

Financial Statements of

**HEALTHCARE EMPLOYEES'
BENEFITS PLAN - MANITOBA -
THE GROUP LIFE INSURANCE PLAN**

And Independent Auditors' Report thereon

Year ended December 31, 2019



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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of Healthcare Employees' Benefits Plan - Manitoba - The Group Life Insurance Plan

Opinion

We have audited the financial statements of Healthcare Employees' Benefits Plan - Manitoba - The Group Life Insurance Plan (the "Plan"), which comprise the statement of financial position as at December 31, 2019, the statements of changes in net assets available for benefits and changes in benefit obligations for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Plan as at December 31, 2019, and its changes in net assets available for benefits and its changes in benefit obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Basis for Opinion

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

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

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

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

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

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



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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Plan's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Plan to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.



- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Winnipeg, Canada

June 12, 2020

HEALTHCARE EMPLOYEES' BENEFITS PLAN - MANITOBA - THE GROUP LIFE INSURANCE PLAN

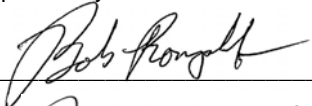
Statement of Financial Position

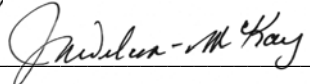
December 31, 2019, with comparative information for 2018

| | Active Plan | Paid-up Plan | 2019 Total | 2018 Total |
|--|----------------------|----------------------|-----------------------|-----------------------|
| Assets | | | | |
| Cash | \$ 1,914,883 | \$ 77,411 | \$ 1,992,294 | \$ 1,901,472 |
| Premiums receivable | 918,904 | – | 918,904 | 897,944 |
| Investments, at fair value (note 3) | 93,184,265 | 14,368,250 | 107,552,515 | 92,205,272 |
| Prepaid expenses | – | – | – | 8,282 |
| Due to (from) plans | 73,000 | (73,000) | – | – |
| Due from The Canada Life Assurance Company (note 4) | 2,251,072 | – | 2,251,072 | 6,484,289 |
| Total assets | \$ 98,342,124 | \$ 14,372,661 | \$ 112,714,785 | \$ 101,497,259 |
| Liabilities | | | | |
| Claims payable and accrued liabilities | \$ 2,434,927 | \$ 410,743 | \$ 2,845,670 | \$ 2,820,769 |
| Government remittances payable | 754,940 | 1,808 | 756,748 | 440,748 |
| Due to Healthcare Employees' Pension Plan - Manitoba (note 13) | 139,863 | 10,891 | 150,754 | 258,352 |
| Total liabilities | 3,329,730 | 423,442 | 3,753,172 | 3,519,869 |
| Net assets available for benefits | 95,012,394 | 13,949,219 | 108,961,613 | 97,977,390 |
| Actuarial value of benefit obligations (note 6): | | | | |
| Future paid-up insurance | – | 11,413,000 | 11,413,000 | 11,367,000 |
| Disability life waiver | 27,733,000 | – | 27,733,000 | 28,049,000 |
| | 27,733,000 | 11,413,000 | 39,146,000 | 39,416,000 |
| Commitment (note 14) | | | | |
| Subsequent event (note 15) | | | | |
| Excess of net assets available for benefits over benefit obligations (note 7) | \$ 67,279,394 | \$ 2,536,219 | \$ 69,815,613 | \$ 58,561,390 |

See accompanying notes to financial statements.

Approved by the Trustees:


 _____ Chair


 _____ Vice-Chair

HEALTHCARE EMPLOYEES' BENEFITS PLAN - MANITOBA - THE GROUP LIFE INSURANCE PLAN

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2019, with comparative information for 2018

| | Active Plan | Paid-up Plan | 2019 Total | 2018 Total |
|---|---------------|---------------|----------------|---------------|
| Increases: | | | | |
| Premiums | \$ 16,891,215 | \$ – | \$ 16,891,215 | \$ 16,887,336 |
| Investment income (note 8) | 3,352,521 | 635,205 | 3,987,726 | 3,761,264 |
| Other interest income | 19,345 | 1,928 | 21,273 | 29,109 |
| Current period change in fair value of investments | 6,862,453 | 1,097,064 | 7,959,517 | – |
| | 27,125,534 | 1,734,197 | 28,859,731 | 20,677,709 |
| Decreases: | | | | |
| Claims incurred | 14,379,067 | 592,624 | 14,971,691 | 10,209,572 |
| Current period change in fair value of investments | – | – | – | 3,442,130 |
| Administrative expenses (note 9) | 2,530,607 | 173,388 | 2,703,995 | 2,527,390 |
| Stop loss premiums (note 11[d]) | 199,822 | – | 199,822 | 242,108 |
| | 17,109,496 | 766,012 | 17,875,508 | 16,421,200 |
| Increase in net assets available for benefits | 10,016,038 | 968,185 | 10,984,223 | 4,256,509 |
| Net assets available for benefits, beginning of year | 84,996,356 | 12,981,034 | 97,977,390 | 93,720,881 |
| Net assets available for benefits, end of year | \$ 95,012,394 | \$ 13,949,219 | \$ 108,961,613 | \$ 97,977,390 |

See accompanying notes to financial statements.

HEALTHCARE EMPLOYEES' BENEFITS PLAN - MANITOBA - THE GROUP LIFE INSURANCE PLAN

Statement of Changes in Benefit Obligations

Year ended December 31, 2019, with comparative information for 2018

| | Active Plan | Paid-up Plan | 2019 Total | 2018 Total |
|---|---------------|---------------|---------------|---------------|
| Actuarial value of benefit obligations, beginning of year | \$ 28,049,000 | \$ 11,367,000 | \$ 39,416,000 | \$ 39,672,000 |
| Claims paid | – | (593,000) | (593,000) | (448,000) |
| Interest accrued on benefits | – | 499,000 | 499,000 | 497,000 |
| Effect of experience gains and losses | – | 140,000 | 140,000 | 41,000 |
| Effect of change in valuation basis | (316,000) | – | (316,000) | (346,000) |
| Actuarial value of benefit obligations, end of year | \$ 27,733,000 | \$ 11,413,000 | \$ 39,146,000 | \$ 39,416,000 |

See accompanying notes to financial statements.

HEALTHCARE EMPLOYEES' BENEFITS PLAN - MANITOBA - THE GROUP LIFE INSURANCE PLAN

Notes to Financial Statements

Year ended December 31, 2019

1. General and description of the Plan:

Healthcare Employees' Benefits Plan - Manitoba (HEBP) is jointly trusteeed which includes the group life insurance plan (the "Plan") for healthcare employees in Manitoba.

The Plan is a trust under the *Income Tax Act*. By virtue of Canada Revenue Agency (CRA) administrative rules, the Plan is viewed as a health and welfare trust and calculates its income for tax purposes under CRA administrative guidelines.

The group life insurance plan provides basic, dependent and family life insurance and accidental death and dismemberment benefits to participating employees. The group life insurance plan is comprised of two plans: the Active Plan and the Paid-up Plan (the Plans). The Active Plan began January 1, 1983 and serves those employees who joined subsequent to that date. The Paid-up Plan is for a closed group of employees who were part of the plan prior to January 1, 1983. Claims administration for these plans is provided by The Canada Life Assurance Company (Canada Life).

2. Significant accounting policies:

(a) Basis of preparation:

The Plan follows Canadian accounting standards for pension plans for accounting policies related to its investment portfolio and benefit obligations. In selecting or changing accounting policies that do not relate to its investment portfolio or benefit obligations, the Plan complies on a consistent basis with Canadian accounting standards for private enterprises.

These financial statements are prepared on a going concern basis and present the aggregate financial position of the Plan as a separate financial reporting entity, independent of the participating employers and members. Only the assets and obligations to members eligible to participate in the Plan have been included in these financial statements. These financial statements do not portray the funding requirements of the Plan or the benefit security of the individual plan members.

HEALTHCARE EMPLOYEES' BENEFITS PLAN - MANITOBA - THE GROUP LIFE INSURANCE PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2019

2. Significant accounting policies (continued):

(b) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship, cash and investments are subsequently measured at fair value. All other financial instruments are subsequently measured at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Plan has elected not to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs. These costs are amortized using the straight-line method.

(c) Fair value measurement:

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. The Plan uses closing market price for fair value measurement.

When available, the Plan measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Plan establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models.

All changes in fair value, other than interest and dividend income, are recognized in the statement of changes in net assets available for benefits as part of the current period change in fair value of investments.

The equity, bond and real estate pooled funds are recorded at fair values established by the respective fund trustee.

HEALTHCARE EMPLOYEES' BENEFITS PLAN - MANITOBA - THE GROUP LIFE INSURANCE PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2019

2. Significant accounting policies (continued):

(d) Foreign currency transactions and balances:

Transactions in foreign currencies are translated into Canadian dollars at the exchange rate at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into Canadian dollars at the exchange rate at that date.

Foreign currency differences arising on retranslation are recognized in the statement of changes in net assets available for benefits within current period change in fair value of investments.

(e) Investment transactions and income recognition:

(i) Investment transactions:

Investment transactions are accounted for on a trade date basis.

(ii) Income recognition:

Investment income includes interest and dividend income. Investment income has been accrued as reported by the issuer of the pooled funds.

(f) Premiums:

Premiums recorded in the statement of changes in net assets available for benefits include the employees' and employers' share of the premiums required for the group life insurance coverage. Premiums are recorded on an accrual basis.

(g) Claims:

Claims are recorded in the period in which they are paid or payable. Any claims not paid at fiscal year-end are reflected in claims payable and accrued liabilities.

HEALTHCARE EMPLOYEES' BENEFITS PLAN - MANITOBA - THE GROUP LIFE INSURANCE PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2019

2. Significant accounting policies (continued):

(h) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets during the year. Significant items subject to such estimates and assumptions include the determination of the actuarial value of benefit obligations. Actual results could differ from those estimates.

3. Investments:

| | Active Plan | Paid-up Plan | 2019 Total | 2018 Total |
|--------------------------|----------------------|----------------------|-----------------------|----------------------|
| Equity pooled funds | \$ 43,695,505 | \$ 7,242,568 | \$ 50,938,073 | \$ 41,303,893 |
| Bond pooled funds | 35,655,975 | 4,489,460 | 40,145,435 | 35,805,686 |
| Real estate pooled funds | 13,832,785 | 2,636,222 | 16,469,007 | 15,095,693 |
| | <u>\$ 93,184,265</u> | <u>\$ 14,368,250</u> | <u>\$ 107,552,515</u> | <u>\$ 92,205,272</u> |

The investments of the Plan are in equity, bond and real estate pooled funds which yielded rates of return as follows: Active Plan - return of 12.67 percent (2018 - 0.45 percent) and Paid-up Plan - return of 13.31 percent (2018 - loss of 0.28 percent).

4. Due from The Canada Life Assurance Company:

The amount due from Canada Life represents funds held by Canada Life as a reserve for claim fluctuations and accumulated annual claims experience.

Interest was earned on the amount due from Canada Life in the amount of 1.20 percent (2018 - 0.85 percent).

HEALTHCARE EMPLOYEES' BENEFITS PLAN - MANITOBA - THE GROUP LIFE INSURANCE PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2019

5. Role of the actuaries:

The actuaries have been appointed pursuant to the Trust Agreement. With respect to the preparation of financial statements, the actuaries have been engaged to carry out estimations of the Plan's future paid-up insurance and disability life waiver to the members. The estimations are made in accordance with accepted actuarial practice and reported thereon to the Board of Trustees. In performing the estimation of the liabilities, which are by their nature inherently variable, assumptions are made as to the investment rate of return, mortality, retirement and termination rates and salary increments in the future.

6. Benefit obligations:

(a) Future paid-up insurance:

The computation of the obligation for future paid-up insurance is performed at least every three years by Eckler Ltd., an independent actuary. The obligation for future paid-up insurance is determined as the present value of any future life insurance benefits which are expected to be ultimately be payable to any member of the active group and will be payable to any member of the retired group. The most recent actuarial valuation as at December 31, 2019 indicated that the obligation for future paid-up insurance is \$11,413,000 (2018 - \$11,367,000) and the assets of the Paid-up Plan exceeded the actuarially computed liability for future obligations at December 31, 2019 by approximately \$2,536,000 (2018 - \$1,614,000). The next actuarial valuation will be prepared as at December 31, 2020.

The assumptions used in determining the actuarial present value of the obligation for future paid-up insurance are management's best estimate and were developed by reference to expected long-term market conditions. Two significant long-term actuarial assumptions used in the valuation were:

- (i) the salary escalation rate was assumed to be nil for 2019 (2018 - nil) annually. Effective January 1, 2015, earnings used to determine the amount of the paid-up life benefit were frozen;
- (ii) the asset rate of return and discount rate were assumed to be 4.50 percent (2018 - 4.50 percent).

In addition, the actuarial valuation reflects assumptions with regard to mortality, retirement and termination rates.

HEALTHCARE EMPLOYEES' BENEFITS PLAN - MANITOBA - THE GROUP LIFE INSURANCE PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2019

6. Benefit obligations (continued):

Since there is no intention of extinguishing the future paid-up insurance obligation in the near term, the obligation is calculated by using the going concern actuarial basis. As underlying conditions change over time, management's best estimate assumptions may also change, which could cause a material change in the actuarial value of the obligation for future paid-up insurance.

(b) Disability life waiver:

The obligation for disability life waiver represents the present value of future life insurance claims for members on disability and the present value of future life insurance payments for unreported claims of disabled members and has been estimated, using the experience tables of the November 2001 Group Life Waiver Study prepared by the Canadian Institute of Actuaries and a discount rate of 2.03 percent (2018 - 2.47 percent), in the amount of \$27,733,000 (2018 - \$28,049,000). The calculation of the obligation for disability life waiver has been completed by HUB International Limited (formerly Morneau Shepell), an independent actuary, as at December 31, 2019. The next actuarial calculation will be prepared as at December 31, 2020.

7. Excess of net assets available for benefits over benefit obligations:

The Board of Trustees has approved the establishment of contribution stabilization reserves and investment reserves. The contribution stabilization reserves have been established at amounts equal to 50 percent of the current year's premiums. The investment reserves have been established at amounts equal to 10 percent of the market value of the investments, for each of the Active Plan and Paid-up Plan. At December 31, 2019, the Board of Trustees has restricted \$16,900,000 (2018 - \$15,500,000) and \$1,400,000 (2018 - \$1,300,000) in the Active Plan and Paid-up Plan, respectively, of the excess of net assets available for benefits over benefit obligations for these reserves.

8. Investment income:

| | Active Plan | Paid-up Plan | 2019 Total | 2018 Total |
|--------------------------|---------------------|-------------------|---------------------|---------------------|
| Equity pooled funds | \$ 1,925,645 | \$ 432,512 | \$ 2,358,157 | \$ 2,232,618 |
| Bond pooled funds | 1,084,496 | 137,443 | 1,221,939 | 1,122,555 |
| Real estate pooled funds | 342,380 | 65,250 | 407,630 | 406,091 |
| | <u>\$ 3,352,521</u> | <u>\$ 635,205</u> | <u>\$ 3,987,726</u> | <u>\$ 3,761,264</u> |

HEALTHCARE EMPLOYEES' BENEFITS PLAN - MANITOBA - THE GROUP LIFE INSURANCE PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2019

9. Administrative expenses:

| | Active Plan | Paid-up Plan | 2019 Total | 2018 Total |
|-------------------------|----------------|-----------------|---------------|---------------|
| Investment manager fees | \$ 348,170 | \$ 59,107 | \$ 407,277 | \$ 387,302 |
| Administrative: | | | | |
| Canada Life | 624,399 | 14,874 | 639,273 | 537,320 |
| HEBP (note 13) | 1,558,038 | 99,407 | 1,657,445 | 1,602,768 |
| | \$ 2,530,607 | \$ 173,388 | \$ 2,703,995 | \$ 2,527,390 |

The details of HEBP administrative expenses are as follows:

| | 2019 | 2018 |
|-------------------------------|--------------|--------------|
| Salaries and benefits | \$ 1,159,645 | \$ 1,150,250 |
| Other administrative expenses | 444,637 | 380,974 |
| Actuarial fees | 42,349 | 25,565 |
| Audit fees | 6,508 | 6,704 |
| Trustee and custodial fees | 2,663 | 11,763 |
| Legal fees | 1,643 | 27,512 |
| | \$ 1,657,445 | \$ 1,602,768 |

10. Capital management:

The main objective of the Plan is to sustain a certain level of net assets, including internally restricted funds, in order to meet the obligations of the Plan. The Plan fulfills its primary objective by adhering to specific investment policies outlined in its Statement of Investment Policies and Procedures (SIPP), which is reviewed annually by the Plan. The Plan manages net assets by engaging knowledgeable investment managers who are charged with the responsibility of investing existing funds and new funds (current year's employee and employer contributions) in accordance with the approved SIPP. Increases in net assets are a direct result of investment income generated by investments held by the Plan and contributions into the Plan by eligible employees and by the employers. The main use of net assets is for benefit payments to eligible Plan members.

HEALTHCARE EMPLOYEES' BENEFITS PLAN - MANITOBA - THE GROUP LIFE INSURANCE PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2019

11. Risk management:

(a) Market risk:

(i) Interest rate risk:

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. The Plan's fixed income investments are exposed to the risk that the value of interest-bearing investments will fluctuate due to changes in the level of market interest rates. The Plan's exposure to interest rate risk is concentrated in its investment in the bond pooled funds. To properly manage the Plan's interest rate risk, appropriate guidelines on the weighting and duration for fixed income investments are set and monitored.

The remaining terms to contractual maturity of fixed income investments at December 31 are as follows:

| | 2019 | 2018 |
|---------------------------|----------------------|----------------------|
| One to five years | \$ 18,475,170 | \$ 16,497,761 |
| After five years | 21,670,265 | 19,307,925 |
| Total market value | \$ 40,145,435 | \$ 35,805,686 |

As at December 31, 2019, if the prevailing interest rates were raised or lowered by 100 basis points, with all other factors held constant, net assets would likely have decreased or increased, respectively, by approximately \$4,022,000 (2018 - \$3,435,000). The Plan's interest rate sensitivity was determined based on portfolio weighted duration.

(ii) Foreign currency risk:

Foreign currency exposure arises from the Plan's investment in equity and bond pooled funds, which hold investments denominated in U.S. currency. Fluctuations in the relative value of the Canadian dollar against this currency can result in a positive or negative effect on the fair value of investments. The Plan's foreign currency risk is monitored by the investment manager on a quarterly basis.

HEALTHCARE EMPLOYEES' BENEFITS PLAN - MANITOBA - THE GROUP LIFE INSURANCE PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2019

11. Risk management (continued):

The Plan's exposure in investments to foreign currencies to Canadian dollars is shown below:

| As at December 31, 2019 | Actual currency exposure | % |
|-------------------------|-----------------------------|-------|
| Canadian | \$ 70,586,186 | 65.6 |
| US dollar | 19,249,785 | 17.9 |
| Other currencies | 17,716,544 | 16.5 |
| | \$ 107,552,515 | 100.0 |

| As at December 31, 2018 | Actual currency exposure | % |
|-------------------------|-----------------------------|-------|
| Canadian | \$ 62,469,610 | 67.8 |
| US dollar | 16,536,404 | 17.9 |
| Other currencies | 13,199,258 | 14.3 |
| | \$ 92,205,272 | 100.0 |

A 10 percent increase or decrease in exchange rates, with all other variables held constant, would result in a charge in unrealized gains (losses) of \$3,697,000 (2018 - \$2,974,000).

(iii) Other price risk:

The Plan's investments in equity pooled funds are sensitive to market fluctuations. To properly manage the Plan's other price risk, appropriate guidelines on asset diversification to address specific security, geographic, sector and investment manager risks are set by the Board of Trustees and monitored by the investment managers on a quarterly basis. As at December 31, 2019, a decline of 10 percent in equity values, with all other variables held constant, would have impacted the Plan's equity investments by an approximate unrealized loss of \$5,094,000 (2018 - \$4,130,000).

HEALTHCARE EMPLOYEES' BENEFITS PLAN - MANITOBA - THE GROUP LIFE INSURANCE PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2019

11. Risk management (continued):

(b) Credit risk:

The Plan is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due or requested. The Plan's greatest concentration of credit risk is in its fixed income securities. The fair value of the fixed income securities includes consideration of the creditworthiness of the debt issuer. All transactions in listed securities are settled or paid for upon delivery using approved brokers. The risk of default is considered minimal, as payment is made on a purchase once the securities have been received from the broker. For sales transactions, the securities are released once the broker has made payment.

The breakdown of the Plan's bond pooled funds by credit ratings from various rating agencies is presented below:

| Credit rating | 2019 | | 2018 | |
|---------------|----------------------|--------------|----------------------|--------------|
| | Fair value | % | Fair value | % |
| AAA | \$ 10,035,420 | 25.0 | \$ 10,915,127 | 30.5 |
| AA | 13,528,144 | 33.7 | 12,550,384 | 35.1 |
| A | 7,780,856 | 19.4 | 6,566,589 | 18.3 |
| BBB | 8,519,273 | 21.2 | 5,631,632 | 15.7 |
| BB | 281,742 | 0.7 | 100,203 | 0.3 |
| B | — | — | 41,751 | 0.1 |
| | \$ 40,145,435 | 100.0 | \$ 35,805,686 | 100.0 |

Credit risk associated with premiums receivable is minimized due to their nature. Premiums are collected from participating members through the payroll process. No provision for doubtful premiums receivable has been recorded in either 2019 or 2018.

(c) Liquidity risk:

Liquidity risk is the possibility that investments of the Plan cannot be readily converted into cash when required. The Plan may be subject to liquidity constraints because of insufficient volume in the markets for the securities of the Plan or other securities may be subject to legal or contractual restrictions on their resale. Liquidity risk is managed by investing the majority of the Plan's assets in investments that are traded in an active market and can be readily disposed. The Plan's claims payable and accrued liabilities and due to Healthcare Employees' Pension Plan - Manitoba balances have contracted maturities of less than one year.

HEALTHCARE EMPLOYEES' BENEFITS PLAN - MANITOBA - THE GROUP LIFE INSURANCE PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2019

11. Risk management (continued):

(d) Claims and premiums risk:

The nature of the unpaid claims is such that the establishment of an obligation is based on known facts and interpretation of circumstances, on a case by case basis, and is therefore a complex and dynamic process influenced by a variety of factors.

Consequently, the establishment of obligations and premium rates relies on the judgment and opinions of a number of professionals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining premium rates and reserves necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made.

To offset the Plan incurring abnormally high claims experience in any one fiscal period, the Plan has purchased stop loss coverage from Canada Life. The stop loss coverage becomes effective when basic life insurance claims paid are in excess of 115 percent of premiums collected in any fiscal year.

12. Fair value of financial instruments:

The fair value of the financial assets and liabilities of the Plan approximates their carrying value due to their short-term nature (except for cash and investments which are stated at fair value, note 3).

The Plan's assets which are recorded at fair value are required to be classified into one of three levels, depending on the inputs used for valuation. The hierarchy of inputs is summarized below:

| | |
|---------|--|
| Level 1 | Quoted prices (unadjusted) in active markets for identical assets or liabilities. |
| Level 2 | Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). |
| Level 3 | Inputs for the asset or liability that are not based on observable market data (unobservable inputs). |

Changes in valuation methods may result in transfers into or out of an investment's assigned level.

HEALTHCARE EMPLOYEES' BENEFITS PLAN - MANITOBA - THE GROUP LIFE INSURANCE PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2019

12. Fair value of financial instruments (continued):

The following is a summary of the classification used as of December 31 in valuing the Plan's investments carried at fair value:

| December 31, 2019 | Level 1 | Level 2 | Level 3 | Total |
|--------------------------|---------------|---------------|---------------|----------------|
| Cash | \$ 1,992,294 | \$ – | \$ – | \$ 1,992,294 |
| Equity pooled funds | 49,860,460 | 1,077,613 | – | 50,938,073 |
| Bond pooled funds | – | 40,145,435 | – | 40,145,435 |
| Real estate pooled funds | – | – | 16,469,007 | 16,469,007 |
| | \$ 51,852,754 | \$ 41,223,048 | \$ 16,469,007 | \$ 109,544,809 |

| December 31, 2018 | Level 1 | Level 2 | Level 3 | Total |
|--------------------------|---------------|---------------|---------------|---------------|
| Cash | \$ 1,901,472 | \$ – | \$ – | \$ 1,901,472 |
| Equity pooled funds | 39,587,121 | 1,716,772 | – | 41,303,893 |
| Bond pooled funds | 789,811 | 35,015,875 | – | 35,805,686 |
| Real estate pooled funds | – | – | 15,095,693 | 15,095,693 |
| | \$ 42,278,404 | \$ 36,732,647 | \$ 15,095,693 | \$ 94,106,744 |

There were no transfers between Level 1 and Level 2 in the years ended December 31, 2019 and 2018.

The reconciliation of investments measured at fair value using unobservable inputs (Level 3) is presented as follows:

| | Total |
|--|---------------|
| Balance, December 31, 2017 | \$ 14,105,743 |
| Purchases | – |
| Investment income | 406,091 |
| Current period change in fair value of investments | 583,859 |
| Balance, December 31, 2018 | 15,095,693 |
| Purchases | – |
| Investment income | 407,630 |
| Current period change in fair value of investments | 965,684 |
| Balance, December 31, 2019 | \$ 16,469,007 |

The Plan did not use or consider alternative assumptions for valuation of Level 3 securities as those are valued independently by investment managers or third party providers

HEALTHCARE EMPLOYEES' BENEFITS PLAN - MANITOBA - THE GROUP LIFE INSURANCE PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2019

13. Related party transactions:

HEBP and the Healthcare Employees' Pension Plan - Manitoba (HEPP) have a certain number of common trustees and a cost sharing agreement to allocate certain costs based on factors such as square footage, number of employees and time usage.

The balance due to HEPP is non-interest bearing, and has no fixed terms of repayment.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

14. Commitment:

The Plan's allocation of annual lease payments under an operating lease with an expiry date of October 31, 2028 is as follows:

| | | |
|------------|----|---------|
| 2020 | \$ | 92,000 |
| 2021 | | 90,000 |
| 2022 | | 82,000 |
| 2023 | | 82,000 |
| 2024 | | 82,000 |
| Thereafter | | 315,000 |
| | \$ | 743,000 |

15. Subsequent event:

Subsequent to December 31, 2019 the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Plan is not known at this time. These impacts could include decline in the fair value of investments, change in the benefit obligations, or decreases in investment income.