PENSIONABLE EARNINGS

~~(3)~~**(3)** For greater certainty, under Bylaw 6.02**(**~~**ii**~~**2)**~~**(a)**~~**,** Pensionable Earnings will be adjusted for any periods of unpaid leave or absence which is one of the following:

(a) a period of total disability while receiving payment from the Sick Benefit Association, Workplace Safety Insurance Board (WSIB), EI Sick Pay, and a Long Term Disability Plan;

~~**(a)**~~**(b)** leave for Regular Members who are granted leave to fill salaried positions with Local 113 of the Amalgamated Transit Union;

~~(a)~~**(c)** authorized maternity, ~~or~~ parental **or emergency** leave~~; and/or,~~;

~~(a)~~**(d)** authorized period of active service in the Canadian Armed Forces; **and/or**

~~(a)~~**(e)** **family medical leave required under the Employment Standards Act, provided that the Member makes Required Contributions for the period of the leave pursuant to Bylaw 5.05.**

Bylaw 11.06 – Waiver by Spouse (New) *- Reason for Change (Housekeeping)*
This amendment adds detail for the waiver by a Spouse of pre-retirement death benefits. The waiver had been referenced without detail in Bylaw 15 – Designated Beneficiary.

11.06 WAIVER BY SPOUSE

A Member's Spouse may waive the entitlement to death benefits under Bylaw 11 in the form and in the manner approved for this purpose under the Pension Benefits Act, by delivering the waiver to the Secretary. If a waiver is in effect at the date of death, Bylaw 11 applies as if the Member did not have a Spouse. A Spouse may cancel a waiver by delivering a written and signed notice of cancellation to the Secretary before the date of death.

~~**REFUND OF ADDITIONAL VOLUNTARY CONTRIBUTIONS**~~ ***(Obsolete)***
~~**In addition to benefits payable under Bylaw 11.01 and 11.02, in the event of the death of a Regular Member, the Member's Designated Beneficiary shall receive a refund of the Member's Additional Voluntary Contributions, if any, with Accumulated Interest to the date of death.**~~

Bylaw 14 – Transfers *- Reason for Change - This Bylaw was deleted in its entirety as the provisions are no longer in use, are non compliant with the Income Tax Act and are no longer applicable. This Bylaw dealt with historic transfers for specific groups in the past, they included transfers to the Municipality of Metropolitan Toronto, which was prior to the creation of OMERS (effective 1962), Toronto Area Transit Operating Authority, Gray Coach and Greyhound.*

14.01 – TRANSFERS TO THE CORPORATION OF THE MUNICIPALITY OF METROPOLITAN TORONTO **(DELETED TEXT)**

14.02 – TRANSFERS TO TORONTO AREA TRANSIT OPERATING AUTHORITY **(DELETED TEXT)**

14.03 – TRANSFERS TO GRAY COACH LINES INC. **(DELETED TEXT)**

14.04 – TRANSFERS TO GREYHOUND LINES OF CANADA LTD. **(DELETED TEXT)**

Bylaw 15.05 Non-Assignability of Benefits – Reason for Change - Pension Benefits Act change, effective January 1, 2012 on Marriage Breakdown.

~~16.05~~**15.05** **NON-ASSIGNABILITY OF BENEFITS**

(1) Except as permitted under the Pension Benefits Act**, the Income Tax Act and Bylaw** ~~16.05(ii)~~, **15.05(2)** all benefits provided under the terms of these Bylaws are for the Member's own use and benefit and are not capable of being assigned, charged, anticipated, given as security or surrendered during the life of the Member, and do not confer upon any Member, his or her personal representative or dependent, or any other person, any rights or interest in the pension benefit or deferred pension benefit which is capable of being assigned, charged, anticipated, given as security or surrendered.

(2) Effective on and after January 1, 2012 and subject to the transition rules of the Pension Benefits Act, Bylaw ~~16.05(i)~~ **15.05(1) does not apply to prevent the assignment of an interest in money payable under these Bylaws to the spouse or former spouse of a Member in connection with the breakdown of a spousal relationship, provided that the assignment:**

(a) is pursuant to an order made under Part I (Family Property) of the Family Law Act (Ontario) or is authorized under a family arbitration award or domestic contract as defined by the Family Law Act (Ontario); and

(b) complies with and is required by the provisions of the Pension Benefits Act.

Bylaw ***~~16.09~~15.09*** *–* ***TRANSFERS OUT OF VESTED BENEFITS*** *– Reason for Change (Housekeeping) - For termination prior to retirement, the option to purchase a life annuity is removed, as it is no longer required by the Pension Benefits Act. The option involves tax problems and was never used.*

Bylaw 15.09

Upon termination before eligibility for retirement, a Member who is entitled to a deferred pension under the applicable provisions of the Bylaws may direct the Commuted Value of the deferred pension to be transferred:

(1) to the pension fund of another pension plan, if the administrator of the other pension plan agrees to accept the payment; and

(2) to a ~~**prescribed**~~ locked-in retirement savings arrangement, **that is acceptable for this purpose under the Pension Benefits Act and the Income Tax Act.**

----- END OF BYLAW AMENDMENTS ----- 

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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 address:

Mailing Address:

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

SICK BENEFIT ASSOCIATION

TORONTO TRANSIT COMMISSION
SICK BENEFIT ASSOCIATION
SIXTY-SIXTH ANNUAL REPORT - YEAR OF 2011

Board of Directors:

S.S. Blakey	-	President
B. Kinnear	-	Vice-President
J.D. Cannell	-	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, 2011.

Items of Special Note

Messrs. Scott Blakey and John Cannell resigned from the Board of Directors subsequent to the end of the year. Ms. Gemma Piemontese and Ms. Mary Darakjian were appointed to fill the resultant vacancies.

By-Law Amendments

No By-law amendments were made since the last Annual General Meeting.

Membership

At the beginning of 2011, membership for those eligible for sick benefits totaled 9,876. By the end of the year, membership had increased to 9,917.

Benefits and Claims

Benefit claims expenses were approximately $26,500,000 in 2011 compared to $24,600,000 in 2010. A total of 147,518 sick days were paid during 2011, compared to 137,750 in 2010 or increase of 9,768 days from 2010.

The average cost to the Commission for providing Sick Benefit Association benefits was approximately $224 per Member per month in 2011, as compared to the average cost of approximately $208 per Member per month in 2010.

During 2011, Members appealed a total of 93 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 2011.

Blakey

Scott Blakey – President

April 25, 2012

Independent Auditor's Report

To the Members of
Toronto Transit Commission Sick Benefit Association

We have audited the accompanying financial statements of Toronto Transit Commission Sick Benefit Association (the SBA), which comprise the statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the statements of operations and accumulated surplus for the years ended December 31, 2011 and December 31, 2010, 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 audits. We conducted our audit in accordance with Canadian public sector accounting 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Toronto Transit Commission Sick Benefit Association as at December 31, 2011, December 31, 2010 and January 1, 2010 and the results of its operations for the years ended December 31, 2011 and December 31, 2010 in accordance with Canadian public sector accounting standards.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

TORONTO TRANSIT COMMISSION
SICK BENEFIT ASSOCIATION

(incorporated under the laws of the Province of Ontario)

Statement of Financial Position
As at December 31, 2011, with comparative figures.

	December 31, 2011	December 31, 2010	January 1, 2010
FINANCIAL ASSETS			
Cash	$2,082,130	$2,436,238	$1,833,326
Accounts Receivable	39,190	48,403	41,321
Total Financial Assets	$2,121,320	$2,484,641	$1,874,647
LIABILITIES AND ACCUMULATED SURPLUS			
Amount due to the Toronto Transit Commission (note 4)	$916,286	$1,131,666	$728,030
Accounts payable and Accrued Liabilities	862,902	960,843	754,485
Provision for outstanding claims (note 5)	250,000	300,000	300,000
Total Liabilities	$2,029,188	$2,392,509	$1,782,515
Net Assets	$92,132	$92,132	$92,132
Accumulated Surplus	$92,132	$92,132	$92,132

See accompanying notes to the financial statements

On behalf of the Board:

S.S. Blakey
Director

J.D. Cannell
Director

TORONTO TRANSIT COMMISSION
SICK BENEFIT ASSOCIATION

(incorporated under the laws of the Province of Ontario)

Statement of Operations and Accumulated Surplus
For the Years Ended December 31, 2011 and 2010

	2011 Budget	2011 Actual	2010 Actual
REVENUE			
Contributions from the Toronto Transit Commission	$25,775,000	$26,523,184	$24,618,465
Interest Income	25,000	25,202	12,001
Total Revenue	$25,800,000	$26,548,386	$24,630,466
EXPENSES			
Sick Benefit Claims	$25,800,000	$26,548,386	$24,630,466
Total Expenses	$25,800,000	$26,548,386	$24,630,466
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. ADOPTION OF PUBLIC SECTOR ACCOUNTING STANDARDS

In December 2009, the Canadian Institute of Chartered Accountants ("CICA") amended the Public Sector Accounting Standards. Under the new standards, the Association is now an "other government organization" and has elected to adopt Public Sector Accounting Standards. These financial statements are the first financial statements prepared in accordance with Public Sector Accounting Standards (PSAS). In accordance with PS 2125 – First-Time Adoption by Government Organizations, the updated accounting policies have been applied retroactively, with a transition date of January 1, 2010. None of the optional exemptions available under PS 2125 were elected by, nor applicable to, the Association. The adoption of Public Sector Accounting Standards had no impact on the Statement of Operations and Accumulated Surplus for the year ending December 31, 2010.

The Company adopted the recommendations of Section PS 1200 - Financial Statement Presentation. Financial statement presentation for assets and liabilities is now based on the concept of net debt. Under this model, the Balance Sheet, has been replaced with a Statement of Financial Position.

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.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

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

(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)."

4. AMOUNT DUE TO THE TORONTO TRANSIT COMMISSION

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

5. PROVISION FOR OUTSTANDING CLAIMS

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 very late claims based on historical experience.

6. 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.

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