THE WINNIPEG POLICE PENSION PLAN

2011 ANNUAL REPORT

Plan Profile / 1

2011 Overview / 2

Plan Operations / 5

- Member Services / 6
- Managing Assets Prudently / 7
- Report on Investments / 14
- Actuarial Opinion / 18
- Independent Auditor's Report / 19
  - Financial Statements / 20
  - Notes to the Financial Statements / 26

Appendices / 37

2011 Directory / 38

PLAN PROFILE

The *Winnipeg Police Pension Plan* is a defined benefit pension plan, registered under Manitoba's *Pension Benefits Act* and Canada's *Income Tax Act*. The pension benefit is determined by a formula that is set out in the *Winnipeg Police Pension Plan* by-law.

Pension benefits are financed by the assets (including investment earnings) of the Plan and the contribution obligations of the City of Winnipeg and the active members under the Plan.

HISTORY

Police officers of the City of Winnipeg have enjoyed a long and proud history of participation in employee pension plans in one form or another, with the origins of the current Plan (separate from *The Winnipeg Civic Employees' Pension Plan*) for police officers dating back to 1975. The current Plan encompasses the amalgamation, in 1989, of the police officers' component of a number of prior pension plans that had previously existed separately for the former municipalities and cities of greater Winnipeg.

The Plan has undergone many changes over the years, most recently with the implementation of the Surplus- and Risk-Sharing Agreement, effective January 1, 2003.

THE BOARD

The Winnipeg Police Pension Board was established under by-law with the responsibility for administration of the Winnipeg Police Pension Plan. The Winnipeg Police Pension Board also fulfills the role of pension committee as required under Manitoba's *Pension Benefits Act*. The Board is made up of nine voting members: five are appointed by the City of Winnipeg, two are appointed by the Winnipeg Police Association, one is appointed by the Winnipeg Police Senior Officers' Association, and one is elected by non-active members and other beneficiaries. In addition, a maximum of four non-voting members may be appointed to the Board, one from each of the groups listed above.

The Board is responsible for ensuring that the Plan is administered in accordance with the by-law, and approving and reviewing the investment policy, investment performance and funding of the Plan. The Board is responsible for ensuring adequate financial records are maintained and for reporting annually on the results of operations of the Plan to the City and to Plan Members.

INVESTMENT COMMITTEE

The Investment Committee is responsible for determining the asset mix of the Plan, recommending investment managers to manage the assets of the Plan and monitoring the performance of each investment manager.

The Board has appointed the Investment Committee of *The Board of Trustees of The Winnipeg Civic Employees' Benefits Program (Pension Fund)* to carry out these responsibilities.

ADMINISTRATION

The day-to-day administration of the Plan is carried out by the management and staff of *The Winnipeg Civic Employees' Benefits Program* under the direction of the Executive Director.

2011 OVERVIEW

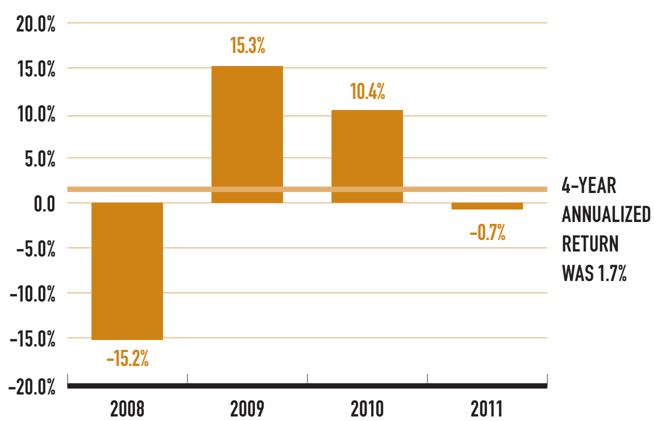
The *Winnipeg Police Pension Plan* covers over 2,500 Members in 2011 with assets of close to $900 million.

FINANCIAL POSITION

AS AT DECEMBER 31, 2011

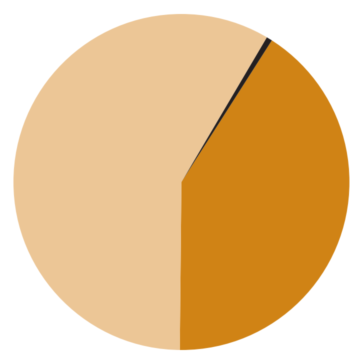
	FAIR VALUE (000's)	ACTUARIAL VALUE (000's)
Net assets available for benefits:		
Main Account—General Component	$ 857,159	$ 915,450
Main Account—Contribution Stabilization Reserve	29,943	29,943
Plan Members' Account	7,517	7,517
	$ 894,619	$ 952,910
Plan obligations	$ 933,774	$ 933,774
Funded ratio	95.8%	102.0%

ANNUAL INVESTMENT RETURN



MEMBERSHIP PROFILE

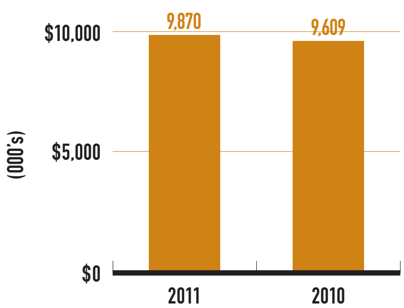
AS AT DECEMBER 31, 2011



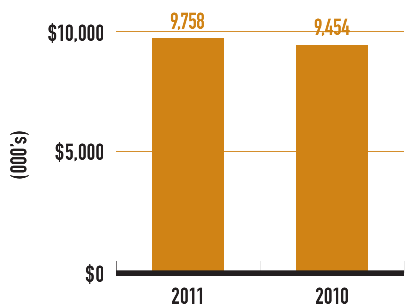
TOTAL MEMBERS: 2,507

- CONTRIBUTING MEMBERS 1,468 (58.6%)
- INACTIVE MEMBERS 14 (0.5%)
- PENSIONERS 1,025 (40.9%)

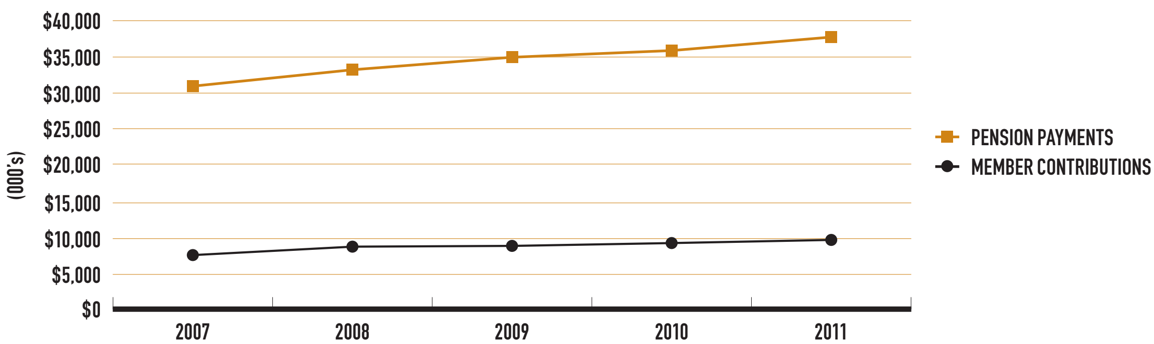
EMPLOYEE CONTRIBUTIONS



EMPLOYER CONTRIBUTIONS



MEMBER CONTRIBUTIONS & PENSION PAYMENTS



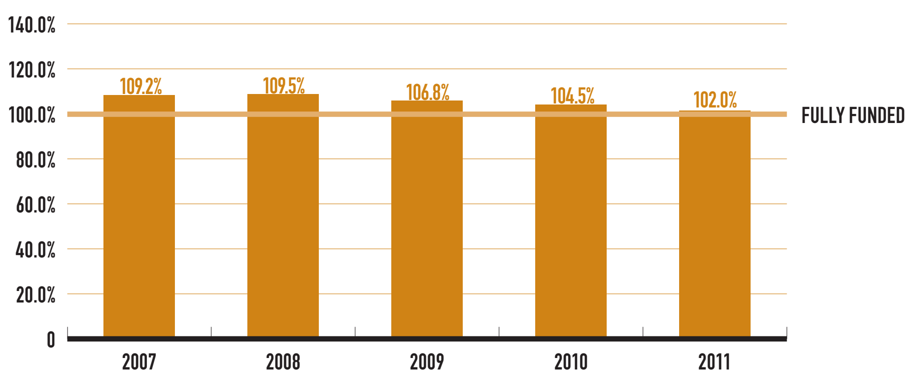
COST OF BENEFITS FOR SERVICE IN 2011

	AS % OF CONTRIBUTORY EARNINGS
Non-indexed benefits	20.07%
Cost-of-living adjustments	3.43%
Total	23.50%
Employee contributions	8.00%
City contributions (matching)	8.00%
Balance from Contribution Stabilization Reserve	7.50%
	23.50%

STATEMENT OF ACTUARIAL POSITION

	DECEMBER 31, 2011 (000's)
1. Actuarial value of assets	
Main Account	$ 945,393
Plan Members' Account	7,517
	952,910
2. Actuarial liabilities	933,774
3. Excess of actuarial value of Plan assets over actuarial liabilities	19,136
4. Amounts previously allocated	
Contribution Stabilization Reserve	29,943
Plan Members' Account	7,517
	$ 37,460
5. Actuarial surplus (deficit) (*3. - 4.*)	$ (18,324)
6. Funded ratio (*1. / 2.*)	
Including Plan Members' Account	102.0%
Excluding Plan Members' Account	101.2%

FUNDED RATIO BASED ON ACTUARIAL VALUE OF ASSETS



PLAN OPERATIONS

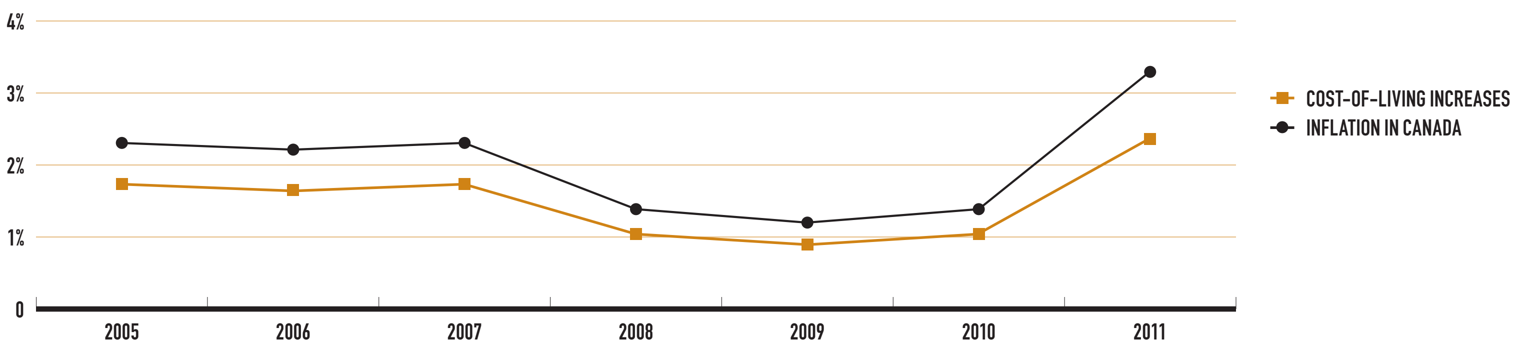
BENEFITS

The *Winnipeg Police Pension Plan* is a defined benefit pension plan, registered under Manitoba's *Pension Benefits Act* and Canada's *Income Tax Act*. The pension benefit is determined by a formula that is set out in the *Winnipeg Police Pension Plan* by-law.

Retirement under the Plan is at age 55 or after completion of 25 years of credited service; however, two early retirement options are also available. A member may retire with a reduced pension anytime after reaching age 50 or completing 20 years of credited service. When a Member dies, survivor benefits may also be paid to a Spouse/ Common-law Partner, eligible Dependent Children, or other eligible beneficiaries.

The Plan also allows for indexing of pensions referred to as Cost-of-Living Adjustments or COLA. Retired Members' pensions are adjusted each year by a percentage of the increase in Canada's Consumer Price Index (CPI), at March 31 (71.2% of CPI as at March 31, 2011).

COST OF LIVING INCREASES



MEMBER SERVICES

Services to members include:

- Participating in orientation sessions for new employees
- Calculating termination or retirement pension benefits
- Calculating retirement pension estimates
- Meeting individually with members who are retiring (or considering retirement), and presenting pre-retirement seminars
- Producing a biweekly pension payroll
- Producing individual annual statements of benefits

During 2011, a total of 27 individuals retired under the Plan. This represents a slight decrease from

New members totaled 103 in 2011, a significant increase from 29 in 2010. New enrolments have averaged 80 members per year over the last five years.

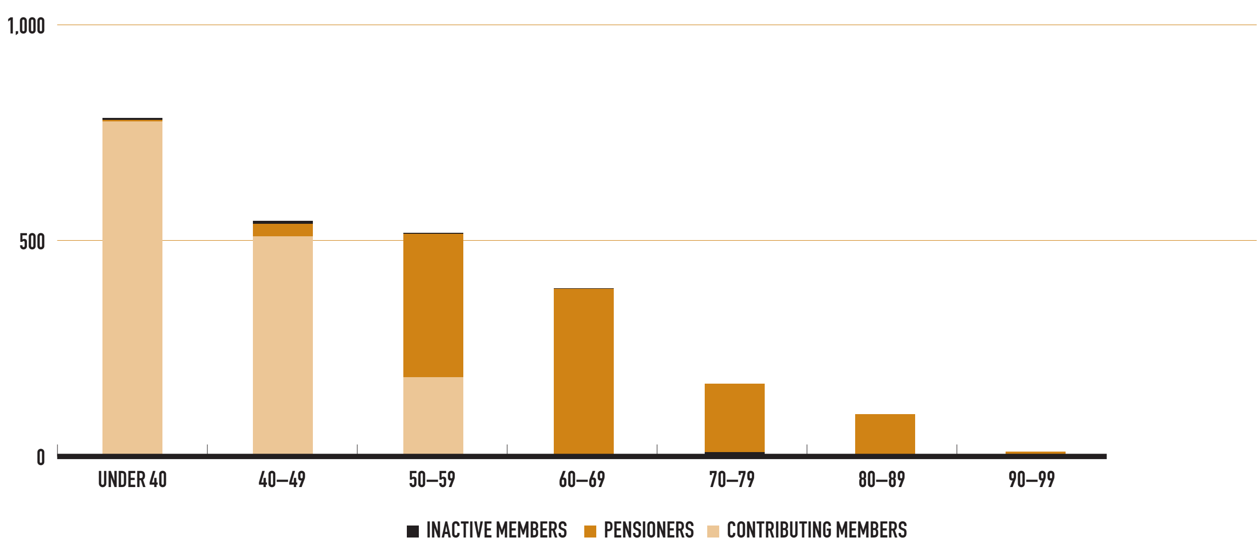
SUMMARY OF MEMBERSHIP

	2011	2010	2009	2008	2007
Contributing members	1,468	1,402	1,411	1,372	1,330
Deferred members	14	14	14	13	14
Pensioners	1,025	1,011	992	971	940
Total membership	2,507	2,427	2,417	2,356	2,284

MEMBERSHIP ACTIVITY DURING THE YEAR

	2011	2010	2009	2008	2007
Normal retirements	25	26	32	33	47
Early retirements	2	3	8	4	3
Deaths in service	1	1	2	1	1
Pensioner deaths	23	15	27	16	18
New members	103	29	85	84	98
Terminations	9	9	4	6	8

MEMBERSHIP PROFILE



MANAGING ASSETS PRUDENTLY

FUNDED STATUS AT DECEMBER 31, 2011

Key Findings

The most recent actuarial valuation of the Winnipeg Police Pension Plan, as at December 31, 2011, disclosed that, measured on a going concern basis (which assumes the Plan will continue to exist into the future), the Plan was fully funded with respect to benefits accrued for all service up to December 31, 2011. At that date, the Plan had an excess of assets over actuarial liabilities of $19,136,000—a funded ratio of 102.0%—based on the value of assets which smooths investment gains and losses over five years. If the fair value of assets had been used instead of the smoothed value, there would have been a deficit of $39,155,000—which would have resulted in a funded ratio of 95.8% on a fair value basis. The application of actuarial asset "smoothing" techniques has been used by the Plan for many years.

Although the Plan remained fully funded for benefits accrued for service up to December 31, 2011, the actuarial valuation revealed an in-year actuarial deficiency of $18,324,000 in the Main Account—General Component related to calendar year 2011 operations. The emergence of this actuarial deficiency is primarily related to the recognition of 2008 and 2011 investment losses under the asset smoothing technique. The 2011 actuarial deficiency will be resolved by an equal reduction in the rate of future cost-of-living adjustments (and hence, the funding of these cost-of-living adjustments) and the Contribution Stabilization Reserve. Accordingly, the deficiency will be resolved by reducing the rate of future cost-of-living adjustments from 71.2% to 66.2% of inflation and by transferring $9,162,000 from the Main Account—Contribution Stabilization Reserve to the Main Account—General Component, effective January 1, 2012.

After the transfer of $9,162,000 to the Main Account—General Component, as described above, the balance of the Contribution Stabilization Reserve will be $20,781,000, which is 17.7% of its target level.

The actuarial valuation also disclosed that the Plan had a solvency deficiency of $120,704,000 and a solvency ratio of 88.7% as at December 31, 2011 based on the smoothed value of assets. The solvency valuation is based on the hypothetical scenario of the Plan being terminated on the valuation date and the value of all pension benefits earned to the valuation date being paid out either through the purchase of lifetime annuities from an insurance company or through lump sum payments or transfers to the member. The solvency ratio has fallen below 100% as long term bond yields are at historically low levels.

Analysis

Measured on the going concern basis, the results of the actuarial valuation using the smoothed value of assets continues to portray a fully funded position for the Plan with respect to benefits accrued for all service up to December 31, 2011, albeit with a somewhat reduced level of funded cost-of-living adjustments. However, the Plan has yet to fully recognize the investment losses which occurred during 2008 and 2011, when the Plan had rates of investment return of -15.2% and -0.7%, respectively. The remaining unrecognized losses amounted to $58,291,000 at year end 2011.

Should the Plan earn exactly the assumed 6.25% on the actuarial asset base over the next four years, the remaining $58,291,000 investment losses would be expected to emerge as funding deficiencies over this four-year period. Should future investment returns fall short of the assumed rates of return, this situation will be worsened.

These potential funding deficiencies can be mitigated to the extent that there are further recoveries in the investment markets and/or there is enhanced investment performance, resulting in higher than assumed rates of investment return in the future and especially over the next four years. Such outcomes remain uncertain, however.

The future financial position of the Plan will be, in part, dependent upon the future reversal of the 2008 and 2011 investment losses (which reversal commenced and took hold in a significant way during 2009 and 2010 but which faltered during 2011, with the Plan earning rates of investment return of 15.3% in 2009, 10.4% in 2010, but -0.7% in 2011). It will also be dependent upon the ability of the Plan to continue earning the assumed rate of investment return (presently 6.25% per annum).

At present, any resulting funding deficiencies will be dealt with in accordance with the terms of the Plan, which could result in decreases to the future level of cost-of-living adjustments, as well as increases in the City's contribution rate.

An actuarial valuation report must be filed with the Manitoba Pension Commission at least every three years, and must be made on both the going concern basis and the solvency basis. The Pension Benefits Act requires solvency deficiencies disclosed in a filed actuarial report to be funded over not more than five years. The last filed actuarial valuation report was as at December 31, 2009, so the next required filing date will be December 31, 2012.

In 2010, the Government of Manitoba passed the Solvency Exemption for Public Sector Pension Plans Regulation. The Winnipeg Police Plan is listed as one of the public sector pension plans eligible to elect for solvency exemption under this Regulation. In December, 2011, the City of Winnipeg requested the Winnipeg Police Pension Board to give notice and make an election for the Winnipeg Police Pension Plan to be exempt from the solvency provisions of the Pension Benefits Act, in accordance with the procedures outlined in the Regulation. Having received the employer request, the Board must proceed to elect to have the Plan exempted from the solvency provisions of the Pension Benefits Act, provided that the necessary conditions are met (subject to member objection process). The process of seeking a solvency exemption is expected to continue into 2012.

In the absence of a solvency exemption, it is expected that the City of Winnipeg would be required to make significant special payments in respect of the solvency deficiency (or provide security through a letter of credit from a financial institution), in addition to its regular contributions to the Plan, commencing in 2013. The amounts of such payments, if applicable, cannot be determined until the December 31, 2012 actuarial valuation is complete.

Reserve Structure and Financing of Future Benefits

Under the terms of the Plan, the entire excess of smoothed value of assets over actuarial liabilities is allocated to a special-purpose reserve and special-purpose accounts, as follows:

- The Contribution Stabilization Reserve was created to finance the future service cost of benefits that exceed matching employee and employer contributions. However, provincial funding regulations now restrict the use of the Contribution Stabilization Reserve for this purpose to the balance of the Reserve in excess of 5% of the Plan's solvency liabilities.
- The Plan Members' Account is credited with the share of actuarial surpluses that are credited to the Members.
- The City Account, which will be credited with the share of any future actuarial surpluses that are allocated to the City of Winnipeg. To date, no actuarial surpluses have been credited to the City Account.

The cost of future service benefits under the Plan is currently 23.2% of pay, which is significantly more than the combined matching contributions of the City and the employees at 16.0% of pay. Up to and including 2011, the City has been matching the police employees' contributions of 8% of pay, with the balance of the service cost financed by the Contribution Stabilization Reserve. It is projected that the balance of the Contribution Stabilization Reserve will cease to exceed 5% of the Plan's solvency liabilities in early May 2012, at which time the City's contribution rate will increase to approximately 14.1% of pay.

KEY ACTUARIAL ASSUMPTIONS

One of the key assumptions that underlies the determination of actuarial liabilities, thereby affecting the amount of the going concern actuarial surplus or funding deficiency, is the valuation interest rate. The valuation interest rate assumed was 6.25% per year in the 2011 actuarial valuation (unchanged from the 2010 actuarial valuation), and was developed with reference to expected long-term economic and investment conditions. The valuation interest rate assumed was carefully and prudently developed, giving recognition to the long-term asset mix expected to be utilized by the Plan, and after assuming an equity premium that is considered normal by historical standards.

Other key economic assumptions in the 2011 actuarial valuation include future inflation at 2.00% per year (unchanged from the 2010 actuarial valuation, resulting in an assumed real rate of investment return of 4.25% per year) and general increases in pay of 3.50% per year (unchanged from the 2010 actuarial valuation).

Although these assumptions were considered appropriate both for funding and accounting purposes in 2011, there nonetheless is measurement uncertainty associated with these estimates versus actual future investment returns and rates of inflation and pay increases that will impact on the future financial position of the Plan, possibly in a material way.

LONG-TERM INVESTMENT GOALS AND PERFORMANCE

Over the last ten years, the Plan achieved an average rate of return of 5.2% per year, ranking third quartile (72nd percentile) among larger pension plans in Canada. The current long-term goal of the Plan is to achieve a rate of return that exceeds inflation by 5.0% per year. With the ten-year annualized inflation rate being 2.1%, the Plan fell short of this goal by an average of 1.9% per year over the last ten years (it should be noted that such measurements are end date sensitive).

Although a long-term investment return which exceeds inflation by 4.25% per year, together with the required contributions from the employees and the City, is expected to adequately finance the benefits derived from past service for the existing Plan members, ongoing future actuarial surplus generation will be required to maintain and increase funding of the Contribution Stabilization Reserve to finance the remaining shortfall of contributions versus the future service benefit cost and, if possible, enable eventual restoration of matching contributions by the City. In addition, shorter term surplus generation will be required during the next four years (in the amounts of $20,847,000 in 2012 and $12,481,000 in each of the next three years) in order to avoid further reductions in the rate of cost-of-living adjustments to pensions. As well, surplus generation would be required over the longer term in order to restore the funded level of cost-of-living adjustments to the original 75% target level.

Accordingly, notwithstanding the assumed 4.25% per year real return used for the actuarial valuation, it is desirable to strive for a real rate of return of at least 5% per year over the long term. This 5% objective is reflected in the Plan's Statement of Investment Policies and Procedures.

It is the achievement of sufficient investment returns in the future, as well as desired excess investment returns (to reverse the remaining 2008 and 2011 investment losses and to permit ongoing surplus generation) that will have the most significant bearing on the City's contribution levels and the future level of cost-of-living adjustments. As earlier noted, the generation of excess investment returns in the future is subject to considerable uncertainty.

The Board recognizes that the 5% per year real rate of return objective will prove to be a challenging objective in light of today's investment markets and low interest rates. The Board, and the Investment Committee, will continue to prudently manage the Plan's assets towards this objective.

CHANGES TO ACCOUNTING STANDARDS

In April 2010, the Accounting Standards Board of the Canadian Institute of Chartered Accountants (CICA) issued Part IV—Accounting Standards for Pension Plans, which includes Section 4600, Pension Plans. The new Section is applicable to financial statements of pension plans and other benefit plans relating to fiscal years beginning on or after January 1, 2011. Accordingly, the Winnipeg Police Pension Plan adopted the new standards for its fiscal year beginning January 1, 2011. The standards establish requirements for measurement and presentation of information in general purpose financial statements of pension plans, as well as financial statement disclosures. The Plan has elected to incorporate by reference Part II—Accounting Standards for Private Enterprises (ASPE) of the CICA Handbook for issues not directly addressed in Part IV of the Handbook.

The most significant change arising under the new standards is that the Plan's pension obligations are now reported on the Statement of Financial Position (balance sheet), rather than in the notes to the financial statements. A significant effect is that the surplus or deficiency disclosed for accounting purposes on the Statement of Financial Position is calculated with reference to the fair value of assets. Disclosure of reconciling items to the actuarially determined surplus/deficit (which applies the asset smoothing technique) is documented in the notes to the financial statements.

FIVE YEAR FINANCIAL SUMMARY
THE CITY OF WINNIPEG—WINNIPEG POLICE PENSION PLAN

	2011 (000's)	2010 (000's)	2009 (000's)	2008 (000's)	2007 (000's)
FINANCIAL POSITION					
Investments at fair value:					
Bonds and debentures	$ 285,327	$ 303,005	$ 321,822	$ 299,194	$ 325,875
Real return bonds	12,206	11,165	10,670	9,889	10,076
Canadian equities	271,406	302,855	257,039	187,247	303,111
Foreign equities	261,565	261,305	241,648	208,840	232,672
Cash and short-term deposits	46,421	30,455	14,414	44,894	39,131
Private equities	15,024	14,017	9,747	10,645	7,247
Real estate	3,885	-	-	-	-
Other liabilities	(1,215)	(569)	(605)	(617)	(1,974)
Net assets available for benefits	894,619	922,233	854,735	760,092	916,138
Pension obligations	933,774	898,923	846,689	806,245	821,858
Surplus (deficit)	$ (39,155)	$ 23,310	$ 8,046	$ (46,153)	$ 94,280
Surplus (deficit) comprised of:					
Main Account—General Component	$ (76,615)	$ (30,521)	$ (71,283)	$ (100,170)	$ 34,785
Main Account—Contribution Stabilization Reserve	29,943	46,253	72,455	48,042	52,442
Plan Members' Account	7,517	7,578	6,874	5,975	7,053
	$ (39,155)	$ 23,310	$ 8,046	$ (46,153)	$ 94,280
CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS					
Contributions:					
The City of Winnipeg	$ 9,758	$ 9,454	$ 9,027	$ 8,602	$ 7,623
Employees	9,870	9,609	9,207	8,774	7,769
Reciprocal transfers	-	145	120	668	296
Net investment income (loss)	(7,338)	86,527	113,007	(138,682)	18,610
	12,290	105,735	131,361	(120,638)	34,298
Pension payments	37,606	36,094	35,122	33,322	31,234
Lump sum benefits	1,508	1,390	740	1,408	1,218
Administration	790	753	856	678	660
	39,904	38,237	36,718	35,408	33,112
Increase (decrease) in net assets available for benefits	$ (27,614)	$ 67,498	$ 94,643	$ (156,046)	$ 1,186
Annual rates of return	-0.7%	10.4%	15.3%	-15.2%	2.2%

FIVE YEAR FINANCIAL SUMMARY
THE CITY OF WINNIPEG—WINNIPEG POLICE PENSION PLAN

	2011 (000's)	2010 (000's)	2009 (000's)	2008 (000's)	2007 (000's)
CHANGES IN PENSION OBLIGATIONS					
Accrued pension benefits, beginning of year	$ 898,923	$ 846,689	$ 806,245	$ 821,858	$ 756,011
Increase in accrued pension benefits:					
Interest on accrued pension benefits	55,403	52,850	50,103	47,711	46,732
Benefits accrued	28,763	28,359	26,468	25,736	25,648
Experience gains and losses and other factors	-	6,508	457	-	318
Change in actuarial assumptions	-	2,763	-	-	26,261
	84,166	90,480	77,028	73,447	98,959
Decrease in accrued pension benefits:					
Benefits paid	39,114	37,485	35,862	34,730	32,452
Experience gains and losses and other factors	4,560	-	-	1,146	-
Change in actuarial assumptions	4,843	-	-	52,506	-
Administration	798	761	722	678	660
	49,315	38,246	36,584	89,060	33,112
Net increase (decrease) in accrued pension benefits for the year	34,851	52,234	40,444	(15,613)	65,847
Accrued pension benefits, end of year	$ 933,774	$ 898,923	$ 846,689	$ 806,245	$ 821,858
CHANGES IN SURPLUS (DEFICIT)					
Surplus (deficit), beginning of year	$ 23,310	$ 8,046	$ (46,153)	$ 94,280	$ 158,941
Increase (decrease) in net assets available for benefits	(27,614)	67,498	94,643	(156,046)	1,186
Net increase (decrease) in accrued pension benefits for the year	(34,851)	(52,234)	(40,444)	15,613	(65,847)
Surplus (deficit), end of year	$ (39,155)	$ 23,310	$ 8,046	$ (46,153)	$ 94,280
Surplus (deficit) comprised of:					
Main Account—General Component	$ (76,615)	$ (30,521)	$ (71,283)	$ (100,170)	$ 34,785
Main Account—Contribution Stabilization Reserve	29,943	46,253	72,455	48,042	52,442
Plan Members' Account	7,517	7,578	6,874	5,975	7,053
	$ (39,155)	$ 23,310	$ 8,046	$ (46,153)	$ 94,280

FIVE YEAR FINANCIAL SUMMARY
THE CITY OF WINNIPEG—WINNIPEG POLICE PENSION PLAN

	2011 (000's)	2010 (000's)	2009 (000's)	2008 (000's)	2007 (000's)
RECONCILIATION OF SURPLUS (DEFICIT) FOR FINANCIAL STATEMENT REPORTING PURPOSES TO ESTIMATED ACTUARIAL VALUATION POSITION					
Surplus (deficit) for financial statement reporting purposes, Main Account—General Component	$ (76,615)	$ (30,521)	$ (71,283)	$ (100,170)	$ 34,785
Fair value change not reflected in actuarial value of assets	58,291	16,733	53,361	123,145	(22,944)
Surplus (deficit) for actuarial valuation purposes, Main Account—General Component	(18,324)	(13,788)	(17,922)	22,975	11,841
Add: special purpose reserves and accounts					
Main Account—Contribution Stabilization Reserve	29,943	46,253	72,455	48,042	52,442
Plan Members' Account	7,517	7,578	6,874	5,975	7,053
Surplus (deficit) for actuarial valuation purposes (including special purpose reserves and accounts, as estimated)	$ 19,136	$ 40,043	$ 61,407	$ 76,992	$ 71,336

REPORT ON INVESTMENTS

The *Winnipeg Police Pension Board* delegates, to the Investment Committee of *The Board of Trustees of the Winnipeg Civic Employees' Benefits Program*, the responsibility for

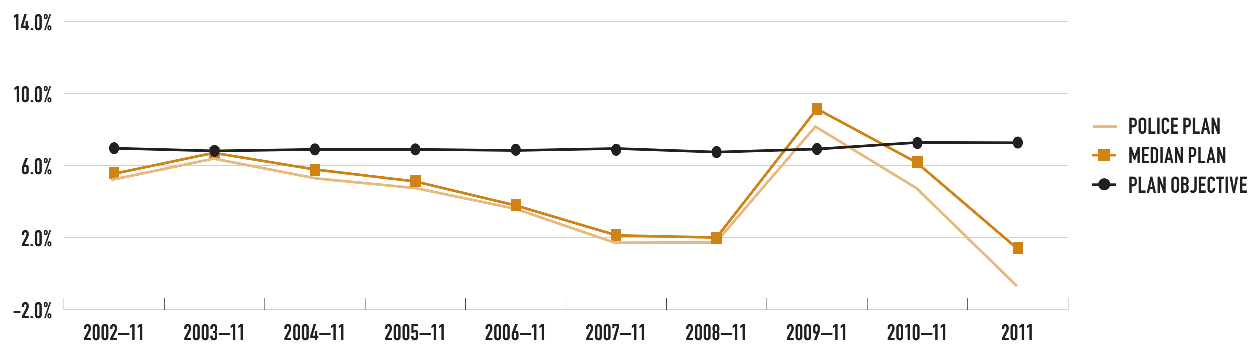
- determining the *Plan's* asset mix (within the parameters of the *Plan's* Statement of Investment Policies and Procedures);
- recommending the selection or termination of various investment managers; and
- monitoring the performance of these investment managers.

The Plan utilizes external investment managers to manage the equity portfolios. The short-term investments and the bond portfolio, including real return bonds, are managed internally.

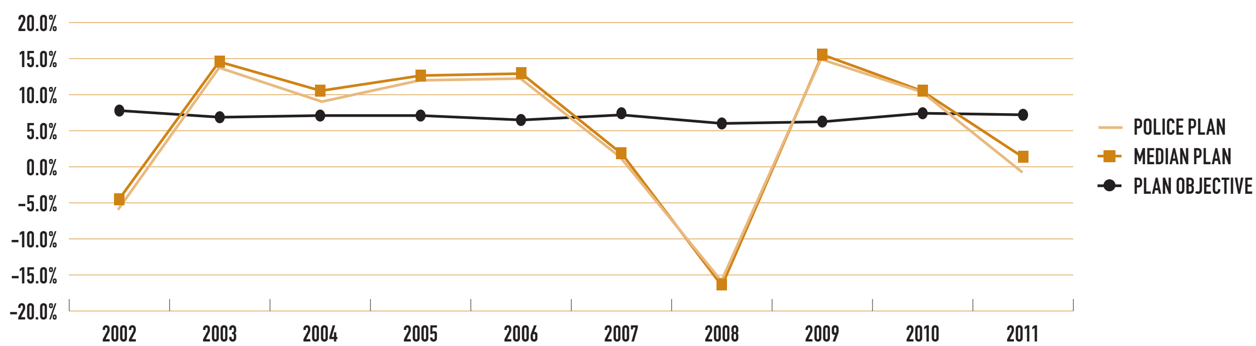
In 2011, the investment portfolio reported a return of -0.7%, underperforming the median Canadian pension fund return of 1.4% as measured by RBC Dexia Investor Services, an independent measurement service. The underperformance can be attributed primarily to the short duration of the Plan's fixed income portfolio and by an above-median allocation to Canadian equities.

Over the last ten years, returns were below the Plan's CPI+5% objective, as abnormally high returns in years 2003-2006 and 2009-2010 were largely offset by negative returns in 2001, 2002 and 2008. The Plan's four-year and ten-year annualized rates of return were 1.7% and 5.2%, which placed the Plan at the 60th percentile and 72nd percentile ranking, respectively, of Canadian pension funds. The below median ten-year performance (median return of 5.55%) can be attributed to the underperformance of the Canadian equity managers and the bond portfolio.

ANNUALIZED RATES OF RETURN



ANNUAL RATES OF RETURN



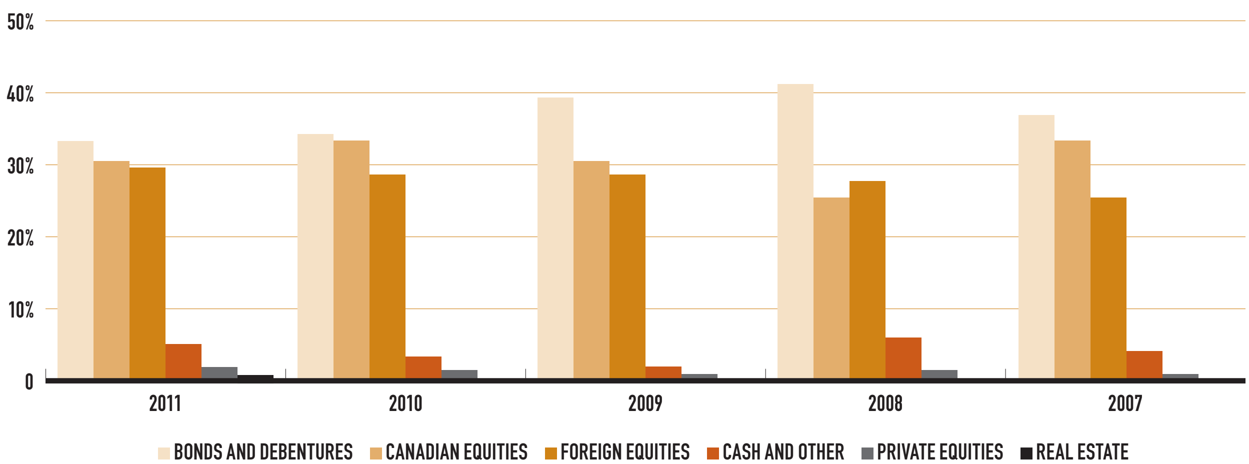
ASSET MIX

As a result of the Plan's new long-term policy asset mix, assets have been allocated out of Canadian equities into foreign equities and alternative assets. Overall, the Plan has had a small net decline in the allocation to equity investments—from 61.1% of the portfolio at the beginning of the year to 59.5% at year-end.

ASSET MIX

	2011	2010	2009	2008	2007
Bonds and debentures	33.2%	34.1%	38.9%	40.6%	36.6%
Canadian equities	30.3%	32.8%	30.1%	24.6%	33.0%
Foreign equities	29.2%	28.3%	28.2%	27.5%	25.3%
Cash and other	5.2%	3.3%	1.7%	5.9%	4.3%
Private equities	1.7%	1.5%	1.1%	1.4%	0.8%
Real estate	0.4%	0.0%	0.0%	0.0%	0.0%
	100.0%	100.0%	100.0%	100.0%	100.0%

ASSET MIX



EQUITY INVESTMENTS

In 2011, the Plan's Canadian equity managers achieved a return of -7.1%, ahead of the median pension fund return of -9.0%, and the S&P/TSX Composite Index return of -8.7%.

The Plan's foreign equity managers, collectively, reported a return of -3.8% in Canadian dollar terms in 2011, ahead of the median pension fund return of -3.9% but underperforming the benchmark (50% S&P 500 [CAD], 50% MSCI Europe, Australasia, Far East [CAD] Index) return of -2.9%. Over the last ten years, the foreign equity markets have significantly underperformed the Canadian equity market in Canadian dollars.

In 2011, the Plan's U.S. equity managers, collectively, reported a return of 3.1%, in Canadian dollars, underperforming the median pension fund return of 3.2%, and lagging the S&P 500 (CAD) Index return of 4.6%.

The Plan's Non-North American equity managers reported a combined return of -10.3%, underperforming both the MSCI Europe, Australasia, Far East (CAD) Index return of -10.0% and the median fund return of -8.6%.

FIXED INCOME INVESTMENTS

The Plan's bond portfolio achieved a rate of return of 8.0% in 2011, which underperformed both the median pension fund return of 11.1%, and the DEX Universe Index return of 9.7%. Due to an emphasis on shorter maturity bonds, the portfolio did not fully benefit from the significant decline in interest rates during 2011.

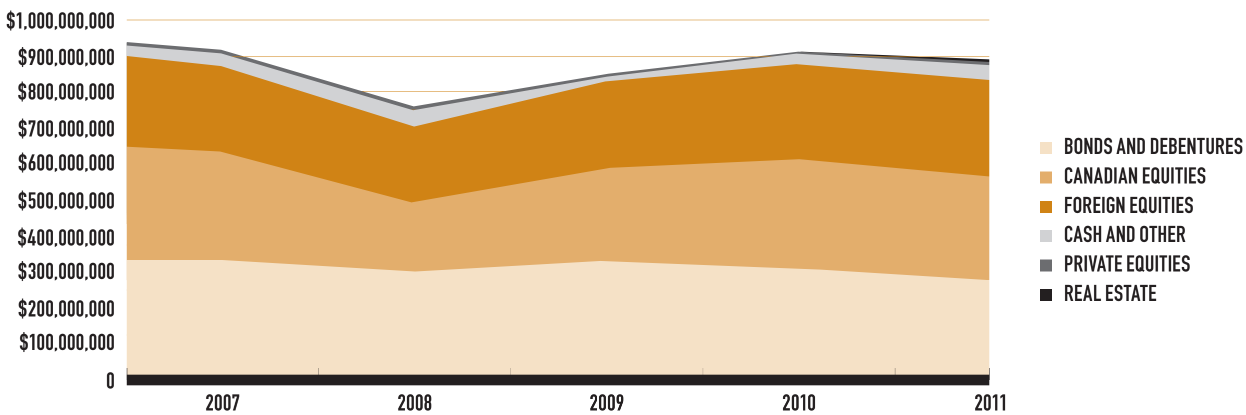
For the four-year and ten-year periods ended December 31, 2011, the bond portfolio returned 6.4% and 6.8%, respectively. Over ten years, the portfolio outperformed the DEX Universe Index return of 6.5%, but underperformed the median pension fund return of 7.3%.

FIXED INCOME INVESTMENTS SUMMARY

AS AT DECEMBER 31, 2011

DESCRIPTION	MATURITY DATE	PENSION PLAN MARKET VALUE (000's)
Government of Canada bonds	2013-2021	$ 24,054
Provincial bonds	2012-2024	204,297
Municipal bonds	2012-2015	2,265
Corporate and other institutions' bonds	2012-2021	66,139
Accrued interest		778
Total bonds and debentures		$ 297,533
Call funds—City of Winnipeg		$ 46,399
Cash		22
Total short-term investments		$ 46,421

INVESTMENTS



TOTAL RETURNS*

	ONE YEAR	FOUR YEARS	TEN YEARS
Total Fund	-0.7%	1.7%	5.2%
Bonds and debentures	8.0%	6.4%	6.7%
Canadian equities	-7.1%	0.6%	7.3%
Foreign equities	-3.8%	-4.0%	-0.8%
Benchmarks			
DEX Universe Bond Index	9.7%	7.1%	6.5%
S&P/TSX Composite Index	-8.7%	-0.7%	7.0%
S&P 500	4.6%	-0.9%	-1.6%
Europe, Australasia, Far East Stock Market Index	-10.0%	-7.6%	0.1%
Consumer Price Index	2.3%	1.8%	2.1%

*Real estate investment returns are not presented as the Plan has invested in this investment class for less than one year.

ASSET MIX STRATEGY FOR 2012

In 2010, *The Winnipeg Civic Employees' Benefits Program* conducted a comprehensive asset-liability study, on the basis of which, the Trustees adopted a new long-term policy asset mix. This long-term policy asset mix was also adopted by the *Winnipeg Police Pension Plan*. The new policy asset mix is expected, over the long term, to achieve the objective of CPI+5% with an acceptable level of risk exposure to the Plan.

Among the notable changes arising from the study were new allocations to real estate and infrastructure, offset by reductions in equities and fixed income. These changes are being implemented over a three- to four-year period. To that end, Greystone Managed Investments Inc. was appointed as one of the Plan's real estate managers in November 2011, and further allocations to real estate are expected to occur over the course of 2012.

ACTUARIAL OPINION

Mercer has conducted an actuarial valuation of the *Winnipeg Police Pension Plan* as at December 31, 2011, relying on data and other information provided to us by the Plan administrator. The results of the valuation and a summary of the data and assumptions used are contained in our draft report dated June 18, 2012.

The principal results of the valuation are as follows:

ACTUARIAL POSITION

The Plan is fully funded on a going-concern basis in respect of benefits earned for service up to December 31, 2011 and has an excess of smoothed value of assets over the going concern funding target of $19,136,000 as at that date, on the basis of the assumptions and methods described in our report.

In order to ensure that the General Component of the Main Account remains fully funded, an amount equal to $9,162,000 will be transferred from the Contribution Stabilization Reserve to the General Component of the Main Account as at December 31, 2011, and the level of cost-of-living adjustments will be reduced from 71.2% to 66.2% of the annual percentage change in the Consumer Price Index to provide a matching $9,162,000 reduction in the going concern funding target, in accordance with the terms of the Plan.

The Plan has a solvency deficiency of $120,704,000 as at December 31, 2011, based on a smoothed value of assets.

COST OF BENEFITS FOR SERVICE IN 2012

The normal actuarial cost of the benefits expected to be earned under the Plan for service in 2012 is 23.20% of contributory earnings.

This cost is expected to be financed by employee contributions of 8.0% of contributory earnings, City contributions of 8.0% of contributory earnings prior to May 6, 2012 and 14.07% of contributory earnings on and after May 6, 2012 and transfers from the Contribution Stabilization Reserve of 7.20% of contributory earnings prior to May 6, 2012 and 1.13% of contributory earnings on and after May 6, 2012.

In our opinion:

- the actuarial valuation and our report thereon present fairly the actuarial position of the Winnipeg Police Pension Plan as at December 31, 2011 on the basis of the actuarial assumptions and valuation methods adopted;
- the data on which the valuation is based are sufficient and reliable for the purposes of the valuation;
- all assumptions were independently reasonable at the time the valuation was prepared and are, in aggregate, appropriate for the purposes of the valuation, and
- the methods employed in the valuation are appropriate for the purposes of the valuation.

Our valuation has been prepared, and our opinions given, in accordance with accepted actuarial practice in Canada. It has also been prepared in accordance with the funding and solvency standards set by the *Pension Benefits Act* (Manitoba).

Naveen Kapahi
FELLOW OF THE CANADIAN INSTITUTE OF ACTUARIES

Alyssa Hariton
FELLOW OF THE CANADIAN INSTITUTE OF ACTUARIES

INDEPENDENT AUDITOR'S REPORT
THE CITY OF WINNIPEG
WINNIPEG POLICE PENSION PLAN

To the Chairperson and Members of The Winnipeg Police Pension Board

The City of Winnipeg

We have audited the accompanying financial statements of the *Winnipeg Police Pension Plan*, which comprise the statements of financial position as at December 31, 2011 and December 31, 2010, and their statements of changes in net assets available for benefits, changes in pension obligations and changes in surplus (deficit) for the years then ended, and 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 controls as management determines 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 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 principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, these financial statements present fairly, in all material respects, the financial position of the *Winnipeg Police Pension Plan* as at December 31, 2011 and 2010, and the changes in its net assets available for benefits, changes in its pension obligations and changes in surplus (deficit) for the years then ended in accordance with Canadian accounting standards for pension plans.

Deloitte & Touche LLP

Chartered Accountants
WINNIPEG, MANITOBA
JUNE 25, 2012

THE CITY OF WINNIPEG
WINNIPEG POLICE PENSION PLAN

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31	2011 (000's)	2010 (000's)
ASSETS		
Investments, at fair value		
Bonds and debentures	$ 296,755	$ 313,036
Canadian equities	271,406	302,855
Foreign equities	261,565	261,305
Cash and short-term deposits	46,421	30,455
Private equities	15,024	14,017
Real estate	3,885	-
	895,056	921,668
Accrued interest	778	1,134
Participants' contributions receivable	4	4
Employers' contributions receivable	9	5
Accounts receivable	1	2
Due from The Winnipeg Civic Employees' Pension Plan	19	62
Total Assets	895,867	922,875
LIABILITIES		
Accounts payable	1,248	642
Total Liabilities	1,248	642
NET ASSETS AVAILABLE FOR BENEFITS	894,619	922,233
PENSION OBLIGATIONS	933,774	898,923
(DEFICIT) SURPLUS	$ (39,155)	$ 23,310
(DEFICIT) SURPLUS COMPRISED OF:		
Main Account—General Component	$ (76,615)	$ (30,521)
Main Account—Contribution Stabilization Reserve	29,943	46,253
Plan Members' Account	7,517	7,578
	$ (39,155)	$ 23,310

See accompanying notes to the financial statements.

THE CITY OF WINNIPEG
WINNIPEG POLICE PENSION PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

FOR THE YEARS ENDED DECEMBER 31	2011 (000's)	2010 (000's)
INCREASE IN ASSETS		
Contributions		
The City of Winnipeg	$ 9,758	$ 9,454
Employees	9,870	9,609
Reciprocal transfers from other plans	-	145
	19,628	19,208
Investment income (Note 5)	30,448	29,102
Current period change in fair value of investments	(35,992)	59,239
Total increase in assets	14,084	107,549
DECREASE IN ASSETS		
Pension payments	37,606	36,094
Lump sum benefits	1,508	1,390
Administrative expenses (Note 7)	790	753
Investment management and custodial fees	1,794	1,814
Total decrease in assets	41,698	40,051
(Decrease) increase in net assets	(27,614)	67,498
Net assets available for benefits at beginning of year	922,233	854,735
Net assets available for benefits at end of year	$ 894,619	$ 922,233

See accompanying notes to the financial statements.

THE CITY OF WINNIPEG
WINNIPEG POLICE PENSION PLAN

STATEMENT OF CHANGES IN PENSION OBLIGATIONS

FOR THE YEARS ENDED DECEMBER 31	2011 (000's)	2010 (000's)
ACCRUED PENSION BENEFITS, BEGINNING OF YEAR	$ 898,923	$ 846,689
INCREASE IN ACCRUED PENSION BENEFITS		
Interest on accrued pension benefits	55,403	52,850
Benefits accrued	28,763	28,359
Changes in actuarial assumptions	-	2,763
Experience gains and losses and other factors	-	6,508
Total increase in accrued pension benefits	84,166	90,480
DECREASE IN ACCRUED PENSION BENEFITS		
Benefits paid	39,114	37,485
Experience gains and losses and other factors	4,560	-
Changes in actuarial assumptions	4,843	-
Administration expenses	798	761
Total decrease in accrued pension benefits	49,315	38,246
NET INCREASE IN ACCRUED PENSION BENEFITS FOR THE YEAR	34,851	52,234
ACCRUED PENSION BENEFITS, END OF YEAR	$ 933,774	$ 898,923

See accompanying notes to the financial statements.

THE CITY OF WINNIPEG
WINNIPEG POLICE PENSION PLAN

STATEMENT OF CHANGES IN (DEFICIT) SURPLUS

FOR THE YEARS ENDED DECEMBER 31	2011 (000's)	2010 (000's)
SURPLUS, BEGINNING OF YEAR	$ 23,310	$ 8,046
(Decrease) increase in net assets available for benefits for the year	(27,614)	67,498
Increase in accrued pension benefits for the year	(34,851)	(52,234)
(DEFICIT) SURPLUS, END OF YEAR	$ (39,155)	$ 23,310

See accompanying notes to the financial statements.

THE CITY OF WINNIPEG
WINNIPEG POLICE PENSION PLAN

SCHEDULE 1: SCHEDULE OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS BY ACCOUNT

	2011			
FOR THE YEAR ENDED DECEMBER 31	MAIN ACCOUNT GENERAL COMPONENT (000's)	MAIN ACCOUNT CONTRIBUTION STABILIZATION RESERVE (000's)	PLAN MEMBERS' ACCOUNT (000's)	TOTAL (000's)
INCREASE IN ASSETS				
Contributions				
The City of Winnipeg	$ 9,758	$ -	$ -	$ 9,758
Employees	9,870	-	-	9,870
Reciprocal transfers from other plans	-	-	-	-
	19,628	-	-	19,628
Transfer from Contribution Stabilization Reserve (Note 1)	9,136	-	-	9,136
Transfers to Main Account	-	(9,136)	-	(9,136)
Investment income (Note 5)	29,034	1,161	253	30,448
Current period change in fair value of investments	(34,320)	(1,373)	(299)	(35,992)
Transfer from Contribution Stabilization Reserve— Resolution of funding deficiency (Note 3)	6,894	(6,894)	-	-
Total increase (decrease) in assets	30,372	(16,242)	(46)	14,084
DECREASE IN ASSETS				
Pension payments	37,606	-	-	37,606
Lump sum benefits	1,508	-	-	1,508
Administrative expenses (Note 7)	790	-	-	790
Investment management and custodial fees	1,711	68	15	1,794
Total decrease in assets	41,615	68	15	41,698
(Decrease) in net assets	(11,243)	(16,310)	(61)	(27,614)
Net assets available for benefits at beginning of year	868,402	46,253	7,578	922,233
Net assets available for benefits at end of year	$ 857,159	$ 29,943	$ 7,517	$ 894,619

See accompanying notes to the financial statements.

THE CITY OF WINNIPEG
WINNIPEG POLICE PENSION PLAN

SCHEDULE 2: SCHEDULE OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS BY ACCOUNT

	2010			
FOR THE YEAR ENDED DECEMBER 31	MAIN ACCOUNT GENERAL COMPONENT (000's)	MAIN ACCOUNT CONTRIBUTION STABILIZATION RESERVE (000's)	PLAN MEMBERS' ACCOUNT (000's)	TOTAL (000's)
INCREASE IN ASSETS				
Contributions				
The City of Winnipeg	$ 9,454	$ -	$ -	$ 9,454
Employees	9,609	-	-	9,609
Reciprocal transfers from other plans	145	-	-	145
	19,208	-	-	19,208
Transfer from Contribution Stabilization Reserve (Note 1)	9,149	-	-	9,149
Transfers to Main Account	-	(9,149)	-	(9,149)
Investment income (Note 5)	27,277	1,588	237	29,102
Current period change in fair value of investments	55,525	3,232	482	59,239
Transfer from Contribution Stabilization Reserve— Resolution of funding deficiency (Note 3)	21,774	(21,774)	-	-
Total increase (decrease) in assets	132,933	(26,103)	719	107,549
DECREASE IN ASSETS				
Pension payments	36,094	-	-	36,094
Lump sum benefits	1,390	-	-	1,390
Administrative expenses (Note 7)	753	-	-	753
Investment management and custodial fees	1,700	99	15	1,814
Total decrease in assets	39,937	99	15	40,051
Increase (decrease) in net assets	92,996	(26,202)	704	67,498
Net assets available for benefits at beginning of year	775,406	72,455	6,874	854,735
Net assets available for benefits at end of year	$ 868,402	$ 46,253	$ 7,578	$ 922,233

See accompanying notes to the financial statements.

THE CITY OF WINNIPEG
WINNIPEG POLICE PENSION PLAN

SCHEDULE 3: SCHEDULE OF CHANGES IN (DEFICIT) SURPLUS BY ACCOUNT

2011				
FOR THE YEAR ENDED DECEMBER 31	MAIN ACCOUNT GENERAL COMPONENT (000's)	MAIN ACCOUNT CONTRIBUTION STABILIZATION RESERVE (000's)	PLAN MEMBERS' ACCOUNT (000's)	TOTAL (000's)
SURPLUS (DEFICIT), BEGINNING OF YEAR	$ (30,521)	$ 46,253	$ 7,578	$ 23,310
(Decrease) in net assets available for benefits for the year	(11,243)	(16,310)	(61)	(27,614)
Net increase in accrued pension benefits for the year	(34,851)	-	-	(34,851)
(DEFICIT) SURPLUS, END OF YEAR	$ (76,615)	$ 29,943	$ 7,517	$ (39,155)

2010				
FOR THE YEAR ENDED DECEMBER 31	MAIN ACCOUNT GENERAL COMPONENT (000's)	MAIN ACCOUNT CONTRIBUTION STABILIZATION RESERVE (000's)	PLAN MEMBERS' ACCOUNT (000's)	TOTAL (000's)
SURPLUS (DEFICIT), BEGINNING OF YEAR	$ (71,283)	$ 72,455	$ 6,874	$ 8,046
Increase (decrease) in net assets available for benefits for the year	92,996	(26,202)	704	67,498
Net increase in accrued pension benefits for the year	(52,234)	-	-	(52,234)
SURPLUS (DEFICIT), END OF YEAR	$ (30,521)	$ 46,253	$ 7,578	$ 23,310

See accompanying notes to the financial statements.

THE CITY OF WINNIPEG
WINNIPEG POLICE PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

1. DESCRIPTION OF PLAN

a) General

The *Winnipeg Police Pension Plan* is a defined benefit pension plan, which provides pension benefits for City of Winnipeg police officers. All police officers are required to become members of the Plan at the commencement of their employment.

b) Administration

The Plan is administered by the *Winnipeg Police Pension Board* which is comprised of two voting members appointed by the Winnipeg Police Association, appointed on behalf of Police Officers who are Active Members, one voting member appointed by the Winnipeg Police Senior Officers' Association, appointed on behalf of the senior police officers who are Active Members, one voting member elected by the Non-Active Members and other beneficiaries under the Plan, and five members appointed by the City.

The Board also consists of a maximum of four non-voting members, one of whom may be appointed by each of the Winnipeg Police Association, the Winnipeg Police Senior Officers' Association, and the City of Winnipeg, respectively, and one of whom may be elected by the Non-Active Members or, if no election is held, appointed by the Non-Active Member Representative on behalf of the Non-Active Members.

The Plan is registered under the *Pension Benefits Act* of Manitoba. The Plan is a registered pension plan under the *Income Tax Act*, and is not subject to income taxes.

c) Financial structure

The *Winnipeg Police Pension Plan* is comprised of three Accounts, namely the Main Account (which has two components being the General Component and the Contribution Stabilization Reserve), the Plan Members' Account and the City Account.

i) *Main Account—General Component*

All benefits of the Pension Plan are paid from the Main Account—General Component.

Plan members contribute 8% of earnings to the Main Account. If the Contribution Stabilization Reserve is sufficient to provide a transfer to fund the difference between the current service cost of benefits accrued during the year and matching employee and City contributions, then the City matches the employee contributions during the year.

If the Contribution Stabilization Reserve is insufficient to provide the above transfer, then the City contributes the balance of the cost of non-indexed benefits, as determined by the Plan's Actuary, in excess of Plan members' contributions of 7% of earnings (towards non-indexed benefits), plus 1% of earnings for cost-of-living adjustments.

ii) *Main Account—Contribution Stabilization Reserve*

The Contribution Stabilization Reserve is credited with a portion of actuarial surpluses. The Contribution Stabilization Reserve finances, through transfers to the Main Account—General Component, the portion of the current service cost of benefits that exceeds the Plan members' and the City's matching contributions. Provincial funding regulations restrict the use of the Contribution Stabilization Reserve for this purpose to the balance in excess of 5% of the Plan's solvency liabilities.

iii) *Plan Members' Account*

In order to ensure that the Plan members will receive a benefit equal to the benefit received by the City through the contribution holidays that it took in 2001 and 2002, the Plan Members' Account was established effective January 1, 2003 with an initial balance equal to the amount of the City's contribution holidays adjusted for investment income up to December 31, 2002.

The Plan Members' Account will be credited with any share of future actuarial surpluses that are allocated to the Plan Members in accordance with the Plan.

iv) City Account

The financial structure provides for a City Account which will be credited with the share of future actuarial surpluses that are allocated to the City in accordance with the Plan. To date, no actuarial surplus has been credited to the City Account.

d) Retirement pensions

The Plan provides for retirement at or after age 55 or following completion of 25 years of credited service. The Plan allows early retirement at age 50 or completion of at least 20 years of credited service subject to an early retirement pension reduction. The pension formula prior to age 65 is equal to 2% of the average earnings in the 60 consecutive months in which the earnings are highest ("Best Average Earnings") for each year of credited service. The pension formula after age 65 is equal to 1.4% of Best Average Canada Pension Plan earnings plus 2% of Best Average Non-Canada Pension Plan earnings for each year of credited service. Pensions are subject to the maximum benefit limits prescribed for registered pension plans under the *Income Tax Act.*

Retirement and survivor pensions, including deferred pensions, are increased annually to provide cost-of-living adjustments at the stated level in the Plan text, which level is currently 71.2% (2010—75%) of the percentage change in the Consumer Price Index for Canada.

e) Disability pensions

A member, who has completed at least fifteen years of credited service, and who has become totally and permanently disabled may apply for a disability pension.

f) Survivor's benefits

The Plan provides survivor pensions or lump sum benefits on death prior to retirement. On death after retirement, eligible surviving spouses normally receive 66⅔% of the member's pension.

g) Termination benefits

Upon application and subject to vesting and locking-in provisions, deferred pensions or equivalent lump sum benefits are payable when a member terminates employment with the City.

h) Variation in benefits

The Plan provides that the rate of cost-of-living adjustment to pensions may be increased using funds available in the Plan Members' Account or may be reduced in the event of a funding deficiency.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

These financial statements are prepared in accordance with Canadian accounting standards for pension plans on a going concern basis and present the aggregate financial position of the Plan as a separate financial reporting entity, independent of the City and Plan members. They are prepared to assist Plan members and others in reviewing the activities of the Plan for the fiscal period.

These financial statements include the financial statements of the Plan and its wholly-owned subsidiary, 5332665 Manitoba Ltd., which was incorporated on July 14, 2006. The Plan accounts for its investment in its subsidiary on a non-consolidated basis. The purpose of the subsidiary corporation is to invest in and hold certain private equity investments on behalf of the Plan.

b) Investments and investment income

Investments are stated at fair value. Fair value represents the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction.

Publicly traded equity investments are valued using published bid prices. For private equity investments, where quoted market prices are not available, various methods of valuation are used by the external managers to determine fair value including the use of: discounted cash flows, earnings multiples, prevailing market rates for instruments with similar characteristics, or other pricing models as appropriate. Real estate investments are valued based on the most recent valuations or appraisals of the underlying properties.

Fixed income investments are valued either using published bid prices or by applying valuation techniques that utilize observable market inputs.

Cash and short-term investments are recorded at cost, which, together with accrued interest income, approximates fair value.

Investment transactions are recognized on a trade date basis. Investment income is recorded on the accrual basis.

The Plan's investment income, current period change in fair value of investments, and investment management and custodial fees are allocated between the Accounts and Reserve based on the average balance of each Account and Reserve during the year.

c) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing at the year end. Income and expenses, and the purchase and sale of investments, are translated into Canadian dollars at the exchange rates prevailing on the transaction dates.

d) 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 certain assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets, obligations, and surplus during the year. Actual results could differ from those estimates.

e) Accounting changes

In April 2010, the Accounting Standards Board of the Canadian Institute of Chartered Accountants (CICA) issued Part IV—Accounting Standards for Pension Plans which includes Section 4600, Pension Plans. The new Section is applicable to financial statements of pension plans and other benefit plans relating to fiscal years beginning on or after January 1, 2011. Accordingly, the Plan adopted the new standards for its fiscal year beginning January 1, 2011. The standards establish requirements for measurement and presentation of information in general purpose financial statements of pension plans, as well as financial statement disclosures. The Plan has elected to incorporate Part II—Accounting Standards for Private Enterprises (ASPE) of the CICA Handbook for issues not directly addressed in Part IV of the Handbook.

The comparative information presented for the year ended December 31, 2010 is also in accordance with the new financial reporting standards. The adoption of the new reporting standards did not result in any change to the net assets available for benefits as previously reported in 2010.

The following changes to the 2010 comparative figures result from accounting for the Plan's investment in its subsidiary on a non-consolidated basis:

EFFECTS ON 2010 STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS:	MAIN ACCOUNT GENERAL COMPONENT (000's)	MAIN ACCOUNT CONTRIBUTION STABILIZATION RESERVE (000's)	PLAN MEMBERS' ACCOUNT (000's)	TOTAL (000's)
Changes to income items:				
Investment income	$ (1)	$ -	$ -	$ (1)
Current period change in fair value of investments	(80)	(4)	-	(84)
	(81)	(4)	-	(85)
Changes to expense items:				
Administrative expenses	(14)	-	-	(14)
Investment management fees	(67)	(4)	-	(71)
	(81)	(4)	-	(85)
Effect on Net Assets Available for Benefits	$ -	$ -	$ -	$ -

EFFECTS ON 2010 STATEMENT OF FINANCIAL POSITION:	TOTAL (000's)
Changes to assets:	
Cash and short-term deposits	$ (1,972)
Private equity	1,959
	(13)
Changes to liabilities:	
Accounts payable	(13)
	(13)
Effect on Net Assets Available for Benefits	$ -

3. OBLIGATIONS FOR PENSION BENEFITS

An actuarial valuation of the Plan was performed as of December 31, 2011 by Mercer (Canada) Limited. This valuation was used to determine the actuarial present value of accrued benefits disclosed in the Statement of Financial Position as at December 31, 2011. For the comparative 2010 figures, the actuarial present value of accrued benefits at December 31, 2010 is based on the December 31, 2010 actuarial valuation performed by Mercer (Canada) Limited. The economic assumptions used in determining the actuarial value of accrued pension benefits were developed by reference to expected long term economic and investment market conditions. Significant long term actuarial assumptions used in the valuation included a valuation interest rate of 6.25% (2010—6.25%) per year, inflation of 2.0% (2010—2.0%) per year and general increases in pay of 3.50% (2010—3.50%) per year. The demographic assumptions, including rates of termination of employment, retirement and mortality, were chosen after detailed analysis of past experience. These assumptions were approved by the *Winnipeg Police Pension Board* for purposes of preparing the financial statements. The actuarial present value of accrued benefits was determined using the projected benefit method pro-rated on services.

The actuarial valuation as at December 31, 2011 disclosed a $18,324,000 funding deficiency to be resolved in accordance with the Plan, by transferring $9,162,000 from the Main Account—Contribution Stabilization Reserve to the Main Account—General Component and by reducing future cost-of-living adjustments from 71.2% to 66.2% of inflation, effective January 1, 2012.

The actuarial valuation as at December 31, 2010 disclosed a $13,788,000 funding deficiency which was resolved in accordance with the Plan, by transferring $6,894,000 from the Main Account—Contribution Stabilization Reserve to the Main Account—General Component and by reducing future cost-of-living adjustments from 75% to 71.2% of inflation, effective January 1, 2011.

The actuarial valuation as at December 31, 2009 disclosed a $21,774,000 funding deficiency which was resolved in accordance with the Plan. Effective January 1, 2010, a transfer of $21,774,000 was made from the Main Account—Contribution Stabilization Reserve to the Main Account—General Component.

The assets available to finance the Plan's accrued benefits are those allocated to the Main Account—General Component. In determining the surplus or deficiency for actuarial valuation purposes, and to be consistent with the assumptions used to determine the actuarial present value of benefits, the actuarial value of the assets of the Main Account—General Component was determined from fair values. The actuarial value placed on the assets smoothes out fluctuations in fair values by spreading the difference between expected returns and actual returns, including unrealized gains and losses, over five years.

The effect of using a smoothed value of assets for the Main Account—General Component in determining the estimated actuarial surplus or deficiency is as follows:

	2011 (000's)	2010 (000's)
Surplus (deficit) for financial statement reporting purposes, Main Account—General Component	$ (76,615)	$ (30,521)
Fair value changes not reflected in actuarial value of assets	58,291	16,733
Surplus (deficit), for actuarial valuation purposes, Main Account—General Component, as estimated	(18,324)	(13,788)
Add: special purpose reserves and accounts		
Main Account—Contribution Stabilization Reserve	29,943	46,253
Plan Members' Account	7,517	7,578
Surplus (deficit), for actuarial valuation purposes—including special purpose reserves and accounts, as estimated	$ 19,136	$ 40,043

4. MANAGEMENT OF FINANCIAL RISK

In the normal course of business, the Plan's investment activities expose it to a variety of financial risks. The Plan seeks to minimize potential adverse effects of these risks on the Plan's performance by hiring professional, experienced portfolio managers, by regular monitoring of the Plan's position and market events, by diversifying the investment portfolio within the constraints of the investment policy and objectives, and occasionally through the use of derivatives to hedge certain risk exposures. Significant risks that are relevant to the Plan are discussed below.

a) Credit risk

Credit risk arises from the potential for an investee to fail or to default on its contractual obligations to the Plan, and is concentrated in the Plan's investment in bonds and debentures and short-term deposits. At December 31, 2011, the Plan's credit risk exposure related to bonds and debentures, accrued interest and short-term deposits totaled $343,954,000 (2010—$344,625,000).

The Plan's concentration of credit risk as at December 31, 2011, related to bonds and debentures, is categorized amongst the following types of issuers:

TYPE OF ISSUER	2011 FAIR VALUE (000's)	2010 FAIR VALUE (000's)
Government of Canada and Government of Canada guaranteed	$ 24,054	$ 29,549
Provincial and Provincial guaranteed	204,297	187,796
Canadian cities and municipalities	2,265	3,283
Corporations and other institutions	66,139	92,408
	$ 296,755	$ 313,036

The Plan's investments include short-term deposits with the City of Winnipeg which have a fair value of $46,399,000 at December 31, 2011 (2010—$30,447,000).

The Plan limits credit risk by investing in bonds and debentures of investees that are considered to be high quality credits and by utilizing an internal Investment Policy Guideline monitoring process. All bond transactions are settled upon delivery using licensed brokers. The risk of default on settlement is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker.

As at December 31, bonds and debentures analyzed by credit rating are as follows:

	2011		2010	
CREDIT RATING	PERCENT OF TOTAL BONDS (%)	PERCENT OF NET ASSETS (%)	PERCENT OF TOTAL BONDS (%)	PERCENT OF NET ASSETS (%)
AAA	16.4	5.4	19.5	6.6
AA	74.7	24.8	69.1	23.4
A	7.2	2.4	9.4	3.2
BBB	1.1	0.4	1.4	0.5
BB	0.6	0.2	0.6	0.2
	100.0	33.2	100.0	33.9

The Plan participates in a securities lending program, managed by the Plan's custodian, wherein securities are loaned to counterparties in exchange for lending fees. In this regard, the Plan's exposure to credit risk relates to the potential for a counterparty to not return a security and the related collateral held is insufficient to replace the security in the open market. The Manager has responsibility to monitor the credit worthiness of counterparties and to regularly monitor and maintain collateral greater than the value of the loans.

b) Liquidity risk

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with financial liabilities. The Plan ensures it retains sufficient cash and short-term investment positions to meet its cash flow commitments, including the ability to fund the pensioner payroll costs and to fund investment commitments. The Plan primarily invests in securities that are traded in active markets and can be readily disposed. The Plan may invest in private equity, which is not traded in an organized market and may be illiquid, but only up to a maximum of 5% of the Plan's assets, as stipulated in the Plan's Statement of Investment Policies and Procedures. The Plan may also invest in real estate, which is not traded in an organized market and may be illiquid, but only up to a maximum of 16% of the Plan's assets, as stipulated in the Plan's Statement of Investment Policies and Procedures.

c) Interest rate risk

Interest rate risk is the risk that the fair value of the Plan's interest bearing investments will fluctuate due to changes in market interest rates. The Plan's exposure to interest rate risk is concentrated in its investment in bonds and debentures and short-term investments.

The Plan's actuarial liabilities are also exposed to fluctuations in long term interest rates as well as expectations of inflation and salary escalation. The Plan's primary exposure is to a decline in the long-term real rate of return which may result in higher contribution rates or lower benefit levels.

The Plan has approximately 38% (2010—37%) of its assets invested in fixed income securities as at December 31, 2011. The returns on fixed income securities are particularly sensitive to changes in nominal interest rates.

The term to maturity and related fair values of investments in bonds and debentures held by the Plan at December 31, 2011 are as follows:

TERM TO MATURITY	2011 FAIR VALUE (000's)	2010 FAIR VALUE (000's)
Less than one year	$ 25,511	$ 49,402
One to five years	136,366	125,439
Greater than five years	134,878	138,195
	$ 296,755	$ 313,036

As at December 31, 2011, had prevailing interest rates raised or lowered by 0.5% (2010—0.5%) assuming a parallel shift in the yield curve, with all other variables held constant, the fair value of investments in bonds and debentures would have decreased or increased, respectively, by approximately $6,573,000 (approximately 0.7% of total net assets) (2010—$7,075,000, approximately 0.8% of total net assets). The Plan's sensitivity to interest rate changes was estimated using the weighted average duration of the bond portfolio. In practice, the actual results may differ and the difference could be material.

d) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Foreign currency exposure arises from the Plan's holdings of foreign equity investments. The Plan's investment managers may, from time to time, hedge some of this exposure using forward contracts. The table below indicates the Plan's net foreign currency exposure after giving effect to the net related hedge as at December 31, 2011. The table also illustrates the potential impact to the Plan's net assets, all other variables held constant, as a result of a 10% change in these currencies relative to the Canadian dollar. In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

	2011				2010	
	GROSS EXPOSURE (000's)	NET FOREIGN CURRENCY HEDGE (000's)	NET EXPOSURE (000's)	IMPACT ON NET ASSETS (000's)	NET EXPOSURE (000's)	IMPACT ON NET ASSETS (000's)
United States	$ 156,354	$ -	$ 156,354	$ 15,635	$ 141,025	$ 14,103
Euro countries	33,855	-	33,855	3,386	35,984	3,598
United Kingdom	25,763	-	25,763	2,576	26,539	2,654
Japan	13,966	-	13,966	1,397	15,960	1,596
Switzerland	8,917	-	8,917	892	8,874	887
Sweden	6,244	-	6,244	624	7,910	791
Australia	5,305	-	5,305	531	6,759	676
Hong Kong	4,986	-	4,986	498	6,541	654
Other	17,447	-	17,447	1,745	20,985	2,099
	$ 272,837	$ -	$ 272,837	$ 27,284	$ 270,577	$ 27,058

e) Other Price Risk

Other price risk is the risk that the value of investments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk) whether those changes are caused by factors specific to an individual asset or its issuer, or factors affecting all securities traded in the market. All securities present a risk of loss of capital. The Plan's policy is to invest in a diversified portfolio of investments. As well, the Plan's Managers moderate this risk through careful selection of securities and other financial instruments within the parameters of the investment policy and strategy. The maximum risk resulting from financial instruments is equivalent to their fair value.

For this Plan, the most significant exposure to other price risk is from its investment in equity securities. As at December 31, 2011, had the prices on the respective stock exchanges for these securities increased or decreased by 15%, with all other variables held constant, net assets would have increased or decreased by approximately $79,946,000 (approximately 8.9% of total net assets) (2010—$84,624,000, approximately 9.2% of total net assets). In practice, the actual results may differ and the difference could be material.

The Plan also has exposure to valuation risk through it's holdings of private equity and real estate investments, for which quoted market prices are not available. As at December 31, 2010, the estimated fair value of private equity investments is $15,024,000 (2010—$14,017,000), approximately 1.7% of total net assets (2010—1.5%), and the related change in fair value of investments recognized for the year ended December 31, 2011 is $992,000 (2010—$2,345,000). As at December 31, 2011, the estimated fair value of real estate investments is $3,885,000 (2010—$Nil), approximately 0.4% of total net assets (2010—Nil), and the related change in fair value of investments recognized for the year ended December 31, 2011 is $145,000 (2010—$Nil).

f) Fair value hierarchy

Financial instruments recorded at fair value on the Statement of Financial Position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels: Level 1—valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2—valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and, Level 3—valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs). The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The following tables present the investment assets recorded at fair value in the Statement of Financial Position as at December 31, 2011 and December 31, 2010, classified using the fair value hierarchy described above:

	LEVEL 1 (000's)	LEVEL 2 (000's)	LEVEL 3 (000's)	2011 TOTAL INVESTMENT ASSETS AT FAIR VALUE (000's)
Bonds and debentures	$ -	$ 296,755	$ -	$ 296,755
Canadian equities	270,518	888	-	271,406
Foreign equities	259,044	2,521	-	261,565
Cash and short term deposits	46,421	-	-	46,421
Private equities	-	-	15,024	15,024
Real estate	-	-	3,885	3,885
	$ 575,983	$ 300,164	$ 18,909	$ 895,056

	LEVEL 1 (000's)	LEVEL 2 (000's)	LEVEL 3 (000's)	2010 TOTAL INVESTMENT ASSETS AT FAIR VALUE (000's)
Bonds and debentures	$ 1,757	$ 311,279	$ -	$ 313,036
Canadian equities	302,855	-	-	302,855
Foreign equities	258,632	2,673	-	261,305
Cash and short term deposits	30,455	-	-	30,455
Private equities	-	-	14,017	14,017
	$ 593,699	$ 313,952	$ 14,017	$ 921,668

During the year, there has been no significant transfer of amounts between Level 1 and Level 2.

The following table reconciles the fair value of financial instruments classified in Level 3 from the beginning balance to the ending balance:

PRIVATE EQUITIES	2011 (000's)	2010 (000's)
Fair value, beginning of year	$ 14,017	$ 9,748
(Losses) gains recognized in increase (decrease) in net assets	992	2,345
Purchases	2,169	2,999
Sales	(2,154)	(1,075)
	$ 15,024	$ 14,017

REAL ESTATE	2011 (000'S)	2010 (000'S)
Fair value, beginning of year	$ -	$ -
(Losses) gains recognized in increase (decrease) in net assets	145	-
Purchases	3,740	-
Sales	-	-
	$ 3,885	$ -

5. INVESTMENT INCOME

	2011 (000's)	2010 (000's)
Bonds and debentures	$ 16,851	$ 17,330
Canadian equities	7,002	6,449
Foreign equities	5,922	4,987
Cash and short term-deposits	673	336
	$ 30,448	$ 29,102

Allocated to:

Main Account—General Component	$ 29,034	$ 27,277
Main Account—Contribution Stabilization Reserve	1,161	1,588
Plan Members' Account	253	237
	$ 30,448	$ 29,102

6. INVESTMENT TRANSACTION COSTS

During 2011, the Plan incurred investment transaction costs in the form of brokerage commissions, in the amount of $319,000 (2010—$296,000). Investment transaction costs are included in the current period change in fair value of investments.

7. ADMINISTRATIVE EXPENSES

	2011 (000's)	2010 (000's)
Winnipeg Civic Employees' Benefits Program	$ 589	$ 576
Actuarial fees	162	142
Legal fees	28	21
General and administrative expenses	11	14
	$ 790	$ 753

8. COMMITMENTS

The Plan's wholly-owned subsidiary, 5332665 Manitoba Ltd., has entered into an investment management agreement wherein it has authorized an investment manager to make private equity investment commitments on its behalf, with aggregate commitments not to exceed $20,000,000. Commitments will be funded over the next several years. As at December 31, 2011, $14,183,000 had been funded.

APPENDIX A

TOP 50 CORPORATE SHARE HOLDINGS* AS AT DECEMBER 31, 2011

		PENSION PLAN MARKET VALUE (000's)			PENSION PLAN MARKET VALUE (000's)
1	Toronto-Dominion Bank	$ 14,568	26	Barrick Gold Corporation	2,950
2	Royal Bank of Canada	13,458	27	Microsoft Corp.	2,918
3	Bank of Nova Scotia	11,325	28	Magna International Inc., Class A, SV	2,777
4	Canadian Natural Resources Limited	10,248	29	Trilogy Energy Corp	2,774
5	Goldcorp Inc.	5,716	30	Canadian Pacific Railway Limited	2,723
6	Canadian National Railway Company	5,669	31	Teck Cominco Limited, Class B, SV	2,668
7	Cenovus Energy Inc.	5,651	32	Atlas Copco, Class "A"	2,638
8	Apple Inc.	5,478	33	Chevron Corp	2,575
9	Suncor Energy Inc.	5,183	34	Procter & Gamble Co.	2,566
10	Potash Corporation of Saskatchewan Inc.	5,082	35	Kinross Gold Corporation	2,564
11	Thompson Reuters Corporation	4,594	36	Rakuten Inc.	2,545
12	Imperial Oil Limited	4,545	37	Dollarama Inc.	2,532
13	Intact Financial Corporation	4,312	38	Alimentation Couche-Tard Inc., Class B, SV	2,527
14	EnCana Corporation	4,191	39	TELUS Corporation	2,507
15	Power Corporation of Canada, SV	4,185	40	British American Tobacco	2,478
16	Canadian Imperial Bank of Commerce	4,111	41	Ensign Energy Services Inc.	2,436
17	Loblaw Companies Limited	4,004	42	Husky Energy Inc.	2,406
18	Rogers Communications Inc., Class "B" NV	3,997	43	Gildan Activewear Inc.	2,382
19	ShawCor Ltd., Class "A" SV	3,943	44	Quebecor World Inc., SV	2,337
20	Tim Hortons Inc.	3,865	45	Ivanhoe Mines Ltd.	2,332
21	SNC-Lavalin Group Inc.	3,460	46	Bank of Montreal	2,279
22	Exxon Mobil Corporation Common	3,413	47	BHP Billiton	2,218
23	MEG Energy Corp	3,392	48	MacDonald Dettwiler & Associates Ltd.	2,183
24	Nexen Inc.	3,346	49	Baidu Inc.	2,173
25	Finning International Inc.	3,073	50	Sun Life Financial Inc.	2,140

*Includes effective holdings through participation in pooled funds, including index funds.

APPENDIX B

INVESTMENT MANAGERS AS AT DECEMBER 31, 2011

Fixed Income
Kirk Merlevede,
Manager of Fixed Income Investments

Canadian Equities
Burgundy Asset Management Ltd.
Foyston, Gordon and Payne Inc.
Guardian Capital L.P.
TD Asset Management Inc.

U.S. Equities
J.P. Morgan Investment Management Inc.
State Street Global Advisors, Ltd.

Non-North American Equities
Baillie Gifford Overseas Ltd.
Franklin Templeton Investments Corp.

Private Equities
Hamilton Lane Advisors LLC
Richardson Capital Limited

Real Estate
Greystone Managed Investments Inc.

2011 DIRECTORY WINNIPEG POLICE PENSION BOARD AS AT DECEMBER 31, 2011

BOARD MEMBERS

Appointed by Winnipeg City Council

Shelley Hart (Chair)
DEPUTY CHIEF OF POLICE

Betty Holsten Boyer
MANAGER OF FINANCIAL PLANNING AND REVIEW

Richard Kachur
CITY CLERK

Mike Ruta
CHIEF FINANCIAL OFFICER

Phil Sheegl
CHIEF ADMINISTRATIVE OFFICER

Krista Boryskavich (non-voting)
SOLICITOR, CITY OF WINNIPEG

Appointed by Winnipeg Police Association

Mike Sutherland (Vice-Chair)

Marc Pellerin

Appointed by Winnipeg Police Senior Officers' Association

Gord Perrier

Appointed by Non-Active and other beneficiaries under the Plan

Loren Schinkel

INVESTMENT COMMITTEE

Eric Stefanson, F.C.A. (Chair)

Jon Holeman
RBC DOMINION SECURITIES

Bob Romphf
MANITOBA NURSES UNION

Phil Sheegl
CITY OF WINNIPEG

Nestor Theodorou
WELLINGTON WEST ASSET MANAGEMENT

Gary Timlick
WAWANESA INSURANCE

MANAGEMENT

Glenda Willis
EXECUTIVE DIRECTOR

Kirk Merlevede
MANAGER, FIXED INCOME INVESTMENTS

Bill Battershill
MANAGER, INFORMATION SYSTEMS

Amanda Jeninga
MANAGER, COMMUNICATIONS

Eleanore Kraynyk
MANAGER, PENSION AND GROUP INSURANCE BENEFITS

Rob Sutherland
MANAGER, FINANCE AND ADMINISTRATION

ADVISORS

Actuary

Mercer (Canada) Limited

Consulting Actuary

Western Compensation & Benefits Consultants

Investment Consultant

Aon Hewitt

Auditor

Deloitte & Touche, LLP

Legal Counsel

Taylor McCaffrey

5TH FLOOR
317 DONALD STREET
WINNIPEG, MANITOBA R3B 2H6
T 204 986 2516
F 204 986 3571
WCEBP@WINNIPEG.CA
WCEBP.CA