

ANNUAL REPORT 2006



Blue Cross Canassurance Group

ANNUAL REPORT 2006

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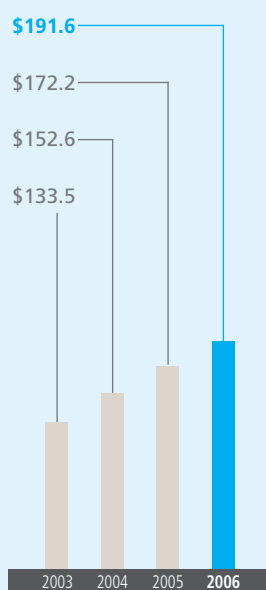
FINANCIAL STATEMENTS

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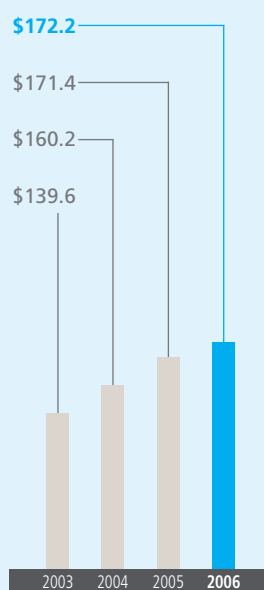
HIGHLIGHTS

<u>(In millions of dollars)</u>	2006	2005	2004	2003
Consolidated net excess	19.4	19.5	19.1	16.2
Combined total income	172.2	171.4	160.2	139.6
Combined assets	319.3	304.9	277.4	263.8
Consolidated accumulated surplus	191.6	172.2	152.6	133.5
Consolidated net deferred gains on investments	4.5	4.4	1.5	1.7

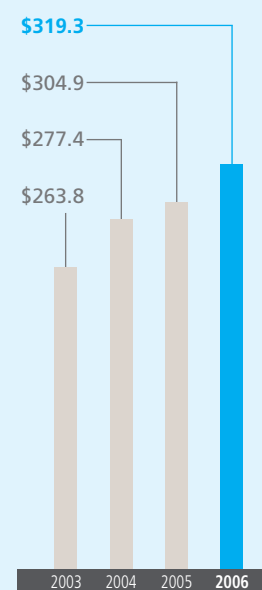
CONSOLIDATED ACCUMULATED SURPLUS



TOTAL COMBINED INCOME



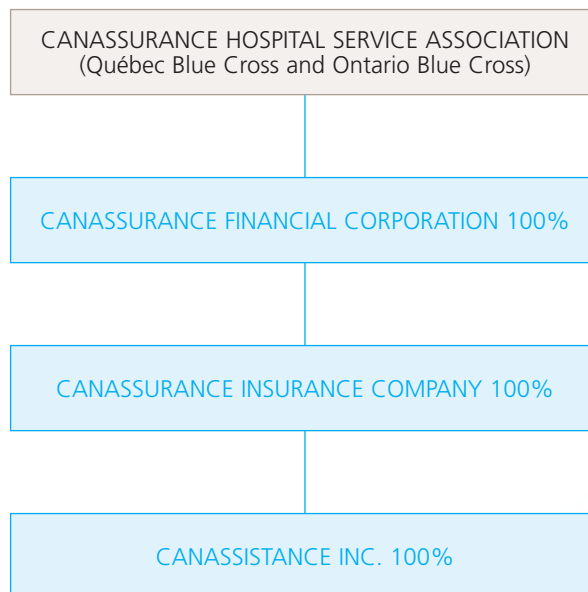
COMBINED ASSETS



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 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.



MESSAGE FROM MANAGEMENT



Claude Boivin, CA
President and Chief Executive Officer

André Brousseau
Chairman of the Board

Blue Cross Canassurance Group continued to grow in 2006 and once again delivered excellent financial results. This performance is primarily attributable to the improved competitiveness of each of our major business sectors – health insurance, travel insurance and assistance services.

During 2006, the Government of Québec opened the door for certain medical procedures to be covered by private insurance. Although this Canadian first is very restricted and will not translate into a substantial volume of business, it paves the way for the private sector to become more involved in health insurance. We will therefore continue to monitor government decisions closely and be poised to adapt our products accordingly.

We also began redesigning our IT systems in 2006. This major project, which will cost more than \$15 million, will mobilize all of our organization's resources over the next three years. The new systems, which will be designed using the latest technologies, will give us a clear advantage in terms of administrative efficiency as well as the quality of our services; our customers will be the first to benefit from this project.

HEALTH

Our health insurance portfolio continued to grow in 2006. This increase in our business is primarily attributable to the efforts we made within our direct and brokerage distribution networks, supported by many communications campaigns. The strategy yielded excellent results in both Ontario and Québec.

We initiated a project to harmonize our health products and introduced a new range of benefits. Implemented at the beginning of 2007, the new range will include various long-term care policies, coverage for critical illness and adapted assistance services.

TRAVEL

The results by our travel insurance sector were in keeping with our expectations, in spite of a slightly slow start at the beginning of the year in Québec, Ontario and Atlantic Canada. This strong performance was achieved through the training efforts made in partnership with our many distribution networks. We also modified our coverages to cater to a rapidly changing market, which, at year-end, positioned us enviably.

ASSISTANCE

The development of our CanAssistance subsidiary, the leader in the provision of travel assistance services, will focus more on health – an area in which we have determined there are growing assistance needs.

CanAssistance was the first of our teams to introduce a “service quality” program, which will be extended to the entire Group in 2007. The program consists of ensuring our teams fully understand the importance of customer service, as well as setting quality objectives and introducing performance indicators.

In the second quarter, we successfully completed the implementation of our new assistance management system, which began in 2005. The new tool is more user-friendly and provides us with greater flexibility in the management of our business.

Building on the strength of the Blue Cross reputation, we have developed a brand strategy that reflects our mission and fundamental values. The strategy makes the customer the focus of our mission.

CHALLENGES

With respect to products and services, we will have to continue to innovate and anticipate our customers' growing needs. This sustained effort will enable us to better position our products. It will also give us the flexibility needed to adapt quickly to changing requirements. It will help determine new areas of growth in the health and travel sectors.

Our people will also have to make a concerted effort to ensure that day-to-day management of our operations remains as efficient as ever in an environment marked by the redesign of our IT systems.

Lastly, we will have to perfect and protect our expertise in order to contend with strong competition in our markets. As a result, the development of human capital will be at the core of our strategies and will include training programs, succession planning and ongoing coaching.

BRAND STRATEGY

Building on the strength of the Blue Cross reputation, we have developed a brand strategy that reflects our mission and fundamental values. The strategy makes the customer the focus of our mission. We are implementing the strategy by offering high-quality health and assistance products and services that always complement government plans. We are also implementing the strategy by assuming our social role.

FINANCIAL RESULTS

The net excess for the entire Blue Cross Canassurance Group was \$19.4 million for 2006.

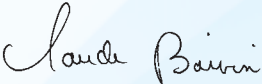
As at December 31, 2006, consolidated assets for the Group totalled \$285.5 million. Our consolidated accumulated surplus reached \$191.6 million and net deferred gains on consolidated investments were \$4.5 million, for a total of \$196.1 million, or 68.7% of the Group's consolidated assets. The surplus will ensure the organization's financial stability.


Gross consolidated income from insurance contributions and premiums for Blue Cross Canassurance Group totalled \$150.9 million. The Group paid its members and policyholders, benefits and rebates amounting to approximately 61.2% of the gross income from insurance contributions and premiums. Consolidated investment income reached \$12 million. Operating expenses amounting to \$36.4 million and \$12.1 million in commissions accounted for 32.1% of gross insurance income.

ACKNOWLEDGEMENTS

We would like to thank all the employees of Blue Cross Canassurance Group for their contributions to the organization's success. We would also like to thank all the members of the Blue Cross Canassurance Group management team, its directors and governors. Their dedication and support have helped our organization maintain its leadership position.

Finally, we wish to express our gratitude to our partners, customers and members for their confidence and loyalty.


Claude Boivin, CA
President and Chief Executive Officer


André Brousseau
Chairman of the Board

CANASSURANCE HOSPITAL SERVICE ASSOCIATION

Québec Blue Cross and Ontario Blue Cross

CONSOLIDATED BALANCE SHEET

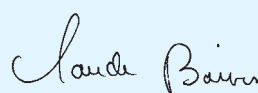
As at December 31 (in thousands of dollars)

	2006	2005
ASSETS		
Portfolio investments (Note 4)		
Discounted notes	\$119	\$-
Term investments	6,720	8,777
Bonds	163,464	155,094
Shares	13,153	11,429
Common funds	80,917	66,735
Company subject to significant influence	675	675
Cash	2,855	3,487
Overdue and accrued investment income	1,355	1,129
Due and overdue subscriptions and premiums	1,162	2,096
Other assets (Note 5)	15,118	16,147
	\$285,538	\$265,569
LIABILITIES		
Actuarial liabilities (Note 6)	\$32,515	\$32,747
Liabilities for claims payable, claims and settlement expenses (Note 6)	17,835	17,970
Unearned subscriptions and premiums (Note 6)	13,340	13,273
Prepaid subscriptions and premiums	3,167	2,961
Deposits and refunds (Note 6)	12,421	12,894
Accounts payable (Note 7)	10,200	9,130
Net deferred gains on investments	4,493	4,442
	93,971	93,417
	191,567	172,152
	\$285,538	\$265,569
ACCUMULATED SURPLUS		
	93,971	93,417
	191,567	172,152
	\$285,538	\$265,569

COMMITMENTS (Note 8)

On behalf of the Board,


André Brousseau, Director


Claude Boivin, CA, Director

CONSOLIDATED EARNINGS

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

	2006	2005
REVENUE		
Gross subscriptions and insurance premiums	\$150,929	\$148,506
Gross subscriptions and premiums earned	\$148,479	\$145,993
Investments	11,970	11,336
Other revenues	3,340	3,113
	163,789	160,442
EXPENSES		
Claims, liability claims and settlement expenses	91,320	94,572
Changes in actuarial liabilities	(232)	(2,160)
Commissions	12,071	11,784
Refunds and interest on deposits	1,221	552
Taxes on premiums	3,477	3,431
Operating (Note 3)	36,517	32,752
	144,374	140,931
	\$19,415	\$19,511

CANASSURANCE HOSPITAL SERVICE ASSOCIATION

Québec Blue Cross and Ontario Blue Cross

CONSOLIDATED ACCUMULATED SURPLUS

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

	2006	2005
BALANCE , beginning of year	\$172,152	\$152,641
Net excess	19,415	19,511
BALANCE , end of year	\$191,567	\$172,152

CONSOLIDATED CASH FLOWS

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

	2006	2005
OPERATING ACTIVITIES		
Net excess	\$19,415	\$19,511
Operating items not affecting cash:		
Changes in actuarial liabilities	(232)	(2,160)
Loss on disposal, changes in the value of portfolio investments and other items not affecting cash	406	442
	19,589	17,793
Net change in non-cash working capital	1,630	4,460
	21,219	22,253
INVESTING ACTIVITIES		
Acquisitions		
Portfolio investments	(174,258)	(316,214)
Capital assets	(132)	(1,199)
Disposals		
Portfolio investments	152,539	295,630
	(21,851)	(21,783)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	(632)	470
CASH , beginning of year	3,487	3,017
CASH , end of year	\$2,855	\$3,487

Cash flows related to operating activities include interest payments of \$41,000 (2005 - \$29,000) and income tax payments of \$2,084,000 (2005 - \$361,000).

CANASSURANCE HOSPITAL SERVICE ASSOCIATION

Québec Blue Cross and Ontario Blue Cross

MANAGEMENT REPORT

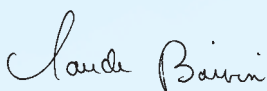
The financial statements of Canassurance Hospital Service Association (Québec Blue Cross and Ontario Blue Cross) and the financial information contained in this annual report are the responsibility of management and have been approved by the Board of Directors.

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. Richard Bisson, FCIA, FSA, CFA, 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

Montréal, February 2, 2007



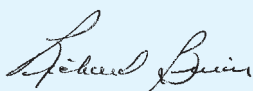
Éric Sénécal, CA, Corporate Controller

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, 2006 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.



Richard Bisson, FCIA, FSA, CFA, Appointed Actuary

Montréal, February 2, 2007

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, 2006 and the consolidated statements of earnings, accumulated surplus 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, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Mallette, L.L.P., Chartered Accountants

Québec, February 2, 2007

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2006 (tabular amounts are expressed in thousands of dollars)

1. STATUTES OF INCORPORATION AND NATURE OF ACTIVITIES

The Association, incorporated in April 1942 under the *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

Consolidated financial statements include accounts of the Association and those of its 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 period. Actual results could differ from these estimates.

Revenue Recognition

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

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

Investments income are accounted for with the exercise method.

Income Taxes

Subsidiaries account for as income tax expense or revenue amount of income taxes payable or recoverable for the year and the change of future income tax assets and liabilities accounts based on current income tax rate applied to temporary difference between carrying value of assets and liabilities and their tax base. Future income tax is accounted for when it is more likely than not that the societies will benefit from the tax relief related to deductible temporary difference.

Discounted Notes and Bonds

Discounted notes and bonds are stated at amortized cost. Premium or discount upon acquisition is amortized using the straight-line method until the security's maturity date.

Stripped bonds and coupons are stated at amortized cost using the effective rate method.

Gains and losses realized on disposal of securities are recorded as liabilities, under "net deferred gains on investments" and are amortized to income over the period remaining until the security's maturity date.

Term Investments

Term investments are accounted for at cost.

Shares and Common Funds

Shares and common funds are stated at the moving average market value using an amortization rate of 15%.

Gains and losses realized on disposal of shares and common funds are recorded as liabilities under "net deferred gains on investments" and are amortized to income using the same amortization rate.

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005 (tabular amounts are expressed in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment in Company Subject to Significant Influence

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

Capital Assets

Capital assets are accounted for at cost.

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

Actuarial Valuation

Actuarial liabilities, claims payable and deposit and refund liabilities were determined and certified by the Association's actuary who is responsible for the valuation. 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 and other retirement 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.
- Expense is charged to operations and includes:
 - i) Cost of pension and post-employment benefits provided in exchange for employees' services rendered during the year;
 - ii) 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. Average remaining service life of employees participating in this plan is 27 years (2005 - 27 years). Average remaining service life of employees covered by the complementary retirement regime is 17 years (2005 - 18 years).

3. EARNINGS

Operating expenses include a depreciation expense of capital assets of \$974,000 (2005 - \$456,000). Operating expenses also include an expense for current taxes of \$67,000 (2005 - \$1,666,000) and an expense for future income taxes of \$28,000 (2005 - recovery of future income taxes of \$475,000).

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2006 (tabular amounts are expressed in thousands of dollars)

4. PORTFOLIO INVESTMENTS

BREAKDOWN OF THE PORTFOLIO

2006

	Discounted notes	Term investments	Bonds	Shares	Common funds
Segments					
Governments and governmental institutions	\$-	\$6,270	\$162,703	\$-	\$-
Financial institutions	119	450	382	3,669	-
Corporations	-	-	379	9,484	80,917
	\$119	\$6,720	\$163,464	\$13,153	\$80,917

BREAKDOWN OF THE PORTFOLIO

2005

	Discounted notes	Term investments	Bonds	Shares	Common funds
Segments					
Governments and governmental institutions	\$-	\$6,327	\$153,614	\$-	\$-
Financial institutions	-	2,450	-	3,120	-
Corporations	-	-	1,480	8,309	66,735
	\$-	\$8,777	\$155,094	\$11,429	\$66,735

CANASSURANCE HOSPITAL SERVICE ASSOCIATION

Québec Blue Cross and Ontario Blue Cross

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2006 (tabular amounts are expressed in thousands of dollars)

4. PORTFOLIO INVESTMENTS (CONTINUED)

	CONDITIONS, INTEREST RATE AND FAIR VALUE				2005
	2006				
	Maturity				
	Less than one year	1 to 5 years	5 years and more	Total	Total
Discounted notes					
Carrying value	\$119			\$119	\$-
Par value	\$120			\$120	\$-
Fair value	\$119			\$119	\$-
Average effective rate	4.4%			4.4%	-%
Term investments					
Carrying value	\$6,270	\$450		\$6,720	\$8,777
Fair value	\$6,270	\$450		\$6,720	\$8,777
Average effective rate	4.0%	4.1%		4.0%	3.0%
Bonds					
Carrying value	\$29,015	\$91,035	\$43,414	\$163,464	\$155,094
Par value	\$29,205	\$91,730	\$52,578	\$173,513	\$165,860
Fair value	\$28,969	\$91,724	\$47,762	\$168,455	\$160,281
Average effective rate	3.9%	3.9%	6.0%	4.5%	4.5%
Shares					
Carrying value				\$13,153	\$11,429
Fair value				\$15,806	\$12,822
Common funds					
Bonds funds					
Carrying value				\$58,582	\$44,050
Fair value				\$58,110	\$43,632
Shares funds					
Carrying value				\$3,424	\$2,202
Fair value				\$3,613	\$2,240
Money market funds					
Carrying value				\$18,911	\$20,483
Fair value				\$18,911	\$20,483
Total of common funds					
Carrying value				\$80,917	\$66,735
Fair value				\$80,634	\$66,355

5. OTHER ASSETS

	2006	2005
Receivables - insurance companies	\$3,740	\$6,361
Other receivables	656	506
Prepaid expenses	5,801	4,882
Capital assets	2,354	3,196
Income taxes	1,393	-
Future income taxes	1,174	1,202
	\$15,118	\$16,147

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2006 (tabular amounts are expressed in thousands of dollars)

6. POLICIES' LIABILITIES

Assumptions

- **Actuarial Liabilities**

In the computation of the actuarial liabilities of the policies, 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's experience, which is published by the Canadian Institute of Actuaries.

- **Morbidity**

Claim incidence rate and disability termination 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 the industry's experience, which is published by the Canadian Institute of Actuaries.

Policies' actuarial liabilities of the life 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 regards to the most probable assumptions. These amounts vary according to the uncertainty inherent in the assumption.

- **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**

A large portion 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.

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2006 (tabular amounts are expressed in thousands of dollars)

6. POLICIES' LIABILITIES (CONTINUED)

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.

Risk Management

- **Interest Rate Risk**

The Association is exposed to a risk of fluctuating interest rates especially for its disability products. It establishes methods and guidelines in order to maintain the risk of loss at an acceptable level by matching the financial flows of assets with those of disability product's liabilities. Risk measurements initially include the financial flow variance average duration and exposure of the surplus to several specific hypothetical return curves.

- **Credit Risk**

Credit risk is the monetary loss the Association could be exposed to 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. Furthermore, it maintains a provision for doubtful accounts. Actuarial liabilities include a provision for default payments on assets held by the Association.

- **Reinsurance Risk**

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 recover a portion of the claims paid through reinsurance agreements.

These reinsurance agreements do not relieve the Association from its obligations to policyholders. In the event that reinsurers fail to honour their obligations, the Association is responsible for the reinsurance risk.

Reinsurance is made with several reinsurers; they assume a risk corresponding to 47.4% (2005 - 48.9%) of actuarial liabilities.

- **Liquidity Risk**

Liquidity risk is the risk that the Association will have difficulty raising funds to meet its commitments. Liquidity needs are managed by matching cash flow assets and liabilities forecasting earned and required yields.

The Association possesses financial instruments to generate sufficient liquidity to cover the policies' liabilities over the expected terms.

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2006 (tabular amounts are expressed in thousands of dollars)

6. POLICIES' LIABILITIES (CONTINUED)

Composition of Actuarial Liabilities and Related Supporting Assets

i) Composition of actuarial liabilities is as follows:

	2006		
	Actuarial liabilities	Reinsurance ceded	Net actuarial liabilities
Non-participating policyholders			
Individual - Life	\$3,523	\$640	\$2,883
Individual - Accident and sickness	11,161	2,380	8,781
Group - Life	5,539	1,932	3,607
Group - Accident and sickness	41,591	24,347	17,244
	\$61,814	\$29,299	\$32,515
	2005		
	Actuarial liabilities	Reinsurance ceded	Net actuarial liabilities
Non-participating policyholders			
Individual - Life	\$3,215	\$692	\$2,523
Individual - Accident and sickness	9,223	1,656	7,567
Group - Life	5,959	2,191	3,768
Group - Accident and sickness	45,625	26,736	18,889
	\$64,022	\$31,275	\$32,747

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2006 (tabular amounts are expressed in thousands of dollars)

6. POLICIES' LIABILITIES (CONTINUED)

Composition of Actuarial Liabilities and Related Supporting Assets (Continued)

ii) Composition of supporting assets is as follows:

	2006							Total
	Cash	Discounted notes	Term investments	Bonds	Shares	Common funds	Other assets	
Non-participating policyholders								
Life	\$76	\$-	\$-	\$4,449	\$-	\$1,923	\$42	\$6,490
Accident and sickness	186	-	-	19,091	-	5,946	802	26,025
Others, including shareholder's equity	2,593	119	6,720	139,924	13,153	73,048	17,466	253,023
Carrying value	\$2,855	\$119	\$6,720	\$163,464	\$13,153	\$80,917	\$18,310	\$285,538
Fair value	\$2,855	\$119	\$6,720	\$168,455	\$15,806	\$80,634	\$18,310	\$292,899

	2005							Total
	Cash	Discounted notes	Term investments	Bonds	Shares	Common funds	Other assets	
Non-participating policyholders								
Life	\$3	\$-	\$-	\$6,248	\$-	\$-	\$40	\$6,291
Accident and sickness	13	-	-	26,272	-	-	171	26,456
Others, including shareholder's equity	3,471	-	8,777	122,574	11,429	66,735	19,836	232,822
Carrying value	\$3,487	\$-	\$8,777	\$155,094	\$11,429	\$66,735	\$20,047	\$265,569
Fair value	\$3,487	\$-	\$8,777	\$160,281	\$12,822	\$66,355	\$20,047	\$271,769

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

7. ACCOUNTS PAYABLE

	2006	2005
Insurance companies	\$934	\$907
Income taxes	-	624
Others	9,266	7,599
	\$10,200	\$9,130

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2006 (tabular amounts are expressed in thousands of dollars)

8. COMMITMENTS

The Association has lease and contract commitments. Balance of the commitments under such contracts and leases, excluding property taxes and other escalator clauses, is \$9,067,000. Minimum payments over the next five years are as follows:

2007 -	\$2,390,000
2008 -	\$1,822,000
2009 -	\$1,414,000
2010 -	\$688,000
2011 -	\$688,000

9. 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:

	2006		2005	
	Pension plans	Other plans	Pension plans	Other plans
Accrued benefit obligation				
Accrued benefit obligation, beginning of year	\$15,107	\$1,674	\$10,994	\$1,313
Settlement as at January 1, 2006	-	(779)	-	-
Current service cost	1,134	5	725	40
Employees' flex contributions	56	-	15	-
Interest cost	833	45	744	85
Benefits paid	(984)	(74)	(517)	(73)
Actuarial loss	350	-	3,146	309
Accrued benefit obligation, end of year	\$16,496	\$871	\$15,107	\$1,674
Plan assets				
Fair value of plan assets, beginning of year	\$10,089	\$-	\$8,772	\$-
Actual return on plan assets	935	-	900	-
Employer's contributions	754	74	594	73
Employees' contributions	350	-	325	-
Employees' flex contributions	56	-	15	-
Benefits paid	(984)	(74)	(517)	(73)
Fair value of plan assets, end of year	\$11,200	\$-	\$10,089	\$-
Funding status				
Deficit	\$(5,296)	\$(871)	\$(5,018)	\$(1,674)
Unamortized actuarial loss	4,617	191	4,631	369
Accrued benefit liability	\$(679)	\$(680)	\$(387)	\$(1,305)

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2006 (tabular amounts are expressed in thousands of dollars)

9. PENSION PLANS AND OTHER RETIREMENT BENEFITS (CONTINUED)

	2006		2005	
	Pension plans	Other plans	Pension plans	Other plans
Current service cost, net of employees' contributions	\$784	\$5	\$400	\$40
Interest cost	833	45	744	85
Actual return on plan assets	(935)	-	(900)	-
Gain on the settlement as at January 1, 2006	-	(608)	-	-
Actuarial loss	350	-	3,146	309
Service cost - before adjustment	1,032	(558)	3,390	434
Difference between expected return and actual return on plan assets for year	221	-	229	-
Difference between actuarial loss (gain) recognized for the year and actual actuarial loss (gain) on accrued benefit obligation for year	(210)	6	(3,117)	(309)
Difference between amortization of past service costs for year and actual plan amendments for the year	3	-	3	-
Defined benefit costs recognized	\$1,046	\$(552)	\$505	\$125

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

	2006		2005	
	Pension plans	Other plans	Pension plans	Other plans
Accrued benefit obligation as at December 31				
Discount rate	5.25%	5.25%	5.25%	5.25%
Rate of compensation increase	4%	4%	4%	4%
Benefit costs for year ended December 31				
Discount rate	5.25%	5.25%	6.5%	6.5%
Expected long-term rate of return on plan assets	7%	-	7.5%	-
Rate of compensation increase	4%	4%	4%	4%
Initial health care cost trend rate	-	5.5%	-	6%
				in 2005 to stabilize at 5.5% in 2007

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2006 (tabular amounts are expressed in thousands of dollars)

9. PENSION PLANS AND OTHER RETIREMENT BENEFITS (CONTINUED)

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.

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, 2005, and the next determination is to be prepared as at December 31, 2008.

Most recent actuarial determination of the accrued benefit obligations of the Executives' Plan was prepared as at December 31, 2004, and the next determination is to be prepared as at December 31, 2007.

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

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

Following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Fair value of cash, overdue and accrued investment income, due and overdue subscriptions and premiums, receivables, liabilities for claims payable, claims and settlement expenses, prepaid subscriptions and premiums, deposits and refunds and of payables approximates their carrying amount due to the short-term maturity of these items.

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

Fair value of actuarial liabilities and reinsurance ceded was not established. However, the Association annually segments the assets supporting actuarial liabilities or the liabilities of the different service 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.

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Limited Liability Partnership
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Québec Blue Cross[®]
Ontario Blue Cross[™]
Canassurance Insurance Company
CanAssistance Inc.

MONTRÉAL - HEAD OFFICE

550 Sherbrooke Street West
Montréal, Québec H3A 3S3
514 286-8400 www.qc.bluecross.ca

TORONTO

185 The West Mall, Suite 610, P.O. Box 2000
Etobicoke, Ontario M9C 5P1
416 626-1688 www.useblue.com

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