

2008 FINANCIAL REPORT

# WORKING TOGETHER TO SHAPE OUR DESTINY



Money working for people

PROUD TO BE A MEMBER COMPANY OF THE LARGEST COOPERATIVE FINANCIAL GROUP IN CANADA



## 2008 SOCIAL RESPONSIBILITY REPORT

**We are committed to making the world a better place one step at a time, one day at a time. We believe that together our actions and gestures will make a difference.**

We invite you to read the 2008 edition of our **Social Responsibility Report**. It describes the concrete steps we have taken to meet our obligations as a socially responsible corporate citizen. Our report is centred around four main themes – listening to our members and clients, the importance of our employees, social and community involvement, and environmental awareness and protection – and our two main concerns: health and financial security.

To download a pdf copy of this report, visit [desjardinsfinancialsecurity.com](http://desjardinsfinancialsecurity.com).

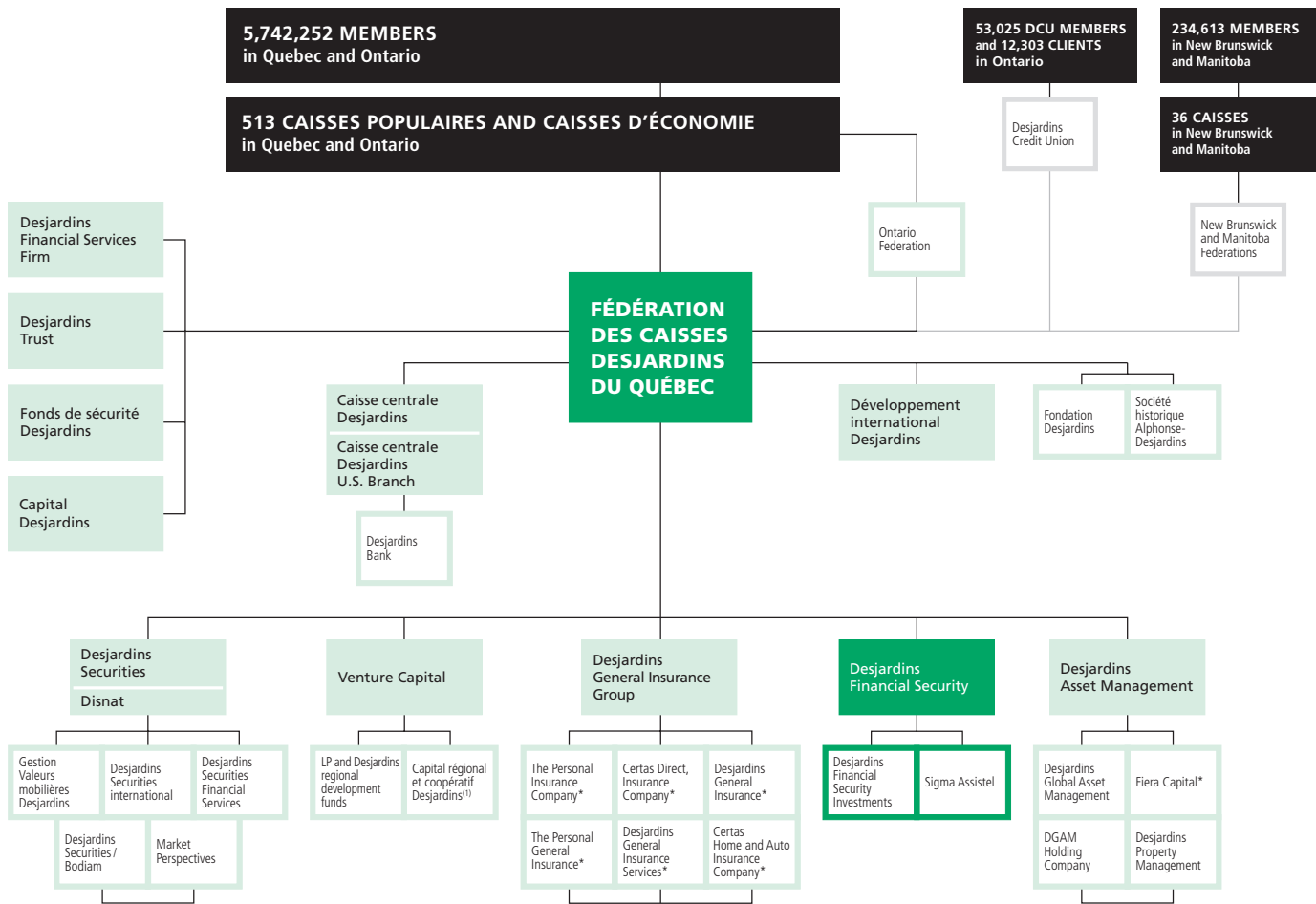
This report has been printed on paper containing 100% post-consumer fibers certified FSC (Forest Stewardship Council), processed chlorine free and manufactured using biogas energy. Paper made with FSC certified fiber and bearing the FSC logo is your guarantee that it has come from responsibly managed forests that maintain the highest environmental and social standards according to the Forest Stewardship Council.

Committed to sustainable development, Desjardins Group favours the use of paper that is manufactured in Canada in accordance with recognized environmental standards.

## TABLE OF CONTENTS

<b>Desjardins Group</b>	<b>02</b>
<b>Working together to shape our destiny</b>	<b>03</b>
<b>Profile</b>	<b>04</b>
<b>2008 At a Glance</b>	<b>06</b>
<b>Message from Management</b>	<b>08</b>
<b>Management Report</b>	<b>10</b>
<b>Responsibility for Financial Reporting</b>	<b>33</b>
<b>Auditors' Report and Appointed Actuary's Report</b>	<b>34</b>
<b>Consolidated Financial Statements</b>	<b>35</b>
<b>Five-Year Summary</b>	<b>64</b>
<b>Corporate Information</b>	<b>65</b>

# THE EXTENT OF THE DESJARDINS GROUP NETWORK



(1) Venture capital, public fund managed by Desjardins Venture Capital.

As at December 31, 2008

Note: Chart does not reflect the legal ownership structure.

— Ownership link  
- - - Auxiliary members  
\* Shared ownership

- Assets of \$152.3 billion.
- Across Canada, some 5.8 million members, including nearly 400,000 businesses.
- 6,299 highly committed elected officers in Quebec and Ontario.
- Some 42,000 dedicated employees in Canada.
- 1,396 service outlets in Quebec and Ontario: 513 caisses and 883 service centres.
- 113 points of service in Manitoba and New Brunswick: 36 affiliated caisses and 77 service centres.
- 48 business centres in Quebec and 3 in Ontario.
- 32 Desjardins Credit Union points of service in Ontario.
- Approximately 20 subsidiary companies offering a wide range of financial services, with many of them active in several Canadian provinces.
- Three Desjardins Bank branches in Florida and a branch of Caisse centrale Desjardins in the United States.
- A state-of-the-art, high-tech virtual network of automated tellers and Internet.

# WORKING TOGETHER TO SHAPE OUR DESTINY

Working together to shape our destiny means cooperating, making a contribution, doing our part, and pursuing a common objective: to build a better future for ourselves and our loved ones.

Desjardins Financial Security takes a holistic approach to pursuing the same objective. With care and consideration, we provide life and health insurance and retirement savings products and services to more than five million Canadians, giving them the safety net they need to deal with illness and unexpected events, as well as an opportunity to realize their retirement plans and dreams.

As a member company of Desjardins Group, the largest cooperative financial group in Canada, we contribute to the economic well-being of individuals and communities alike.

Human capital is the true strength behind cooperation. For Desjardins, this human capital includes millions of members, thousands of elected officers and some 42,000 employees — more than 3,800 of whom work for Desjardins Financial Security. These employees put their skills, intelligence and innovation to work to help the Company and Desjardins grow for the benefit of their members, clients and the local communities in which they do business.

The Desjardins cooperative difference draws its inspiration from the caisse model and the principles of democratic governance, accessibility, and openness to all people. As the driving force behind this vast cooperative financial group and its subsidiaries, including Desjardins Financial Security, the caisses play a significant role in Desjardins' success. In keeping with this role, in 2008, caisse delegates made up half of Desjardins' strategic analysis team, helping to define Desjardins' new strategic plan.

At Desjardins, our strength is the strength of many and our cooperative difference makes all things possible.

# DESJARDINS FINANCIAL SECURITY

## VISION

On the strength of our partnership and integration with Desjardins Group, our vision is to:

- Optimize our preferred relationship with the Desjardins caisse network;
- Be recognized by our distributors nationwide as a partner of choice based on the competitiveness and quality of our service offer to target markets;
- Be recognized as an organization that meets its customers' expectations by offering them distinctive value and a positive experience in all their contacts with the Company;
- Be an organization where each and every employee is fully committed to providing customer satisfaction, achieving the Company's growth objectives and developing his agility and ability to innovate;
- Implement processes and technologies that allow us to offer our customers and partners service and integrated solutions, while keeping our costs competitive.

## PRODUCTS AND SERVICES

Desjardins Financial Security Life Assurance Company (Desjardins Financial Security or "the Company") offers a flexible array of life and health insurance, as well as savings and retirement products and services designed to meet the changing financial security needs of individuals, groups and businesses.

Desjardins Financial Security is a subsidiary of Desjardins Group, the largest cooperative financial group in Canada with assets under management of \$152.3 billion and a workforce of some 42,000 employees.

Desjardins Financial Security helps more than five million Canadians prepare for retirement and the unexpected by ensuring their financial security. We do this by offering them tailor-made combinations of life and health insurance coverages to protect them against the financial repercussions of accidents, illness and death. We also provide them with innovative savings solutions to give them the peace of mind they need today and the ability to achieve their retirement plans and dreams of tomorrow.

## HISTORY AND INDUSTRY RANKING

Desjardins Financial Security is the result of the merger of some twenty portfolios and companies, including Desjardins-Laurentian Life Assurance and The Imperial Life Assurance Company of Canada, and boasts more than one hundred years of experience. The Company, which pioneered the concept of bancassurance in this country, now ranks fifth among life and health insurers in Canada and first in Quebec in terms of written premiums.<sup>1</sup>

## DISTRIBUTION NETWORKS

To accommodate the individual preferences of its various clienteles, Desjardins Financial Security makes its products and services available to individuals, groups and businesses through a diverse range of distribution channels, including its sales offices and other networks, such as the financial centres of **SFL** and **SFL Investments** in Quebec, as well as the financial centres of **Desjardins Financial Security Independent Network** and **Desjardins Financial Security Investments Inc.** elsewhere in Canada.

<sup>1</sup> The market data in this annual report are derived from the most recent information published in reports from the Superintendent of Financial Institutions and the Autorité des marchés financiers; most of the data are as at December 31, 2007.

Desjardins Financial Security also provides products and services to its clients through financial institutions, such as the Desjardins caisses, Desjardins Business Centres and Desjardins Credit Union branches, and has a special team of 279 financial security advisors dedicated to the customers of the Desjardins caisses. It also maintains business relationships with many group plan representatives, consulting actuaries, as well as brokers and general agents (MGAs) across Canada. Many of its insurance products can also be purchased without an intermediary, either over the Internet or through the Company's call centre services.

## SUBSIDIARIES

Desjardins Financial Security has two main subsidiaries: Desjardins Financial Security Investments Inc. and Sigma Assistel Inc.

**Desjardins Financial Security Investments Inc.** is a mutual fund and insurance brokerage firm. Through this firm, our associate representatives, the caisse-dedicated financial security advisors and financial planners in our financial centres, and our group retirement savings plan representatives have access to the products of more than 15 Canadian insurance manufacturers and over 70 manufacturers of mutual funds.

A pioneer in telephone assistance services in Canada, **Sigma Assistel Inc.** offers the most comprehensive range of services in the country, including travel, roadside, convalescence, legal, identity-theft and identity-restoration assistance, as well as employee assistance programs (EAPs). Sigma Assistel Inc. serves an extensive portfolio of domestic and international clients, such as insurance companies, financial institutions, credit-card issuers and associations.

## PLACES OF BUSINESS

In addition to its head office in Lévis, Desjardins Financial Security has offices in several other cities coast to coast, including Vancouver, Calgary, Winnipeg, Toronto, Ottawa, Montréal, Québec, Halifax and St. John's.

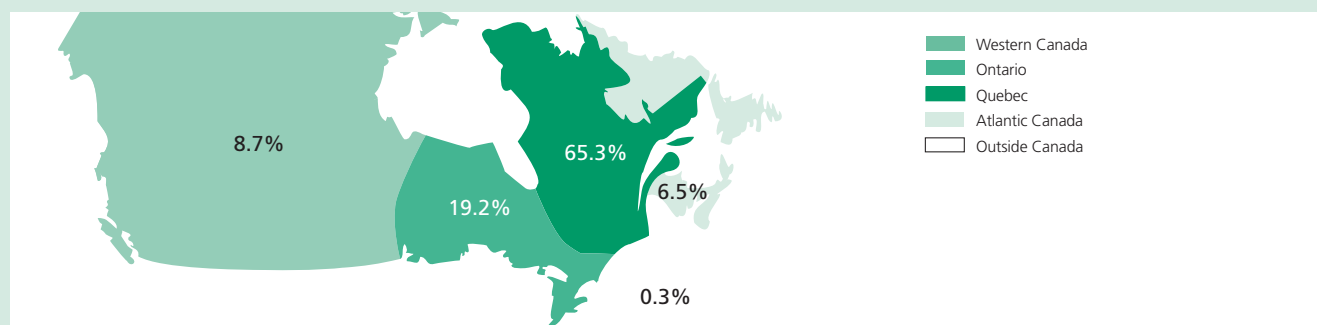
# 2008 AT A GLANCE

For the years ended December 31  
(in millions of dollars unless otherwise indicated)

	2008	2007	2006
<b>NET PREMIUMS</b>	<b>2,868.4</b>	2,575.3	2,438.4
<b>GROUP INSURANCE PREMIUMS</b>	<b>2,137.6</b>	1,937.1	1,691.5
Administered groups (ASO)*	82.4	68.0	53.8
<b>INDIVIDUAL INSURANCE PREMIUMS</b>	<b>415.3</b>	392.6	374.2
<b>SAVINGS PRODUCT SALES</b>			
Group products	260.1	218.5	290.6
Individual products	432.3	251.8	250.9
Mutual funds	462.8	636.3	516.9
<b>NET INVESTMENT INCOME</b>	<b>(101.4)</b>	513.4	673.4
<b>NET INCOME</b>	<b>34.5</b>	216.7	151.3
<b>RETURN ON SHAREHOLDER'S EQUITY</b>	<b>5.9%</b>	27.5%	20.7%
<b>BALANCE SHEET</b>			
Assets under management			
- General funds	13,759.2	15,307.9	12,804.0
- Segregated funds	2,050.8	2,246.9	2,112.1
Assets under administration (mutual funds)	3,856.1	5,021.4	5,028.4
Total assets under management and administration	19,666.1	22,576.2	19,944.5
Actuarial liabilities	10,114.4	10,207.8	8,635.4
<b>HUMAN RESOURCES</b>			
Permanent employees	3,485	3,546	3,432
Temporary employees	331	347	302
Representatives and brokers	5,942	5,542	5,321

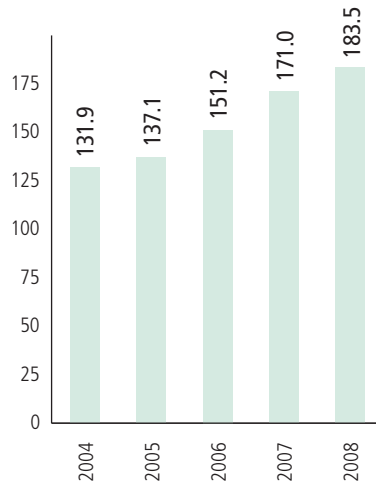
\* ASO: Administrative Services Only

## GEOGRAPHIC DISTRIBUTION OF ACTIVITIES

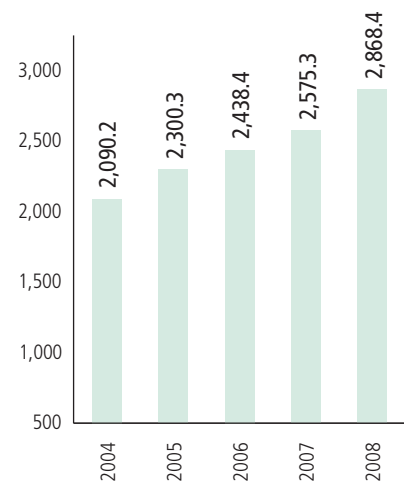


**BUSINESS IN FORCE\***

As at December 31 (in billions of dollars)

**PREMIUM INCOME**

As at December 31 (in millions of dollars)



\* Insurance in force

**KEY ACHIEVEMENTS**

- Net income of \$34.5 million. Excluding losses associated with the financial crisis, net operating income would have totalled \$190.6 million.
- In-force insurance business growth of 7.3%.
- Net premiums of \$2.9 billion, up 11.4%.
  - Insurance premium growth outside Quebec of 17.0%;
  - Insurance premium growth in Quebec of 6.4%.
- Individual insurance sales up 5.0%.
- Significant growth in savings product sales
  - Group retirement savings sales growth of 19.0%;
  - Individual savings sales growth of 71.7%.
- Premiums from the sale of direct distribution products up 17.1%.
- Total volume of life-insured credit up 7.8%.
- Return on shareholder's equity of 5.9% in 2008, representing an average rate of 18.0% for the 2006-2008 period. Rate of 24.0% in 2008, excluding the impact of the financial crisis.
- Sound capitalization maintained despite global the financial crisis.
- Savings innovations:
  - Three new additions to the *Helios Contract*: Guaranteed Lifetime Withdrawal Benefit with a predictable income stream based on age, annual reset of the protected value and annual accumulation bonus;
  - Conversion of a *Transition Account* into a Tax-Free Savings Account (TFSA);
  - Launch of a Tax-Free Savings Account (TFSA) in group retirement savings;
  - Creation of a new secure website to help pension plan sponsors with the day-to-day administration of their plans.
- ISO 9001:2000 certification for Sigma Assistel, Desjardins Financial Security's telephone assistance subsidiary.
- *Renovated Building Award* for complexe Desjardins, which is owned by the Company, at the 2008 International BOMA (Building Owners and Managers Association) Competition.



**MONIQUE F. LEROUX, FCA, FCMA**  
 President and Chief Executive Officer of  
 Desjardins Group and Chief Executive Officer  
 of Desjardins Financial Security



**RICHARD FORTIER, FSA, FICA, CFA**  
 President and Chief Operating Officer  
 Desjardins Financial Security

## MARKET GAINS COAST TO COAST

At the end of the final phase of our 2006-2008 strategic plan, we are recording operational gains that are directly attributable to our successful growth initiatives coast to coast. These gains show that our strategic priorities are right on target and we are clearly meeting the needs of Canadians.

Despite the turmoil on the financial markets, insurance and savings premiums are up 11.4%. Income from insurance premiums continues to grow, with a 17.0% increase outside Quebec, and an improvement of 6.4% in Quebec. More specifically, administered premiums in the group and business insurance sector are up 4.7%; group retirement savings sales are up 19.0% and individual savings sales are up 71.7%. Direct distribution products also recorded a significant increase in net premiums, which rose by 17.1% in 2008.

The profitability of Desjardins Financial Security, like that of most Canadian financial institutions, has been affected by the financial crisis. At \$34.5 million, net income is down \$182.2 million from 2007. The losses in value and other direct consequences of the crisis involving Asset-Backed Commercial Paper (ABCP), stocks and hedge funds amounted to \$156.1 million. Excluding these exceptional items, the Company's net income would have totalled \$190.6 million and generated a return on shareholder equity of 24.0%, which is similar to last year's return. The share of net income payable to our ultimate shareholders, the Desjardins caisses, stood at \$40.2 million. With a return on shareholder equity of 5.9%, Desjardins Financial Security therefore continues to contribute to the profitability of Desjardins Group.

The Company's financial strength remains intact. Its capitalization is as solid as ever, even exceeding regulatory requirements. Our overall portfolio is widely diversified and of very high quality. As a subsidiary of Desjardins Group, we also enjoy the many benefits of our association with this very successful and extremely solid financial institution, including its excellent credit ratings.

On the strength of our achievements in 2008, which are discussed in detail in this report, our goal is to continue to grow our business coast to coast and strengthen our position as one of the leaders of the Canadian life and health insurance and financial services industry. To achieve this objective, we plan to respond promptly and diligently to the changing needs of our clients and enhance our ability to do business with greater empathy, simplicity and efficiency. We will continue to help our clients protect their financial security, whatever the circumstances, through every stage of life.

### OUR OFFER OF FINANCIAL SECURITY MAKES THE GRADE

In times of economic uncertainty, "financial security" takes on a whole new meaning and savings products become the client's investment of choice. Our 2008 individual and group retirement savings sales results made this abundantly clear. And, based on our insurance premium income, which also continues to rise, our service offer is clearly making the grade across the entire Canadian market.

Our expansion efforts will therefore be driven by our distinctive and competitive products and services. The prevailing economic conditions will furthermore raise greater awareness of financial security and all that it entails.

## OUR NEW BUSINESS PLAN

As mentioned earlier, our profitability would have been much higher in 2008 had it not been for financial crisis. However, our capitalization remains strong today because of past prudence. This major advantage will give us the confidence we need to continue to make substantial market gains coast to coast.

In 2009, Desjardins Financial Security is embarking on a brand new business plan. The key elements of this plan are accelerated organic growth and continued expansion across Canada. The success of this business plan, which will be aligned with Desjardins Group's new strategic plan, will serve to enhance our competitive edge.

## A DYNAMIC BOARD OF DIRECTORS

Under the chairmanship of Sylvie St-Pierre Babin, the thirteen members of the Board and its various committees (executive, investment, audit and ethics) met 43 times in 2008.

In addition to ensuring that we adhere to the Company's mission and values, members of the Board closely monitored our progress with respect to our key strategic priorities. They also reviewed and approved budgets and financial statements, and analyzed several important files, such as those dealing with the impact of the market turbulence on the Company's business, rules of governance, risk management, the succession management program for managers, national development, business growth, follow-up of the Company's conversion to International Financial Reporting Standards on January 1, 2011, and the status of our technological developments. As well, Board members adopted or revised several policies governing the Company's activities, its human resources and its compliance with sound and prudent management practices.

Elsewhere, for their own professional development, Board members attended a series of training sessions on a variety of subjects and issues related to the financial services industry. As a result, they are now better equipped to assume their responsibilities and contribute to the management of the Company.

## ACKNOWLEDGEMENTS

We would like to sincerely thank our 9,758 employees, representatives and partners for their unwavering commitment to our clients and the Company's mission. We would also like to acknowledge the expertise of our teams and thank them for the quality of their services. To the members of our Senior Management Committee, we extend our heartfelt thanks for rallying their teams behind our mission, values and strategic priorities and contributing to Desjardins Financial Security's success in 2008.

We would also like to thank the officers of Desjardins Group and the members of our Board for their continued support. To Mr. Jocelyn Nadeau and Mr. Pierre Gingras, whose terms on the Board ended following the last Annual General Meeting, we extend our sincere thanks for their active participation and contributions to the Board. We would also like to welcome three new directors, Ms. Louise Lussier, Ms. Laura M. Talbot and Mr. Denis Risler, who joined the Board during the year.

Finally, we would like to sincerely thank all our clients for placing their trust in us. Some five million Canadians depend on us every day to ensure their financial security. It is a very great privilege for us to serve them and we will continue to do everything in our power to continue to merit their trust.

### **Monique F. Leroux, FCA, FCMA**

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

### **Richard Fortier, FSA, FICA, CFA**

President and Chief Operating Officer  
Desjardins Financial Security

# MANAGEMENT REPORT

## 2006-2008 STRATEGIC DIRECTIONS

Our 2006-2008 strategic directions, along with our key achievements during the past year under these directions, are presented in the following table.

### 2006-2008 STRATEGIC DIRECTIONS

1. Develop Desjardins caisses 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.

2. In Quebec markets, other than Desjardins caisses, 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 market by optimizing the potential of SFL, Desjardins Financial Security's main distribution network in Quebec.

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

4. Continue to improve the operational efficiency of all our sectors to create competitive advantages.

5. Balance business development with an overall sustainable performance: satisfy the needs of members and clients with motivated employees while meeting our shareholder's profit expectations.

#### Caution Regarding Forward-Looking Statements

Certain statements in this Management Report, particularly those relating to Desjardins Financial Security's strategies or future operating results, as well as those contingent upon future conditions or events, are forward-looking statements. They are usually characterized by the use of such words as "could", "should", "estimates", "expects", "believes", and the use of the conditional tense. The purpose of these statements is not to provide information on past occurrences, but to present Desjardins Financial Security'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. Desjardins Financial Security's future results may differ from those presented in the forward-looking statements in this Management Report, in particular because of factors addressed by the Risk Management section of this report. Other factors, such as changes in laws and regulations, changing economic conditions, technological advances, and the effect of fierce competition in a market extremely vulnerable to the forces of globalization, may also have an impact on the forward-looking statements in this report. Unless otherwise required by the applicable laws, we do not intend, nor do we undertake any obligation, to update or revise any forward-looking statements to reflect subsequent information, events, results or circumstances.

## KEY ACHIEVEMENTS IN 2008

- *Loan Insurance* premiums and savings products offered to Desjardins caisse members grew by 4.4%.
    - Credit insurance solutions were adapted to the new financing products offered by the Desjardins caisses;
    - "Give your home a new look" contest prizes totalling \$0.8 million were distributed to Desjardins members who enrolled or re-enrolled in *Loan Insurance*.
  - AssurFinance for Individuals recorded 20.7% insurance premium growth and had a return on shareholder's equity of 25.9%.
    - Desjardins member clientele was segmented into four separate markets, with specialized sales personnel and marketing tools geared to each market.
    - Health insurance was added to the *Vision* family of products.
  - The Guaranteed Lifetime Withdrawal Benefit was integrated into the Desjardins caisses' savings service offer via the *Helios Contract*.
  - A new program was set up to consolidate the assistance services included with the insurance products offered to Desjardins members.
- 
- Individual insurance sales grew by 15.2%.
  - Two financial centres were opened under the SFL banner in the Greater Montréal Area. This distribution network recorded sales growth of 19.4% in life insurance and 32.8% in individual savings.
  - Administered group and business insurance premiums recorded 5.9% more growth than the market average (4.7%).
  - A Tax-Free Savings Account (TFSA) was launched in individual savings and group retirement savings.
  - A TFSA-convertible *Transition Account* was offered in individual savings.
  - The *TRACE Lifecycle Environment*, an innovative and flexible solution for group retirement savings plan sponsors, was developed; and a new secure website was implemented to help pension plan sponsors with the day-to-day administration of their plans.
- 
- Strong growth was reported in administered group and business insurance premiums (22.2% versus 7.9% for the market).
  - Desjardins Financial Security Independent Network's expansion was accelerated with the opening of four new financial centres (one in Saskatchewan and three in the Greater Toronto Area).
  - Twelve new agreements were signed within the general agent network.
  - A Canada-wide integrated distribution structure was set up for our national accounts and the group retirement savings brokerage networks and a sales office was added in Calgary.
  - The Guaranteed Lifetime Withdrawal Benefit (*Helios Contract*) was launched, thereby positioning this line of guaranteed investment funds as one of the best in Canada. A national road show was organized to promote it.
- 
- Unit costs in all business lines were reduced, for a 5.6% improvement over 2007.
  - Administered premiums outgrew cost increases by 7.1%.
  - Sigma Assistel received its ISO 9001:2000 certification.
  - New technologies were introduced, such as the client relationship management technology platform, web applications in 20 customer service areas and a monthly human resources planning tool to determine staff requirements for both technological and business line needs.
- 
- Customer satisfaction surveys:
    - Over 60% of individual clients said they were very satisfied with how easy it was to do business with the Company;
    - Over 75% of individual clients who dealt with the Customer Contact Centre in 2008 gave the centre an excellent satisfaction rating;
    - Pension plan administrators who dealt with the Customer Contact Centre in 2008 gave the Company's group plan administration a very good satisfaction rating.
  - Measures were implemented to promote employee engagement, such as flexible work schedules, changes to the pension plan and a management role preparation initiative for professionals and team leaders.
  - The results of a survey revealed an employee engagement ratio of 70%, thus contributing to Desjardins Group's ranking as one of the 50 Best Employers in Canada.
  - Return on shareholder's equity of 5.9%, representing an average return of 18.0% for the 2006-2008 period. Excluding the losses associated with the financial crisis, the rate of return in 2008 was 24.0%.

## INDUSTRY AND MARKET TRENDS

### STRONG DEMOGRAPHIC TRENDS

The aging population, immigration and new family structures remain strong demographic trends that will continue to influence the supply and demand of financial products and services over the next two decades. The Canadian population is expected to grow by an average of 0.7% a year and by 2030 growth will be entirely dependent on immigration.

More specifically, by the middle of 2010, seniors could outnumber children, and by 2013, more people will be retiring than entering the job market. In addition, the Canadian population is not only concentrated in certain provinces, but also in certain urban centres characterized by economic growth and strong immigration. Family structures also continue to evolve as the number of single-person households and proportion of childless couples and single-parent families also continue to rise.

### OFFERING FINANCIAL PRODUCTS AND SERVICES ADAPTED TO FINANCIAL SECURITY NEEDS

The financial products and services we offer must take these realities into account. The ability to effectively meet the financial security needs of baby boomers will become crucial as the financial services industry competes aggressively for their business. At the same time, the industry must also start to adapt to the phenomenon of Generation Y, for whom virtual social networking is a way of life. Understanding the perceptions and attitudes of cultural communities regarding the acquisition of financial security products will also need to be a priority.

### GROUP INSURANCE AND RETIREMENT SAVINGS: FOCUS ON EMPLOYEE BENEFIT PLANS

In the area of group insurance and retirement savings, companies will be paying greater attention to their benefit plans as they strive to effectively retain and recruit employees. This trend is emerging as a result of the perceived value of employee benefits. Health coverage options and strategies for the transition from group to individual coverage will become priorities due once again to the aging population and the legions of baby boomers retiring at the same time.

### CREDIT INSURANCE: CREDIT SHIFTING TO POINTS OF SALE

In the credit insurance market, a growing portion of the credit previously offered in financial institutions is shifting over to points of sale (car dealerships, durable consumer goods, businesses, etc.). This poses a challenge in terms of adapting credit insurance products and integrating the offer of credit in these new distribution networks. Another aspect to consider is that in uncertain economic times, disability claims experience can deteriorate and therefore require closer supervision.

### SAVINGS: NEW RETIREMENT INCOME SOLUTIONS

In terms of savings, new solutions geared to retirement needs will continue to appear as older baby boomers start entering the five-to-ten-year transition period prior to the payout phase of their retirement savings. During this period, the retirement income of future retirees could shrink if the stock markets experience substantial declines as they did in 2008.

To address these retirement income challenges and the financial security needs of baby boomers, the financial services industry will be offering them integrated retirement income management solutions, including portfolio asset consolidation strategies, as well as a wide range of income and investment options. Life annuities, combined with other products, will provide efficient and secure retirement income solutions. Funds with guaranteed minimum withdrawal benefit (GMWB) options will also be part of the inventory of products designed to meet people's retirement needs. Another key factor for pre-retirees and retirees will be advisory services.

### GROUP RETIREMENT SAVINGS: STRONG GROWTH IN THE COMING DECADE

The industry's group retirement savings sector will experience the strongest growth in the coming decade. The trend in the private sector of suspending defined benefit plans in favour of new defined contribution plans will also continue to impact this sector.

Providers of defined contribution plans will be offering more customized and interactive communications, training and retirement asset management programs to help participants make informed decisions. They will therefore continue to offer participants "lifecycle" portfolios that offer predetermined asset allocation based on the participant's age and risk tolerance. The industry will also focus its attention on payout options, as well as the retention of both customers and retiree assets, using group account formulas that are available both on an individual basis and on integrated retirement platforms.

## INDIVIDUAL LIFE INSURANCE: VERY SEGMENTED MARKET WITH HIGH-QUALITY SEGMENTS

The individual life insurance market is extremely segmented. While it appears that the industry and advisors in particular will continue to focus on high-quality segments, they will not neglect the rest of the market. The introduction of the Tax-Free Savings Account (TFSA) confirms the importance of universal life insurance principles in these high-quality markets.

Two key factors will drive growth in the individual life insurance sector: access to new distribution networks or channels and the new “living benefits”, particularly in the area of critical illness and long-term care. These products should be especially attractive to aging baby boomers as they become increasingly aware of the importance of protecting their quality of life in the face of a decreasing independence.

The direct distribution market is also growing and will demand innovation on the part of the industry.

## IMPACT OF THE GLOBAL FINANCIAL CRISIS

The financial services industry has been going through a great deal of turmoil. The effects of the financial crisis continue to reverberate and could amplify the economic slowdown underway. The loss of confidence, both among and in financial institutions, has created a dysfunctional interbank market, which in turn has contributed to a pronounced widening of credit spreads and financing premiums.

The U.S. Treasury and Federal Reserve (Fed) are continuing their interventions in an attempt to stabilize the situation, but the tightening of credit standards, the collapse of the real estate market and mounting job losses indicate that the U.S. is in the grips of a severe recession. With the looming risk of deflation, at the end of 2008, the Fed lowered the target for the federal funds rate to a range of between 0.0% and 0.25%. However, as signs point to a weak economic recovery, some tough fiscal intervention will be required from the new U.S. administration.

Canada will not be impervious to the decline in economic activity in the United States. Despite the relatively enviable health of Canadian banks, the country has still been severely shaken by events in the international arena. Moreover, the collapse of world demand for raw materials will continue to impact Canadian exports and the country's prosperity.

## FINANCIAL STATEMENT ANALYSIS

The Company's profitability in 2008, like that of most Canadian financial institutions, was affected by the financial crisis that continues to impact economies worldwide. Net income as at December 31, 2008 was \$34.5 million compared to \$216.7 million a year earlier. Fortunately, growth-related factors, in terms of both insurance premiums and savings product sales, were encouraging in 2008 and we can therefore look to the future with optimism.

### 2008 HIGHLIGHTS

- Net income, which stood at \$34.5 million, declined by 84.1% from 2007's record levels of \$216.7 million.
- Net operating income, excluding the direct impact of the financial crisis, has been estimated at \$190.6 million.
- Insurance premium income recorded a significant increase of 9.6%.
- The Company's market penetration by organic growth, mainly in the area of groups and businesses and the Canadian market outside Quebec, amounted to \$137.4 million in administered premiums.
- Unit costs have decreased as a result of technological investments made in the past few years, an ongoing concern for operational efficiency and increased business volume.

### IMPACT OF THE FINANCIAL CRISIS

(in millions of dollars)

	<b>2008</b>	2007
<b>Net income before the impact of the financial crisis</b>	<b>190.6</b>	234.4
Direct impact of the financial crisis on net income		
Other-than-temporary decline in value and provisions for investment losses	<b>(183.2)</b>	(26.5)
Strengthening of reserves following the financial crisis	<b>(44.3)</b>	—
Related taxes	<b>71.4</b>	8.8
Net impact of the financial crisis	<b>(156.1)</b>	(17.7)
<b>Net income</b>	<b>34.5</b>	<b>216.7</b>

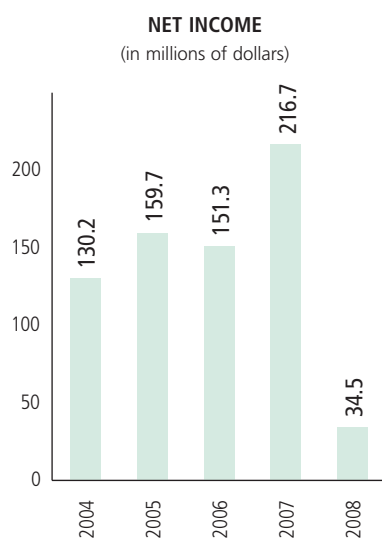
# CONSOLIDATED FINANCIAL POSITION

Desjardins Financial Security presents its operating results and comparative data on a consolidated basis. They include the results of all its subsidiaries, the two main ones being Sigma Assistel Inc. and Desjardins Financial Security Investments Inc.

## NET INCOME

Net income totalled \$34.5 million, down 84.1% from 2007 levels of \$216.7 million. The share of the Company's net income attributable to its ultimate shareholders, the Desjardins caisses, totalled \$40.2 million, \$170.9 million less than a year earlier. Although the turbulence on the financial markets affected its profitability, Desjardins Financial Security generated a return on shareholder's equity of 5.9%, for an average return of 18.0% for the previous three periods. Excluding losses attributable to the financial crisis, the rate of return for 2008 would have been 24.0%. The Company makes a significant contribution to the profitability of Desjardins Group which, at the end of 2008, declared combined surplus earnings before patronage dividends to members of \$78.0 million.

The global financial crisis reached an unprecedented level in the second half of 2008, as confidence between key market stakeholders collapsed and access to capital markets in Canada and Europe retracted. The deterioration of stock markets, and the significant instability it created, had an impact on the financial results of the entire financial services industry worldwide, including those of Desjardins Financial Security.



## SALES AND PREMIUM GROWTH

Income from insurance and annuity premiums improved 11.4%, rising from \$2,575.3 million in 2007 to \$2,868.4 million in 2008.

Net insurance premiums were up \$223.3 million over 2007 to stand at \$2,552.9 million. In Quebec, overall premium growth across the business lines was 6.4%. In the other Canadian provinces, there was a dramatic premium increase of 17.0%, especially in group insurance and concentrated mainly in Ontario. In individual insurance, new sales growth of 5.0% exceeded sales expectations in Quebec. AssurFinance for Individuals, a distribution network dedicated to the members of the Desjardins caisses, recorded sales growth of 15.2%, thus confirming the importance of this network, which was created in the early 2000s and has now passed all of its development milestones.

In savings, sales and new deposits grew by 4.4% to stand at \$1,155.2 million in 2008. On the mutual fund side, the instability on the stock markets impacted sales, which declined by 27.3% from 2007 to total \$462.8 million. On a more positive note, *Helios* and *Millennia* segregated fund sales totalled \$315.8 million, for a marked increase of 113.8%. In group retirement savings, the signing of major payout annuity contracts had a positive impact on sales, which totalled \$260.1 million for a 19.0% improvement over 2007.

Desjardins Financial Security's results in 2008 reflect the adverse effects of the financial crisis. Were it not for the impact of certain factors directly attributable to the crisis, net income would have totalled \$190.6 million, which is more representative of the Company's operating income.

The Company's stock portfolio and its alternative strategies portfolio, which contains some hedge fund investments, were hardest hit by the financial crisis. The difficult subprime mortgage situation on world markets led to a liquidity crisis in the Non-Bank Sponsored Asset-Backed Commercial Paper (ABCP) market in the second half of 2007, which continued into 2008. Provisions for losses in ABCP values were strengthened in the last quarter to bring them in line with those of the restructuring process being finalized in January 2009. The cumulative devaluation as at December 31, 2008 represents 39.4% of the initial value of these investments.

The effects of the crisis are also impacting on the guarantees offered with certain guaranteed capital products. Losses above pre-established contractual thresholds have been recognized in the Company's results, and provisions for asset default risk were also adjusted to levels more consistent with the current economic situation.

## ASSETS UNDER MANAGEMENT AND ADMINISTRATION

At the end of fiscal 2008, the Company's total assets under management and administration totalled \$19.7 billion, down 12.9% from December 31, 2007. This decrease is due mainly to the decline in the fair value of investments triggered by the global financial crisis and liquidity crisis. The volatility was recognized on the balance sheet when assets under administration were valued according to the accounting principles in effect.

## 2009 OUTLOOK

In 2009, Desjardins Financial Security is undertaking a new strategic plan. This plan is designed to give us the striking power we need to maintain our strong position in the financial services market and increase our competitiveness in this fiercely competitive industry. The cornerstone of our new strategic plan will be accelerated organic growth.

The main objective of this plan is to achieve a better balance between our insurance and savings activities by seizing all business opportunities generated by both the individual and group segments of these markets. Achieving this balance will help protect the Company against economic cycle fluctuations. In addition, we remain firmly committed to our continued expansion in the other provinces, which should also help us better balance our business geographically.

We will therefore be focusing more attention on the savings market, not only to achieve the balance between our insurance and savings activities that we are striving for, but also because of the tremendous potential that the baby boomer market represents in these market segments. With baby boomers holding 41% of invested assets, they offer a wealth of business opportunities as they search for secure investments to protect their retirement income.

Regarding insurance, our goal is to grow faster than the market in the individual sector and to continue to build on the success we have achieved in the group and business insurance market, where we have been in accelerated growth mode since the beginning of the decade. The growth we have achieved in the group and business insurance market improved our market share from 4.3% in 2002 to 5.6% in 2007, and earned us 4th place in this market.

With respect to direct insurance and credit insurance offered through financial institutions, our objective is to increase our share faster than the market, with strong growth in direct insurance business.

These are the major growth strategies of our new business plan, which will be aligned with Desjardins Group's new strategic plan.

Therefore, our new three-year plan is currently based on the following strategic directions:

- Striving for an operating balance, between our customers, employees and shareholder, through global and sustainable performance;
- Meeting the needs of our customers, while keeping our service offers and costs competitive;
- Achieving accelerated growth organically and supporting the Company's national standing;
- Improving our risk profile by balancing the contribution that the geographic sectors and business lines make to the Company's income;
- Maintaining a high level of profitability.

The implementation of these strategic directions will be supported by five major initiatives that will be implemented across the Company. They include:

- Gaining a better understanding of our target markets, and using this knowledge to strengthen the distinctive value of the services we offer the customers and intermediaries in our key markets;
- Building a productive national distribution force;
- Introducing a branding that will support the development of our national markets;
- Rallying the organization behind the implementation of our growth plan;
- Developing the organization's talent and the technology we need in which to grow.

## SECTOR BY SECTOR ANALYSIS

# GROUP INSURANCE

### ACTIVITIES AND PRODUCT OFFERINGS

Group insurance includes two areas of activity: insurance plans we offer groups and businesses and those we offer through financial institutions, such as the Desjardins caisses.

We provide groups and businesses with group life, critical illness, short- and long-term disability, health, dental care, vision care and travel insurance. All our group plans are known for their quality, flexibility and the personalized service we offer policyholders, plan administrators and participants. These

plans are available across Canada through group plan representatives and consulting actuarial firms. In addition to having claims offices in four provinces, the Company has sales offices across the country in order to make its products and services as accessible as possible.

Desjardins Financial Security also offers group life and disability plans to cover loans (*Credit Insurance*) as well as life insurance plans (*Savings-Life Insurance*) to cover deposits. These plans are available through financial institutions such as the Desjardins caisses in Quebec, the Desjardins Credit Union branches in Ontario, as well as the caisses populaires serving francophones in other areas, and other credit unions across Canada.

### DESJARDINS FINANCIAL SECURITY'S GROUP INSURANCE MARKET SHARE

	Ranking	Market Share %	Written Premiums \$M
<b>Canada</b>			
Group Life			
<b>2008</b>			<b>455.6</b>
2007	4 <sup>th</sup>	8.4	419.1
2006	4 <sup>th</sup>	8.1	382.7
<b>Group Health</b>			
<b>2008</b>			<b>1,741.0</b>
2007	4 <sup>th</sup>	10.8	1,570.8
2006	4 <sup>th</sup>	10.1	1,359.6
<b>Quebec</b>			
Group Life			
<b>2008</b>			<b>344.8</b>
2007	1 <sup>st</sup>	29.5	327.6
2006	1 <sup>st</sup>	29.7	315.1

The tables showing the Company's group insurance, individual insurance and savings market shares in this section and the following sections are derived from an analysis of the 2007 annual statements filed with the Office of the Superintendent of Financial Institutions of Canada and Quebec's Autorité des marchés financiers. Data for 2008 will be available only in the second half of 2009.

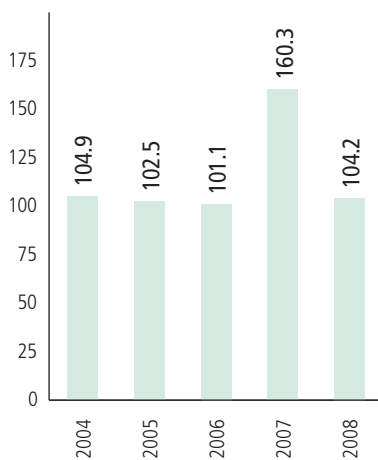
### SECURITY AND PEACE OF MIND WITH A MADE-TO-MEASURE GROUP INSURANCE PLAN

Security needs are changing, and so are Desjardins Financial Security's group insurance coverages. Our insurance programs are designed to adapt to the needs of groups of all sizes in the event of death, accident, illness and disability. Our expanded offer of flexible plans, the development of e-commerce capabilities and the enhancement of our policyholder reports clearly met our customers' expectations in 2008. In the future, we will be focusing our attention on enhancing our disability management offer, in particular with the new *early intervention* component, and on expanding the distribution of our *Health Track Insurance* product.

## 2008 RESULTS

Net income for the group insurance sector stood at \$104.2 million, which represents a decline from a year earlier of \$56.1 million. Of this amount, \$37.2 million is directly attributable to the financial crisis. Excluding these factors, net income for the group insurance sector reflects an improvement in our unit costs, owing to our rigorous administrative procedures and business growth. It should be noted that despite the financial crisis, this sector's results are comparable to those of the past four years, with the exception of 2007 which was a record year.

**NET INCOME – GROUP INSURANCE SECTOR**  
(in millions of dollars)



## SALES AND PREMIUM GROWTH

In group and business insurance, sales totalled \$136.8 million. Overall group insurance premiums, including group and business insurance premiums, as well as premiums from plans offered through financial institutions like the Desjardins caisses, and an equivalent amount of premiums from administered groups (ASO), amounted to \$2,220.0 million, compared to \$2,005.1 million in 2007. These figures reflect an average increase of more than 10.0% over five years. Two factors in particular are responsible for this 10.7% increase in premiums in 2008: significant group and business insurance sales and the growth recorded by our *Loan Insurance* product. The total volume of insured credit, including both *Loan Life Insurance* and *Loan Disability Insurance*, continues to rise.

## 2008 HIGHLIGHTS

In group insurance, Desjardins Financial Security recorded an increase in net business growth. In this business sector, on an administered premium basis, the Company is ranked the leading insurer in Quebec and 4th in Canada, where our market share grew from 4.7% to 5.6% between 2003 and 2007\*.

With regard to our service offer for groups and businesses, we were awarded several major contracts in 2008 with premiums totalling more than \$1 million, and renewed other major contracts. We also developed tools that have enabled us to expand our offer of flexible plans, and continued to develop e-commerce functions and enhance our offer of plan sponsor report services.

In the area of products distributed to Desjardins members through the caisse network, our volume of premiums continued to grow. In credit insurance, we continued to adapt our service offer to the new financing products the caisses are making available to their members on an individual basis. In terms of our promotional efforts, we participated in Desjardins Group's home protection campaign featuring *Loan Insurance*. We also continued to implement a new type of global life and health insurance offer for the customers of the Desjardins Business Centres (DBC's).

## 2009 OUTLOOK

In group and business insurance, we are pursuing initiatives already launched in order to enhance our flexible plan and to make new electronic convenience options available to plan sponsors, thus meeting the changing needs of the market. We will also be stepping up efforts in the area of disability management, which includes *early intervention*, and expanding the distribution of our *Health Track Insurance* product.

In credit insurance, we will continue to align our products with the Desjardins caisses' new financing vehicles in order to make them available to caisse borrowers as simply and efficiently as possible. We will once again be prioritizing initiatives aimed at maximizing partner and customer satisfaction, thereby maintaining high-service quality standards.

\* Source: Fraser Group: *Group Universe Report 2007*.

## GROUP INSURANCE PREMIUMS BY DISTRIBUTION NETWORK

(in millions of dollars)

	2008	2007	2006	2005	2004
Distributed to Desjardins Group members	536.9	507.5	481.6	452.3	424.6
Other distribution networks	1,600.7	1,429.6	1,209.9	1,090.6	1,007.4
Administered groups (ASO)	82.4	68.0	53.8	50.8	54.3
<b>Total administered premiums</b>	<b>2,220.0</b>	<b>2,005.1</b>	<b>1,745.3</b>	<b>1,593.7</b>	<b>1,486.3</b>

# 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 small business employees by providing these customers with the three most common types of life insurance: whole life, term, and universal life. The Company also offers a complete line of health insurance coverages, including critical illness insurance and long-term care insurance. Other types of coverage, such as extended health care insurance, short- and long-term disability insurance, accident insurance, as well as dental and vision care coverage, are also available.

In Quebec, these products and services are distributed by 279 caisse-dedicated financial security advisors and by more than 550 affiliated representatives who work in the 15 financial centres of the SFL network. In the other provinces, our products and services can be purchased through some 325 representatives working in the 26 financial centres of Desjardins Financial Security Independent Network and some 1,340 brokers and general agents across Canada.

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

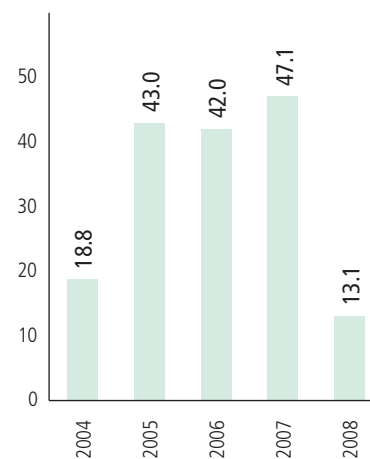
## INDIVIDUAL INSURANCE MARKET SHARE

	Ranking	Market Share %	Written Premiums \$M
<b>Canada</b>			
Individual life and health			
<b>2008</b>			<b>484.6</b>
2007	7 <sup>th</sup>	3.3	464.2
2006	7 <sup>th</sup>	3.4	445.1
<b>Quebec</b>			
Individual life and health			
<b>2008</b>			<b>357.1</b>
2007	5 <sup>th</sup>	10.0	336.4
2006	5 <sup>th</sup>	10.0	320.3

## 2008 RESULTS

Net income for the individual insurance sector totalled \$13.1 million, compared to \$47.1 million a year ago. This sector absorbed losses attributable to the financial crisis, which had a \$42.5 million impact on its net income. However, unit costs were down from last year and the AssurFinance distribution network's profitability figures bode well for its positioning.

### NET INCOME – INDIVIDUAL INSURANCE SECTOR (in millions of dollars)



## FINANCIAL SECURITY FOR QUALITY OF LIFE, HEALTH AND FAMILY

Our wide array of financial security products is designed to meet the needs of individuals, self-employed workers and small business employees seeking protection for their most valuable assets and against life's unexpected events. In 2008, the *Vision* family of products continued to fully satisfy Desjardins caisse members' needs. New health insurance products were added to keep pace with their ever-changing requirements and expectations. Some individual coverages, such as *Travel Insurance*, *50+ Life Insurance* and *Accurance Personal Accident Insurance*, can also be purchased by contacting Desjardins Financial Security directly.

## SALES AND PREMIUM GROWTH

In 2008, individual insurance sales grew by \$2.1 million over 2007, to stand at \$44.0 million. This growth stems mainly from sales in Quebec, where Desjardins caisse-dedicated financial security advisors recorded \$19.0 million in sales, for a 15.2% improvement over 2007.

### INDIVIDUAL INSURANCE PREMIUMS BY DISTRIBUTION NETWORK

(in millions of dollars)



In individual insurance, premium volume stood at \$415.3 million, up \$22.7 million over 2007. The volume of premiums and the number of in-force contracts attributed to our network of caisse-dedicated financial security advisors have grown by 20.7% and 10.1% respectively since last year. The volume of premiums for our products sold by direct distribution grew by 12.3% to stand at \$63.3 million.

## 2008 HIGHLIGHTS

We enhanced our life and health insurance product offering to Desjardins members via caisse-dedicated financial security advisors by adding health insurance coverages to the *Vision* family of products. The *Vision* environment includes a comprehensive range of insurance protection in the event of death, disability, accident and health-related problems. Financial security advisors use the *Vision* line of products to provide caisse customers with made-to-measure insurance geared to their specific needs. We also set up a new program that consolidates the assistance services included with insurance products offered to all members.

To keep pace with the changing needs and expectations of Desjardins caisse members, nine Desjardins Investment Funds were added to the savings option of *Vision* universal life insurance. In addition to giving them access to a broader array of funds, Desjardins Financial Security has also ensured greater harmony with caisse savings products.

Since January 1, 2008, our sales personnel have been specializing in four distinct markets (individual, specialized offer, emerging and in-force business) to give customers access to the very best expertise and special tools.

To promote our service offering to individuals via our other distribution networks outside Quebec, we opened four financial centres, three in the Greater Toronto Area and one in Saskatoon (Saskatchewan), and signed distribution agreements with twelve new general agents. We also signed an agreement with a new partner for the distribution of a disability insurance product. In addition, we continued to develop our operations in Quebec by opening two new financial centres affiliated with the SFL network in the Montréal area, thus expanding our presence in allophone markets.

We designed and set up a new technology platform to support business development and management for all products sold by direct distribution. Our promotional efforts in 2008 included direct marketing and mass mailing campaigns for *50+ Life Insurance*. We also created a microsite on the Internet to provide information about this product and upgraded a *Travel Insurance* purchase simulator on the [desjardins.com](http://desjardins.com) site.

## 2009 OUTLOOK

Our goal with respect to life and health insurance offered to Desjardins caisse members via our caisse-dedicated financial security advisors will be to optimize the four-market specialization structure implemented in 2008. We will continue to focus on developing the skills of these advisors and on supporting both the advisors and the sales managers.

In the area of life and health insurance offered through our other distribution networks, we will be marketing a new line of *SOLO* disability products for self-employed workers. We will also be upgrading our universal life and critical illness insurance products. Furthermore, we plan to open three new Desjardins Financial Security Independent Network financial centres across Canada and step up efforts to develop distribution agreements with strategic partners. We will pursue the major efforts already invested in human resource recruiting and productivity in 2008. We will participate in the redesign of the distribution networks' websites in order to enhance the image of our individual insurance products, promote the advantages of a career in this field and support recruiting.

To support our offer of products sold by direct distribution, we plan to maintain a sustained and targeted advertising presence and continue to seize opportunities offered on the Web.

# SAVINGS

## ACTIVITIES AND PRODUCT OFFERINGS

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

Desjardins Financial Security has a broad spectrum of products for individuals and self-employed workers, including guaranteed return investments, multiple strategy investments, guaranteed investment funds and retirement annuities. These individual savings products are distributed through our national financial centre network. Retirement annuities and the *Helios Contract*, which offers à-la-carte guarantees with a family of guaranteed investment funds, are also available in the Desjardins caisses.

For groups and businesses, we have a comprehensive line of group retirement savings products, including registered group retirement savings plans, defined contribution plans, simplified pension plans and an array of specialized investment vehicles for defined benefit pension funds. We also offer deferred profit sharing plans and individual pension plans designed especially for company executives and shareholders. These plans can also include non-registered components to meet the particular needs of businesses and their employees. Our group retirement savings products are distributed mainly through consulting actuaries and brokers who specialize in employee benefits or pension plans.

## NET INCOME – SAVINGS SECTOR

(in millions of dollars)

	2008	2007	2006	2005	2004
Net income (net loss)	(82.8)	9.3	8.2	8.9	5.1

## 2008 RESULTS

The savings sector recorded a net loss of \$82.8 million compared to a net profit of \$9.3 million in 2007. In individual savings, results were weak due to the difficult economic situation in 2008. As a result of the mediocre performance of the stock markets, the guarantee reserve for the Company's segregated funds products was strengthened, and losses were incurred with the *Index Plus* general fund product with respect to capital guarantees granted to customers.

## SALES AND PREMIUM GROWTH

2008 was a good year for the Company's savings products. Sales totalled \$692.4 million, which represents an almost 50.0% improvement over 2007. The quality of our products and our advertising efforts were responsible for this growth both in Quebec (42.4%) and the other provinces (52.6%). Elsewhere, consumers shied away from mutual fund products because of the unstable markets and declining returns. As a result, sales for this product category dropped 27.2%.

In individual savings, sales totalled \$432.3 million, up \$180.5 million over 2007. A 9.0% increase in annuity product sales was observed across the industry in the first three quarters of 2008, as well as a 7.0% increase in guaranteed investment fund contract sales. At Desjardins Financial Security, guaranteed investment fund sales, in particular *Helios Contract* sales, totalled \$315.8 million, which represents substantial growth of 113.8% over 2007. The addition of optional guarantees to the *Helios Contract*, such as the Guaranteed

Minimum Withdrawal Benefit (GMWB) and Guaranteed Lifetime Withdrawal Benefit (GLWB), contributed to these excellent results. These products are meeting the expectations of customers seeking secure returns or guarantees for their invested capital. This trend has resulted in lower mutual fund sales.

Group retirement savings experienced strong sales growth of 19.0% to stand at \$260.1 million. This increase is due to growth outside Quebec, particularly in terms of payout annuities.

## 2008 HIGHLIGHTS

Desjardins Financial Security continued to innovate in the area of retirement planning solutions with *Helios*, its guaranteed investment funds contract. Since 2007, *Helios* has been offering an à-la-carte approach to retirement planning that allows investors to customize their guarantees according to events in their lives and to benefit from capital protection solutions, such as the Guaranteed Minimum Withdrawal Benefit (GMWB) option. This option reimburses the investor's capital at a rate of 7.0% a year, thus providing the highest payout on the market for maximum flexibility. *Helios* will also reimburse a portion of the fees investors pay to protect their investments. In 2008, the Company added the Guaranteed Lifetime Withdrawal Benefit to the *Helios Contract*. This benefit will provide an income stream for life based on age, reset the guarantee every year and pay an accumulation bonus in each of the first ten years if no withdrawals are made.

## INDIVIDUAL SAVINGS SYNONYMOUS WITH GREATER FINANCIAL SECURITY

The *Helios* guaranteed investment funds contract now offers a Guaranteed Lifetime Withdrawal Benefit. This benefit will provide an income stream based on age, reset the guaranteed value every year and pay the highest accumulation bonus in Canada. With this added value, investors should be able to reach their retirement income goals more easily. And, to give Canadians a head start on their 2009 savings resolutions, in October 2008, Desjardins Financial Security set up a *Transition Account* that they could then convert into a Tax-Free Savings Account (TFSA) in January 2009. This *Transition Account* offered investors a competitive interest rate and allowed them to transfer their funds to a TFSA free of charge.

In group retirement savings, Desjardins Financial Security singled out the *TRACE Lifecycle Environment* for development this year. This service allows the participant to follow a certain retirement path from a given point, according to age and risk tolerance. This type of investment service based on the participants' lifecycle not only allows retirement savings plan sponsors to fulfil their obligations in terms of governance, but also greatly simplifies the participants' investment activities. A brand new secure website was also created to support pension plan sponsors in the day-to-day management of their plan.

With this new contract, Desjardins Financial Security is one of the first institutions in Canada to actively combine innovative accumulation and payout strategies in order to better meet the needs of future generations of retirees.

In the area of individual savings, we also offered investors a *Transition Account* which they could later convert into a Tax-Free Savings Account (TFSA). This gave them an opportunity to benefit from investments offering good returns and a certain stability in the medium and long term.

With respect to group retirement savings, we enhanced our retirement plan sponsor services, in particular by developing our *TRACE Lifecycle Environment*. *TRACE* is a dynamic environment that is designed to adapt and evolve with the needs of each participant. It takes the risk profile and age of participants into account and provides them with the necessary tools to guide and support them on the path to

financial security in retirement. *TRACE* is also a great tool for plan sponsors because it gives them a global picture of participants and their investment instructions, which allows them to better manage their plans. Thanks to this versatile product, Desjardins Financial Security is able to stay ahead of the competition in terms of providing a flexible and adaptable product that meets plan sponsor needs.

Desjardins Financial Security offers the possibility of setting up a Tax-Free Savings Account (TFSA) within a group retirement savings plan. This is a great competitive edge for recruiting and retaining employees.

The Company also created a new secure website to help plan sponsors with the day-to-day administration of their plans. Access to transactions and reports is now better than ever. The site also has an entire section dedicated to pension plan governance.

## 2009 OUTLOOK

In individual savings, our goal is to optimize the specialization of our sales force according to four well-defined markets initiated in the caisses last year. We plan to do this by paying special attention to the asset management teams' affluent clients through an intergenerational approach. We will also be integrating our guaranteed investment fund offer with that of the Desjardins caisses, and updating our offer of index-linked products. Finally, distribution activities outside Quebec will be intensified across the entire individual savings sector with the addition of wholesalers in Ottawa, Edmonton and Halifax, and by signing contracts with independent distributors.

In group retirement savings, we plan to intensify our efforts to increase our presence outside Quebec with an ongoing advertising campaign aimed at the networks of brokers specializing in employee benefits or retirement plans and consulting actuaries.

## SALES – SAVINGS

(in millions of dollars)

	2008	2007	2006
Group Retirement Savings	260.1	218.5	290.6
Individual Savings	432.3	251.8	250.9
Mutual funds	462.8	636.3	516.9
<b>Total</b>	<b>1,155.2</b>	<b>1,106.6</b>	<b>1,058.4</b>

## INVESTMENTS

### INVESTMENT PORTFOLIO

#### Portfolio Structure

Desjardins Financial Security's objective is to prudently manage the risk/return ratio by taking into account such factors as quality, concentration, foreign currencies, maturities and guarantees. Investments are selected with a view to maintaining a balance between profitability and portfolio risk.

The Company's objective of balancing the risk/return ratio was really put to the test in 2008 due to the extremely difficult financial environment created by the global financial crisis and also by the scope of the crisis. When the U.S. real estate bubble started to burst in 2007, it triggered a crisis that resulted in a generalized loss of confidence among financial market intermediaries and across the entire financial system in 2008. The negative effects of this crisis, which include major liquidity problems like those associated with financial instruments and the extreme tightening of credit conditions, compelled many investors to quickly sell off their financial assets, which in turn contributed to the devaluation of these assets. This generalized context,

which is attributable to a systemic risk, had an adverse and extraordinary effect on the Company's investments.

The disciplined and prudent management of the funds that our insureds, depositors and clients had placed in our trust was therefore carried out in a context of unprecedented volatility on the financial markets in 2008, which reached its apex in October. The extremely low liquidity on the markets combined with this extreme volatility made it very difficult to adjust both the portfolio's risk profile and risk coverage. Uncertainty remained very high during the year, especially as of the end of the third quarter.

The majority of the Company's investments are fixed income securities, and mainly government bonds which are considered good hedges against inflation, reflecting the Company's liability structure. We have an asset-liability matching management group that ensures the portfolio's asset allocation is appropriate, as well as an in-house committee that reviews this allocation to make sure it provides access to the anticipated return on shareholder's equity while minimizing volatility. The Company's investment portfolio is well diversified by investment class.

The extreme volatility on the financial markets precipitated by the global crisis in 2008 had an adverse effect on the fair value of the

Company's investments. This decline in asset value in 2008 is due notably to the negative change in the fair value of bonds, stocks and hedge funds which were exposed to market upheavals, despite growth in our mortgage, corporate and real estate financing portfolio.

#### Fixed Income Securities

As at December 31, 2008, the bond portfolio stood at \$7,318.9 million compared to \$8,449.8 million at the end of 2007, reflecting market value declines associated with the financial crisis.

2008 was marked by a substantial widening of credit spreads, ranging between 100 and 125 bps, on all ten-year term Canadian provincial government securities. This significantly reduced the value of the Company's investments in this type of asset class. Corporate securities and financial instruments resulting from the securitization process were hit hardest by the events on the financial markets. These events also affected the value of these asset classes in the portfolio to some extent. The relative weight of bonds in overall balance sheet assets was reduced in favour of other asset classes, such as mortgage loans and real estate in particular.

Bonds include Non-Bank Sponsored ABCPs with a net value of \$114.0 million after a permanent devaluation of \$74.0 million.

### ALLOCATION OF PORTFOLIO BY ASSET CLASS

(in millions of dollars unless otherwise indicated)

	2008		2007		2006	
Bonds	7,318.9	55.0%	8,449.8	56.8%	7,802.8	63.3%
Mortgage loans and business loans	3,312.0	24.9%	2,924.5	19.7%	2,089.1	16.9%
Real estate	957.5	7.2%	882.7	5.9%	487.6	3.9%
Stocks	484.7	3.7%	1,162.6	7.8%	545.9	4.4%
Cash and money market instruments	454.6	3.4%	486.7	3.3%	906.6	7.3%
Policy loans	107.7	0.8%	107.4	0.7%	108.7	0.9%
Other loans and investments	668.1	5.0%	855.6	5.8%	406.2	3.3%
	<b>13,303.5</b>	<b>100.0%</b>	<b>14,869.3</b>	<b>100.0%</b>	<b>12,346.9</b>	<b>100.0%</b>

The quality of the bond portfolio remained high in 2008, with the listed portion standing at \$7,179.9 million at year-end, representing practically the entire bond portfolio. Government bonds accounted for 75.9% of the bond portfolio, with 92.0% of bonds rated A or higher.

### Mortgage loans and business loans

The outstanding portfolio totalled \$3,312.0 million as at December 31, 2008. Loans insured by the Canada Mortgage and Housing Corporation (CMHC) represented 72.0% of the entire portfolio. It should be noted that 99.0% of the "conventional" loan portfolio is deemed to be of "very good quality". There are no loan arrears and the net balance of non-performing assets represents less than 0.1% of the entire portfolio.

In 2008, a substantial tightening of credit conditions was observed, along with a significant widening of profit margins. However, while 2009 will likely be marked by a recession, we believe that our loan portfolio will withstand the anticipated slowdown.

### Real estate

In 2008, the real estate portfolio reached its critical mass with the transfer of the Complexe Desjardins in Montréal and the Lévis campus buildings to Desjardins Financial Security in 2007. The portfolio maintained good profitability in 2008 as predicted. In 2009, our real estate portfolio should be able to retain its holdings. We also intend to proactively manage this portfolio in order to optimize its performance.

## QUALITY OF BOND PORTFOLIO

(in millions of dollars unless otherwise indicated)

	2008		2007	
Government Rating	5,558.0	75.9%	6,455.6	76.4%
AAA	580.1	7.9%	831.7	9.8%
AA	302.0	4.1%	402.5	4.8%
A	291.5	4.0%	355.0	4.2%
BBB	403.5	5.6%	367.5	4.4%
BB and lower	183.8	2.5%	37.5	0.4%
	<b>7,318.9</b>	<b>100.0%</b>	<b>8,449.8</b>	<b>100.0%</b>

### Stocks

The Company invests in stocks to increase diversification by asset class in the medium term, as well as to gain exposure to the market and increase the portfolio's profitability. A portion of its stock investments is used for the purposes of matching products that pass some of their returns down to the customer. The decrease in the balance of "Stocks" can be explained mainly by the massive liquidations that took place on the stock markets in 2008, which put significant downward pressure on all the portfolio's stock and hedge fund holdings.

### Other loans and investments

This item includes, among others, 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. This item also includes immigrant investor loans and derivative financial instruments, which are analyzed below.

### Financial Derivative Instruments

Desjardins Financial Security uses marketable securities and financial derivative instruments to manage asset and liability matching in order to protect itself against market, interest rate and currency risks. Derivative financial instruments also serve to eliminate the market risk associated with the sale of certain products and improve the risk/return ratio. All financial derivative instruments are subject to the Company's credit standards, financial controls and other typical monitoring procedures, and

are not used for speculation. These financial derivative instruments are recognized at fair value.

2008 was especially difficult in terms of synthetic corporate exposures through financial derivative instruments. The Company's portfolio risk profile rose especially for these types of transactions. These exposures, which were in the form of credit default swaps, were impacted by stock market events that led to the default of the underlying corporate issuers. One deterioration of the credit quality of these structures led to downward revisions of their credit rating. These events triggered significant reductions in the market value of these positions.

The Company offers products that provide capital guarantees to its customers. Many of these products are exposed to the performance of a hedge fund portfolio (*Strategic Index Plus* and *Tactical Index Plus*) or a portfolio diversified in many asset classes, but with a significant hedge fund allocation (*Alternative Allocation Portfolio*). The significant decline in the hedge fund industry's returns in the last months of 2008 compelled the Company to initiate a process aimed at ensuring that it could meet its capital guarantees. Although the risk management protocol, which calls for the complete disinvestment of the hedge fund portfolio, was applied, liquidity and difficult market conditions made the immediate withdrawal of all these funds impossible. As at December 31, 2008, Desjardins Financial Security therefore had a hedge fund exposure of \$309.4 million stemming from its client products and will have to absorb the returns until they are ultimately disposed of by the Company.

## NET INVESTMENT INCOME

Desjardins Financial Security's net investment income consists primarily of interest and dividend income; net rental income from real estate; the change in fair value of assets held and designated for trading; amortization of realized and unrealized gains and losses on real estate investments; as well as gains and losses realized on the disposal of available-for-sale assets.

For the year ended December 31, 2008, the Company's investment activities recorded a loss of \$101.4 million, compared to a net gain of \$513.4 million in 2007. This loss is mainly due to the general deterioration of the financial markets worldwide observed mainly in bonds, stocks as well as financial derivative instruments, which include total return swaps on hedge funds and credit default swaps that were impacted by the crisis. However, the mortgage and business loan portfolio, and our real estate holdings, recorded an increase in net investment income in 2008.

With respect to income generated by the mortgage loan and business loan portfolio, the increase over the previous period is attributable to higher volumes resulting from significant loan amounts issued in 2007 and 2008.

Acquisitions made over the past few years enabled us to add investments of great quality to our real estate portfolio. In addition, compared to last year, the Company realized \$25.3 million in savings by paying down the complexe Desjardins mortgage. Finally, the amortization of unrealized gains is \$13.4 million higher than last year.

## NET INVESTMENT INCOME BY INSTRUMENT

(in millions of dollars)

	<b>2008</b>	2007	2006
Bonds			
Interest	<b>336.6</b>	356.4	403.7
Gains (losses)	<b>(168.0)</b>	(127.2)	65.1
Mortgage loans and business loans	<b>165.6</b>	146.0	107.8
Real estate*	<b>112.5</b>	68.5	39.8
Stocks			
Dividends	<b>11.0</b>	12.7	6.5
Gains (losses)	<b>(208.6)</b>	9.2	43.9
Cash and money market instruments	<b>9.6</b>	19.8	20.6
Policy loans	<b>7.5</b>	8.1	7.9
Other loans and investments	<b>(337.9)</b>	48.5	7.0
Investment management fees	<b>(29.7)</b>	(28.6)	(28.9)
	<b>(101.4)</b>	<b>513.4</b>	<b>673.4</b>

\* Income from real estate is presented net of operating costs.

## ANALYSIS OF 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 enacted by the regulatory authorities of the other provinces and territories where it conducts business.

Insurance companies that operate in Quebec must guarantee their solvency by complying with the capital adequacy requirements (MCCSR) set out by the AMF. At the end of 2008, Desjardins Financial Security's MCCSR exceeded regulatory requirements, thus guaranteeing optimal security for insureds. This excess amount gives the Company some financial flexibility to use the surplus capital in keeping with its priorities of supporting growth, financing acquisitions where opportunities exist, and increasing dividends to its shareholder.

### DIVIDENDS

The Company pays a dividend to its sole shareholder annually, in addition to the dividends it pays to policyholders. The amount of these dividends is approved by the Company's Board of Directors. During the period, Desjardins Financial Security declared a dividend payable to its ultimate shareholders, the Desjardins caisses, totalling \$35.4 million.

### FINANCING

As at December 31, 2008, Desjardins Financial Security and its subsidiaries had operating lines of credit in the amount of \$44.0 million and, as at December 31, 2007, none had been used. The purpose of these lines of credit is to facilitate the financing of operations and meet any temporary working-capital requirements.

### RELATED PARTY TRANSACTIONS

Desjardins Financial Security conducts transactions with other entities of Desjardins Group. 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 19 to the Financial Statements presents a summary of these transactions.

### COMMITMENT: OUTSOURCING CONTRACTS

Desjardins Financial Security enters into long-term outsourcing contracts so that it can focus on its core activities, benefit from centres of expertise, improve its operating costs and continue to enhance customer service. For instance, ESI Canada has been contracted to manage the electronic processing of health claims (prescription drug and dental insurance), which is offered as part of the majority of its group insurance plans, while CGI operates and manages the mainframe computer's specialized processing services and Desjardins Asset Management, a subsidiary of Desjardins Group, manages the Company's assets. Since January 1, 2008, the Company is also a user-partner of the Desjardins Shared Services Centre (SSC) for the Specialized Savings Product Back Offices. The SSC is a management unit of the Fédération des caisses du Québec, which supports Desjardins Financial Security's customer service activities in the area of individual and group retirement savings.

## 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 those 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 Company applies accounting policies that require Management to perform valuations by relying on assumptions or estimates that may, in certain cases, be made based on elements of an uncertain nature.

### Policy Liabilities

Calculating policy liabilities and other liabilities related to insurance contracts requires two types of assumptions 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 adjusted at some point. The main actuarial assumptions are described in Note 7 to the Financial Statements.

### Financial Instruments Measured at Fair Value

The fair value of financial instruments is determined based on market prices. When these market prices are not available, the Company determines fair value by using the market price of similar financial instruments

or discounting the cash flows at market interest rates, which are applied to the forecasted amounts until the maturity date. Differences between the assumptions and actual results could produce different fair values and financial results.

### Non-Bank Sponsored Asset-Backed Commercial Paper (ABCP)

The fair value estimates of the ABCP are likely not to be an indication of the ultimate net realizable value or future market value. Although Management believes that the valuation technique is appropriate under the circumstances, changes in the significant assumptions, such as those used to determine returns, credit spreads, underlying asset credit risk, and variations in the quality of the assets pledged as collateral by the trusts, could significantly alter the value attributed to ABCP in the coming year.

Some of the uncertainties that persist concerning the value of the underlying assets, amount and timeline of cash inflows, liquidity of the ABCP market and the establishment of a secondary market for some of the new notes, could also affect the value of the ABCP investment. The prospect of a severe and prolonged slowdown of the North American economy could also impact the fair value of the ABCP.

### CHANGES IN ACCOUNTING PRINCIPLES

On January 1, 2008, the Company adopted the new standards issued by the Canadian Institute of Chartered Accountants (CICA) entitled *Capital Disclosures* (Section 1535), *Financial Instruments – Disclosures* (Section 3862) and *Financial Instruments – Presentation* (Section 3863). The introduction of these new standards has had no impact on the Company's financial results.

### Capital Disclosures

Under CICA Handbook Section 1535, the Company provides both qualitative and quantitative information about its capital management objectives, policies and processes. This information can be found in Note 14 to the Financial Statements. This Note also contains a description of the items that come under the Company's capital management, the nature of the external requirements with which the Company must comply and the means it uses to achieve its objectives.

### Financial Instruments – Disclosures and Presentation

Section 3862 incorporates the financial disclosure requirements of Section 3861, which has been in effect since January 1, 2007. This standard requires the disclosure of additional quantitative information about the risks associated with financial instruments and introduces new requirements concerning the sensitivity analysis for each type of market risk to which the Company is exposed. This information can be found mainly in Note 15 to the Financial Statements. However, the Company has elected, as permitted by the CICA, not to apply the requirements of Section 3862 to its policy liabilities, but to continue to comply instead with the disclosure requirements of Section 3861.

Section 3863 carries forward unchanged the presentation requirements of Section 3861. These requirements address an issuer's classification of instruments between liabilities and equity, separation of hybrid instruments into liability and equity segments, and the rules for the offsetting of an asset with a corresponding liability.

## CHANGE IN FUTURE ACCOUNTING POLICIES

In February 2008, the CICA issued Section 3064 entitled *Goodwill and Intangible Assets*. The Company will start to apply this Section on January 1, 2009. This Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. They are applicable to goodwill after initial recognition and to the intangible assets of profit-oriented enterprises.

On January 20, 2009, the Emerging Issues Committee published EIC-173 entitled "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities." This new EIC states that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The Company will apply this accounting treatment retrospectively without restatement of prior periods to all financial assets and financial liabilities measured at fair value in its next published financial statements.

The Company is currently evaluating the effect that the adoption of these new sections will have on its consolidated financial statements, but does not anticipate that they will have any material impact.

## TRANSITION PLAN FOR INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Desjardins Financial Security will be required to comply with the new international accounting standards issued by the International

Accounting Standards Board (IFRS-IASB). It should be noted that the conversion to IFRS will entail major changes in financial reporting practices. The new standards take effect on January 1, 2011. As of that date, Canadian Generally Accepted Accounting Principles (GAAP) will cease to apply to publicly accountable enterprises, including financial institutions. As these new standards will require financial statements to be presented comparatively, financial information must be available on an IFRS basis by January 1, 2010; as a result, the Company will have to report under both the GAAP and IFRS-IASB throughout 2010.

To prepare for the changeover, Desjardins Financial Security participated actively in Desjardins Group's IFRS conversion project in 2007. In October 2007, the Company established its own action plan for the implementation of IFRS across the organization, identifying problems specific to its activity sector. A coordination group was also set up to implement IFRS standards and disseminate information within the Company.

### Description of the Action Plan

The action plan involves assessing the impact IFRS will have on the Company and making all the necessary changes to accounting policies, processes and IT systems within the timeframes of the IFRS implementation schedule.

The findings of the feasibility study phase of Desjardins Group's project were used to identify the impacts on our own organization. We then evaluated possible accounting solutions (choices, alternatives, problems, advantages, disadvantages and recommendations) and

the impact they would have on finances, processes, information technologies and human resources. Lately, we developed a work plan for each impact and a global action plan for IFRS implementation.

Based on the work completed to date, a number of changes will have to be made. Key changes include categorizing insurance policies to determine whether they are insurance contracts or financial instruments; incorporating segregated funds into the general fund balance sheet and statement of income; classifying property as being held for administrative or investment purposes and choosing either the cost model or revaluation model for administrative property; identifying components for the amortization of these properties; for investment property, choosing to apply either the fair value or amortized cost model; and providing substantially more financial information in the financial statements.

The action plan includes a critical decision-making structure under which the coordination team responsible for implementing IFRS answers to Desjardins Financial Security's Finance Committee, Senior Management Committee and Audit Committee. The Company has also developed in-house financial reporting expertise and set up a training program for the personnel concerned.

The impact on the Company's business activities, in particular its compensation programs, and on its regulatory minimum capital requirements are under evaluation.

## CORPORATE GOVERNANCE

### GOVERNANCE POLICY

Recognizing the importance of sound and prudent management, Desjardins Financial Security's Board of Directors ("the Board") 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 that apply 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, 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 the various Board committees and determines their mandates. It adopts Company by-laws and establishes both general framework and risk management policies; it also oversees the identification of the Company's key risks, the integrated management of those risks, and implementation of the required controls and reporting processes. In addition, the Board approves the Senior Management Committee's mandate, ensures a succession plan is in

place for Company officers, and approves proposed partnerships, acquisitions, sales, mergers and restructurings.

### 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's 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 via by-law. Among other responsibilities, the Executive Committee conducts studies and makes recommendations to the Board concerning the Company's human resources management philosophy, general collective bargaining mandates, major human resources management policies and programs, the overall compensation policy for managers and employees and major changes to the various components of the total compensation portfolio, annual salary changes, and the General Staff Incentive Plan.

In addition, the Executive Committee makes recommendations to the Board regarding 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 overseeing 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 the procedures implemented; examines the management of regulatory compliance; and carries out all other mandates it receives 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 results, including the 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. It also studies the reports produced for 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 internal control system with regard to the disclosure of financial information, protection of assets, detection of fraud, and regulatory compliance. Concerning risk management, the Audit Committee ensures that Management has systems in place to manage the key risks that could affect the Company's financial performance. The committee is also responsible for determining and recommending risk management policies to the Board.

## ETHICS COMMITTEE

The Ethics Committee is responsible for establishing and ensuring compliance with ethical standards within 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 cover such items as the Company's conduct toward interested parties, related parties or parties with ties to its officers or directors; the formalities and conditions of contracts with interested parties, and the protection of confidential information held by the Company about 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 that these policies are implemented and duly complied with; analyzing changes to these policies; and suggesting any necessary amendments or adjustments. The Committee must also ensure that these policies cover all types of Company investments. It approves investment strategies, analyzes returns and ensures that the Company complies with the sound and prudent practices prescribed by the *Autorité des marchés financiers* with regard to the management of interest rate risk, credit risk, liquidity, exchange rate risk, securities portfolios, appraisals of real estate, 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 those selected by the Group Retirement Savings division for its group investment funds, and approves the investments that fall under its authority.

## BUSINESS RISKS AND CONTROL MEASURES

### RISK MANAGEMENT

**Risk Control** The Company's goal in terms of risk management is to optimize the risk/return ratio for all its operations. Risk is defined as an element of uncertainty that could have an impact on current or future income. Risk is minimized by integrating risk management strategies, policies and control processes into all organizational functions.

Desjardins Financial Security has adopted a risk management governance structure by setting up an Integrated Risk Management and Reinsurance department, as well as Integrated Risk Management and Operational Risk Management Committees. Their mandate is to implement and oversee the policies and systems needed to maintain financial and operational risk at levels that are acceptable to Management and the Board of Directors, and ensure compliance with these policies and systems. The Company has also developed a risk profile that identifies the risks it faces, the level of exposure to these risks and the effectiveness of the mitigating control measures. The Integrated Risk Management and Reinsurance department reports regularly on risk management to the Audit Committee.

Internal Audit performs an independent assessment of the procedures, systems and controls in place and submits reports with appropriate recommendations.

Desjardins Financial Security classifies the risks it faces into seven major categories.

#### Credit Risk

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

Underwriting standards ensure sound portfolio diversification and credit risk management with respect to loans granted by the Company. An internal credit rating system is used to evaluate portfolios and identify impaired loans; an independent credit division reviews the lending process; and specialized staff are responsible for loan monitoring, management and recovery.

Various policies set limits based on commitment, issuer, borrower, group of borrowers, region and activity sector, and define the various credit approval authorities to which all new commitments must be submitted. Specific provisions are also recorded for non-performing financial instruments.

#### Market Risk

Market risk is the risk arising from changes in the value of financial instruments due to fluctuations in the parameters affecting value, specifically interest rates, exchange rates, credit spreads and volatility.

To protect itself against losses arising from interest rate changes, the Company has established a policy for matching assets and liabilities, and ensures compliance with the policy by performing periodic controls. This policy clearly defines the level of risk that is considered acceptable. The assets of each sector are managed in accordance with that sector's liabilities by investing these assets in vehicles that meet the requirements of the associated products. The risks associated with the mismatch of portfolio durations, mismatch of cash flows, 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 access to sufficient funds to meet balance sheet and off-balance sheet financial obligations, whether due or not.

Short-term liquidity is managed to ensure that 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, by taking into account 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 outlines the available sources of financing, with their respective priority and cost. As well, the Company has access to operating lines of credit to meet temporary working capital needs. As at December 31, 2008, none of these lines had been used.

### Operational Risk

Operational risk is the risk that shortcomings or failures due to processes, individuals, internal systems or external events, could result in losses, the inability to meet objectives, or a negative impact on the Company's reputation.

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

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

To minimize this risk, the Company has implemented an organizational structure that promotes an appropriate segregation of duties, ensures that trained and competent staff are present at all levels

of the organization and provides for the efficient delegation of decision-making powers. The Company's policies, procedures and processes are reviewed periodically by its internal auditors. It also carries insurance coverage that is periodically reviewed as well, and has a business continuity plan.

### Insurance and Reinsurance Risk

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

Product design and pricing risk is the risk that initial rates may be or become inadequate. It is related to the possibility that forecasts involving such factors as future investment yields, mortality, morbidity, and administrative fees may be 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 is the risk arising 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 losses through the use of reinsurance treaties. These treaties are used when the face value of policies exceeds certain maximums (which vary in accordance with the type of activity). The Company also protects itself against catastrophic events by way of additional reinsurance coverage.

### Reputation Risk

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

Loss of reputation is often a consequence of the realization of other risks to which the Company is exposed. To reduce this 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 customers feel they have not

received the product or service to which they were entitled. The Company has also implemented a reputation risk management policy and follows up regularly on key indicators.

### Strategic Risk

Strategic risk is the risk arising 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 development of strategic directions involves a rigorous analysis and planning process. The Board of Directors plays an important role in the development of the strategic plan by actively participating in choosing, examining and approving strategies, objectives and programs. Financial plans are established based on the Company's strategic objectives. The Senior Management Committee continually monitors the Company's results and how these results contribute to the achievement of its strategic objectives. A corporate team continually monitors the market so that the Company can respond promptly to any situation that might compromise the achievement of its objectives. The strategic plan is also reviewed periodically and updated as needed within the timeframe of the strategic plan.

## REGULATORY COMPLIANCE AND SOUND MANAGEMENT PRACTICES

Desjardins Financial Security has a general regulatory compliance policy that provides a structure for the ongoing monitoring of compliance within the Company. This policy reflects a decentralized approach to compliance management and identifies the roles and responsibilities at each level of the organization.

Associated with this policy is a regulatory compliance program that provides the various frameworks and support required to manage regulatory risk, notably by:

- Describing the key activities of each sector;
- Identifying the provisions associated with each sector's activities and establishing each sector's level of risk;
- Describing the controls in place;
- Monitoring the action plans that come into play when there are significant variances and cases of non-compliance;
- Producing reports, including the annual statement.

Desjardins Financial Security complies with the sound risk management guidelines of its regulatory authority, the Autorité des marchés financiers (AMF) and submits to the dynamic capital adequacy testing recommended by the AMF. In 2008, the Company tested a number of pessimistic scenarios to measure the effects on its capitalization ratio, which proved to be more than adequate in every instance.

Desjardins Financial Security is also a member of Assuris, an organization established by the industry to protect Canadian policyholders against the financial failure of life insurance companies.

### 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.

### CODE OF ETHICS

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

In keeping with the expectations of regulators, Desjardins Group has a reporting system in place that officers and employees can use to report any accounting, internal control or auditing irregularities, as well as unethical or unprofessional conduct. Through an independent outside firm, managers and employees can anonymously inform Desjardins Group's 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

Desjardins Financial Security has adopted a policy and guidelines governing the management and protection of personal information that enable the Company to comply with the requirements of federal and provincial privacy legislation. They also guarantee the personal commitment of the Company's directors, officers, employees and representatives to respect the confidential nature of all personal information communicated to them in the course of their duties or mandates.

Every aspect of the protection of personal information, from the collection of personal data, the creation of files, the possession, use and disclosure of such information, as well as the rights to access and correct personal information and to use nominal lists, is 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 were prepared in accordance with the Canadian generally accepted accounting principles (GAAP) 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 Company's Board of Directors approves the information contained in this annual report and, as part of its responsibilities, oversees Management's preparation of the financial statements and maintenance of appropriate internal control systems; it exercises this responsibility primarily through its Audit Committee, the members of which are neither members of Management nor employees of the Company. The Audit Committee meets regularly with Management, the Appointed Actuary, and the internal and external auditors. The auditors may, if they deem it 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 these policies. The Board of Directors also oversees the Company's transactions with related parties and with persons related to its directors or officers; the Board does so 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, is responsible for performing 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* (Québec) 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. In his report, the Appointed Actuary defines the scope of the valuation and issues an 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 Company's capital adequacy to December 31, 2012, 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 Company's consolidated financial statements and have full and unrestricted 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 (AMF) is empowered to audit the Company's compliance with the *Act Respecting Insurance* (Québec), which aims primarily to protect policyholder interests and ensure companies maintain a sound financial position.

**RICHARD FORTIER**  
President and Chief Operating Officer

**FRANÇOIS DROUIN**  
Senior Vice-President  
Finance

Lévis, January 30, 2009

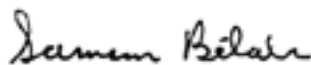
# AUDITORS' REPORT

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 segregated funds as at December 31, 2008, as well as the consolidated statements of income, comprehensive 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 of its segregated funds as at December 31, 2008, and the results of its operations, cash flows and changes in net assets of segregated funds for the year then ended in accordance with Canadian generally accepted accounting principles.



*Sébastien Bélair*  
Belair + Turcotte s.e.m.r.l.<sup>1</sup>

Chartered Accountants

Québec City, January 30, 2009

<sup>1</sup> Chartered Accountant Auditor Permit No. 16162

# APPOINTED ACTUARY'S REPORT

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

I have made valuations of the policy liabilities of **Desjardins Financial Security Life Assurance Company** for its consolidated balance sheet as at December 31, 2008 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 these valuations.

**CAMIL LÉVESQUE**

Fellow, Canadian Institute of Actuaries

Lévis, January 30, 2009

## CONSOLIDATED STATEMENT OF INCOME

for the year ended December 31

(in millions of dollars)

	Notes	2008	2007
<b>Revenue</b>			
Premium income			
Insurance		\$ 2,552.9	\$ 2,329.7
Annuities		315.5	245.6
<hr/>			
Net investment income	4d	2,868.4	2,575.3
Other revenue		(101.4)	513.4
		124.1	133.1
<hr/>			
		<b>2,891.1</b>	<b>3,221.8</b>
<hr/>			
<b>Expenses</b>			
Expenses attributable to policyholders			
Insurance benefits and annuities		2,062.3	1,952.9
Change in actuarial liabilities	7d	(117.2)	161.8
Policyholder dividends and experience rating refunds		132.9	86.8
Interest on benefits and deposits		11.3	14.2
<hr/>			
		2,089.3	2,215.7
Commissions		192.4	190.7
Operating expenses		490.4	473.1
Premium taxes		62.9	54.9
<hr/>			
		<b>2,835.0</b>	<b>2,934.4</b>
<hr/>			
<b>Operating income</b>		<b>56.1</b>	<b>287.4</b>
Income taxes	13	21.6	70.7
<hr/>			
<b>Net income</b>		<b>\$ 34.5</b>	<b>\$ 216.7</b>

## ALLOCATION OF NET INCOME

Attributable to participating policyholders	\$	(5.7)	\$	5.6
Attributable to the shareholder		40.2		211.1
<hr/>				
<b>Net income</b>	<b>\$</b>	<b>34.5</b>	<b>\$</b>	<b>216.7</b>

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

# CONSOLIDATED BALANCE SHEET

as at December 31

(in millions of dollars)

	Notes	2008	2007
<b>ASSETS</b>			
<b>Investments</b>	4		
Bonds		\$ 7,318.9	\$ 8,449.8
Mortgage loans and business loans		3,312.0	2,924.5
Real estate		957.5	882.7
Stocks		484.7	1,162.6
Cash and money market instruments		454.6	486.7
Policy loans		107.7	107.4
Other loans and investments		668.1	855.6
		<b>13,303.5</b>	<b>14,869.3</b>
Other assets	6	455.7	438.6
<b>Total general fund assets</b>		<b>\$ 13,759.2</b>	<b>\$ 15,307.9</b>
<b>Net assets of segregated funds</b>		<b>\$ 2,050.8</b>	<b>\$ 2,246.9</b>
<b>LIABILITIES</b>			
<b>Policy liabilities</b>			
Actuarial liabilities	7	\$ 10,114.4	\$ 10,207.8
Provisions for claims, policyholder dividends and experience rating refunds		256.3	259.0
Policyholder deposits		419.9	396.3
		<b>10,790.6</b>	<b>10,863.1</b>
Other liabilities	8	1,735.9	3,113.4
Long-term debt	9	73.1	85.8
Deferred net realized gains	4b	45.5	51.4
Liabilities for preferred shares	11	275.0	275.0
		<b>12,920.1</b>	<b>14,388.7</b>
<b>POLICYHOLDERS' AND SHAREHOLDER'S EQUITY</b>			
Participating policyholders' equity		189.1	207.4
Shareholder's equity		650.0	711.8
<b>Total policyholders' and shareholder's equity</b>		<b>839.1</b>	<b>919.2</b>
<b>Total general fund liabilities and equity</b>		<b>\$ 13,759.2</b>	<b>\$ 15,307.9</b>
<b>Net assets attributable to segregated fund policyholders</b>		<b>\$ 2,050.8</b>	<b>\$ 2,246.9</b>

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

On behalf of the Board of Directors:

**SYLVIE ST-PIERRE BABIN**

Chair of the Board of Directors

**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)

	Share capital (Note 11)	Contributed surplus	Retained earnings		Accumulated other comprehensive income (Note 12)		Total equity	
			Participating policyholders	Shareholder	Participating policyholders	Shareholder	Participating policyholders	Shareholder
<b>Balance as of</b>								
<b>January 1, 2007</b>	\$ 221.8	\$ 19.8	\$ 191.2	\$ 504.5	\$ 13.9	\$ 75.5	\$ 205.1	\$ 821.6
Issuance of Class A shares	85.2						—	85.2
Issuance of Class B shares	285.1						—	285.1
Redemption of Class B shares	(285.1)						—	(285.1)
Dividends			—	(245.6)			—	(245.6)
Related party transaction adjustments (Note 19)	—	(19.8)	—	(121.3)	—	—	—	(141.1)
Net income for 2007			5.6	211.1			5.6	211.1
Other comprehensive income					(3.3)	(19.4)	(3.3)	(19.4)
<b>Balance as at</b>								
<b>December 31, 2007</b>	\$ 307.0	\$ —	\$ 196.8	\$ 348.7	\$ 10.6	\$ 56.1	\$ 207.4	\$ 711.8
Dividends			—	(35.4)			—	(35.4)
Net income (net loss) for 2008			(5.7)	40.2			(5.7)	40.2
Other comprehensive income					(12.6)	(66.6)	(12.6)	(66.6)
<b>Balance as at</b>								
<b>December 31, 2008</b>	\$ 307.0	\$ —	\$ 191.1	\$ 353.5	\$ (2.0)	\$ (10.5)	\$ 189.1	\$ 650.0

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended December 31  
(in millions of dollars)

	2008	2007
<b>Net income</b>	\$ 34.5	\$ 216.7
<b>Other comprehensive income</b>		
Unrealized losses on assets available for sale (net of taxes of \$8.0M (\$0.6M in 2007))	(100.9)	(2.9)
Reclassification of (gains) losses on assets available for sale included in net income (net of taxes of \$0.4M (\$7.6M in 2007))	21.7	(19.8)
Total other comprehensive income	(79.2)	(22.7)
<b>Comprehensive income</b>	\$ (44.7)	\$ 194.0

## ALLOCATION OF COMPREHENSIVE INCOME

Attributable to participating policyholders	\$ (18.3)	\$ 2.3
Attributable to shareholder	(26.4)	191.7
<b>Comprehensive income</b>	\$ (44.7)	\$ 194.0

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)

	2008	2007
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 34.5	\$ 216.7
Items not affecting cash		
Change in actuarial liabilities	(117.2)	161.8
Gains, losses and amortization recognized in investment income	452.3	181.1
Future income taxes	(8.4)	19.2
Other	17.2	16.8
	<b>378.4</b>	595.6
Change in operating assets and liabilities		
Trading assets and liabilities	1,252.1	(1,261.0)
Net change in commitments under securities lending transactions, repurchase agreements and securities sold short	(1,427.6)	1,464.2
Other	(34.5)	1.0
<b>Cash flows from operating activities</b>	<b>168.4</b>	<b>799.8</b>
<b>INVESTING ACTIVITIES</b>		
Sales, maturities and repayments		
Stocks and bonds available for sale	368.5	896.8
Real estate	—	60.4
Purchases and issuances		
Stocks and bonds available for sale	(220.8)	(640.8)
Real estate	(42.7)	(124.7)
Net change in money market instruments of more than three months	154.8	148.4
Net change in mortgage loans, policy loans and business loans	(388.1)	(489.3)
Net change in other loans and investments	175.8	(402.9)
Business acquisitions and cash acquired	—	(215.5)
Business dispositions net of cash ceded	—	16.9
Other	(6.9)	(4.8)
<b>Cash flows from investing activities</b>	<b>40.6</b>	<b>(755.5)</b>
<b>FINANCING ACTIVITIES</b>		
Issuance of Class A shares	—	85.2
Issuance of Class B Shares	—	285.1
Redemption of Class B shares	—	(285.1)
Dividends paid	(73.9)	(226.0)
Loan from the parent company	—	(85.0)
Increase in long-term debt	—	36.4
Decrease in long-term debt	(12.7)	(126.7)
Other	0.3	0.3
<b>Cash flows from financing activities</b>	<b>(86.3)</b>	<b>(315.8)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>122.7</b>	<b>(271.5)</b>
Cash and cash equivalents – beginning of year	285.7	557.2
<b>Cash and cash equivalents – end of year</b>	<b>\$ 408.4</b>	<b>\$ 285.7</b>
Additional information		
Interest paid	\$ 26.9	\$ 34.4
Income taxes paid net of recoveries	\$ 72.8	\$ 86.0

Cash and cash equivalents comprise \$22.8M (\$24.3M in 2007) in cash and \$385.6M (\$261.4M in 2007) 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	2008	2007
Investments			
Bonds		\$ 113.3	\$ 93.1
Mortgage loans		18.6	24.1
Stocks and mutual fund units		1,758.0	1,987.1
Money market instruments		141.3	134.0
Other assets		115.4	91.5
Liabilities		(95.8)	(82.9)
<b>Net assets of segregated funds</b>	2	<b>\$ 2,050.8</b>	<b>\$ 2,246.9</b>

## CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS OF SEGREGATED FUNDS

for the year ended December 31  
(in millions of dollars)

	2008	2007
<b>Net assets of segregated funds – beginning of year</b>	<b>\$ 2,246.9</b>	<b>\$ 2,111.3</b>
<b>Additions</b>		
Amounts received from policyholders	596.1	448.1
Net investment income	67.6	75.8
	<b>663.7</b>	<b>523.9</b>
<b>Deductions</b>		
Withdrawals and redemptions	344.1	319.1
Net realized and unrealized losses on investments	486.0	36.7
Management fees	29.7	32.5
	<b>859.8</b>	<b>388.3</b>
<b>Net assets of segregated funds – end of year</b>	<b>\$ 2,050.8</b>	<b>\$ 2,246.9</b>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2008

(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 the *Act Respecting Insurance* (Quebec) and is governed by Part 1A of the *Companies Act* (Quebec).

#### B) NATURE OF OPERATIONS

The Company designs, markets and distributes individual and group insurance and savings products. The Company is under the ultimate control of the Caisse Desjardins, through the Fédération des caisses Desjardins du Québec (FCDQ). It is the life and health insurance subsidiary of Desjardins Group.

## Note 2

### SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles (GAAP). These principles conform, in all material respects, with the requirements of the Autorité des marchés financiers (AMF).

The preparation of these financial statements required Management to make estimates and assumptions that affect the reported amounts of assets and liabilities. These estimates and assumptions are made primarily for policy liabilities, the determination of fair value of financial instruments, the disclosure of commitments and contingencies, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

The significant accounting policies used in preparing these financial statements are described hereafter.

#### CONSOLIDATION

These consolidated financial statements include the operating results and financial position of the Company and its subsidiaries as well as its share in a joint venture.

#### FINANCIAL INSTRUMENTS

Financial instruments are initially measured at fair value. Subsequent measurement depends on their classification.

Financial assets are classified according to the Company's intention and capacity to hold the invested assets and are measured using the following methods:

- Assets held for trading and those designated under the fair value option as being held for trading are measured at fair value, and changes in fair value are recorded in net income.
- Assets classified as available for sale are measured at fair value except for those that do not have a quoted market price in an active market, which are measured at cost. Changes in fair value are recognized in other comprehensive income until the asset is derecognized.

- Loans and receivables, which include mortgage loans, business loans, policy loans, reverse repurchase agreements, immigrant investor loans, premiums receivable, amounts receivable and accrued net investment income, are measured at amortized cost using the effective interest method.

With regard to stocks classified as assets available for sale, a significant or prolonged decline in the fair value of a stock below its cost is objective evidence of impairment. In this situation, the loss, which is measured as the difference between the acquisition cost and the current fair value, less any amortization of this financial asset previously recorded in net income, is recognized in net income.

With regard to bonds classified as assets available for sale, the interest calculated using the effective interest method is recorded in net income, and an expense is recorded to net income if an other-than-temporary decline in the security's value represents a credit risk with regard to the amounts due by the issuer.

Financial liabilities are measured at amortized cost using the effective interest method and include all liabilities not held for trading. With regard to liabilities held for trading, that is, derivative financial instruments and securities sold short, changes in fair value are recorded in net income.

The main financial asset classes designated as held for trading under the fair value option are:

- i) Financial assets matched to actuarial liabilities that would otherwise be classified as available for sale, in order to substantially reduce the accounting mismatch that would result from this classification. The impact of fluctuations in the fair value of these investments is largely offset by corresponding changes in actuarial liabilities.
- ii) Financial assets that have hedge funds as their underlying asset and are managed based on a documented investment strategy aimed at taking advantage of the market's short-term volatility.

Transaction costs for held-for-trading securities are expensed as incurred. Transaction costs for securities classified as available for sale or as loans and receivables are capitalized and amortized over the expected life of the instrument using the effective interest method.

The regular-way purchase or sale of financial assets is recognized using the trade date method.

## INVESTMENTS

### a) Bonds

Bonds are recorded at fair value on the balance sheet.

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

### b) Mortgage Loans and Business Loans

Mortgage loans and business loans are recorded at amortized cost, less provisions for non-performing loans. Premiums or discounts on acquisition are amortized using the effective interest method.

The fair value of these loans (presented in Note 4) is estimated using discounted cash flows at market interest rates currently charged for similar new loans at December 31 and applied to expected maturity amounts.

The Company's policy is to recognize these loans as non-performing when, in its opinion, there is reasonable doubt as to the collectability 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 as to the collectability of the principal and interest, and recovery procedures have not commenced. All investments are classified as non-performing when payment is 180 days in arrears. With regard to these loans, the provision for non-performing investments is based on the present value of estimated future cash flows discounted at the effective interest rate of the loan and on the current market price of the loan. The interest recorded after the initial 90-day period is reversed and specific provisions are set up, if necessary, for the previously recorded accrued interest and to cover the risk of capital losses.

### c) Real Estate

Buildings held by the Company for investment purposes, including buildings occupied by the Company, is carried at cost. This amount is increased by 3% of the difference between the carrying value and the estimated market value based on appraisals performed by an outside appraiser on a three-year cycle.

Real estate also includes foreclosed buildings held for sale, which are recorded at estimated fair value less selling costs. Any difference between the loan's carrying value before foreclosure and the amount at which the foreclosed assets were initially measured is recorded as a gain or loss in net income.

Any other-than-temporary decline in value of the entire real estate portfolio is charged to net income.

Gains and losses realized on real estate are deferred and recorded in net income at a rate of 3% per quarter using the declining balance method.

### d) Stocks

Stocks are recorded at fair value which is based on market prices when available. In the absence of such prices, fair value is determined using the market prices of similar securities. Stocks classified as available for sale that are not quoted in an active market are measured at cost. Dividends on available for sale stocks are recorded in net income as soon as the Company's right to receive payment has been determined.

### e) Cash and Money Market Instruments

Cash and money market instruments consist of deposit accounts in financial institutions and all investments in money market instruments. They are recorded at fair value.

### f) 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.

### g) Other Loans and Investments

Other loans and investments include immigrant investor loans classified as loans and receivables, investments in the Company's segregated funds classified as available for sale as well as reverse repurchase agreements and derivative financial instruments assimilated with investments. The accounting policies that apply to these items are described below.

### h) Reverse Repurchase Agreements and Repurchase Agreements

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

Repurchase agreements are short-term funding transactions wherein the Company sells securities it owns and simultaneously agrees to buy back the same securities at a predetermined date and price. The sold securities remain on the balance sheet as the criteria for derecognition are not met. The obligation to repurchase these securities is recognized under other liabilities at the amount payable. The interest expense related to these transactions is recorded on an accrual basis.

Reverse repurchase agreement and repurchase agreement transactions are offset, and the net balance is recorded on the balance sheet when the Company has a legally enforceable right to offset the recorded amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

### i) Derivative Financial Instruments

Derivative instruments are initially measured at fair value. Gains and losses are recorded in net income unless the derivative instruments are part of a qualifying cash flow hedge relationship.

Derivative instruments with a positive fair value are recorded on the balance sheet as other loans and investments, whereas those with a negative value are recorded as other liabilities. The itemized amounts are presented in Note 5 to the financial statements.

**Note 2 (continued)****SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****i) Derivative Financial Instruments (continued)**

The fair value of derivative financial instruments is calculated using pricing models that incorporate current market prices and the contractual prices of the underlying instruments, the time value of money and yield curves. The fair value of derivative financial instruments is presented without taking into account the impact of master netting agreements.

**CASH FLOW HEDGING**

The effective portion of changes in the fair value of derivative financial instruments designated as cash flow hedging items is recorded in other comprehensive income. The gain or loss related to the ineffective portion is immediately recognized in net income. Accumulated other comprehensive income is reclassified in net income over the period during which the hedged item affects net income.

**FAIR VALUE HEDGING**

Changes in the fair value of derivative financial instruments designated as fair value hedging items, and changes in the fair value of the hedged assets and liabilities are recorded in net investment income.

**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%, which are sufficient to allocate the cost of these assets over their estimated useful lives. Impairment 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 does exceed fair value, an impairment loss is recorded.

**ACTUARIAL LIABILITIES**

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

Under the Canadian asset liability method, determining actuarial 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 yield rate scenario testing. Scenario testing is generally performed on a deterministic basis that includes testing a range of scenarios prescribed by Canadian actuarial standards.

The provision for minimum guarantees on segregated fund products is determined 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. However, this period is limited to the duration of the liability during which the Company is exposed to material risk without the ability to adjust policy premiums or fees.

**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. The loaned securities remain on the balance sheet as the criteria for derecognition are not met.

**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 liabilities held for trading and recorded at market value in other liabilities.

**LIABILITIES FOR PREFERRED SHARES**

As the preferred shares issued by the Company give the shareholder the right to redeem the shares at a specific date, they are classified as financial liabilities rather than shareholder's equity. Dividend payments are recorded as an interest expense in net income.

**ACCUMULATED OTHER COMPREHENSIVE INCOME**

Accumulated other comprehensive income is recorded in policyholders' and shareholder's equity, net of taxes, and comprises unrealized gains and losses on available for sale investments and, if applicable, gains and losses on derivative financial instruments designated as effective cash flow hedging items.

**TRANSLATION OF ACCOUNTS DENOMINATED IN FOREIGN CURRENCIES**

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

Monetary assets and liabilities, as well as those measured at fair value on the balance sheet, are translated at the exchange rate in effect at the balance sheet date. Other assets and liabilities are translated at the historical exchange rate. Account balances appearing in the Statement of Income are translated at the exchange rate prevailing on the transaction dates. Gains and losses, whether realized or not, arising from these translations are recorded in net income, except for unrealized gains and losses on financial instruments classified as available for sale and gains and losses on derivatives designated as cash flow hedging items, which are recognized in other comprehensive income.

## REVENUE RECOGNITION

Insurance and annuity premiums are generally recognized as revenue when due. As soon as these premiums are recognized, corresponding actuarial liabilities are recognized to ensure the matching of revenue and expenses.

Other revenue is recognized when services are rendered and consist mainly of fees received for segregated fund asset management, group contract administrative services, assistance services, as well as commissions on mutual fund sales. Other revenue includes fees related to reinsurance treaties.

## REINSURANCE

Premium income, payments to policyholders, actuarial liabilities and the 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 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 expected to be 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 are members of 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 Canadian Institute of Chartered Accountants (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 cost of these benefits is charged to income as the Company's contribution payments become due.

## GOVERNMENT ASSISTANCE

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

## SEGREGATED FUNDS

Certain contracts allow 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 the policyholders. Accordingly, assets held in segregated fund accounts are excluded from the Company's general fund assets. The Consolidated Statements of Net Assets of Segregated Funds and Changes in Net Assets of Segregated Funds are presented for information purposes. Segregated fund assets are recorded at fair value at year-end; this value is determined using the methods described earlier for the Company's general fund assets.

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

### Note 3

## ACCOUNTING CHANGES

### A) DURING THE FISCAL YEAR

On January 1, 2008, the Company adopted the new CICA accounting standards entitled "Capital Disclosures" (Section 1535), "Financial Instruments – Disclosures" (Section 3862) and "Financial Instruments – Presentation" (Section 3863). Section 1535 requires additional disclosures of information that will enable financial statement users to evaluate the objectives, policies and processes used by the entity to manage its capital. This information is contained in Note 14 to the consolidated financial statements.

Sections 3862 and 3863 replace Section 3861 "Financial Instruments – Disclosure and Presentation." The purpose of these sections is to provide users with information that will help them more clearly understand and evaluate the significance of financial instruments for the entity's financial position and performance and thus better assess the nature and extent of the risks arising from the financial instruments and how the entity manages these risks. The Company has elected, as permitted by the CICA, not to apply the requirements of Section 3862 to its policy liabilities but to continue to comply with the disclosure requirements set out in Section 3861. These new standards, which apply specifically to disclosures, therefore have no impact on the Company's results. The new disclosures are presented in notes 4 and 15.

On October 24, 2008, the Accounting Standards Board issued amendments to Section 3855, "Financial Instruments – Recognition and Measurement" and Section 3862, "Financial Instruments – Disclosures." The amendments allow financial assets to be reclassified under specified circumstances. These sections are effective retroactively

for reclassifications made on or after July 1, 2008, but only for periods for which annual or interim financial statements have not been issued previously. Any reclassification made on or after November 1, 2008, takes effect on the reclassification date. However, any reclassification made prior to November 1, 2008 can take effect on July 1, 2008 or a subsequent date. As at December 31, 2008, the Company had not reclassified any financial assets.

### B) FUTURE ACCOUNTING CHANGES

#### i) Goodwill and Intangible Assets

In February 2008, the CICA released Section 3064 entitled "Goodwill and Other Intangible Assets" which replaces Section 3062 "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs". Amendments were also made to other sections of the CICA Handbook for consistency purposes. Section 3064 will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt these new standards during its fiscal year beginning January 1, 2009. This Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and the intangible assets of profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company is currently evaluating the impact of the adoption of this new Section on its consolidated financial instruments, but it does not expect it to be significant.

## Note 3 (continued)

## ACCOUNTING CHANGES (CONTINUED)

## B) FUTURE ACCOUNTING CHANGES (CONTINUED)

## ii) International Financial Reporting Standard (IFRS)

On February 13, 2008, the Accounting Standards Board of Canada issued a press release confirming that all publicly accountable enterprises will be required to report under International Financial Reporting Standards as of 2011. Accordingly, the Company will adopt IFRS on January 1, 2011. The Company began an IFRS conversion project in the fall of 2007. The accounting impact of this conversion is currently being analyzed and a preliminary timetable has been established in order to address the expected impacts on the Company's information systems and internal controls.

## iii) Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

On January 20, 2009, the CICA published EIC-173, entitled "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities." This EIC states that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. This recommendation will be applied retrospectively without restatement of prior periods to all financial assets and liabilities measured at fair value in financial statements. The Company is currently assessing the impact of this new recommendation on the fair value valuation models it uses for its financial instruments.

## Note 4

## INVESTMENTS

## A) INVESTMENT VALUES

2008	Held for trading	Designated as held for trading	Available for sale	Loans and receivables	Other	Total balance sheet	Fair value
Bonds							
Government	\$ 515.0	\$ 4,214.0	\$ 810.7	\$ —	\$ 18.3	\$ 5,558.0	\$ 5,559.1
Corporate	153.3	1,516.7	90.9	—	—	1,760.9	1,760.9
	<b>668.3</b>	<b>5,730.7</b>	<b>901.6</b>	<b>—</b>	<b>18.3</b>	<b>7,318.9</b>	<b>7,320.0</b>
Mortgage loans and business loans							
Residential	—	—	—	2,491.4	—	2,491.4	2,591.4
Commercial	—	—	—	820.6	—	820.6	839.9
	<b>—</b>	<b>—</b>	<b>—</b>	<b>3,312.0</b>	<b>—</b>	<b>3,312.0</b>	<b>3,431.3</b>
Real estate	—	—	—	—	957.5	957.5	1,362.8
Stocks	—	309.3	175.4	—	—	484.7	484.8
Cash and money market instruments	24.4	92.6	336.8	—	0.8	454.6	454.7
Policy loans	—	—	—	107.7	—	107.7	107.7
Other loans and investments							
Reverse repurchase agreements	—	—	—	269.9	—	269.9	269.9
Derivative financial instruments	19.7	—	—	—	—	19.7	19.7
Immigrant investor loans	—	—	—	363.3	—	363.3	384.2
Other	—	—	15.1	—	0.1	15.2	15.2
	<b>\$ 712.4</b>	<b>\$ 6,132.6</b>	<b>\$ 1,428.9</b>	<b>\$ 4,052.9</b>	<b>\$ 976.7</b>	<b>\$ 13,303.5</b>	<b>\$ 13,850.3</b>
Fair value	<b>\$ 712.4</b>	<b>\$ 6,132.6</b>	<b>\$ 1,429.2</b>	<b>\$ 4,193.1</b>	<b>\$ 1,383.0</b>		<b>\$ 13,850.3</b>

2007	Held for trading	Designated as held for trading	Available for sale	Loans and receivables	Other	Total balance sheet	Fair value
<b>Bonds</b>							
Government	\$ 1,097.6	\$ 4,434.5	\$ 923.5	\$ —	\$ —	\$ 6,455.6	\$ 6,455.6
Corporate	232.4	1,588.7	173.1	—	—	1,994.2	1,994.2
	<b>1,330.0</b>	<b>6,023.2</b>	<b>1,096.6</b>	<b>—</b>	<b>—</b>	<b>8,449.8</b>	<b>8,449.8</b>
<b>Mortgage loans and business loans</b>							
Residential	—	—	—	2,119.3	—	2,119.3	2,167.7
Commercial	—	—	—	805.2	—	805.2	824.4
	<b>—</b>	<b>—</b>	<b>—</b>	<b>2,924.5</b>	<b>—</b>	<b>2,924.5</b>	<b>2,992.1</b>
Real estate	—	—	—	—	882.7	<b>882.7</b>	<b>1,122.2</b>
Stocks	—	894.7	267.9	—	—	<b>1,162.6</b>	<b>1,162.7</b>
Cash and money market instruments	33.4	204.5	248.8	—	—	<b>486.7</b>	<b>486.7</b>
Policy loans	—	—	—	107.4	—	<b>107.4</b>	<b>107.4</b>
Other loans and investments							
Reverse repurchase agreements	—	—	—	565.4	—	<b>565.4</b>	<b>560.0</b>
Derivative financial instruments	26.1	—	—	—	—	<b>26.1</b>	<b>26.1</b>
Immigrant investor loans	—	—	—	243.6	—	<b>243.6</b>	<b>252.5</b>
Other	—	—	20.5	—	—	<b>20.5</b>	<b>20.5</b>
	<b>\$ 1,389.5</b>	<b>\$ 7,122.4</b>	<b>\$ 1,633.8</b>	<b>\$ 3,840.9</b>	<b>\$ 882.7</b>	<b>\$ 14,869.3</b>	<b>\$ 15,180.0</b>
Fair value	<b>\$ 1,389.5</b>	<b>\$ 7,122.4</b>	<b>\$ 1,633.9</b>	<b>\$ 3,912.0</b>	<b>\$ 1,122.2</b>		<b>\$ 15,180.0</b>

92.0% of the bond portfolio (95.2% in 2007) consists of government bonds and bonds rated A or higher:

	2008	2007
Government	\$ 5,558.0	\$ 6,455.6
AAA	580.1	831.7
AA	302.0	402.5
A	291.5	355.0
BBB	403.5	367.5
BB and lower	183.8	37.5
	<b>\$ 7,318.9</b>	<b>\$ 8,449.8</b>

## Note 4 (continued)

## INVESTMENTS (CONTINUED)

## A) INVESTMENT VALUES (CONTINUED)

The carrying value of bonds according to contractual maturity is as follows:

	2008	2007
Due in one year or less	\$ 422.8	\$ 349.7
Due in years two through five	1,918.9	2,789.4
Due in years six through ten	1,417.5	1,383.8
Due after ten years	3,559.7	3,926.9
Total	<b>\$ 7,318.9</b>	<b>\$ 8,449.8</b>

The weighted average effective interest rate was 4.2% (4.7% in 2007) on bonds and 5.3% (5.4% in 2007) on mortgage loans and business loans.

## B) DEFERRED NET REALIZED GAINS

Changes in deferred net realized gains on real estate are as follows:

	2008	2007
Deferred net realized gains – beginning of year	\$ 51.4	\$ 21.2
Net gains realized during the year	—	34.7
Amortization of deferred net realized gains	(5.9)	(4.5)
Deferred net realized gains – end of year	<b>\$ 45.5</b>	<b>\$ 51.4</b>

## C) PROVISIONS FOR INVESTMENTS

## Provisions for non-performing investments

	2008			2007		
	Balance	Provision	Net Balance	Balance	Provision	Net Balance
Bonds	\$ 114.0	\$ —	\$ 114.0	\$ 161.2	\$ —	\$ 161.2
Mortgage loans and business loans	6.8	5.0	1.8	6.4	4.7	1.7
	<b>\$ 120.8</b>	<b>\$ 5.0</b>	<b>\$ 115.8</b>	<b>\$ 167.6</b>	<b>\$ 4.7</b>	<b>\$ 162.9</b>

Interest totalling \$2.3M (\$2.4M in 2007) was recognized in income for the year.

## Monitoring of provisions for non-performing investments

	2008	2007
Balance – beginning of year	\$ 4.7	\$ 8.4
Net provisions (recoveries) for non-performing investments	0.3	(1.0)
Write offs of provisions upon the disposal of non-performing investments	—	(2.7)
Balance – end of year	<b>\$ 5.0</b>	<b>\$ 4.7</b>

### Asset-Backed Commercial Paper (ABCP)

Following the liquidity crisis that began in August 2007, a group of financial institutions and other stakeholders developed a restructuring plan. The Company's asset-backed commercial paper (ABCP) holdings in the amount of \$188.0M before depreciation are covered by this plan.

The plan is designed, among other things, to replace the issued ABCP by new longer-term floating notes with a maturity similar to that of the underlying assets and to mitigate the margin call risk arising from the restructuring of the existing conduits' margin call triggers.

As there is no active market for these ABCP, the Company estimated the paper's fair value and changes in fair value using a valuation technique based solely on a restructuring scenario. Thus, the fair value of the ABCP is based on a financial model that translates uncertainties regarding returns, credit spreads, nature and credit risk of the underlying assets, the amounts and timing of cash inflows and the maturities of the new notes in order to provide a fair value of the ABCP that reflects market conditions as at December 31.

Synthetic and hybrid assets were valued using a global valuation method. The Company has assumed that these assets would generate interest at the average rate for banker's acceptances plus 30 basis points.

Traditional assets and those considered subprime were valued using benchmark indexes selected based on each conduit's underlying assets.

Where possible, the assumptions used are based on observable market data, such as interest rates and credit quality. They also take into account, where applicable, the particulars of the restructuring plan and are also partly based on assumptions that are unsupported by observable market prices or rates for similar assets. The discounted rates used factor in the maturity, credit rating, as well as the market and liquidity risk of each note.

The ABCP held by the Company at December 31 are presented with bonds and are considered non-performing until the restructuring is finalized in 2009.

	2008			2007		
	Amortized cost	Cumulative depreciation	Fair value	Amortized cost	Cumulative depreciation	Fair value
Synthetic and hybrid assets	\$ 146.4	\$ (55.8)	\$ 90.6	\$ 152.4	\$ (20.6)	\$ 131.8
Traditional assets	22.4	(1.8)	20.6	22.2	(2.0)	20.2
Ineligible (subprime) assets	18.3	(16.2)	2.1	14.9	(9.8)	5.1
Other	0.9	(0.2)	0.7	5.9	(1.8)	4.1
	<b>\$ 188.0</b>	<b>\$ (74.0)</b>	<b>\$ 114.0</b>	<b>\$ 195.4</b>	<b>\$ (34.2)</b>	<b>\$ 161.2</b>

The fair value estimates described above are likely not to be an indication of the ultimate net realizable value or future fair value. Although Management believes that its valuation technique is appropriate under the circumstances, changes in the significant assumptions, such as those used to determine returns, credit spreads, underlying asset credit risk and the quality of the assets pledged as collateral by the trusts, could significantly alter the value attributed to ABCP in the coming year.

Some of the uncertainties that persist concerning the value of the underlying assets, the amount and timing of cash inflows, the liquidity of the ABCP and the establishment of a secondary market for some of the new notes could also affect the value of the investment. The prospect of a severe and prolonged slowdown of the North American economy could also impact the fair value of the ABCP.

### Subsequent event – ABCP restructuring plan

The restructuring plan was finally approved in January, 2009 following an agreement between the key stakeholders.

The interest that accrued on the ABCP between August 2007 and August 31, 2008, net of expenses, was paid in the three business days following the approval of the plan. The interest that accrued between September 1, 2008 and the plan's approval date will also be paid, but the amount, by Series, of these additional payments will not be known until the plan's closing date. The new notes that the Company will receive for its ABCP through this restructuring plan will have a legal maturity date of July 15, 2056 and a prepayment date of July 22, 2017. Notes A-1 and A-2, which will replace the synthetic and hybrid assets, were rated A by the DBRS rating agency. Certain traditional asset notes received a provisional rating ranging between A (low) and AAA from the same agency. The valuation, as at the settlement date, of the securities that the Company will receive in exchange for the ABCP has not been finalized and any gain or loss resulting from the disposal of the ABCP will be recognized when the new securities are issued.

## Note 4 (continued)

## INVESTMENTS (CONTINUED)

## D) NET INVESTMENT INCOME

2008	Held for trading <sup>(1)</sup>	Available for sale	Other	Total
Bonds				
Interest	\$ 292.7	\$ 43.1	\$ 0.8	\$ 336.6
Net losses	(140.6)	(27.4)	—	(168.0)
Mortgage loans and business loans	—	—	165.6	165.6
Real estate <sup>(2)</sup>	—	—	112.5	112.5
Stocks				
Dividends	6.2	4.8	—	11.0
Net losses	(203.7)	(4.9)	—	(208.6)
Cash and money market instruments	9.0	0.6	—	9.6
Policy loans	—	—	7.5	7.5
Other loans and investments	(341.7)	0.1	3.7	(337.9)
Investment management fees	—	—	(29.7)	(29.7)
<b>Total net investment income</b>	<b>\$ (378.1)</b>	<b>\$ 16.3</b>	<b>\$ 260.4</b>	<b>\$ (101.4)</b>

2007	Held for trading <sup>(1)</sup>	Available for sale	Other	Total
Bonds				
Interest	\$ 310.6	\$ 45.8	\$ —	\$ 356.4
Net gains (losses)	(129.5)	2.3	—	(127.2)
Mortgage loans and business loans	—	—	146.0	146.0
Real estate <sup>(2)</sup>	—	—	68.5	68.5
Stocks				
Dividends	5.2	7.5	—	12.7
Net gains (losses)	14.7	(5.5)	—	9.2
Cash and money market instruments	14.7	5.1	—	19.8
Policy loans	—	—	8.1	8.1
Other loans and investments	58.3	—	(9.8)	48.5
Investment management fees	—	—	(28.6)	(28.6)
<b>Total net investment income</b>	<b>\$ 274.0</b>	<b>\$ 55.2</b>	<b>\$ 184.2</b>	<b>\$ 513.4</b>

	2008	2007
Investment income	\$ 398.2	\$ 582.8
Losses on investments matched to actuarial liabilities	(499.6)	(69.4)
<b>Total net investment income</b>	<b>\$ (101.4)</b>	<b>\$ 513.4</b>

(1) Includes losses net of gains of \$229.2M (\$9.5M in 2007) on assets held for trading and losses net of gains of \$324.6M (\$103.9M in 2007) on assets designated as held for trading.

(2) Real estate revenue is presented net of operating costs of \$113.1M (\$125.4M in 2007).

## E) NON-DERECOGNIZED TRANSFERRED FINANCIAL ASSETS

The Company enters into repurchase agreements and securities lending transactions whereby it transfers financial assets to a third party. These assets continue to be recognized in the consolidated balance sheet because the transactions do not meet the derecognition criteria. The carrying value of these transferred financial assets was \$1,308.9M (\$2,262.3M in 2007).

## Note 5

## DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments primarily to manage the matching of assets and liabilities, to protect itself against market, interest rate and foreign exchange rate fluctuations, and to reduce 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, as well as those imposed by the maximum amount of acceptable risk it is required to manage.

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

The Company uses foreign exchange contracts to manage the foreign exchange risk associated with its investments denominated in foreign currencies. Some of these contracts are designated as hedging items.

Total return swaps are also used to reduce the risk of fluctuations associated with specific policyholder liabilities.

The following tables show the notional amount, fair value and credit risk of the Company's derivative instruments as at December 31, 2008 and 2007. The fair value is estimated and compared with prices obtained from counterparties. The fair value takes into account accrued income.

	Notional Amount				Fair Value		Credit Risk Equivalent	Risk-Weighted Amount
	Less than 1 year	1 to 5 years	More than 5 years	Total	Positive	Total		
<b>2008</b>								
<b>Held for trading</b>								
Interest rate contracts	\$ 128.0	\$ 335.0	\$ 25.0	\$ 488.0	\$ 2.4	\$ (29.0)	\$ 4.4	\$ 0.9
Credit risk contracts	—	614.8	12.2	627.0	3.3	(138.6)	78.9	15.8
Foreign exchange contracts	92.3	16.3	—	108.6	12.2	9.9	13.5	2.6
Total return swaps	310.0	7.0	0.7	317.7	1.3	(13.9)	2.0	0.4
	<b>530.3</b>	<b>973.1</b>	<b>37.9</b>	<b>1,541.3</b>	<b>19.2</b>	<b>(171.6)</b>	<b>98.8</b>	<b>19.7</b>
<b>Designated as fair value hedging items</b>								
Foreign exchange contracts <sup>(1)</sup>	66.0	—	—	66.0	0.9	0.9	2.4	0.3
	<b>\$ 596.3</b>	<b>\$ 973.1</b>	<b>\$ 37.9</b>	<b>\$ 1,607.3</b>	<b>\$ 20.1</b>	<b>\$ (170.7)</b>	<b>\$ 101.2</b>	<b>\$ 20.0</b>

	Notional Amount				Fair Value		Credit Risk Equivalent	Risk-Weighted Amount
	Less than 1 year	1 to 5 years	More than 5 years	Total	Positive	Total		
<b>2007</b>								
<b>Held for trading</b>								
Interest rate contracts	\$ 66.0	\$ 53.4	\$ 25.0	\$ 144.4	\$ 1.0	\$ 0.3	\$ 0.7	\$ 0.1
Credit risk contracts	—	436.8	39.5	476.3	1.6	(32.9)	59.9	16.1
Foreign exchange contracts	88.5	62.1	—	150.6	22.4	21.9	26.5	5.3
Total return swaps	332.1	13.8	3.4	349.3	—	(1.5)	1.5	0.4
	<b>486.6</b>	<b>566.1</b>	<b>67.9</b>	<b>1,120.6</b>	<b>25.0</b>	<b>(12.2)</b>	<b>88.6</b>	<b>21.9</b>
<b>Designated as fair value hedging items</b>								
Foreign exchange contracts <sup>(1)</sup>	112.1	—	—	112.1	2.2	2.2	3.4	0.7
	<b>\$ 598.7</b>	<b>\$ 566.1</b>	<b>\$ 67.9</b>	<b>\$ 1,232.7</b>	<b>\$ 27.2</b>	<b>\$ (10.0)</b>	<b>\$ 92.0</b>	<b>\$ 22.6</b>

(1) The Company recorded a loss of \$3.8M (gain of \$1.6M in 2007) from the ineffective portion of its fair value hedges. These amounts were recognized in net investment income.

## Note 6

## OTHER ASSETS

	2008	2007
Premiums receivable	\$ 179.3	\$ 194.6
Amounts receivable and other	178.2	147.7
Accrued net investment income	70.6	68.8
Capital assets	17.4	17.1
Intangible assets	10.2	10.4
	<b>\$ 455.7</b>	<b>\$ 438.6</b>

The Statement of Income includes the amortization expenses of capital assets and intangible assets in the amounts of \$6.3M and \$0.5M (\$6.6M and \$0.5M in 2007), respectively.

The fair value of financial instruments included under this item is equal to their carrying value.

## Note 7

## ACTUARIAL LIABILITIES

## A) COMPOSITION OF ACTUARIAL LIABILITIES

As at December 31, the actuarial liabilities and their matched assets consisted of the following:

2008	Group Insurance	Individual Insurance	Savings	Total
Gross actuarial liabilities				
Non-participating policies	\$ 2,213.5	\$ 2,724.7	\$ 3,841.0	\$ 8,779.2
Participating policies	23.4	1,611.3	147.8	1,782.5
Amounts transferred under reinsurance treaties	167.5	266.8	13.0	447.3
<b>Net actuarial liabilities</b>	<b>\$ 2,069.4</b>	<b>\$ 4,069.2</b>	<b>\$ 3,975.8</b>	<b>\$ 10,114.4</b>
<b>Composition of assets matched to actuarial liabilities</b>				
Bonds	\$ 1,112.7	\$ 2,728.8	\$ 2,153.7	\$ 5,995.2
Mortgage loans	696.7	527.8	1,587.8	2,812.3
Real estate	—	345.7	—	345.7
Stocks	30.1	191.3	—	221.4
Other	229.9	275.6	234.3	739.8
	<b>\$ 2,069.4</b>	<b>\$ 4,069.2</b>	<b>\$ 3,975.8</b>	<b>\$ 10,114.4</b>
2007	Group Insurance	Individual Insurance	Savings	Total
Gross actuarial liabilities				
Non-participating policies	\$ 2,172.9	\$ 2,633.7	\$ 4,046.6	\$ 8,853.2
Participating policies	22.3	1,618.4	168.9	1,809.6
Amounts transferred under reinsurance treaties	177.5	262.1	15.4	455.0
<b>Net actuarial liabilities</b>	<b>\$ 2,017.7</b>	<b>\$ 3,990.0</b>	<b>\$ 4,200.1</b>	<b>\$ 10,207.8</b>
<b>Composition of assets matched to actuarial liabilities</b>				
Bonds	\$ 1,290.9	\$ 2,759.0	\$ 2,184.4	\$ 6,234.3
Mortgage loans	497.4	438.5	1,409.7	2,345.6
Real estate	—	225.4	—	225.4
Stocks	38.3	218.9	375.0	632.2
Other	191.1	348.2	231.0	770.3
	<b>\$ 2,017.7</b>	<b>\$ 3,990.0</b>	<b>\$ 4,200.1</b>	<b>\$ 10,207.8</b>

The fair value of assets matched to actuarial liabilities was \$10,318.4M (\$10,337.1M in 2007).

## B) ACTUARIAL ASSUMPTIONS AND SENSITIVITY OF ASSUMPTIONS TO CHANGES

The nature and methodology of the key assumptions used to calculate the actuarial liabilities are described in the following paragraphs.

The base assumptions used to determine actuarial liabilities are those that prove most probable under various contingencies. For each assumption, the Appointed Actuary is required to establish a margin for adverse deviation to mitigate 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, the Company conducts a mortality experience study of life insurance policies. After analyzing the results it uses the findings to adjust the mortality assumption applied in its valuation. When the Company's experience cannot be used as the only reference source due to low volume, the mortality assumption is also based on industry studies and tables. A 1% increase in the most probable assumption would increase actuarial liabilities by approximately \$13.0M.

For annuities, the Company also 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. A 1% decrease in the most probable assumption would increase actuarial liabilities by approximately \$8.0M.

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 and adapts them based on current claim experience studies prepared by the Company and the industry. For products on which morbidity has a significant impact, a 1% increase in the most probable assumption would increase actuarial liabilities by approximately \$12.0M.

### Contract Lapse Rates

Policyholders can terminate their policies before the contract period expires by discontinuing premium payments. For certain insurance products with surrender values, 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. A negative 10% change in the most probable assumption concerning policy terminations would increase actuarial liabilities by approximately \$73.0M.

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 business line's commitments and by using the methods clearly defined in its matching policy.

One of the controls consists of 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.

When determining actuarial liabilities, consideration is given to the uncertainty associated with projecting interest rates on the reinvestment of future cash flows in relation to the mismatching of cash flows if a series of economically unfavourable scenarios were to occur.

As at December 31, 2008 and 2007, the durations of assets and liabilities differed by 0.1 year. 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.

Future investment income is affected by the magnitude of credit losses. In addition to allowances for non-performing investments applied as reductions to the carrying value of the assets, the Company included a \$296.7M provision (\$246.1M in 2007) in its projections of net investment income to cover the risk of underperforming assets.

### 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. A 5% increase in the most probable assumption concerning the Company's unit costs would increase actuarial liabilities by approximately \$29.0M.

**Note 7 (continued)****ACTUARIAL LIABILITIES (CONTINUED)****B) ACTUARIAL ASSUMPTIONS AND SENSITIVITY OF ASSUMPTIONS TO CHANGES (CONTINUED)****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. Changes in the most probable assumptions associated with participating insurance would result in corresponding changes in policyholder dividends and a negligible net change in the actuarial liabilities associated with the participating policies.

**C) RISK MANAGEMENT**

In addition to the risks related to actuarial assumptions, the Company is exposed to the following risks, which are inherent to its insurance activities and considers the following when calculating actuarial liabilities:

**Insurance and Reinsurance Risk**

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

Product design and pricing risk is the risk that initial rates are or may become inadequate. It is related to the possibility that forecasts involving such factors as future investment yields, mortality, morbidity, and administrative fees may prove inaccurate. The Company uses strict pricing standards and policies, and regularly compares assumptions with actual results. Certain products also allow for price adjustments based on whether or not assumptions are borne out.

Underwriting and claim settlement risk stems from the underwriting process, claim settlement and contract clause management. The Company manages this risk by establishing appropriate underwriting criteria and policies and by limiting losses through reinsurance treaties.

The Company also limits its exposure to claims through the use of reinsurance treaties when the face value of policies exceeds certain maximums, which vary according to the type of activity. The Company also carries additional reinsurance against catastrophic events.

To reduce reinsurance risk, the Company deals with many different reinsurers, the majority of which are duly licensed. They are subject to credit standards and are governed by the same regulatory authorities as the Company. However, these reinsurance treaties do not release the Company from its policyholder obligations.

The impact of reinsurance reduced premiums and benefits by the following amounts:

	<b>2008</b>	2007
Premiums	\$ 118.5	\$ 115.6
Benefits	\$ 63.1	\$ 76.5

**Risk Related to Segregated Funds**

Actuarial liabilities also include sufficient amounts to pay the minimum segregated fund guarantees. These amounts are calculated using stochastic models 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, which are the 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 will be 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:

	<b>2008</b>	2007
<b>Balance – beginning of year</b>	<b>\$ 10,207.8</b>	<b>\$ 10,053.5</b>
Normal change due to:		
Revised actuarial assumptions	2.3	12.6
Passage of time	(119.5)	149.2
	<b>(117.2)</b>	161.8
Other changes	<b>23.8</b>	(7.5)
<b>Balance – end of year</b>	<b>\$ 10,114.4</b>	<b>\$ 10,207.8</b>

In 2008, the main changes to the actuarial assumptions involved operating expenses, mortality rates and lapses, whereas in 2007 they involved operating expenses, mortality rates and interest rates.

### Note 8

## OTHER LIABILITIES

	Note	<b>2008</b>	2007
Accounts payable, accrued liabilities and other		<b>\$ 242.1</b>	\$ 273.1
Commitments under securities lending transactions		<b>277.6</b>	838.6
Repurchase agreements		<b>458.3</b>	440.7
Securities sold short		<b>490.0</b>	1,374.3
Derivative financial instruments with a negative fair value		<b>190.8</b>	37.2
Income and other taxes payable		<b>24.4</b>	41.4
Future income taxes	13c	<b>21.2</b>	38.1
Dividends payable		<b>31.5</b>	70.0
		<b>\$ 1,735.9</b>	\$ 3,113.4

The fair value of the financial instruments included under this item is equal to their carrying value.

### Note 9

## LONG-TERM DEBT

	<b>2008</b>	2007
Mortgage loans related to various real estate investments bearing interest at rates varying from 4.7% to 11.0%, with a weighted average of 6.1% (6.03% in 2007).	<b>\$ 73.1</b>	\$ 85.8

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, was \$70.5M (\$85.6M in 2007).

These mortgage loans are secured by assets with a carrying value of \$140.2M (\$150.4M in 2007).

The interest expense for the long-term debt was \$4.6M (\$8.9M in 2007) and is accounted for as a reduction to investment income.

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

	2009	2010	2011	2012	2013	Total
Long-term debt	\$ 2.5	\$ 2.7	\$ 2.8	\$ 3.0	\$ 3.2	<b>\$ 14.2</b>

**Note 10****INTEREST IN A JOINT VENTURE**

The Company holds an interest in a joint venture that was primarily active in developing and holding real estate property disposed of in 2007. The main assets and liabilities of this joint venture, which were included in the proportional consolidation, are as follows:

	<b>2008</b>	2007
Bonds	\$ 18.3	\$ 19.7
Other assets	0.9	1.4
Mortgage loans	(16.4)	(18.0)
Deferred net realized gains	(28.1)	(31.6)
	<b>\$ (25.3)</b>	<b>\$ (28.5)</b>

The operating results of the joint venture are recognized in income using the accounting principles applied to the Company's real estate holdings. The Company's share of the joint venture's net income was (\$0.6M) in 2008 (\$4.5M in 2007).

**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 at any time 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 plus any unpaid cumulative dividend.

**ISSUED AND OUTSTANDING**

	<b>2008</b>	2007
<b>Liabilities for preferred shares</b>		
22,000 Class C, Series 6 shares	\$ 22.0	\$ 22.0
253,000 Class C, Series 7 shares	253.0	253.0
<b>Total liabilities for preferred shares</b>	<b>\$ 275.0</b>	<b>\$ 275.0</b>
<b>Share capital</b>		
8,522,537 Class A shares	\$ 307.0	\$ 307.0
<b>Total share capital</b>	<b>\$ 307.0</b>	<b>\$ 307.0</b>

Class C Series 6 and 7 shares have a cumulative dividend that is payable quarterly at a fixed annual rate of 3.0% and 3.5%, respectively. They are retractable at the option of the holder at any time as of December 31, 2014 and redeemable by the Company at any time with the approval of the AMF. These shares are recognized as preferred share liabilities at their redemption value.

On January 3, 2007, the Company issued 209,864 Class A shares to its parent company for a cash consideration of \$56.0M.

On January 3, 2007, the Company issued 210,300 Class B Series 6 preferred shares. On January 4, 2007, it redeemed these shares for their total paid-up capital value of \$210.3M.

On May 29, 2007, the Company issued 109,429 Class A shares to its parent company for an amount of \$29.2M.

On the same date, the Company issued 74,805 Class B Series 6 preferred shares, which were redeemed at their paid-up capital value the same day, i.e., for an amount of \$74.8M (Note 19).

Dividend payments of \$9.5M (\$9.5M in 2007) on preferred shares are carried as an interest expense and recorded in operating expenses.

## SUBSEQUENT EVENT

On January 30, 2009, the sole shareholder of all class A shares waived an amount of \$17.4M from the \$31.5M dividend declared on December 1, 2008.

### Note 12

## ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income comprises the following items:

	<b>2008</b>	2007
Unrealized gains (losses) on assets available for sale		
Bonds	\$ 57.9	\$ 46.5
Stocks	(55.8)	37.5
Other loans and investments	(5.5)	—
Money market instruments	—	0.2
	(3.4)	84.2
Related taxes	(9.1)	(17.5)
<b>Accumulated other comprehensive income</b>	<b>\$ (12.5)</b>	<b>\$ 66.7</b>

### Note 13

## INCOME TAXES

### A) INCOME TAX EXPENSE

Income tax expense charged against net income comprises the following amounts:

	<b>2008</b>	2007
Current income taxes	\$ 30.0	\$ 51.5
Future income taxes	(8.4)	19.2
	<b>\$ 21.6</b>	<b>\$ 70.7</b>

### B) INCOME TAXES

The Company's 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 that would be obtained by applying the combined statutory tax rate for the following reasons:

	<b>2008</b>	2007
Income taxes on operating income at the combined statutory rate of 31.45% in 2008 (32.93% in 2007)	\$ 17.7	\$ 94.7
Change due to the following items:		
Net investment income and other non-taxable or non-deductible items (net)	6.2	(9.7)
Impact of new rates enacted on future income taxes	—	(6.3)
Other	(2.3)	(8.0)
	<b>\$ 21.6</b>	<b>\$ 70.7</b>

**Note 13 (continued)****INCOME TAXES (CONTINUED)****C) FUTURE INCOME TAX LIABILITIES**

Future income tax liabilities, which are based on estimates of temporary differences made at December 31, arise from the following items:

	<b>2008</b>	2007
Investments	\$ 504.4	\$ 577.6
Policy liabilities	(472.7)	(528.4)
Capital losses carried forward	(1.5)	(2.4)
Other	(9.0)	(8.7)
<b>Future income tax liabilities</b>	<b>\$ 21.2</b>	<b>\$ 38.1</b>

**Note 14****CAPITAL MANAGEMENT**

The Company's capital management objective is to maintain sufficient, quality capital and allocate surplus capital to its priorities of supporting growth, financing acquisitions where opportunities exist, and increasing dividends to its shareholder.

The Company's Board of Directors is responsible for managing capital. The Board is guided in this activity by a policy that is reviewed annually.

Under its provincial charter, the Company is governed by the AMF. It must also comply with the requirements of the regulatory authorities of the other provinces and territories where it conducts business. In Quebec, insurance companies must guarantee their solvency by complying with the AMF's Guideline on Capital Adequacy Requirements .

The Company's regulatory capital, which is established in compliance with said guideline, consists of capital and differs from the equity on the balance sheet. It is composed of two tiers of capital:

Tier 1 capital comprises capital that is more permanent in nature than Tier 2 capital. It consists primarily of shareholder's equity and participating policyholders' equity.

Tier 2 capital is comprised primarily of Class C preferred shares.

The Company's available capital is summarized in the following table:

	<b>2008</b>	2007
Tier 1 capital	\$ 805.5	\$ 874.7
Tier 2 capital	338.7	350.5
Total Tier 1 and Tier 2 capital	<b>1,144.2</b>	1,225.2
Less deductions and adjustments	<b>9.4</b>	9.1
<b>Total capital available</b>	<b>\$ 1,134.8</b>	<b>\$ 1,216.1</b>

Under the AMF's capital adequacy requirements, a minimum amount of regulatory capital must be maintained to cover certain risks such as credit, market, insurance and interest rate risks. As at December 31, 2008, these requirements were met.

The Company's solvency ratio compares total available capital with the required minimum regulatory capital.

Under the *Act Respecting Insurance* (Quebec), the payment of dividends to the shareholder and policyholders is subject to the Company's compliance with the minimum capital adequacy standards prescribed by the AMF.

Furthermore, to meet various financial management requirements, an amount of \$40.4M (\$43.0M in 2007) was allocated to appropriated policyholders' equity and an amount of \$203.8M (\$201.6M in 2007) to appropriated retained earnings.

## Note 15

## FINANCIAL RISK MANAGEMENT

### RISK CONTROL

The Company's risk management objective is to optimize the risk/return ratio for all of its operations. Risk is defined as an element of uncertainty that may have an impact on current or future profits. Risk can be minimized by implementing risk management strategies and policies and by incorporating risk management processes into all organizational functions.

The Company adopted a risk-management governance structure by creating an Integrated Risk Management and Reinsurance department as well as Integrated Risk Management and Operational Risk Management committees, which are responsible for supporting and overseeing the implementation of policies and systems designed to maintain financial and operational risk at levels acceptable to Management and the Board of Directors. The Company has established an integrated risk profile that defines the risks to which it is exposed, the level of its exposure to these risks, and the effectiveness of the control measures used to mitigate these risks. The Company's Integrated Risk Management and Reinsurance department provides the Audit Committee with regular risk management reports.

Internal Audit independently evaluates the processes, systems and existing controls and submits status reports that provide appropriate recommendations.

In addition to the inherent risks in its insurance activities, which are described in Note 7, the key financial risks to which the Company is exposed are the following:

#### a) Credit Risk

Credit risk is defined as the potential risk of losses arising from a counterparty's failure to meet its balance-sheet or off-balance-sheet contractual obligations. It also includes concentration risk. The term "counterparty" refers to an issuer, debtor, borrower, broker, underwriter, reinsurer or guarantor.

#### Credit Risk Management and Framework

Company policies establish limits according to commitment, issuer, borrower, groups of borrowers, region and activity sector. These policies also identify the approval levels to which any new commitment must be submitted. Specific provisions are recorded for non-performing financial instruments.

With respect to loans granted by the Company, underwriting standards are applied to ensure portfolio diversification and sound management of credit risk. An internal rating system enables the Company to evaluate portfolios and identify impaired loans. An independent sector reviews the loan granting process. Specialized employees ensure loan oversight, management and recovery. In addition to the mortgage loans secured by real estate, other loans are secured by the government of Quebec under an immigrant loans program, and also by the cash surrender value of the policies against which loans were advanced to policyholders.

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

All counterparties with which the Company carries out derivative transactions are financial institutions rated A or better by 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 maximum credit risk exposure of the financial instruments used by the Company is as follows:

<b>2008</b>	<b>Maximum Exposure</b>
<b>Carried on balance sheet</b>	
Bonds and money market instruments	\$ 7,750.7
Mortgage loans and business loans	3,312.0
Policy loans	107.7
Other loans and investments	652.9
Other assets	330.6
<b>Total carried on balance sheet</b>	<b>12,153.9</b>
<b>Off-balance sheet</b>	
Credit commitments	55.8
<b>Total</b>	<b>\$ 12,209.7</b>

**Note 15 (continued)****FINANCIAL RISK MANAGEMENT (CONTINUED)****b) Liquidity Risk**

Liquidity risk is the risk that the Company will be unable to amass sufficient funds to meet a financial obligation, whether it is on-balance or off-balance sheet, due or not.

**Liquidity Risk Management and Framework**

In the short term, the purpose of liquidity management is to ensure that adequate funds are available to meet financial commitments as they become payable. The management of strategic liquidity aims to achieve stability between sources and uses of funds on an ongoing basis, taking into account economic, operational and business factors that could influence this balance.

A liquidity policy ensures global proactive management of balance sheet items by establishing limits. Additionally, asset managers ensure that an adequate proportion of assets is held in readily marketable securities.

The Company has developed a crisis intervention plan that describes available funding sources in order of priority with their cost. The Company also has access to operating lines of credit to meet temporary working capital needs. As at December 31, 2008, none of these lines of credit had been drawn.

As at December 31, 2008, the maturity timetable for financial liabilities (with the exception of policyholder liabilities, the liquidity risk of which is covered by the matching policy described in Note 7b) is the following:

<b>2008</b>	<b>Less than 1 year</b>	<b>1 to 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Long-term debt	\$ 8.7	\$ 58.0	\$ 25.6	\$ 92.3
Commitments under securities lending transaction and repurchase agreements	736.0	—	—	736.0
Securities sold short	495.6	—	—	495.6
Derivative financial instruments <sup>(1)</sup>				
Settled on a gross basis <sup>(1)</sup>	184.9	19.9	—	204.8
Settled on a net basis	227.5	15.7	3.0	246.2
Preferred share liabilities	9.5	38.1	284.5	332.1
Other liabilities	232.7	5.5	12.3	250.5
	<b>\$ 1,894.9</b>	<b>\$ 137.2</b>	<b>\$ 325.4</b>	<b>\$ 2,357.5</b>

(1) This amount does not include a contractual amount of \$68.2M receivable on these instruments.

**c) Market Risk**

Market risk is the risk of changes in the value of financial instruments arising from a fluctuation in the market parameters affecting this value, in particular interest rates, exchange rates and any other market risk but especially credit spreads and volatility.

**i) Exchange Risk Management and Framework**

To guard against potential losses due to exchange rate movements, the Company has an asset and liability matching policy, which is described in Note 7b, and ensures compliance with the policy with regular controls. This policy clearly defines the acceptable levels of risk. Each business segment's assets are managed in relation to its liabilities and invested in instruments that meet the requirements of the underlying products.

The risks associated with mismatches in portfolio investment durations and cash flows, asset prepayment exposure, and the pace of asset acquisition are quantified and reviewed regularly.

The impact on net income attributable to the shareholder of a change in interest rates over the entire investment yield curve is the following:

	<b>2008</b>	2007
1% increase in interest rates	\$ 28.8	\$ 44.8
1% decrease in interest rates	\$ (42.2)	\$ (70.2)

The Company also has an active management process to enhance the performance of its matched portfolio. It involves overlaying an active management portfolio on its matched portfolio. This active management portfolio includes curve (duration, convexity), credit and volatility strategies. The Company primarily uses the "value at risk" (VAR) approach to measure and control market risk.

The VAR is an estimate of the worst case loss over a certain time period and given confidence level. A Monte Carlo VAR with a 95% degree of confidence is calculated daily for the active management portfolio and underlying positions over a one-day holding horizon. It is therefore reasonable to expect a loss exceeding the VAR every 20 days. The computerized VAR calculation is based on historical data for a one-year interval.

As at December 31, 2008, the one-day VAR of the active management portfolio was \$0.36M compared to the maximum \$0.38M amount permitted by the Company.

### **Crisis Simulations**

From time to time, certain events with a low probability of occurrence take place and can have a considerable impact on the active management portfolio. These tail-of-distribution events are the result of extreme situations. The risk posed by these unlikely but plausible events is measured at regular intervals using a crisis simulation program (sensitivity analyses, historical scenarios and hypothetical scenarios). The results of these simulations are analyzed in order to determine how the active management portfolio will behave during such events. The crisis simulation program is reviewed regularly to keep it current.

### **ii) Foreign Exchange Risk Management and Framework**

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to movements in exchange rates. Although most of the Company's transactions are in Canadian dollars, certain limits have been set with regard to foreign exchange risk.

The first limit concerns the matched portfolio's fixed income securities. The Company's policy states that fixed income investments in foreign currencies not covered for foreign exchange risk are to be limited to 5% of the total portfolio of money market instruments, bonds, preferred shares and derivative products.

The second limit concerns the unmatched portfolio. This limit sets positions for uncovered foreign currencies at 7.5% of this portfolio's total assets.

The Company uses foreign exchange contracts to keep this risk within the prescribed limits. As at December 31, the Company deemed this risk to be insignificant.

### **iii) Other Market Risk Management and Framework**

In addition to the previously mentioned risks, the Company's unmatched portfolio is managed as a diversified portfolio comprising several asset classes. The Company manages the portfolio's risks associated with positions in different asset classes by applying the following limits:

1. Concentration limits to the portfolio's different asset classes.
2. Deviation-from-target limits to the portfolio's different asset classes. These limits are managed globally using an active risk approach.

Active risk is defined as the risk run by the current portfolio compared to its benchmark index. It expresses the average difference between the performance of the Company's portfolio and this index. The overall budget for the maximum active risk tolerated is 1%. The maximum portion of the active risk budget that can be used within one class and for the asset allocation decision is 0.40%. As at December 31, the Company's active risk was 0.76% or \$14.7M.

## **Note 16**

# **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 lawsuits have in the past been resolved without any expenses in excess of amounts provided for in the actuarial liabilities, and the Company does not believe that it will incur any significant additional loss or expense in connection with such proceedings.

## **B) LITIGATION**

In the past few years, legal action has been instituted against insurance companies in the United States and Canada 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 with regards to such policies. The case is still in its preliminary phase. However, based on a 2004 Supreme Court of Canada ruling 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 for this in the financial statements as at December 31, 2008.

## **C) CONTRACTS**

Payments under the Company's various contractual obligations, mainly in respect of leases and various services over the coming fiscal years, total \$45.1M and break down as follows: \$13.9M in 2009, \$4.9M in 2010, \$3.5M in 2011, \$2.4M in 2012, \$1.3M in 2013 and \$19.1M thereafter.

**Note 16 (continued)****COMMITMENTS, GUARANTEES AND CONTINGENCIES (CONTINUED)****D) LETTERS OF CREDIT**

In the normal course of business, the Company issues letters of credit. As at December 31, 2008, letters of credit in the amount of \$5.6M were outstanding.

**E) CONTRACTUAL GUARANTEES**

The significant guarantees granted by the Company and in force on December 31, 2008 are the following:

**Derivatives**

In the normal course of its investment activities, the Company enters into credit default swaps on investment securities and undertakes to assume the credit risk for the investment securities concerned. The guarantee consists in providing partial or full payment 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. All the underlying assets are rated by the rating agencies and as at December 31, 2008, 87.8% of these securities had rating of BBB or higher.

These swaps mature on various dates until 2014. As at December 31, 2008, the maximum amount that could be disbursed under this guarantee totalled \$614.7M.

**Indemnification Agreements**

In the normal course of business, the Company enters into agreements containing indemnification provisions. The indemnifications are normally related to purchasing contracts, service agreements, outsourcing agreements, lease agreements, netting agreements and asset or stock transfers. Under the terms of these contracts, the Company may be liable for indemnifying a counterparty if certain events occur, such as amendments to statutes and regulations, changes in reported financial positions, the existence of unreported liabilities, losses resulting from third-party activities or as a result of third-party litigation. The indemnification provisions 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, the Company is not in a position to provide a reasonable estimate of the maximum amount it could be required to pay. Historically, payments made under these indemnification agreements have been negligible. The probability of conditions occurring that would engage the Company's liability under these contracts is low and the potential amount of indemnification is difficult to measure. No specific liability has been recorded with respect to these agreements.

**Indemnification of Directors and Officers**

The Company will indemnify its directors and officers as well as 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.

**F) SECURITIES LENDING**

In the normal course of its investment activities, the Company lends securities. The loan of securities must be collateralized at all times by the borrower (with marketable securities generally issued by the federal or provincial governments). There is a risk of loss if the borrower fails to meet its obligations and the value of the collateral is not sufficient to cover the amount of the loan. The credit risk associated with these types of transactions is considered minimal since the Company does business only with creditworthy brokerage firms and financial institutions. Furthermore, the Company receives securities as collateral of a value equal to 102% of the loan amount. Loaned securities in the amount of \$330.9M (\$166.5M in 2007), for which securities were received as collateral, were not accounted for in the balance sheet.

**G) FINANCIAL ASSETS PLEDGED AS COLLATERAL**

The financial assets that the Company pledges as collateral in the normal course of business are presented in the following table:

	<b>2008</b>	2007
Financial assets pledged as collateral for the following transactions:		
Derivative transactions	\$ 99.4	\$ 4.8
Repurchase agreements, reverse repurchase agreements and securities lending	984.0	2,119.9
Other	19.8	59.1
	<b>\$ 1,103.2</b>	<b>\$ 2,183.8</b>

## H) FINANCIAL ASSETS RECEIVED AS COLLATERAL

As at December 31, 2008, the fair value of the financial assets received as collateral, which the Company is authorized to sell or repledge as collateral in the absence of default, totalled \$576.1M (\$1,785.8M in 2007). The fair value of the financial assets accepted as collateral, which were sold or repledged as collateral, was \$559.5M (\$1,758.6M in 2007).

The financial assets received as collateral were obtained subsequent to securities lending transactions or repurchase agreements. These transactions were executed in normal conditions for these types of transactions.

### Note 17

## EMPLOYEE FUTURE BENEFITS AND PENSION PLANS

### EMPLOYEE FUTURE BENEFITS COSTS

The Company's employees are members of the Desjardins Group Pension Plan, a multiemployer defined benefit pension plan. The last actuarial valuation, which was performed on December 31, 2006, showed that the Plan as a whole had a surplus of \$167.5M on a funding basis and a deficit of \$63.4M on a solvency basis. To eliminate this deficit as at December 31, 2006, the employers are required to make special payments totalling \$1.2M per month from January 1, 2007 to December 31, 2011 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 \$19.2M in 2008 (\$18.8M in 2007). The Plan assets and benefit obligation were measured as at September 30, 2008. The next actuarial valuation required for funding purposes must be performed no later than December 31, 2009.

The Company also offers additional defined benefit 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 \$15.1M (\$14.8M in 2007) was recorded under other liabilities. The expense for the year totalled \$0.4M (\$1.2M in 2007).

### Note 18

## GOVERNMENT ASSISTANCE

Upon receipt of its Annual Eligibility Certificate, the Company will benefit from a government assistance program for major investment projects. This program will end on April 30, 2010. During the year,

the Company recorded government assistance in the amount of \$18.9M (\$16.8M in 2007), \$12.9M after taxes (\$11.2M in 2007), as a reduction to operating expenses.

### Note 19

## 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:

	2008	2007
<b>Revenue</b>		
Premium income	\$ 142.6	\$ 132.5
Net investment income	(163.2)	86.0
	<b>\$ (20.6)</b>	<b>\$ 218.5</b>
<b>Operating expenses</b>	<b>\$ 120.3</b>	<b>\$ 104.6</b>

The above revenue stems from the sale of life and health insurance products and investments, while the expenses consist primarily of management fees, securities custody fees and compensation, and administrative expenses paid to the Desjardins caisse network for distributing the Company's products.

**Note 19 (continued)****RELATED PARTY TRANSACTIONS (CONTINUED)**

The account balances with related parties included in the Balance Sheet as at December 31 are as follows:

	<b>2008</b>	2007
<b>Assets</b>		
Bonds	\$ 0.7	\$ 0.1
Stocks	85.7	632.7
Cash and money market instruments	372.5	338.7
Other assets	15.2	17.3
	<b>\$ 474.1</b>	<b>\$ 988.8</b>
<b>Liabilities</b>		
Other liabilities	\$ 83.6	\$ 112.0
Liabilities for preferred shares	275.0	275.0
	<b>\$ 358.6</b>	<b>\$ 387.0</b>

**RELATED PARTY TRANSACTIONS NOT IN THE NORMAL COURSE OF OPERATIONS**

In addition to the transactions conducted in the normal course of business, in 2007 the Company also purchased buildings from the FCDQ and its subsidiary Desjardins General Insurance Group Inc. for the sum of \$285.1M.

These acquisitions, which were carried out at fair value, were recorded at the carrying value in the books of these related parties and generated a debit of \$141.1M in shareholder's equity, \$19.8M against contributed surplus and \$121.3M against retained earnings.

**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, businesses and associations, which are 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, managing general agents (MGAs), financial security advisors assigned to the caisses Desjardins, direct marketing and over the Internet.

Its savings products are distributed in the same manner as individual and group insurance products and include segregated fund transactions.

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

In addition to the segmented information relating to the actuarial liabilities and the key assets to which they are matched provided in Note 7, the following table summarizes the results by segment.

<b>2008</b>	<b>Group Insurance</b>	<b>Individual Insurance</b>	<b>Savings</b>	<b>Other</b>	<b>Total</b>
Premium income					
Products distributed to Desjardins Group members	\$ 536.9	\$ 134.0	\$ 11.7	\$ —	\$ 682.6
Other distribution networks	1,600.7	281.3	303.8	—	2,185.8
Net investment income	33.0	(56.1)	(77.2)	(1.1)	(101.4)
Other revenue	15.1	15.8	89.0	4.2	124.1
<b>Total revenue</b>	<b>2,185.7</b>	<b>375.0</b>	<b>327.3</b>	<b>3.1</b>	<b>2,891.1</b>
Expenses attributable to policyholders	1,610.9	159.3	319.1	—	2,089.3
Other expenses	407.7	195.7	139.7	2.6	745.7
<b>Total expenses</b>	<b>2,018.6</b>	<b>355.0</b>	<b>458.8</b>	<b>2.6</b>	<b>2,835.0</b>
<b>Operating income</b>	<b>167.1</b>	<b>20.0</b>	<b>(131.5)</b>	<b>0.5</b>	<b>56.1</b>
Income taxes	62.9	6.9	(48.7)	0.5	21.6
<b>Net income</b>	<b>\$ 104.2</b>	<b>\$ 13.1</b>	<b>\$ (82.8)</b>	<b>\$ —</b>	<b>\$ 34.5</b>
2007	Group Insurance	Individual Insurance	Savings	Other	Total
Premium income					
Products distributed to Desjardins Group members	\$ 507.5	\$ 115.0	\$ 6.7	\$ —	\$ 629.2
Other distribution networks	1,429.6	277.6	238.9	—	1,946.1
Net investment income	117.1	179.9	217.5	(1.1)	513.4
Other revenue	13.6	19.7	96.1	3.7	133.1
<b>Total revenue</b>	<b>2,067.8</b>	<b>592.2</b>	<b>559.2</b>	<b>2.6</b>	<b>3,221.8</b>
Expenses attributable to policyholders	1,466.8	338.5	410.4	—	2,215.7
Other expenses	387.5	191.9	137.3	2.0	718.7
<b>Total expenses</b>	<b>1,854.3</b>	<b>530.4</b>	<b>547.7</b>	<b>2.0</b>	<b>2,934.4</b>
<b>Operating income</b>	<b>213.5</b>	<b>61.8</b>	<b>11.5</b>	<b>0.6</b>	<b>287.4</b>
Income taxes	53.2	14.7	2.2	0.6	70.7
<b>Net income</b>	<b>\$ 160.3</b>	<b>\$ 47.1</b>	<b>\$ 9.3</b>	<b>\$ —</b>	<b>\$ 216.7</b>

## Note 21

### COMPARATIVE FIGURES

Certain figures for 2007, presented for comparative purposes, have been reclassified to conform to the presentation adopted for 2008.

# FIVE-YEAR SUMMARY

For the years ended December 31

(in millions of dollars, unless otherwise indicated)

	2008	2007	2006	2005	2004
<b>PROFITABILITY AND CAPITALIZATION</b>					
Net income	34.5	216.7	151.3	159.7	130.2
Continuing operations	34.5	216.7	151.3	154.4	128.8
Discontinued operations	0.0	0.0	0.0	5.3	1.4
Operating income	57.1	288.3	202.8	184.9	186.9
Net income attributable to shareholder	40.2	211.1	145.8	151.6	127.5
Return on shareholder's equity	5.9%	27.5%	20.7%	24.9%	19.6%
<b>BUSINESS GROWTH</b>					
Insurance in force	183,490.6	171,009.4	151,191.9	137,117.7	131,896.5
Net premiums					
Insurance premiums	2,552.9	2,329.7	2,065.7	1,905.3	1,784.4
Annuity premiums	315.5	245.6	372.7	395.0	305.8
<b>Total</b>	<b>2,868.4</b>	<b>2,575.3</b>	<b>2,438.4</b>	<b>2,300.3</b>	<b>2,090.2</b>
<b>SAVINGS</b>					
Group products	260.1	218.5	290.6	316.1	171.3
Individual products	432.3	251.8	250.9	233.7	234.2
Mutual funds	462.8	636.3	516.9	461.7	344.5
<b>Total</b>	<b>1,155.2</b>	<b>1,106.6</b>	<b>1,058.4</b>	<b>1,011.5</b>	<b>750.0</b>
<b>ASSETS UNDER MANAGEMENT AND ADMINISTRATION</b>					
General funds	13,759.2	15,307.9	12,804.0	11,921.3	10,250.6
Segregated funds	2,050.8	2,246.9	2,112.1	5,292.3	4,677.1
Mutual funds	3,856.1	5,021.4	5,028.4	3,170.2	2,670.0
<b>Total</b>	<b>19,666.1</b>	<b>22,576.2</b>	<b>19,944.5</b>	<b>20,383.8</b>	<b>17,597.7</b>
<b>INVESTMENT QUALITY</b>					
<b>Bonds</b>					
Rated A or higher	92.0%	95.2%	95.0%	96.4%	97.0%
<b>Real estate</b>					
Market value as a percentage of carrying value	142.3%	127.1%	116.8%	116.2%	111.7%
<b>OTHER INFORMATION</b>					
Number of employees	3,816	3,893	3,734	3,659	3,628
Representatives and brokers	5,942	5,542	5,321	5,873	5,749

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

As at December 31, 2008

### Board Chair

**SYLVIE ST-PIERRE BABIN**  
Gatineau, Quebec  
Legal Counsel  
President of CORE Abitibi-Témiscamingue  
– North and West of Quebec

### Senior Deputy Chair

**JACQUES SYLVESTRE**  
Saint-Hyacinthe, Quebec  
Legal Counsel  
Sylvestre & Associés, avocats

### Directors

**SERGE CLOUTIER**  
Repentigny, Quebec  
General Manager  
Caisse Desjardins Allard – Saint-Paul

**ROBERT GUERRIERO, CA**  
Laval, Quebec  
Corporate and Cooperative Director  
Chair of the Board of Directors  
Caisse populaire Desjardins  
Canadienne Italienne

**SERGE HAMELIN**  
Laval, Quebec  
Consulting Actuary  
Daigneault & Hamelin, Actuaire

**MONIQUE LEFEBVRE**  
Montréal, Quebec  
Psychologist, Executive Coaching  
Consultant, Strategic Management and  
Business Governance

**DENIS LEVESQUE, Ph. D.**  
Rockland, Ontario  
Adjunct Professor  
University of Ottawa

**LOUISE LUSSIER, CGA, MBA**  
Outremont, Quebec  
Consultant, Strategic and  
Financial Planning

**SUZANNE MAISONNEUVE-  
BENOIT**  
Mont-Tremblant, Quebec  
Administrative Consultant

**DENIS RISLER**  
Anjou, Quebec  
President  
NovaVision Communications inc.  
Chair of the Board of Directors  
Caisse populaire Desjardins d'Anjou

**MICHEL ROULEAU, ASC**  
Sainte-Marie-de-Beauce, Quebec  
Corporate Director

**RÉAL SUREAU, FCA**  
Verdun, Quebec  
President, Sureau Management Limited

**LAURA M. TALBOT, FCMA,  
MBA, ICD.D**  
Kingston, Ontario  
President, Talbot Allan Consulting Group  
Chair of the Board of Directors,  
Deposit Insurance Corporation of Ontario

## BOARD COMMITTEES

### Executive Committee

**SYLVIE ST-PIERRE BABIN**  
Chair

**SERGE CLOUTIER**

**MONIQUE LEFEBVRE**

**JACQUES SYLVESTRE**

### Investment Committee

**MICHEL ROULEAU**  
Chair

**ROBERT GUERRIERO**

**SYLVIE ST-PIERRE BABIN**

**RÉAL SUREAU**

### Audit Committee

**SERGE HAMELIN**  
Chair

**LOUISE LUSSIER**

**RÉAL SUREAU**

**LAURA M. TALBOT**

### Ethics Committee

**SUZANNE MAISONNEUVE-  
BENOIT**  
Chair

**DENIS LEVESQUE**

**DENIS RISLER**

# COMPANY MANAGEMENT

## MONIQUE F. LEROUX

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

## RICHARD FORTIER

President and Chief  
Operating Officer

## MONIQUE TREMBLAY

Assistant to the President

## CLÉMENT CLÉMENT\*

Vice-President  
Internal Audit and Compliance  
Chief Compliance Officer

\*Reports to the Audit Committee

## CAMIL LÉVESQUE

Vice-President  
Corporate Actuarial Services

## ALAIN BÉDARD

Senior Vice-President  
Individual Insurance and Savings

## JEAN CARON

Vice-President  
Sales, AssurFinance  
for Individuals

## STÉPHANE DULUDE

Vice-President and  
General Manager  
SFL Partner of Desjardins  
Financial Security

## PETER FERLAND

Vice-President  
Sales, Savings and  
Segregated Funds

## ANDRÉ LANGLOIS

Vice-President  
Product Development  
and Marketing,  
Individual Insurance

## GILLES DUBÉ

Vice-President  
Customer Service,  
Individual Insurance and Savings

## MICHEL DESMARAIS

Interim Senior Vice-President  
Group Retirement Savings

## ÉRIC FILION

Interim Vice-President  
Product Development  
and Marketing,  
Group Retirement Savings

## JEAN-FRANÇOIS CHALIFOUX

Senior Vice-President  
AssurFinance for  
Institutions, AssurDirect and  
Desjardins Relations  
President of Sigma Assistel

## STÉPHANE BEAULÉ

Vice-President  
Sales, AssurFinance for  
Institutions (Quebec) and  
Desjardins Relations

## FRANÇOIS DUROCHER

Vice-President  
Sales and Business Development,  
Credit Insurance (Ontario,  
Atlantic and Western Regions)  
and AssurDirect

## LINDA FISET

Vice-President  
Strategy Development and  
Marketing, AssurFinance for  
Institutions, AssurDirect and  
Desjardins Relations

## ALAIN VACHON

Vice-President  
Customer Service,  
AssurFinance for Institutions,  
AssurDirect and Other  
Business Lines

## ANDRÉ L. DUVAL

Vice-President  
Actuarial, Financial Management  
and Compliance, AssurFinance for  
Institutions and AssurDirect

## LOUISE DES ORMEAUX

General Manager  
Sigma Assistel

## ALAIN THAUVETTE

Senior Vice-President  
Group and Business Insurance

## MARC CARRIER

Vice-President  
Underwriting,  
Group and Business Insurance

## JEAN-JACQUES PARADIS

Vice-President  
Business Development  
and Marketing Group and  
Business Insurance

## LUCIEN ROY

Vice-President  
Customer Service,  
Group and Business Insurance

## ANDRÉ SIMARD

Vice-President  
Sales, Group and  
Business Insurance

## FRANÇOIS DROUIN

Senior Vice-President  
Finance

## ANDRÉ GIRARD

Vice-President  
Financial Reporting and  
Material Resources  
Controller

## DIANE GOSSELIN

Vice-President  
Integrated Risk, Management  
and Reinsurance

## DIANE ROBERT

Vice-President  
Finance

## LOUISE TURGEON

Senior Vice-President  
Corporate Affairs and Technology

## JOSETTE BÉRUBÉ

Vice-President  
Architecture and  
Infrastructure Projects

## FRANÇOIS CHOLETTE

Vice-President  
Legal Affairs  
Corporate Secretary

## CLAUDE R. GABOURY

Vice-President  
Systems Operations and  
Outsourcing Contract  
Management

## DANIEL ROUSSEL

Vice-President  
Public Affairs and  
Communications  
Dispute Resolution Officer  
Privacy Officer

## LISE BORDELEAU

Vice-President  
Human Resources and  
Organizational Development

## RICHARD CLOUTIER

Vice-President  
Systems Development

## MICHELINE GERVAIS

Vice-President  
Process Management Support

## VACANT POSITION

Senior Vice-President  
Technology

## COLETTE N. PIERROT

Vice-President  
Marketing and Strategic Planning

## GÉRARD GUILBAULT

Chief Investment Officer

# OFFICE CONTACT INFORMATION

## ADDRESSES

### MAIN OFFICES

#### Desjardins Financial Security

##### HEAD OFFICE

200, rue des Commandeurs  
Lévis (Québec) G6V 6R2  
418-838-7800  
1-877-828-7800

##### MONTRÉAL

1, complexe Desjardins  
Tour Sud, 21<sup>e</sup> étage  
Montréal (Québec) H5B 1E2  
514-350-8700  
1-877-750-8700

##### QUÉBEC

1150, rue de Claire-Fontaine  
Québec (Québec) G1R 5G4  
418-647-5000  
1-888-893-1833

##### TORONTO

95 St. Clair Avenue West  
Toronto, Ontario M4V 1N7  
416-926-2700  
1-877-906-5551

### REGIONAL OFFICES

#### Atlantic Canada

##### HALIFAX/DARTMOUTH

99 Wyse Road, Suite 1400  
Dartmouth, Nova Scotia B3A 4S5  
902-466-8881

##### CORNER BROOK

Corner Brook Plaza  
44 Maple Road, Unit 0315  
Corner Brook,  
Newfoundland and Labrador A2H 6L8  
709-639-4208

##### ST. JOHN'S

Village Shopping Centre  
430 Topsail Road  
St. John's, Newfoundland and Labrador  
A1E 4N1  
709-747-8473

#### Quebec

##### LÉVIS

Complexe Maurice-Tanguay  
5790, boul. Étienne-Dallaire, bureau 203  
Lévis (Québec) G6V 8V6  
418-838-7800

##### MONTRÉAL

2, complexe Desjardins, bureau 2301  
Montréal (Québec) H5B 1E2  
514-285-7880  
1-800-363-3072

#### Ontario

##### OTTAWA

14 Chamberlain Avenue, Suite 201  
Ottawa, Ontario K1S 1V9  
613-224-3121

##### TORONTO

95 St-Clair Avenue West  
Toronto, Ontario M4V 1N7  
416-926-2662

#### Western Canada

##### WINNIPEG

363 Broadway, Suite 1405  
Winnipeg, Manitoba R3C 3N9  
204-989-4350

##### CALGARY

Bow Valley Square 1  
202 - 6th Avenue S. W., Suite 560  
Calgary, Alberta T2P 2R9  
403-216-5800

##### VANCOUVER

401 West Georgia Street, Suite 1050  
Vancouver, British Columbia V6B 5A1  
604-718-4410

### SUBSIDIARIES

#### DESJARDINS FINANCIAL SECURITY INVESTMENTS INC.

1150, rue de Claire-Fontaine  
Québec (Québec) G1R 5G4  
418-647-5070  
1-866-647-5070

#### SIGMA ASSISTEL INC.

1100, boul. René-Lévesque Ouest,  
15<sup>e</sup> étage  
Montréal (Québec) H3B 4N4  
514-875-9170  
1-800-465-6390

For the contact information of our financial centres, call 1-800-463-7870,  
or visit our website. [www.desjardinsfinancialsecurity.com](http://www.desjardinsfinancialsecurity.com).

### INTERNET ADDRESSES

<b>DESJARDINS FINANCIAL SECURITY:</b>	<a href="http://www.desjardinsfinancialsecurity.com">www.desjardinsfinancialsecurity.com</a>
<b>SFL:</b>	<a href="http://www.sfl.qc.ca">www.sfl.qc.ca</a>
<b>SFL INVESTMENTS:</b>	<a href="http://www.sfl.qc.ca">www.sfl.qc.ca</a>
<b>DESJARDINS FINANCIAL SECURITY INDEPENDENT NETWORK:</b>	<a href="http://www.dfsin.ca">www.dfsin.ca</a>
<b>DESJARDINS FINANCIAL SECURITY INVESTMENTS INC:</b>	<a href="http://www.dfsin.ca">www.dfsin.ca</a> and <a href="http://www.dfsinvestments.ca">www.dfsinvestments.ca</a>
<b>SIGMA ASSISTEL:</b>	<a href="http://www.assistel.com">www.assistel.com</a>
<b>DESJARDINS GROUP:</b>	<a href="http://www.desjardins.com">www.desjardins.com</a>



Published by the Public Affairs and Communications department  
March 2009

For more information visit our website or contact the  
Communications Department at 418-838-7800, extension 7447  
or 1-877-828-7800, extension 7447.

This Financial Report and other publications may be viewed on the  
Company's website. Copies can also be ordered in writing, by phone,  
email or fax.

Communications Department  
Desjardins Financial Security  
200, rue des Commandeurs  
Lévis (Québec)  
G6V 6R2

Phone: 418-838-7800, extension 7447 or 1-877-828-7800, extension 7447  
Fax: 418-833-5985 or 1-877-833-5985  
Email: [info@desjardinsfinancialsecurity.com](mailto:info@desjardinsfinancialsecurity.com)  
Website: [www.desjardinsfinancialsecurity.com/ourcompany](http://www.desjardinsfinancialsecurity.com/ourcompany)

## VERSION EN FRANÇAIS

Une version en français de cette publication peut être  
consultée sur le site Internet de la Compagnie ou  
commandée par écrit, télécopie ou courriel.

Direction principale Communications  
Desjardins Sécurité financière  
200, rue des Commandeurs  
Lévis (Québec)  
G6V 6R2

Téléphone: 418 838-7800, poste 7447 ou  
1 877 828-7800, poste 7447

Télécopieur: 418 833-5985 ou 1 877 833-5985  
Courriel: [info@desjardinssecuritefinanciere.com](mailto:info@desjardinssecuritefinanciere.com)  
Site Internet : [www.desjardinssecuritefinanciere.com/  
lacompagnie](http://www.desjardinssecuritefinanciere.com/lacompagnie)

| VANCOUVER

| CALGARY

| WINNIPEG

| TORONTO

| OTTAWA

| MONTRÉAL

| QUÉBEC

| LÉVIS

| HALIFAX

| ST. JOHN'S



**Desjardins**  
Financial Security®

Money working for people

**Desjardins Financial Security is a member company of Desjardins Group, the largest cooperative financial group in Canada.**

## MISSION

To meet the changing financial security needs of individuals and groups, by offering a broad spectrum of tailor-made life and health insurance and retirement savings products and services, through employees and partners committed to ensuring the satisfaction of its customers and caisse members.

## VALUES

A passion of the customer, integrity and commitment, innovation and efficiency, importance of the employees, collective results and social commitment.

[desjardinsfinancialsecurity.com](http://desjardinsfinancialsecurity.com)  
1-800-463-7870