Financial Statements of

HEALTHCARE EMPLOYEES BENEFITS PLAN - MANITOBA - THE GROUP LIFE INSURANCE PLAN

Year ended December 31, 2009

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AUDITORS' REPORT

To the Board of Trustees of Healthcare Employees Benefits Plan - Manitoba - The Group Life Insurance Plan

We have audited the statement of net assets of Healthcare Employees Benefits Plan - Manitoba - The Group Life Insurance Plan as at December 31, 2009 and the statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Plan'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 financial statements present fairly, in all material respects, the net assets of the Plan as at December 31, 2009 and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Winnipeg, Canada

May 28, 2010

HEALTHCARE EMPLOYEES BENEFITS PLAN - MANITOBA - THE GROUP LIFE INSURANCE PLAN

Statement of Net Assets

December 31, 2009, with comparative figures for 2008

	Active Plan	Paid-up Plan	2009 Total	2008 Total
Assets				
Cash	$ 1,034,454	$ 168,825	$ 1,203,279	$ 1,052,598
Premiums receivable	559,136	–	559,136	546,955
Investments, at market value (note 4):				
Equity pooled funds	9,674,713	5,821,322	15,496,035	13,659,041
Bond pooled funds	20,744,809	3,607,344	24,352,153	22,269,105
Prepaid expenses	4,820	–	4,820	3,075
Due to (from) plans	12,198	(12,198)	–	–
Due from The Great-West Life Assurance Company (note 5)	3,016,340	–	3,016,340	536,796
Capital assets (note 6)	–	–	–	520
	$ 35,046,470	$ 9,585,293	$ 44,631,763	$ 38,068,090
Liabilities and Net Assets				
Premiums payable and accrued liabilities	$ 721,489	$ 8,536	$ 730,025	$ 1,373,580
Due to Healthcare Employees Pension Plan - Manitoba (note 11)	14,792	–	14,792	15,249
Obligations for (note 8):				
Future paid-up insurance	–	8,201,000	8,201,000	7,381,000
Disability life waiver	12,358,000	–	12,358,000	11,144,000
IBNR	1,296,000	–	1,296,000	1,382,000
	13,654,000	8,201,000	21,855,000	19,907,000
	14,390,281	8,209,536	22,599,817	21,295,829
Net assets represented by:				
Capital fund	–	–	–	520
Internally restricted funds (note 9)	7,300,000	1,000,000	8,300,000	7,700,000
Unrestricted fund	13,356,189	375,757	13,731,946	9,071,741
	20,656,189	1,375,757	22,031,946	16,772,261
	$ 35,046,470	$ 9,585,293	$ 44,631,763	$ 38,068,090

See accompanying notes to financial statements.

Approved by the Trustees:

Brian Ellis Chair

Vice-Chair

HEALTHCARE EMPLOYEES BENEFITS PLAN - MANITOBA - THE GROUP LIFE INSURANCE PLAN

Statement of Changes in Net Assets

Year ended December 31, 2009, with comparative figures for 2008

	Active Plan	Paid-up Plan	2009 Total	2008 Total
Increases:				
Premiums	$ 9,245,049	$ –	$ 9,245,049	$ 8,639,334
Investment income (loss)	3,156,827	1,500,607	4,657,434	(3,044,900)
	12,401,876	1,500,607	13,902,483	5,594,434
Decreases:				
Claims incurred	5,336,797	256,435	5,593,232	8,112,715
Amortization of capital assets	520	–	520	24,059
Administrative - HEBP (note 11)	471,479	24,815	496,294	317,365
Administrative and interest - Great-West Life	306,045	5,561	311,606	421,615
Stop loss premiums [note 10(d)]	193,359	–	193,359	183,000
Investment manager fees	76,171	23,616	99,787	98,761
	6,384,371	310,427	6,694,798	9,157,515
Net increase (decrease) prior to changes in obligations	6,017,505	1,190,180	7,207,685	(3,563,081)
Changes in obligations for:				
Disability life waiver	(1,214,000)	–	(1,214,000)	(812,000)
Future paid-up insurance	–	(820,000)	(820,000)	(450,000)
IBNR	86,000	–	86,000	103,000
Increase (decrease) in net assets	$ 4,889,505	$ 370,180	$ 5,259,685	$ (4,722,081)

	Unrestricted fund Active Plan	Unrestricted fund Paid-up Plan	Internally restricted fund	Capital fund	2009 Total	2008 Total
Net assets, beginning of year	$ 8,966,164	$ 105,577	$ 7,700,000	$ 520	$ 16,772,261	$ 21,494,342
Increase (decrease) in net assets	4,890,025	370,180	–	(520)	5,259,685	(4,722,081)
Transfer for internally restricted funds (note 9)	(500,000)	(100,000)	600,000	–	–	–
Net assets, end of year	$ 13,356,189	$ 375,757	$ 8,300,000	$ –	$ 22,031,946	$ 16,772,261

See accompanying notes to financial statements.

1. General:

The Healthcare Employees Benefits Plan - Manitoba (HEBP) is a jointly trusteed, not-for-profit organization which includes the group life insurance plan (the Plan) for healthcare employees in Manitoba.

The Plan is registered as a health and welfare trust under the *Income Tax Act* and is not subject to income taxes.

The group life insurance plan is a not-for-profit plan which provides basic, dependent and family life insurance and accidental death and dismemberment benefits to participating employees. The group life insurance plan is comprised of two plans: the Active Plan and the Paid-up Plan (the Plans). The Active Plan began January 1, 1983 and serves those employees who joined subsequent to that date. The Paid-up Plan is for a closed group of employees who were part of the plan prior to January 1, 1983. Claims administration for these plans is provided by The Great-West Life Assurance Company (Great-West Life).

2. Significant accounting policies:

(a) Basis of preparation:

These financial statements are prepared on a going concern basis and present the aggregate financial position of the Plan as a separate financial reporting entity, independent of the participating employers and members. Only the assets and obligations to members eligible to participate in the Plan have been included in these financial statements. These financial statements do not portray the funding requirements of the Plan or the benefit security of the individual plan members.

(b) Fund accounting:

Assets, liabilities, revenues and expenses related to the Plan’s capital assets are recorded in the Capital Fund. The Internally Restricted Fund represents amounts restricted by the Board of Trustees for contribution stabilization and investment fluctuations. All other assets, liabilities, revenues and expenses are reported in the Unrestricted Fund.

(c) Investments:

The equity pooled funds and bond pooled funds are recorded at market values established by the respective fund trustee.

2. **Significant accounting policies (continued):**

(d) Capital assets:

Capital assets are recorded at cost less accumulated amortization. Repairs and maintenance costs are charged to expense. Betterments which extend the estimated useful life of an asset are capitalized. When a capital asset no longer contributes to the Plan's ability to provide services, its carrying amount is written-down to its residual value. Capital assets, which include computer projects in progress, will be amortized on a straight-line basis over three years as the projects are completed. Amortization expense is reported in the Capital Fund.

(e) Premiums:

Premiums recorded in the statement of changes in net assets include the employees' and employers' share of the premiums required for the group life insurance coverage. Premiums are recorded on an accrual basis.

(f) Foreign currency transactions and balances:

Assets and liabilities denominated in foreign currency are translated into Canadian dollars at the exchange rate prevailing at the financial statement date. Revenues and expenses denominated in foreign currencies are translated at the exchange rate prevailing at the transaction date.

(g) Investment income:

Investment income includes interest and dividend income as well as realized and unrealized gains and losses on investments during the year. Investment income has been accrued as reported by the issuer of the pooled funds.

(h) Transaction costs:

Transaction costs are incremental costs directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. Transaction costs incurred are expensed and included in investment income.

2. Significant accounting policies (continued):

(i) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets during the year. Actual results could differ from those estimates.

3. Change in accounting policy:

Financial Instruments - Disclosures:

Effective January 1, 2009, the Plan adopted the amendments to Canadian Institute of Chartered Accountants (CICA) Section 3862, *Financial Instruments - Disclosures* which provides for the comprehensive disclosure of financial instruments. Amendments to this standard require all financial instruments measured at fair value to be classified into one of three levels, depending on the inputs used for valuation. The hierarchy of inputs is summarized below:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

- inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices (Level 2); and

- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

Changes in valuation methods may result in transfers into or out of an investment’s assigned level.

The enhanced disclosures with respect to these amendments are included in note 10 (e) to the financial statements.

3. Change in accounting policy (continued):

Credit risk and the fair value of financial assets and liabilities:

In January 2009, the Emerging Issue Committee (EIC) of the CICA issued EIC-173, *Credit Risk and the Fair Value of Financial Assets and Liabilities*, which clarifies that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. EIC-173 is applied retrospectively without adjustment of prior periods in annual financial statements for periods ending on or after January 20, 2009. The Plan adopted this recommendation in its fair value determination effective January 1, 2009. The adoption of this guideline did not impact the Plan's changes in net assets or net assets.

4. Investments:

	Active plan	Paid-up plan	2009 Total	2008 Total
Equity pooled funds	$ 9,674,713	$ 5,821,322	$ 15,496,035	$ 13,659,041
Bond pooled funds	20,744,809	3,607,344	24,352,153	22,269,105
	$ 30,419,522	$ 9,428,666	$ 39,848,188	$ 35,928,146

The investments of the Plan are in equity and bond pooled funds which yielded rates of return as follows: Active Plan - return of 11.5 percent (2008 - negative return of 5.2 percent), Paid-up Plan - return of 17.9 percent (2008 - return of 15.6 percent).

5. Due from The Great-West Life Assurance Company:

The amount due from The Great-West Life Assurance Company represents funds held by The Great-West Life Assurance Company as a reserve for claim fluctuations and accumulated annual claims experience.

Interest was earned on the amount due from The Great-West Life Assurance Company ranging from 0.25 percent to 1.1 percent (2008 - 0.9 percent to 2.9 percent).

6. Capital assets:

	Cost	Accumulated amortization	2009 Net book value	2008 Net book value
Computer projects - Active Plan	$ 72,177	$ 72,177	$ –	$ 520

7. Role of the actuaries:

The actuaries have been appointed pursuant to the Trust Agreement. With respect to the preparation of financial statements, the actuaries have been engaged to carry out estimations of the Plan's future paid-up insurance, disability life waiver and IBNR obligations to the members. The estimations are made in accordance with accepted actuarial practice and reported thereon to the Board of Trustees. In performing the estimation of the liabilities, which are by their nature inherently variable, assumptions are made as to the investment rate of return, mortality, retirement and termination rates and salary increments in the future.

8. Obligations for:

(a) Future paid-up insurance:

The computation of the obligation for future paid-up insurance is performed at least every three years by an independent actuary. The most recent actuarial valuation indicated that at December 31, 2009 the assets of the Paid-up Plan exceeded the actuarially computed liability for future obligations by approximately $1,376,000.

The assumptions used in determining the actuarial present value of the obligation for future paid-up insurance are management's best estimate and were developed by reference to expected long-term market conditions. Two significant long-term actuarial assumptions used in the valuation were:

(i) the salary escalation rate was assumed to be 4.0 percent for 2009 and 4.0 percent thereafter;

(ii) the asset rate of return and discount rate were assumed to be 6.0 percent.

In addition, the actuarial valuation reflects assumptions with regard to mortality, retirement and termination rates.

8. Obligations for (continued):

Since there is no intention of extinguishing the future paid-up insurance obligation in the near term, the obligation is calculated by using the going concern actuarial basis. As underlying conditions change over time, management's best estimate assumptions may also change, which could cause a material change in the actuarial value of the obligation for future paid-up insurance.

(b) Disability life waiver:

The obligation for disability life waiver represents the present value of future life insurance claims for members on disability and has been estimated, using the experience tables of the November 2001 Group Life Waiver Study prepared by the Canadian Institute of Actuaries, in the amount of $12,358,000 (2008 - $11,144,000). The calculation of the obligation for disability life waiver has been completed by an independent actuary.

For the year ended December 31, 2009, the actuary revised the methodology used to estimate the obligation by including a reserve for the present value of future life insurance payments for unreported claims of disabled members at December 31, 2009. As a result of this change, the obligation increased by $1,092,000 as at December 31, 2009.

(c) Obligation for incurred but not reported (IBNR):

The obligation for IBNR has been established as at December 31, 2009 as an estimate of claims which have been incurred but not reported at the date of the financial statements. The obligation is based on a study of claims during 2006 through 2009 and the calculation of the obligation has been completed by an independent actuary.

9. Internally restricted:

The Board of Trustees has approved the establishment of contribution stabilization reserves and investment reserves. The contribution stabilization reserves have been established at amounts equal to 50 percent of the current year's premiums. The investment reserves have been established at amounts equal to 10 percent of the market value of the investments, for each of the Active Plan and Paid-up Plan.

10. Risk management and fair value:

(a) Market risk:

(i) Interest rate risk:

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. The Plan's fixed income investments are exposed to the risk that the value of interest-bearing investments will fluctuate due to changes in the level of market interest rates. The Plan's exposure to interest rate risk is concentrated in its investment in the bond pooled funds. To properly manage the Plan's interest rate risk, appropriate guidelines on the weighting and duration for fixed income investments are set and monitored.

The remaining terms to contractual maturity of fixed income investments at December 31 are as follows:

	2009	2008
Less than one year	$ 753,473	$ 592,358
One to five years	10,270,155	9,793,952
After five years	13,328,525	11,882,795
Total market value	$ 24,352,153	$ 22,269,105

As at December 31, 2009, if the prevailing interest rates were raised or lowered by 100 basis points, with all other factors held constant, net assets would likely have decreased or increased, respectively, by approximately $1,590,000. The Plan's interest rate sensitivity was determined based on portfolio weighted duration.

(ii) Foreign currency risk:

Foreign currency exposure arises from the Plan's investment in equity and bond pooled funds, which hold investments denominated in U.S. currency. Fluctuations in the relative value of the Canadian dollar against this currency can result in a positive or negative effect on the fair value of investments. The Plan's foreign currency risk is monitored by the investment manager on a quarterly basis.

10. Risk management and fair value (continued):

(a) Market risk (continued):

(ii) Foreign currency risk (continued):

The Plan's exposure in investments to foreign currencies to Canadian dollars is shown below:

As at December 31, 2009		Actual currency exposure	%
Canadian	$	31,159,172	78.2
US dollar		8,689,016	21.8
	$	39,848,188	100.0

A 10 percent increase or decrease in exchange rates, with all other variables held constant, would result in a charge in unrealized gains (losses) of $869,000.

(iii) Other price risk:

The Plan's investments in equity pooled funds are sensitive to market fluctuations. To properly manage the Plan's other price risk, appropriate guidelines on asset diversification to address specific security, geographic, sector and investment manager risks are set by the Board of Trustees and monitored by the investment managers on a quarterly basis. As at December 31, 2009 a decline of 10 percent in equity values, with all other variables held constant, would have impacted the Plan's equity investments by an approximate unrealized loss of $1,550,000.

(b) Credit risk:

The Plan is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due or requested. The Plan's greatest concentration of credit risk is in its fixed income securities. The fair value of the fixed income securities includes consideration of the creditworthiness of the debt issuer. All transactions in listed securities are settled or paid for upon delivery using approved brokers. The risk of default is considered minimal, as payment is made on a purchase once the securities have been received from the broker. For sales transactions, the securities are released once the broker has made payment.

10. Risk management and fair value (continued):

(b) Credit risk (continued):

The breakdown of the Plan's bond pooled funds by credit ratings from various rating agencies is presented below:

Credit rating		2009 Market value			2008 Market value	
AAA	$	10,227,904	42.0%	$	9,286,217	41.7%
AA		5,771,460	23.7%		5,723,160	25.7%
A		7,159,533	29.4%		6,747,539	30.3%
BBB		1,047,143	4.3%		378,575	1.7%
Short-term investments		146,113	0.6%		133,614	0.6%
	$	24,352,153	100%	$	22,269,105	100%

Credit risk associated with premiums receivable is minimized due to their nature. Premiums are collected from participating members through the payroll process. No provision for doubtful premiums receivable has been recorded in either 2009 or 2008.

(c) Liquidity risk:

Liquidity risk is the possibility that investments of the Plan cannot be readily converted into cash when required. The Plan may be subject to liquidity constraints because of insufficient volume in the markets for the securities of the Plan or other securities may be subject to legal or contractual restrictions on their resale. Liquidity risk is managed by investing the majority of the Plan's assets in investments that are traded in an active market and can be readily disposed. The Plan's premiums payable and accrued liabilities and due to Healthcare Employees Pension Plan - Manitoba balances have contracted maturities of less than one year.

(d) Claims and premiums risk:

The nature of the unpaid claims is such that the establishment of an obligation is based on known facts and interpretation of circumstances, on a case by case basis, and is therefore a complex and dynamic process influenced by a variety of factors.

Consequently, the establishment of obligations and premium rates relies on the judgment and opinions of a number of professionals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining premium rates and reserves necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made.

10. Risk management (continued):

(d) Claims and premiums risk (continued):

To offset the Plan incurring abnormally high claims experience in any one fiscal period, the Plan has purchased stop loss coverage from The Great-West Life Assurance Company. The stop loss coverage becomes effective when basic life insurance claims paid are in excess of 110 percent of premiums collected in any fiscal year.

(e) Fair value:

The fair value of the financial assets and liabilities of the Plan approximates their carrying value due to their short-term nature (except for investments which are stated at market value, note 4).

The Plan's assets which are recorded at fair value have been categorized into three levels in accordance with the amendments to CICA Section 3862 (note 3). The following is a summary of the inputs used as of December 31, 2009 in valuing the Plan's investments:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable (Level 2)	Significant unobservable inputs (Level 3)	Total
Cash	$ 1,203,279	$ –	$ –	$ 1,203,279
Equity pooled funds	15,367,721	128,314	–	15,496,035
Bond pooled funds	–	24,352,153	–	24,352,153
	$ 16,571,000	$ 24,480,467	$ –	$ 41,051,467

At December 31, 2009, there were no transfers between Level 1 and Level 2.

11. Related party transactions:

HEBP and the Healthcare Employees Pension Plan - Manitoba (HEPP) have a certain number of common trustees and a cost sharing agreement to allocate certain costs based on factors such as square footage, number of employees and time usage. The balance due to HEPP is non-interest bearing, and has no fixed terms of repayment.