

Financial Statements of

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

And Independent Auditors' Report thereon

Year ended December 31, 2021



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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, 2021, 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, 2021, 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 represent the underlying transactions and events in a manner that achieves fair presentation.



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

KPMG LLP

Chartered Professional Accountants

Winnipeg, Canada

June 10, 2022

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

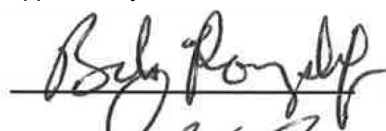
Statement of Financial Position

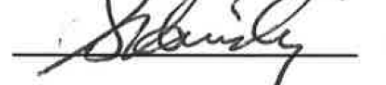
December 31, 2021, with comparative information for 2020

	Active Plan	Paid-up Plan	2021 Total	2020 Total
Assets				
Cash	\$ 1,519,535	\$ 226,278	\$ 1,745,813	\$ 1,864,341
Premiums receivable	1,043,601	—	1,043,601	1,024,482
Investments, at fair value (note 3)	113,411,665	15,861,438	129,273,103	114,638,927
Due from The Canada Life Assurance Company (note 4)	5,754,126	—	5,754,126	5,655,272
Total assets	\$ 121,728,927	\$ 16,087,716	\$ 137,816,643	\$ 123,183,022
Liabilities				
Claims payable and accrued liabilities	\$ 3,186,318	\$ 559,878	\$ 3,746,196	\$ 3,406,935
Due to Healthcare Employees' Pension Plan - Manitoba (note 13)	167,478	548	168,026	207,345
Total liabilities	3,353,796	560,426	3,914,222	3,614,280
Net assets available for benefits	118,375,131	15,527,290	133,902,421	119,568,742
Actuarial value of benefit obligations (note 6):				
Future paid-up insurance	—	11,652,000	11,652,000	11,638,000
Disability life waiver	33,413,000	—	33,413,000	34,363,000
	33,413,000	11,652,000	45,065,000	46,001,000
Commitment (note 14)				
Excess of net assets available for benefits over benefit obligations (note 7)	\$ 84,962,131	\$ 3,875,290	\$ 88,837,421	\$ 73,567,742

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, 2021, with comparative information for 2020

	Active Plan	Paid-up Plan	2021 Total	2020 Total
Increases:				
Premiums	\$ 17,077,417	\$ —	\$ 17,077,417	\$ 16,719,442
Investment income (note 8)	7,372,002	1,312,629	8,684,631	3,642,373
Other interest income	11,639	1,014	12,653	11,202
Current period change in fair value of investments	3,046,135	503,411	3,549,546	4,144,039
	27,507,193	1,817,054	29,324,247	24,517,056
Decreases:				
Claims incurred	11,348,287	611,381	11,959,668	10,963,328
Administrative expenses (note 9)	2,729,695	107,097	2,836,792	2,759,559
Stop loss premiums (note 11[d])	194,108	—	194,108	187,040
	14,272,090	718,478	14,990,568	13,909,927
Increase in net assets available for benefits	13,235,103	1,098,576	14,333,679	10,607,129
Net assets available for benefits, beginning of year	105,140,028	14,428,714	119,568,742	108,961,613
Net assets available for benefits, end of year	\$ 118,375,131	\$ 15,527,290	\$ 133,902,421	\$ 119,568,742

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, 2021, with comparative information for 2020

	Active Plan	Paid-up Plan	2021 Total	2020 Total
Actuarial value of benefit obligations, beginning of year	\$ 34,363,000	\$ 11,638,000	\$ 46,001,000	\$ 39,146,000
Claims paid	—	(611,000)	(611,000)	(401,000)
Interest accrued on benefits	—	487,000	487,000	505,000
Effect of experience gains and losses	—	138,000	138,000	(120,000)
Effect of change in demographic assumptions	—	—	—	(61,000)
Effect of change in valuation basis	(950,000)	—	(950,000)	6,932,000
Actuarial value of benefit obligations, end of year	\$ 33,413,000	\$ 11,652,000	\$ 45,065,000	\$ 46,001,000

See accompanying notes to financial statements.

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

Notes to Financial Statements

Year ended December 31, 2021

1. General and description of the Plan:

Healthcare Employees' Benefits Plan - Manitoba (HEBP) is jointly trusteeed which includes the Group Life insurance Plan, Dental & Extended Health Plan and Disability & Rehabilitation 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.

As the CRA administrative guidelines will no longer apply to the Health and Welfare Trusts after December 31, 2022, in the current year, HEBP has filed an election to be deemed as an Employee Life and Health Trust (ELHT).

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, 2021

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 fund 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, 2021

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, 2021

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	2021 Total	2020 Total
Equity pooled funds	\$ 50,659,748	\$ 8,442,012	\$ 59,101,760	\$ 54,073,625
Bond pooled funds	44,222,221	4,405,237	48,627,458	43,682,918
Real estate pooled fund	18,529,696	3,014,189	21,543,885	16,882,384
	<u>\$113,411,665</u>	<u>\$ 15,861,438</u>	<u>\$ 129,273,103</u>	<u>\$ 114,638,927</u>

The investments of the Plan are in equity, bond and real estate pooled fund which yielded rates of return as follows: Active Plan - return of 10.34 percent (2020 - 7.31 percent) and Paid-up Plan - return of 12.68 percent (2020 - 7.20 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 0.35 percent (2020 - 1.15 percent).

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.

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

Notes to Financial Statements (continued)

Year ended December 31, 2021

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, 2021 indicated that the obligation for future paid-up insurance is \$11,652,000 (2020 - \$11,638,000) and the assets of the Paid-up Plan exceeded the actuarially computed liability for future obligations at December 31, 2021 by approximately \$3,875,000 (2020 - \$2,791,000). The next actuarial valuation will be prepared as at December 31, 2022.

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 2021 (2020 - 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 4.30 percent (2020 - 4.30 percent).

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

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.

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

Notes to Financial Statements (continued)

Year ended December 31, 2021

6. Benefit obligations (continued):

(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 1.67 percent (2020 - 0.95 percent), in the amount of \$33,413,000 (2020 - \$34,363,000). The calculation of the obligation for disability life waiver has been completed by HUB International Limited, an independent actuary, as at December 31, 2021. The next actuarial calculation will be prepared as at December 31, 2022.

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, 2021, the Board of Trustees has restricted \$19,000,000 (2020 - \$17,400,000) and \$1,600,000 (2020 - \$1,500,000) 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	2021 Total	2020 Total
Equity pooled funds	\$ 5,568,708	\$ 1,095,886	\$ 6,664,594	\$ 1,164,099
Bond pooled funds	1,391,352	142,843	1,534,195	1,999,787
Real estate pooled fund	411,942	73,900	485,842	478,487
	<u>\$ 7,372,002</u>	<u>\$ 1,312,629</u>	<u>\$ 8,684,631</u>	<u>\$ 3,642,373</u>

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

Notes to Financial Statements (continued)

Year ended December 31, 2021

9. Administrative expenses:

	Active Plan	Paid-up Plan	2021 Total	2020 Total
Investment manager fees	\$ 416,056	\$ 66,432	\$ 482,488	\$ 425,837
Administrative:				
Canada Life	566,652	15,650	582,302	541,605
HEBP (note 13)	1,746,987	25,015	1,772,002	1,792,117
	\$ 2,729,695	\$ 107,097	\$ 2,836,792	\$ 2,759,559

The details of HEBP administrative expenses are as follows:

	2021	2020
Salaries and benefits	\$ 1,219,163	\$ 1,135,697
Other administrative expenses	507,547	599,215
Actuarial fees	22,802	37,986
Audit fees	9,464	7,756
Trustee and custodial fees	3,414	7,752
Legal fees	9,612	3,711
	\$ 1,772,002	\$ 1,792,117

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, 2021

11. Risk management:

The COVID-19 pandemic and the geopolitical situation in Europe have created global economic disruption and uncertainty. Despite the uncertainty as to the outcome and ultimate effects of these events, the Plan has continued to follow its valuation governance process. This comprehensive process used extensive sources of available information in providing its best estimate of the impact that these events have had on the valuation of its investments as of the date of these financial statements. However, these estimates are sensitive to key assumptions and drivers that are subject to material changes. Please refer to the risk discussions below for sensitivity analyses. The Plan is monitoring developments relating to these events and continuing to assess the ongoing impact on the Plan's investments. 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.

Due to these events, financial markets have experienced exceptional volatility. The Plan's exposures across all risk parameters including market, credit and liquidity, remained within all risk limits set by the Plan.

(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:

	2021	2020
One to five years	\$ 18,511,158	\$ 16,175,451
After five years	30,116,300	27,507,467
Total market value	\$ 48,627,458	\$ 43,682,918

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

Notes to Financial Statements (continued)

Year ended December 31, 2021

11. Risk management (continued):

As at December 31, 2021, 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 \$4,656,000 (2020 - \$4,555,000). 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.

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

As at December 31, 2021	Actual currency exposure	%
Canadian	\$ 86,340,547	66.6
US dollar	24,795,658	19.2
Other currencies	18,136,898	14.2
	\$ 129,273,103	100.0

As at December 31, 2020	Actual currency exposure	%
Canadian	\$ 72,851,818	63.5
US dollar	21,760,150	19.0
Other currencies	20,026,959	17.5
	\$ 114,638,927	100.0

A 10 percent increase or decrease in exchange rates, with all other variables held constant, would result in a change in unrealized gains (losses) of approximately \$4,293,000 (2020 - \$4,179,000).

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

Notes to Financial Statements (continued)

Year ended December 31, 2021

11. Risk management (continued):

(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, 2021, 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 \$5,910,000 (2020 - \$5,407,000).

(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	2021		2020	
	Fair value	%	Fair value	%
AAA	\$ 9,196,273	18.9	\$ 8,279,323	19.0
AA	7,508,730	15.4	6,784,320	15.5
A	16,234,953	33.4	15,803,331	36.2
BBB	15,059,165	31.0	12,619,400	28.9
BB	628,337	1.3	196,544	0.4
	<u>\$ 48,627,458</u>	<u>100.0</u>	<u>\$ 43,682,918</u>	<u>100.0</u>

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 2021 or 2020.

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

Notes to Financial Statements (continued)

Year ended December 31, 2021

11. Risk management (continued):

(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.

(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).

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

Notes to Financial Statements (continued)

Year ended December 31, 2021

12. Fair value of financial instruments (continued):

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.

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, 2021	Level 1	Level 2	Level 3	Total
Cash	\$ 1,745,813	\$ –	\$ –	\$ 1,745,813
Equity pooled funds	58,541,857	559,903	–	59,101,760
Bond pooled funds	1,363,476	47,263,982	–	48,627,458
Real estate pooled fund	–	–	21,543,885	21,543,885
	\$ 61,651,146	\$ 47,823,885	\$ 21,543,885	\$ 131,018,916

December 31, 2020	Level 1	Level 2	Level 3	Total
Cash	\$ 1,864,341	\$ –	\$ –	\$ 1,864,341
Equity pooled funds	52,776,386	1,297,239	–	54,073,625
Bond pooled funds	1,082,164	42,600,754	–	43,682,918
Real estate pooled fund	–	–	16,882,384	16,882,384
	\$ 55,722,891	\$ 43,897,993	\$ 16,882,384	\$ 116,503,268

There were no transfers between Level 1 and Level 2 in the years ended December 31, 2021 and 2020.

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

Notes to Financial Statements (continued)

Year ended December 31, 2021

12. Fair value of financial instruments (continued):

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

	Total
Balance, December 31, 2019	\$ 16,469,007
Purchases	-
Investment income	478,487
Current period change in fair value of investments	(65,110)
Balance, December 31, 2020	16,882,384
Purchases	2,600,000
Investment income	485,842
Current period change in fair value of investments	1,575,659
Balance, December 31, 2021	\$ 21,543,885

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.

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:

2022	\$ 93,000
2023	90,000
2024	90,000
2025	90,000
2026	90,000
Thereafter	164,000
	\$ 617,000