

2012

ANNUAL REPORT

WITH YOU, AT HOME & ABROAD

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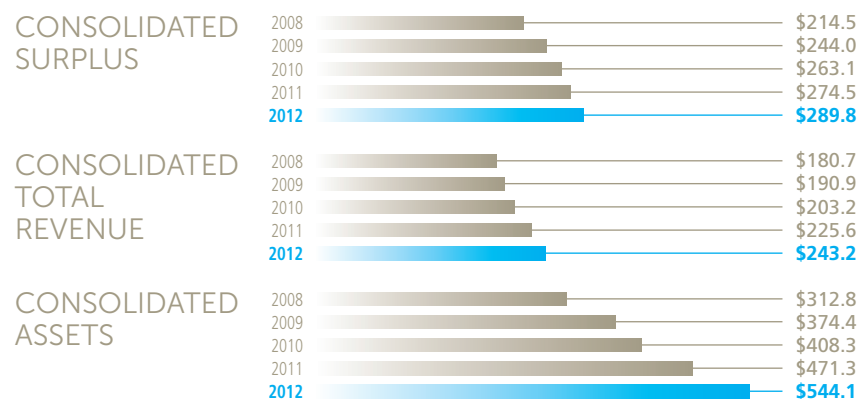
FINANCIAL STATEMENTS

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HIGHLIGHTS

(In millions of dollars)	2012	2011	2010	2009	2008
Consolidated net excess	16.4	15.5	16.9	17.5	11.1
Consolidated total revenue	243.2	225.6	203.2	190.9	180.7
Consolidated assets	544.1	471.3	408.3	374.4	312.8
Consolidated surplus	289.8	274.5	263.1	244.0	214.5



Blue Cross Canassurance Group adopted International Financial Reporting Standards on January 1, 2011 and prepared its opening balance sheet as at the transition date, January 1, 2010. Therefore, consolidated net excess and consolidated total revenue for 2008 and 2009, as well as consolidated asset and consolidated surplus for 2008 presented above, were prepared in accordance with Canadian generally accepted accounting principles. Consolidated net excess and consolidated total revenue from 2010 to 2012, as well as consolidated assets and consolidated surplus from 2009 to 2012 were prepared in accordance with International Financial Reporting Standards.

BLUE CROSS CANASSURANCE GROUP

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.

CANASSURANCE HOSPITAL SERVICE ASSOCIATION (QUÉBEC BLUE CROSS AND ONTARIO BLUE CROSS)

100% CANASSURANCE FINANCIAL CORPORATION

100% CANASSURANCE INSURANCE COMPANY

100% CANASSISTANCE INC.

MESSAGE FROM MANAGEMENT

The economic and financial situation, both in Canada and the United States, was weak and disappointing throughout the year 2012. Considerable uncertainty weighed on global growth, fueled by the debt crisis in Europe, by continuously repeated fears of a euro zone collapse, and by a weaker than expected China, main economic driver of the last decade. In this context, central banks maintained their short-term interest rates at very low levels. In addition, their constantly renewed appetite for bonds has led to a decline in long-term interest rates in 2012. The continuing decline in interest rates, although much less marked than in previous years, continued to exert financial pressure on the insurance industry as a whole.

Despite a difficult economic context, Blue Cross Canassurance Group is proud to present excellent financial results for the year 2012. Our capitalization level is well within the standards required by regulatory authorities. Despite a modest recovery since the 2008 financial crisis and highly volatile financial markets, we are very confident about the future development of Blue Cross and its ability to remain a leader in personal health insurance and in travel insurance.

PERSONAL HEALTH INSURANCE

In keeping with evolving public health insurance plans and the growing needs of an aging population, Blue Cross has always been a leader in providing supplemental health insurance plans. The year 2012 was no exception.

We have already begun redesigning our products to introduce new coverage options and to better adapt existing coverage for seniors.

Young families, the self-employed, and employees of companies without group insurance, at Blue Cross they will always find quality products for their health and financial security, whether combined or not with travel insurance.

TRAVEL INSURANCE

Economic uncertainty played a role in the morale of travellers, who became a little more cautious at the beginning of 2012. Nevertheless, considering its product offering and solid reputation in this line of business, Blue Cross maintained its business volume and market share throughout the year 2012.

Blue Cross is especially proud of the loyalty of its clientele. The rate of renewal of its annual travel insurance packages is constantly increasing, reflecting the satisfaction of its policyholders. A great success in an increasingly competitive market. The quality of coverage we offer and our customer service are the source of this success.

In addition, the recovery of the travel industry at the end of 2012 makes us optimistic about the year 2013, given our excellent positioning in this niche.

MESSAGE FROM MANAGEMENT

OPERATIONS, RESOURCES, AND TECHNOLOGY

The operations sector continued the standardization of administrative processes and the improvement of online tools for customers and partners.

We launched a mobile application to provide members with the opportunity to extend their coverage and to obtain health advice in real time during emergencies.

Blue Cross offices were renovated. The new layouts were designed to improve productivity and create a more pleasant working environment.

RISK MANAGEMENT AND STRATEGIC PLANNING

The Corporation reviewed its integrated risk management framework during the year 2012. This rigorous management framework, which is firmly rooted in its governance program, enables us to state that the risks to which the Corporation is exposed are well managed and that, when connected to strategic choices, they represent a real business opportunity.

Management carried out a strategic planning exercise in fall 2012. This major exercise made it possible to identify the main issues related to our field of expertise. We have made it a priority to strengthen our relationship with customers and to develop new markets by improving accessibility to all our products so as to significantly increase market share in both Québec and Ontario. Blue Cross intends to maintain its position as a leader in health insurance and travel insurance.

SOCIAL INVOLVEMENT

Blue Cross focusses on organizations that help sick children and on ancillary health services while financing excellence.

Blue Cross is a proud partner of:

- The Children's Wish Foundation of Canada, which provides children who have life-threatening illnesses with the opportunity to realize their heartfelt wish.
- Fondation OLO, which supports disadvantaged pregnant women, helping them to give birth to healthy babies.
- The Montreal Symphony Orchestra, a traditional Blue Cross sponsorship to promote the international reputation of the famous orchestra.
- The Québec chapter of the International Federation of Medical Students' Associations (IFMSA-Québec), which brings together medical students from Québec and aims at improving health.
- Olivier Rochon, World Champion and winner of the Freestyle Ski World Cup in aerials.

MESSAGE FROM MANAGEMENT

FINANCIAL RESULTS

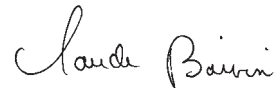
For 2012, net excess of Blue Cross Canassurance Group was \$16.4 million. As at December 31, 2012, consolidated assets totalled \$544.1 million. Consolidated surplus was \$289.8 million, representing 53.3% of the consolidated assets of Blue Cross Canassurance Group. Gross consolidated revenue from insurance subscriptions and premiums totalled \$231.5 million. Blue Cross Canassurance Group paid net claims and refunds to its members and policyholders amounting to approximately 60.2% of gross revenue from insurance subscriptions and premiums. Consolidated investment revenue totalled \$19 million. Operating expenses were \$55 million and commissions totalled \$23.6 million, representing 34% of 2012 gross insurance revenue.

ACKNOWLEDGEMENTS

Blue Cross Canassurance Group owes its success and its results to the efforts and dedication of all its resources. We acknowledge the commitment of our employees and our managers, and we thank them sincerely.

We are pleased to be able to rely on the contribution of the members of the Board of Directors and of our governors. We thank them for their informed advice and opinions.

We are proud of the trust of our partners and the loyalty of our members, for which we are very grateful.



Claude Boivin, CPA, CA
President and Chief Executive Officer



André Brousseau
Chairman of the Board

FINANCIAL STATEMENTS

MANAGEMENT REPORT

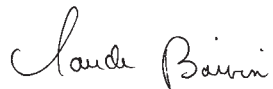
The financial statements of Canassurance Hospital Service Association (Québec Blue Cross and Ontario Blue Cross) and the financial information contained in this annual report are the responsibility of management and have been approved by the Board of Directors.

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 independent auditor. Their main mandate is to review the financial statements and to recommend their approval. The independent auditor may, at its 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 Professional Accountants, and the report they have prepared indicates the scope of their audit and their opinion on the financial statements.



Claude Boivin, CPA, CA
President and Chief Executive Officer



Éric Sénécal, CPA, CA
Corporate Controller

Montréal, February 27, 2013

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, 2012 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 27, 2013

INDEPENDENT AUDITOR'S REPORT ON THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

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

The accompanying summary consolidated financial statements, which include the summary consolidated balance sheet as at December 31, 2012 and the summary consolidated statements of earnings, comprehensive income, change in surplus and cash flows for the year then ended, are derived from the audited consolidated financial statements of CANASSURANCE HOSPITAL SERVICE ASSOCIATION (Québec Blue Cross and Ontario Blue Cross) for the year ended December 31, 2012. We expressed an unmodified audit opinion on those consolidated financial statements in our report dated February 27, 2013.

The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards. Reading the summary consolidated financial statements, therefore, is not a substitute for reading the audited consolidated financial statements of the Association.

Management's Responsibility for the Summary Consolidated Financial Statements

Management is responsible for the preparation of a summary of the audited consolidated financial statements. Management presents the summary consolidated balance sheet and the summary consolidated statements of earnings, comprehensive income, change in surplus and cash flows. The notes are not reproduced.

Auditor's Responsibility

Our responsibility is to express an opinion on the summary consolidated financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standard (CAS) 810 *Engagements to Report on Summary Financial Statements*.

Opinion

In our opinion, the summary consolidated financial statements derived from the audited consolidated financial statements of Canassurance Hospital Service Association (Québec Blue Cross and Ontario Blue Cross) for the year ended December 31, 2012 are a fair summary of those consolidated financial statements in accordance with criteria established in the section on management's responsibility for the summary consolidated financial statements.

*Mallette*¹

Mallette L.L.P.

Partnership of chartered professional accountants

Québec, Canada, February 27, 2013

¹ CPA auditor, CA, public accountancy permit No. A107995

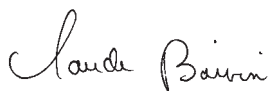
CONSOLIDATED BALANCE SHEET

As at December 31 (in thousands of dollars)

On behalf of the Board,



André Brousseau, Director



Claude Boivin, CPA, CA, Director

	2012	2011
ASSETS		
Investments	\$373,570	\$357,932
Cash	10,017	9,323
Reinsurance assets	83,380	53,717
Receivables - insurance companies	6,227	4,379
Due and overdue subscriptions and premiums	7,013	7,405
Prepaid expenses	55,150	29,570
Capital assets	5,269	5,888
Other assets	3,514	3,039
	\$544,140	\$471,253
LIABILITIES		
Actuarial liabilities	\$146,380	\$117,157
Liabilities for claims payable, claims and settlement expenses	20,439	18,454
Deposits and refunds	16,593	19,219
Unearned commissions	36,343	17,494
Prepaid subscriptions and premiums	5,239	3,702
Accounts payable	14,879	10,756
Defined benefit plans liability	14,440	10,012
	254,313	196,794
SURPLUS		
Accumulated surplus	275,881	263,990
Accumulated other comprehensive income	13,946	10,469
	289,827	274,459
	\$544,140	\$471,253

	2012	2011
CONSOLIDATED EARNINGS		
For the year ended December 31 (in thousands of dollars)		
REVENUE		
Gross subscriptions and premiums	\$231,493	\$210,227
Ceded subscriptions and premiums	(40,821)	(28,028)
Net subscriptions and premiums	\$190,672	\$182,199
Investments	19,047	20,368
Reinsurance allocation	27,017	16,985
Other revenues	6,495	6,005
	243,231	225,557
EXPENSES		
Gross claims, liability claims and settlement expenses	120,125	110,742
Ceded claims, liability claims and settlement expenses	(7,019)	(5,588)
Net claims, liability claims and settlement expenses	113,106	105,154
Change in actuarial liabilities	25,709	20,191
Commissions	23,640	20,843
Refunds and interest on deposits	556	1,942
Taxes on premiums	5,346	4,871
Operating	55,049	51,669
	223,406	204,670
EXCESS BEFORE OTHER ITEM	19,825	20,887
OTHER ITEM		
Impairment loss on available-for-sale financial assets	(3,402)	(5,388)
NET EXCESS	\$16,423	\$15,499

	2012	2011
CONSOLIDATED COMPREHENSIVE INCOME		
For the year ended December 31 (in thousands of dollars)		
NET EXCESS	\$16,423	\$15,499
Other comprehensive income:		
Unrealized gains and losses on available-for-sale financial assets	11,994	7,109
Reclassification to net excess of unrealized gains and losses on disposal of available-for-sale financial assets	(8,517)	(6,773)
Actuarial losses on defined benefit plans	(4,532)	(4,473)
COMPREHENSIVE INCOME	\$15,368	\$11,362

	Accumulated surplus	Accumulated other comprehensive income Available-for-sale financial assets	Total
CHANGE IN CONSOLIDATED SURPLUS			
For the year ended December 31 (in thousands of dollars)			
Balance as at December 31, 2010	\$252,964	\$10,133	\$263,097
Comprehensive income			
Net excess	15,499	–	15,499
Other comprehensive income	(4,473)	336	(4,137)
	11,026	336	11,362
Balance as at December 31, 2011	263,990	10,469	274,459
Comprehensive income			
Net excess	16,423	–	16,423
Other comprehensive income	(4,532)	3,477	(1,055)
	11,891	3,477	15,368
Balance as at December 31, 2012	\$275,881	\$13,946	\$289,827

	2012	2011
CONSOLIDATED CASH FLOWS		
For the year ended December 31 (in thousands of dollars)		
OPERATING ACTIVITIES		
Net excess	\$16,423	\$15,499
Operating items not affecting cash:		
Gross change in actuarial liabilities	29,223	24,743
Change in the value of investments and other items not affecting cash	(2,006)	(1,879)
	43,640	38,363
Change in non-cash working capital	(33,306)	(16,201)
	10,334	22,162
INVESTING ACTIVITIES		
Acquisitions		
Investments	(225,068)	(611,438)
Fixed assets	(1,189)	(1,057)
Intangible assets	-	(1,407)
Disposals		
Investments	216,617	591,840
	(9,640)	(22,062)
INCREASE IN CASH	694	100
CASH , beginning of year	9,323	9,223
CASH , end of year	\$10,017	\$9,323

GOVERNORS AND DIRECTORS

CANASSURANCE HOSPITAL SERVICE ASSOCIATION

Claude Boivin, CPA, CA ^{1,2}
President and
Chief Executive Officer
Montréal, Québec

Gaston R. Boyer, CPA, CA
Montréal, Québec

Florian Brissette, CPA, CA
Saint-Sauveur, Québec

André Brousseau ^{1,2,4}
Chairman of the Board
Trois-Rivières, Québec

Françoise P. Chagnon, MD
Montréal, Québec

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

Serge De Gagné, MBA, CRHP
Montréal, Québec

Charles de Jocas
Montréal, Québec

Jean-Louis Deschênes
Montréal, Québec

Raymond Desrosiers
Montréal, Québec

G rard R. Douville ^{1,2,4,5}
Honorary Secretary-Treasurer
Dorval, Qu bec

Claude Duhamel
Montr al, Qu bec

Sheldon Elman, MD, CM
Montr al, Qu bec

Louis Gosselin, FCIA, FSA ^{1,3}
Saint-Jean-Baptiste, Qu bec

Maurice H bert
Montr al, Qu bec

Barry E. Katsof
Montr al, Qu bec

Gilles Lagac , MD,
CSPQ, FRCPC
Qu bec, Qu bec

L o-Paul Landry, MD
Boucherville, Qu bec

Normand Laurin, CPA, CA ^{1,4}
Mont-Saint-Hilaire, Qu bec

Gilles Marcil, MD, ^{1,5}
CSPQ, CRCS, FRCSC
Montr al, Qu bec

Edmond D. Monaghan, MD,
CD, FRCSC, FACS
Mont-Tremblant, Qu bec

Jacques Nolet
Montr al, Qu bec

Philip M. O'Brien, CM ^{1,3,5}
Montr al, Qu bec

Gaston Pellan ^{1,2,3}
Qu bec, Qu bec

Louise Pich 
Montr al, Qu bec

Rolland Roberge
Saint-Damien-de-Brandon,
Qu bec

Michel Robillard, CPA, CA
Terrebonne, Qu bec

Claude Robitaille, LLL
Qu bec, Qu bec

Andr  St-Onge
Lanoraie, Qu bec

Daniel Savard, MD,
CSPQ, FRCPC
Sainte-Julie, Qu bec

Hugh M. Scott, MD
Montr al, Qu bec

Fran ois Sestier, MD,
PhD, FACC
Montr al, Qu bec

Guy Tremblay
Montr al, Qu bec

Dominique Vachon ¹
BSc, MSc
Montr al, Qu bec

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, CPA, CA ^{1,2}
President and CEO
Montr al, Qu bec

Andr  Brousseau ^{1,2}
Chairman of the Board
Trois-Rivi res, Qu bec

Fran oise P. Chagnon, MD ⁴
Montr al, Qu bec

Maurice H bert ^{2,4}
Montr al, Qu bec

Gilles Lagac , MD, ^{3,4}
CSPQ, FRCPC
Qu bec, Qu bec

Gaston Pellan ^{1,3}
Secretary-Treasurer
Qu bec, Qu bec

Michel Robillard, CPA, CA ³
Terrebonne, Qu bec

Members of:

1. Executive Committee **2.** Investment Committee
3. Audit Committee **4.** Ethics Committee

SENIOR MANAGEMENT

Claude Boivin, CPA, CA
President and Chief Executive Officer

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

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

Louise Sauvé, CPA, CA
Vice-President
Insurance Operations

Dominique Vachon
BSc, MSc
Economist
Vice-President
Investment and Risk Management

MANAGEMENT

Colette Chabot, CIRC
Director, Human Resources
and Internal Communication

Nancy Dionne
Director, Customer Contact Centre

Nadine Eustache
Director, Claims

Jean-Pierre Fortin
Director, Information Technologies

Jules Fortin
Director, Underwriting

Incoronata Greco
Director, Development
International Assistance

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

Joanne Parent
Director, Sales and Development
Travel Insurance

Pierre Parenteau, FCIA, FCAS
Director, Actuarial Services

Julie Saucier
Director, Administration
Individual Insurance

Éric Sénécal, CPA, CA
Corporate Controller

William Walker
Manager, Individual Products

CONSULTANTS

Élizabeth Bergeron, DDS
Dentist

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

Maciej (Mathias) Kalina, MD,
CSPQ, FRCPC
Family medicine
Medical Adviser

Tuong Minh Nguyen, MD
Family medicine
Emergency medicine specialist
Medical Adviser

François Sestier, MD, PhD,
FACC
Cardiologist
Medical Director

Jean Thibault, LPh
Pharmacist

INDEPENDENT AUDITOR

Mallette
Limited Liability Partnership
Chartered Professional Accountants

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

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