QUÉBEC BLUE CROSS ONTARIO BLUE CROSS

BLUE CROSS CANASSURANCE

Annual Report 2010

Committed to you!

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

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Committed to you!

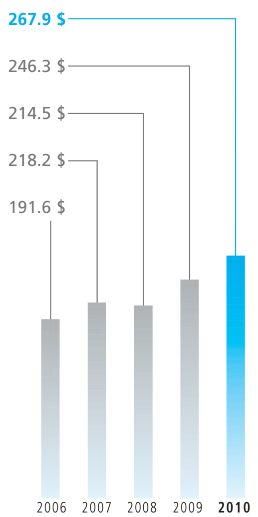
For over 70 years now, Blue Cross has been dedicated to the health and well-being of our community, including students, families, self-employed workers, employees, active retirees, and travellers. With our flexible and diverse insurance programs, Blue Cross is a reassuring presence in the daily lives of our policyholders and our members. Here and everywhere, today and tomorrow, you are at the heart of our mission—we are committed to you!

Annual Report 2010

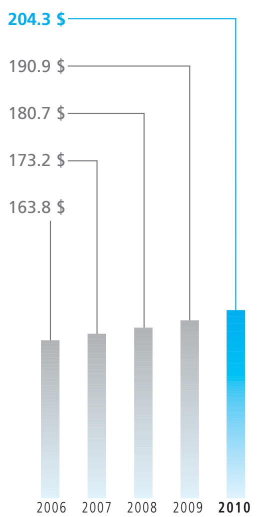
FINANCIAL STATEMENTS

(In millions of dollars)	2010	2009	2008	2007	2006
Consolidated net excess	**19.3**	17.5	11.1	20.5	19.4
Consolidated total revenue	**204.3**	190.9	180.7	173.2	163.8
Consolidated assets	**382.1**	348.5	312.8	314.9	285.5
Consolidated surplus	**267.9**	246.3	214.5	218.2	191.6

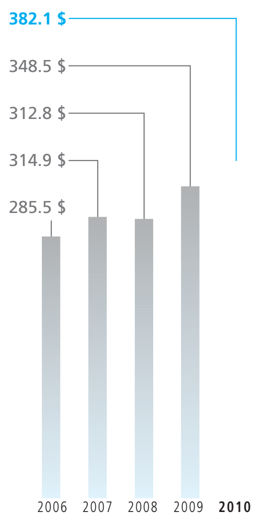
CONSOLIDATED SURPLUS



CONSOLIDATED TOTAL REVENUE

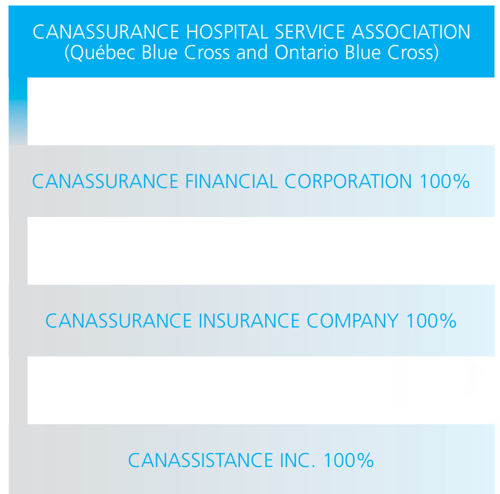


CONSOLIDATED ASSETS



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.



Blue Cross Canassurance Group used the year 2010 to redefine the main focuses of its development and to complete the redesign of its computer systems.

Global economic recovery is well under way, and we are seeing growth in the main industrialized countries. In this regard, again this year Blue Cross Canassurance posted more than satisfactory results.

We owe this performance to the sustained and valued collaboration of our distributors and our partners, and, above all, to the remarkable work of our employees. In fact, the special quality of the relationship between our employees and our policyholders makes us distinctly different from other insurers.

We are well aware that the development of our organization depends on competitiveness, ongoing training, and excellent customer service. On the strength of higher-performing tools and teams energized by the increased effectiveness of our service offerings, we look ahead at the coming year with optimism.

DEVELOPMENT OUTLOOK

It is inevitable that the public has come to question the way in which the public health insurance plan functions. Canadians want to keep their health system, yet despite the ongoing efforts at rationalization, cost increases are approaching a point of excessive vulnerability.

Increasing at a rate of some 5% annually, budget allocations for public health will become too large in comparison with other government expenditures-which is why it is necessary to redefine the roles between the public and private sectors.

These prospects force us to create new insurance products so as to continue to complement the public health plan.

HEALTH INSURANCE

Marketing efforts in both Québec and Ontario have enabled sustained sales growth despite fierce competition.

This growth underscores the importance of continuing to invest in the quality of our distribution networks. A new advertising campaign in Ontario has produced very interesting results and has also improved the positioning of Blue Cross® in long-term health care and in the disability and life insurance programs.

TRAVEL INSURANCE

We have attained our objectives and continue to gain market share in travel insurance in all our territories. The fact that the Blue Cross® brand is recognized the world over along with the quality of our offerings are attributes that set us apart in the eyes of informed consumers.

Travel insurance is becoming increasingly global because consumers have access to transactional Web sites. We must increase our presence on the Internet in order to directly offer our products and services to consumers, all the while supporting the distribution networks with which we have solid business ties.

ASSISTANCE

Our distinctive character depends especially on the health and travel assistance services we dispense daily with the help of our partners. Our assistance services are renowned and recognized by other insurers who use these services.

We will continue to expend effort to ensure that the quality of these services remains a comforting presence to our members.

Many of our assistance programs, such as the medical Second Opinion program offered to Canadians in partnership with the McGill University Health Centre (MUHC), are now offered by most of the Blue Cross in Canada.

EMPLOYEES AT THE HEART OF THE ACTION

Our employees are at the heart of the action and in direct contact with our customers; they are in the best position to identify opportunities for improving our services. Furthermore, competency development programs for managers and training for our employees aim at supporting our efforts in this regard.

Several quality improvement projects have been implemented to promote the active participation of employees in the continuous improvement process by identifying and suggesting solutions to problems that affect their daily work.

INFORMATION SYSTEMS AND TECHNOLOGIES

The year 2010 was a year of transition for our information systems and technologies. Several initiatives in progress will help Blue Cross Canassurance Group attain its business objectives.

Our mobile and social media application projects will raise the profile of Blue Cross® with the younger generations, heavy users of these tools. The flexibility of the new systems will enable us to quickly adapt our service offering to the needs of our policyholders.

Finally, our new communications tools will facilitate exchanges with our various existing and future partners and distributors, for a better development of our business.

SOUND RISK MANAGEMENT AND COMPLIANCE

As part of its mandate to oversee financial institutions in Québec, the Autorité des marchés financiers has published guidelines that apply to the Quebec chartered insurers of persons. These guidelines involve governance, risk management, and compliance; and they must be implemented in 2011.

As for Blue Cross Canassurance, these elements of sound management have been a golden rule for a very long time. And especially in 2010, we adapted the controls in place so as to comply with the specific requirements of these guidelines.

SOCIAL RESPONSIBILITY

Attuned to the needs of the community, Blue Cross Canassurance supports a number of charitable organizations including The Children's Wish Foundation, Centraide, the OLO Foundation, and the Quebec Breast Cancer Foundation. Through these commitments, we strive to promote health, well-being, and mutual assistance; and we strive to make our employees aware of the importance of involvement and solidarity.

As well, thanks to the volunteer work of many employees, we are involved in numerous financing activities throughout Québec and Ontario.

FINANCIAL RESULTS

For 2010, net excess of Blue Cross Canassurance Group was $19.3 million.

As at December 31, 2010, the Group's consolidated assets totalled $382.1 million. Consolidated surplus was $267.9 million, representing 70% of the Group's consolidated assets. This level of excess contributes to the organization's financial security.

Gross consolidated income from insurance contributions and premiums of Blue Cross Canassurance Group totalled $186.7 million.

The Group paid benefits and rebates to its members and policyholders amounting to 60.8% of gross income from insurance contributions and premiums. Consolidated investment income totalled $16.4 million. Operating expenses were $48 million and commissions totalled $18.8 million, representing 35.8% of gross insurance income.

ACKNOWLEDGEMENTS

We would like to take this opportunity to thank all employees of Blue Cross Canassurance Group for their dedication and for the very good results in 2010. They are the pillars of our success. We also sincerely thank the members of the Board of Directors and the governors of Blue Cross Canassurance Group for their informed advice.

To our partners and our members, our sincere thanks for their confidence and loyalty.

Claude Boivin

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

Claude Boivin, CA
President and Chief Executive Officer

Éric Senécal

Éric Senécal, CA
Corporate Controller

Montréal, February 25, 2011

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, 2010 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

Luc Farmer, FICA, FSA
Appointed Actuary

Montréal, February 25, 2011

CANASSURANCE HOSPITAL SERVICE ASSOCIATION
Québec Blue Cross and Ontario Blue Cross

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of CANASSURANCE HOSPITAL SERVICE ASSOCIATION (Québec Blue Cross and Ontario Blue Cross), which comprise the consolidated balance sheet as at December 31, 2010, and the consolidated statements of earnings, accumulated surplus and comprehensive income and cash flows for the year 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 consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association's preparation and fair presentation of the consolidated 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 Association's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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, the consolidated financial statements present fairly, in all material respects, the financial position of Canassurance Hospital Service Association (Québec Blue Cross and Ontario Blue Cross) as at December 31, 2010, 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

Québec, Canada, February 25, 2011

[1] CA auditor permit No. 12506

CONSOLIDATED BALANCE SHEET

As at December 31 (in thousands of dollars)	**2010**	2009
ASSETS		
Investments (Note 7)	**$335,362**	$315,619
Cash	**9,223**	4,273
Overdue and accrued investment income	**889**	857
Due and overdue subscriptions and premiums	**5,385**	3,856
Other assets (Note 8)	**31,244**	23,928
	$382,103	$348,533
LIABILITIES		
Actuarial liabilities (Note 9)	**$51,705**	$44,261
Liabilities for claims payable, claims and settlement expenses (Note 9)	**19,264**	18,497
Unearned subscriptions and premiums (Note 9)	**14,629**	14,564
Prepaid subscriptions and premiums	**2,881**	3,346
Deposits and refunds (Note 9)	**17,071**	10,973
Accounts payable (Note 10)	**8,631**	10,617
	114,181	102,258
SURPLUS		
Accumulated surplus	**263,709**	244,385
Accumulated other comprehensive income	**4,213**	1,890
	267,922	246,275
	$382,103	$348,533

COMMITMENTS (Note 12)

On behalf of the Board,

André Brousseau, Director

Claude Boivin, CA, Director

CONSOLIDATED EARNINGS

For the year ended December 31 (in thousands of dollars)	**2010**	2009
REVENUE		
Gross subscriptions and insurance premiums	**$186,655**	$173,740
Gross subscriptions and premiums earned	**$182,457**	$169,781
Investment (Note 5)	**16,425**	16,255
Other revenues	**5,368**	4,827
	204,250	190,863
EXPENSES		
Claims, liability claims and settlement expenses	**103,863**	101,023
Changes in actuarial liabilities	**7,444**	3,420
Commissions	**18,836**	17,152
Refunds and interest on deposits	**2,236**	318
Taxes on premiums	**4,579**	4,010
Operating (Note 6)	**47,968**	47,471
	184,926	173,394
NET EXCESS	**$19,324**	$17,469

CONSOLIDATED ACCUMULATED SURPLUS AND COMPREHENSIVE INCOME

For the year ended December 31 (in thousands of dollars)	**2010**	2009
ACCUMULATED SURPLUS		
BALANCE, beginning of year	**$244,385**	$226,916
Net excess	**19,324**	17,469
BALANCE, end of year	**$263,709**	$244,385
COMPREHENSIVE INCOME		
Net excess	**$19,324**	$17,469
Other comprehensive income		
Unrealized gains during the year on available-for-sale financial assets, net of income taxes of $300 (2009 - $460)	**9,603**	19,121
Reclassification adjustment included in net excess	**(7,280)**	(4,771)
Comprehensive income	**$21,647**	$31,819
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Unrealized gains (unrealized losses) on available-for-sale financial assets		
BALANCE, beginning of year	**$1,890**	$(12,460)
Change in unrealized gains on available-for-sale financial assets included in comprehensive income, net of income taxes of $120 (2009 - $386)	**2,323**	14,350
BALANCE, end of year	**$4,213**	$1,890

CONSOLIDATED CASH FLOWS

For the year ended December 31 (in thousands of dollars)	**2010**	2009
OPERATING ACTIVITIES		
Net excess	**$19,324**	$17,469
Operating items not affecting cash:		
Changes in actuarial liabilities	**7,444**	3,420
Changes in the value of investments and other items not affecting cash	**(6,116)**	(2,802)
	20,652	18,087
Net change in non-cash working capital	**(2,188)**	(3,178)
	18,464	14,909
INVESTING ACTIVITIES		
Acquisitions		
Investments	**(264,702)**	(370,277)
Capital assets	**(135)**	(119)
Intangible assets	**(2,820)**	(1,076)
Disposals		
Investments	**254,143**	355,445
	(13,514)	(16,027)
INCREASE (DECREASE) IN CASH	**4,950**	(1,118)
CASH, beginning of year	**4,273**	5,391
CASH, end of year	**$9,223**	$4,273

Cash flows include no interest payments (2009 - none) and income tax received of $416 (2009 - $1,422).

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2010 (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.

Investment income is recorded on an accrual basis.

Income Taxes

The Association's subsidiaries recognized as income tax expense or revenue the amount of income taxes payable or recoverable for the year and the change of the future income tax assets and liabilities accounts based on the enacted or substantively enacted income tax rate on the financial statements date applicable to taxable income from the years during which differences between the carrying amounts and tax basis of assets and liabilities will be absorbed. A future income tax asset is recognized when it is more likely than not that the Association will benefit from the tax relief related to deductible temporary differences.

Investment

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, 2010 (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.

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 15%.

Actuarial Valuation

Actuarial liabilities, claims payable, unearned subscriptions, deposits 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.

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.

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2010 (amounts are expressed in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pension Plans and Other Retirement Benefits (Continued)

- 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. FUTURE CHANGES IN ACCOUNTING POLICIES

The Canadian Accounting Standards Board has required all Canadian publicly accountable entities to transition from Canadian generally accepted accounting principles (GAAP) to International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. Consequently, the Association will adopt IFRS for its financial statements ending December 31, 2011 and will provide corresponding comparative figures for 2010.

4. 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, 2010, if interest rates at that date had been 10 basis points lower with all other variables held constant, other comprehensive income would have been $1,004 (2009 - $1,175) (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, 2010 (amounts are expressed in thousands of dollars)

4. 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 $731 (2009 - $628) (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, 2010, if the Canadian dollar had dropped 1% against the US dollar with all other variables held constant, other comprehensive income would have been $298 (2009 - $287) 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.

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2010 (amounts are expressed in thousands of dollars)

4. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Credit Risk (Continued)

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

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 assets 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.

5. INVESTMENT INCOME

	2010	2009
Change in the fair value of financial assets and liabilities designated as held-for-trading	**$388**	$(439)
Gain on disposal of available-for-sale financial assets	**7,452**	4,697
Interest income related to financial assets not classified as held-for-trading	**4,814**	4,833
Other net investment income	**3,771**	7,164
	$16,425	$16,255

6. OPERATING EXPENSES

Operating expenses include a depreciation expense of capital assets of $856 (2009 - $457). Operating expenses also include a revenue for current income taxes of $313 (2009 - $382) and an expense for future income taxes of $427 (2009 - $600).

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2010 (amounts are expressed in thousands of dollars)

7. INVESTMENTS

CONDITIONS, INTEREST RATE AND FAIR VALUE

	2010				2009
	Maturity				
	Less than one year	**1 to 5 years**	**5 years and more**	**Total**	Total
Designated held-for-trading investments (1)					
Discounted notes	**$608**			**$608**	$325
Average effective rate	**0.6%**			**0.6%**	0.6%
Substantially all in securities of governments and governmental institutions					
Bonds	**$2,374**	**$12,978**	**$14,613**	**$29,965**	$27,943
Average effective rate	**5.6%**	**7.1%**	**6.0%**	**6.3%**	6.6%
Substantially all in securities of governments and governmental institutions					
Held-to-maturity investments					
Term investments	**$8,050**			**$8,050**	$7,305
Average effective rate	**0.8%**			**0.8%**	0.9%
All in securities of governments and governmental institutions					
Available-for-sale investments (1)					
Bonds	**$65,671**	**$57,620**	**$89,305**	**$212,596**	$208,239
Average effective rate	**1.3%**	**2.9%**	**3.7%**	**2.7%**	3.0%
Substantially all in securities of governments and governmental institutions					
Shares				**$70,070**	$60,053
All in securities of corporations					
Common funds				**$14,073**	$11,754
All in securities of big capitalization corporations					
	$76,703	**$70,598**	**$103,918**	**$335,362**	$315,619

As at December 31, 2010, investments denominated in US dollars converted to CA dollars represent $29,779 (2009 - $28,692).

(1) The fair value of designated held-for-trading investments and available-for-sale investments is based on unadjusted quoted prices in active markets, for identical assets.

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2010 (amounts are expressed in thousands of dollars)

8. OTHER ASSETS

	2010	2009
Receivables - insurance companies	**$4,176**	$3,404
Other receivables	**1,163**	748
Prepaid expenses	**20,291**	15,851
Capital assets	**992**	1,317
Intangible assets	**3,500**	1,076
Income taxes	**527**	510
Future income taxes	**595**	1,022
	$31,244	$23,928

9. 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, 2010 (amounts are expressed in thousands of dollars)

9. 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:

	2010		
	Actuarial liabilities	**Reinsurance ceded**	**Net actuarial liabilities**
Non-participating policyholders			
Individual – Life	**$8,272**	**$1,329**	**$6,943**
Individual – Accident and sickness	**16,212**	**4,783**	**11,429**
Group – Life	**9,987**	**2,180**	**7,807**
Group – Accident and sickness	**43,314**	**17,788**	**25,526**
	$77,785	**$26,080**	**$51,705**

	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

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2010 (amounts are expressed in thousands of dollars)

9. POLICY LIABILITIES (CONTINUED)

Composition of Actuarial Liabilities and Related Supporting Assets (Continued)

ii) Composition of supporting assets is as follows:

2010

	Cash	Term investments and discounted notes	Bonds	Shares	Common funds	Other assets	Total
Non-participating policyholders							
Life	$–	$–	$9,474	$–	$–	$5,276	$14,750
Accident and sickness	–	–	33,079	–	–	3,876	36,955
Others, including shareholder's equity	9,223	8,658	200,008	70,070	14,073	28,366	330,398
Carrying value	$9,223	$8,658	$242,561	$70,070	$14,073	$37,518	$382,103

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	4,273	7,630	197,859	60,053	11,754	22,703	304,272
Carrying value	$4,273	$7,630	$236,182	$60,053	$11,754	$28,641	$348,533

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

10. ACCOUNTS PAYABLE

	2010	2009
Insurance companies	$817	$887
Other	7,814	9,730
	$8,631	$10,617

11. 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, 2010 and as at December 31, 2009.

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2010 (amounts are expressed in thousands of dollars)

12. 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 $21,843. Minimum payments over the next five years are as follows:

2011	**2012**	**2013**	**2014**	**2015**
$4,078	$3,782	$3,750	$1,731	$1,712

13. 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:

	2010		2009	
	Pension plans	**Other plans**	Pension plans	Other plans
Accrued benefit obligation				
Accrued benefit obligation, beginning of year	$18,255	$749	$13,880	$710
Current service cost	1,287	6	999	4
Employees' voluntary contributions	89	–	72	–
Interest cost	1,249	46	1,099	51
Benefits paid	(742)	(80)	(536)	(77)
Actuarial loss	2,900	91	2,741	61
Accrued benefit obligation, end of year	$23,038	$812	$18,255	$749
Plan assets				
Fair value of plan assets, beginning of year	$15,243	$–	$11,727	$–
Actual return on plan assets	1,360	–	1,960	–
Employer's contributions	1,533	80	1,526	77
Employees' regular contributions	517	–	494	–
Employees' voluntary contributions	89	–	72	–
Benefits paid	(742)	(80)	(536)	(77)
Fair value of plan assets, end of year	$18,000	$–	$15,243	$–
Funding status				
Deficit	$(5,038)	$(812)	$(3,012)	$(749)
Unamortized actuarial loss	4,605	205	2,137	118
Accrued benefit liability	$(433)	$(607)	$(875)	$(631)

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2010 (amounts are expressed in thousands of dollars)

13. PENSION PLANS AND OTHER RETIREMENT BENEFITS (CONTINUED)

	2010		2009	
	Pension plans	**Other plans**	Pension plans	Other plans
Current service cost, net of employees' contributions	**$769**	**$6**	$505	$4
Interest cost	**1,249**	**46**	1,099	51
Actual return on plan assets	**(1,360)**	**–**	(1,960)	–
Actuarial loss	**2,900**	**91**	2,741	61
Service cost - before adjustment	**3,558**	**143**	2,385	116
Difference between expected return and actual return on plan assets for year	**404**	**–**	1,211	–
Difference between actuarial gain recognized for the year and actual actuarial gain on accrued benefit obligation for the year	**(2,875)**	**(87)**	(2,780)	(61)
Difference between amortization of past service costs for the year and actual plan amendments for the year	**3**	**–**	3	–
Defined benefit costs recognized	**$1,090**	**$56**	$819	$55

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

	2010		2009	
	Pension plans	**Other plans**	Pension plans	Other plans
Accrued benefit obligation as at December 31				
Discount rate	**5.75%**	**5.75%**	6.5%	6.5%
Rate of compensation increase	**4%**	**4%**	4%	4%
Benefit costs for the year ended December 31				
Discount rate	**6.5%**	**6.5%**	7.5%	7.5%
Expected long-term rate of return on plan assets	**6%**	**–**	6%	–
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, 2010 (amounts are expressed in thousands of dollars)

13. 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.

14. 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.

15. 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

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Montréal, Québec

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Montréal, Québec

Serge De Gagné, MBA, CHRP
Montréal, Québec

Charles de Jocas
Montréal, Québec

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Montréal, Québec

Raymond Desrosiers
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Gérard R. Douville [1, 4, 5]
Dorval, Québec

Claude Duhamel
Montréal, Québec

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Montréal, Québec

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Saint-Jean-Baptiste, Québec

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Montréal, Québec

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Québec, Québec

Léo-Paul Landry, MD
Boucherville, Québec

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Mont-Saint-Hilaire, Québec

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

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Mont-Tremblant, Quebec

Jacques Nolet
Montréal, Québec

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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
Québec, Québec

André St-Onge
L'Anoraie, Québec

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Sainte-Julie, Québec

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Montréal, Québec

François Sestier, MD, PhD, FACC
Montréal, Québec

Guy Tremblay
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Denis Turgeon, DDS
Ville Mont-Royal, Québec

Dominique Vachon [1, 3, 5]
Montréal, Québec

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

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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

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President and Chief Executive Officer

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Senior Vice-President, Strategic Planning and Actuarial Services

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

Marc Lamirande
MSc, FLMI, FLHC, ACS
Vice-President, Organizational Efficiency

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

Louise Sauvé, CA
Vice-President, Insurance Operations

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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

Renée Gagné, ACS
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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

Julie Saucier
Director, Administration Individual Insurance

William Walker
Manager, Individual Products

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Élizabeth Bergeron, DDS
Dentist

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Cardiologist

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Family Medicine

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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