Financial Statements of

HEALTHCARE EMPLOYEES BENEFITS PLAN - MANITOBA - DISABILITY AND REHABILITATION PLAN

Year ended December 31, 2002

KPMG
KPMG LLP
Chartered Accountants
Suite 2000 – One Lombard Place
Winnipeg MB R3B 0X3
Canada

Telephone (204) 957-1770
Telefax (204) 957-0808
www.kpmg.ca

AUDITORS' REPORT

To the Board of Trustees of Healthcare Employees Benefits Plan - Manitoba - Disability and Rehabilitation Plan

We have audited the statement of net assets of the Healthcare Employees Benefits Plan - Manitoba - Disability and Rehabilitation Plan as at December 31, 2002 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, 2002 and the changes in its net assets and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Signed "**KPMG LLP**"

Chartered Accountants

Winnipeg, Canada

May 16, 2003

HEALTHCARE EMPLOYEES BENEFITS PLAN - MANITOBA - DISABILITY AND REHABILITATION PLAN

Statement of Net Assets

December 31, 2002, with comparative figures for 2001

	2002 Total	2001 Total
Assets		
Cash and short-term deposits	$ 5,644,950	$ 14,307,025
Premiums and other receivables	1,803,733	1,208,146
Prepaid expenses	25,591	6,799
Due from Manitoba Health (note 6)	–	18,990,870
Due from Manulife Financial [notes 3(d) and 11]	1,278,025	35,574,660
Investments	35,705,057	–
	$ 44,457,356	$ 70,087,500
Liabilities and Net Assets		
Premiums payable and accrued liabilities	$ 708,126	$ 735,808
Due to Healthcare Employees Pension Plan - Manitoba (note 7)	68,842	222,439
Reserves for:		
IBNR (note 5)	11,788,839	6,715,801
Disabled lives (notes 5 and 11)	40,853,404	62,649,433
	52,642,243	69,365,234
Net assets (note 4)	(8,961,855)	(235,981)
Continuity of operations (note 2)		
	$ 44,457,356	$ 70,087,500

See accompanying notes to financial statements.

On behalf of the Board of Trustees:

_________________ Trustee

_________________ Trustee

HEALTHCARE EMPLOYEES BENEFITS PLAN - MANITOBA - DISABILITY AND REHABILITATION PLAN

Statement of Changes in Net Assets

Year ended December 31, 2002, with comparative figures for 2001

	HEBP & ASO Plan	Insured Plan (note 11)	2002 Total	2001 Total
Increase in net assets:				
Premiums	$ 13,954,220	$ 3,301,951	$ 17,256,171	$ 15,209,018
Funding from Manitoba Health (note 6)	–	–	–	6,278,476
Investment income	2,825,468	539,433	3,364,901	2,439,756
	16,779,688	3,841,384	20,621,072	23,927,250
Decrease in net assets:				
Claims incurred	6,945,496	2,972,278	9,917,774	12,574,123
Administrative - HEBP (note 7)	1,438,367	–	1,438,367	650,903
Administrative - Manulife Financial	542,297	349,968	892,265	1,326,199
	8,926,160	3,322,246	12,248,406	14,551,225
Net increase in assets before the undernoted	7,853,528	519,138	8,372,666	9,376,025
Gain on assumption of net deficit by Manulife (note 11)	–	4,119,993	4,119,993	–
Appropriations from (to) reserves for:				
IBNR	(8,868,205)	(114,767)	(8,982,972)	(322,361)
Claims fluctuation	–	–	–	688,745
Disabled lives	(7,907,959)	(2,527,602)	(10,435,561)	(14,883,082)
Transfer from (to) unrestricted deposit	(1,800,000)	–	(1,800,000)	4,072,268
	(18,576,164)	(2,642,369)	(21,218,533)	(10,444,430)
Net increase (decrease) in assets	(10,722,636)	1,996,762	(8,725,874)	(1,068,405)
Net assets, beginning of year	1,760,781	(1,996,762)	(235,981)	73,019
Transfer from net assets held by Manulife	–	–	–	703,423
Transfer of net assets from Manitoba Health Organizations Incorporated	–	–	–	55,982
Net assets, end of year	$ (8,961,855)	$ –	$ (8,961,855)	$ (235,981)

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 disability and rehabilitation plan for the healthcare employees in Manitoba.

The Plan is registered as a health and welfare trust under the *Income Tax Act.*

The disability and rehabilitation plan was established on October 1, 1988 to administer the long-term disability plan for employees of participating healthcare facilities of Manitoba. The employers' share of the Plan was insured with Manulife until May 31, 2002 ("Insured Plan"). Claims adjudication for these plans was provided by Manulife Financial ("Manulife") until May 31, 2002. Claims with disability dates on or after June 1, 2002 are self-administered and self-insured ("HEBP and ASO Plan").

2. Continuity of operations:

These financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles. As at December 31, 2002, the Plan has an accumulated negative balance in net assets of $8,961,855. In order to address this financial position, the Plan has decreased benefits to members and increased contribution rates from members and their employers beginning on April 1, 2003. If the Plan is not able to generate sufficient additional premiums or reduce benefits, it may not be able to continue as a going concern and realize its assets and pay its liabilities as they fall due.

3. Significant accounting policies:

(a) Basis of preparation:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

(b) Investments:

Investments are recorded at market value.

(c) Investment income:

Investment income includes interest and dividend income as well as realized and unrealized gains and losses on investments during the year.

3. Significant accounting policies (continued):

(d) Due from Manulife Financial:

Due from Manulife Financial represented assets held in reserve for future benefit payments for the fully insured portion of the plan. At May 31, 2002, the Trustees terminated the insured arrangement with Manulife Financial (note 11).

The assets at December 31, 2002 of $1,278,025 represent the unrestricted deposit account balance of $1,139,290 (note 11) and the ASO Plan surplus of $138,735. Due to the termination of the Insured Plan with Manulife Financial at May 31, 2002, no reserves for the fully insured portion of the plan are required at December 31, 2002. At December 31, 2001, the disabled lives reserve for the insured plan was $29,703,988.

(e) Premiums:

Premiums recorded in the statement of changes in net assets include the employees' and employers' share of the premiums required for the disability coverage.

(f) Funding from Manitoba Health:

Funding from Manitoba Health represents the change in the amounts receivable from Manitoba Health for the employers' share of disability coverage for the pre-1999 Plans as per the agreement (note 6).

(g) Measurement uncertainty:

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain assets, liabilities and reserves at the date of the financial statements and the reported amounts of certain increases and decreases in net assets, and appropriations from (to) reserves during the year. Actual results could differ from those estimates.

4. Net assets:

Net assets represent the excess of claims over premiums and appropriations to reserves over premiums.

5. Reserves:

(a) Incurred but not reported ("IBNR"):

This is a reserve established to cover the liability for claims that exist but have not yet been reported or submitted, at any point in time. The reserve is based on a percentage of the required annualized premiums of the plan for the year.

(b) Disabled lives:

The reserve is calculated annually under each plan for every disabled member receiving benefits. It reflects the liability for future benefit payments and is developed on the basis of the member's age, benefit amount and normal rates of recovery.

(c) Measurement uncertainty:

The reserves represent estimates for the full amount of all claims costs and the projected final settlements of claims incurred to the year end date. These reserves are calculated taking into account the time value of money plus explicit provisions for adverse deviations. These estimates of future loss activity are necessarily subject to uncertainty and are selected from a wide range of possible outcomes. These reserves are adjusted up or down as additional information affecting the estimated amounts becomes known during the course of claims settlement. All changes in estimates are recorded as changes to the provisions in the current year.

6. Due from Manitoba Health:

During the year ended December 31, 1999, the HEBP Board of Trustees signed an agreement with Manitoba Health regarding the funding for the Plan.

This agreement enabled the trustees of HEBP to take over the administration of the Plan as of January 1, 2000 from Manitoba Health Organizations Incorporated.

According to the agreement, Manitoba Health pays 50% of the claims and expenses for claims incurred before April 1, 1999 (the "pre-1999 Plan") until July 1, 2001. At July 1, 2001, an independent actuarial valuation was performed to determine Manitoba Health's share of the outstanding actuarial liability. This liability as established by the actuary was paid in a lump sum payment for all future liabilities, by Manitoba Health for the pre-1999 Plan.

6. Due from Manitoba Health (continued):

During the year ended December 31, 2002, Manitoba Health paid the remaining amounts due for claims incurred and future expected claims under the pre-1999 Plan.

The employers' share of claims incurred after April 1, 1999 (the "post-1999 Plan") is being funded through contributions from Manitoba Health at 1% of the insurable earnings of the Plan members on an ongoing basis.

7. Related party transactions:

HEBP and the Healthcare Employee's Pension Plan - Manitoba ("HEPP") have a certain number of common trustees and have a cost sharing agreement to allocate certain costs based on factors such as square footage, number of employees and time usage.

8. Assets earning investment income:

Cash and short-term deposits	$ 5,644,950
Investments, at market value	35,705,057
Due from Manulife Financial	1,278,025
	$ 42,628,032

Investments of the Plan are held in a Pooled Bond Investment Fund which earned interest at 7.5%. Interest is earned on the Due from Manulife Financial as follows: UDA balance at the 1-year GIC rate less .5% and on cash flows at 90-day T-bill rate less .5%.

9. Underlying risks:

(a) Interest rate risk:

Interest rate risk refers to the adverse consequences of interest rate changes on the Plan's cash flows, financial position, and income. The risk arises from differences in the timing and amount of cash flows related to the Plan's assets and liabilities. The value of the Plan's assets is affected by short-term changes in nominal interest rates and equity markets.

9. Underlying risks (continued):

(b) Credit risk:

Credit risk arises from the potential for an investee to fail or to default on its contractual obligations to the Plan. The disability and rehabilitation plan manages credit risk by a diversified credit policy of investing in bonds through a Pooled Bond Investment Fund.

(c) Claims and premiums risk:

The nature of the unpaid claims is such that the establishment of reserves 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 reserves 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. Fair value:

The carrying amount of certain financial assets and liabilities are a reasonable estimate of the fair values because of the short maturity of those instruments. Those short-term financial assets are comprised of cash and short-term deposits, premiums and other receivables and Due from Manulife. Short-term financial liabilities are comprised of premiums payable and accrued liabilities and Due to Healthcare Employees Pension Plan - Manitoba.

Other financial assets and liabilities are comprised of investments (note 8) and the reserves. Since there is no intention of extinguishing the obligations for disability payments in the near term, the fair value is best approximated by using the same actuarial basis as for the establishment of these assets and reserves. As underlying conditions change over time, management's best estimate assumptions may also change, which could cause a material change in the actuarial present values of these accrued benefits and related funding receivables.

11. Disposal of insured assets and liabilities:

Based on a Memorandum of Settlement (the "Agreement") between Manulife Financial and the Plan dated March 14, 2003, the Insured Plan was terminated. Manulife Financial remains responsible for all obligations relating to claims for disabilities that occurred on or before May 31, 2002, while claims with disability dates on or after June 1, 2002 are self-administered and self-insured by the Plan.

As of January 1, 2002, Manulife Financial held an unrestricted deposit account ("UDA") balance of $3,672,482 on behalf of the Plan. In accordance with the terms and conditions of the Agreement, Manulife Financial paid the Plan $756,988 on August 28, 2002 as a partial refund of the UDA balance. In addition, in order to fully settle any claims that Manulife Financial may have had in respect of the 2001 deficit and 2002 increased premiums payable for the Insured Plan, the Plan paid Manulife Financial the amount of $1,800,000 on September 27, 2002 through a transfer from the UDA balance. As a consequence of the $1,800,000 payment, the Plan has no further financial obligation to Manulife Financial in respect of any premiums or deficits under the Insured Plan.

	Receivable	Experience loss	UDA	Insured Plan IBNR	Insured Plan Disabled Lives	Gain on assumption of underwriting loss
Balance at December 31, 2001	$ 37,171,637	$ (1,996,762)	$ (3,672,482)	$ (3,795,167)	$ (29,703,988)	$ 1,996,762
Net increase in reserves to May 31, 2002	2,642,369	–	–	(114,767)	(2,527,602)	–
Payment to Plan by Manulife	(756,988)	–	756,988	–	–	–
Payment to Manulife from UDA	(1,800,000)	–	1,800,000	–	–	–
Interest earned	23,796	–	(23,796)	–	–	–
Underwriting loss	–	(2,123,231)	–	–	–	2,123,231
Assumed by Manulife	(36,141,524)	–	–	3,909,934	32,231,590	–
Balance at December 31, 2002	$ 1,139,290	$ (4,119,993)	$ 1,139,290	$ –	$ –	$ 4,119,993

The UDA balance at December 31, 2002 of $1,139,290 is included in the due from Manulife Financial balance on the statement of net assets. Manulife Financial repaid the UDA balance in full to the Plan on April 11, 2003.

11. Disposal of insured assets and liabilities (continued):

Manulife Financial is to provide the Plan with terminal accounting in respect of the Insured Plan for the seven year period from June 1, 2002 to May 31, 2009. The deficit of the Insured Plan as at May 31, 2002 will be carried over as the opening balance for the terminal accounting period, with the $1,800,000 payment applied as a premium payment in the terminal accounting period. Any surplus generated during the terminal accounting period will first be applied to the deficit carried forward from May 31, 2002 and any other deficits arising during the terminal accounting period. Manulife Financial is obliged to pay the Plan any remaining surplus at the end of the terminal accounting period within 60 days thereof, together with interest from May 31, 2009 to the date of payment. Should the Insured Plan generate a deficit during the terminal accounting period or generate a surplus that is insufficient to eliminate the deficit existing as of May 31, 2002, no further amounts shall be owing or paid by the Plan in respect of any deficit existing at the end of the terminal accounting period.

12. Statement of cash flows:

A separate statement of cash flows is not presented since the cash flows are readily apparent from the statement of net assets and statement of changes in net assets.

13. Comparative figures:

Certain 2001 figures have been reclassified to conform with the financial statement presentation adopted in the current year.