Financial Statements of

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

Year ended December 31, 2010

KPMG

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Healthcare Employees Benefits Plan - Manitoba - The Group Life Insurance Plan, which comprise the statement of net assets as at December 31, 2010, the statement of changes in net assets for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the net assets of Healthcare Employees Benefits Plan - Manitoba - The Group Life Insurance Plan as at December 31, 2010, and its changes in net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

June 17, 2011

Winnipeg, Canada

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

Statement of Net Assets

December 31, 2010, with comparative figures for 2009

	Active Plan	Paid-up Plan	2010 Total	2009 Total
Assets				
Cash	$ 1,472,641	$ 172,700	$ 1,645,341	$ 1,203,279
Premiums receivable	596,402	–	596,402	559,136
Investments, at market value (note 3):				
Equity pooled funds	11,174,362	6,379,275	17,553,637	15,496,035
Bond pooled funds	23,819,815	3,706,719	27,526,534	24,352,153
Prepaid expenses	6,423	–	6,423	4,820
Due to (from) plans	89,178	(89,178)	–	–
Due from The Great-West Life Assurance Company (note 4)	1,157,367	–	1,157,367	3,016,340
	$ 38,316,188	$ 10,169,516	$ 48,485,704	$ 44,631,763
Liabilities and Net Assets				
Premiums payable and accrued liabilities	$ 1,496,912	$ 99,296	$ 1,596,208	$ 730,025
Due to Healthcare Employees Pension Plan - Manitoba (note 9)	50,652	–	50,652	14,792
Obligations for (note 6):				
Future paid-up insurance	–	8,427,000	8,427,000	8,201,000
Disability life waiver	12,599,000	–	12,599,000	12,358,000
IBNR	–	–	–	1,296,000
	12,599,000	8,427,000	21,026,000	21,855,000
	14,146,564	8,526,296	22,672,860	22,599,817
Net assets represented by:				
Internally restricted funds (note 7)	7,900,000	1,000,000	8,900,000	8,300,000
Unrestricted fund	16,269,624	643,220	16,912,844	13,731,946
	24,169,624	1,643,220	25,812,844	22,031,946
Commitment (note 10)				
	$ 38,316,188	$ 10,169,516	$ 48,485,704	$ 44,631,763

See accompanying notes to financial statements.

Approved by the Trustees:

_______________ Chair

Brian Ellis Vice-Chair

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

Statement of Changes in Net Assets

Year ended December 31, 2010, with comparative figures for 2009

	Active Plan	Paid-up Plan	2010 Total	2009 Total
Increases:				
Premiums	$ 9,658,609	$ –	$ 9,658,609	$ 9,245,049
Investment income	2,581,801	857,997	3,439,798	4,657,434
	12,240,410	857,997	13,098,407	13,902,483
Decreases:				
Claims incurred	8,391,847	277,697	8,669,544	5,593,232
Amortization of capital assets	–	–	–	520
Administrative - HEBP (note 9)	710,278	54,923	765,201	496,294
Administrative and interest - Great-West Life	381,545	6,321	387,866	311,606
Stop loss premiums [note 8(d)]	205,066	–	205,066	193,359
Investment manager fees	93,239	25,593	118,832	99,787
	9,781,975	364,534	10,146,509	6,694,798
Net increase prior to changes in obligations	2,458,435	493,463	2,951,898	7,207,685
Changes in obligations for:				
Disability life waiver	(241,000)	–	(241,000)	(1,214,000)
Future paid-up insurance	–	(226,000)	(226,000)	(820,000)
IBNR	1,296,000	–	1,296,000	86,000
Increase in net assets	$ 3,513,435	$ 267,463	$ 3,780,898	$ 5,259,685

	Unrestricted fund Active Plan	Unrestricted fund Paid-up Plan	Internally restricted fund	2010 Total	2009 Total
Net assets, beginning of year	$ 13,356,189	$ 375,757	$ 8,300,000	$ 22,031,946	$ 16,772,261
Increase in net assets	3,513,435	267,463	–	3,780,898	5,259,685
Transfer for internally restricted funds (note 7)	(600,000)	–	600,000	–	–
Net assets, end of year	$ 16,269,624	$ 643,220	$ 8,900,000	$ 25,812,844	$ 22,031,946

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 a trust under the *Income Tax Act.* By virtue of Canada Revenue Agency (CRA) administrative rules, the Plan is viewed as a health and welfare trust and calculates its income for tax purposes under CRA administrative guidelines.

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:

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) 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.

(e) 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.

(f) 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.

(g) 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.

(h) 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. Investments:

	Active plan	Paid-up plan	2010 Total	2009 Total
Equity pooled funds	$ 11,174,362	$ 6,379,275	$ 17,553,637	$ 15,496,035
Bond pooled funds	23,819,815	3,706,719	27,526,534	24,352,153
	$ 34,994,177	$ 10,085,994	$ 45,080,171	$ 39,848,188

The investments of the Plan are in equity and bond pooled funds which yielded rates of return as follows: Active Plan - return of 8.0 percent (2009 - return of 11.5 percent), Paid-up Plan - return of 9.3 percent (2009 - return of 17.9 percent).

4. 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 0.40 percent (2009 - 0.25 percent to 1.1 percent).

5. 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.

6. 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, 2010 the assets of the Paid-up Plan exceeded the actuarially computed liability for future obligations by approximately $1,643,000.

6. Obligations for (continued):

(a) Future paid-up insurance (continued):

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 annually;

(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.

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 the present value of future life insurance payments for unreported claims of disabled members 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 $12,599,000 (2009 - $12,358,000). The calculation of the obligation for disability life waiver has been completed by an independent actuary.

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

The obligation for IBNR was 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 was based on a study of claims during 2006 through 2009 and the calculation of the obligation was completed by an independent actuary.

Based on a global view of the Plan's reserves conducted during the year, it was determined that late reported death claims are covered by reserves established by The Great-West Assurance Company and, therefore, this IBNR reserve is not required by the Plan.

7. 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.

8. 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:

	2010	2009
Less than one year	$ 4,950,435	$ 753,473
One to five years	7,525,957	10,270,155
After five years	15,050,142	13,328,525
Total market value	$ 27,526,534	$ 24,352,153

As at December 31, 2010, 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 $1,753,000. The Plan's interest rate sensitivity was determined based on portfolio weighted duration.

8. Risk management and fair value (continued):

(a) Market risk (continued):

(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.

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

As at December 31, 2010	Actual currency exposure	%
Canadian	$ 35,600,682	79.0
US dollar	9,479,489	21.0
	$ 45,080,171	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 $948,000.

(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, 2010 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 $1,755,000.

8. Risk management and fair value (continued):

(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.

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

Credit rating	2010 Market value		2009 Market value	
AAA	$ 12,045,611	43.8%	$ 10,227,904	42.0%
AA	5,161,225	18.8%	5,771,460	23.7%
A	8,844,276	32.1%	7,159,533	29.4%
BBB	1,475,422	5.3%	1,047,143	4.3%
Short-term investments	–	–	146,113	0.6%
	$ 27,526,534	100.0%	$ 24,352,153	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 2010 or 2009.

(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.

8. Risk management and fair value (continued):

(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.

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 3).

The Plan's assets which are recorded at fair value are required to be classified into one of three levels, depending on the inputs used for valuation. The hierarchy of inputs is summarized below:

Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2	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 3	Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

8. Risk management and fair value (continued):

(e) Fair value (continued):

The following is a summary of the classification used as of December 31 in valuing the Plan's investments carried at fair value:

December 31, 2010	Level 1	Level 2	Level 3	Total
Cash	$ 1,645,341	$ –	$ –	$ 1,645,341
Equity pooled funds	17,384,119	169,518	–	17,553,637
Bond pooled funds	–	27,526,534	–	27,526,534
	$ 19,029,460	$ 27,696,052	$ –	$ 46,725,512

December 31, 2009	Level 1	Level 2	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

There were no transfers between Level 1 and Level 2 in the years ended December 31, 2010 and 2009.

9. 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.

10. Commitment:

The Plan leases office space under various operating leases with varying expiry dates up to December 31, 2015. The Plan's allocation of annual lease payments to expiry is as follows:

2011	$ 38,000
2012	38,000
2013	38,000
2014	38,000
2015	39,000
	$ 191,000