



Millions of good reasons

2006 FINANCIAL REPORT



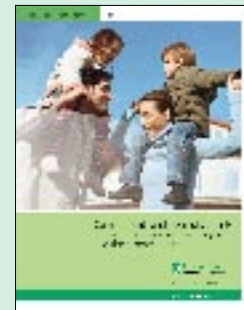
Money working for people

Life, health, retirement

THE LARGEST COOPERATIVE FINANCIAL GROUP IN CANADA

With its 5.7 million member-owners, which include consumers and businesses alike, Desjardins is the leading financial institution in Quebec as well as the largest cooperative financial group in Canada. Due to the complementary relationship between the caisses and the subsidiaries, combined with internal expertise at all Group components, Desjardins members and clients benefit from a wide range of continuously evolving products and services that are adapted to their needs. And because our cooperative nature translates to “money working for people,” Desjardins is more involved in the community than any other financial institution, thereby contributing to the economic and social well-being of people and communities.

Desjardins offers members and clients an unparalleled presence in Quebec, through the caisses and their service centres, Business Centres, subsidiary distribution networks and virtual networks. Elsewhere in Canada, Desjardins is associated with the caisses populaires in Ontario, Manitoba and New Brunswick, as well as with Desjardins Credit Union in Ontario. In addition, several subsidiaries are active in all Canadian provinces. Moreover, Desjardins Bank and Caisse centrale Desjardins offer services to members and clients who vacation or do business in the United States. In terms of international cooperation, Desjardins supports over two and a half million people in about twenty developing and emerging countries. Desjardins is an integrated cooperative financial group with deep roots in the community. We aim to be the leading financial institution as much in terms of member and client satisfaction as in terms of profitable business development, through our accessible, efficient and comprehensive service offering, as well as through our contribution to the development of the Canadian cooperative movement.



2006 Social Responsibility Report Commitments and accomplishments that support our clients, employees and their communities

For Desjardins Financial Security, social responsibility is rooted in the same cooperative spirit that inspired the Company's founder—i.e., the establishment of a sustainable relationship that is mutually advantageous for the Company, its clients, shareholder and employees, and the communities in which it operates. All efforts in this vein are based on a comprehensive approach to sustainable development, and bode well for the quality of life of future generations.

The Financial Report presents our financial and business results. To discover the extent to which our presence benefits society, read the **2006 Social Responsibility Report**; it describes the positive impact of our activities on the development of individuals and communities.

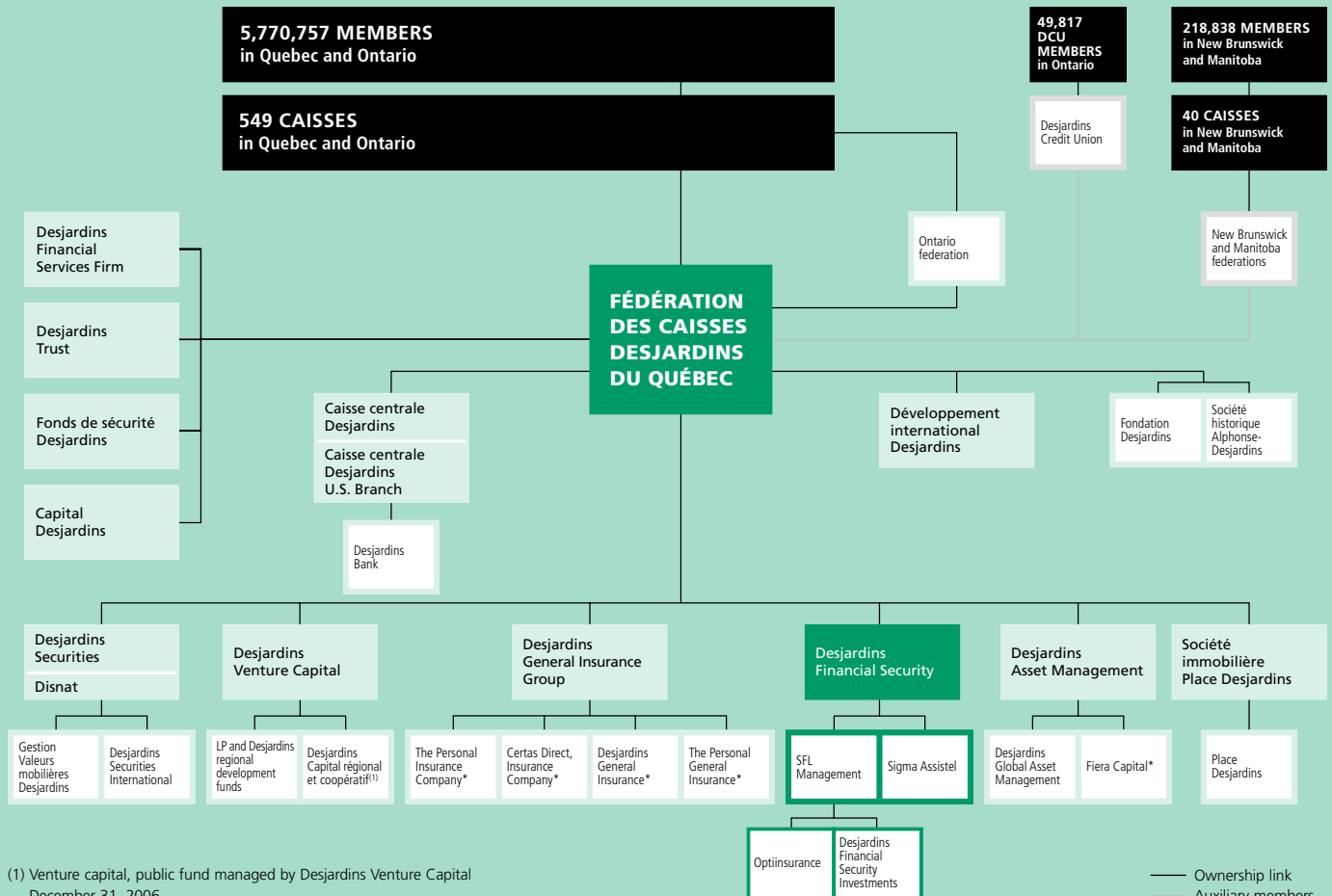
DESJARDINS GROUP

- Assets of \$135.1 billion
- More than 5.7 million members in Quebec and Ontario, including over 400,000 business members, close to 40,000 dedicated employees, and nearly 7,000 committed elected officers
- 1,439 points of service in Quebec and Ontario: 549 caisses and 890 service centres
- 113 points of service in Manitoba and New Brunswick: 40 affiliated caisses and 73 service centres
- 53 Business Centres in Quebec and 3 in Ontario
- 32 Desjardins Credit Union points of service in Ontario
- Approximately 20 companies offering a wide range of financial services, with many of them active in several Canadian provinces
- 3 service centres of the Desjardins Bank in Florida and Caisse centrale Desjardins U.S. Branch
- A state-of-the-art virtual network on automated teller machines and the Internet

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AN INTEGRATED COOPERATIVE FINANCIAL GROUP



(1) Venture capital, public fund managed by Desjardins Venture Capital December 31, 2006
Note: Chart does not reflect the legal ownership structure.

DESJARDINS FINANCIAL SECURITY

Desjardins Financial Security Life Assurance Company (“the Company”) is the life and health insurance arm of Desjardins Group. It helps more than five million Canadians prepare for life’s emergencies and plan a financially secure retirement by offering tailor-made combinations of life and health insurance coverages against the financial repercussions of accidents, illness and death as well as innovative savings solutions to provide the peace of mind needed to truly enjoy life—both before and after retirement.

The result of mergers involving twenty-some insurance companies and portfolios (including Desjardins-Laurentian Life Assurance and The Imperial Life Assurance Company of Canada) and boasting more than one hundred years of experience, the Company, which pioneered the concept of bankassurance in this country, now ranks fourth among life and health insurers in Canada and first in Quebec in terms of written premiums⁽¹⁾.

In addition to its head office in Levis, Quebec, the Company has branches in several cities across Canada, including Vancouver, Calgary, Winnipeg, Toronto, Ottawa, Montreal, Quebec City, Halifax, and St John’s.

To meet the specific requirements of its various clients, the Company provides individuals and groups with access to products and services through a diverse range of distribution channels, including a national network of 46 financial centres belonging to its subsidiary, SFL Management Inc., which now operates under the “SFL” and “Desjardins Financial Security Independent Network” banners. The associates, financial security advisors, financial planners and group savings plan representatives affiliated with these centres have access, thanks to subsidiary OptiInsurance Inc., to the products of more than 15 Canadian insurance manufacturers. The group savings plan representatives also distribute mutual funds of over

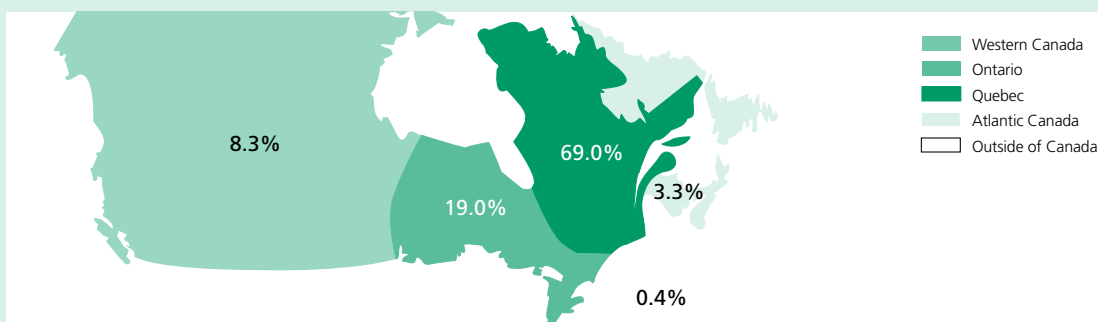
60 manufacturers under the “SFL Investments” banner in Quebec and under the “Desjardins Financial Security Investments Inc.” banner in the other provinces.

Desjardins Financial Security also distributes its products via financial institutions such as the Desjardins caisses, Desjardins Business Centres and Desjardins Credit Union branches as well as through many group plan representatives, consulting actuaries, unaffiliated representatives, and brokers across Canada. Some products can also be purchased directly.

Active since the mid-1980s, Sigma Assistel Inc., another subsidiary of Desjardins Financial Security, offers the widest range of telephone assistance services in the country (including roadside, travel, international, convalescence, legal and identity-theft assistance) in addition to employee assistance programs. Today, Sigma Assistel Inc. has an extensive portfolio of domestic and international clients such as insurance companies, financial institutions, credit-card issuers and associations. Roughly three and a half million Canadians have round-the-clock access to Sigma Assistel’s services—from anywhere in the world.

(1) The market data cited in this report is based on the most recently published information, the majority as at December 31, 2005.

GEOGRAPHIC DISTRIBUTION OF ACTIVITIES



2006 AT A GLANCE

Years ended December 31

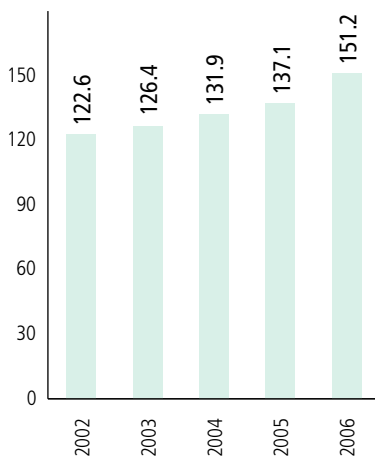
(in millions of dollars, unless otherwise indicated)

	2006	2005	2004	Change (%) 2006/2005
Net Premiums	2,438.4	2,300.3	2,090.2	6.0
Group Insurance Premiums	1,691.5	1,542.9	1,432.0	9.6
Administered groups (ASO)*	53.8	50.8	54.3	5.9
Individual Insurance Premiums	374.2	362.4	352.4	3.3
Savings				
Group products	290.6	316.1	171.3	-8.1
Individual products	254.9	236.6	236.5	7.7
Mutual funds	516.9	461.7	344.5	12.0
Net Investment Income	674.1	672.0	655.2	0.3
Net Income	151.3	159.7	130.2	-5.3
Return on Shareholder's Equity	20.7%	24.9%	19.6%	-4.2%
Balance Sheet				
Assets under management				
- General fund	12,804.0	11,921.3	10,250.6	7.4
- Segregated funds	2,112.1	5,292.3	4,677.1	-60.1
Assets under administration (mutual funds)	5,028.4	3,170.2	2,670.0	58.6
Total assets under management and administration	19,944.5	20,383.8	17,597.7	-2.2
Actuarial liabilities	8,635.4	8,185.0	7,720.6	5.5
Human Resources				
Permanent employees	3,432	3,313	3,270	3.6
Temporary employees	302	346	358	-12.7
Representatives and brokers	5,321	5,873	5,749	-11.3

* ASO: Administrative Services Only

BUSINESS IN FORCE*

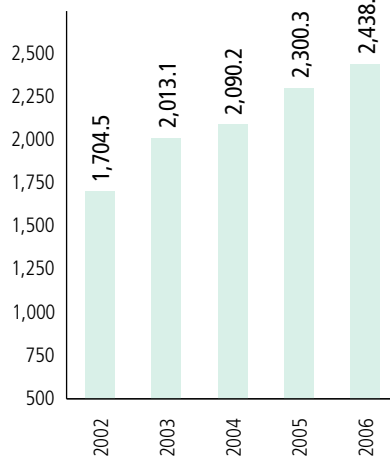
As at December 31 (in billions of dollars)



*Insurance in force

PREMIUM INCOME

As at December 31 (in millions of dollars)



MAIN ACHIEVEMENTS

- \$151.3 million in net income
- 9.7% growth in operating income, for a total of \$202.8 million
- Return on shareholder's equity of 20.7%, one of the best rates in the financial services industry
- Profitability across all sectors
- 5.1% growth in total revenue
- Insurance in force up 10.3%, topping the \$150 billion mark
- Net premiums of \$2.4 billion, for 6.0% growth
- 81.4% increase in insurance sales
- Approximately 70% of new insurance sales recorded outside Quebec
- Landed several major business and group insurance contracts, including one covering 36,000 public sector employees and retirees in Newfoundland & Labrador and a \$100-million group retirement savings payout annuity contract in Ontario
- Group insurance premiums up 9.5%
- 10.9% increase in premium volume for direct distribution products
- 58.6% growth in assets under administration for mutual funds
- General fund assets up 7.4%
- Greater product and service distribution capacity outside Quebec, thanks to the acquisition of certain assets of Performa Financial Group Limited (Desjardins Financial Security Investments Inc.), a Canada-wide mutual fund distribution network
- Improved health insurance offering thanks to the launch of critical illness insurance for children
- Inauguration of the Integrated Retirement Management Centre
- Sigma Assistel becomes leader in identity theft assistance market, notably in the financial services sector



ALBAN D'AMOURS

Chief Executive Officer
of Desjardins Group



RICHARD FORTIER

President and Chief Operating
Officer of Desjardins Financial
Security

OUR STRATEGIC DIRECTIONS: RIGHT ON TARGET!

We are very pleased to present Desjardins Financial Security's financial results for 2006. At the end of the first year of our 2006-2008 strategic plan, our results have met—and often exceeded—our 2006 objectives.

With respect to business growth, we had an especially good year, with an extremely healthy increase in insurance sales that generated 8.4% growth in premiums. In savings, we incorporated our life annuity offer into the Desjardins Vision – Retirement program for caisse members nearing or at retirement age, thus improving the caisse network's competitive edge in this target market!

We are also pleased to see that our efforts to double our market share outside Quebec by the end of 2008 are already producing results, and especially that our impressive gains on this front have not been at the expense of growth in Quebec, where we continue to consolidate our leadership position.

With results like these Desjardins Financial Security can make a significant contribution to the profitability of Desjardins Group. The Company's net income stood at \$151.3 million in 2006, down slightly from 2005 (\$8.4 million). Non-recurring items, such as the sale of the Company's Imperial Life Financial division in the Bahamas and the reversal of provisions for losses from impaired loans, had a positive impact on our 2005 results. Had it not been for these extraordinary items, net income in 2006 would have exceeded the previous year's results. Net income attributable to the ultimate shareholders, the Desjardins caisses, stood at \$145.8 million. Desjardins Financial Security distinguished itself once again with a return on shareholder's equity of 20.7%, still one of the best in the industry, and assets totalling \$12.8 billion, up 7.4% over 2005.

On the strength of our accomplishments in 2006, which are amply described in this report, we are very confident about our ability to maintain our momentum in 2007. We are determined to consolidate our position as Canada's fourth largest life and health insurer and strengthen our leadership position in Quebec. Our prospects on that front look extremely promising!

We recognize, however, that in today's highly competitive environment, our ability to grow will require greater operational efficiency, competitive and distinctive products and services, and satisfactory capitalization and returns.

A DYNAMIC BOARD

Under the direction of Chair Sylvie St-Pierre Babin, the thirteen members of the Board and its various committees (Executive, Investment, Audit and Ethics) met 35 times in 2006. During the year, owing to the death of Mr. Marc-André Paradis and the departure of Mr. Charles B. Matheson and Mr. André Marcheterre, three positions became vacant. Two are now occupied by Ursula Menke and Réal Sureau; the other will be filled at the beginning of the year.

In addition to ensuring compliance with the Company's mission and values, Board members closely monitored the progress of Desjardins Financial Security's major strategies. They also reviewed and approved budgets and financial statements, and examined a number of important issues, such as rules of governance, risk management, the succession management plan for all the members of the Company's management, work force planning, and the selection of a new president and chief operating officer.

With respect to risk management, the Board continued its efforts in this area and reviewed the control measures in place for managing risk throughout the organization, in particular by analyzing those used by subsidiaries Sigma Assistel and SFL management. In addition, members developed a business continuity plan with contingency measures in the event of an avian flu pandemic, and established or reviewed various policies governing the Company's operations, human resources, and compliance with sound and prudent management practices.

With respect to professional development, in 2005 Board members attended several training sessions on topics and issues related to the financial services industry. As a result, they are now better equipped to assume their responsibilities and contribute to the sound and prudent management of the Company.

TEAMWORK TELLS

Last year's performance would not have been possible without the commitment and expertise of some 9,000 employees, representatives and partners across Canada who, day after day, supported our Company's mission. We recognize and appreciate their contribution to our Company's success.

We would also like to express our gratitude to the officers of Desjardins Group and the members of our own Board for their continued support, and acknowledge the active participation of Board members whose term ended during the year; we welcome their replacements with warmest wishes for a productive stay.

Our thanks also go out to the members of the Senior Management Committee whose encouragement and motivation helped their management teams and employees embrace the objectives of our new strategic plan with enthusiasm and determination.

This past year was marked by the departure of François Joly, who, after ten years as president and chief operating officer of Desjardins Financial Security, decided to take a well-deserved retirement. With his enlightened and inspired leadership, and loyalty to the mission and values of the Company and Desjardins Group, Mr. Joly helped Desjardins Financial Security take its place among Canada's top life and health insurers. We are extremely grateful for his contribution and wish him all the best as he embarks on this new stage of life's journey.

When we developed our 2006-2008 strategic plan, we set some ambitious goals. With our Company's overall performance and our business lines' individual achievements in 2006, we have paved the way for more great things to come. These results confirm beyond a shadow of doubt that we have what it takes to reach these goals, for the benefit of our ultimate shareholders, the Desjardins caisses, and some five million Canadians who count on us every day for their financial security. We thank our clients for their continued trust and confidence.

Original signed by

Alban D'Amours
Chief Executive Officer

Original signed by

Richard Fortier
President and
Chief Operating Officer

MANAGEMENT REPORT

2006-2008 STRATEGIC DIRECTIONS

WHO WE ARE

Desjardins Financial Security Life Assurance Company is an entity of Desjardins Group, a financial cooperative and the sixth largest financial institution in Canada with assets of \$ 135.1 billion and close to 40,000 employees.

It is ranked as the fourth largest life and health insurer in Canada and first in Quebec in terms of premiums. Without question, Desjardins Financial Security is a dynamic force in Canada's life and health insurance and financial services industry.

The Company provides individuals, groups and businesses with tailor-made combinations of life and health insurance coverage as well as innovative savings solutions to provide peace of mind at all stages of life, both before and after retirement.

OUR VISION

BY MAXIMIZING ITS PARTNERSHIP WITH DESJARDINS GROUP, THE COMPANY'S MISSION IS TO:

- be recognized as a major industry player across Canada and as a manufacturer that offers distinct advantages;
- proactively develop products and services that stand out in terms of price-quality ratio, simplicity, and ease of doing business;
- optimize our special relationship with the Desjardins caisse network and establish closer ties with partners and clients;
- further develop our sectors of excellence in product development and management and service to clients and distribution partners;
- focus on operational efficiency and build on the commitment of our employees;
- provide our shareholder with returns that live up to expectations.

Caution Concerning Forward-Looking Statements

Certain statements in this Management Report, in particular those relating to the Company's strategies or future operating results and those contingent upon future conditions or events, are forward-looking statements. The purpose of these statements is not to provide information on past occurrences, but to present the Company's expectations, estimates and forecasts with respect to future events.

The forward-looking statements in this Management Report are not a guarantee of results and involve risks and uncertainties of a scope that is difficult to predict. The Company's future results may differ from those presented in the forward-looking statements in this report, in particular because of factors covered under "Business Risks and Control Measures." Other factors such as legislative or regulatory changes, changing economic conditions, technological advances, and the effect of strong competition in a market extremely susceptible to the forces of globalization may also affect the forward-looking statements in this report.

2006-2008 STRATEGIC DIRECTIONS

1. Develop caisse markets in an accelerated and profitable manner by enhancing the caisse offer with the added value of life and health insurance in partnership with Desjardins Group

- Access to Loan Insurance was made easier.
- As part of the fifth annual "Your Home Free!" contest, many cash prizes were awarded to members with Loan Insurance coverage throughout Quebec.
- We intensified efforts to promote the systematic offer of credit insurance to caisse business members.
- We achieved sustained growth in premium volume for products distributed to Desjardins members via the caisse network.
- We implemented a specialized offer in Desjardins Business Centres (the enhanced asset management offer).
- We redesigned Desjardins Roadside Assistance offered by Sigma Assistel, making it the most generous and competitive program on the market and providing Desjardins entities with a useful business development tool.
- We incorporated our life annuity offer into the "Vision—Retirement" program for Desjardins caisse members.

2. In non-caisse markets in Quebec, become a leader in group insurance and grow faster than the market in group retirement savings, individual insurance and direct insurance; develop the individual savings offer by optimizing the potential of the Company's chief distribution network in Quebec: SFL Partner of Desjardins Financial Security

- We introduced T-100 Universal Life, one of the most competitive products available, as part of our ongoing efforts to improve insurance products for the individual market.
- We won the Award of Excellence at the 2006 Insurance & Financial Communicators Association (IFCA) competition for our "Destination—Take Control of Your Retirement" program aimed at retirement savings plan members nearing retirement.
- We outperformed market growth in annualized premium sales, for both the individual and group insurance sectors.
- We achieved 10.9% growth in direct insurance premiums.
- We developed a new online travel insurance offer.

3. In select markets outside Quebec, double our overall market share, notably through acquisitions

- Close to 70% of new insurance sales were made outside Quebec.
- We landed a group insurance contract for 36,000 public sector employees and retirees in Newfoundland & Labrador.
- We acquired certain assets of Performa Financial Group, a group retirement savings brokerage firm with 90% of its mutual fund assets held outside Quebec (we successfully integrated this group into our operations).
- We achieved market penetration in cultural communities of Western Canada via a business agreement with a major general agent.
- We incorporated the life and health insurance offer into the new Alliance des caisses populaires de l'Ontario banking system; we deployed efforts to automatically offer credit insurance and Savings-Life Insurance to members of these caisses.
- We concluded a complementary travel insurance agreement with a major Canadian airline.

4. Be recognized as a health leader in the marketplace

- In group insurance, we achieved nation-wide deployment of our "Health Track Insurance" offer, which allows insureds who are leaving a job or taking retirement to continue enjoying healthcare coverage.
- In individual insurance, we improved our "Independent Living, Total Long-Term Care" product with the option of a 20-year payment period; we marketed various critical illness coverages for children.

5. Improve operational efficiency across all our sectors to create competitive advantages

- We completed phase one of the Client Profile project, which will make it possible to enter all information about a given client in a same file while keeping such data confidential.
- We implemented a new system to administer group retirement savings contracts, allowing us to better meet the changing needs of clients.
- We continuously improved our administrative systems.
- We introduced more user-friendly and efficient job aids into several administrative sectors through new Web technologies.
- We developed new e-business functionalities for clients, in particular for transmitting group insurance contract information.

6. Balance business development with overall sustainable performance: satisfy the needs of members and clients with motivated employees while meeting the profit expectations of our shareholders

- More than 90% of respondents to a survey on the processing of group insurance claims found the procedure simple, and the claims settlement process was in keeping with plan provisions.
- The results of an employee motivation poll confirmed the Company's status as an employer of choice.
- At 20.7% our return on shareholder's equity is one of the best in the financial services industry.

PERFORMANCE ANALYSIS AND OUTLOOK

INDUSTRY AND MARKET TRENDS

While some Canadian insurers are eyeing Asia to ensure growth, several medium-sized entities, including Desjardins Financial Security, are focusing their efforts on increasing market share here at home. To reach that goal, these businesses must fine-tune their market knowledge in order to identify the most promising targets and adjust their offers to the expectations and specific needs of these customers.

With the aging of the population, advances in medicine, and lower confidence in the ability of governments to fully fund healthcare plans, consumers are now showing greater interest in coverage they can enjoy during their lifetime. This explains why sales of individual and group health insurance continue to outstrip life insurance sales. Baby boomers, in particular, now want to maintain their quality of life in the event of critical illness or loss of independence. Insurers are addressing this issue by developing new products to meet the changing needs of consumers.

The Chaoulli case, which was heard before the Supreme Court of Canada in June 2005, gave rise to an extensive debate concerning the place of private health care. Having been specifically mentioned in the Supreme Court judgment, the Government of Quebec responded by implementing measures to reduce wait times for medical care and by giving patients the right to use private insurance for services dispensed by physicians not participating in the public plan (such services being limited, however, to hip, knee and cataract surgery).

For the financial services industry, the mass retirement of the boomer generation has also created a new business opportunity in the form of payouts from funds accumulated for this stage of life. Because of demographic trends and this group's high financial security expectations, this market is becoming specialized—a fact demonstrated, in particular, by new approaches to consulting and distribution facilitation tools and the development of new, hybrid products combining annuities with investment. As an entity of Desjardins Group, the Company is making the most of its manufacturing skills in the insurance field to enhance the Group's wealth management capabilities.

In the savings market, several mutual fund companies are laying the groundwork to attract consumers with new asset allocation programs, offering baby boomers simpler investment solutions and relieving them of the burden of taking an active role in portfolio management. Life cycle funds head up the list of these new programs. Life and health insurers have only recently penetrated this market, offering this type of fund as part of their pension plans.

FINANCIAL STATEMENT ANALYSIS

2006 HIGHLIGHTS

Two of 2006's most noteworthy events relate to our national development endeavours and, by association, our strategic directions.

- We signed the biggest group insurance contract in our history and made a spectacular entrance onto the eastern Canadian market. Following an invitation to tender, the Government of Newfoundland & Labrador awarded us a contract covering 25,000 employees and 11,000 retirees.
- We reinforced our distribution capabilities with the June 2006 acquisition of Performa Financial Group, a group retirement savings brokerage with 90% of its mutual fund assets under management held for clients outside Quebec.

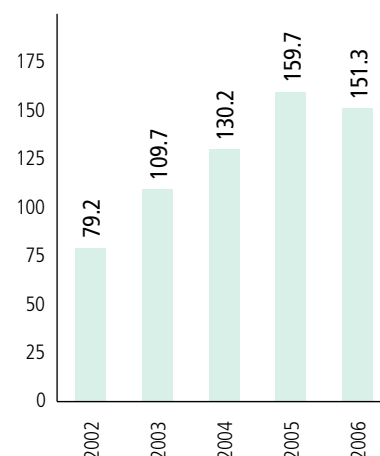
CONSOLIDATED FINANCIAL POSITION

Desjardins Financial Security presents its operating results and comparative data on a consolidated basis. Included are the results of subsidiaries Sigma Assistel Inc. and SFL Management Inc., as well as the latter's subsidiaries, OptiInsurance Inc. and Desjardins Financial Security Investments Inc.

NET INCOME

For the second straight year, Desjardins Financial Security's net income exceeded \$150 million, reaching \$151.3 million in 2006. These figures show a 5.3% decline from a year earlier, when net income totalled \$159.7 million (\$154.4 for continuing operations) due in part to the exceptional impact of a \$10.1 million reversal of provisions for losses following the settlement of impaired loans and a \$5.3 million gain on the disposal of the Company's operations in the Bahamas.

CHANGE IN NET INCOME
(in millions of dollars)

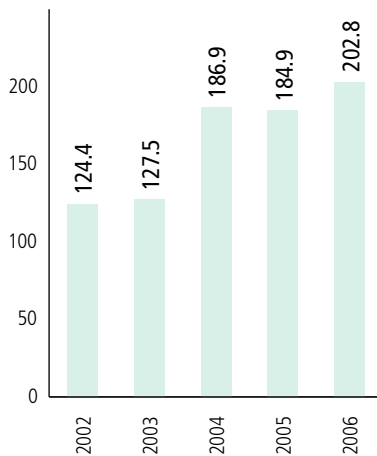


The share of net income attributable to the shareholder stood at \$145.8 million, down \$5.8 million in relation to 2005. Despite this drop, the Company continues to contribute to the profitability of Desjardins Group. At the end of fiscal year 2006, the Group reported combined surplus earnings before patronage dividends to members of \$988 million.

OPERATING INCOME

Operating income for 2006 totalled \$202.8 million, up 9.7% over 2005's figure of \$184.9 million. Positive experience in 2006 contributed significantly to product profitability. Although experience was also very good in 2005, actuarial reserves were strengthened considerably that year.

CHANGE IN OPERATING INCOME
(in millions of dollars)



RETURN ON EQUITY

The results posted by the Company yield a return on shareholder's equity of approximately 20.7%, as compared with 24.9% in 2005. It remains one of the best in the financial services industry.

ASSETS UNDER MANAGEMENT AND ADMINISTRATION

At the end of fiscal 2006, the Company had total assets under management and administration of \$19.9 billion compared with \$20.4 billion in 2005. This decline is due to changes to the contract terms governing Desjardins Group Pension Plan asset management made by the plan's pension committee. The sums transferred, which had been included under segregated funds, represented \$3.5 billion at December 31, 2005. However, the Company retains its role with respect to the administration of the plan and continues to offer various plan management services. Excluding this transfer, assets under management and administration were up 17.8% in relation to the previous year, with the acquisition of Performa Financial Group contributing to this increase.

SALES AND PREMIUM GROWTH

As for overall business growth, income from insurance premiums and annuities was up 6.0%, standing at \$2,438.4 million, up from 2005's figure of \$2,300.3 million.

Net insurance premiums were up 8.4% over 2005, for a total of \$2,065.7 million. In Quebec, overall premium growth across all business lines combined stood at 6.0%. In the other provinces, the 16.5% growth rate was attributable mainly to group insurance premiums. Insurance sales posted very strong growth in 2006, reaching \$234.0 million versus \$129.0 million in 2005. Major group insurance contracts signed during the year contributed significantly to this excellent performance.

In 2006, the savings sector grew by 4.7% in terms of sales and new deposits, with individual savings increasing by 10.5%. The enthusiasm that Canadians have exhibited for mutual funds remains strong. Group savings stood at \$290.6 million, down slightly from 2005.

2007 OUTLOOK

2006 constituted the initial phase of Desjardins Financial Security's three-year strategic plan. Based on our 2006 results, our prospects for the future are very promising.

As Desjardins Group's life and health insurer, we will continue to participate in the Group's development, offering our expertise in individual life and health insurance, credit insurance, and retirement savings solutions. With a view to helping the Group achieve its nation-wide development objectives, we will continue to expand our offer of certain products in conjunction with other Group entities and conclude agreements with external partners. The health-related telephone assistance services provided by subsidiary Sigma Assistel Inc. will be reviewed and enhanced in order to respond to new demographic, legislative and lifestyle trends observed over the past few years.

With respect to individual insurance, group insurance, and savings services provided through other distribution networks, the Company intends to consolidate its position in Quebec and pursue its penetration of target markets in the other provinces. To that end, the acquisition of Performa Financial Group, which is already producing results, has encouraged us to remain proactive in analyzing opportunities for other acquisitions and alliances in select markets. As for direct insurance, we will be adjusting our service offer to promote business development in new markets.

We will also proceed with our initiatives to improve operational efficiency across all sectors by providing them with effective and user-friendly tools and continuing our business process re-engineering efforts in areas with potential for efficiency gains.

We will also continue to develop our sectors of excellence: product design and management and service to clients and distribution partners. We will do this by optimizing the risk / return / product cost ratio in order to meet client needs and by providing our distribution partners with efficient ways of doing business suited to their needs.

Lastly, we will build on our natural and distinct advantage as an entity of Desjardins Group, guiding the client towards financial security and taking, as always, a caring and empathetic approach to serving our clients and partners.

SECTOR-BY-SECTOR ANALYSIS

The tables showing the Company's group insurance, individual insurance and savings market shares come from an analysis of the 2005 annual statements filed with the Office of the Superintendent of Financial Institutions, Canada and with Quebec's Autorité des marchés financiers. Data for 2006 will be available in the second quarter of 2007.

GROUP INSURANCE

ACTIVITIES AND PRODUCT OFFERINGS

Group Insurance includes two areas of activity: 1) plans offered to groups and businesses and 2) plans available from financial institutions such as the Desjardins caisses.

For groups and businesses, the Company offers life insurance, short- and long-term disability insurance, drug insurance, as well as extended health care, dental

care and vision care coverage, and travel insurance. These group plans, all of which are characterized by their quality, flexibility, and personalized service to policyholders and members, are available throughout Canada from group plan representatives, brokers and consulting actuaries. The Company also maintains sales offices across the country in order to provide maximum accessibility to its products and services.

In addition, we provide group life and disability plans for loans (credit insurance) and life insurance plans (Savings-Life Insurance) for deposits via financial institutions such as the Desjardins caisses, Desjardins Credit Union branches, the caisses populaires in Ontario, and other credit unions in Canada.

At the national level, Desjardins Financial Security retained the fourth place position it held in 2005 for group life insurance with 5.3% growth in premium volume. It also remained in fourth place in health insurance with 8.4% growth in premium volume and a 0.1% increase in market share.

In Quebec, the Company remained in first place in group life insurance with 29.9% of the market, a lead of almost 12.3% over its closest competitor.

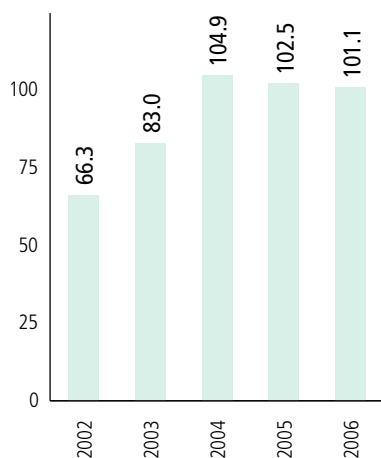
GROUP INSURANCE MARKET SHARE

	Rank	Market Share %	Written Premiums (in millions of dollars)
Canada			
Group Life			
2006			382.7
2005	4 th	8.0	360.6
2004	4 th	8.1	342.5
<hr/>			
Group Health			
2006			1,359.6
2005	4 th	9.7	1,228.4
2004	4 th	9.6	1,133.7
<hr/>			
Quebec			
Group Life			
2006			315.1
2005	1 st	29.9	302.2
2004	1 st	29.4	287.5

2006 RESULTS

For a third consecutive year, net income for the group insurance sector exceeded the \$100 million mark. It stood at \$101.1, down slightly by \$1.4 million from 2005.

CHANGE IN NET INCOME OF THE GROUP INSURANCE SECTOR
(in millions of dollars)



Despite the deterioration in loss experience in certain health insurance coverages, the Company managed to post excellent experience gains overall. Solid investment income and a combination of other factors produced interest gains that also contributed to our performance.

SALES AND PREMIUM GROWTH

Sales rose by an exceptional margin in 2006, totalling \$195.6 million and more than doubling last year's figure of \$95.2 million. Groups of 1,000-plus members recorded the strongest growth, whereas in 2005, the small business sector accounted for most of the growth. Sales outside Quebec alone reached \$154.8 million, in contrast to the \$65.7 million posted a year earlier. Insurance contracts for groups and businesses awarded to Desjardins Financial Security by the Government of Newfoundland & Labrador, as well as several others in excess of \$1.0 million in

the Maritimes, Ontario and Western Canada, have all contributed to the Company's growth outside Quebec.

Group insurance premiums, including those for administered groups (ASO), totalled \$1,745.3 million, up 9.5% from 2005 (\$1,593.7 million). These remarkable results were due primarily to the enrolment of many large groups. Credit insurance premiums were up 6.7% over 2005, with the total volume of credit insured, via both loan life insurance and loan disability insurance, continuing to rise.

2006 HIGHLIGHTS

In group insurance, Desjardins Financial Security enjoyed a record year with respect to net business growth. Over the past five years, in an extremely competitive market, the in-force compound annual growth rate for groups and businesses has consistently been very high, rising from \$29.2 billion in 2001 to \$47.9 billion in 2006. In this area, the Company ranks second among Quebec insurers and fourth in Canada, where our market share rose from 4.7% to 4.9% between 2003 and 2005 (Fraser Group: Group Universe Report, 2005).

Thanks to the national structure that was set up for Group and Business Insurance in January 2006, the Company has been able to merge its sales forces across Canada, standardize business processes, address regional differences, and earn a reputation as a national player. To develop our group and business insurance offer, we launched the "Health Track Insurance" program, which allows insureds who have left a job or retired to enjoy continued healthcare coverage. In addition, we positioned ourselves strategically in the flexible plan market so as to satisfy all needs, and we pursued efforts to enhance e-business functionalities with a direct deposit and electronic notification service designed to meet the expectations of group plan members. We improved our employee assistance program by adding new assistance services for businesses and member services, including an unlimited number of telephone consultations. On the

operational efficiency front, we completed another phase of the automation of our group administration system.

Sustained growth in premium volume for products distributed to Desjardins members via the caisse network was maintained. In credit insurance, we enhanced our Loan Insurance offer by adding Desjardins Roadside Assistance and deployed a credit insurance sales team to the credit unions; we also increased efforts to promote the systematic offer of credit insurance to business members. Thanks to a simplified enrolment process, Line of Credit Insurance premiums were up 27.9% in 2006 relative to 2005.

2007 OUTLOOK

The work completed in 2006 to facilitate administration of flexible plans for groups and businesses has proved productive. Using the technology we implemented, we will more effectively be able to meet the growing demand for such plans in 2007. We will also continue to improve our Wellness Program, a new concept that combines a number of existing healthcare benefits with new services. In addition, the Company intends to maintain a high level of satisfaction among policyholders and insureds with respect to the services provided.

With respect to credit insurance, we will continue to innovate by adjusting our offer to emerging niches and to pursue our efforts to develop the credit insurance market with our Desjardins business clients.

CHANGE IN GROUP INSURANCE PREMIUMS BY DISTRIBUTION NETWORK

(in millions of dollars)

	2006	2005	2004	2003	2002
Distributed to members of Desjardins Group	481.6	452.3	424.6	398.9	377.2
Other distribution networks	1,209.9	1,090.6	1,007.4	917.5	797.0
Administered groups (ASO)	53.8	50.8	54.3	46.7	34.6
Total administered premiums	1,745.3	1,593.7	1,486.3	1,363.1	1,208.8

INDIVIDUAL INSURANCE

ACTIVITIES AND PRODUCT OFFERINGS

In individual insurance, Desjardins Financial Security meets the financial planning and financial security needs of individuals, self-employed workers, and employees of small businesses by providing these clients with the three most common types of life insurance: permanent, term, and whole life. With respect to health insurance, the Company also offers a complete line of coverages, such as critical illness insurance and long-term care insurance. Other types of coverage, including extended health care insurance, short- and long-term disability insurance, accident insurance, and dental and vision care coverage, are also available.

These products and services are distributed by some 750 associates who work in the 13 financial centres of the SFL network located throughout Quebec and the 19 Desjardins Financial Security Independent Network financial centres operating in the other provinces. They are also distributed by brokers across the country and about 283 financial security advisors assigned to the Desjardins caisses.

Some of our products, such as 50+ Life Insurance, Travel Insurance, and Accirance Personal Accident Insurance are sold by direct distribution, with or without the endorsement of financial partners.

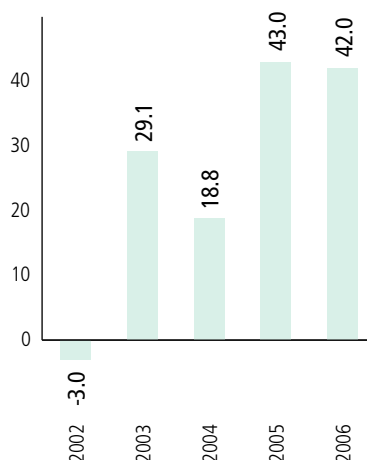
In 2005, Desjardins Financial Security maintained its share of the Canadian individual life insurance market in relation to 2004 and posted premium growth of about 2.4%. In individual health insurance, the Company

also kept its market share while increasing premium volume by more than 7.7%. In Quebec, Desjardins Financial Security recorded 3.8% growth in individual life insurance premiums in 2005 and maintained its market share.

2006 RESULTS

Net income for individual insurance, after more than doubling in 2005 to stand at \$43.0 million (compared with \$18.8 million the year before), again topped the \$40-million mark in 2006, totalling \$42.0 million-off slightly from 2005 by 2.3%.

CHANGE IN NET INCOME OF THE INDIVIDUAL INSURANCE SECTOR
(in millions of dollars)



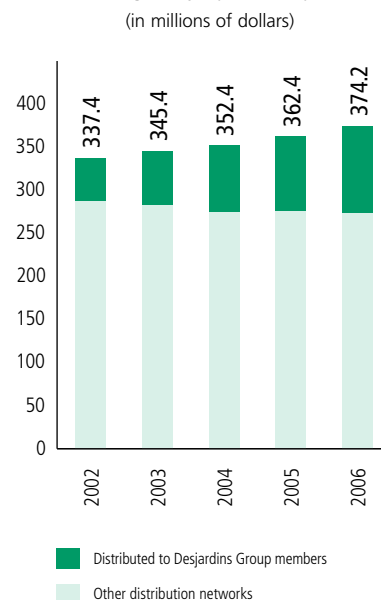
Experience gains remained significant in 2006 despite a deterioration in experience for some policy classes. Premium growth and a different

product/sales mix resulted in increased losses on issuance, although this was offset by major gains from strong investment performance.

SALES AND PREMIUM GROWTH

Individual insurance posted an increase of \$4.6 million to stand at \$38.4 million. Growth was due in part to strategies implemented outside Quebec, where financial centres recorded 26.1% growth in individual insurance sales. Sales made by financial security advisors assigned to the Desjardins caisses amounted to \$15.5 million, for a gain of 12.3%.

CHANGE IN INDIVIDUAL INSURANCE PREMIUMS BY DISTRIBUTION NETWORK
(in millions of dollars)



In individual insurance, premium volume stood at \$374.2 million, up \$11.8 million over 2005. This growth stemmed chiefly from the 16.9% increase in in-force contracts sold by financial security advisors assigned to the Desjardins caisses. Moreover, premium volume for products marketed via direct distribution, such as 50+ Life Insurance and Travel Insurance, posted 8.3% growth to stand at \$52.5 million.

INDIVIDUAL INSURANCE MARKET SHARE

	Rank	Market Share %	Written Premiums (in millions of dollars)
Canada			
Individual Life			
2006			381.6
2005	7 th	3.5	370.8
2004	7 th	3.5	362.2
Individual Health			
2006			63.5
2005	9 th	3.5	57.1
2004	9 th	3.5	53.0
Quebec			
Individual Life			
2006			267.3
2005	5 th	9.5	257.2
2004	5 th	9.5	247.9

2006 HIGHLIGHTS

With respect to life and health insurance products and services offered to members by financial security advisors assigned to the caisses, premium volume continues to grow, with the average contract premium up by 22.9% over the past two years. With a view to enhancing growth in this market, the Company intensified its recruiting and professional development activities for financial security advisors, who numbered 283 at the end of 2006. We are also continuing to bolster our health insurance efforts; to that end, advisors were provided with Independent Living solutions for long-term care which offers the option of a lifetime or 20-year payment period.

As for our service offer to individuals through other distribution networks, our sales force has been armed with two new products that will help keep us at the fore of the health insurance field: critical illness insurance for children (not only the most complete coverage but also the best suited to the changing needs of families) and long-term care insurance payable in 20 annual instalments. This product is especially attractive to Baby Boomers who want to have their premiums paid up in the years following retirement. We also marketed one of the most competitive universal life products available—T-100 Universal Life.

The Company reviewed the compensation of the financial centres in order to optimize the networks' business model and bring their efforts in line with our objectives. With respect to national development, we opened a new centre in Ontario and gained a foothold in the cultural communities market in Western Canada by signing an agreement with a major general agent; this too contributed to our 2006 sales performance.

As for products marketed by direct distribution, premiums grew by 8.3%. For the second year in a row, we conducted a direct response television ad campaign for 50+ Life Insurance targeting clients aged 50 and over. A website related to this product was also developed and groundwork laid for a partnership with a major drugstore chain for the distribution of product information. We also worked on completing our online travel insurance offer and continued developing e-business capabilities that will make our products even more accessible. In addition, the Company reviewed its marketing strategy for Accirance Personal Accident Insurance with a view to establishing more effective contact with students and broadening the client pool to other high-potential markets, especially young people and families.

2007 OUTLOOK

With respect to the life and health insurance products and services offered to Desjardins caisse members by financial security advisors, we have optimized our sales network by organizing it according to the level of expertise required to make offers to business owners in Desjardins Business Centres and the expertise required to make offers to major caisse depositors and regular members. By providing even more personalized service to existing Vision clients, this reorganization should boost sales in 2007. We will also be acting as a partner to develop offers and strategies designed to serve clients targeted by Desjardins Group.

As for the life and health insurance products and services offered by our other distribution networks, the acquisition of certain assets of Performa Financial Group (whose branches now operate under the banners "Desjardins Financial Security Investments Inc." and "SFL Investments Financial Services Firm") will enable us to enhance our product and service distribution capabilities outside Quebec and more actively develop the English-speaking market on the Island of Montreal. The Company plans to pursue this avenue by opening new financial centres in the Greater Montreal Area and other major Canadian cities.

In regard to products marketed by direct distribution, we will be completing our online offer and adding new products to our existing coverage portfolio.

SAVINGS

ACTIVITIES AND PRODUCT OFFERINGS

This business line covers retirement savings for individuals, groups and businesses.

The Company has a broad spectrum of products for individuals and the self-employed, including guaranteed return investments, multiple strategy investments, segregated funds, and retirement annuities. These products are distributed through our national financial centre network. Retirement annuities and capital guarantees on certain investment funds are also available from the Desjardins Quebec caisses.

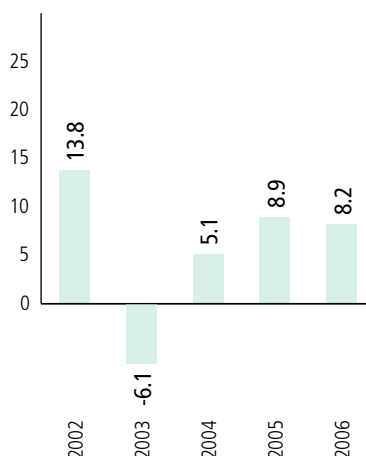
In addition, the Company provides groups and businesses with a complete range of group retirement savings products, including registered retirement savings plans, defined contribution pension plans, simplified pension plans, and a broad range of specialized investment vehicles for defined benefit pension plans as well as deferred profit-sharing plans, individual pension plans designed especially for senior management or corporate shareholders, and fund management services. These plans can also include non-registered components to meet the particular needs of companies and their employees. Our group retirement savings products are distributed mainly through consulting actuaries and brokers specializing in employee benefits or pension plans.

Furthermore, businesses that are Desjardins caisse members can take advantage of Desjardins Financial Security's complementary group retirement savings services.

2006 RESULTS

Sales of savings products totalled \$1,062.4 million, a \$48.0 million increase stemming chiefly from mutual funds. The Savings sector posted net income of \$8.2 million, \$0.7 million less than in 2005.

CHANGE IN NET INCOME OF THE SAVINGS SECTOR
(in millions of dollars)



SALES – SAVINGS

(in millions of dollars)

	2006	2005	2004
Group savings	290.6	316.1	171.3
Individual savings	254.9	236.6	236.5
Mutual funds	516.9	461.7	344.5
Total	1,062.4	1,014.4	752.3

Higher life expectancies of annuitants resulted in a deterioration of mortality claims experience, a fact that affected 2006 results. Investment income continued to represent a significant share of income and enabled the Company to absorb the losses generated by large payout annuity groups.

In individual savings, annuity sales posted increases and stood at \$140.3 million compared to the \$137.2 million figure posted in 2005. This is a significant gain in a market that favours mutual funds. In 2006, for the third year in a row, there was a strong demand for segregated funds, with sales totalling \$114.6 million, up 15.3% over 2005. With retirement in mind, most investors opted for long-term products or international holdings in order to diversify their portfolios. Mutual fund sales stood at \$516.9 million at the end of 2006, up \$55.2 million over 2005. The integration of Performa Financial Group's sales force was partially responsible for these solid results.

2006 HIGHLIGHTS

In group retirement savings, we launched "Destination—Take Control of Your Retirement," a new module in our "Setting Sail for the Future" education and planning program offered exclusively to group retirement savings clients. "Destination" is designed to provide members nearing retirement age with a broad spectrum of products, services and tools developed specifically to meet their needs. This initiative reflects our determination to distinguish ourselves through the quality of our service offer and the guidance and education we provide to plan sponsors and members. "Destination" print materials won an Award of Excellence at the 2006 competition sponsored by the Insurance & Financial Communicators Association (IFCA), an international organization of some

750 members from more than 225 life insurance and financial services companies in North America.

Also in the group market, we incorporated the life annuity offer into our "Vision—Retirement" program for Desjardins caisse members nearing or at retirement age, developing income simulation tools expressly for their use. Because our life annuity offer now forms part of the caisses' offer, the Desjardins caisses network is in an ideal position to do well in this booming market.

In individual savings, we launched a segregated fund re-engineering project, which involved introducing new portfolios and establishing a partnership with Northwest Funds, in order to continue developing the brokerage and caisse markets. We now also offer an innovative new individual plan and have introduced a retirement income simulator for our financial centre advisors. Besides making for better relationships between representatives and their clients, this tool will enable the Company to better position itself in the growing payout market.

2007 OUTLOOK

In group retirement savings, the Company will continue to implement its "Setting Sail for the Future" education centre and program. We will also be launching new investment options and programs as part of our existing portfolio and optimizing e-business tools for the Integrated Retirement Management Centre. In addition, we will maximize our efforts to support the Desjardins caisse network as it takes charge of the annuity offer and continue our R&D work to provide this network with a distinctive offer. Lastly, we are looking at the possibility of offering a new life-cycle investment program for retirement plans in the near future.

In individual savings, we will continue to re-engineer our segregated funds by introducing new options and innovative guarantees. We also intend to continue implementing initiatives to make Desjardins Financial Security a manufacturer of choice for payout market distribution networks.

INVESTMENTS

INVESTMENT PORTFOLIO

Portfolio Structure

Desjardins Financial Security's objective is to prudently manage the risk/return ratio and control and reduce investment risk by taking account of factors such as quality, concentration, foreign currencies, maturities and guarantees. Investments are selected with a view to maintaining a balance between profitability and portfolio risks. This disciplined approach to managing the funds entrusted

to us by our insureds, depositors and clients has been implemented despite the continuing low interest rate environment and the strong competition for value-added investments.

Most investments consist of fixed income securities, reflecting the Company's liability structure. We have an asset and liability matching management group that ensures appropriate asset allocation of the portfolio as well as an internal committee that reviews this allocation to ensure it generates the desired return on shareholder's equity while minimizing volatility. The Company's investment portfolio is well diversified by investment class.

The investment portfolio increased by \$833.1 million or 7.2% in 2006. This rise is explained primarily by growth in business.

Fixed Income Securities

The combined bond, cash and money market securities portfolios and term loans represented 70.6% of the investment portfolio at the end of 2006, reflecting an increase of \$81.6 million over 2005. The quality of the bond portfolio remained high, with the listed portion (i.e., 99.9% of the portfolio) amounting to \$7,451.4 million at year-end. Government bonds accounted for 76.8% of the bond portfolio, with 95.0% of bond securities rated A or higher.

ALLOCATION OF PORTFOLIO BY ASSET CLASS

(in millions of dollars, unless otherwise indicated)

	2006		2005		2004	
Bonds	7,458.3	60.5%	7,337.2	63.7%	6,585.3	68.2%
Term loans*	344.5	2.8%	274.1	2.4%	150.5	1.6%
Mortgage loans	2,089.1	16.9%	1,896.7	16.5%	1,832.1	19.0%
Real estate	487.6	3.9%	415.7	3.6%	361.1	3.7%
Stocks	545.9	4.4%	465.2	4.0%	298.0	3.1%
Cash and money market securities	906.6	7.3%	1,016.5	8.8%	316.0	3.3%
Policy loans	108.7	0.9%	108.4	1.0%	109.2	1.1%
Other loans and investments	406.2	3.3%				
	12,346.9	100.0%	11,513.8	100.0%	9,652.2	100.0%

*Shown under "Bonds" in the balance sheet

PORTFOLIO BOND QUALITY

(in millions of dollars, unless otherwise indicated)

	2006		2005	
Government Rating	5,726.3	76.8%	5,727.1	78.1%
AAA	650.2	8.7%	637.5	8.7%
AA	296.6	4.0%	339.0	4.6%
A	413.2	5.5%	369.5	5.0%
BBB	297.3	4.0%	167.9	2.3%
BB or under	74.7	1.0%	96.2	1.3%
	7,458.3	100.0%	7,337.2	100.0%

Derivatives

Desjardins Financial Security uses marketable securities and derivatives to manage asset and liability matching in order to protect itself against market, interest rate and currency risks. Derivatives also serve to eliminate the market risk associated with the sale of certain products and improve the risk/return trade-off. All derivatives are subject to the Company's credit standards, financial controls and other typical monitoring procedures and are not used for speculation.

Hedge Funds

In an effort to better allocate risk by investment class, the Company uses derivatives to take positions in hedge funds, which are designed to take advantage of price spreads between two or more assets in order to realize a gain. Over the last few years, these funds have become extremely popular. This investment vehicle makes it possible to improve the risk/return trade-off by reducing volatility. Hedge fund investments are the subject of a specific policy at Desjardins Financial Security, and the Company ensures that the main risks involved are identified, monitored and mitigated.

Mortgage Loans

The Company's mortgage-loan balance rose \$192.4 million in 2006, resulting in a slightly higher investment portfolio weighting (from 16.5% to 16.9%). Despite this rise and a very competitive market, mortgage loan portfolio quality is still impressive. Insured mortgage loans account for 72.3% of the total mortgage loan portfolio; the average mortgage loan rating is "very good quality." The net balance of non-performing assets represents less than 0.1% of the entire investment portfolio.

Real Estate

Thanks to acquisitions made primarily in the seniors' housing sector, the value of Desjardins Financial Security's real estate holdings continued to appreciate in 2006. Commercial properties remain highly prized by investors. At December 31, 2006, the fair value of the real estate portfolio was considerably higher than its carrying value. The portfolio includes a diverse selection of holdings in Quebec and Ontario.

Over the next year, ownership of some 15 Desjardins Group properties in Levis, Montreal and other areas in Quebec will likely be transferred to Desjardins Financial Security, enabling the Company to include these high quality investments in its portfolio.

Stocks

The increased value of our stock portfolio, attributable to the performance of domestic and international markets, was partially offset by an equivalent increase in actuarial liabilities, since just over half of these investments are matched with products involving a total transfer of performance to clients.

Other Loans and Investments

This item includes, in particular, reverse repurchase agreements entered into as part of active investment portfolio management operations and the securities lending program of Desjardins Trust, the Company's asset custodian. These loans constitute short-term securities purchases, with a simultaneous commitment to resell them at a predetermined date and price.

NET INVESTMENT INCOME

Desjardins Financial Security's net investment income consists primarily of interest and dividend income; net rental income from real estate; the amortization of realized gains and losses deferred in accordance with the accounting standards applicable to life insurers; and a portion of the unrealized net gains on stock and real estate investments.

For the year ended December 31, 2006, the Company's net investment income amounted to \$674.1 million, a slight increase of 0.3% in relation to 2005. This increase was due primarily to market performance, more funds available for investment as a result of business growth, and the sound and prudent management of a fundamentally strong investment portfolio.

Bond and mortgage loan income represented more than 85% of total net investment income as at December 31, 2006. The increase in investment income posted following the rise in cash flows used in investment activities was offset by lower returns on hedge funds and non-recurring reversals in provisions for loan losses recorded in 2005.

NET INVESTMENT INCOME BY VEHICLE

(in millions of dollars, unless otherwise indicated)

	2006	2005	2004
Bonds	468.8	475.2	457.9
Mortgage loans	107.8	115.3	113.9
Real estate	40.5	48.1	45.0
Stocks	25.9	16.9	19.7
Other assets	35.5	21.7	16.1
Financial instruments used for hedging	24.5	22.2	23.2
Investment expenses	(28.9)	(27.4)	(20.6)
	674.1	672.0	655.2

ANALYSIS OF THE FINANCIAL POSITION

CAPITALIZATION

Under its provincial charter, Desjardins Financial Security is governed by the Autorité des marchés financiers (AMF); the Company must also comply with the standards developed by the regulatory authorities of the other provinces and territories where it does business. Insurance companies that operate in Quebec must guarantee their solvency by complying with the capital adequacy requirements set out by the AMF. At the end of 2006, Desjardins Financial Security's capital adequacy requirements ratio exceeded regulatory authority requirements, thus guaranteeing optimal security for insureds.

This excess amount gives the Company financial flexibility to use surplus capital in keeping with its priorities of maintaining growth, financing acquisitions where opportunities exist, and increasing dividends to its shareholder.

DIVIDENDS

In addition to policyholder dividends, the amount of which is approved by the Company's Board of Directors, the Company pays annual dividends to its sole shareholder. Its dividend policy helps the Company ensure growth and maintain an acceptable capitalization ratio.

FINANCING

At December 31, 2006, Desjardins Financial Security and its subsidiaries had operating lines of credit in the amount of \$44.0 million to facilitate the financing of operations and meet any temporary working-capital requirements. As at December 31, 2006 and 2005, none of these lines had been used.

CASH FLOWS

(in millions of dollars)

	2006	2005	2004
Cash flows associated with the following activities:			
Operating activities	541.1	507.6	465.7
Investing activities	(857.9)	(771.6)	(349.7)
Financing activities	61.4	687.1	(61.0)
Other activities	—	101.7	—
Increase (decrease) in cash and cash equivalents	(255.4)	524.8	55.0
Cash and cash equivalents – beginning of year	812.6	287.8	232.8
Cash and cash equivalents – end of year	557.2	812.6	287.8

CASH FLOWS

The financial position of a life insurance company changes in accordance with cash inflows and outflows. The primary sources of funds are premiums collected under in-force insurance and annuity contracts, amounts generated by the sale or recovery of investments, income collected on its investment portfolio, and other income, including segregated fund management fees. These amounts are used mainly to pay claims, make annuity and surrender payments, purchase investments, and cover operating expenses, taxes, as well as policyholder and shareholder dividends.

RELATED PARTY TRANSACTIONS

Desjardins Financial Security conducts transactions with other Desjardins Group entities. The contracts governing these transactions are submitted to the Company's Ethics Committee and Board of Directors to ensure, in particular, that contract conditions are as favourable as those on the market. The table in Note 17 to the Financial Statements presents a summary of these transactions.

OUTSOURCING CONTRACTS

From time to time, Desjardins Financial Security uses long-term outsourcing contracts that allow it to focus on its core activities and improve customer service. In particular, the Company awarded ESI Canada a contract for the electronic processing of health claims (prescription drug and dental insurance) under its group insurance plans. CGI was given a contract for the operation and management of specialized processing services for the mainframe computer, and Bell Canada was made responsible for managing telecommunications. Desjardins Asset Management, a subsidiary of Desjardins Group, was entrusted with the management of assets.

SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are summarized in Note 2 to the Consolidated Financial Statements. Some of these policies are considered critical because they require the Company to make judgments based on assumptions and estimates on as yet unresolved issues, and because actual results may differ from such estimates. As part of the financial monitoring and reporting process, these judgments are reviewed regularly. Accounting policies that make use of estimates are implemented across the board in establishing the Company's financial results.

USE OF ESTIMATES

The accounting principles implemented by the Company require Management to make assessments based on assumptions or estimates that may, in some cases, depend on information of an uncertain nature.

Policy Liabilities In calculating policy liabilities and other liabilities related to insurance contracts, certain assumptions must be made as to when many factors (death, disability, investment income, inflation, contract terminations, expenses, taxes, premiums, commissions, policyholder dividends, and so on) will come into play and what amounts will be involved. The Company uses best estimate assumptions to forecast claims experience. As certain assumptions concern events that are apt to occur far into the future, they may have to be modified at some point. The main actuarial assumptions are described in Note 6 to the Financial Statements.

Fair Value of Stock Market Investments

The fair value of certain stock market investments and stock related investments is based on the prevailing market price or the fair value of comparable investments. It will vary according to future market fluctuations.

FUTURE CHANGES IN ACCOUNTING POLICIES

Financial Instruments

In 2005, the CICA published new accounting standards entitled "Financial Instruments – Recognition and Measurement" (Section 3855), "Comprehensive Income" (Section 1530), "Hedges" (Section 3865), and "Life Insurance Enterprises – Specific Items" (Section 4211). The main guidelines for recognizing and measuring financial instruments and for applying hedge accounting are described below. The new standards, which will apply to the Company effective January 1, 2007, stipulate that certain financial assets are to be recognized at fair value.

Financial Instruments – Recognition and Measurement

This standard specifies that all financial assets must be measured at fair value except for loans, receivables and investments held to maturity, which are to be measured at amortized cost. Changes in the fair value of those held for trading are to be included in net income for the period; changes in those available for sale are to be accounted for as other comprehensive income until they are finally disposed of, at which time the change in fair value is to be included in net income.

Financial liabilities will be measured at fair value if they are derivatives or held for trading; other liabilities are to be measured at cost. Actuarial liabilities will continue to be recognized using the Canadian Asset Liability Method (see Note 2 for a description of this method). Changes in the recognition of financial assets will affect, however, actuarial liabilities when they become effective.

Section 3855 allows all financial assets and liabilities to be designated "held for trading" upon their initial recognition or

when this standard is adopted. These financial instruments designated in accordance with the fair value option are subject to Autorité des marchés financiers requirements.

Comprehensive Income

Other comprehensive income is to include, in particular, changes in the fair value of available-for-sale financial assets until they are disposed of. The Company's financial statements will include a new "Statement of Comprehensive Income," and accumulated other comprehensive income will be presented under "Participating Policyholders' Equity" and "Shareholder's Equity" as a separate item.

Hedges

This section establishes the standards governing when hedge accounting may be applied. The purpose of hedge accounting, which is optional, is to ensure that counterbalancing gains, losses, revenues and expenses are recognized in net income in the same period.

Life Insurance Enterprises – Specific Items

Life insurance enterprises will account for financial assets that fall under Section 3855 in the same way as other entities. These changes will apply simultaneously with the new standards on financial instruments.

Impact of New Standards on Financial Instruments

The adjustments arising from the new method of measuring financial assets classified as available for sale will be recognized under the opening balance of accumulated other comprehensive income. Other transition adjustments related to the adoption of Sections 1530, 3855, 3865 and 4211 will be recognized in the opening balance of retained earnings at January 1, 2007. The impact of the new accounting standards on financial instruments is currently being assessed. Data from previous periods will not be restated.

CORPORATE GOVERNANCE

GOVERNANCE POLICY

Desjardins Financial Security's Board of Directors ("the Board"), recognizing the importance of establishing a governance program as part of sound and prudent management, has developed a governance policy aimed at achieving high standards. This policy, which applies to the Company and all its subsidiaries, defines the roles and responsibilities of the Board of Directors and its various committees, the primary responsibilities of Board members, and the governance methods applicable to the Board.

BOARD OF DIRECTORS

The Board of Directors, in keeping with the Company's mission and the strategic plan of its sole shareholder and subsidiaries, is responsible for establishing and monitoring the Company's strategic and operational plans, all proposed issues of share capital, the financial plan, operating and investment budgets, financial statements, dividend declarations, financial and strategic news releases, Management's objectives, the compensation policy, profit-sharing plans, the three-year human resources and succession plan, and the Audit Committee charter.

The Board, which is in charge of the Governance Policy, appoints the members of Board committees and approves their responsibilities. It adopts the Company's by-laws and establishes a general framework, sound financial management and risk policies; it also oversees the identification of the Company's principal risks, integrated management of those risks, and implementation of the required controls and reporting processes. In addition, the Board approves the Management Committee's mandate, ensures implementation of a

succession plan for Company officers, and approves proposed partnerships, acquisitions, sales, mergers and reorganizations.

EXECUTIVE COMMITTEE

The Executive Committee has the authority to act and also exercises all the powers of the Board of Directors in the administration of the Company and its business, except those powers which, under the applicable legislation, the Board is required to exercise as well as those the Board expressly reserves for itself by regulation. Among other responsibilities, the Executive Committee conducts studies and makes recommendations to the Board concerning the Company's human resources philosophy, general collective bargaining mandates, major human resources management policies and programs, the total compensation policy for managers and employees, significant changes to components of the total compensation portfolio, annual salary changes, and the general staff incentive plan.

In addition, the Executive Committee recommends to the Board of Directors a general description of the duties and responsibilities of Board members as well as the annual objectives of the Board and Executive Committee and assesses their level of achievement. Jointly with the Chair of the Board, the Executive Committee establishes a process to evaluate the effectiveness of the Board and its various committees and assesses their performance. It is also responsible for overseeing governance and evaluating the procedures used to ensure effective and efficient governance and recommends to the Board the measures it deems necessary to execute this mandate.

AUDIT COMMITTEE

The Audit Committee, which is responsible for supervising the financial reporting process, reviews the quarterly and annual financial statements and the presentation of financial information; ensures the effectiveness of the internal control system, the management of risks related to the financial reporting process, internal and external audit processes and procedures implemented; examines the management of regulatory compliance; and carries out any other mandates received from the Board of Directors. The Committee also ensures the independence of the external auditor, the vice-president of Internal Audit and Compliance (who reports to the Committee) and the appointed actuary.

With respect to financial reporting, the Audit Committee reviews the Company's quarterly and annual consolidated financial statements, including supporting documents, and recommends their approval to the Board. The Committee ensures the quality and integrity of the financial information presented and published in accordance with generally accepted accounting principles and the use of appropriate accounting practices. Additionally, it studies reports to the regulatory authorities on an annual and quarterly basis and ensures compliance with the requirements of those authorities.

The Audit Committee is also charged with ensuring that Management has developed and implemented an effective system of internal control in regard to the disclosure of financial information, protection of assets, detection of fraud, and regulatory compliance. As concerns risk management, the Audit Committee ensures that Management has systems in place to manage the main risks that could affect the Company's financial performance.

ETHICS COMMITTEE

The Ethics Committee is responsible for establishing and ensuring compliance with ethical standards for the Company. More specifically, the Committee is charged with approving the rules set forth in Desjardins Financial Security's Code of Ethics and Professional Conduct, ensuring their implementation and immediately reporting any serious breach of these rules to the Board of Directors. These rules bear, in particular, on the Company's conduct toward interested persons, related parties or persons with ties to its officers or directors, the formalities and conditions of contracts with interested persons, and the protection of confidential information held by the Company on insureds. The Ethics Committee is also responsible for assessing any ethical situations or dilemmas brought to its attention with respect to the Company's values, principles and rules of ethics and conduct and is empowered to issue opinions, observations and recommendations.

INVESTMENT COMMITTEE

The Investment Committee's responsibilities include determining and recommending Company investment policies to the Audit Committee; ensuring the implementation of and compliance with these policies; analyzing changes thereto; and suggesting any necessary amendments or adjustments. The Committee must also ensure that policies cover all types of Company investments. It approves investment strategies and analyzes returns and ensures the Company complies with the sound and prudent practices prescribed by the Autorité des marchés financiers governing the management of interest rate risk, credit risk, liquidities, exchange rate risk, securities portfolios, real estate appraisal, and derivatives. In addition, the Investment Committee reviews the choice of fund managers retained by the Savings and Segregated Funds Division for its individual segregated funds and group investment funds.

BUSINESS RISKS AND CONTROL MEASURES

RISK MANAGEMENT

Risk Control The Company's risk management goal is to optimize the risk/return ratio for all operations. Risk is defined as an element of uncertainty that may have an impact on sales, profit margins or market share and, as a result, on existing or future revenue and income. Risk can be minimized by implementing risk management strategies, policies and control processes incorporated into all organizational functions.

Desjardins Financial Security has adopted a risk management governance structure by establishing an Integrated Risk Management department and an Integrated Risk Management Committee, which implements and oversees policies and systems designed to maintain financial and operational risk at levels acceptable to Management and the Board of Directors.

Internal Audit independently evaluates existing processes, systems and controls, submitting progress reports and making any appropriate recommendations.

A number of initiatives for continuously improving the Company's control environment have been implemented. For example, Desjardins Financial Security has developed a risk and control self-assessment program, together with an attendant integrated risk profile. This profile makes it possible to identify the risks the Company faces along with the level of exposure to each type of risk and to evaluate mitigating control measures.

Desjardins Financial Security categorizes its main risks as follows:

Credit Risk

Credit risk is defined as the risk resulting from the failure of a counterparty to settle its balance sheet or off-balance sheet contractual obligations and includes concentration risk. The term "counterparty" includes issuers, debtors, borrowers, brokers, underwriters, reinsurers, and guarantors.

General underwriting standards ensure sound portfolio diversification and credit risk management with respect to loans granted by the Company. An internal credit rating system makes it possible to evaluate portfolios and quickly identify impaired loans; an independent credit division reviews the lending process; and specialized staff are responsible for loan supervision, management and recovery.

Various policies dictate limits according to commitment, issuer, borrower, group of borrowers, region and sector, and establish the decision making levels that must approve any new commitment.

Furthermore, specific provisions are charged in respect of non-performing financial vehicles.

Market Risk

Market risk consists of variations in the value of financial vehicles attributable to fluctuations in the parameters affecting that value, in particular interest rates, exchange rates, credit spreads and volatility.

To protect itself against losses stemming from interest rate changes, the Company has established a policy for matching

assets and liabilities and regularly ensures compliance with the policy, which clearly defines acceptable risks. The assets of each sector are managed in accordance with that sector's liabilities, by investing assets in vehicles that meet the requirements of associated products.

Risks involved in the mismatch of portfolio duration and cash flow, asset prepayment exposure and the pace of asset acquisition are quantified and reviewed regularly.

To improve its risk management framework, the Company also uses the concepts of "value at risk" and "maximum acceptable risk."

Liquidity Risk

Liquidity risk is the risk that the Company will not have sufficient funds to meet balance sheet and off-balance sheet financial obligations, whether due or not.

Short-term liquidity is managed to ensure sufficient funds are available when financial commitments become due. Strategic or long-term liquidity is managed to ensure stability between the sources and use of funds in a permanent context, taking account of the economic, operational and business factors that could influence this balance.

A liquidity policy ensures the comprehensive, proactive management of balance sheet items by setting limits. Portfolio managers also guarantee that an adequate proportion of assets is held in easily marketable securities.

Desjardins Financial Security has developed a contingency plan that deals specifically with available sources of financing and their respective priority and cost. As well, the Company has lines of credit to facilitate the financing of its operations and meet temporary working capital requirements. At December 31, 2006, none of these lines had been used.

Operational Risk

Operational risk, defined as the risk of shortcomings or failures due to processes, individuals, internal systems or external events, results in losses, the inability to meet objectives, or a negative impact on the Company's reputation.

In keeping with the classification used in the New Basel Capital Accord, Desjardins Financial Security subdivides operational risk as follows:

- internal fraud
- external fraud
- employment, occupational safety and human resources management practices
- failure to meet obligations to clients with regard to product design and business practices
- damage to physical assets
- business disruption and system failures
- execution, delivery and process management errors

To mitigate operational risk, the Company uses various types of control measures: insurance coverage; regular evaluations by internal auditors; policies, procedures and processes; and a business continuity plan. Other measures include an organizational structure that promotes an appropriate segregation of duties; properly trained and competent staff at all levels of the organization, and the delegation of decision making powers. Efforts are ongoing to equip the Company with the qualitative and quantitative management tools needed to identify, measure, monitor and control risk sources.

Insurance Risk and Reinsurance Risk

In the normal course of operations, the Company is exposed to insurance risk, which takes two forms: 1) product design and pricing risk and 2) underwriting and claim settlement risk.

Insurance product design and pricing risk is the risk that initial rates may be or become inadequate and is related to the possibility that forecasts involving factors such as future investment yields, mortality, morbidity, and administrative fees are inaccurate. The Company sets strict pricing standards and policies and regularly compares assumptions with actual results. Moreover, some products allow for price adjustments based on whether assumptions are borne out.

Underwriting and claim settlement risk stems from selection, claim settlement and contract clause management. Desjardins Financial Security manages this risk by establishing appropriate underwriting criteria and policies and by limiting its exposure to claims through the use of reinsurance treaties. These agreements are used to cover policies whose face value exceeds certain maximums (which vary in accordance with the type of activity in question) and has additional coverage for disasters.

Reputation Risk

Reputation risk is defined as the risk associated with a poor perception of the Company by clients, counterparties, partners, regulatory authorities or the general public.

Reputation risk very often stems from other risks. To reduce reputation risk, Desjardins Financial Security aims to provide a high level of customer service and, accordingly, has adopted a complaint management policy that serves as a framework for a formally established dispute resolution process. A dispute resolution officer has also been appointed to evaluate the soundness of the Company's decisions and practices in the event clients feel they have not received the product or service to which they were entitled. The Company also has a general reputation risk management policy.

Strategic Risk

Strategic risk stems from business plans and strategies, the decision-making process, the allocation and use of Company resources, or the failure to adapt to changes in its operating framework.

The Company is working on an overall strategic risk management policy to ensure that the decision-making process is in line with best practices. Various initiatives for continuously improving the Company's control environment are also being developed.

REGULATORY COMPLIANCE AND SOUND MANAGEMENT PRACTICES

Desjardins Financial Security has a regulatory compliance policy designed to ensure continuous internal monitoring. The corporate policy, which reflects a decentralized compliance management approach, specifies the roles and responsibilities at each level of the Company.

Under the policy, an associated regulatory compliance program was implemented; it is designed to provide the structure and support required to manage regulatory risk, in particular via:

- a description of the main activities of each sector;
- the identification of provisions related to each sector's activities and the establishment of an associated impact rating;
- a description of controls put in place;
- monitoring of action plans resulting from significant variances and cases of non-compliance;
- a report production process (including the annual statement).

Desjardins Financial Security observes the code of sound management practices established by its regulatory authority (the Autorité des marchés financiers) and submits to the dynamic capital adequacy testing recommended by the latter. In 2006, the Company tested a number of pessimistic scenarios to measure their effect on its capitalization ratio. It confirmed the latter was adequate in every instance.

CODE OF ETHICS

A code of ethics and professional conduct is in effect for every Desjardins Group entity; all managers and employees must adhere to this code.

In keeping with the expectations of regulators, the Group has established a mechanism to help officers and employees report any accounting, internal control or auditing irregularities as well as any unethical or unprofessional conduct. Through an independent outside firm, managers and employees can anonymously inform Desjardins Group Management of any action or conduct that they have witnessed and feel runs counter to the rules on financial reporting, ethics or professional conduct. Where warranted, an investigation is carried out and appropriate action is taken.

MANAGEMENT AND PROTECTION OF PERSONAL INFORMATION

In accordance with the requirements of federal and provincial legislation, Desjardins Financial Security has adopted a policy and guidelines governing the management and protection of personal information. The policy and guidelines, which apply to all Company directors, officers, employees and representatives, guarantee the commitment of all members of our staff to respect the confidentiality of all personal information entrusted to them.

Each aspect of the privacy issue—from the collection of personal data; creation of files; the possession, use and disclosure of such information; rights to access and correct personal information; and to use nominal lists—are covered by the policy and guidelines.

RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Desjardins Financial Security Life Assurance Company (the Company) and the information contained in this annual report were prepared by the Company's Management. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and the requirements of the Autorité des marchés financiers described in the accompanying notes, and contain amounts based on Management's best judgment, within reasonable limits of materiality.

To discharge its responsibility for the reliability and integrity of the financial data, Management has established systems to ensure strict control over accounting records, operations, and the various systems used.

The Board of Directors of the Company has approved the information contained in this annual report and exercises its responsibility with respect to the supervision of Management in the preparation of financial statements and maintenance of appropriate internal control systems primarily through its Audit Committee, the members of which are neither members of Management nor employees of the Company. The Audit Committee meets on a regular basis with Management, the Appointed Actuary, and internal and external auditors. The auditors may, if they deem necessary, request meetings with the Audit Committee. The Board of Directors, through its Investment Committee and Audit Committee, approves the investment policies and monitors the activities governed by such policies. The Board of Directors also supervises the Company's transactions with related parties and with persons related to its directors or its officers, through its Ethics Committee, to which all major transactions of this nature must be submitted for approval.

The Appointed Actuary, named by the Board of Directors, carries out a yearly valuation of the Company's policyholder liabilities in accordance with the standards of the Canadian Institute of Actuaries and the requirements of the Act Respecting Insurance (Quebec) and reports thereon to the Company's policyholders and Shareholder. To this end, the Appointed Actuary may ask to meet with the Audit Committee as well as the Board of Directors. To perform this valuation, the Appointed Actuary makes assumptions as to future interest, mortality and morbidity rates, claims experience, policy terminations, inflation, reinsurance recoveries, expenses and other contingencies, by taking into consideration the circumstances of the Company. The Appointed Actuary's report outlines the scope of the valuation and the Appointed Actuary's opinion. Each year, the Appointed Actuary is required to perform an analysis of the Company's financial position and prepare a report for the Board of Directors. This analysis tests the capital adequacy of the Company to December 31, 2010, under adverse economic and business conditions.

The external auditors, Samson Bélair/Deloitte & Touche s.e.n.c.r.l., appointed by the Shareholder, are responsible for auditing the consolidated financial statements of the Company and have full access to the Audit Committee's meetings, as well as to any other information they deem necessary in order to support an audit opinion on these financial statements.

The Autorité des marchés financiers is empowered to carry out audits to ensure compliance with the provisions of the Act Respecting Insurance (Quebec) pertaining primarily to the protection of policyholder interests and maintenance of a sound financial position.

Original signed by

RICHARD FORTIER
President and Chief Operating Officer

Levis, January 31, 2007

Original signed by

FRANÇOIS DROUIN
Senior Vice-President
Finance

AUDITORS' REPORT

To the Policyholders and Shareholder of **Desjardins Financial Security Life Assurance Company**

We have audited the consolidated balance sheet of **Desjardins Financial Security Life Assurance Company** and the consolidated statement of net assets of its segregated funds as at December 31, 2006 and the consolidated statements of income, policyholders' and shareholder's equity, cash flows and changes in net assets of segregated funds for the year then ended. These financial statements are the responsibility of the Company'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 **Desjardins Financial Security Life Assurance Company** and its segregated funds as at December 31, 2006, and the results of its operations, its cash flows and the changes in net assets of its segregated funds for the year then ended in accordance with Canadian generally accepted accounting principles.

Original signed by

SAMSON BÉLAIR/DELOITTE & TOUCHE, S.E.N.C.R.L.

Chartered Accountants

Quebec City, January 31, 2007

APPOINTED ACTUARY'S REPORT

To the Policyholders, Shareholder and Directors of **Desjardins Financial Security Life Assurance Company**

I have valued the policy liabilities of **Desjardins Financial Security Life Assurance Company** for its consolidated balance sheet as at December 31, 2006 and their 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 the Company's policy liabilities makes appropriate provision for all policyholder obligations and the consolidated financial statements fairly present the results of the valuation.

Original signed by

CAMIL LÉVESQUE

Fellow, Canadian Institute of Actuaries

Levis, January 31, 2007

CONSOLIDATED STATEMENT OF INCOME

for the year ended December 31

(in millions of dollars)

	Notes	2006	2005
Revenue			
Premium income			
Insurance		\$ 2,065.7	\$ 1,905.3
Annuities		372.7	395.0
<hr/>			
Net investment income	4d	2,438.4	2,300.3
Other revenue		674.1	672.0
		115.2	99.8
<hr/>			
		3,227.7	3,072.1
<hr/>			
Expenses			
Expenses related to policyholders			
Insurance benefits and annuities		1,805.7	1,703.8
Change in actuarial liabilities	6d	455.3	461.3
Policyholder dividends and experience rating refunds		89.9	92.3
Interest on benefits and deposits		10.5	12.0
<hr/>			
Commissions		2,361.4	2,269.4
Operating expenses		164.5	152.7
Premium taxes		450.5	421.0
		48.5	44.1
<hr/>			
		3,024.9	2,887.2
<hr/>			
Operating income			
Income taxes	12	202.8	184.9
Non-controlling interest in subsidiaries	9	50.8	28.7
		0.7	1.8
<hr/>			
Net income from continuing operations			
Net income from discontinued operations	19b	151.3	154.4
		—	5.3
<hr/>			
Net income		\$ 151.3	\$ 159.7

ALLOCATION OF NET INCOME

Attributable to participating policyholders	\$	5.5	\$	8.1
Attributable to the shareholder		145.8		151.6
<hr/>				
Net income	\$	151.3	\$	159.7

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

as at December 31
(in millions of dollars)

	Notes	2006	2005
ASSETS			
Investments			
	4		
Bonds		\$ 7,802.8	\$ 7,611.3
Mortgage loans		2,089.1	1,896.7
Real estate		487.6	415.7
Stocks		545.9	465.2
Cash and money market instruments		906.6	1,016.5
Policy loans		108.7	108.4
Other loans and investments		406.2	—
		12,346.9	11,513.8
Other assets	5	457.1	407.5
Total general fund assets		\$ 12,804.0	\$ 11,921.3
Net assets of segregated funds		\$ 2,112.1	\$ 5,292.3
LIABILITIES			
Policy liabilities			
	6	\$ 8,635.4	\$ 8,185.0
Actuarial liabilities		274.2	241.7
Provisions for claims, policyholder dividends and experience rating refunds		351.1	314.1
		9,260.7	8,740.8
Other liabilities	7	1,598.4	1,182.3
Long-term debt	8	83.2	263.2
Deferred net realized gains	4b	650.5	620.2
Liabilities for preferred shares	11	275.0	275.0
Non-controlling interest in subsidiaries	9	4.8	7.3
		11,872.6	11,088.8
POLICYHOLDERS' AND SHAREHOLDER'S EQUITY			
Participating policyholders' equity		180.1	174.6
Shareholder's equity		751.3	657.9
Total policyholders' and shareholder's equity		931.4	832.5
Total general fund liabilities and equity		\$ 12,804.0	\$ 11,921.3
Net assets attributable to segregated fund policyholders		\$ 2,112.1	\$ 5,292.3

The accompanying notes are an integral part of the consolidated financial statements.

On behalf of the Board of Directors:

Original signed by

SYLVIE ST-PIERRE BABIN
Chair of the Board of Directors

Original signed by

SERGE HAMELIN
Chair of the Audit Committee

CONSOLIDATED STATEMENT OF POLICYHOLDERS' AND SHAREHOLDER'S EQUITY

for the year ended December 31

(in millions of dollars)

	Participating policyholders	Shareholder				Total shareholder's equity	Total
		Share capital Note 11	Contributed surplus Note 17	Retained earnings			
Balance as at January 1, 2005	\$ 180.2	\$ 221.8	\$ 18.0	\$ 318.6	\$ 558.4	\$ 738.6	
Net income for the year	8.1	—	—	151.6	151.6	159.7	
Dividends	—	—	—	(53.9)	(53.9)	(53.9)	
Adjustments for related party transactions	—	—	1.8	—	1.8	1.8	
Participating policyholders' equity in discontinued operations	(13.7)	—	—	—	—	(13.7)	
Balance as at December 31, 2005	\$ 174.6	\$ 221.8	\$ 19.8	\$ 416.3	\$ 657.9	\$ 832.5	
Net income for the year	5.5	—	—	145.8	145.8	151.3	
Dividends	—	—	—	(52.4)	(52.4)	(52.4)	
Balance as at December 31, 2006	\$ 180.1	\$ 221.8	\$ 19.8	\$ 509.7	\$ 751.3	\$ 931.4	

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended December 31

(in millions of dollars)

	Note	2006	2005
OPERATING ACTIVITIES			
Net income from continuing operations		\$ 151.3	\$ 154.4
Items not affecting cash			
Change in actuarial liabilities		455.3	461.3
Amortization of discounts and premiums on investments		(90.3)	(86.0)
Gains and losses on investments recorded		(121.9)	(121.6)
Future income taxes		(1.1)	9.1
Other		5.0	20.2
Change in non-cash items		142.8	70.2
Cash flows from operating activities		541.1	507.6
INVESTING ACTIVITIES			
Sales, maturities and repayments			
Stocks and bonds		4,172.4	3,615.3
Mortgage loans and policy loans		267.3	224.5
Real estate		23.0	59.2
Purchases and issues			
Stocks and bonds		(4,209.9)	(4,120.0)
Mortgage loans and policy loans		(460.3)	(283.4)
Real estate		(90.0)	(87.1)
Net change in money market instruments		(145.6)	(175.6)
Net change in other loans and investments		(406.2)	—
Business acquisitions	19a	(2.3)	(0.8)
Other		(6.3)	(3.7)
Cash flows from investing activities		(857.9)	(771.6)
FINANCING ACTIVITIES			
Dividends paid		(53.0)	(44.9)
Increase in long-term debt		25.9	38.5
Decrease in long-term debt		(199.0)	(202.3)
Net change in commitments under securities lending transactions, repurchase agreements and securities sold short		290.4	898.9
Other		(2.9)	(3.1)
Cash flows from financing activities		61.4	687.1
Cash effect of Centaur Trust consolidation as at January 1, 2005		—	79.4
Cash effect of discontinued operations		—	22.3
Increase (decrease) in cash and cash equivalents		(255.4)	524.8
Cash and cash equivalents – beginning of year		812.6	287.8
Cash and cash equivalents – end of year		\$ 557.2	\$ 812.6
Additional information			
Interest paid		\$ 11.2	\$ 16.7
Income taxes paid net of recoveries		\$ 23.4	\$ 21.7

Cash and cash equivalents include \$9.4M (\$36.5M in 2005) in cash and \$547.8M (\$776.1M in 2005) in money market instruments maturing in less than three months.

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF NET ASSETS OF SEGREGATED FUNDS

as at December 31

(in millions of dollars)

	Note	2006	2005
Investments (at market value)			
Bonds		\$ 107.6	\$ 1,232.8
Mortgage loans		30.3	38.1
Stocks		505.6	2,385.5
Mutual fund units		1,337.0	1,229.5
Money market instruments		125.1	383.9
Other assets		61.4	160.8
Liabilities		(54.9)	(138.3)
NET ASSETS OF SEGREGATED FUNDS	2	\$ 2,112.1	\$ 5,292.3

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS OF SEGREGATED FUNDS

for the year ended December 31

(in millions of dollars)

	Note	2006	2005
NET ASSETS OF SEGREGATED FUNDS – BEGINNING OF YEAR		\$ 5,292.3	\$ 4,677.1
Additions			
Amounts received from policyholders		458.8	360.1
Net investment income		168.5	144.9
Net realized and unrealized gains on investments		604.3	477.5
		1,231.6	982.5
Deductions			
Withdrawals and redemptions		408.6	341.5
Transfer of a fund	15b	3,972.6	—
Management fees		30.6	25.8
		4,411.8	367.3
NET ASSETS OF SEGREGATED FUNDS – END OF YEAR		\$ 2,112.1	\$ 5,292.3

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2006

(all tabular amounts are in millions of dollars)

Note 1

METHOD OF INCORPORATION AND NATURE OF OPERATIONS

a) Method of Incorporation

Desjardins Financial Security Life Assurance Company (the Company) is incorporated under An Act Respecting Insurance (Quebec). Until October 17, 2005, the Company was subject to Part 1 of the Companies Act (Quebec). Since that date, the Company continues its existence under Part 1A of the Companies Act (Quebec).

b) Nature of Operations

The Company designs, markets and distributes various individual and group insurance and savings products. The Company is under the ultimate control of the Caisses Desjardins, through the Fédération des caisses Desjardins du Québec. It is the life and health insurer of Desjardins Group.

Note 2

SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These principles conform, in all material respects, with the requirements of the Autorité des marchés financiers.

The preparation of these financial statements required Management to make estimates and assumptions that affect the reported amounts of assets and liabilities, primarily concerning policy liabilities, the disclosure of commitments and contingencies, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The significant accounting policies used in the preparation of these financial statements are described below.

CONSOLIDATION

These consolidated financial statements include the operating results and financial position of the Company, its subsidiaries and variable interest entities (VIE), of which the Company is the primary beneficiary, as well as its share in joint ventures.

BONDS

Bonds are carried at cost, which is adjusted for accumulated amortization of premiums and discounts and allowances for non-performing investments. Bond discounts or premiums are amortized over the period between the purchase and maturity dates, using the effective interest rate method.

The fair value of bonds is the prevailing market price, when available. In the absence of an active market, the Company establishes this fair value by using valuation techniques. These techniques include, among other things, using information available on recent arm's length market transactions between knowledgeable willing parties, using the current fair value of another relatively identical financial instrument and using discounted cash flow analysis.

MORTGAGE LOANS

Mortgage loans are carried at their principal balance net of allowances for non-performing investments. Mortgage loan discounts or premiums are amortized over the period between the purchase and maturity dates.

The fair value of mortgage loans is determined by discounting cash flows at market interest rates for loans with a similar credit risk.

NON-PERFORMING INVESTMENTS AND ALLOWANCES FOR NON-PERFORMING INVESTMENTS

The Company follows a policy of classifying its fixed-term portfolio investments as non-performing when, in its opinion, there is reasonable doubt concerning the collectibility of a portion of the principal or interest, or where interest on a loan is contractually past due for 90 days or more unless, in the Company's opinion, there is no doubt concerning the collectibility of the principal and interest, and recovery procedures have commenced. All investments are classified as non-performing when payment is 180 days in arrears.

Non-performing investments are recorded at their estimated realizable amounts, which are measured by discounting the expected future cash flows at the interest rates inherent in the investments. Interest recorded after the initial 90-day period is reversed and specific allowances are established, if applicable, for previously recognized accrued interest, and to cover the risk of losses on principal.

Non-performing investments are restored to the accrual basis only when principal and interest payments are current and there is no longer any reasonable doubt concerning collectibility.

REAL ESTATE

Real estate held by the Company for investment purposes, including property occupied by the Company, is recorded at cost, with annual adjustments equal to 10% of the difference between the carrying value and the estimated market value based on appraisals performed by an external appraiser every three years.

Note 2 (continued)**SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****REAL ESTATE (CONTINUED)**

Real estate also includes foreclosed assets held for sale, which are recorded at their estimated fair values, less the selling costs. Any difference between the carrying value of the loan before foreclosure and the amount at which the foreclosed real estate assets were initially measured is recorded as a gain or loss in the Statement of Income.

Any other than temporary declines in value of the entire real estate portfolio are recognized in income when identified.

STOCKS

Stocks, including investments in index-linked securities, are principally recorded at cost with annual adjustments equal to 15% of the difference between the fair value and the carrying value.

Securities held to hedge certain specific policyholder liabilities are recorded at fair value.

The fair value of stocks is the prevailing market price, when available. When not available, Management estimates the fair value.

REALIZED GAINS AND LOSSES ON INVESTMENTS

Realized gains and losses on fixed-term investments are deferred and then amortized over the remaining term to maturity, up to a maximum of 20 years. Realized gains and losses on equity investments are amortized to income on a declining balance basis, at annual rates of 15% for stocks and 10% for real estate held for investment.

Gains and losses realized on investments held for trading, that is, securities held for a short period only and not matched with insurance or savings products, are recognized in the Statement of Income immediately.

REVERSE REPURCHASE AGREEMENTS

Reverse repurchase agreements are short-term investment transactions. They represent the amounts the Company will receive when the securities it purchased are resold to the original counterparties at a pre-specified date and price. These items are recorded as other loans and investments. Interest income from these transactions is recorded on an accrual basis.

REPURCHASE AGREEMENTS

Repurchase agreements are short-term funding transactions whereby the Company sells securities it owns and simultaneously agrees to buy back the same securities at a pre-specified date and price. The obligation to repurchase these securities is accounted for according to the amount payable under other liabilities. Interest expense related to these transactions is recorded on an accrual basis.

SECURITIES LENDING TRANSACTIONS

The Company lends securities it owns to third parties and receives securities or cash amounts as collateral. A liability is recorded for cash collateral received from borrowers through securities lending transactions.

SECURITIES SOLD SHORT

Securities sold short represent the Company's obligation to deliver securities it did not own at the time of sale. They are accounted for as other liabilities and recorded at market value.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments to protect itself against market, interest rate and exchange rate fluctuations when managing its assets and liabilities. These derivative financial instruments are used primarily to cover the risks generated by its ongoing insurance and investment operations. They are used in compliance with the policies adopted by its Board of Directors and the guidelines issued by regulatory authorities.

The use of interest rate contracts to manage matching allows the Company to control its exposure to interest rate fluctuations while realigning its business sectors and ensuring optimum long-term returns within well-defined parameters.

The Company uses foreign exchange contracts to manage foreign exchange risk associated with its investments denominated in foreign currencies.

Total return swaps are also used to reduce the risk of fluctuations associated with specific policyholder liabilities. In these cases, contracts are accounted for in the same way as these liabilities, at market value.

Derivative financial instruments are accounted for using the accounting policies that apply to portfolio investments since the majority qualify as such and are carried out within the Company's insurance and investment activities. In all other cases, unless they comply with conditions for the application of hedge accounting as set out in the Canadian Institute of Chartered Accountants (CICA) Guideline Hedging Relationships (AcG-13) and are recognized in income in the same way as the hedged item, these derivative financial instruments are stated at fair value, and the change in fair value is recognized in income.

CASH AND MONEY MARKET INSTRUMENTS

Cash and money market instruments include deposit accounts in financial institutions and all investments in money market instruments. Money market instruments are recorded at cost.

POLICY LOANS

Policy loans are carried at their unpaid balance and are fully secured by the cash surrender value of the policies on which the loans are made.

CAPITAL ASSETS

Capital assets, which include leasehold improvements, computer software, furniture and equipment, are carried at cost and amortized on a straight-line basis at annual rates, varying from 10% to 50%, sufficient to write off the assets over their estimated useful lives. Impairment in value is recognized when the carrying value is not recoverable and exceeds the fair value of the asset.

INTANGIBLE ASSETS

Intangible assets are amortized on a straight-line basis over a period of 20 to 40 years. They are tested for recoverability when events or changes in circumstances indicate that their carrying value may not be recoverable. If the carrying value exceeded their fair value, an impairment loss would be recorded.

ACTUARIAL LIABILITIES

Actuarial liabilities represent the amounts which, together with estimated future premiums and net estimated future investment income, will provide for all Company commitments regarding estimated future benefits, policyholder dividends, dues and taxes (other than income taxes) and related expenses. Each year, the Appointed Actuary is required to determine the actuarial liabilities the Company will need to meet future obligations. Actuarial liabilities are determined using Canadian accepted actuarial practices under the Canadian asset liability method.

Under the Canadian asset liability method, the determination of policy liabilities is based on an explicit projection of cash flows using current best estimate assumptions for each material cash flow item and contingency. Investment returns are based on projected investment income using the current asset portfolios and projected reinvestment strategies. Each non-economic assumption is adjusted by a margin for adverse deviation. With respect to investment returns, the margin for adverse deviation is established by scenario testing. Scenario testing is generally performed on a deterministic basis that includes testing a range of scenarios prescribed by Canadian standards of practice. The provision for minimum guarantees on segregated fund products is done using stochastic modeling.

The period used for the projection of cash flows is the policy lifetime for most insurance contracts. For certain types of contracts, a shorter projection period may be used, limiting the period to the term of the liability over which the Company is exposed to material risk without the ability to adjust policy premiums or charges.

LIABILITIES FOR PREFERRED SHARES

Preferred shares issued by the Company are retractable at a specific date by the holder, and are consequently presented at their redemption value as liabilities rather than shareholder's equity. Dividends payable are recorded as interest expenses in the Statement of Income.

TRANSLATION OF ACCOUNTS DENOMINATED IN FOREIGN CURRENCIES

The Company uses the temporal method to translate its accounts denominated in foreign currencies into Canadian dollars.

Monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Other assets and liabilities are translated at historical exchange rates. Account balances appearing in the Statement of Income are translated at the exchange rates prevailing at the transaction dates. Exchange gains and losses are included in income for the year.

REVENUE RECOGNITION

Insurance and annuity premiums are generally recognized as revenue when due. When premiums are recognized, actuarial liabilities are computed to ensure the matching of revenue and expenses.

Other revenue is recognized as services are rendered and mainly comprises fees for segregated fund asset management, group contract administrative services, assistance services, as well as commissions on mutual fund sales. Other revenue also includes reinsurance agreement fees.

REINSURANCE

The Company's premium income, payments to policyholders, actuarial liabilities and change in actuarial liabilities relating to reinsured activities are recorded net of amounts ceded to reinsurers.

INCOME TAXES

The Company uses the liability method to calculate its income taxes. Under this method, future income tax assets and liabilities are determined for each temporary difference between the carrying value and the tax value of the assets and liabilities and are estimated based on the tax rate in effect on the date these assets and liabilities are expected to be realized or settled. Future income tax assets are recognized to the extent they are more likely than not to be realized.

EMPLOYEE FUTURE BENEFITS

The employees of the Company belong to the Desjardins Group Pension Plan, a multiemployer defined benefit plan. The Company also provides life, health and dental insurance benefits to its employees and retirees through the Desjardins Group multiemployer group insurance plan. To that end, the Company applies the recommendations of the CICA regarding defined contribution plans, since the information on the costs and funding of the plan is not determined separately for the member companies of the Group. The costs of these benefits are charged to income as contributions become payable by the Company.

GOVERNMENT ASSISTANCE

Government assistance is recorded as a reduction in the related expenses or cost of assets.

SEGREGATED FUNDS

Certain contracts allow their policyholders to invest in segregated funds held by the Company for their benefit. The underlying assets are registered in the name of the Company. Substantially all risks and rewards of ownership accrue to policyholders. Consequently, assets held in segregated fund accounts are excluded from the assets in the Company's general funds. The Consolidated Statements of Net Assets of Segregated Funds and Changes in Net Assets of Segregated Funds are presented for information purposes. The assets of the segregated funds are carried at year-end market value.

The Company's variable annuity contracts offered through segregated funds have minimal death benefits and maturity value guarantees. The liabilities associated with these minimal guarantees are recorded as actuarial liabilities in the Company's general funds.

Note 3**FUTURE CHANGES IN ACCOUNTING POLICIES****FINANCIAL INSTRUMENTS**

In January 2005, the CICA published new accounting standards entitled Financial Instruments – Recognition and Measurement (Section 3855), Hedges (Section 3865) and Comprehensive Income (Section 1530). These standards provide guidelines for the recognition and measurement of financial assets and liabilities and non-financial derivatives, as well as for the classification of financial instruments and standards for hedge accounting. Furthermore, in April 2005, the CICA published a section

entitled Life Insurance Enterprises – Specific Items (Section 4211) for life insurance enterprises to account for their financial instruments that fall under the application of the new section (3855) in the same way as other entities. These new standards apply to the Company effective January 1, 2007. The impact of the accounting standards on the financial statements is currently being assessed.

Note 4**INVESTMENTS****a) Investment Values**

2006	Carrying Value	Unrealized Gains	Unrealized Losses	Fair Value
Bonds				
Government	\$ 5,726.3	\$ 796.1	\$ 6.3	\$ 6,516.1
Corporate	2,076.5	81.9	7.6	2,150.8
	7,802.8	878.0	13.9	8,666.9
Mortgage loans				
Residential	1,672.5	66.7	2.2	1,737.0
Commercial	416.6	11.4	0.6	427.4
	2,089.1	78.1	2.8	2,164.4
Real estate				
Held for investment	487.6	89.7	7.8	569.5
	487.6	89.7	7.8	569.5
Stocks	545.9	58.7	3.3	601.3
Cash and money market instruments	906.6	2.1	—	908.7
Policy loans	108.7	—	—	108.7
Other loans and investments	406.2	0.9	—	407.1
	\$12,346.9	\$ 1,107.5	\$ 27.8	\$13,426.6

2005	Carrying Value	Unrealized Gains	Unrealized Losses	Fair Value
Bonds				
Government	\$ 5,727.2	\$ 882.7	\$ 8.8	\$ 6,601.1
Corporate	1,884.1	71.3	9.0	1,946.4
	7,611.3	954.0	17.8	8,547.5
Mortgage loans				
Residential	1,353.1	9.2	47.1	1,315.2
Commercial	543.6	21.1	0.2	564.5
	1,896.7	30.3	47.3	1,879.7
Real estate				
Held for investment	415.7	69.8	2.6	482.9
	415.7	69.8	2.6	482.9
Stocks	465.2	28.7	3.8	490.1
Cash and money market instruments	1,016.5	1.1	—	1,017.6
Policy loans	108.4	—	—	108.4
	\$ 11,513.8	\$ 1,083.9	\$ 71.5	\$ 12,526.2

The bond portfolio includes 95.0% (96.4% in 2005) in government bonds and bonds rated A or higher.

The table below shows the carrying value and fair value of bonds by contractual maturity.

	2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Due in one year or less	\$ 581.1	\$ 580.7	\$ 533.9	\$ 535.9
Due in years two through five	1,669.7	1,709.3	1,979.1	2,015.0
Due in years six through ten	1,585.4	1,658.6	1,616.1	1,710.4
Due after ten years	3,966.6	4,718.3	3,482.2	4,286.2
Total	\$ 7,802.8	\$ 8,666.9	\$ 7,611.3	\$ 8,547.5

The weighted average effective interest rate on bonds is 4.5% (5.0% in 2005) and 5.5% (5.8% in 2005) on mortgage loans.

b) Deferred Net Realized Gains

	2006	2005
Bonds	\$ 570.9	\$ 544.8
Mortgage loans	3.5	4.8
Real estate	21.2	24.0
Stocks	54.9	46.6
	\$ 650.5	\$ 620.2

Changes in deferred net realized gains are as follows:

	2006	2005
Deferred net realized gains – beginning of year	\$ 620.2	\$ 539.9
Net gains on investments realized during the year		
Bonds	91.3	118.3
Real estate	0.1	9.3
Stocks	18.0	27.9
Amortization of deferred net realized gains	(79.1)	(75.2)
Deferred net realized gains – end of year	\$ 650.5	\$ 620.2

Note 4 (continued)

INVESTMENTS (CONTINUED)

c) Non-Performing Investments

Allowances for Non-Performing Investments

	2006			2005		
	Balance	Allowance	Net Balance	Balance	Allowance	Net Balance
Bonds	\$ 8.6	\$ 6.6	\$ 2.0	\$ 15.4	\$ 8.2	\$ 7.2
Mortgage loans	5.6	1.8	3.8	8.8	2.0	6.8
	\$ 14.2	\$ 8.4	\$ 5.8	\$ 24.2	\$ 10.2	\$ 14.0

Continuity of Allowances for Non-Performing Investments

	2006	2005
Balance – beginning of year	\$ 10.2	\$ 26.1
Net recovery of allowances related to non-performing investments	(0.3)	(13.6)
Write-off of allowances on disposal of non-performing investments	(1.5)	(2.3)
Balance – end of year	\$ 8.4	\$ 10.2

d) Net Investment Income

	2006	2005
Bonds	\$ 468.8	\$ 475.2
Mortgage loans	107.8	115.3
Real estate	40.5	48.1
Stocks	25.9	16.9
Financial instruments used as hedges for certain products accounted for at market value	24.5	22.2
Cash and money market instruments	20.6	13.1
Other	14.9	8.6
Investment management fees	(28.9)	(27.4)
	\$ 674.1	\$ 672.0

Real estate revenue is presented net of operating expenses of \$51.1M (\$49.1M in 2005).

Amortization of realized gains and losses as well as unrealized gains and losses included in net investment income are as follows:

	2006	2005
Bonds	\$ 65.3	\$ 62.9
Mortgage loans	1.4	1.4
Real estate	11.0	10.0
Stocks	19.5	11.4
	\$ 97.2	\$ 85.7

e) Securities Lending

As at December 31, 2006, the Company had lent securities with a market value of \$744.9M (\$1,012.7M in 2005) and held, as collateral, securities with a market value of \$267.6M (\$196.0M in 2005). The Company also received as collateral cash in the amount of \$493.4M (\$837.2M in 2005) for which an equivalent liability was recognized in other liabilities.

Note 5

OTHER ASSETS

	Note	2006	2005
Premiums receivable		\$ 164.6	\$ 130.9
Amounts receivable and other		102.3	95.3
Accrued net investment income		78.0	73.3
Investments in segregated funds (at market value)		20.6	18.2
Future income taxes	12c	62.7	61.6
Capital assets		18.9	19.6
Intangible assets		10.0	8.6
		\$ 457.1	\$ 407.5

The Statement of Income includes the amortization expenses for capital assets and intangible assets in the amount of \$7.2M and \$0.4M (\$7.3M and \$0.0M in 2005), respectively.

Note 6

ACTUARIAL LIABILITIES

a) Composition of Actuarial Liabilities

As at December 31, actuarial liabilities and assets backing actuarial liabilities included the following amounts:

2006	Group Insurance	Individual Insurance	Savings	Total
Gross actuarial liabilities	\$ 1,865.8	\$ 3,280.7	\$ 3,908.5	\$ 9,055.0
Amounts transferred under reinsurance treaties	152.1	254.2	13.3	419.6
Net actuarial liabilities	\$ 1,713.7	\$ 3,026.5	\$ 3,895.2	\$ 8,635.4
Composition of assets backing actuarial liabilities				
Bonds	\$ 1,300.3	\$ 2,162.6	\$ 2,314.2	\$ 5,777.1
Mortgage loans	279.7	293.5	1,282.9	1,856.1
Real estate	—	152.2	—	152.2
Stocks	43.6	220.0	1.4	265.0
Other	90.1	198.2	296.7	585.0
	\$ 1,713.7	\$ 3,026.5	\$ 3,895.2	\$ 8,635.4

2005	Group Insurance	Individual Insurance	Savings	Total
Gross actuarial liabilities	\$ 1,723.6	\$ 3,059.5	\$ 3,800.8	\$ 8,583.9
Amounts transferred under reinsurance treaties	144.9	239.3	14.7	398.9
Net actuarial liabilities	\$ 1,578.7	\$ 2,820.2	\$ 3,786.1	\$ 8,185.0
Composition of assets backing actuarial liabilities				
Bonds	\$ 1,051.4	\$ 2,196.9	\$ 2,275.4	\$ 5,523.7
Mortgage loans	233.3	192.2	1,253.3	1,678.8
Real estate	—	93.8	—	93.8
Stocks	40.2	189.1	0.7	230.0
Other	253.8	148.2	256.7	658.7
	\$ 1,578.7	\$ 2,820.2	\$ 3,786.1	\$ 8,185.0

The fair value of assets backing actuarial liabilities is \$9,492.6M (\$8,890.2M in 2005). Any change in the value of assets backing actuarial liabilities would be offset by an approximately similar change in actuarial liabilities and would have no material impact on the Company's results.

Note 6 (continued)**ACTUARIAL LIABILITIES (CONTINUED)****b) Actuarial Assumptions and Sensitivity of Assumptions to Changes**

The nature and methodology of the main assumptions used by the Company in computing actuarial liabilities are described in the paragraphs below.

The base assumptions used to determine actuarial liabilities are those that provide the best estimates of liability for various contingencies. The Appointed Actuary is required to establish a margin for adverse deviation for each assumption to offset random events, allow for a possible deterioration in experience and ensure that adequate reserves are available to meet future obligations. These margins for adverse deviation increase actuarial liabilities and reduce the gross income that otherwise would be recognized at inception of the policy. With the passage of time and the resulting reduction in estimation risk, these margins are released into income. If estimates of future conditions change throughout the life of a policy, the present value of those changes is recognized in income immediately.

MORTALITY AND MORBIDITY

Each year, a mortality study of life insurance policies is carried out by the Company and, after it is analyzed, the results are used to adjust the mortality assumption applied in its valuation. When the Company's experience cannot be used as the only source of reference due to low volume, the mortality assumption is also based on industry studies and tables.

For annuities, the Company examines its experience, which provides a sufficient degree of credibility to establish the main basis for the assumptions. Unlike insurance, an improvement is considered in the future mortality rates for annuities.

With respect to morbidity, which relates to the occurrence of accidental death, dismemberment, sickness, disability and the duration of these disabilities, the Company uses industry-developed tables which it adapts according to current claim experience studies prepared by the Company and the industry.

CONTRACT LAPSE RATES

Policyholders can terminate their policies prior to the expiry of the contractual period by discontinuing premium payments. For certain insurance products with surrender value, if the lapse rates are different from originally anticipated, an increase in the rates will have an adverse effect on the Company if actuarial liabilities are lower than the surrender values of the policies. For other products with little or no surrender value, such as Term-to-100 life insurance, a decrease in the lapse rates will increase the number of future death claims and decrease expected profit levels. The Company bases its estimate of future lapse rates on previous experience for each block of business and on industry trends and studies.

The actuarial liabilities associated with the Company's Term-to-100 insurance policies and Universal Life policies with level mortality costs are sensitive to changes in the lapse rates.

NET INVESTMENT INCOME

The Company manages its investments by taking into account the characteristics of each of its business lines' commitments and by using the methods clearly defined in its matching policy.

One of the controls consists in examining the duration gap between the liabilities and the assets supporting these liabilities. The duration comparison measures the sensitivity of asset and liability values to fluctuations in interest rates. The matching control process is performed globally for all its business lines, since the matching policy specifies certain limits in this regard.

As at December 31, 2006, the durations of assets and liabilities differed by 0.1 years (as at December 31, 2005, their durations were equal). Since the valuation method already recognizes the impact of possible changes in interest rates, an immediate increase or decrease in interest rates would have no material impact on the Company's income.

OPERATING EXPENSES

Amounts are included in the actuarial liabilities to provide for the costs of administering in-force policies, such as the cost of premium collection, claim processing and adjudication, periodic actuarial valuations, preparation and mailing of policy statements, related indirect expenses and an appropriate share of overhead. The process of forecasting expenses requires estimates to be made of such factors as inflation, salary rate increases, changes in productivity, new business volumes and premium tax rates. Estimates of future policy administration costs are based on the Company's current unit costs adjusted for the expected rate of inflation.

PARTICIPATING POLICYHOLDER DIVIDENDS

Actuarial liabilities include the estimated amounts of future participating policyholder dividends. The Company establishes these liabilities based on projected future profits for that line of business and the reasonable expectations of the participating policyholders.

c) Risk Management

In addition to the risks related to actuarial assumptions, the Company is exposed to the following risks and has included the following considerations when calculating actuarial liabilities:

MARKET RISK

In the normal course of business, the Company is exposed to the risks of changes in the value of its assets. The Company must therefore protect itself against such risk factors as changes in interest rates. Furthermore, under more or less favourable economic conditions, mismatched asset and liability cash flows require investments or disinvestments. To manage this risk, a matching policy clearly defining acceptable cash flow gaps has been established for assets and liabilities. The Company examines these gaps at regular intervals to ensure they are within specified limits.

INTEREST RATE RISK

The following table presents the impact of an immediate and permanent 1% change in interest rates on the Company's net income attributable to the shareholder across the entire investment yield curve, assuming the Company was unable to apply an investment strategy to mitigate the impact of this change.

	2006	2005
1% increase in interest rates	\$ 19.6	\$ 13.5
1% decrease in interest rates	\$ (56.6)	\$ (36.5)

The determination of actuarial liabilities also takes into account the uncertainty associated with projections regarding interest rates on the reinvestment of future cash flows in relation to the mismatching of cash flows, by scenario testing under adverse economic conditions.

INSURANCE AND REINSURANCE RISK

In the normal course of business, the Company is exposed to insurance risk. Insurance risk is the risk that the initial pricing may be inadequate or become inadequate. It is related to medical underwriting, claim settlement and the management of contractual clauses. To manage this risk, the Company has established several policies that govern product development and pricing, as well as underwriting and liability management. The Company has also established a reinsurance policy. These policies clearly define the Company's insurance risk management framework. The Company performs a strict audit of its compliance with these policies annually.

The Company follows a policy of reinsuring coverage when, for instance, the policy's sum insured exceeds certain maximum limits, which vary depending on the nature of the activities. The Company also carries catastrophe insurance. This insurance includes protection against acts of terrorism.

In an effort to reduce reinsurance risk, the Company deals with several duly licensed reinsurers that must meet stringent credit standards and are governed by the same regulatory authorities as the Company. However, such reinsurance treaties do not release the Company from its obligations to its policyholders.

The impact of reinsurance on premium income and benefits is as follows:

	2006	2005
Premiums	\$ 113.9	\$ 107.9
Claims	\$ 67.2	\$ 66.0

CREDIT RISK

Future investment income is affected by the magnitude of credit losses. In addition to allowances for non-performing investments applied as direct reductions to the carrying value of assets, the Company has factored an allowance of \$185.5M (\$161.7M in 2005) into its net investment income forecasts to protect itself against an inadequate return on investment.

LIQUIDITY RISK

The Company takes the necessary steps to ensure it has access to sufficient funds to meet its commitments as they become due. A number of these commitments can become due at short notice, thereby increasing its liquidity risk.

To manage this risk, the Company has adopted strict rules for matching asset and liability cash flows and established liquidity standards. The first, known as the operating liquidity standard, covers potential cash flows over a one-month horizon. The second, known as the strategic liquidity standard, is based on stress scenarios covering horizons of three months to one year. The Company's liquid assets must be sufficient to cover potential withdrawals and surrenders.

Note 6 (continued)**ACTUARIAL LIABILITIES (CONTINUED)****c) Risk Management (continued)****RISK RELATED TO SEGREGATED FUNDS**

Actuarial liabilities also include amounts that are sufficient to pay the minimum segregated fund guarantees. These amounts are calculated using stochastic models as defined by the Canadian Institute of Actuaries. These models are based on the nature of the guarantees and on assumptions regarding investment returns, mortality and contract lapse rates. Deferred acquisition costs, that is, expenses incurred on the sale of individual segregated fund contracts, are recorded in actuarial liabilities and amortized over the same period as the applicable surrender charges. Actuarial liabilities recognize that future revenue is available to recover unamortized acquisition costs.

d) Changes in Actuarial Liabilities

Changes in actuarial liabilities during the year were due to the following business activities and changes in actuarial estimates:

	2006	2005
Balance – beginning of year	\$ 8,185.0	\$ 7,720.6
Normal change due to:		
Revised actuarial assumptions	16.3	66.4
Passage of time	439.0	394.9
	455.3	461.3
Other changes	(4.9)	3.1
Balance – end of year	\$ 8,635.4	\$ 8,185.0

In 2006, the main changes to the actuarial assumptions involved mortality and morbidity rates, interest rates and taxes on investment income, whereas in 2005 they involved mortality rates, interest rates and the discounting of future income taxes.

Note 7**OTHER LIABILITIES**

	2006	2005
Accounts payable, accrued liabilities and other	\$ 295.7	\$ 199.2
Commitments under securities lending transactions, repurchase agreements and securities sold short	1,189.4	898.9
Income and other taxes payable	62.9	33.2
Dividends payable	50.4	51.0
	\$ 1,598.4	\$ 1,182.3

Note 8**LONG-TERM DEBT**

	2006	2005
Note payable issued by Centaur Trust, redeemed prior to maturity date in 2006, guaranteed by bonds, interest at a variable rate payable monthly.	\$ —	\$ 198.0
Mortgage loans related to various real estate investments bearing interest at rates varying from 5.14% to 11.00%, with a weighted average of 6.38% (6.43% in 2005).	83.2	65.2
	\$ 83.2	\$ 263.2

The fair value of these debts, determined on a discounted contractual cash flow basis at current market interest rates for loans with similar terms and risks is \$84.6M (\$263.7M in 2005).

The interest expense for the long-term debt is \$9.3M (\$13.4M in 2005) and is accounted for as a reduction in investment income. In 2005, the interest on the subordinated debts was \$0.4M and was recognized as operating expenses.

Annual principal repayments on long-term debt over the next five years are as follows:

	2007	2008	2009	2010	2011	Total
Long-term debt	\$ 2.0	\$ 2.8	\$ 3.0	\$ 3.2	\$ 3.4	\$ 14.4

Note 9

NON-CONTROLLING INTEREST IN SUBSIDIARIES

Non-controlling interest in subsidiaries includes the non-controlling interest in the limited partnerships and in one VIE, until its liquidation in 2006.

Changes in non-controlling interest in subsidiaries during the year are as follows:

	Notes	2006	2005
Balance – beginning of year		\$ 7.3	\$ —
Consolidation (liquidation) of Centaur Trust	19a	(5.7)	6.0
Non-controlling interest from control acquisition of Laurentian Weloga, Limited Partnership	19a	—	2.8
Issuance of equity interest by Laurentian Weloga, Limited Partnership		—	1.8
Non-controlling interest's share of subsidiaries' net income		0.7	1.8
Investments (net distribution)		2.5	(5.1)
Balance – end of year		\$ 4.8	\$ 7.3

Note 10

INTERESTS IN JOINT VENTURES

As at December 31, 2006, the Company held an interest in a joint venture primarily active in real estate development and holdings. The main assets and liabilities of this joint venture, which were included in the proportional consolidation, are as follows:

	2006	2005
Real estate	\$ 48.7	\$ 46.1
Other assets	6.6	7.8
Mortgage loans	(33.7)	(34.8)
Other liabilities	(1.1)	(1.7)
	\$ 20.5	\$ 17.4

The operating results of the joint ventures are recognized in income using the accounting principles applied to the Company's real estate holdings. The Company's share of the joint ventures' net income is \$7.0M in 2006 (\$8.9M in 2005).

Up to February 25, 2005, Laurentian Weloga, Limited Partnership was also recognized using the proportional consolidation method (see Note 19a).

Note 11

SHARE CAPITAL AND LIABILITIES FOR PREFERRED SHARES

The authorized share capital of the Company is as follows:

AUTHORIZED

Class A shares – An unlimited number of voting shares, without par value and participating.

Preferred shares – An unlimited number of Classes B, C, D, E, and F shares, without par value, non-voting, non-convertible, issuable in series, redeemable by the Company and retractable at the option of the holder at any time subject to certain restrictions, with a quarterly cumulative dividend at annual rates varying from 0.5% to 15.0% or at variable rates established based on the cost of Caisse centrale Desjardins funds. Each share is redeemable at a price equal to the paid-up capital and increased by any unpaid cumulative dividend.

Note 11 (continued)**SHARE CAPITAL AND LIABILITIES FOR PREFERRED SHARES
(CONTINUED)****ISSUED AND OUTSTANDING**

	2006	2005
Liabilities for preferred shares		
22,000 Class C, Series 6 shares	\$ 22.0	\$ 22.0
253,000 Class C, Series 7 shares	253.0	253.0
Total liabilities for preferred shares	\$ 275.0	\$ 275.0
Share Capital		
8,203,244 Class A shares	\$ 221.8	\$ 221.8
Total share capital	\$ 221.8	\$ 221.8

On October 17, 2005, the Company amended its statutes, notably by the creation of Classes A to F shares. These issued and outstanding common shares were then converted into an equal number of Class A shares of equal value.

On December 31, 2005, the Company issued 22,000 Class C, Series 6, preferred shares and 253,000 Class C, Series 7 preferred shares by exercising its right of conversion with respect to a debenture in the amount of \$275.0M. These shares carry a cumulative dividend, payable quarterly at a fixed annual rate of 3.0% and 3.5%, respectively. These shares are retractable at the option of the holder at any time on or after December 31, 2014, and redeemable by the Company at any time with the approval of the Autorité des marchés financiers. These shares are recognized as liabilities for preferred shares.

Note 12**INCOME TAXES****a) Income Tax Expense**

Income taxes include the following amounts:

	2006	2005
Current income taxes	\$ 51.9	\$ 19.6
Future income taxes	(1.1)	9.1
	\$ 50.8	\$ 28.7

b) Income Taxes

Income is subject to Canadian income taxes. The effective income tax rate varies from year to year, based on changes in the combined statutory tax rate. The provision for income taxes in the Statement of Income differs from the provision obtained by applying the combined statutory tax rate for the following reasons:

	2006	2005
Income taxes on operating income at the combined statutory rate of 32.90% in 2006 (32.28% in 2005)	\$ 66.7	\$ 59.7
Change due to the following items:		
Net investment income and other non-taxable or non-deductible items (net)	(2.0)	(10.3)
Impact of new rates enacted on future income tax assets	0.8	(15.0)
Revaluation of future income taxes	(1.7)	(3.7)
Recognition of future income tax assets related to capital losses carried forward	(13.0)	(4.3)
Minimum taxes	—	2.3
	\$ 50.8	\$ 28.7

c) Future Income Taxes

Future income tax assets, which are based on estimates of temporary differences performed as at December 31, 2006, arise from the following items:

	2006	2005
Investments	\$ (45.8)	\$ (40.6)
Policy liabilities	84.7	92.0
Capital losses carried forward	17.3	4.3
Other	6.5	5.9
	\$ 62.7	\$ 61.6

As at December 31, 2005, the capital losses carried forward by the Company amounted to approximately \$78.8M, for which no future income tax benefits were recognized as at that date. During 2006, the unrealized future income tax assets relating to these losses were fully recognized.

Note 13

DISTRIBUTION OF INCOME TO THE SHAREHOLDER AND PARTICIPATING POLICYHOLDERS

Distribution of income to the Shareholder and participating policyholders is established by resolutions of the Board of Directors. From time to time, the Board of Directors sets aside a portion of the income earned in the participating lines of business as safe and proper for distribution as dividends to participating policyholders, in compliance with the policy the Company is required to establish in this regard under the Act Respecting Insurance (Quebec). Under this policy, dividends paid to participating policyholders are generally equal to the net income earned in the participating lines of business, subject to capital adequacy rules and the influence of competition, and after allowing for appropriate transfers to the shareholder's account as specified in the applicable legislation. Dividends to policyholders are determined using the contribution principle, whereby the net income available for dividends

to policyholders is distributed in approximately the same proportions as the related policies contributed to the net income earned in the participating lines of business.

Under An Act Respecting Insurance (Quebec), payment of dividends to the Shareholder and policyholders is subject to the Company's compliance with the minimum capital adequacy standards prescribed by the Autorité des marchés financiers.

Furthermore, to meet various financial management requirements, the appropriated policyholders' equity is \$38.2M (\$39.9M in 2005) and the appropriated retained earnings are \$187.5M (\$167.8M in 2005).

Note 14

COMMITMENTS, GUARANTEES AND CONTINGENCIES

a) Contingent Liabilities

The Company may have lawsuits brought against it in the normal course of business. While it is not possible to estimate the outcome of the various proceedings at this time, such suits have in the past been resolved without any expenses in excess of amounts provided for in actuarial liabilities, and the Company does not believe that it will incur any significant additional loss or expense in connection with these proceedings.

b) Litigation

In the past few years, insurance companies in the U.S. and Canada have been taken to court with respect to participating life insurance policies with vanishing premiums. In some cases, these proceedings resulted in significant company payouts. A motion for authorization to institute a class action has been filed against the Company in Canada. The case is still in its preliminary phase. However, based on a 2004 ruling by the Supreme Court of Canada in a very similar case, it appears unlikely that authorization would be granted and that the outcome would be unfavourable to the Company. No specific provision has been recorded in this regard in the financial statements as at December 31, 2006.

c) Contracts

Payments under the Company's contractual obligations mainly in respect of leases and various services over the next fiscal years total \$158.5M, and are broken down as follows: \$18.3M in 2007, \$9.4M in 2008, \$8.4M in 2009, \$7.6M in 2010, \$5.9M in 2011 and \$108.9M thereafter.

d) Contractual Commitments

The Company's major commitments in effect on December 31, 2006, are as follows:

DERIVATIVES

In the normal course of its investment activities, the Company has entered into credit default swaps on investment securities and has undertaken to assume the credit risk for the investment securities concerned. The guarantee consists in providing partial payment or payment in full for a security or group of securities in the event that the issuer defaults on payment. The maximum amount of this guarantee corresponds to the notional amount of the swap. The amounts that may have to be disbursed depend on the nature of the default and the recovery rate for the securities in collection. The underlying assets for these swaps are composed of corporate securities or tranches of high-quality securitization structures. At December 31, 2006, all the underlying securities were rated BBB or higher by the rating agencies.

These swaps mature on various dates until October 2014. As at December 31, 2006, the maximum amount that could be disbursed under this guarantee totalled \$452.1M. In accordance with accounting principles, as these credit default swaps do not qualify as hedge transactions or portfolio investments, they are accounted for at fair market value.

Note 14 (continued)**COMMITMENTS, GUARANTEES AND CONTINGENCIES (CONTINUED)****INDEMNITY AGREEMENTS**

In the normal course of business, the Company has entered into agreements that include indemnities, such as purchasing contracts, service agreements, outsourcing agreements, lease agreements, netting agreements and asset or stock transfer agreements. Under the terms of these contracts, the Company could be liable to pay such indemnities if certain events should occur, such as changes in legislation and regulations, changes in reported financial positions and the existence of unreported liabilities, losses due to the activities of a third party or litigation involving third parties. The provisions concerning these indemnities vary depending on the contract. In many cases, the contracts do not specify any predetermined amounts or limits, and the events that could give rise to a claim are difficult to foresee.

Consequently, it is not possible to estimate the Company's potential maximum liability for these indemnities. In the past, payments made under these indemnity agreements were negligible. No specific liability has been recorded with respect to these agreements.

INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Company will indemnify its directors and officers and any person who, at its request, acted in that capacity for another entity in the event a claim or lawsuit is filed against them. The Company maintains liability insurance policies for its directors and officers. Based on the nature of these indemnities, it is difficult to give a reasonable estimate of the amount the Company could be required to pay. No specific liability has been recorded with respect to these indemnities.

Note 15**EMPLOYEE FUTURE BENEFITS AND PENSION PLANS****a) Employee Future Benefits Costs**

The Company's employees belong to the Desjardins Group Pension Plan (the Plan), a multiemployer defined benefit pension plan. The last actuarial valuation, performed on January 1, 2004, indicated that the Plan as a whole had a surplus of \$44.5M on a capitalization basis and a deficit of \$33.3M on a solvency basis. To eliminate this deficit as at January 1, 2004, the employers and employees are required to make special payments totalling \$0.6M per month from January 1, 2004 to December 31, 2008 or until a subsequent actuarial valuation shows that the Plan no longer has a deficit with respect to solvency. Expenses related to the Plan, including the Company's share of the special payments, amount to \$16.9M in 2006 (\$16.4M in 2005).

Furthermore, the Company offers additional defined benefits pension plans, including the Desjardins Group Unified Excess Pension Plan to some of its active and retired executives. To meet its future obligations under these plans, an amount of \$12.2M (\$11.4M in 2005) was recorded under other liabilities. The expense for the period totals \$1.9M (\$0.7M in 2005).

b) Management of the Desjardins Group Pension Plan

The Company's management of this plan's assets through a group annuity contract was terminated on December 30, 2006. The resulting transfer of assets, which had been included in the Company's segregated funds, totalled \$3,972.6M on that date (\$3,522.9M as at December 31, 2005). However, the Company retains its role with respect to the administration of the plan and continues to offer various plan management services.

Note 16**GOVERNMENT ASSISTANCE**

Upon receipt of its Annual Eligibility Certificate, the Company will benefit from a government assistance program for major investment projects. During the year, the Company recorded government assistance in the amount of \$13.9M (\$11.6M in 2005), \$9.3M after taxes (\$7.8M in 2005), as a reduction of operating expenses.

Note 17**RELATED PARTY TRANSACTIONS**

In the normal course of business, the Company carries out transactions with entities of Desjardins Group. These transactions are measured at their exchange value, which is equal to the consideration established and agreed to by the related parties.

The table below summarizes these transactions:

	2006	2005
Revenue		
Premium income	\$ 121.6	\$ 109.0
Net investment income	(0.9)	5.9
	\$ 120.7	\$ 114.9
Operating expenses	\$ 102.6	\$ 88.8

This revenue is derived from the sale of life and health insurance products and investments, while the expenses consist primarily of management fees and compensation and administrative expenses paid to the Desjardins Caisse Network for distributing the Company's products.

Furthermore, on December 20, 2006, in the normal course of business, the Company acquired a block of mortgage loans from Desjardins Trust. This transaction was concluded and recorded at its exchange amount for an amount of \$40.2M, which represents its fair value.

As at December 31, the account balances with related parties included in the Balance Sheet were as follows:

	2006	2005
Assets		
Bonds	\$ 35.8	\$ 44.8
Stocks	209.8	20.0
Cash and money market instruments	97.5	62.7
Other loans and investments	321.7	—
Other assets	12.3	7.8
	\$ 677.1	\$ 135.3
Liabilities		
Other liabilities	\$ 146.5	\$ 58.1
Repurchase agreements	106.7	—
Liabilities for preferred shares	275.0	275.0
Non-controlling interest in subsidiaries	—	5.7
	\$ 528.2	\$ 338.8

On December 29, 2006, the Company received a non-interest bearing advance of \$85.0M from its parent company. This advance is presented as other liabilities as at December 31, 2006.

In 2005, the Company entered into transactions of a non-recurring nature with its parent company. These transactions were concluded at market value and recorded at the carrying amount in the books of the related party and generated a credit to contributed surplus of \$1.8M.

On June 17, 2005, the subordinated debt with the parent company in the amount of \$30.0M was redeemed early by the Company.

On December 31, 2005, the Company converted the debenture in the amount of \$275.0M with its parent company into preferred shares. This debenture had been issued on December 30, 2004, in order to pay a special dividend in the amount of \$275.0M.

POST BALANCE SHEET RELATED PARTY TRANSACTIONS

On January 3, 2007, the Company paid back an \$85.0M advance to its parent company. On the same date, the Company issued 209,864 Class A shares for a cash consideration of \$56.0M to its parent company.

Furthermore, on January 3, 2007, the Company acquired 90.09% of the shares of Place Desjardins Inc. from the Fédération des caisses Desjardins du Québec (FCDQ) for the sum of \$210.3M, thus becoming the sole shareholder. This acquisition, which was concluded at its fair value, will be recorded at its carrying value in the books of the FCDQ and any difference will be recorded as shareholder's equity in 2007.

The Company funded this acquisition by issuing 210,300 Class B, Series 6, shares for an amount of \$210.3M. These shares, which are retractable any time at the holder's option, were redeemed on January 4, 2007, for the same amount.

Note 18

DERIVATIVE FINANCIAL INSTRUMENTS

The Company primarily uses derivative financial instruments to manage the matching of its general fund assets and liabilities, to protect itself against market, interest rate and foreign exchange rate fluctuations, and to eliminate the market risk associated with the sale of certain products. It may also use such instruments to obtain a desired exposure to the underlying position for such contracts, such as a stock market exposure, and to express certain views of the market.

These derivative instruments, which are limited to contracts in the form of swaps, forwards and call or put options, are used by the Company to manage risk within the constraints imposed by the general investment policy, the general policy on derivative instruments, the matching policy, the liquidity policy, and those imposed by the maximum amount of acceptable risk it is required to manage.

CREDIT RISK

The Company assesses and monitors the credit risk of its derivative financial instruments as it does for its other financial instruments. The credit risk of a derivative financial instrument is significantly lower than its notional amount because it is limited at all times to the replacement cost and contingent credit risk.

Note 18 (continued)**DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)****CREDIT RISK (CONTINUED)**

All the counterparties with which the Company carries out derivative transactions are financial institutions that have received a rating of A or better from recognized independent credit rating agencies.

The Company constantly seeks opportunities to decrease uncertainty and minimize the credit risk associated with derivative transactions. Such opportunities include master netting agreements, under which the Company is permitted to offset its payables to a counterparty against its receivables when the specified terms of payment have not been honoured.

The following tables show the notional amount, fair value and credit risk of the Company's derivative instruments as at December 31, 2006 and 2005. The fair value is estimated and compared with the rates obtained from counterparties. The fair value and carrying value take into account amounts received and ceded as collateral.

	Notional Amount				Fair Value		Credit Risk Equivalent	Risk-Weighted Amount	Carrying Value
	Less than 1 year	1 to 5 years	More than 5 years	Total	Positive	Total			
2006									
Interest rate contracts ⁽¹⁾	\$ 100.3	\$ 28.2	\$ —	\$ 128.5	\$ 24.3	\$ 23.8	\$ 24.4	\$ 4.9	\$ 24.1
Credit risk contracts ⁽²⁾	89.9	383.7	46.6	520.2	2.1	0.8	58.3	14.3	0.7
Foreign exchange contracts ^(1,2)	202.0	122.3	—	324.3	15.6	13.3	23.7	4.7	11.1
Total return swaps ^(1,2)	973.5	5.8	3.7	983.0	5.7	5.5	8.0	1.7	1.6
	\$ 1,365.7	\$ 540.0	\$ 50.3	\$ 1,956.0	\$ 47.7	\$ 43.4	\$ 114.4	\$ 25.6	\$ 37.5

(1) Recorded using the underlying investment method.

(2) Recorded at fair value.

	Notional Amount				Fair Value		Credit Risk Equivalent	Risk-Weighted Amount	Carrying Value
	Less than 1 year	1 to 5 years	More than 5 years	Total	Positive	Total			
2005									
Interest rate contracts ⁽¹⁾	\$ 164.3	\$ 218.9	\$ 46.7	\$ 429.9	\$ 30.3	\$ 24.7	\$ 30.7	\$ 6.1	\$ 30.0
Credit risk contracts ⁽²⁾	—	350.9	17.5	368.4	0.3	(0.9)	44.6	11.2	(0.9)
Foreign exchange contracts ^(1,2)	228.7	148.4	—	377.1	38.0	34.0	47.7	9.5	32.6
Total return swaps ^(1,2)	872.6	0.4	6.2	879.2	5.5	5.4	9.0	1.8	0.7
	\$ 1,265.6	\$ 718.6	\$ 70.4	\$ 2,054.6	\$ 74.1	\$ 63.2	\$ 132.0	\$ 28.6	\$ 62.4

(1) Recorded using the underlying investment method.

(2) Recorded at fair value.

DEFINITIONS

The following definitions apply to derivative financial instruments:

- Notional amount: The amount to which a rate or price is applied in order to calculate the exchange of cash flows.
- Fair value: An estimate of the amount the Company should pay or receive at the balance sheet date in order to reverse its position.
- Credit risk equivalent: The total maximum credit risk, or the current replacement value of all derivative instruments with a positive fair value, and contingent credit risk, or the amount of potential losses that could result from changes in market rates. The credit risk equivalent represents the loss the Company would sustain in the event of current or future counterparty default.
- Risk-weighted amount: The credit equivalent amount weighted according to the creditworthiness of the counterparty, as prescribed by the Autorité des marchés financiers.

Note 19**ACQUISITIONS, DISPOSALS AND DISCONTINUED OPERATIONS****a) Acquisitions and Disposals****PERFORMA**

On June 30, 2006, the Company acquired, for a minimum amount of \$3.5M, certain assets and liabilities of Performa Financial Group Limited, a financial services firm that distributes group savings products. The following table describes the net assets acquired and the consideration paid:

Net assets acquired		
Distribution network	\$	1.7
Other accounts receivable		1.8
		3.5
Consideration paid		2.3
Minimum balance payable on January 31, 2008, without interest ⁽¹⁾	\$	1.2

(1) A contingent consideration may be payable on January 31, 2008, depending on assets under administration as at December 31, 2007.

LAURENTIAN WELOGA, LIMITED PARTNERSHIP

On February 25, 2005, the Company acquired a controlling interest in Laurentian Weloga, Limited Partnership, by increasing its interest in this entity to 65%. Until that date, the Company's interest in this entity had been recorded using the proportionate consolidation method.

Note 20**SEGMENTED INFORMATION**

The Company conducts business in various operating segments, which are based on the type of products distributed or the distribution method.

The Company's group insurance segment is divided into two areas of activity. The first includes group life and health insurance plans for groups, enterprises and associations, distributed across Canada by agents, group plan brokers and consulting actuaries. The second includes the group death and disability plans for loans or deposit-linked life insurance distributed in financial institutions, particularly to Desjardins Group members.

The Company's individual insurance products are distributed by brokers, by managing general agents (MGAs), by financial security advisors assigned to the Desjardins caisses, as well as by direct marketing and over the Internet.

The Company's savings products are distributed in the same manner as individual and group insurance products, and include segregated fund transactions.

The main accounting policies used by the Company's various business segments are the same as those described in Note 2.

CENTAUR TRUST

In 2006, favourable conditions allowed the Company to terminate the activities of Centaur Trust, a VIE which until then had been consolidated in the Company's financial statements. Centaur Trust gradually disposed of its investments and distributed all funds obtained from the disposal. As at December 31, 2005, the consolidation of Centaur Trust had the following impact on the Company's balance sheet:

Assets	\$	209.4
Liabilities	\$	203.7
Non-controlling interest	\$	5.7

b) Discontinued Operations

In 2004, the Board of Directors authorized a plan for the Company to withdraw from the operations of its division in the Bahamas. In January, 2005, negotiations took place to finalize the sale of this division, which operated under the name of Imperial Life Financial. On January 19, 2005, the parties accepted the conditions of an agreement, signed the sale contract and finalized the transaction with an effective date of January 1, 2005. The gain of \$5.3M and cash flows from investment activities of \$22.3M arising from this transaction were recognized in 2005.

Note 20 (continued)**SEGMENTED INFORMATION (CONTINUED)**

In addition to the segmented information related to the actuarial liabilities and their main supporting assets already mentioned in Note 6, the table below summarizes the results by segment.

2006	Group Insurance	Individual Insurance	Savings	Other	Total
Premium income					
Products distributed to Desjardins					
Group members	\$ 481.6	\$ 100.9	\$ 7.2	\$ —	\$ 589.7
Other distribution networks	1,209.9	273.3	365.5	—	1,848.7
Net investment income	146.7	265.5	262.5	(0.6)	674.1
Other income	13.1	20.9	77.9	3.3	115.2
Total revenue	1,851.3	660.6	713.1	2.7	3,227.7
Expenses related to policyholders	1,354.9	422.0	584.5	—	2,361.4
Other expenses	358.5	184.4	119.2	1.4	663.5
Total expenses	1,713.4	606.4	703.7	1.4	3,024.9
Operating income	137.9	54.2	9.4	1.3	202.8
Income taxes	36.8	12.2	1.2	0.6	50.8
Non-controlling interest in subsidiaries	—	—	—	0.7	0.7
Net income from continuing operations	\$ 101.1	\$ 42.0	\$ 8.2	\$ —	\$ 151.3

2005	Group Insurance	Individual Insurance	Savings	Other	Total
Premium income					
Products distributed to Desjardins					
Group members	\$ 452.3	\$ 87.1	\$ 4.6	\$ —	\$ 544.0
Other distribution networks	1,090.6	275.3	390.4	—	1,756.3
Net investment income	132.7	256.5	282.0	0.8	672.0
Other income	10.6	20.5	66.5	2.2	99.8
Total revenue	1,686.2	639.4	743.5	3.0	3,072.1
Expenses related to policyholders	1,221.9	407.0	640.5	—	2,269.4
Other expenses	326.9	177.4	112.7	0.8	617.8
Total expenses	1,548.8	584.4	753.2	0.8	2,887.2
Operating income (loss)	137.4	55.0	(9.7)	2.2	184.9
Income taxes (recoveries)	34.9	12.0	(18.6)	0.4	28.7
Non-controlling interest in subsidiaries	—	—	—	1.8	1.8
Net income from continuing operations	\$ 102.5	\$ 43.0	\$ 8.9	\$ —	\$ 154.4

Note 21**COMPARATIVE FIGURES**

Certain figures for 2005 have been reclassified to conform with the presentation adopted in 2006.

FIVE-YEAR SUMMARY

For the years ended December 31

(in millions of dollars, unless otherwise indicated)

	2006	2005	2004	2003	2002
PROFITABILITY AND CAPITALIZATION					
Net income	151.3	159.7	130.2	109.7	79.2
Continuing operations	151.3	154.4	128.8	106.0	77.1
Discontinued operations	—	5.3	1.4	3.7	2.1
Operating income	202.8	184.9	186.9	127.5	124.4
Net income attributable to shareholder	145.8	151.6	127.5	100.2	70.4
Return on shareholder's equity	20.7%	24.9%	19.6%	14.1%	10.8%
BUSINESS GROWTH					
In-force insurance	151,191.9	137,117.7	131,896.5	126,386.2	122,644.5
Net Premiums					
Insurance premiums	2,065.7	1,905.3	1,784.4	1,661.8	1,511.6
Annuity premiums	372.7	395.0	305.8	351.3	192.9
Total	2,438.4	2,300.3	2,090.2	2,013.1	1,704.5
SAVINGS					
Group products	290.6	316.1	171.3	166.2	73.5
Individual products	254.9	236.6	236.5	236.2	212.1
Mutual funds	516.9	461.7	344.5	220.2	296.3
Total	1,062.4	1,014.4	752.3	622.6	581.9
ASSETS UNDER MANAGEMENT AND ADMINISTRATION					
General fund	12,804.0	11,921.3	10,250.6	9,665.7	9,023.6
Segregated funds	2,112.1	5,292.3	4,677.1	4,383.9	4,025.3
Mutual funds	5,028.4	3,170.2	2,670.0	2,315.0	2,046.3
Total	19,944.5	20,383.8	17,597.7	16,364.6	15,095.2
INVESTMENT QUALITY					
Bonds					
Rated A or higher	95.0%	96.4%	97.0%	96.7%	97.4%
Stocks					
Market value as a percentage of carrying value	110.1%	105.4%	105.1%	113.8%	102.3%
Real Estate					
Market value as a percentage of carrying value	116.8%	116.2%	111.7%	105.1%	103.3%
OTHER INFORMATION					
Number of employees	3,734	3,659	3,628	3,679	3,530
Number of representatives and brokers	5,321	5,873	5,749	5,831	5,595

CORPORATE INFORMATION

BOARD OF DIRECTORS

As at December 31, 2006

Chair of the Board

SYLVIE ST-PIERRE BABIN

Gatineau, Quebec
Legal Counsel
Vice-President, CORE
Abitibi-Témiscamingue – Nord et Ouest
du Québec

Senior Deputy Chair

JACQUES SYLVESTRE

Saint-Hyacinthe, Quebec
Legal Counsel
Sylvestre & Associés, avocats

Members of the Board

SERGE CLOUTIER

Montreal, Quebec
General Manager
Caisse populaire Desjardins Allard-St-Paul

PIERRE GINGRAS

Sainte-Pétronille, Quebec
Chartered Administrator (C. Adm.)
Morneau Sobeco

SERGE HAMELIN

Laval, Quebec
Consulting Actuary
Daigneault & Hamelin, Actuaaires

MONIQUE LEFEBVRE

Montreal, Quebec
Business Coaching Psychologist and
Corporate Director

DENIS LEVESQUE

Rockland, Ontario
Adjunct Professor
University of Ottawa

SUZANNE MAISONNEUVE-BENOIT

Sainte-Foy, Quebec
Administrative Consultant

URSULA MENKE

Ottawa, Ontario
Deputy Chief Risk Officer
Government of Canada

JOCELYN NADEAU

Sainte-Mélanie, Quebec
General Manager
Caisse populaire Desjardins de la Ouareau

MICHEL ROULEAU

Sainte-Marie-de-Beauce, Quebec
Corporate Director

RÉAL SUREAU

Montreal, Quebec
President
Gestion Sureau Limitée

BOARD COMMITTEES

Executive Committee

SYLVIE ST-PIERRE BABIN

Chair

MONIQUE LEFEBVRE

JOCELYN NADEAU

JACQUES SYLVESTRE

Investment Committee

MICHEL ROULEAU

Chair

SYLVIE ST-PIERRE BABIN

PIERRE GINGRAS

RICHARD FORTIER

Ex-Officio Member

Audit Committee

SERGE HAMELIN

Chair

SERGE CLOUTIER

URSULA MENKE

RÉAL SUREAU

Ethics Committee

SUZANNE MAISONNEUVE-BENOÎT

Chair

DENIS LEVESQUE

COMPANY MANAGEMENT

ALBAN D'AMOURS

President and Chief Executive Officer, Desjardins Group
Chief Executive Officer, Desjardins Financial Security

RICHARD FORTIER

President and Chief
Operating Officer

CAMIL LÉVESQUE

Vice-President
Corporate Actuarial Services

CLÉMENT CLÉMENT*

Vice-President
Internal Audit and Compliance
*Reports to the Audit Committee

DENIS BERTHIAUME

Senior Vice-President
Individual Insurance
President, SFL Management Inc.

ALAIN BÉDARD

Vice-President
Product Development and
Marketing, Individual Insurance

JEAN CARON

Vice-President
Sales, AssurFinance
for Individuals

GILLES DUBÉ

Vice-President
Customer Service, Individual
Insurance and Savings

STÉPHANE DULUDE

Vice-President and General
Manager, SFL Management Inc.

MONIQUE TREMBLAY

Senior Vice-President
Savings and Segregated Funds

ANDRÉ LANGLOIS

Vice-President
Product Development and
Marketing, Savings and
Segregated Funds

ANNICK DOUVILLE

Vice-President
Customer Service, Savings for
Groups and Businesses and
Segregated Funds

PETER FERLAND

Vice-President
Sales, Savings and
Segregated Funds

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