QUÉBEC BLUE CROSS

ONTARIO BLUE CROSS

Québec Blue Cross ®
Ontario Blue Cross ™
Canassurance Insurance Company
CanAssistance Inc.


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Montréal, Québec H3A 3S3
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BLUE CROSS
CANASSURANCE

LOOKING AHEAD

2009 ANNUALREPORT2009
ANNUALREPORT

ANNUAL REPORT 2009

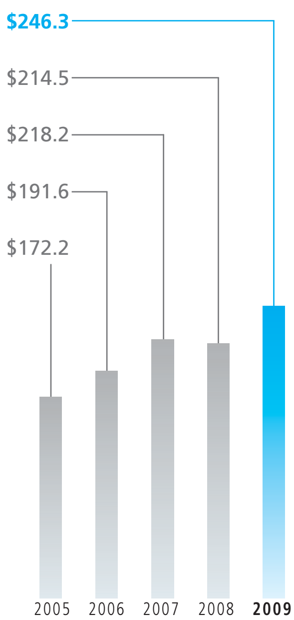
BLUE CROSS CANASSURANCE GROUP

# 2009 ANNUAL REPORT

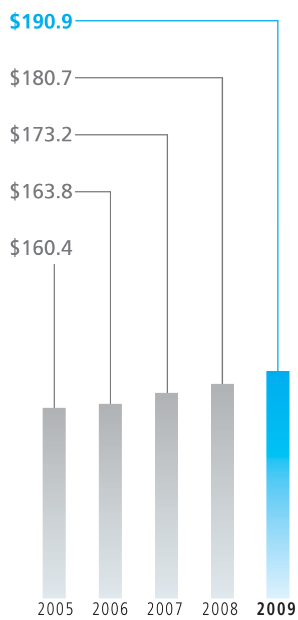
# ANNUAL REPORT 2009

| (In millions of dollars) | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Consolidated net excess | **17.5** | 11.1 | 20.5 | 19.4 | 19.5 |
| Consolidated total revenue | **190.9** | 180.7 | 173.2 | 163.8 | 160.4 |
| Consolidated assets | **348.6** | 312.8 | 314.9 | 285.5 | 265.6 |
| Consolidated surplus | **246.3** | 214.5 | 218.2 | 191.6 | 172.2 |

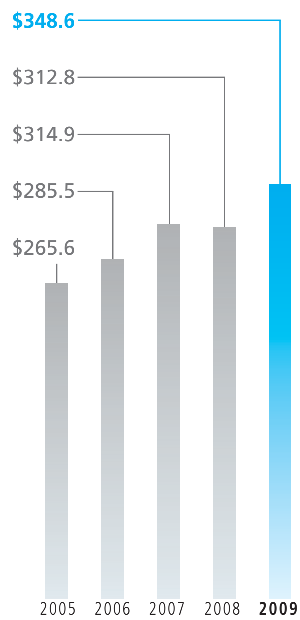
CONSOLIDATED SURPLUS




CONSOLIDATED TOTAL REVENUE

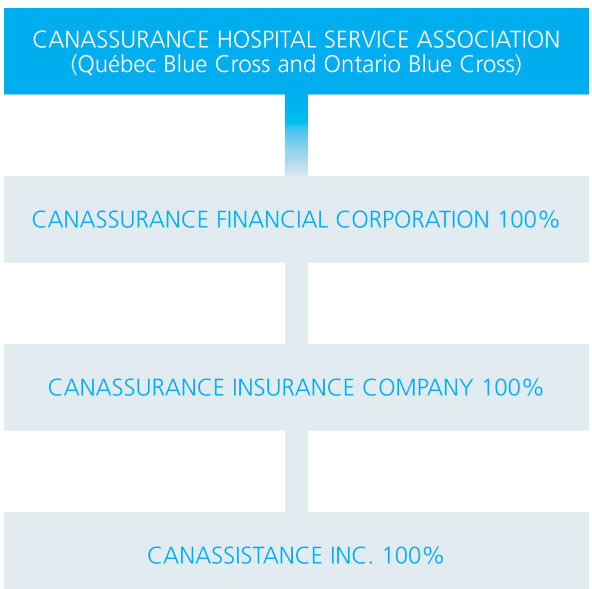



CONSOLIDATED ASSETS



## The Canassurance Hospital Service Association, which operates under the names Ontario Blue Cross™ (1941) and Québec Blue Cross® (1942), is a legally independent corporation without pecuniary gain that is entirely Canadian owned.

It is licensed by the Blue Cross network to operate in Québec and Ontario. Its relationship with other Blue Cross organizations in Canada and the United States is based on the exchange of information and services, and compliance with high-quality standards. The Association's mandate is to offer quality personal and group health insurance, travel insurance and assistance services. Blue Cross intends to maintain its benchmark standards of excellence by focusing on its human resources development and training.



DESPITE AN INTERNATIONAL ECONOMIC CRISIS AND THE H1N1 FLU PANDEMIC, 2009 WAS A SUCCESSFUL YEAR FOR BLUE CROSS CANASSURANCE GROUP.

IN ADDITION TO OUR FINANCIAL SOLIDITY AND THE QUALITY OF OUR INVESTMENTS, THE GROUP WAS ABLE TO RELY ON THE COMPETENCE AND THE MOBILIZATION OF ITS WORKFORCE AND ITS PARTNERS IN SUPPORT OF ITS CONTINUING GROWTH AND IN COMPLETING THE IMPLEMENTATION OF NEW INFORMATION SYSTEMS.

WITH MORE THAN 600,000 MEMBERS AND POLICYHOLDERS, THE GROUP IS STRONGLY POSITIONED TO ENSURE ITS LONG-TERM DEVELOPMENT AND ITS CONTINUING ROLE AS A LEADER IN HEALTH AND TRAVEL INSURANCE.

## DEVELOPMENT OUTLOOK

In 2010, we will continue to strengthen our distribution networks and to diversify our range of products and services.

Given the aging of the population and the spiralling increase of costs in the Canadian health system, the Group will face new opportunities and challenges in the coming years.

With regard to aging of the population, according to Statistics Canada, Québec's population is among the provinces whose population is aging the fastest. The proportion of citizens over 65 will exceed 25% in 2031 compared with 14% in 2009. In Ontario, the trends are similar, but its population will age more slowly. According to these data, by 2015, the number of 65-year-olds will exceed the number of children aged 0 to 14—a first in Canada.

We continue to depend on a public health system that defines the role we can play. We will thus follow the various demographic trends very carefully in order to adjust our product offering accordingly. At the same time, we will be on the lookout for new avenues in our various activity sectors.

## REDESIGN OF OUR INFORMATION SYSTEMS

The Blue Cross Canassurance Group completed the last year of the three-year plan to redesign our information systems. It should be noted that the plan includes all operations in travel and health insurance.

This past year, we implemented the applications for managing regulations, and we inserted administrative and sales modules for our health insurance products. We also completed the review of customer documents and set up a portal to manage operational reports.

In 2010, we will continue the progressive deployment of health insurance products, especially with our business partners. We will finish the conversion of historical data so as to make these more functional. The second half of the year will be devoted to implementing processes to improve the efficiency and effectiveness of customer service: business intelligence, imagery integrated into the work flow, etc.

## HEALTH INSURANCE

A great deal of effort has been expended to advance our strategic positioning in Ontario. At the same time, the work of our sales teams enabled the Group to successfully penetrate markets and increase market share in this province.

As for the mature and fiercely competitive market in Québec, working closely with our partners has helped us to increase sales. We will continue to develop new products and services to meet the needs of consumers and to increase our marketing initiatives.

## TRAVEL INSURANCE

With the slowdown of the Canadian economy and the weakening of the labour market in 2009, we might have expected a drop in travel insurance clientele. Yet we are very satisfied to have attained most of our objectives through customer loyalty strategies and our presence in many distribution networks.

The year-end results are a promising indicator for 2010, even as economic recovery remains fragile and the travel industry, still in crisis, pursues its consolidation efforts around the world.

## ASSISTANCE

The CanAssistance team remains focused on developing the Medical Second Opinion Program offered to Canadians in partnership with McGill University Health Centre. New assistance services including health insurance are being studied and should be launched in 2010.

We continue to pursue a strengthening of our international partnerships so that CanAssistance customers can benefit from a network of quality services everywhere and at all times.

## RISK MANAGEMENT AND CORPORATE GOVERNANCE

We have strengthened our risk management, governance, outsourcing, and compliance practices and standards to meet the new standards of government financial authorities.

As well, on January 1, 2011, we must adopt IFRS, the international accounting standards. With our auditors, we are currently studying the consequences of the changeover and the accounting methods to choose.

## BLUE CROSS AND SOCIAL RESPONSIBILITY

For many years, through donations, sponsorships, and funding activities with employees, the Group has supported various organizations such as Centraide and The Children's Wish Foundation.

We also note that now, early in 2010, the Group is proud to have offered its call centres to support fundraisers for the Red Cross, and also to have worked on the telethon *Ensemble pour Haïti* to help victims in Haiti. Congratulations to the many employees who donated their time to these events.

## FINANCIAL RESULTS

For 2009, net excess of Blue Cross Canassurance Group was $17.5 million.

As at December 31, 2009, the Group's consolidated assets totalled $348.6 million. Consolidated surplus was $246.3 million, representing 71% of the Group's consolidated assets.

Gross consolidated income from insurance contributions and premiums of Blue Cross Canassurance Group totalled $173.7 million. The Group paid benefits and rebates to its members and policyholders amounting to 60.3% of gross income from insurance contributions and premiums. Consolidated investment income totalled $16.3 million. Operating expenses were $47.5 million and commissions totalled $17.2 million, representing 37.2% of gross insurance income.

## ACKNOWLEDGEMENTS

We would like to thank all employees of Blue Cross Canassurance Group for their contribution to the organization's success.

As well, we would like to point out that negotiations for the renewal of the collective agreements went smoothly, resulting in a seven-year agreement.

We would like to express our gratitude to the management team, the directors, and the governors of Blue Cross Canassurance Group for their dedication and support.

Finally, we thank our partners, customers, and members for their confidence and loyalty.

**Claude Boivin**, CA
President and Chief Executive Officer

**André Brousseau**
Chairman of the Board

## MANAGEMENT REPORT

The financial statements of Canassurance Hospital Service Association (Québec Blue Cross and Ontario Blue Cross) and the financial information contained in this annual report are the responsibility of management and have been approved by the Board of Directors.

The Association has an adequate internal control and auditing system, within acceptable cost limits. The purpose of these mechanisms is to ensure a reasonable degree of certainty that financial transactions are correctly recorded and carried out with the required authorization, that the financial statements are properly prepared, and that assets are well protected.

The Board of Directors fulfils its responsibilities with regard to financial reporting and the financial statements contained in this annual report primarily through its Audit Committee, which is composed of three Board members who are not managing officers of the Association.

The Audit Committee meets periodically with management and also meets with the external auditors. Their main mandate is to review the financial statements and to recommend their approval. The external auditors may, at their discretion, meet with the Audit Committee in the presence or absence of management to discuss questions pertaining to the auditing and financial reporting.

The actuarial liabilities have been evaluated by Mr. Luc Farmer, FCIA, FSA, Actuary, and his report certifies the actuarial liabilities. The financial statements have been audited by the firm Mallette L.L.P., Chartered Accountants, and the report they have prepared indicates the scope of their audit and their opinion on the financial statements.

**Claude Boivin**, CA, President and Chief Executive Officer

**Éric Senécal**, CA, Corporate Controller

Montréal, February 3, 2010

## OPINION OF THE APPOINTED ACTUARY

I have valued the policy liabilities in the consolidated balance sheet of Canassurance Hospital Service Association (Québec Blue Cross and Ontario Blue Cross) as at December 31, 2009 and its change in the consolidated statement of income for the year then ended in accordance with accepted actuarial practice, including selection of appropriate valuation assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the consolidated financial statements fairly present the results of the valuation.

The valuation is in conformity with the *Québec Insurance Act* and its regulations.

**Luc Farmer**, FCIA, FSA, Appointed Actuary

Montréal, February 3, 2010

## AUDITORS' REPORT

To the Members of Canassurance Hospital Service Association (Québec Blue Cross and Ontario Blue Cross)

We have audited the consolidated balance sheet of CANASSURANCE HOSPITAL SERVICE ASSOCIATION (Québec Blue Cross and Ontario Blue Cross) as at December 31, 2009 and the consolidated statements of earnings, accumulated surplus and comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Association as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Mallette[1]

**Mallette**
L.L.P.
Chartered Accountants

February 3, 2010

Québec, Canada

[1] CA auditor permit No. 12506

## CONSOLIDATED BALANCE SHEET

As at December 31 (in thousands of dollars)

| | 2009 | 2008 |
|---|---|---|
| **ASSETS** | | |
| Portfolio investments (Note 8) | **$315,619** | $282,504 |
| Investment in a company subject to significant influence | **–** | 785 |
| Cash | **4,390** | 5,508 |
| Overdue and accrued investment income | **857** | 987 |
| Due and overdue subscriptions and premiums | **3,856** | 2,202 |
| Other assets (Note 9) | **23,920** | 20,861 |
| | **$348,642** | $312,847 |
| **LIABILITIES** | | |
| Actuarial liabilities (Note 10) | **$44,261** | $40,841 |
| Liabilities for claims payable, claims and settlement expenses (Note 10) | **18,497** | 18,883 |
| Unearned subscriptions and premiums (Note 10) | **14,564** | 14,252 |
| Prepaid subscriptions and premiums | **3,346** | 3,370 |
| Deposits and refunds (Note 10) | **10,973** | 7,195 |
| Accounts payable (Note 11) | **10,726** | 13,850 |
| | **102,367** | 98,391 |
| **SURPLUS** | | |
| Accumulated surplus | **244,385** | 226,916 |
| Accumulated other comprehensive income | **1,890** | (12,460) |
| | **246,275** | 214,456 |
| | **$348,642** | $312,847 |

**COMMITMENTS** (Note 13)

On behalf of the Board,

**André Brousseau,** Director

**Claude Boivin,** CA, Director

## CONSOLIDATED EARNINGS

For the year ended December 31 (in thousands of dollars)

| | 2009 | 2008 |
|---|---|---|
| **REVENUE** | | |
| Gross subscriptions and insurance premiums | **$173,740** | $164,539 |
| Gross subscriptions and premiums earned | **$169,781** | $160,699 |
| Investments (Note 6) | **16,255** | 15,705 |
| Other revenues | **4,827** | 4,252 |
| | **190,863** | 180,656 |
| **EXPENSES** | | |
| Claims, liability claims and settlement expenses | **101,023** | 92,430 |
| Changes in actuarial liabilities | **3,420** | 3,866 |
| Commissions | **17,152** | 16,671 |
| Refunds and interest on deposits | **318** | 721 |
| Taxes on premiums | **4,010** | 3,771 |
| Operating (Note 7) | **47,471** | 45,906 |
| | **173,394** | 163,365 |
| **NET EXCESS BEFORE PERMANENT IMPAIRMENT OF AVAILABLE-FOR-SALE FINANCIAL ASSETS** | **17,469** | 17,291 |
| Permanent impairment of available-for-sale financial assets | **–** | (6,197) |
| **NET EXCESS** | **$17,469** | $11,094 |

## CONSOLIDATED ACCUMULATED SURPLUS AND COMPREHENSIVE INCOME

| For the year ended December 31 (in thousands of dollars) | 2009 | 2008 |
|---|---|---|
| **ACCUMULATED SURPLUS** | | |
| **BALANCE**, beginning of year | **$226,916** | $215,822 |
| Net excess | **17,469** | 11,094 |
| **BALANCE**, end of year | **$244,385** | $226,916 |
| **COMPREHENSIVE INCOME** | | |
| Net excess | **$17,469** | $11,094 |
| Other comprehensive income | | |
| Unrealized gains (unrealized losses) during the year on available-for-sale financial assets, net of income taxes of $460 (2008 - $632) | **19,121** | (19,306) |
| Reclassification adjustment included in net excess | **(4,771)** | 4,518 |
| **Comprehensive income** | **$31,819** | $(3,694) |
| **ACCUMULATED OTHER COMPREHENSIVE INCOME** | | |
| Unrealized gains (unrealized losses) on available-for-sale financial assets | | |
| **BALANCE**, beginning of year | **$(12,460)** | $2,328 |
| Change in unrealized gains (unrealized losses) on available-for-sale financial assets included in comprehensive income, net of income taxes of $386 (2008 - $575) | **14,350** | (14,788) |
| **BALANCE**, end of year | **$1,890** | $(12,460) |

## CONSOLIDATED CASH FLOWS

| For the year ended December 31 (in thousands of dollars) | 2009 | 2008 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net excess | **$17,469** | $11,094 |
| Operating items not affecting cash: | | |
| Changes in actuarial liabilities | **3,420** | 3,866 |
| Loss (gain) on disposal, changes in the value of portfolio investments and other items not affecting cash | **(2,691)** | 6,233 |
| | **18,198** | 21,193 |
| Net change in non-cash working capital | **(3,289)** | (7,568) |
| | **14,909** | 13,625 |
| **INVESTING ACTIVITIES** | | |
| Acquisitions | | |
| Portfolio investments | **(370,277)** | (294,171) |
| Capital assets | **(119)** | (412) |
| Intangible assets | **(1,076)** | – |
| Disposals | | |
| Portfolio investments | **355,445** | 283,542 |
| | **(16,027)** | (11,041) |
| **INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **(1,118)** | 2,584 |
| **CASH**, beginning of year | **5,508** | 2,924 |
| **CASH**, end of year | **$4,390** | $5,508 |

Cash flows include no interest payments (2008 - none) and income tax received of $1,422 (2008 - income tax payments of $1,151).

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2009 (amounts are expressed in thousands of dollars)

## 1. STATUTES OF INCORPORATION AND NATURE OF ACTIVITIES

The Association, incorporated in April 1942 under a Private Bill of the Legislative Assembly of Québec, is a legal person without pecuniary gain whose object is to offer assistance, prevention and compensation services in the field of health. The Association may also, through insurers it controls, offer personal insurance and property and casualty insurance.

## 2. SIGNIFICANT ACCOUNTING POLICIES

**Consolidation Policies**

These consolidated financial statements include the accounts of the Association and those of its wholly owned subsidiary, Canassurance Financial Corporation and those of Canassurance Insurance Company and Canassistance Inc., wholly owned subsidiaries.

**Use of Estimates**

Presentation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from these estimates.

**Revenue Recognition**

Revenues correspond to premiums and subscriptions that were exposed to risk during the financial year.

Revenue from assistance contracts is recognized on a straight-line basis over the contract period.

Investments income is recorded on an accrual basis.

**Income Taxes**

The Association's subsidiaries account for as an income tax expense or revenue the amount of income taxes payable or recoverable for the year and the change in the future income tax assets and liabilities accounts based on current income tax rates applicable to taxable income from years in which the differences between the carrying values and tax basis of assets and liabilities are expected to reverse. A future income tax asset is accounted for when it is more likely than not that the societies will benefit from the tax relief related to deductible temporary differences between the values.

**Investments**

Trade-date accounting is used to account for all purchase or sale of investments subject to normal delay of delivery.

Transaction costs for financial assets and liabilities classified or designated as held-for-trading are recognized immediately in net income. Transaction costs for financial assets classified as available-for-sale or loans and receivables are added to the value of the instrument at acquisition and taken into net income using the effective interest rate method.

**Held-for-Trading Financial Assets**

The Association has chosen to classify financial assets matching actuarial liabilities as held-for-trading. Investments designated as held-for-trading are recognized at fair value, which is determined based on market prices. Gains and losses are recognized in the net income during the period in which they occur. Gains and losses from matched bonds are offset by corresponding changes in the actuarial liabilities which also flow through net income.

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2009 (amounts are expressed in thousands of dollars)

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Held-to-Maturity Financial Assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Association has the positive intention and ability to hold to maturity. They are recorded at amortized cost using the effective interest method less any amortization. Gain or loss is recognized in net income when the financial asset is derecognized or depreciated, as well as through the amortization process.

### Available-for-Sale Financial Assets

Available-for-sale financial assets are non-derivative financial assets designated as available-for-sale, or which are not classified as loans and receivables, held-to-maturity investments or held-for-trading financial assets. They are recognized at fair value, which is determined based on market price. Gain or loss is recognized in other comprehensive income until the financial asset is derecognized or depreciated. The accumulated gain or loss under "Accumulated other comprehensive income" must then be reclassified in net income for the year.

### Investment in a Company Subject to Significant Influence

Investment in a company subject to significant influence is accounted for using the equity method.

### Foreign Currency

Foreign currency operations are converted using the temporal method. Under this method, monetary assets and liabilities are converted at the rate of exchange prevailing at year-end and non-monetary assets and liabilities are converted at historical rates. Exchange gains or losses on translation are recognized in income.

### Capital Assets

Capital assets are accounted for at cost.

Depreciation of capital assets is based on their useful life using the straight-line method at rates between 10% and 33%.

### Intangible Assets

Software applications are accounted for at cost.

Depreciation of software applications is based on their useful life using the straight-line method at the rate of 20%.

### Actuarial Valuation

The actuarial liabilities, claims payable and deposit and refund liabilities were determined and certified by the Association's actuary who is responsible for the valuation. The liability for claims and settlement expenses was also determined by the actuary and corresponds to claims outstanding but not yet settled and to an estimate of existing but unreported claims.

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2009 (amounts are expressed in thousands of dollars)

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Pension Plans and Other Retirement Benefits**

To account for its obligations under employee benefit plans and the related costs, net of plan assets, the Association has adopted the following policies:

- Cost of pensions, other retirement benefits and post-employment benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.
- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.
- Past service costs from amendments to the plan are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.
- Expenses are charged to operations and include:
  - i) the cost of pension, other retirement benefits and post-employment benefits provided in exchange for employees' services rendered during the year;
  - ii) the interest cost of obligations, the expected return on pension fund assets and the amortization of unrecognized actuarial gains and losses if in excess of 10% of the greater of the projected benefit obligations or fair value of the plan assets over the expected average remaining service life of the employee group covered by the plans.

## 3. CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2009, the Association adopted recommendations by the Canadian Institute of Chartered Accountants (CICA) with respect to Section 3064, *Goodwill and Intangible Assets*, which reinforces the approach under which assets are only recorded if they meet the definition of an asset and the recognition criteria for an asset. This section replaces existing Section 3062, *Goodwill and Other Intangible Assets* and Section 3450, *Research and Development Costs*. It also establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this section did not result in any reclassification of previous capital assets. However, software applications, developed during the year, are presented in intangible assets.

In June 2009, the CICA modified Section 3862, *Financial Instruments - Disclosure*, to improve the disclosure of fair value measurements, particularly with respect to the relative reliability of the data on which these measurements are based, and the liquidity risk related to financial instruments. Moreover, fair value measurements must be classified according to a three-level hierarchy. These new standards are for disclosure only and did not have an impact on the Association's financial results.

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2009 (amounts are expressed in thousands of dollars)

## 4. FUTURE CHANGES IN ACCOUNTING POLICIES

The Accounting Standards Board has published an exposure draft proposing the adoption of International Financial Reporting Standards (IFRS) for the recognition and presentation of financial information of publicly accountable enterprises. These standards would replace current Canadian generally accepted accounting principles and would take effect for financial years beginning on or after January 1, 2011.

The Association is currently evaluating the impact of these new standards on its commercial operations, financial information systems and financial statements.

## 5. FINANCIAL INSTRUMENTS RISK MANAGEMENT

The Association has policies to identify, measure, monitor, mitigate and control risks associated with its financial instruments. The key risks related to financial instruments are market risk (interest rate, equity and currency), credit risk and liquidity risk. The following sections describe how the Association manages each of these risks.

**Market Risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in market factors.

- Interest Rate Risk

  Interest rate risk exists if asset and liability cash flows are not closely matched and interest rates change causing a difference in value between the asset and liability.

  The Association is exposed to interest rate risk, particularly with respect to life insurance and disability pension products. It establishes methods and guidelines to maintain the risk of losses at acceptable levels by matching asset and liability cash flows as closely as possible for these business lines. Risk measurements initially include the financial flow variance average duration and exposure of the surplus to several specific hypothetical return curves.

  To manage the risk of fluctuations in yield credited to liabilities for policies in relation to the yield on assets, the Association matches its assets and liabilities using high-quality investments, primarily consisting of long-term fixed yield securities. The strategy also takes into account the constraints imposed by the investment policy, particularly with respect to portfolio diversification.

  As at December 31, 2009, if interest rates at that date had been 10 basis points lower with all other variables held constant, other comprehensive income would have been $1,175 (2008 - $744) (net of income taxes) higher, mainly as a result of an increase in the fair value of financial assets classified as available-for-sale. A change in the opposite direction would have a similar impact, but in the opposite direction.

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2009 (amounts are expressed in thousands of dollars)

## 5. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

**Market Risk** (Continued)

- Equity Risk

  Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets.

  To ensure sound management of the equity risk, the Association's investment policy clearly defines quantitative and qualitative limits for the use of equities. The target asset composition in the form of equities is designed to maximize the Association's returns and reduce the potential risk concerning guaranteed minimum returns under long-term commitments.

  The Association estimates that a sudden 1% drop in the stock markets at the beginning of the year, followed by market stability for the rest of the year, would reduce other comprehensive income by $628 (2008 - $454) (net of income taxes) mainly as a result of a decrease in the fair value of financial assets classified as available-for-sale. A change in the opposite direction would have a similar impact, but in the opposite direction.

  *Permanent impairment*

  At the end of each year, the Association must evaluate if there is objective evidence of a decline in the fair value of financial assets other than those classified as held-for-trading. Objective evidence of a decline includes observable data that comes to the Association's attention about any of the following events: significant financial difficulties of the issuer, a breach of contract, granting a concession that the holder would not otherwise consider, the growing possibility that the issuer will declare bankruptcy or undertake another form of financial reorganization and the disappearance of an active market due to financial difficulties.

- Currency Risk

  Currency risk is the risk that the Association will incur losses due to exposure to foreign currency fluctuations. The Association has adopted a policy to avoid exposing itself to currency risk. Liabilities are matched with assets of the same currency.

  As at December 31, 2009, if the Canadian dollar had dropped 1% against the US dollar with all other variables held constant, other comprehensive income would have been $287 (2008 - $241) higher, mainly as a result of an increase in the fair value of financial assets classified as available-for-sale. A change in the opposite direction would have a similar impact, but in the opposite direction.

**Credit Risk**

Credit risk is the risk of financial loss to which the Association could be exposed if one of its debtors does not pay its interest or capital at maturity. The Association applies specific rules with regard to credit in its investment policy.

The objective of the Association's investment policy is to limit this risk by ensuring sound diversification, limiting exposure to a single issuer and seeking a relatively high quality of issuers. The policy also imposes limits by assets classes, by groups of related issuers that depend on the credit quality of these issuers, and by activity sector and geographic region.

Actuarial liabilities include a provision for default payments on assets held by the Association.

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2009 (amounts are expressed in thousands of dollars)

## 5. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

**Credit Risk** (Continued)

In the normal course of business, the Association attempts to limit its risk of loss with regard to any one policyholder or catastrophic event affecting several policyholders and to recover a portion of the claims paid through reinsurance agreements.

These reinsurance agreements do not relieve the Association of its obligations to policyholders. In the event that reinsurers failed to honour their contractual obligations, the Association would be responsible for potential retrocession related risks. Reinsurance is divided among several reinsurers.

The maximum credit risk corresponds to the carrying value of the financial instruments at the balance sheet date.

**Liquidity Risk**

Liquidity risk is the risk that the Association will not have the necessary funds to fulfill its commitments. Liquidity needs are managed by matching cash flow assets and cash outflow liabilities and by forecasting earned and required yields.

The Association has financial instruments that enable it to generate sufficient liquidity to cover policy liabilities over the expected terms.

## 6. INVESTMENTS INCOME

| | **2009** | 2008 |
|---|---|---|
| Change in the fair value of financial assets and liabilities designated as held-for-trading | **$(439)** | $196 |
| Gain on disposal of available-for-sale financial assets | **4,697** | 1,622 |
| Gain on disposal of loan | **–** | 139 |
| Interest income related to financial assets not classified as held-for-trading | **4,833** | 4,770 |
| Other net investment income | **7,164** | 8,978 |
| | **$16,255** | $15,705 |

## 7. OPERATING EXPENSES

Operating expenses include a depreciation expense of capital assets of $457 (2008 - $860). Operating expenses also include a revenue for current income taxes of $382 (2008 - expense for current income taxes of $1,261) and an expense for future income taxes of $600 (2008 - revenue for future income taxes of $1,436).

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2009 (amounts are expressed in thousands of dollars)

## 8. PORTFOLIO INVESTMENTS

CONDITIONS, INTEREST RATE AND FAIR VALUE

| | 2009 | | | | 2008 |
|---|---|---|---|---|---|
| | Maturity | | | | |
| | Less than one year | 1 to 5 years | 5 years and more | Total | Total |
| **Designated held-for-trading investments (1)** | | | | | |
| Discounted notes | **$325** | | | **$325** | $6,036 |
| Average effective rate | **0.6%** | | | **0.6%** | 1.8% |
| Substantially all in securities of governments and governmental institutions | | | | | |
| Bonds | **$2,365** | **$13,191** | **$12,387** | **$27,943** | $29,762 |
| Average effective rate | **6.2%** | **7.2%** | **6.3%** | **6.6%** | 6.8% |
| Substantially all in securities of governments and governmental institutions | | | | | |
| **Held-to-maturity investments** | | | | | |
| Term investments | **$7,305** | | | **$7,305** | $6,939 |
| Average effective rate | **0.9%** | | | **0.9%** | 3.6% |
| All in securities of governments and governmental institutions | | | | | |
| **Available-for-sale investments (1)** | | | | | |
| Bonds | **$53,589** | **$71,099** | **$83,551** | **$208,239** | $101,602 |
| Average effective rate | **1.3%** | **2.7%** | **4.5%** | **3.0%** | 4.1% |
| Substantially all in securities of governments and governmental institutions | | | | | |
| Shares | | | | **$60,053** | $43,069 |
| All in securities of corporations | | | | | |
| Common funds | | | | **$11,754** | $95,096 |
| All in securities of big capitalization corporations | | | | | |
| | **$63,584** | **$84,290** | **$95,938** | **$315,619** | $282,504 |

As at December 31, 2009, investments denominated in US dollars converted to CA dollars represent $28,692 (2008 - $24,063).

(1) The fair value of designated held-for-trading investments and available-for-sale investments is based on market prices (non-adjusted) observed on active markets, for identical assets.

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2009 (amounts are expressed in thousands of dollars)

## 9. OTHER ASSETS

| | 2009 | 2008 |
|---|---|---|
| Receivables - insurance companies | **$3,394** | $3,517 |
| Other receivables | **748** | 891 |
| Prepaid expenses | **15,853** | 12,012 |
| Capital assets | **1,317** | 1,655 |
| Intangible assets | **1,076** | – |
| Income taxes | **581** | 1,235 |
| Future income taxes | **951** | 1,551 |
| | **$23,920** | $20,861 |

## 10. POLICY LIABILITIES

### Assumptions

- Actuarial Liabilities
  In the computation of the actuarial liabilities of the policies, the valuation assumptions used are based on best estimates for the duration of the policies with regard to several variables, such as mortality, morbidity, return on investment, rates of policy termination, levels of operating expenses, inflation and income taxes. Methods that were used to establish the most important assumptions are as follows:

  - Mortality

    Mortality assumption for the individual life insurance is based on industry experience, as published by the Canadian Institute of Actuaries.

  - Morbidity

    Claim incidence rate and disability termination rate used are based on a combination of Association and industry experience. The latter is published by the Society of Actuaries.

  - Return on Investment

    The Association has assets that cover certain business segments. Expected cash flows of these segmented assets have been combined with the future rate of reinvestment obtained from actual income perspectives and from the Association's investment policy, in order to calculate future returns on investment for these assets.

  - Expenses

    Administrative expenses have been calculated based on the Association's internal studies of cost allocations.

  - Policy Termination

    Assumptions for policy termination reflect the Association's recent experience as well as industry experience as published by the Canadian Institute of Actuaries.

  Actuarial policy liabilities of the personal insurance subsidiary represent the amounts that, together with estimated future premiums and investment income, will be sufficient to pay estimated future benefits and expenses on policies in force. Actuarial liabilities are determined using the policy premium method, in accordance with generally accepted actuarial practices for life and health insurance.

- Claims Payable
  Claims payable include a provision for existing but unreported claims. This provision takes into consideration claims that occurred prior to year-end but for which the policyholder has not submitted a claim or this claim has been submitted but not yet processed by the Association. This provision foresees additional amounts for possible adverse deviations with regard to the most probable assumptions. These amounts vary according to the uncertainty inherent in the assumption.

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2009 (amounts are expressed in thousands of dollars)

## 10. POLICY LIABILITIES (CONTINUED)

**Assumptions** (Continued)

- Unearned Subscriptions and Premiums
  Unearned subscriptions and premiums represent the unearned portion of the subscriptions and premiums for the policies in force as at year-end.
- Deposits and Refunds
  Most of this amount consists of provisions for refunds and funds constituted for large groups. Each contract subject to retention is analyzed individually and the provision is determined according to the experience since the last retention report and based on the terms and guarantees of each contract.

**Margins for Adverse Deviations**

Actuaries must include a margin in each assumption to recognize the uncertainty surrounding the establishment of best estimates, consider a possible deterioration of the experience and provide greater assurance that actuarial liabilities will be sufficient to pay future benefits. The Canadian Institute of Actuaries prescribes a range of permissible margins. The Association's margins are in the recommended range.

**Composition of Actuarial Liabilities and Related Supporting Assets**

i) Composition of actuarial liabilities is as follows:

| | **2009** | | |
|---|---|---|---|
| | **Actuarial liabilities** | **Reinsurance ceded** | **Net actuarial liabilities** |
| **Non-participating policyholders** | | | |
| Individual – Life | **$5,988** | **$1,032** | **$4,956** |
| Individual – Accident and sickness | **15,022** | **4,322** | **10,700** |
| Group – Life | **8,797** | **2,122** | **6,675** |
| Group – Accident and sickness | **40,317** | **18,387** | **21,930** |
| | **$70,124** | **$25,863** | **$44,261** |

| | 2008 | | |
|---|---|---|---|
| | Actuarial liabilities | Reinsurance ceded | Net actuarial liabilities |
| **Non-participating policyholders** | | | |
| Individual – Life | $5,043 | $826 | $4,217 |
| Individual – Accident and sickness | 15,085 | 3,848 | 11,237 |
| Group – Life | 7,980 | 2,182 | 5,798 |
| Group – Accident and sickness | 40,852 | 21,263 | 19,589 |
| | $68,960 | $28,119 | $40,841 |

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2009 (amounts are expressed in thousands of dollars)

## 10. POLICY LIABILITIES (CONTINUED)

**Composition of Actuarial Liabilities and Related Supporting Assets** (Continued)

ii) Composition of supporting assets is as follows:

| **2009** | **Cash** | **Term investments and discounted notes** | **Bonds** | **Shares** | **Common funds** | **Other assets** | **Total** |
|---|---|---|---|---|---|---|---|
| **Non-participating policyholders** | | | | | | | |
| Life | **$–** | **$–** | **$7,668** | **$–** | **$–** | **$3,963** | **$11,631** |
| Accident and sickness | **–** | **–** | **30,655** | **–** | **–** | **1,975** | **32,630** |
| **Others, including shareholder's equity** | **4,390** | **7,630** | **197,859** | **60,053** | **11,754** | **22,695** | **304,381** |
| **Carrying value** | **$4,390** | **$7,630** | **$236,182** | **$60,053** | **$11,754** | **$28,633** | **$348,642** |

| 2008 | Cash | Term investments and discounted notes | Bonds | Shares | Common funds | Other assets | Total |
|---|---|---|---|---|---|---|---|
| **Non-participating policyholders** | | | | | | | |
| Life | $– | $310 | $6,863 | $– | $– | $2,842 | $10,015 |
| Accident and sickness | 1,558 | 3,893 | 20,147 | – | – | 5,228 | 30,826 |
| **Others, including shareholder's equity** | 3,950 | 8,772 | 104,354 | 43,069 | 95,096 | 16,765 | 272,006 |
| **Carrying value** | $5,508 | $12,975 | $131,364 | $43,069 | $95,096 | $24,835 | $312,847 |

The Association has sufficient assets to cover actuarial and other liabilities; the surplus largely exceeds the statutory requirements.

## 11. ACCOUNTS PAYABLE

| | **2009** | 2008 |
|---|---|---|
| Insurance companies | **$887** | $3,805 |
| Other | **9,839** | 10,045 |
| | **$10,726** | $13,850 |

## 12. CAPITAL MANAGEMENT

As part of its capital management, the Association must comply with the regulatory requirements and objectives established by the Autorité des marchés financiers (AMF) that regulates its operations. The Association's capital adequacy requirements (capital adequacy) are regulated according to the guideline established by the AMF, which requires a solvency ratio of 150% or more. The solvency ratio is calculated by dividing available capital by required capital and available capital must be equal to or greater than required capital.

The Association maintained ratios above the regulatory requirements set by the AMF as at December 31, 2009 and as at December 31, 2008.

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2009 (amounts are expressed in thousands of dollars)

## 13. COMMITMENTS

The Association has lease and contract commitments. The balance of the commitments under such contracts and leases, excluding property taxes and other escalator clauses, is $19,901. Minimum payments over the next five years are as follows:

| 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|
| $4,968 | $3,477 | $3,474 | $2,057 | $1,528 |

## 14. PENSION PLANS AND OTHER RETIREMENT BENEFITS

The Association offers defined benefit pension plans that provide some of its employees with pension, other retirement and post-employment benefits.

Information on defined benefit plans is as follows:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **Pension plans** | **Other plans** | Pension plans | Other plans |
| **Accrued benefit obligation** | | | | |
| Accrued benefit obligation, beginning of year | **$13,880** | **$710** | $17,435 | $865 |
| Current service cost | **999** | **4** | 1,402 | 7 |
| Employees' voluntary contributions | **72** | **–** | 326 | – |
| Interest cost | **1,099** | **51** | 1,022 | 46 |
| Benefits paid | **(536)** | **(77)** | (592) | (70) |
| Actuarial loss (actuarial gain) | **2,741** | **61** | (5,713) | (138) |
| Accrued benefit obligation, end of year | **$18,255** | **$749** | $13,880 | $710 |
| **Plan assets** | | | | |
| Fair value of plan assets, beginning of year | **$11,727** | **$–** | $12,221 | $– |
| Actual return on plan assets | **1,960** | **–** | (1,553) | – |
| Employer's contributions | **1,526** | **77** | 899 | 70 |
| Employees' regular contributions | **494** | **–** | 426 | – |
| Employees' voluntary contributions | **72** | **–** | 326 | – |
| Benefits paid | **(536)** | **(77)** | (592) | (70) |
| Fair value of plan assets, end of year | **$15,243** | **$–** | $11,727 | $– |
| **Funding status** | | | | |
| Deficit | **$(3,012)** | **$(749)** | $(2,153) | $(710) |
| Unamortized actuarial loss | **2,137** | **118** | 571 | 56 |
| Accrued benefit liability | **$(875)** | **$(631)** | $(1,582) | $(654) |

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2009 (amounts are expressed in thousands of dollars)

## 14. PENSION PLANS AND OTHER RETIREMENT BENEFITS (CONTINUED)

| | **2009** | | 2008 | |
|---|---|---|---|---|
| | **Pension plans** | **Other plans** | Pension plans | Other plans |
| Current service cost, net of employees' contributions | **$505** | **$4** | $976 | $7 |
| Interest cost | **1,099** | **51** | 1,022 | 46 |
| Actual return on plan assets | **(1,960)** | **–** | 1,553 | – |
| Actuarial loss (actuarial gain) | **2,741** | **61** | (5,713) | (138) |
| Service cost - before adjustment | **2,385** | **116** | (2,162) | (85) |
| Difference between expected return and actual return on plan assets for the year | **1,211** | **–** | (2,374) | – |
| Difference between actuarial loss (gain) recognized for the year and actual actuarial loss (gain) on accrued benefit obligation for the year | **(2,780)** | **(61)** | 5,812 | 148 |
| Difference between amortization of past service costs for the year and actual plan amendments for the year | **3** | **–** | 3 | – |
| Defined benefit costs recognized | **$819** | **$55** | $1,279 | $63 |

The significant actuarial assumptions used by the Association to determine its accrued benefit obligation are as follows:

| | **2009** | | 2008 | |
|---|---|---|---|---|
| | **Pension plans** | **Other plans** | Pension plans | Other plans |
| **Accrued benefit obligation as at December 31** | | | | |
| Discount rate | **6.5%** | **6.5%** | 7.5% | 7.5% |
| Rate of compensation increase | **4%** | **4%** | 4% | 4% |
| **Benefit costs for the year ended December 31** | | | | |
| Discount rate | **7.5%** | **7.5%** | 5.5% | 5.5% |
| Expected long-term rate of return on plan assets | **6%** | **–** | 6.5% | – |
| Rate of compensation increase | **4%** | **4%** | 4% | 4% |
| Initial health care cost trend rate | **–** | **5.5%** | – | 5.5% |

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2009 (amounts are expressed in thousands of dollars)

## 14. PENSION PLANS AND OTHER RETIREMENT BENEFITS (CONTINUED)

The accrued benefit obligation is included with the other accounts payable.

All of the retirement plans are defined benefit plans and non-registered retirement plans are not funded.

The most recent actuarial determination of the accrued benefit obligations of the Non-unionized Workers' Plan and the Unionized Workers' Plan was prepared as at December 31, 2008, and the next determination is to be prepared as at December 31, 2011.

Most recent actuarial determination of the accrued benefit obligations of the Executives' Plan was prepared as at December 31, 2007, and the next determination is to be prepared as at December 31, 2010.

The Association generally distributes all assets of the plans equally among equity accounts and loan accounts.

## 15. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of classes of financial instruments:

The fair value of term investments, discounted notes, bonds, shares and common funds is based on quoted market prices.

The fair value of the actuarial liabilities and reinsurance ceded is based on quoted market prices of the financial assets of the actuarial liabilities. The Association annually segments assets supporting actuarial liabilities or the liabilities of the different business lines. It attempts within reasonable limits to match the financial flows of assets with those of corresponding liabilities. Therefore, variations in the realizable values of assets should generally be compensated by variations in corresponding actuarial liabilities.

Other assets and other liabilities are accounted for at cost which corresponds to their fair value due to the short-term maturity of these items.

## 16. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.

# GOVERNORS AND DIRECTORS

## CANASSURANCE HOSPITAL SERVICE ASSOCIATION

**Claude Boivin**, CA [1, 2]
President and CEO
Montréal, Québec

**Gaston R. Boyer**, CA
Montréal, Québec

**Florian Brissette**, CA
Saint-Sauveur, Québec

**André Brousseau** [1, 2]
Chairman of the Board
Trois-Rivières, Québec

**Raymond Carignan**, MD
Montréal, Québec

**Françoise P. Chagnon**, MD
Montréal, Québec

**Michael J. Churchill-Smith**, MD, CM, FRCPC
Montréal, Québec

**Serge De Gagné**, MBA, CHRP
Montréal, Québec

**Charles de Jocas**
Montréal, Québec

**Jean-Louis Deschênes**
Montréal, Québec

**Raymond Desrosiers**
Montréal, Québec

**Gérard R. Douville** [1, 4]
Dorval, Québec

**Claude Duhamel**
Montréal, Québec

**Sheldon Elman**, MD, CM
Montréal, Québec

**Louis Gosselin**, FCIA, FSA
Saint-Jean-Baptiste, Québec

**Maurice Hébert**
Montréal, Québec

**Barry E. Katsof** [1, 5]
Montréal, Québec

**Gilles Lagacé**, MD, CSPQ
Québec, Québec

**Léo-Paul Landry**, MD
Boucherville, Québec

**Normand Laurin**, CA [1, 3, 4]
Mont-Saint-Hilaire, Québec

**Raymond Legault**
Saint-Joseph-du-Lac, Québec

**Gilles Marcil**, MD, [1, 5] CSPQ, CRCS, FRCSC
Montréal, Québec

**Edmond D. Monaghan**, MD, CD, FRCSC, FACS
Mont-Tremblant, Quebec

**Jacques Nolet**
Montréal, Québec

**Philip M. O'Brien**, CM [1, 2, 4]
Honorary Secretary-Treasurer
Montréal, Québec

**Gaston Pellan** [1, 2, 3]
Québec, Québec

**Louise Piché**
Montréal, Québec

**Rolland Roberge**
Saint-Damien de Brandon, Québec

**Michel Robillard**, CA
Terrebonne, Québec

**Claude Robitaille**, LLL [1, 3, 5]
Québec, Québec

**André St-Onge**
L'Anoraie, Québec

**Daniel Savard**, MD, CSPQ, FRCPC
Sainte-Julie, Québec

**Hugh M. Scott**, MD
Montréal, Québec

**François Sestier**, MD, PhD, FACC
Montréal, Québec

**Guy Tremblay**
Montréal, Québec

**Denis Turgeon**, DDS
Ville Mont-Royal, Québec

Members of: **1.** Board of Directors **2.** Executive Committee **3.** Investment Committee **4.** Audit Committee **5.** Ethics Committee

# BOARD OF DIRECTORS

## CANASSURANCE INSURANCE COMPANY

**Claude Boivin**, CA [1]
President and CEO
Montréal, Québec

**André Brousseau** [1, 2, 3]
Chairman of the Board
Trois-Rivières, Québec

**Maurice Hébert** [2, 4]
Montréal, Québec

**Gilles Lagacé**, MD, CSPQ [3, 4]
Québec, Québec

**Philip M. O'Brien**, CM [1, 2]
Secretary-Treasurer
Montréal, Québec

**Gaston Pellan** [4]
Québec, Québec

**Michel Robillard**, CA [3]
Terrebonne, Québec

Members of: **1.** Executive Committee **2.** Investment Committee **3.** Audit Committee **4.** Ethics Committee

## SENIOR MANAGEMENT

**Claude Boivin**, CA
President and Chief Executive Officer

**Louis Gosselin**, FCIA, FSA
Senior Vice-President,
Strategic Planning and
Actuarial Services

**Richard Lachance**, C.Adm.
Vice-President,
Development and Assistance

**Marc Lamirande**
MSc, FLMI, ACS
Vice-President,
Technologies and Infrastructures

**Guy Jr. Papillon,** BSc
Vice-President,
Sales and Special Projects

**Louise Sauvé,** CA
Vice-President,
Strategic Affairs and Optimization

## MANAGEMENT

**Colette Chabot**, CIRC
Director, Human Resources
and Internal Communication

**Michel Courtemanche**
Director, Sales and Development
Travel Insurance

**Nancy Dionne**
Director, Customer Contact Centre

**Nadine Eustache**
Director, Claims

**Jean-Pierre Fortin**
Director, Information Technologies

**Incoronata Greco**
Director, Development
International Assistance

**Fabienne Lavoie**, RN,
BSc, MSc
Director, Operations & Claims
International Assistance

**Pierre Parenteau**, ACAS
Director, Actuarial Services

**Éric Senécal**, CA
Corporate Controller

**Carole Vézina**, ALHC, HIA
Director, Administration
Individual Insurance

**William Walker**
Manager, Individual Products

## CONSULTANTS

**Élizabeth Bergeron**, DDS
Dentist

**James Brophy**, M.Eng., MD,
PhD, FRCP, FACC, CSPQ
Cardiologist

**Maciej (Mathias) Kalina**, MD,
CSPQ, FRCPC
Family Medicine

**Gilles Marcil**, MD,
CSPQ, CRCS, FRCSC
Ophthalmologist

**Daniel Savard**, MD,
CSPQ, FRCPC
Cardiologist
Associate Medical Director

**François Sestier**, MD,
PhD, FACC
Medical Director

**Jean Thibault**, LPh
Pharmacist

## AUDITORS

**Mallette**
Limited Liability Partnership
Chartered Accountants