YOUR HEALTH PARTNER FOR OVER 65 YEARS
ANNUAL REPORT 2007

BLUE CROSS CANASSURANCE GROUP

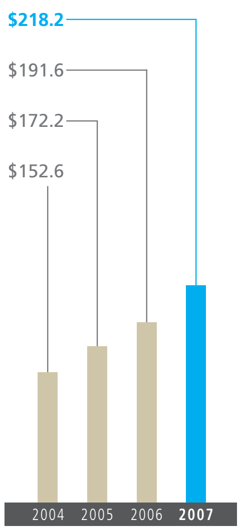
ANNUAL REPORT 2007

FINANCIAL STATEMENTS

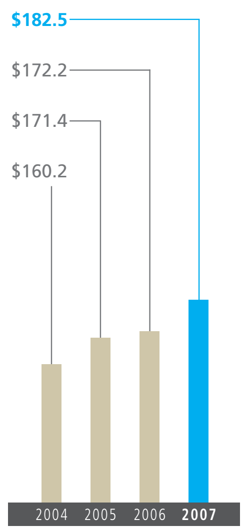
HIGHLIGHTS

(In millions of dollars)	2007	2006	2005	2004
Consolidated net excess	**20.5**	19.4	19.5	19.1
Combined total income	**182.5**	172.2	171.4	160.2
Combined assets	**350.1**	319.3	304.9	277.4
Consolidated surplus	**218.2**	191.6	172.2	152.6

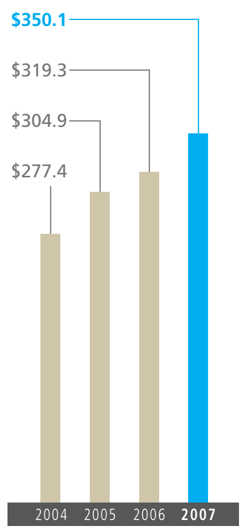
CONSOLIDATED SURPLUS



TOTAL COMBINED INCOME

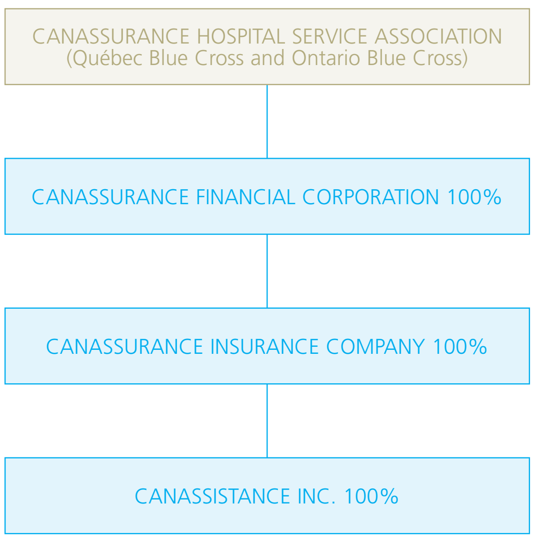


COMBINED ASSETS



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 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.



PROMOTING HEALTH FOR 65 YEARS

Blue Cross Canassurance Group celebrated its 65th anniversary in 2007. Founded in 1942 by a group of hospital directors and business people, the mission of the Canassurance Hospital Service Association at the time was to provide workers with access to reasonably priced health care services.

Over the years, the organization developed a range of services and protection to better meet the ever-changing needs of its members, while becoming the first insurer to offer care, home support, and health assistance services.

Thanks mainly to the energy and creativity of its teams, Blue Cross Canassurance Group today ranks among Canada's leading health and travel insurers.

Applying the values we have developed through all these years, we are still upholding our original commitment to provide our members with high-quality health insurance products and services that complement government plans.

2007

Fiscal 2007 was a year of achievements on all fronts for Blue Cross Canassurance Group.

First and foremost, the information systems redesign project is proceeding on schedule. Many people within the organization have contributed their experience and knowledge to this initiative to develop and implement new management tools.

On the business side, sustained growth ensured that we attained our objectives, despite the very intense competition across all of our areas of activity. Our financial results met our expectations and the net excess for 2007 surpassed our forecasts.

During 2007 the members of the Board of Directors and management embarked upon a review of the Group's strategic directions, in an effort to validate the development focuses that should be prioritized for the coming years.

We also analyzed the Government of Québec's overtures to insurers in 2006 to allow the marketing of private insurance to cover the cost of certain types of surgery, but with very restrictive criteria. This opportunity was not really seized by the insurance industry because demand is practically non-existent.

We are awaiting the publication of the Castonguay Group report on health funding and the status of the private sector, which is expected to be tabled in 2008. Because we are always attuned to government trends in the area of health insurance, we are ready to quickly adapt our products and services in the event that new opportunities arise.

HEALTH INSURANCE

The enhancement of our health insurance product line generated an increase in our sales in Québec and Ontario.

In 2007, we launched a unique and innovative new product called "Tangible" in these markets. Thanks to the product's *hybrid benefits*, among other features, the policyholder can convert the original coverage—life, disability, loss of mobility, or critical illness—into long-term-care coverage in an establishment. These benefits adapt to our policyholders' needs throughout their lifetime. This is a bold insurance concept that targets new market niches and has been very well received up to now.

Unquestionably, Blue Cross Canassurance Group's reputation is one of our most valuable assets and we plan to continue our efforts to build on this prominence.

We also expanded our product range in Ontario, adding a new health plan that offers consumers in that province much more flexibility.

We need to continue our efforts in this market, which in addition to being Canada's largest is extremely competitive.

TRAVEL INSURANCE

The buoyant economy, coupled with the strength of our dollar, encouraged Canadians to travel much more in 2007; the excellent results posted by our travel insurance business are proof.

But this success is also the result of increased cooperation with our partners, proactive management of our health networks around the world, and a new agreement with Blue Cross and Blue Shield of Florida, our main partner in the United States.

We have adapted our distribution approaches to deal with an industry that for the past few years is undergoing rapid change brought about by, among other things, the emergence of a multitude of travel and tourism Web sites.

The signing of a distribution agreement with the Aeroplan rewards program, which will now be offering our travel insurance products to its members across Canada, confirms our very strong reputation and credibility.

ASSISTANCE

In cooperation with McGill University Health Centre and its Canadian and international partners, we launched a Medical Second Opinion program aimed mainly at people covered by individual and group health insurance. This program is also available to holders of Blue Cross's "Tangible" policy and includes a variety of assistance services specific to this product.

TECHNOLOGY ENVIRONMENT

On the information technologies front, Blue Cross finished planning the replacement of its information systems, setting the stage for the development of a two-year master plan that is scheduled for completion in 2009.

This refurbishment of our technology environment will produce greater flexibility, enhance user-friendliness, and simplify maintenance. These changes will in turn facilitate the marketing of our products, improve the effectiveness and efficiency of communications with our customers, and help us penetrate new markets more easily.

DIRECTION: SERVICE QUALITY

Unquestionably, Blue Cross Canassurance Group's reputation is one of our most valuable assets and we plan to continue our efforts to build on this prominence.

As part of our commitment to highlighting our Blue Cross brand identity, we launched a wide-ranging staff engagement and training program during 2007 that will continue in 2008.

Through this initiative, all Group employees will become even more aware of the organization's values: being a recognized specialist in health insurance that shows respect for people and strives to provide them with peace of mind.

FINANCIAL RESULTS

Net excess of Blue Cross Canassurance Group was $20.5 million for 2007.

As at December 31, 2007, consolidated assets of the Group totalled $314.9 million. Consolidated surplus reached $218.2 million, representing 69.3% of Group's consolidated assets.

Gross consolidated income from insurance contributions and premiums of Blue Cross Canassurance Group totalled $157.4 million. The Group paid its members and policyholders, benefits and rebates amounting to approximately 58.4% of gross income from insurance contributions and premiums. Consolidated investment income reached $14.8 million. Operating expenses amounting to $43.4 million and $13.6 million in commissions accounted for 36% of gross insurance income.

ACKNOWLEDGEMENTS

We would like to thank all employees of Blue Cross Canassurance Group for their contribution to the organization's success. We would also like to express our gratitude to all members of the Blue Cross Canassurance Group management team, its directors and governors for their dedication and support.

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

Claude Boivin, CA
President and Chief Executive Officer

André Brousseau
Chairman of the Board

CONSOLIDATED BALANCE SHEET

As at December 31 (in thousands of dollars)	2007	2006
ASSETS		
Portfolio investments (Note 7)	**$292,092**	$264,373
Company subject to significant influence	**729**	675
Cash	**2,924**	2,855
Overdue and accrued investment income	**1,296**	1,355
Due and overdue subscriptions and premiums	**1,995**	1,162
Other assets (Note 8)	**15,881**	15,118
	$314,917	$285,538
LIABILITIES		
Actuarial liabilities (Note 9)	**$36,975**	$32,515
Liabilities for claims payable, claims and settlement expenses (Note 9)	**18,710**	17,835
Unearned subscriptions and premiums (Note 9)	**13,557**	13,340
Prepaid subscriptions and premiums	**3,555**	3,167
Deposits and refunds (Note 9)	**8,085**	12,421
Accounts payable (Note 10)	**15,885**	10,200
Net deferred gains on investments	**–**	4,493
	96,767	93,971
SURPLUS		
Accumulated surplus	**215,822**	191,567
Accumulated other comprehensive income	**2,328**	–
	218,150	191,567
	$314,917	$285,538

COMMITMENTS (Note 11)

On behalf of the Board,

André Brousseau, Director

Claude Boivin, CA, Director

CONSOLIDATED EARNINGS

For the year ended December 31 (in thousands of dollars)	2007	2006
REVENUE		
Gross subscriptions and insurance premiums	**$157,410**	$150,929
Gross subscriptions and premiums earned	**$154,609**	$148,479
Investments (note 5)	**14,798**	11,970
Other revenues	**3,753**	3,340
	173,160	163,789
EXPENSES		
Claims, liability claims and settlement expenses	**90,668**	91,320
Changes in actuarial liabilities	**678**	(232)
Commissions	**13,642**	12,071
Refunds and interest on deposits	**656**	1,221
Taxes on premiums	**3,635**	3,477
Operating (Note 6)	**43,370**	36,517
	152,649	144,374
NET EXCESS	**$20,511**	$19,415

CONSOLIDATED ACCUMULATED SURPLUS AND COMPREHENSIVE INCOME

For the year ended December 31 (in thousands of dollars)	2007	2006
ACCUMULATED SURPLUS		
BALANCE, beginning of year	**$191,567**	$172,152
Changes in accounting policies (Note 3)	**3,744**	–
Net excess	**20,511**	19,415
BALANCE, end of year	**$215,822**	$191,567
COMPREHENSIVE INCOME		
Net excess	**$20,511**	$19,415
Other comprehensive income		
Unrealized gains during the year on available-for-sale financial assets	**102**	–
Reclassification adjustment for gains included in net excess	**(1,619)**	–
Comprehensive income	**$18,994**	$19,415
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Unrealized gains on available-for-sale financial assets		
BALANCE, beginning of year	**$–**	$–
Changes in accounting policies (Note 3)	**3,845**	–
Change in net unrealized gains on available-for-sale financial assets include in comprehensive income	**(1,517)**	–
BALANCE, end of year	**$2,328**	$–

CONSOLIDATED CASH FLOWS

For the year ended December 31 (in thousands of dollars)	2007	2006
OPERATING ACTIVITIES		
Net excess	**$20,511**	$19,415
Operating items not affecting cash:		
Changes in actuarial liabilities	**4,460**	(232)
Gain (loss) on disposal, changes in the value of portfolio investments and other items not affecting cash	**(4,545)**	406
	20,426	19,589
Net change in non-cash working capital	**1,041**	1,630
	21,467	21,219
INVESTING ACTIVITIES		
Acquisitions		
Portfolio investments	**(257,048)**	(174,258)
Capital assets	**(701)**	(132)
Disposals		
Portfolio investments	**236,351**	152,539
	(21,398)	(21,851)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**69**	(632)
CASH, beginning of year	**2,855**	3,487
CASH, end of year	**$2,924**	$2,855

Cash flows related to operating activities include no interest payments (2006 – $41,000) and income tax received of the order of $993,000 (income tax payments in 2006 – $2,084,000).

MANAGEMENT REPORT

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

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

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

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

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

Claude Boivin, CA, President and Chief Executive Officer

Éric Senécal, CA, Corporate Controller

Montréal, February 8, 2008

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, 2007 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 8, 2008

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, 2007 and the consolidated statements of earnings, accumulated surplus and comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Association as at December 31, 2007 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 8, 2008

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2007 (tabular 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 subsidiary, Canassurance Financial Corporation and those of Canassurance Insurance Company and CanAssistance Inc., wholly-owned subsidaries.

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 risk during the financial period.

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

Investments income is accounted for on the basis of the exercise method.

Income Taxes

Subsidiaries account for 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 current income tax rate applied to the difference between the carrying value of the subsidiaries assets and liabilities and their tax base. Future income tax asset is accounted for when it is more likely than not that the societies will benefit from the tax relief related to deductible temporary difference.

Investments

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

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

Held-for-trading financial assets

The Association has chosen to classify assets matching actuarial liabilities as held-for-trading. Invested assets designated as held-for-trading are investments in bonds. They are measured at fair value, which is determined based on market price. Gains and losses are recognized in the net income of the period in which they occur. Changes in the fair value are offset by corresponding changes in the actuarial liabilities which also flow through net income.

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2007 (tabular 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.

Loans and receivables

Mortgages and private bonds not quoted on an active market are classified as loans and receivables and measured at amortized cost using the effective interest rate method. 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 period.

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.

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2007 (tabular amounts are expressed in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pension Plans and Other Retirement Benefits (Continued)

- 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) the cost of pension 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. The average remaining service life of employees participating in this plan is 27 years (2006 – 27 years). The average remaining service life of employees covered by the complementary retirement regime is 18 years (2006 – 17 years).

3. CHANGES IN ACCOUNTING POLICIES

During the year, the Association adopted recommendations by the Canadian Institute of Chartered Accountants with respect to Section 1530 *Comprehensive Income*, 3251 *Equity*, 3855 *Financial Instruments – Recognition and Measurement* and 3861 *Financial Instruments – Disclosure and Presentation*. These standards require that all financial assets or liabilities be classified in one of the following categories: held-for-trading, held-to-maturity, loans and receivables, and available-for-sale. The measurement and recognition of changes in value of financial instruments depend on their initial classification. The adoption of these new sections led a write-down of $343,000 of retained earnings (net of income taxes of $35,000), which corresponds to the difference between the cost and fair value of financial assets classified as held-for-trading as at January 1, 2007 of $3,475,000 deducted by an increase of actuarial liabilities of $3,783,000. In addition, these new sections led to recognize an amount of $3,845,000 (net of income taxes of $2,000) as the opening balance for "Accumulated other comprehensive income", which corresponds to the difference between the cost and fair value of financial assets classified as available-for-sale as at January 1, 2007.

The Association also adopted recommendations by the Canadian Institute of Chartered Accountants with respect to Section 4211, *Life Insurance Enterprises – Specific Items*, which replaced CICA Handbook Section 4210, *Life Insurance Enterprises – Specific Items*. As a result, realized gains and losses on financial instruments no longer covered by Section 4211 are not deferred and amortized into income but are recognized in net income as fair value changes (for assets designated as held-for-trading), or on the date of sale. This includes gains and losses on the sales of bonds, stocks and mortgages. The adoption of this new section led to the recognition of $4,087,000 (net of income taxes of $406,000) in the statement of accumulated surplus, which corresponds to the net deferred gains balance as at January 1, 2007.

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2007 (tabular amounts are expressed in thousands of dollars)

4. FUTURE CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2008, the Association will be required to comply with recommendations by the Canadian Institute of Chartered Accountants with respect to Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*. These sections will replace existing Section 3861, *Financial Instruments – Disclosure and Presentation*. Presentation standards are carried forward unchanged. Disclosure standards are enhanced and expanded to complement the changes in accounting policy adopted in accordance with Section 3855, *Financial Instruments – Recognition and Measurement*.

Effective January 1, 2008, the Association will be required to comply with recommendations by the Canadian Institute of Chartered Accountants with respect to Section 1535, *Capital Disclosures*. The section establishes standards for disclosing information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. The new requirements are for disclosure only and will not impact the financial results of the Association.

5. INVESTMENTS INCOME

	2007	2006
Change in the fair value of financial assets and liabilities designated as held-for-trading	**$(459)**	$–
Gain on disposal of available-for-sale financial assets	**1,619**	–
Interest income related to financial assets not classified as held-for-trading	**6,285**	–
Other net investment income	**7,353**	11,970
	$14,798	$11,970

6. OPERATING EXPENSES

Operating expenses include a depreciation expense of capital assets of $952,000 (2006 – $974,000). Operating expenses also include a revenue for current taxes of $370,000 (expense of current taxes in 2006 – $67,000) and an expense for future income taxes of $657,000 (2006 – $28,000).

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2007 (tabular amounts are expressed in thousands of dollars)

7. PORTFOLIO INVESTMENTS

CONDITIONS, INTEREST RATE AND FAIR VALUE

	2007				2006
	Maturity				
	Less than one year	1 to 5 years	5 years and more	Total	Total
Held-for-trading investments					
Bonds					
(market value in 2006 : $34,019)	**$4,872**	**$14,185**	**$13,676**	**$32,733**	$30,117
Average effective rate	**5.4%**	**7.6%**	**5.5%**	**6.8%**	6.7%
Substantially all in securities of governments and governmental institutions					
Term investments					
(market value in 2006 : $450)	**$450**			**$450**	$450
Average effective rate	**4.1%**			**4.1%**	4.1%
All in securities of financial institutions					
Held-to-maturity investments					
Term investments and discounted notes	**$6,064**			**$6,064**	$6,389
Average effective rate	**4.3%**			**4.3%**	4.0%
Substantially all in securities of governments and governmental institutions					
Loans and receivables					
Mortgage loans	**$868**			**$868**	$379
Average effective rate	**9.9%**			**9.9%**	11.1%
All related to corporations					
Available-for-sale investments					
Bonds					
(market value in 2006 : $134,057)	**$10,498**	**$72,306**	**$43,326**	**$126,130**	$132,968
Average effective rate	**3.8%**	**4.4%**	**4.6%**	**4.4%**	3.8%
Substantially all in securities of governments and governmental institutions					
Shares					
(market value in 2006 : $15,806)				**$15,761**	$13,153
Mostly in securities of corporations					
Common funds					
(market value in 2006 : $80,634)				**$110,086**	$80,917
All in securities of big capitalization corporations					
	$22,752	**$86,491**	**$57,002**	**$292,092**	$264,373

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2007 (tabular amounts are expressed in thousands of dollars)

8. OTHER ASSETS

	2007	2006
Receivables – insurance companies	**$3,199**	$3,740
Other receivables	**937**	656
Prepaid expenses	**8,757**	5,801
Capital assets	**2,103**	2,354
Income taxes	**770**	1,393
Future income taxes	**115**	1,174
	$15,881	$15,118

9. POLICIES' LIABILITIES

Assumptions

- Actuarial Liabilities

  In the computation of 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.

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2007 (tabular amounts are expressed in thousands of dollars)

9. POLICIES' 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
  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.

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.

  The reinsurance is made with several reinsurers; they assume a risk corresponding to 45.5% (2006 – 47.4%) 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, 2007 (tabular amounts are expressed in thousands of dollars)

9. POLICIES' LIABILITIES (CONTINUED)

Composition of Actuarial Liabilities and Related Supporting Assets

i) Composition of actuarial liabilities is as follows:

	2007		
	Actuarial liabilities	**Reinsurance ceded**	**Net actuarial liabilities**
Non-participating policyholders			
Individual – Life	**$3,918**	**$700**	**$3,218**
Individual – Accident and sickness	**13,625**	**3,538**	**10,087**
Group – Life	**6,828**	**2,121**	**4,707**
Group – Accident and sickness	**43,516**	**24,553**	**18,963**
	$67,887	**$30,912**	**$36,975**

	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

ii) Composition of supporting assets is as follows:

	2007						
	Cash	**Term investments and discounted notes**	**Bonds**	**Shares**	**Common funds**	**Other assets**	**Total**
Non-participating policyholders							
Life	**$6**	**$–**	**$6,193**	**$–**	**$–**	**$1,726**	**$7,925**
Accident and sickness	**137**	**–**	**21,287**	**–**	**2,576**	**5,050**	**29,050**
Others, including shareholder's equity	**2,781**	**6,514**	**132,251**	**15,761**	**107,510**	**13,125**	**277,942**
Carrying value	**$2,924**	**$6,514**	**$159,731**	**$15,761**	**$110,086**	**$19,901**	**$314,917**
Fair value	**$2,924**	**$6,514**	**$159,731**	**$15,761**	**$110,086**	**$19,901**	**$314,917**

	2006						
	Cash	Term investments and discounted notes	Bonds	Shares	Common funds	Other assets	Total
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	6,839	139,924	13,153	73,048	17,466	253,023
Carrying value	$2,855	$6,839	$163,464	$13,153	$80,917	$18,310	$285,538
Fair value	$2,855	$6,839	$168,455	$15,806	$80,634	$18,310	$292,899

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

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2007 (tabular amounts are expressed in thousands of dollars)

10. ACCOUNTS PAYABLE

	2007	2006
Insurance companies	**$6,448**	$1,284
Others	**9,437**	8,916
	$15,885	$10,200

11. 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 $20,324,000. Minimum payments over the next five years are as follows:

2008	**2009**	**2010**	**2011**	**2012**
$5,128,000	$3,315,000	$1,989,000	$1,468,000	$1,465,000

12. 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:

	2007		2006	
	Pension plans	**Other plans**	Pension plans	Other plans
Accrued benefit obligation				
Accrued benefit obligation, beginning of year	**$16,496**	**$871**	$15,107	$1,674
Settlement as at January 1, 2007	**–**	**–**	–	(779)
Current service cost	**1,358**	**5**	1,134	5
Employees' flex contributions	**61**	**–**	56	–
Interest cost	**925**	**44**	833	45
Benefits paid	**(545)**	**(74)**	(984)	(74)
Actuarial loss (actuarial gain)	**(860)**	**19**	350	–
Accrued benefit obligation, end of year	**$17,435**	**$865**	$16,496	$871
Plan assets				
Fair value of plan assets, beginning of year	**$11,200**	**$–**	$10,089	$–
Actual return on plan assets	**347**	**–**	935	–
Employer's contributions	**774**	**74**	754	74
Employees' contributions	**384**	**–**	350	–
Employees' flex contributions	**61**	**–**	56	–
Benefits paid	**(545)**	**(74)**	(984)	(74)
Fair value of plan assets, end of year	**$12,221**	**$–**	$11,200	$–
Funding status				
Deficit	**$(5,214)**	**$(865)**	$(5,296)	$(871)
Unamortized actuarial loss	**4,012**	**204**	4,617	191
Accrued benefit liability	**$(1,202)**	**$(661)**	$(679)	$(680)

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2007 (tabular amounts are expressed in thousands of dollars)

12. PENSION PLANS AND OTHER RETIREMENT BENEFITS (CONTINUED)

	2007		2006	
	Pension plans	**Other plans**	Pension plans	Other plans
Current service cost, net of employees' contributions	**$974**	**$5**	$784	$5
Interest cost	**925**	**44**	833	45
Actual return on plan assets	**(347)**	**–**	(935)	–
Gain on the settlement as at January 1, 2007	**–**	**–**	–	(608)
Actuarial loss (actuarial gain)	**(860)**	**19**	350	–
Service cost – before adjustment	**692**	**68**	1,032	(558)
Difference between expected return and actual return on plan assets for year	**(404)**	**–**	221	–
Difference between actuarial loss (gain) recognized for the year and actual actuarial loss (gain) on accrued benefit obligation for year	**1,006**	**(13)**	(210)	6
Difference between amortization of past service costs for year and actual plan amendments for the year	**3**	**–**	3	–
Defined benefit costs recognized	**$1,297**	**$55**	$1,046	$(552)

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

	2007		2006	
	Pension plans	**Other plans**	Pension plans	Pension plans
Accrued benefit obligation as at December 31				
Discount rate	**5.5%**	**5.5%**	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%**	5.25%	5.25%
Expected long-term rate of return on plan assets	**6.5%**	**–**	7%	–
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, 2007 (tabular amounts are expressed in thousands of dollars)

12. 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.

13. 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 term investments, bonds, shares and common funds is based on quoted market prices.

Fair value of the actuarial liabilities and reinsurance ceded is based on quoted market prices of the financial assets of actuarial liabilities. The Association annually segments assets supporting actuarial liabilities or 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.

14. 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 Chief Executive Officer
Montréal, Québec

Gaston R. Boyer, CA
Montréal, Québec

Florian Brissette, CA
Saint-Sauveur, Québec

Jean-Roch Brisson
Pointe-Claire, Québec

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

Raymond Carignan, MD
Montréal, Québec

Françoise P. Chagnon, MD
Montréal, Québec

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

Serge De Gagné, MBA, CRHA
Montréal, Québec

Charles de Jocas
Montréal, Québec

Jean-Louis Deschênes
Montréal, Québec

Raymond Desrosiers
Montréal, Québec

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

Claude Duhamel
Montréal, Québec

Sheldon Elman, MD
CM
Montréal, Québec

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

Maurice Hébert
Montréal, Québec

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

Gilles Lagacé, MD
Québec, Québec

Léo-Paul Landry, MD
Boucherville, Québec

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

Raymond Legault
Saint-Joseph-du-Lac, Québec

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

Edmond D. Monaghan, MD
CD, FRCSC, FACS
Montréal, Québec

Jacques Nolet
Montréal, Québec

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

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

Louise Piché
Montréal, Québec

Rolland Roberge
Saint-Damien-de-Brandon,
Québec

Michel Robillard, CA
Terrebonne, Québec

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

André St-Onge
Lanoraie, Québec

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

Hugh M. Scott, MD
Montréal, Québec

François Sestier, MD
PhD, FACC
Montréal, Québec

Guy Tremblay
Montréal, Québec

Denis Turgeon, DDS
Montréal, Québec

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

BOARD OF DIRECTORS

CANASSURANCE INSURANCE COMPANY

Claude Boivin, CA [1]
President and Chief Executive Officer
Montréal, Québec

Florian Brissette, CA [2, 3]
Secretary-Treasurer
Saint-Sauveur, Québec

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

Maurice Hébert [2, 4]
Montréal, Québec

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

Philip M. O'Brien, CM [1, 2]
Montréal, Québec

Gaston Pellan [4]
Québec, Québec

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

SENIOR MANAGEMENT

Claude Boivin, CA
President and Chief Executive Officer

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

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

Marc Lamirande
Vice-President,
Technologies and Infrastructures

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

MANAGEMENT

Colette Chabot, CIRC
Director, Human Resources
and Internal Communication

Michel Courtemanche
Director, Sales
and Development
Travel Insurance

Nancy Dionne
Director, Customer Contact Center

Jean-Pierre Fortin
Director,
Information Technologies

Incoronata Greco
Director, Development
International Assistance

Fabienne Lavoie,
RN, BSc, MSc
Director, Assistance Operations

Éric Senécal, CA
Corporate Controller

Carole Vézina, ALHC, HIA
Director, Administration
Individual Insurance

William Walker
Manager, Individual Products

CONSULTANTS

Élizabeth Bergeron, DDS
Dentist

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

Gilles Marcil, MD
CSPQ, CRCS, FRCSC
Ophthalmologist

Daniel Savard, MD
CSPQ, FRCPC
Cardiologist
Associate Medical Director

François Sestier, MD
PhD, FACC
Medical Director

Jean Thibault, LPh
Pharmacist

Hickson, Noonan
Legal Counsel

AUDITORS

Mallette
Limited Liability Partnership
Chartered Accountants

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

® Registered trademark of the Canadian Association of Blue Cross Plans, used under licence by Canassurance Hospital Service Association.

™ Trademark of the Canadian Association of Blue Cross Plans, used under licence by Canassurance Hospital Service Association.

Québec Blue Cross is an independent licensee of the Canadian Association of Blue Cross Plans.

Ce rapport annuel est disponible en français.

QUÉBEC BLUE CROSS

ONTARIO BLUE CROSS