

FINANCIAL STATEMENTS

For

SISIP FINANCIAL

For the year ended

MARCH 31, 2022

INDEPENDENT AUDITOR'S REPORT

To the Non-Public Property Oversight and Advisory Board of

SISIP Financial

Opinion

We have audited the financial statements of SISIP Financial, which comprise the balance sheet as at March 31, 2022 and the statements of operations and changes in surplus and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of SISIP Financial as at March 31, 2022 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of SISIP Financial in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our 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 private enterprises, 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 SISIP Financial'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 SISIP Financial to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing SISIP Financial's financial reporting process.

Auditor's 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 auditor's 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 these 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 SISIP Financial'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 SISIP Financial's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause SISIP Financial 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.

We 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.



Chartered Professional Accountants
Licensed Public Accountants

Ottawa, Ontario
September 28, 2022

**SISIP FINANCIAL
BALANCE SHEET
MARCH 31, 2022**
(in thousands of dollars)

| | <u>2022</u> | <u>2021</u> |
|--|-------------------|-------------------|
| <u>ASSETS</u> | | |
| CURRENT ASSETS | | |
| Cash | \$ 1 | \$ 1 |
| Work in progress (note 7) | 208 | 269 |
| Prepaid expenses | <u>53</u> | <u>89</u> |
| | <u>262</u> | <u>359</u> |
| OTHER ASSETS | | |
| Segregated funds (note 6) | 520,919 | 486,217 |
| Net plan assets (note 5) | <u>29,146</u> | <u>28,272</u> |
| | <u>550,065</u> | <u>514,489</u> |
| PROPERTY AND EQUIPMENT (note 7) | <u>1,430</u> | <u>901</u> |
| | <u>\$ 551,757</u> | <u>\$ 515,749</u> |
| <u>LIABILITIES AND SURPLUS</u> | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities | \$ 1,293 | \$ 1,163 |
| Due to Canadian Forces Central Fund (note 4) | <u>40,055</u> | <u>14,314</u> |
| | 41,348 | 15,477 |
| SURPLUS (note 8) | <u>510,409</u> | <u>500,272</u> |
| | <u>\$ 551,757</u> | <u>\$ 515,749</u> |
| Commitments (note 11) | | |
| Subsequent event (note 13) | | |

Approved on behalf the Audit Committee of SISIP Financial:


 Julie Peckham, Chief Financial Officer

(See accompanying notes)

SISIP FINANCIAL
STATEMENT OF OPERATIONS AND CHANGES IN SURPLUS
YEAR ENDED MARCH 31, 2022
(in thousands of dollars)

| | <u>2022</u> | <u>2021</u> |
|---|-------------------|-------------------|
| Revenue | | |
| Premium (note 2) | \$ 88,356 | \$ 85,636 |
| Interest credited (notes 2 and 3) | 6,127 | 6,042 |
| Gain on segregated funds | 36,935 | 76,460 |
| Loss on net plan investments | (18,129) | (3,849) |
| Commissions | 6,743 | 5,558 |
| Financial counselling and education | 3,198 | 3,234 |
| CAF LTD administration fee | 5,166 | 5,015 |
| Other | <u>3</u> | <u>7</u> |
| | <u>128,399</u> | <u>178,103</u> |
| Expenses | | |
| Claims and related expenses | 59,851 | 64,289 |
| Reserve increase - plan experience | 5,460 | 6,212 |
| Policy administration | 2,118 | 2,068 |
| Premium tax and provincial taxes | 3,583 | 3,534 |
| Salary and benefits | 13,636 | 13,823 |
| CMFWS divisional user fees | 824 | 810 |
| Facilities | 764 | 787 |
| Service fees | 1,498 | 1,453 |
| Other operating expenses | 1,119 | 858 |
| Reinsurance | 2,444 | 2,809 |
| Investment management fees | <u>2,234</u> | <u>2,012</u> |
| | <u>93,531</u> | <u>98,655</u> |
| Reserve decrease - assumption changes (notes 2 and 5) | <u>15,008</u> | <u>2,878</u> |
| Income from operations | 49,876 | 82,326 |
| Other item | | |
| Contribution to Canadian Forces Morale and Welfare Services ("CFMWS") (note 12) | <u>(39,739)</u> | <u>(16,846)</u> |
| Net income (Schedule A) | 10,137 | 65,480 |
| Surplus, beginning of year | <u>500,272</u> | <u>434,792</u> |
| Surplus, end of year | <u>\$ 510,409</u> | <u>\$ 500,272</u> |

(See accompanying notes)

SISIP FINANCIAL
STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2022
(in thousands of dollars)

| | <u>2022</u> | <u>2021</u> |
|---|-----------------|-----------------|
| CASH PROVIDED FROM (USED IN) | | |
| Operating activities | | |
| Net income | \$ 10,137 | \$ 65,480 |
| Items not affecting cash: | | |
| Unrealized segregated fund income, net of expense | (34,702) | (74,448) |
| Unrealized loss on net plan investments | 17,012 | 3,918 |
| Unrealized income from net plan assets | (32,200) | (11,792) |
| Amortization | 173 | 177 |
| | <u>(39,580)</u> | <u>(16,665)</u> |
| Change in level of: | | |
| Work in progress | 61 | (267) |
| Prepaid expenses | 36 | 18 |
| Accounts payable and accrued liabilities | 130 | 609 |
| Due to Canadian Forces Central Fund | 25,741 | 11,311 |
| | <u>(13,612)</u> | <u>(4,994)</u> |
| Investing activities | | |
| Proceeds from withdrawal of net plan assets | 14,314 | 5,000 |
| Purchase of property and equipment (net) | (702) | (6) |
| | <u>13,612</u> | <u>4,994</u> |
| INCREASE IN CASH | - | - |
| CASH, BEGINNING OF YEAR | <u>1</u> | <u>1</u> |
| CASH, END OF YEAR | <u>\$ 1</u> | <u>\$ 1</u> |

(See accompanying notes)

SCHEDULE A

SISIP FINANCIAL
STATEMENT OF OPERATIONS BY DIVISION
YEAR ENDED MARCH 31, 2022
(in thousands of dollars)

| | 2022 | | | | 2021 | | | | | |
|--|--------------------|--------------------|-----------------------|------------------|------------------|-------------------|--------------------|-----------------------|------------------|------------------|
| | Insurance | Financial Planning | Financial Counselling | Segregated Funds | Total | Insurance | Financial Planning | Financial Counselling | Segregated Funds | Total |
| Revenue | | | | | | | | | | |
| Premium | \$ 88,356 | \$ - | \$ - | \$ - | \$ 88,356 | \$ 85,636 | \$ - | \$ - | \$ - | \$ 85,636 |
| Interest credited | 6,127 | - | - | - | 6,127 | 6,042 | - | - | - | 6,042 |
| Gain on segregated funds | - | - | - | 36,935 | 36,935 | - | - | - | 76,460 | 76,460 |
| Loss on net plan investments | (18,129) | - | - | - | (18,129) | (3,849) | - | - | - | (3,849) |
| Commissions | 143 | 6,600 | - | - | 6,743 | 96 | 5,462 | - | - | 5,558 |
| Financial counselling and education | - | - | 3,198 | - | 3,198 | - | - | 3,234 | - | 3,234 |
| CAF LTD administration fee | 5,166 | - | - | - | 5,166 | 5,015 | - | - | - | 5,015 |
| Other | 1 | 2 | - | - | 3 | - | 3 | 4 | - | 7 |
| | <u>81,664</u> | <u>6,602</u> | <u>3,198</u> | <u>36,935</u> | <u>128,399</u> | <u>92,940</u> | <u>5,465</u> | <u>3,238</u> | <u>76,460</u> | <u>178,103</u> |
| Expenses | | | | | | | | | | |
| Claims and related expenses | 59,851 | - | - | - | 59,851 | 64,289 | - | - | - | 64,289 |
| Reserve increase - plan experience | 5,460 | - | - | - | 5,460 | 6,212 | - | - | - | 6,212 |
| Policy administration | 2,118 | - | - | - | 2,118 | 2,068 | - | - | - | 2,068 |
| Premium tax and provincial taxes | 3,583 | - | - | - | 3,583 | 3,534 | - | - | - | 3,534 |
| Salary and benefits | 5,714 | 5,118 | 2,804 | - | 13,636 | 6,053 | 5,072 | 2,698 | - | 13,823 |
| CMFWS divisional user fees | 824 | - | - | - | 824 | 810 | - | - | - | 810 |
| Facilities | 325 | 244 | 195 | - | 764 | 352 | 242 | 193 | - | 787 |
| Service fees | 330 | 1,032 | 136 | - | 1,498 | 348 | 957 | 148 | - | 1,453 |
| Other operating expenses | 596 | 418 | 105 | - | 1,119 | 53 | 496 | 309 | - | 858 |
| Reinsurance | 2,444 | - | - | - | 2,444 | 2,809 | - | - | - | 2,809 |
| Investment management fees | - | - | - | 2,234 | 2,234 | - | - | - | 2,012 | 2,012 |
| | <u>81,245</u> | <u>6,812</u> | <u>3,240</u> | <u>2,234</u> | <u>93,531</u> | <u>86,528</u> | <u>6,767</u> | <u>3,348</u> | <u>2,012</u> | <u>98,655</u> |
| Reserve decrease - assumption changes | <u>15,008</u> | - | - | - | <u>15,008</u> | <u>2,878</u> | - | - | - | <u>2,878</u> |
| Income (loss) from operations | <u>15,427</u> | <u>(210)</u> | <u>(42)</u> | <u>34,701</u> | <u>49,876</u> | <u>9,290</u> | <u>(1,302)</u> | <u>(110)</u> | <u>74,448</u> | <u>82,326</u> |
| Other item | | | | | | | | | | |
| Contribution to CFMWS | (39,739) | - | - | - | (39,739) | (16,846) | - | - | - | (16,486) |
| Net income (loss) | <u>\$ (24,312)</u> | <u>\$ (210)</u> | <u>\$ (42)</u> | <u>\$ 34,701</u> | <u>\$ 10,137</u> | <u>\$ (7,556)</u> | <u>\$ (1,302)</u> | <u>\$ (110)</u> | <u>\$ 74,448</u> | <u>\$ 65,480</u> |

(See accompanying notes)

Welch LLP

An Independent Member of BKR International

SISIP FINANCIAL
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2022
(in thousands of dollars)

1. NATURE OF OPERATIONS

SISIP Financial is a commercial activity of the Canadian Forces Morale and Welfare Services ("CFMWS") operating under the authority of the Chief of the Defence Staff ("CDS") in his Non-Public Property ("NPP") capacity. Responsibility for directing the affairs of SISIP Financial rests with the Managing Director of NPP as delegated by the CDS. Operations are divided between SISIP Financial - Proper ("SISIP Proper") and SISIP Financial - Financial Planning ("SISIP FP") (see schedule A).

SISIP Proper provides financial products and services to Canadian Armed Forces' members and their families to enhance the financial well-being of the Canadian Armed Forces community through tailored and unbiased financial solutions; thereby contributing to operational readiness and effectiveness. SISIP Proper, provides the following products: Survivor Income Benefit (SIB), Dependent Life (DL), Optional Group Term Insurance (OGTI), Insurance for Released Members (IRM), Coverage After Release (CAR), Reserve Term Insurance Plan (RTIP), Spousal Disability Plan (SDP), Optional General Officers Insurance Plan (Opt GOIP), Term 100 (T100), travel insurance and critical illness (the "Plans"). The Plans are managed by The Manufacturers Life Insurance Company ("Manulife") based on a Financial and Operations Agreement (the "Agreement") between the CDS and Manulife. The CDS has surplus under the Plans with Manulife for the purpose of funding the payment of claims under the plans. Should these funds not be sufficient to discharge all claims, the CDS is responsible for funding the deficit.

Manulife is the Insurer of the insurance program and provides administration services such as premium review, claims adjudication and the payment of lump-sum and monthly benefits for the Plans. However, SISIP Financial and the CDS have the right to make adjudication decisions as they determine needed.

SISIP Financial is responsible for managing the program and working with the various stakeholders to ensure excellence in customer service to their Canadian Armed Forces clients. Along with some administration functions, SISIP Financial is responsible to ensure that the Plans are being administered in accordance with contractual provisions and they are on a sound financial footing.

SISIP FP provides military personnel and their families with:

1. nationwide access to the services of a Certified Financial Planner (CFP), including access to a complete financial plan and investment services;
2. financial counselling services to help the Canadian Armed Forces (CAF) members to develop and manage budgets, alleviate a difficult financial situation or simply provide advice when members have to make important financial decisions; and
3. professional personal financial education services to military recruits and officer cadets so they become familiar with key financial management principles, such as using credit with the help of a budget, and also provide training to those attending junior and intermediate leadership schools.

The Canadian Forces Central Fund ("CFCF") is a separate entity under the directional responsibility of the NPP Board which provides banking services and financial assistance to NPP entities and has responsibility for SISIP Financial.

In common with other non-public funds, SISIP Financial is exempt from paying income tax under Part 1 of the Income Tax Act.

SISIP FINANCIAL
NOTES TO FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED MARCH 31, 2022
(in thousands of dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The financial statements are prepared in accordance with the Canadian generally accepted accounting principles for private enterprises with the exception of the Coverage After Release (CAR) paid-up policy and Supplementary Survivor Benefit (SSB) for which no future premium payment will be made. Under Canadian accounting standards for private enterprises these are liabilities in determining the net plan assets or liabilities. SISIP Financial does not recognize a liability for these coverages until the plan member is entitled to an issued policy. This is consistent with the treatment of the benefits under the Agreement. The estimated value of these claims has been disclosed as a commitment in note 11.

Financial Instruments

(a) Measurement of financial instruments

SISIP Financial initially measures its financial assets and financial liabilities at fair value adjusted by, in the case of a financial instrument that will not be measured subsequently at fair value, the amount of transaction costs directly attributable to the instrument.

Cash, segregated funds and plan investments are subsequently measured at fair value. Changes in fair value are recognized in the statement of operations in the period incurred. The fair value of segregated funds and plan investments are determined by reference to published price quotations in active market at year-end.

(b) Transaction costs

Transaction costs are recognized in the statement of operations in the period incurred, except for financial instruments that will be subsequently measured at amortized cost.

Revenue recognition

Revenues are recorded in the period in which they are earned, when collection of any related amounts receivable is probable, where per service evidence of an arrangement exists and the sales price is fixed and determinable. Unearned amounts for which material program benefits or services have yet to be delivered are recorded as deferred revenue.

Property and equipment

Property and equipment are stated at cost, less accumulated amortization. Amortization is provided using the straight-line method over the following periods:

| | |
|------------------------|----------|
| Furniture and fixtures | 8 years |
| Computer equipment | 4 years |
| Leasehold improvements | 11 years |

SISIP FINANCIAL
NOTES TO FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED MARCH 31, 2022
(in thousands of dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Cont'd.

Net plan assets and liabilities

Under the terms of the Agreement, SISIP Proper is required to fund all liabilities associated with the Plans. Funds are held on deposit by Manulife which are used to discharge these liabilities. Funds held on deposit are required to be held until all liabilities are discharged and Manulife has the legal right under the Agreement to use these funds in discharging the liabilities before SISIP Proper can withdraw the funds. As a result, the difference between the estimated liabilities and funds held on deposit are presented net as either assets or liabilities.

The net plan assets and liabilities are measured at each reporting period as the difference between the plan reserves and plan investments.

The Plan reserves are measured by estimating the actuarial determined liabilities for the Plans plus an amount for a Claims Fluctuations Reserve ("CFR") (note 5) required under the Agreement. Canadian accounting standards for private enterprises do not have guidance in determining these liabilities. As a result SISIP Proper follows IFRS 4, Insurance Contracts in determining the measurement of plan reserves. The plan reserves were determined in accordance with the standards established by the Canadian Institute of Actuaries. Manulife's plan reserves have been determined using the Canadian Asset Liability Method ("CALM"). Changes in the liabilities are recorded in the statement of operations when incurred.

The Plan investments represent the cumulative incomes in excess of expenditures before considering Plan reserves.

Premium income and related expenses

Gross premiums for all types of insurance contracts, and contracts with limited mortality or morbidity risk, are recognized as revenue when due.

Expenses are recognized when incurred. Plan assets and liabilities are computed at the end of each year, resulting in benefits and expenses being matched with the premium income.

Interest credited

Interest is credited to the Plans for plan investments based on an interest crediting formula defined in the Agreement. The formula is based on the actual return of a predetermined asset mix.

Employee future benefits

SISIP Financial participates in the Canadian Forces Non-Public Funds Employees Pension Plan ("the Pension Plan"), which is a contributory, defined benefit plan. The Pension Plan provides retirement benefits relating to contributions and years of service of Staff of the Non-Public Funds. Substantially all SISIP Financial employees are eligible to be members of the Pension Plan.

SISIP Financial's portion of the Pension Plan is accounted for as a defined contribution plan as there is insufficient information available to use defined benefit plan accounting. As a result, SISIP Financial's contributions to the Pension Plan are included as an expense in the statement of operations. A pension asset has not been recorded on the balance sheet.

Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for private enterprises requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Management makes estimates in determining the estimated useful life of SISIP Financial's property and equipment, its plan reserves and certain accrued liabilities. Actual results could differ from those estimates. These estimates are reviewed annually and as adjustments become necessary, they are recognized in the financial statements in the period they become known.

SISIP FINANCIAL
NOTES TO FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED MARCH 31, 2022
(in thousands of dollars)

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

SISIP Financial is exposed to various risks through its financial instruments. The following analysis provides a measure of SISIP Financial's risk and exposure and concentrations.

SISIP Financial does not use derivative financial instruments to manage its risks.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

SISIP Financial is exposed to credit risks principally from cash, segregated funds and plan investments. SISIP Financial carries out, on a continuing basis, a review of outstanding amounts and also deals with credit worthy counterparts to mitigate the risk of financial loss from default.

Liquidity risk

Liquidity risk refers to the adverse consequences that SISIP Financial will encounter should difficulty in meeting the obligations associated with its financial liabilities arise, which are comprised of accounts payable and accrued liabilities.

SISIP Financial manages this risk by maintaining sufficient cash to meet their current obligations and management establishes budget and cash estimates to determine their future cash flow requirements.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of currency risk, interest rate risk and other price risk.

i) *Currency risk*

Currency risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate relative to the Canadian dollar due to changes in foreign exchange rates.

Substantially all SISIP Financial's transactions are in Canadian dollars and as a result, management does not believe it is exposed to significant currency risk.

ii) *Interest rate risk*

Interest rate risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate due to changes in market interest rates.

SISIP Financial is exposed to interest rate risk as result of the potential claims from the members of the various plans. If cash flow from assets supporting claim liabilities does not match the timing and amount of the claim cash flows, interest rate losses or gains may occur due to changing interest rates in the future. The quality of the asset liability matching program is reviewed quarterly at Manulife using duration measures and cash flow testing under alternative economic scenarios. An investment policy was implemented and this policy is structured to provide much better matching of assets and liabilities.

iii) *Other price risk*

Other price risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all similar instruments traded in the market.

Other price risk affecting segregated funds is disclosed in note 6.

Changes in risk

There have been no material changes in SISIP Financial's risk exposures from the prior year.

SISIP FINANCIAL
NOTES TO FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED MARCH 31, 2022
(in thousands of dollars)

4. DUE TO CANADIAN FORCES CENTRAL FUND (CFCF)

The amount due to CFCF of \$40,055 (2021 - \$14,314) represents SISIP Financial's share of an internal Consolidated Bank Account (CBA) administered by CFCF. This amount is non-interest bearing and has no specific terms of repayment. CFCF operates under the authority of the Chief of the Defence Staff (CDS) in its Non-Public Property (NPP) capacity. Responsibility for directing the affairs of CFCF rests with the Managing Director, NPP as delegated by the CDS.

5. NET PLAN ASSETS AND LIABILITIES

The net plan assets represent the following held by Manulife:

| | <u>2022</u> | <u>2021</u> |
|------------------|------------------|------------------|
| Plan reserves | \$ (266,865) | \$ (276,413) |
| Plan investments | <u>296,011</u> | <u>304,685</u> |
| Net plan assets | <u>\$ 29,146</u> | <u>\$ 28,272</u> |

SISIP Financial is entitled to any surplus once all obligations under the Plan have been paid. Also, should the Plan be in a deficit position, the CDS is responsible to fund the liability.

Actuarial reserves used in the determination of plan liabilities are calculated by Manulife based on the methodology described in note 2. Assumptions used by Manulife to determine the reserves are only changed after proper notice has been given to SISIP Financial.

The determination of the actuarial reserves included in plan liabilities involves the use of estimates and assumptions which are comprised of two major components; a best estimated amount and a provision for adverse deviation. In conjunction with prudent business practices to manage both business and investment risks, the selection and monitoring of appropriate assumptions are designed to minimize SISIP Proper's exposure to measurement uncertainty.

Best estimate assumptions are made with respect to mortality and morbidity, investment returns, rates of policy termination, operating expenses and certain taxes. Actual experience is monitored to ensure that the assumptions remain appropriate and assumptions are changed as warranted.

The assumptions made in establishing actuarial reserves reflect expected best estimates of future experience. To recognize the uncertainty in these best estimate assumptions, to allow for possible under or over estimation of and deterioration in experience and to provide a greater degree of assurance that actuarial reserves are adequate to pay future benefits, SISIP Proper is required to include a margin in each assumption.

Minimum requirements are prescribed by the Canadian Institute of Actuaries for determining margins related to interest rate risk. Specific guidance is also provided for other risks such as market, credit, mortality and morbidity risks. For other risks which are not specifically addressed by the Canadian Institute of Actuaries, a range is provided of 5% - 20% of the expected experience assumption. Annual assumptions used are within the permissible ranges, with the determination of the level set taking into account the risk profile of the business. On occasion, in specific circumstances for additional prudence, a margin may exceed the high end of the range, which is permissible under the Standards of Practice. Each margin is reviewed annually for continued appropriateness.

The Agreement defines the requirements for SISIP Proper to fund any Plan shortfalls and when SISIP Proper is entitled to withdraw the plan assets. SISIP Proper is required to maintain a CFR up to 25% of the Plan premiums. The CFR restricts SISIP Proper from withdrawing surplus from the Plan.

SISIP FINANCIAL
NOTES TO FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED MARCH 31, 2022
(in thousands of dollars)

6. SEGREGATED FUNDS

SISIP Proper's surplus assets are held in a segregated fund. The fund value is presented at fair value and any unrealized gains or losses are recorded in the statement of operations in the period in which the change occurs. The segregated assets are invested in accordance with the guidelines set out in the investment policy. The investment policy has set targeted investment mix of cash and fixed income 20%-55%, Canadian equity 6%-26%, Global equities 22%-42% and infrastructure, alternatives and real estate 0%-20%. The actual allocation of the funds is as follows:

| | 2022 | | | 2021 | | |
|---|-------------------------|-----------------------------|-------------------------------|-------------------------|-----------------------------|-------------------------------|
| | <u>% allocation</u> | <u>Book value</u> \$ | <u>Market value</u> \$ | <u>% allocation</u> | <u>Book value</u> \$ | <u>Market value</u> \$ |
| <i>(in thousands of dollars)</i> | | | | | | |
| Cash and fixed income | 32.1 | 120,455 | 167,427 | 32.9 | 105,893 | 159,528 |
| Canadian Equity | 21.3 | 67,382 | 110,693 | 22.3 | 81,270 | 108,249 |
| Global Equities | 30.3 | 98,872 | 158,095 | 30.4 | 92,806 | 147,173 |
| Infrastructure, alternatives and real estate | <u>16.3</u> | <u>63,622</u> | <u>84,704</u> | <u>14.4</u> | <u>64,219</u> | <u>71,267</u> |
| | <u>100.0</u> | <u>350,331</u> | <u>520,919</u> | <u>100.0</u> | <u>344,188</u> | <u>486,217</u> |

7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

| | 2022 | | 2021 | |
|------------------------|-----------------|-------------------------------------|---------------------------|---------------------------|
| | <u>Cost</u> | <u>Accumulated amortization</u> | <u>Net book value</u> | <u>Net book value</u> |
| Furniture and fixtures | \$ 268 | \$ 196 | \$ 72 | \$ 94 |
| Computer equipment | 379 | 294 | 85 | 144 |
| Leasehold improvements | <u>1,987</u> | <u>714</u> | <u>1,273</u> | <u>663</u> |
| | <u>\$ 2,634</u> | <u>\$ 1,204</u> | <u>\$ 1,430</u> | <u>\$ 901</u> |

Work in progress relates to major interior renovations to the office building in Gagetown (2021 - Greenwood).

8. SURPLUS

Under the Reinsurance Funding Agreement, SISIP Financial is required to maintain a minimum surplus of \$260,000 (with CFCF committing an additional \$100,000) to cover claims in excess of reinsurance coverage made in relation to hostile events. SISIP Financial must provide Manulife with at least nine months' notice should it intend to reduce the surplus below \$260,000.

A further restriction related to CFR (as outlined in note 5) is maintained separately.

SISIP FINANCIAL
NOTES TO FINANCIAL STATEMENTS - Cont'd.
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(in thousands of dollars)

9. PENSION PLAN

All eligible employees are members of the defined benefit, Canadian Forces Non-Public Funds Employees Pension Plan ('the Plan'). SISIP's share of contributions to the Plan were \$630 (2021 - \$481) and are included in the applicable expense category on the statement of operations and changes in surplus.

Actuarial valuations prepared as at December 31, 2021, on a going concern basis as well as on a solvency basis, indicated the following information about the Plan:

| | <u>2022</u> | <u>2021</u> |
|-----------------------------------|-------------------|------------------|
| Net assets available for benefits | \$ 521,460 | \$ 438,669 |
| Actuarial benefit obligation | <u>(361,570)</u> | <u>(350,681)</u> |
| Surplus | <u>\$ 159,890</u> | <u>\$ 87,988</u> |

Under the going concern basis, this valuation compares the relationship between the value of the Pension Plan's assets and the present value of the expected future benefit cash flows in respect of accrued service, assuming the Pension Plan will be maintained indefinitely. Under this scenario, the valuation resulted in a surplus of \$142,110.

Conversely, under the hypothetical solvency (or wind up) basis, the Pension Plan is assumed to be wound up and settled on the valuation date, assuming benefits are settled in accordance with the existing taxation rules and under circumstances producing the maximum wind up liabilities on the valuation date. This valuation resulted in a deficit of \$468.

SISIP Financial has a legacy defined benefit plan ("the Staff Plan") which is closed to members. SISIP Financial contribution to the Staff Plan were \$242 (2021 - \$258) and are included in the applicable expense category on the statement of operations and changes in surplus.

Actuarial valuations prepared as at December 31, 2021, on a going concern basis as well as on a solvency basis, indicated the following information about the Staff Plan:

| | <u>2022</u> | <u>2021</u> |
|--|-----------------|-------------------|
| Fair value of plan assets | \$ 5,159 | \$ 5,401 |
| Actuarial benefit obligation | <u>(5,978)</u> | <u>(6,672)</u> |
| (Unfunded actuarial liability) Surplus | <u>\$ (819)</u> | <u>\$ (1,271)</u> |

Under the going concern basis, this valuation compares the relationship between the value of the Pension Plan's assets and the present value of the expected future benefit cash flows in respect of accrued service, assuming the Pension Plan will be maintained indefinitely. Under this scenario, the valuation resulted in a deficit of \$56.

Conversely, under the hypothetical solvency (or wind up) basis, the Pension Plan is assumed to be wound up and settled on the valuation date, assuming benefits are settled in accordance with the existing taxation rules and under circumstances producing the maximum wind up liabilities on the valuation date. This valuation resulted in a deficit of \$1,408.

These valuations are utilized to assess monthly and annual employer contributions. The Plans are required to have their next actuarial valuation performed as at December 31, 2022.

SISIP FINANCIAL
NOTES TO FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED MARCH 31, 2022
(in thousands of dollars)

10. RELATED PARTY TRANSACTIONS

Among the other entities under the authority of the CDS in its NPP capacity are CFMWS, CANEX, SISIP Financial, CFCF and individual base wings and messes. During the fiscal year, SISIP Financial paid lease expenses of \$470 (2021 - \$460) to the Canadian Forces Exchange System ("CANEX"), an entity which is part of Canadian Forces Morale and Welfare Services. All 2022 and 2021 fiscal period revenue from financial counselling and education services represent cost recoveries from public funds provided by Department of National Defence.

In addition, see Note 12 for details of SISIP Financial's contribution to CFMWS.

All 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.

11. COMMITMENTS

SISIP Proper has estimated future liabilities not yet recognized related to the CAR paid-up policy and SSB for which no future premium payments will be made. The terms of the Agreement do not include these amounts in the determination of plan reserves. The estimated present value of these future liabilities has been assessed at \$97,772 as of March 31, 2022.

SISIP Financial is committed to payments under an operating lease for the premise at 220 Laurier Avenue West, Ottawa through 2030. Annual payments for the next five years are as follows:

| | |
|------|---------------|
| 2023 | \$ 70 |
| 2024 | 74 |
| 2025 | 74 |
| 2026 | 74 |
| 2027 | <u>78</u> |
| | <u>\$ 370</u> |

12. CONTRIBUTION

During the year, \$39,739 (2021 - \$16,846) was contributed by SISIP Financial to CFMWS to support NPP programs, capital and operations and maintenance projects.

13. COMPARATIVE FIGURES

Comparative figures have been reclassified where necessary to conform to the presentation adopted in the current year.