

security value  
family insurances  
groups **Leader** in  
life and health  
insurance  
and retirement  
growth solutions  
projects savings  
needs







# Desjardins moving towards a more responsible more equitable more sustainable world

**As it approaches its 110th anniversary, Desjardins Group, the first cooperative financial group in Canada and sixth largest in the world, draws strength from its history, its cooperative values and its human capital. Resolutely turned toward the future and mindful of its mission, Desjardins Group takes a long-term perspective toward creating sustainable prosperity for its members and clients, and for the communities in which it operates.**

Desjardins Group, the top financial institution and largest private-sector employer in Quebec, is both an association of individuals and a business run with precision and efficiency. Consisting of a vast human network consolidated by the values of solidarity, democracy, personal commitment and education, Desjardins demonstrates an ability to combine performance, financial strength and cooperation that inspires confidence among its members and clients across the country.

At the heart of Desjardins Group are 481 caisses that are close to their members. Driven by cooperative values, the caisses are an economic force in their communities where, because they are each part of a larger, single network, their strength is even greater and their outreach more substantial.

For more than a century, Desjardins has met numerous challenges and has continued to evolve while respecting its mission, which is to contribute to improving the economic and social well-being of people and communities. Today, Desjardins Group has more than 5.8 million members and clients, 42,200 employees and 6,200 elected officers. This human capital constitutes a huge force that is accompanied by a sense of collective responsibility, which is why Desjardins works tirelessly to ensure sustainable prosperity for people and communities. Cooperate to Shape Our Destiny: that is the exciting challenge we at Desjardins Group have set for ourselves!

# Desjardins Financial Security

## 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 that are 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 more than \$157.2 billion.

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 with 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.

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 265 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 Investments and Sigma Assistel

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.

<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, 2008.

# We are consolidating our position in a profitable manner across the entire Canadian market thanks to our service offer and accelerated growth plan

**Desjardins Financial Security continued to make its mark across the entire Canadian market in 2009. Our success as one of the leaders of the Canadian life and health insurance and financial services industry is in large part due to our highly competitive product and service offer and accelerated organic growth plan. Our results show that we have been very effective in our ongoing efforts to vigorously expand our business coast to coast and achieve our growth objectives.**

In terms of overall business growth, insurance and annuity premium income totalled \$2,983M, up 4.0% over the previous year. Net insurance premiums also rose, posting a net increase of \$50M, and insurance sales were \$12.7M higher than in 2008. The Savings sector continued to gain ground with sales and new deposits totalling \$1,814M, for an increase of \$659M. In Group Retirement Savings, sales were up 55.1% and in Individual Savings, sales totalled \$1.1B, double last year's results.

Desjardins Financial Security's profitability also rose substantially, with net income totalling \$193.8M compared to \$34.5M in 2008. This impressive performance is due mainly to the recovery of the markets, good insurance claim experience and the savings realized through tight control of expenses. The share of the Company's net income attributable to the ultimate shareholders, the Desjardins caisses, stood at \$192.8M, up \$152.6M over 2008. Our return on shareholder equity was 25.9%, one of the best in the financial services industry.

Desjardins Financial Security remains a financially strong company with very good capitalization. As a subsidiary of Desjardins Group, it also benefits from its parent company's reputation as a profitable and secure financial institution and the excellent scores it receives from credit rating agencies.

## **Outstanding accomplishments**

We are recognized nationwide as a partner of choice because of the quality and competitiveness of our service offer for target markets. We meet the expectations of our clients by providing them with distinctive value and a consistently positive experience every time they do business with us.

Desjardins Financial Security's many proud accomplishments and innovations in 2009 include the development of our administrative systems to support an enhanced e-commerce offer in Group and Business Insurance; our *Loan Insurance - Versatile Line of Credit* product on the Creditor Insurance side; the complete overhaul of the *SOLO* family of disability income products in Individual Insurance; the *Critical Illness Plus product with level cost to age 100* designed by AssurFinance for Individuals; the launch of *GetWell Insurance* in Direct Insurance; and the *Guarantee Advantage* product in Individual Savings. We also signed an agreement with Morningstar™ to create the *Foresight™* solution in Group Retirement Savings. In addition to renewing its ISO 9001:2001 certification, Sigma Assistel, our telephone assistance services subsidiary, also obtained ISO 9001:2008 certification. Our key accomplishments in 2009 are described in greater detail on page 6.

stability  
growth  
strength  
profitable



**Monique F. Leroux**



**Richard Fortier**

In 2009, we focused all of our energy on achieving five objectives: gaining a better understanding of our target markets and applying this knowledge to enhance the distinctive value of our service offer for both the client and the intermediary; optimizing the integration of our life and health insurance service offer with the caisse's service offer for the benefit of prioritized client segments; expanding our distribution network outside Quebec; promoting our brand name in targeted non-Quebec markets by focusing on our reputation, credibility and appeal; and, lastly, developing the talent and technology we need to keep growing.

### **Challenges and future prospects**

Today, Desjardins Financial Security is ranked 5th among Canadian life and health insurers and 1st in Quebec. As always, our biggest challenge will be maintaining our leadership position in Quebec and accelerating our expansion in the rest of Canada in a highly concentrated and consolidated industry.

We will therefore strategically continue to work towards achieving a greater balance between our insurance market and savings market activities; growing faster than the market in Individual Insurance; maintaining our accelerated growth in Group and Business Insurance and in Savings; and increasing our market share faster than the competition in Credit Insurance, and faster still in Direct Insurance. We have many exciting challenges ahead of us, and developing the distinctive value of our product and service offer will play a big part in supporting these expansion efforts across the Canadian market.

Desjardins Financial Security's future prospects look very good and we have every reason to believe that we will continue to be successful. In a nutshell, this means growing our business across Canada, running profitable core insurance operations and savings activities, maintaining a strong financial position and making a major contribution to Desjardins Group's performance.

### **A vote of thanks**

We would like to say a big thank you to our 10,582 employees, representatives and partners for their ongoing commitment to our clients and our mission. Our sincerest thanks also go to Desjardins Group's management and the members of our Board of Directors for their valuable and continued support.

We would also like to express our deepest appreciation to our members and clients. We are proud that they have entrusted us with their financial security. It is a real privilege to be the chosen service provider of some five million Canadians and we are grateful for their confidence. In return, we assure them of ongoing commitment to using our expertise to meet their changing financial security needs.

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

Chair of the Board, President and  
Chief Executive Officer, Desjardins Group  
and Chief Executive Officer of Desjardins Financial Security

#### **Richard Fortier, FSA, FICA, FCA**

Chief Operating Officer of Desjardins Financial Security

# Key Achievements in 2009

- **Net income of \$193.8M, up 461.9% over 2008**
- **Return on shareholder equity of 25.9%, which is one of the best in the industry**
- **In-force insurance business growth of 3.9%**
- **Net premiums totalling \$2,983M, up 4.0%**
  - Insurance premium growth of 2.9% outside Quebec
  - Insurance premium growth of 1.5% in Quebec
- **Insurance sales growth of 7.3% outside Quebec**
- **Individual insurance sales up 11.8%**
- **Significant growth in savings product sales**
  - Group retirement savings sales growth of 55.1%
  - Individual savings sales growth of 153.6%, exceeding the \$1B mark
- **Total life insured credit up 6.2%**

## Group insurance

### Group and Business Insurance

- Development of administrative systems to support the roll-out of an enhanced e-commerce offer

### Creditor Insurance

- *Loan Insurance - Versatile Line of Credit*, an innovative and comprehensive insurance product covering all of the financing used under the *Versatile Line of Credit*
- Joint advertising campaign with Desjardins Group focusing on housing and the promotion of *Loan Insurance*
- Streamlining of enrolment process for Savings-Life Insurance, which is offered exclusively to Desjardins members

## Individual insurance

### Individual Insurance

- Opening of three Desjardins Financial Security Independent Network financial centres in British Columbia and Alberta, and the signing of distribution agreements with 15 new general life insurance agents, thereby significantly increasing the distribution of products and services outside Quebec
- Complete overhaul of the *SOLO* family of disability income products in order to offer a customized portfolio of health insurance products for self-employed workers, business owners, and salaried employees without a group insurance plan
- A new annual statement for *Vision* and *Pace* universal life clients, providing clear and easy-to-understand information about the status of their coverages

### AssurFinance for Individuals

- Participation in 15 campaigns organized by the Fédération des caisses Desjardins, including the "Wealth Protection" campaign to protect the caisse member's income, savings and estate
- *Critical Illness Plus - Level Cost to Age 100* covering 33 critical illnesses and surgeries
- Two major initiatives with the Desjardins caisses, one for the Investment and Financing and the Operations and Assisted Transactions teams, and the other for the Asset Management team.

## Direct Insurance

- *GetWell Insurance*, one-of-a-kind coverage that pays a lump-sum amount when the insured is diagnosed with cancer for the first time, with Desjardins Financial Security paying the Canadian Cancer Society a percentage of the annual premiums for each new contract issued
- *Newcomer Emergency Health Care Insurance*
- First major Web campaign outside Quebec for Travel Insurance

## Savings

### Group Retirement Savings

- *Foresight™*, a group retirement savings solution designed for small and medium-sized businesses made possible through our association with Morningstar™. This exclusive and unique association combines the flexibility of Desjardins Financial Security's retirement savings solution with Morningstar's independent expertise in investment analysis to provide the highest security and governance levels in the industry.
- *On Target Retirement™*, a personalized retirement planning simulator for Desjardins Financial Security group retirement savings plan participants. Through the process of simulation, participants can see where they stand financially and determine their retirement goals using personalized information. This tool allows them to determine whether or not they will be able to reach their target and to adjust their investment strategy, if necessary.
- Development of our *TRACE™* retirement asset accumulation solution offering a series of pre-determined retirement paths that factor in age, risk tolerance and target retirement date and are linked to an underlying allocation portfolio that includes index funds.

### Individual Savings

- *Helios* and *Millennia* guaranteed investment fund sales have skyrocketed, hovering now around the billion dollar mark
- *Guarantee Advantage*, a family of market-based term investments that provides a minimum return

## Sigma Assistel

- Annual renewal of ISO 9001:2000 certification
- Also granted ISO 9001:2008 certification, which has even stricter efficiency and pro-activity standards
- Complete overhaul of the Travel Assistance platform processes, thereby generating greater efficiency and achieving better cost management

## Other significant achievements

- Ongoing application of the "Agile Development" concept in information technology (IT), resulting in a closer relationship between the IT and business sectors, a better understanding of users' goals and needs, and even more effective interventions.
- Roll-out of an electronic solution for flexible group insurance plans.
- By the end of 2009, more than 1 million people had visited the dfs.ca website, for a 32.8% increase since 2006.
- Recipient of twelve Insurance & Financial Communicators Association (IFCA) awards, including two "Best of Show" and eight "Awards of Excellence." This annual competition has twelve categories covering advertising, public relations, corporate communications and sales promotion in the area of insurance and financial services.



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# 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 their responsibility for the reliability and integrity of the financial data, the Company's 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. The board 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 external 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 Company's 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 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 (Quebec) and for reporting 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, 2013, 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 information they deem necessary in order to express 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 (Quebec), 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 29, 2010

# 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, 2009, 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 misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and other 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, 2009, 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.

*Sarman Belair*

*Deloitte + Touche s.e.m.c. 1*

Chartered Accountants

Quebec City, January 29, 2010

1 Chartered accountant auditor permit n° 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, 2009 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 29, 2010

# Consolidated Statement of Income

for the year ended December 31

(in millions of dollars)

|  | Notes | 2009            | 2008           |
|--|-------|-----------------|----------------|
| <b>Revenue</b>                                       |       |                 |                |
| Premium income                                       |       |                 |                |
| Insurance  |       | \$ 2,602.5      | \$ 2,552.9     |
| Annuities  |       | 380.5           | 315.5          |
|  |       | <b>2,983.0</b>  | 2,868.4        |
| Net investment income                                | 4d    | 749.5           | (101.4)        |
| Other revenue  |       | 132.2           | 124.1          |
|  |       | <b>3,864.7</b>  | 2,891.1        |
| <b>Expenses</b>                                      |       |                 |                |
| Expenses attributable to policyholders               |       |                 |                |
| Insurance benefits and annuities                     |       | 2,174.9         | 2,062.3        |
| Change in actuarial liabilities                      | 7d    | 466.7           | (117.2)        |
| Policyholder dividends and experience rating refunds |       | 118.0           | 132.9          |
| Interest on benefits and deposits                    |       | 7.5             | 11.3           |
|  |       | <b>2,767.1</b>  | 2,089.3        |
| Commissions  |       | 223.6           | 192.4          |
| Operating expenses                                   |       | 560.4           | 490.4          |
| Premium taxes  |       | 63.9            | 62.9           |
|  |       | <b>3,615.0</b>  | 2,835.0        |
| <b>Operating income</b>                              |       | <b>249.7</b>    | <b>56.1</b>    |
| Income taxes   | 14    | 55.9            | 21.6           |
| <b>Net income</b>                                    |       | <b>\$ 193.8</b> | <b>\$ 34.5</b> |

## Allocation of net income

|   |  |                 |                |
|---|--|-----------------|----------------|
| Attributable to participating policyholders |  | \$ 1.0          | \$ (5.7)       |
| Attributable to the shareholder             |  | 192.8           | 40.2           |
| <b>Net income</b>                           |  | <b>\$ 193.8</b> | <b>\$ 34.5</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 | 2009               | 2008            |
|---|-------|--------------------|-----------------|
| <b>Assets</b>   |       |                    |                 |
| <b>Investments</b>  |       |                    |                 |
|   | 4     |                    |                 |
| Bonds   |       | \$ 7,691.8         | \$ 7,318.9      |
| Mortgage loans and business loans   |       | 3,245.0            | 3,312.0         |
| Real estate   |       | 1,037.7            | 957.5           |
| Stocks  |       | 703.9              | 484.7           |
| Cash and money market instruments   |       | 422.8              | 454.6           |
| Policy loans  |       | 106.1              | 107.7           |
| Other loans and investments   |       | 779.8              | 668.1           |
|   |       | <b>13,987.1</b>    | <b>13,303.5</b> |
| Other assets  | 6     | 484.4              | 455.7           |
| <b>Total general fund assets</b>  |       | <b>\$ 14,471.5</b> | \$ 13,759.2     |
| <b>Net assets of segregated funds</b>                                       |       | <b>\$ 3,502.1</b>  | \$ 2,050.8      |
| <b>Liabilities</b>  |       |                    |                 |
| <b>Policy liabilities</b>   |       |                    |                 |
|   | 7     | \$ 10,573.4        | \$ 10,114.4     |
| Actuarial liabilities   |       |                    |                 |
| Provisions for claims, policyholder dividends and experience rating refunds |       | 313.9              | 256.3           |
| Policyholder deposits   |       | 434.3              | 419.9           |
|   |       | <b>11,321.6</b>    | <b>10,790.6</b> |
| Other liabilities   | 8     | 1,727.4            | 1,735.9         |
| Long-term debt  | 9     | 69.5               | 73.1            |
| Deferred net realized gains   | 4b    | 40.3               | 45.5            |
| Liabilities for preferred shares  | 11    | 275.0              | 275.0           |
|   |       | <b>13,433.8</b>    | <b>12,920.1</b> |
| <b>Policyholders' and shareholder's equity</b>                              |       |                    |                 |
| Participating policyholders' equity   |       | 197.2              | 189.1           |
| Shareholder's equity  |       | 840.5              | 650.0           |
| <b>Total policyholders' and shareholder's equity</b>                        |       | <b>1,037.7</b>     | <b>839.1</b>    |
| <b>Total general fund liabilities and equity</b>                            |       | <b>\$ 14,471.5</b> | \$ 13,759.2     |
| <b>Net assets attributable to segregated fund policyholders</b>             |       | <b>\$ 3,502.1</b>  | \$ 2,050.8      |

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<br>(Note 11) | Retained earnings           |             | Accumulated other comprehensive income (Note 12) |             | Total equity                |             |
|--|----------------------------|-----------------------------|-------------|--|-------------|-----------------------------|-------------|
|  |                            | Participating policyholders | Shareholder | Participating policyholders                      | Shareholder | Participating policyholders | Shareholder |
| <b>Balance as at December 31, 2007</b>         | \$ 307.0                   | \$ 196.8                    | \$ 348.7    | \$ 10.6  | \$ 56.1     | \$ 207.4                    | \$ 711.8    |
| 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)      |
| Dividends                                      |                            |                             | (35.4)      |  |             |                             | (35.4)      |
| <b>Balance as at December 31, 2008</b>         | \$ 307.0                   | \$ 191.1                    | \$ 353.5    | \$ (2.0)   | \$ (10.5)   | \$ 189.1                    | \$ 650.0    |
| Net income for 2009                            |                            | 1.0                         | 192.8       |  |             | 1.0                         | 192.8       |
| Related party transaction adjustment (Note 21) |                            |                             | 0.4         |  |             |                             | 0.4         |
| Other comprehensive income                     |                            |                             |             | 7.1  | 35.9        | 7.1                         | 35.9        |
| Dividends (Note 11)                            |                            |                             | (38.6)      |  |             |                             | (38.6)      |
| <b>Balance as at December 31, 2009</b>         | \$ 307.0                   | \$ 192.1                    | \$ 508.1    | \$ 5.1   | \$ 25.4     | \$ 197.2                    | \$ 840.5    |

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

# Consolidated Statement of Comprehensive Income

for the year ended December 31

(in millions of dollars)

|   | 2009     | 2008      |
|---|----------|-----------|
| <b>Net income</b>   | \$ 193.8 | \$ 34.5   |
| <b>Other comprehensive income</b>   |          |           |
| Unrealized gains (losses) on assets available for sale (net of taxes of \$9.6M (\$8.0M in 2008))  | 43.3     | (100.9)   |
| Reclassification of (gains) losses on assets available for sale included in net income (including a tax expense of \$0.6M (\$0.4M in 2008)) | (0.3)    | 21.7      |
| Total other comprehensive income  | 43.0     | (79.2)    |
| <b>Comprehensive income</b>   | \$ 236.8 | \$ (44.7) |
| <b>Allocation of comprehensive income</b>   |          |           |
| Attributable to participating policyholders   | \$ 8.1   | \$ (18.3) |
| Attributable to shareholder   | 228.7    | (26.4)    |
| <b>Comprehensive income</b>   | \$ 236.8 | \$ (44.7) |

# Consolidated Statement of Cash Flows

for the year ended December 31

(in millions of dollars)

|   | 2009            | 2008            |
|---|-----------------|-----------------|
| <b>Operating activities</b>   |                 |                 |
| Net income  | \$ 193.8        | \$ 34.5         |
| Items not affecting cash  |                 |                 |
| Change in actuarial liabilities   | 466.7           | (117.2)         |
| Gains, losses and amortization recognized in investment income  | (129.8)         | 452.3           |
| Future income taxes   | 38.9            | (8.4)           |
| Other   | 20.6            | 17.2            |
|   | 590.2           | 378.4           |
| Change in operating assets and liabilities  |                 |                 |
| Trading assets and liabilities  | (275.0)         | 1,252.1         |
| Net change in commitments under securities lending transactions,<br>repurchase agreements and securities sold short | (193.6)         | (1,427.6)       |
| Other   | 258.0           | (34.5)          |
| <b>Cash flows from operating activities</b>   | <b>379.6</b>    | <b>168.4</b>    |
| <b>Investing activities</b>   |                 |                 |
| Sales, maturities and repayments  |                 |                 |
| Stocks and bonds available for sale   | 305.6           | 368.5           |
| Real estate   | 3.4             | —               |
| Purchases and issuances   |                 |                 |
| Stocks and bonds available for sale   | (597.6)         | (220.8)         |
| Real estate   | (16.4)          | (42.7)          |
| Net change in money market instruments of more than three months  | (64.5)          | 154.8           |
| Net change in mortgage loans, policy loans and business loans   | 67.3            | (388.1)         |
| Net change in other loans and investments   | (113.8)         | 175.8           |
| Other   | (8.2)           | (6.9)           |
| <b>Cash flows from investing activities</b>   | <b>(424.2)</b>  | <b>40.6</b>     |
| <b>Financing activities</b>   |                 |                 |
| Dividends paid to common shareholder  | (14.1)          | (73.9)          |
| Reduction of long-term debt   | (35.7)          | (12.7)          |
| Other   | (2.0)           | 0.3             |
| <b>Cash flows from financing activities</b>   | <b>(51.8)</b>   | <b>(86.3)</b>   |
| <b>Increase (decrease) in cash and cash equivalents</b>   | <b>(96.4)</b>   | <b>122.7</b>    |
| Cash and cash equivalents – beginning of year   | 408.4           | 285.7           |
| <b>Cash and cash equivalents – end of year</b>  | <b>\$ 312.0</b> | <b>\$ 408.4</b> |
| Additional information  |                 |                 |
| Interest paid   | \$ 21.6         | \$ 26.9         |
| Income taxes paid net of (recoveries)   | \$ (51.6)       | \$ 72.8         |

Cash and cash equivalents include \$26.1M (\$22.8M in 2008) in cash and \$285.9M (\$385.6M in 2008) 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 | 2009              | 2008              |
|---------------------------------------|------|-------------------|-------------------|
| Investments                           |      |                   |                   |
| Bonds                                 |      | \$ 176.4          | \$ 113.3          |
| Mortgage loans                        |      | 14.9              | 18.6              |
| Stocks and mutual fund units          |      | 3,092.8           | 1,758.0           |
| Money market instruments              |      | 182.4             | 141.3             |
| Other assets                          |      | 120.8             | 115.4             |
| Liabilities                           |      | (85.2)            | (95.8)            |
| <b>Net assets of segregated funds</b> | 2    | <b>\$ 3,502.1</b> | <b>\$ 2,050.8</b> |

# Consolidated Statement of Changes in Net Assets of Segregated Funds

for the year ended December 31

(in millions of dollars)

|   | 2009              | 2008              |
|---|-------------------|-------------------|
| <b>Net assets of segregated funds - beginning of year</b> | \$ 2,050.8        | \$ 2,246.9        |
| <b>Additions</b>  |                   |                   |
| Amounts received from policyholders                       | 1,401.2           | 596.1             |
| Net investment income                                     | 90.6              | 67.6              |
| Net realized and unrealized gains on investments          | 417.8             | —                 |
|   | <b>1,909.6</b>    | <b>663.7</b>      |
| <b>Deductions</b>   |                   |                   |
| Withdrawals and redemptions                               | 418.5             | 344.1             |
| Net realized and unrealized losses on investments         | —                 | 486.0             |
| Management fees   | 39.8              | 29.7              |
|   | <b>458.3</b>      | <b>859.8</b>      |
| <b>Net assets of segregated funds - end of year</b>       | <b>\$ 3,502.1</b> | <b>\$ 2,050.8</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, 2009

(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 Caisses 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, mainly with respect to policy liabilities, the determination of the 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.

## Note 2 (continued)

**Significant Accounting Policies (continued)****Financial Instruments (continued)**

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 cumulative 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. An expense is recorded in 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 the fair value are recorded in net income.

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

- 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 investments 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 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 those occupied by the Company, are recorded at cost. This amount is increased quarterly 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 their 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 the rate of 3% per quarter using the declining balance method.

#### **d) Stocks**

Stocks are recorded at fair value, which is based on bid 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.

Up to 2008, reverse repurchase agreement and repurchase agreement transactions were offset, and the net balance was recorded on the balance sheet when the Company had a legally enforceable right to offset the recorded amounts and intended either to settle on a net basis or to realize the asset and settle the liability simultaneously. Subsequent to a change in the contract in 2009, the Company is no longer offsetting these transactions.

#### **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 hedging 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.

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, the credit risk and the yield curves. The fair value of derivative financial instruments is presented without taking into account the impact of master netting agreements.

#### **j) Hedging Activities**

The Company holds derivative financial instruments that allow it to apply hedge accounting. To use this type of accounting, the hedging relationship must be designated and documented at inception, and then throughout the life of the contract. The documentation must describe the Company's specific risk management strategy, the assets, liabilities or cash flows being hedged, and the method of assessing the effectiveness of the hedge. The derivative financial instrument must be highly effective to offset changes in the fair value or cash flows attributable to the risk being hedged.

Derivative financial instruments may be designated in a fair value or cash flow hedging relationship.

## Note 2 (continued)

**Significant Accounting Policies (continued)****Investments (continued)****j) Hedging Activities (continued)****Fair Value Hedging**

The Company uses hedge accounting as a hedge against changes in the fair value of certain assets available for sale. Changes in the fair value of the hedging derivative financial instrument and changes associated with the hedged risk are recognized in net investment income. Changes in the fair value associated with the risk not being hedged are recognized in other comprehensive income.

The hedging designation of a financial derivative instrument is discontinued in the following circumstances: the hedged item or hedging instrument is sold, matures or is cancelled; the hedging is no longer effective; or the Company terminates the hedge designation. When a hedging relationship is discontinued, hedge accounting ceases to be applied prospectively.

**Cash Flow Hedging**

In cash flow hedging transactions, gains and losses arising from the change in fair value of the effective portion of the derivative financial instrument are recorded in other comprehensive income until the hedged item is recognized in income. The change is then accounted for in net investment income. The ineffective portion of hedging transactions is immediately recognized as net investment income in the Statement of Income.

When a cash flow hedging relationship no longer qualifies for hedge accounting, the Company ceases to apply hedge accounting prospectively.

The Company does not use cash flow hedging relationships.

**Fixed assets**

Fixed assets, which include leasehold improvements, 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 spread 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 include computer software acquired or developed in house by the Company and the distribution networks. Software is amortized using the straight-line method over a 3- to 5-year period. Other intangible assets are amortized on a straight-line basis over a period of 20 to 40 years. They are tested for recoverability when events or changes in circumstances indicate that their carrying value may not be recoverable. If the carrying value exceeded their fair value, an impairment loss would be recorded.

**Actuarial Liabilities**

Actuarial liabilities 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 needs 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 component and contingency. Investment returns are dependent on the investment income expected from 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. These tests are 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 a 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 because 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 (asking price) 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 includes 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 established 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 agreements.

## Reinsurance

Premium income, payments to policyholders, actuarial liabilities and the change in actuarial liabilities relating to reinsured activities are accounted for net of amounts ceded to reinsurers.

## Income Taxes

The Company uses the liability method to calculate income taxes. This method requires that a future income tax asset or liability be determined for each temporary difference between the carrying value and tax value of the assets and liabilities. It also requires that this future income tax asset or liability be estimated based on the tax rate expected to be in effect on the anticipated realization or settlement date of these assets and liabilities. 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 costs of these benefits are 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.

Note 2 (continued)

## Significant Accounting Policies (continued)

### 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 accounted for in the actuarial liabilities of the Company's general funds.

Note 3

## Accounting Changes

### a) During the year

#### Goodwill and Intangible Assets

In February 2008, the Accounting Standards Board of Canada issued Section 3064, "Goodwill and Intangible Assets." This standard replaces Section 3062, "Goodwill and Other Intangibles" and Section 3450, "Research and Development Costs." Section 3064 establishes recognition, measurement, presentation and disclosure standards for goodwill after initial recognition and for intangible assets. With respect to goodwill, Section 3064 contains the same requirements as former Section 3062. Its application is retroactive to years beginning on or after October 1, 2008. Following the adoption of this new accounting policy, computer software, which was previously presented with fixed assets, was reclassified in intangible assets.

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

In January 2009, the Emerging Issues Committee issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities." This new EIC states that the entity's own credit risk, as well as the counterparty's credit risk, should be taken into account when determining the fair value of financial assets and financial liabilities, including derivative financial instruments. EIC-173 applies to financial statements ending in or after January 2009 and its retroactive application without restatement of prior financial statements is prescribed. The adoption of this EIC has had no impact on the fair value of financial instruments or the Company's income and financial position.

#### Financial Instruments - Disclosures

In June 2009, the Accounting Standards Board of Canada issued amendments to Section 3862, "Financial Instruments - Disclosures." These amendments require financial instruments measured at fair value to be presented according to a hierarchy based on the fair value measurement data. They apply to the annual financial statements of years ending after September 30, 2009. These amendments, which apply to disclosures in particular, have no impact on the Company's income. The new disclosure requirements are presented in Note 17.

#### Financial Instruments - Recognition and Measurement

In August 2009, the Accounting Standards Board of Canada issued amendments to Section 3855, "Financial Instruments - Recognition and Measurement." These amendments changed the definition of loans and receivables and of financial assets or liabilities held for trading. They also authorized the reversal of an impairment loss on loan instruments classified as available for sale and modified the standards concerning the depreciation of financial assets. The Company has applied these amendments retroactively to January 1, 2009.

The amendments also included an amendment concerning the treatment of derivatives embedded on reclassification of a financial asset, which applies to reclassifications on or after July 1, 2009.

These amendments had no impact on the Company's consolidated financial statements.

## b) Future Accounting Changes

### Financial Instruments

In June 2009, the Accounting Standards Board of Canada amended Section 3855, "Financial Instruments – Recognition and Measurement" in order to provide additional guidance in determining if a call, put, surrender or prepayment option embedded in a host debt instrument is closely related to the host instrument. This amendment will apply to financial statements relating to fiscal years beginning on or after January 1, 2011.

In June 2009, the Accounting Standards Board also provided new guidance regarding the effective interest rate to use on recognition of interest income on a financial asset that has become impaired. This amendment applies to fiscal years beginning on or after July 1, 2009.

The Company is currently analyzing the impact of these amendments, but does not expect them to have any material impact on its consolidated financial statements.

### Business Combinations

In January 2009, the Accounting Standards Board of Canada issued three new standards concerning business combinations. Section 1582, "Business Combinations", replaces former Section 1581 with the same name, while Section 1601, "Consolidated Financial Statements" and Section 1602, "Non-controlling Interests", replace Section 1600, "Consolidated Financial Statements." Section 1582 requires the acquirer of a business to account for the acquisition at the fair value of the business, as a whole, on the date control is obtained. Section 1601 deals with consolidation after the acquisition date and certain aspects of the consolidation on the acquisition date. Section 1602 provides guidance on the presentation of non-controlling interests following a business combination. These sections will be applied retrospectively to business combinations whose acquisition date falls within a fiscal period beginning on or after January 1, 2011. Early application is permitted provided all three sections are applied at the same time.

### 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 (IFRS) starting in 2011. Accordingly, the Company will adopt IFRS on January 1, 2011. Like its parent company, the Company will adopt the new standards on January 1, 2011. The Company launched its IFRS conversion project in the fall of 2007 and is currently analyzing the accounting impact of this conversion. A preliminary timetable has been established in order to deal with the impacts on the Company's information systems, internal controls and change management.

To ensure the conversion to the new IFRS, the Company has put an action plan in place to facilitate the implementation of the new standards and at the same time identify the challenges specific to its own activity sector.

In essence, the action plan consists in assessing the impact of the IFRS on the Company and making the necessary changes to its accounting policies, processes and information technology systems, while ensuring that the Company meets the deadlines of the IFRS implementation schedule. Based on the work performed to date, the implementation of IFRS is expected to bring about a certain number of changes.

The accounting changes will affect mainly the classification of insurance contracts, the methods used to account for investment and own-use property, segregated fund accounting and reinsurance contracts. The new standards will also introduce increased financial disclosure requirements.

The impact on business activities and on minimum capital requirements under the regulatory requirements are currently being assessed.

## Note 4

## Investments

## a) Investment Values

| 2009                              |                  |                                |                    |                       |                   |                     |            |                    |
|-----------------------------------|------------------|--------------------------------|--------------------|-----------------------|-------------------|---------------------|------------|--------------------|
|                                   | Held for trading | Designated as held for trading | Available for sale | Loans and receivables | Other             | Total balance sheet | Fair value |                    |
| Bonds                             |                  |                                |                    |                       |                   |                     |            |                    |
| Government                        | \$ 463.0         | \$ 4,523.4                     | \$ 1,071.8         | \$ —                  | \$ 17.0           | \$ 6,075.2          | \$         | \$ 6,076.2         |
| Corporate                         | 21.4             | 1,557.1                        | 38.1               | —                     | —                 | 1,616.6             |            | 1,616.7            |
|                                   | <b>484.4</b>     | <b>6,080.5</b>                 | <b>1,109.9</b>     | <b>—</b>              | <b>17.0</b>       | <b>7,691.8</b>      |            | <b>7,692.9</b>     |
| Mortgage loans and business loans |                  |                                |                    |                       |                   |                     |            |                    |
| Residential                       | —                | —                              | —                  | 2,401.5               | —                 | 2,401.5             |            | 2,467.9            |
| Commercial                        | —                | —                              | —                  | 843.5                 | —                 | 843.5               |            | 819.9              |
|                                   | <b>—</b>         | <b>—</b>                       | <b>—</b>           | <b>3,245.0</b>        | <b>—</b>          | <b>3,245.0</b>      |            | <b>3,287.8</b>     |
| Real estate                       | —                | —                              | —                  | —                     | 1,037.7           | 1,037.7             |            | 1,409.5            |
| Stocks                            | —                | 405.7                          | 298.2              | —                     | —                 | 703.9               |            | 704.2              |
| Cash and money market instruments | 27.3             | 89.3                           | 305.2              | —                     | 1.0               | 422.8               |            | 422.8              |
| Policy loans                      | —                | —                              | —                  | 106.1                 | —                 | 106.1               |            | 106.1              |
| Other loans and investments       |                  |                                |                    |                       |                   |                     |            |                    |
| Reverse repurchase agreements     | —                | —                              | —                  | 293.0                 | —                 | 293.0               |            | 293.0              |
| Derivative financial instruments  | 14.6             | —                              | —                  | —                     | —                 | 14.6                |            | 14.6               |
| Immigrant investor loans          | —                | —                              | —                  | 454.0                 | —                 | 454.0               |            | 479.2              |
| Other                             | —                | —                              | 18.2               | —                     | —                 | 18.2                |            | 18.2               |
|                                   | <b>\$ 526.3</b>  | <b>\$ 6,575.5</b>              | <b>\$ 1,731.5</b>  | <b>\$ 4,098.1</b>     | <b>\$ 1,055.7</b> | <b>\$ 13,987.1</b>  |            | <b>\$ 14,428.3</b> |
| Fair value                        | <b>\$ 526.3</b>  | <b>\$ 6,575.5</b>              | <b>\$ 1,732.0</b>  | <b>\$ 4,166.1</b>     | <b>\$ 1,428.4</b> |                     |            | <b>\$ 14,428.3</b> |

| 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                        | \$ 712.4         | \$ 6,132.6                     | \$ 1,429.2         | \$ 4,193.1            | \$ 1,383.0      |                     | \$ 13,850.3        |

93.6% of the bond portfolio (92.0% in 2008) consists of government bonds and bonds rated A or higher:

|              | 2009              | 2008              |
|--------------|-------------------|-------------------|
| Government   | \$ 6,075.2        | \$ 5,558.0        |
| AAA          | 417.9             | 580.1             |
| AA           | 359.9             | 302.0             |
| A            | 344.3             | 291.5             |
| BBB          | 441.3             | 403.5             |
| BB and lower | 53.2              | 183.8             |
|              | <b>\$ 7,691.8</b> | <b>\$ 7,318.9</b> |

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

|                               | 2009              | 2008              |
|-------------------------------|-------------------|-------------------|
| Due in one year or less       | \$ 522.3          | \$ 422.8          |
| Due in years two through five | 1,607.3           | 1,918.9           |
| Due in years six through ten  | 1,609.0           | 1,417.5           |
| Due after ten years           | 3,953.2           | 3,559.7           |
| <b>Total</b>                  | <b>\$ 7,691.8</b> | <b>\$ 7,318.9</b> |

The weighted average effective interest rate was 5.0% (4.2% in 2008) on bonds and 5.2% (5.3% in 2008) on mortgage loans and business loans.

Note 4 (continued)

# Investments (continued)

## b) Deferred Net Realized Gains

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

|  | 2009           | 2008           |
|--|----------------|----------------|
| <b>Deferred net realized gains - beginning of year</b> | \$ 45.5        | \$ 51.4        |
| Amortization of deferred net realized gains            | (5.2)          | (5.9)          |
| <b>Deferred net realized gains - end of year</b>       | <b>\$ 40.3</b> | <b>\$ 45.5</b> |

## c) Provisions for investments

Provisions for non-performing investments

|                                   | 2009          |               |               | 2008           |               |                |
|-----------------------------------|---------------|---------------|---------------|----------------|---------------|----------------|
|                                   | Balance       | Provision     | Net Balance   | Balance        | Provision     | Net Balance    |
| Bonds                             | \$ —          | \$ —          | \$ —          | \$ 114.0       | \$ —          | \$ 114.0       |
| Mortgage loans and business loans | 6.4           | 6.1           | 0.3           | 6.8            | 5.0           | 1.8            |
|                                   | <b>\$ 6.4</b> | <b>\$ 6.1</b> | <b>\$ 0.3</b> | <b>\$120.8</b> | <b>\$ 5.0</b> | <b>\$115.8</b> |

Interest totalling \$0.8M (\$2.3M in 2008) was recognized in income for the year concerning these investments.

## Monitoring of provisions for non-performing investments

|  | 2009          | 2008          |
|--|---------------|---------------|
| <b>Balance - beginning of year</b>                                       | <b>\$ 5.0</b> | \$ 4.7        |
| Net provisions for non-performing investments                            | 1.1           | 0.3           |
| Write offs of provisions upon the disposal of non-performing investments | —             | —             |
| <b>Balance - end of year</b>   | <b>\$ 6.1</b> | <b>\$ 5.0</b> |

## Term Asset-Backed Notes

As at December 31, 2008, the Company's Asset-Backed Commercial Paper (ABCP) holdings were valued at \$114.0M and were subject to the Montréal Accord restructuring plan. After they were converted into Term Asset-Backed Notes, the majority of these securities were ceded to an affiliated company on April 1, 2009. Losses in the amount of \$6.8M (\$53.7M in 2008) were recorded on these securities.

**d) Net Investment Income**

| 2009                               |                                 |                    |                 |                 |
|------------------------------------|---------------------------------|--------------------|-----------------|-----------------|
|                                    | Held for trading <sup>(1)</sup> | Available for sale | Other           | Total           |
| Bonds                              |                                 |                    |                 |                 |
| Interest                           | \$ 304.1                        | \$ 42.7            | \$ 0.8          | \$ 347.6        |
| Net losses                         | (39.6)                          | 2.2                | —               | (37.4)          |
| Mortgage loans and business loans  | —                               | —                  | 166.8           | 166.8           |
| Real estate <sup>(2)</sup>         | —                               | —                  | 116.7           | 116.7           |
| Stocks                             |                                 |                    |                 |                 |
| Dividends                          | 7.8                             | 4.2                | —               | 12.0            |
| Net losses                         | 62.0                            | (11.3)             | —               | 50.7            |
| Cash and money market instruments  | 1.0                             | 1.1                | —               | 2.1             |
| Policy loans                       | —                               | —                  | 5.8             | 5.8             |
| Other loans and investments        | 100.7                           | (0.3)              | 17.1            | 117.5           |
| Investment management fees         | —                               | —                  | (32.3)          | (32.3)          |
| <b>Total net investment income</b> | <b>\$ 436.0</b>                 | <b>\$ 38.6</b>     | <b>\$ 274.9</b> | <b>\$ 749.5</b> |

| 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> |

|   | 2009            | 2008              |
|---|-----------------|-------------------|
| Investment income   | \$ 639.6        | \$ 398.2          |
| Gains (losses) on investments<br>matched to actuarial liabilities | 109.9           | (499.6)           |
| <b>Total net investment income</b>                                | <b>\$ 749.5</b> | <b>\$ (101.4)</b> |

(1) Includes gains and losses of \$98.0M ((\$229.2M) in 2008) on assets held for trading and gains and losses of \$16.8M ((\$324.6M) in 2008) on assets designated as held for trading.  
(2) Real estate income is presented net of operating costs of \$116.0M (\$113.1M in 2008).

**e) Non-Derecognized Transferred Financial Assets**

The Company entered into repurchase agreements and securities lending transactions under which it transferred 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 the transferred financial assets is \$1,065.5M (\$1,308.9M in 2008).

## 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 market views.

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 by the maximum amount of acceptable risk it is allowed to manage.

The use of interest rate contracts to manage matching allows the Company to control its exposure to interest rate fluctuations while making it possible to realign its business segments and ensure the achievement of 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, 2009 and 2008. The fair value is estimated and compared with prices obtained from counterparties. The fair value takes into account accrued income.

## 2009

|   | 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>Held for trading</b>                       |                  |                 |                   |                   |                |                  |                        |                      |
| Interest rate contracts                       | \$ 151.6         | \$ 415.3        | \$ 25.0           | \$ 591.9          | \$ 1.7         | \$ (17.3)        | \$ 3.5                 | \$ 0.7               |
| Credit risk contracts                         | 70.9             | 347.5           | —                 | 418.4             | 4.0            | (58.6)           | 52.8                   | 10.6                 |
| Foreign exchange contracts                    | 129.3            | 15.6            | —                 | 144.9             | 3.1            | 3.1              | 5.2                    | 1.0                  |
| Total return swaps                            | 32.8             | 9.6             | 1.3               | 43.7              | 3.3            | (4.6)            | 2.2                    | 0.4                  |
| Stock index futures contracts                 | 157.5            | —               | —                 | 157.5             | —              | (2.1)            | —                      | —                    |
|   | <b>542.1</b>     | <b>788.0</b>    | <b>26.3</b>       | <b>1,356.4</b>    | <b>12.1</b>    | <b>(79.5)</b>    | <b>63.7</b>            | <b>12.7</b>          |
| <b>Designated as fair value hedging items</b> |                  |                 |                   |                   |                |                  |                        |                      |
| Foreign exchange contracts <sup>(1)</sup>     | 114.9            | —               | —                 | 114.9             | 2.5            | 2.5              | 3.7                    | 0.7                  |
|   | <b>\$ 657.0</b>  | <b>\$ 788.0</b> | <b>\$ 26.3</b>    | <b>\$ 1,471.3</b> | <b>\$ 14.6</b> | <b>\$ (77.0)</b> | <b>\$ 67.4</b>         | <b>\$ 13.4</b>       |

(1) The Company recorded a gain of \$0.5M (loss of \$3.8M in 2008) from the ineffective portion of its fair value hedges. These amounts are recognized in net investment income.

## 2008

|   | 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>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                  |
|   | 530.3            | 973.1        | 37.9              | 1,541.3    | 19.2       | (171.6)    | 98.8                   | 19.7                 |
| <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                  |
|   | \$ 596.3         | \$ 973.1     | \$ 37.9           | \$ 1,607.3 | \$ 20.1    | \$ (170.7) | \$ 101.2               | \$ 20.0              |

(1) The Company recorded a gain of \$0.5M (loss of \$3.8M in 2008) from the ineffective portion of its fair value hedges. These amounts are recognized in net investment income.

## Note 6

## Other Assets

|                               | Note | 2009     | 2008     |
|-------------------------------|------|----------|----------|
| Premiums receivable           |      | \$ 188.4 | \$ 179.3 |
| Amounts receivable and other  |      | 165.9    | 178.2    |
| Accrued net investment income |      | 72.6     | 70.6     |
| Future income taxes           | 14c  | 28.6     | —        |
| Fixed assets                  |      | 17.3     | 16.5     |
| Intangible assets             |      | 11.6     | 11.1     |
|                               |      | \$ 484.4 | \$ 455.7 |

The Statement of Income includes the amortization expenses associated with fixed assets and intangible assets in the amounts of \$5.5M and \$1.3M, respectively (\$5.6M and \$1.2M in 2008).

The fair value of financial instruments included in 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:

| 2009  |                   |                      |                   |                    |
|---|-------------------|----------------------|-------------------|--------------------|
|   | Group Insurance   | Individual Insurance | Savings           | Total              |
| Gross actuarial liabilities                                   |                   |                      |                   |                    |
| Non-participating policies                                    | \$ 2,345.2        | \$ 2,888.5           | \$ 3,965.9        | \$ 9,199.6         |
| Participating policies  | 24.5              | 1,692.1              | 134.3             | 1,850.9            |
| Amounts transferred under reinsurance treaties                | 180.0             | 285.4                | 11.7              | 477.1              |
| <b>Net actuarial liabilities</b>                              | <b>\$ 2,189.7</b> | <b>\$ 4,295.2</b>    | <b>\$ 4,088.5</b> | <b>\$ 10,573.4</b> |
| <b>Composition of assets matched to actuarial liabilities</b> |                   |                      |                   |                    |
| Bonds   | 1,210.8           | 2,860.9              | 1,893.8           | 5,965.5            |
| Mortgage loans and business loans                             | 771.1             | 478.6                | 1,834.3           | 3,084.0            |
| Real estate   | —                 | 355.8                | —                 | 355.8              |
| Stocks  | 32.6              | 342.4                | —                 | 375.0              |
| Other   | 175.2             | 257.5                | 360.4             | 793.1              |
|   | <b>\$ 2,189.7</b> | <b>\$ 4,295.2</b>    | <b>\$ 4,088.5</b> | <b>\$ 10,573.4</b> |

| 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   | 1,064.6           | 2,723.9              | 1,844.3           | 5,632.8            |
| Mortgage loans and business loans                             | 744.8             | 532.7                | 1,897.2           | 3,174.7            |
| 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> |

The fair value of assets matched to actuarial liabilities is \$10,729.4M (\$10,318.4M in 2008).

## b) Actuarial Assumptions and Sensitivity of Assumptions to Changes

The nature of the key assumptions used to calculate the actuarial liabilities and the methodology used to establish these assumptions 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 would normally be recognized at inception of policies. 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 benchmark due to low volume, the mortality assumption also takes into account industry studies and tables. A 1% increase in the most probable assumption would increase actuarial liabilities by approximately \$13.0M.

In the case of annuities, the Company also examines its experience, which provides a sufficient degree of credibility to establish the main basis for the assumptions but, unlike insurance, an improvement in the future mortality rates is considered. A 1% decrease in the most probable assumption would increase actuarial liabilities by approximately \$10.3M.

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 \$11.0M.

## Contract Lapse Rates

Policyholders can terminate their policies before the contract period expires by discontinuing premium payments. An increase in the lapse rates of certain insurance products with cash surrender values will have an adverse effect on the Company if its actuarial liabilities are lower than the cash 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 \$83.6M.

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 market 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 the projection of 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, 2009, the durations of assets and liabilities were equal. In 2008, they differed by 0.1 years. Since the valuation method already recognizes the impact of possible changes in interest rates, a sudden 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 \$305.1M provision (\$296.7M in 2008) 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, claims processing and settlement, 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 \$29.6M.

## Participating Policyholder Dividends

Actuarial liabilities include 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.

## Note 7 (continued)

**Actuarial Liabilities** (continued)**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 its actuarial liabilities:

**Insurance and Reinsurance Risk**

In the normal course of business, the Company is exposed to insurance risk, which takes two forms: product design and pricing risk and underwriting and commitment 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 not prove to be accurate. The Company applies strict pricing standards and policies, and regularly compares assumptions with actual results. Certain products also allow for a price adjustment based on whether or not assumptions are borne out.

Underwriting and commitment 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 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 does business with many different reinsurers, the vast majority of which are duly licensed. These reinsurers meet credit standards and are governed by the same regulatory authorities as the Company. Such reinsurance treaties do not release the Company from its policyholder obligations.

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

|          | 2009     | 2008     |
|----------|----------|----------|
| Premiums | \$ 157.2 | \$ 149.3 |
| Benefits | \$ 102.0 | \$ 84.4  |

**Risk Related to Segregated Funds**

Actuarial liabilities also include sufficient amounts to pay the minimum guarantees under segregated fund contracts. 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:

|                                    | 2009               | 2008               |
|------------------------------------|--------------------|--------------------|
| <b>Balance - beginning of year</b> | \$ 10,114.4        | \$ 10,207.8        |
| Normal change due to:              |                    |                    |
| Revised actuarial assumptions      | 31.0               | 2.3                |
| Passage of time                    | 435.7              | (119.5)            |
|                                    | 466.7              | (117.2)            |
| Other changes                      | (7.7)              | 23.8               |
| <b>Balance - end of year</b>       | <b>\$ 10,573.4</b> | <b>\$ 10,114.4</b> |

In 2009, the main changes to the actuarial assumptions involved mortality rates, interest rates and lapses whereas in 2008 they involved operating expenses, mortality rates and lapses.

## Note 8

# Other Liabilities

|   | Note | 2009              | 2008              |
|---|------|-------------------|-------------------|
| Accounts payable, accrued liabilities and other             |      | \$ 403.6          | \$ 242.1          |
| Commitments under securities lending transactions           |      | 501.8             | 277.6             |
| Repurchase agreements                                       |      | 392.0             | 458.3             |
| Securities sold short                                       |      | 138.5             | 490.0             |
| Derivative financial instruments with a negative fair value |      | 91.6              | 190.8             |
| Income and other taxes payable                              |      | 90.3              | 24.4              |
| Future income taxes   | 14c  | 53.6              | 21.2              |
| Dividends payable   |      | 56.0              | 31.5              |
|   |      | <b>\$ 1,727.4</b> | <b>\$ 1,735.9</b> |

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

## Note 9

# Long-Term Debt

|   | 2009    | 2008    |
|---|---------|---------|
| Mortgage loans related to various real estate investments bearing interest at rates varying from 4.7% to 11.0%, with a weighted average of 6.12% (6.11% in 2008). | \$ 69.5 | \$ 73.1 |

The fair value of these debts, determined on a discounted contractual cash flow basis at current market interest rates for loans with similar terms and risks, is \$67.3M (\$70.5M in 2008).

These mortgage loans are secured by assets with a carrying value of \$138.8M (\$140.2M in 2008).

The interest expense for the long-term debt was \$4.0M (\$4.6M in 2008) 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:

|                | 2010   | 2011   | 2012   | 2013   | 2014   | Total   |
|----------------|--------|--------|--------|--------|--------|---------|
| Long-term debt | \$ 2.5 | \$ 2.8 | \$ 3.0 | \$ 3.1 | \$ 3.3 | \$ 14.7 |

## Note 10

# Interest in a Joint Venture

The Company holds an interest in a joint venture active primarily 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:

|                             | 2009      | 2008      |
|-----------------------------|-----------|-----------|
| Bonds                       | \$ 16.9   | \$ 18.3   |
| Other assets                | 1.2       | 0.9       |
| Mortgage loans              | (15.8)    | (16.4)    |
| Deferred net realized gains | (24.9)    | (28.1)    |
|                             | \$ (22.6) | \$ (25.3) |

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 is (\$0.6M) in 2009 ((\$0.6M) in 2008).

## 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

|   | 2009            | 2008            |
|---|-----------------|-----------------|
| <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 are 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.

Dividend payments of \$9.5M (\$9.5M in 2008) on preferred shares are carried as an interest expense and recorded in operating expenses.

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. This amount was deducted from the year's dividends.

## Note 12

# Accumulated Other Comprehensive Income

Accumulated other comprehensive income comprises the following items:

|   | 2009           | 2008             |
|---|----------------|------------------|
| Unrealized gains (unrealized losses) on assets available for sale |                |                  |
| Bonds   | \$ 53.4        | \$ 57.9          |
| Stocks  | (2.7)          | (55.8)           |
| Other loans and investments                                       | (2.1)          | (5.5)            |
|   | 48.6           | (3.4)            |
| Related taxes   | (18.1)         | (9.1)            |
| <b>Accumulated other comprehensive income</b>                     | <b>\$ 30.5</b> | <b>\$ (12.5)</b> |

## Note 13

# Restructuring Costs

During the year, Desjardins Group set up a new organizational structure that incorporates some of the Company's operations. This restructuring is part of the development plan that Desjardins Group launched in the fall of 2008.

The Company recorded an amount of \$6.4M in the Consolidated Statement of Income for 2009 for premiums, severance benefits, professional and other fees in conjunction with the implementation of this new organizational structure.

## Note 14

# Income Taxes

## a) Income Tax Expense

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

|                      | 2009           | 2008           |
|----------------------|----------------|----------------|
| Current income taxes | \$ 17.0        | \$ 30.0        |
| Future income taxes  | 38.9           | (8.4)          |
|                      | <b>\$ 55.9</b> | <b>\$ 21.6</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 established by applying the combined statutory tax rate for the following reasons:

|  | 2009           | 2008           |
|--|----------------|----------------|
| Income taxes on operating income at the combined statutory rate of 31.32% in 2009 (31.45% in 2008) | \$ 78.2        | \$ 17.7        |
| Change due to the following items:   |                |                |
| Net investment income and other non-taxable or non-deductible items (net)                          | (10.2)         | 6.2            |
| Impact of new income tax rates   | (8.3)          | —              |
| Other  | (3.8)          | (2.3)          |
|  | <b>\$ 55.9</b> | <b>\$ 21.6</b> |

## c) Future Income Taxes

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

|  | 2009             | 2008             |
|--|------------------|------------------|
| Investments                                      | \$ (311.8)       | \$ (504.4)       |
| Policy liabilities                               | 230.7            | 472.7            |
| Losses other than capital losses carried forward | 35.1             | —                |
| Capital losses carried forward                   | 6.2              | 1.5              |
| Other  | 14.8             | 9.0              |
| <b>Net future income taxes</b>                   | <b>\$ (25.0)</b> | <b>\$ (21.2)</b> |

As at December 31, 2009, the Company had \$116.5M (\$0.0M in 2008) in non-capital losses for which a future tax asset of \$35.1M has been recovered. These non-capital losses will expire in 2028.

## Note 15

# 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.

This policy defines a target range within which the Company's capitalization ratio must remain. The upper limit of this range represents the optimum level of capitalization. At this level, the shareholder is not required to maintain unused capital in the Company. The lower limit of the range ensures that the Company has a level of capital high enough to deal with adverse events and still remain financially strong.

The Company's financial strength is tested at least once a year through Dynamic Capital Adequacy Testing. This test allows the Company to assess the adequacy of its capital under adverse condition scenarios. The results demonstrate whether maintaining the capitalization ratio within the target range established by the Capital Management Policy allows the Company to deal with various adverse events and still maintain its financial strength at a satisfactory level.

The establishment of a business plan also helps to ensure that the Company is maintaining its capital ratio at a high enough level to be able to seize business opportunities when they arise.

Every year, the results of these tests are presented to the Board of Directors and can be used to guide them in their decision-making.

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 this guideline, consists of capital and differs from the equity on the balance sheet. It includes two tiers:

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.

|                                 | 2009             | 2008              |
|---------------------------------|------------------|-------------------|
| Tier 1 capital                  | \$ 971.1         | \$ 805.5          |
| Tier 2 capital                  | 350.4            | 338.7             |
| Total Tier 1 and Tier 2 capital | 1,321.5          | 1,144.2           |
| Less deductions and adjustments | —                | 9.4               |
| <b>Total capital available</b>  | <b>\$1,321.5</b> | <b>\$ 1,134.8</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, 2009, 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 \$40.0M (\$40.4M in 2008) was allocated to appropriated policyholders' equity and an amount of \$274.4M (\$203.8M in 2008) to appropriated retained earnings.

## Note 16

# Financial Instrument 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 has adopted a risk-management governance structure by creating a risk management team as well as integrated risk management and operational risk management committees, which are responsible for ensuring that the policies and systems used to maintain risk at an acceptable level meet the expectations of the Board of Directors and the Company's Management. 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 controls in place and submits status reports that provide appropriate recommendations.

In addition to the risks inherent 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 on- 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 the portfolio 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 generally 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 entitled to offset its payables to a counterparty against its receivables when the specified terms of payment have not been honoured.

## Note 16 (continued)

**Financial Instrument Risk Management** (continued)**Risk Control (continued)****a) Credit Risk (continued)**

The maximum credit risk exposure on the financial instruments used by the Company is as follows:

|                                    | 2009               | 2008               |
|------------------------------------|--------------------|--------------------|
| <b>Carried on balance sheet</b>    |                    |                    |
| Bonds and money market instruments | \$ 8,088.5         | \$ 7,750.7         |
| Mortgage loans and business loans  | 3,245.0            | 3,312.0            |
| Policy loans                       | 106.1              | 107.7              |
| Other loans and investments        | 761.6              | 652.9              |
| Other assets                       | 343.8              | 330.6              |
|                                    | <b>\$ 12,545.0</b> | <b>\$ 12,153.9</b> |
| <b>Off-balance sheet</b>           |                    |                    |
| Credit commitments                 | 35.7               | 55.8               |
| <b>Total</b>                       | <b>\$ 12,580.7</b> | <b>\$ 12,209.7</b> |

**b) Liquidity Risk**

Liquidity risk is the risk that the Company will be unable to amass sufficient funds to meet an obligation that could be settled with a payment in cash or another financial asset, whether it is on- 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 ensure 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 the sources of financing available in order of priority with their costs. The Company also has access to operating lines of credit to meet its temporary working capital needs. None of these lines of credit had been used as at December 31, 2009.

As at December 31, 2009, the contractual maturities for financial liabilities (with the exception of policyholder liabilities, of which the liquidity risk is covered by the matching policy described in Note 7b and by the liquidity policy) and for loan commitments are as follows:

| 2009   |                     |                 |                      |                   |
|--|---------------------|-----------------|----------------------|-------------------|
|  | Less than<br>1 year | 1 to 5 years    | More than<br>5 years | Total             |
| Non-derivative financial instruments   |                     |                 |                      |                   |
| Long-term debt   | \$ 6.2              | \$ 52.0         | \$ 26.6              | \$ 84.8           |
| Commitments under securities lending<br>transactions and repurchase agreements | 893.8               | —               | —                    | 893.8             |
| Securities sold short  | 138.9               | —               | —                    | 138.9             |
| Liabilities for preferred shares   | 9.5                 | 38.1            | 284.5                | 332.1             |
| Other liabilities  | 386.0               | 4.7             | 17.9                 | 408.6             |
| Derivative financial instruments <sup>(1)</sup>                                |                     |                 |                      |                   |
| Settled on a gross basis <sup>(1)</sup>  | 239.7               | 15.8            | —                    | 255.5             |
| Settled on a net basis   | 23.8                | 27.0            | 3.5                  | 54.3              |
| Off-balance sheet  |                     |                 |                      |                   |
| Loan commitments   | 35.7                | —               | —                    | 35.7              |
|  | <b>\$ 1,733.6</b>   | <b>\$ 137.6</b> | <b>\$ 332.5</b>      | <b>\$ 2,203.7</b> |

(1) This amount does not include a contractual amount of \$262.2M receivable on these instruments.

| 2008   |                     |                 |                      |                   |
|--|---------------------|-----------------|----------------------|-------------------|
|  | Less than<br>1 year | 1 to 5 years    | More than<br>5 years | Total             |
| Non-derivative financial instruments   |                     |                 |                      |                   |
| Long-term debt   | \$ 8.7              | \$ 58.0         | \$ 25.6              | \$ 92.3           |
| Commitments under securities lending<br>transactions and repurchase agreements | 736.0               | —               | —                    | 736.0             |
| Securities sold short  | 495.6               | —               | —                    | 495.6             |
| Liabilities for preferred shares   | 9.5                 | 38.1            | 284.5                | 332.1             |
| Other liabilities  | 232.7               | 5.5             | 12.3                 | 250.5             |
| 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             |
| Off-balance sheet  |                     |                 |                      |                   |
| Loan commitments   | 43.3                | 12.5            | —                    | 55.8              |
|  | <b>\$ 1,938.2</b>   | <b>\$ 149.7</b> | <b>\$ 325.4</b>      | <b>\$ 2,413.3</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, such as interest rates, exchange rates, stock market prices and any other market risk but credit spreads and volatility in particular.

### 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. Compliance with the policy, which clearly defines the acceptable levels of risk, is ensured with regular controls. Each business segment's assets are managed in relation to its liabilities and invested in instruments that meet the requirements of the related 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.

## Note 16 (continued)

**Financial Instrument Risk Management (continued)****Risk Control (continued)****c) Market Risk (continued)****i) Exchange Risk Management and Framework (continued)**

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

|                               | 2009      | 2008      |
|-------------------------------|-----------|-----------|
| 1% increase in interest rates | \$ 25.8   | \$ 28.8   |
| 1% decrease in interest rates | \$ (38.2) | \$ (42.2) |

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 anticipate 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, 2009, the one-day VAR of the active management portfolio is \$0.02M compared to \$0.38M, the maximum amount permitted by the Company.

**Sensitivity Analysis**

Changes in the parameters influencing the value of the active management portfolio generally arise under all market conditions.

To determine the portfolio's exposure to these changes in the risk factors, a simulation program has been created, in which deterministic shocks are applied to the relevant risk parameters. A measurement of the sensitivity of the value of the portfolio associated with the changes of these parameters is performed regularly using this simulation program. The results of these simulations are analyzed in order to see how the management portfolio behaves in response to these changes. The 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 the 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 Company's policy on exchange risk requires that investments in foreign currencies used as hedges against foreign exchange risk be limited to 10% of the total amount of the matched and unmatched portfolios.

Investments without foreign currency hedging are limited to 7.5% of the unmatched portfolio and to 2.5% of the matched portfolio's assets.

The Company uses foreign exchange contracts to keep this risk within the prescribed limits. As at December 31, 2009, the Company deemed this risk to be insignificant.

**iii) Market-based Price Risk Management and Framework**

Stock market price fluctuations could have an impact on the Company's income, particularly with regard to products with capital guarantees whose value is influenced by market fluctuations. A hedging program was put in place in August 2009 in order to mitigate the effects of market volatility.

A 10% increase in stock prices would result in a \$3.2M increase in net income and a 10% decrease in stock prices would result in a \$5.4M decrease in the Company's net income.

**iv) Other Market Risk Management and Framework**

In the normal course of business, the Company is exposed to insurance risk, which is described in Note 7b.

In addition to the previously mentioned risks, the Company's unmatched portfolio is managed as a diversified portfolio comprising several asset classes. The risk exposure of this portfolio associated with positions in these different classes is managed using two mechanisms:

1. Concentration limits to the portfolio's different asset classes.
2. Deviation-from-target limits to the portfolio's different asset classes.

**Note 17****Fair Value of Financial Instruments**

The Company accounts for certain financial instruments at fair value.

Fair value is based on market prices when available. When there is no market to trade the financial instrument or a similar financial instrument, the Company establishes fair value using discounted cash flow valuation techniques, by incorporating observable and non-observable market data.

The Company has classified the fair value measurement of each class of financial instrument according to a three-level hierarchy that reflects the significance of the data used to perform these valuations.

**Level 1:** Quoted prices in active markets for identical assets or liabilities. Active markets are characterized by a high transaction volume. Public corporation stocks held by the Company are included in this class.

**Level 2:** Inputs other than the quoted prices included in Level 1 that are observable, either directly or indirectly. This class includes financial instruments whose fair value was established by valuation techniques that use observable data or data that can be corroborated by observable data.

**Level 3:** Inputs relative to the assets or liabilities that are not based on observable market data. This level includes financial assets and liabilities whose fair value was established by valuation techniques based on Company estimates.

Observable data are derived from independent sources. Non-observable data represent the Company's best estimates as to the assumptions that should be used by the markets to determine the fair value of financial assets and liabilities as at December 31, 2009.

The fair value measurement must be classified based on the lowest level of input that is significant to the fair value measurement in its entirety.

The following table presents the financial assets and liabilities measured at fair value as at December 31, 2009.

| 2009  |                   |                   |                 |                   |
|---|-------------------|-------------------|-----------------|-------------------|
|   | Level 1           | Level 2           | Level 3         | Total             |
| <b>Financial assets</b>                                   |                   |                   |                 |                   |
| Bonds   |                   |                   |                 |                   |
| Government  | \$ 5,687.2        | \$ 367.7          | \$ —            | \$ 6,054.9        |
| Corporate   | —                 | 1,162.5           | 453.2           | 1,615.7           |
| Stocks  | 694.2             | 0.1               | 9.0             | 703.3             |
| Cash flow and money market instruments                    | 26.1              | 395.7             | —               | 421.8             |
| Derivative financial instruments                          | 0.6               | 14.0              | —               | 14.6              |
| <b>Total financial assets measured at fair value</b>      | <b>\$ 6,408.1</b> | <b>\$ 1,940.0</b> | <b>\$ 462.2</b> | <b>\$ 8,810.3</b> |
| <b>Financial liabilities</b>                              |                   |                   |                 |                   |
| Securities sold short                                     | 138.5             | —                 | —               | 138.5             |
| Derivative financial instruments                          | 2.1               | 89.5              | —               | 91.6              |
| <b>Total financial liabilities measured at fair value</b> | <b>\$ 140.6</b>   | <b>\$ 89.5</b>    | <b>\$ —</b>     | <b>\$ 230.1</b>   |

## Note 17 (continued)

**Fair Value of Financial Instruments (continued)**

The classification of financial instruments was not modified during the year.

The following table presents the changes in the fair value of financial assets and liabilities classified as Level 3, for the year ended December 31, 2009.

| 2009  |                 |
|---|-----------------|
| <b>Fair value as at January 1, 2009</b>     | <b>\$ 668.7</b> |
| Total gains and losses                      |                 |
| Presented in net investment income          | (19.8)          |
| Presented in other comprehensive income     | (0.6)           |
| Purchases, sales, issuances and settlements | (186.1)         |
| <b>Fair value as at December 31, 2009</b>   | <b>\$ 462.2</b> |

## Note 18

**Commitments, Guarantees and Contingencies****a) Contingent Liabilities**

The Company may have lawsuits brought against it in the normal course of its insurance, savings and insurance product distribution, and investment-related business activities. Such lawsuits have in the past been settled without generating expenses in excess of the amounts provided for this purpose, in actuarial liabilities in particular. While it is not possible at this time to estimate the outcome of various proceedings and litigation currently under way or about to be undertaken, the Company does not believe that it will incur any significant additional loss or expense in relation to the estimated liabilities.

**b) Contracts**

Payments under the Company's various contractual obligations, mainly in respect of leases and various services over the coming fiscal years, total \$41.9M and break down as follows: \$12.4M in 2010, \$5.4M in 2011, \$3.3M in 2012, \$2.0M in 2013, \$0.9M in 2014 and \$17.9M thereafter.

**c) Letters of Credit**

In the normal course of business, the Company issues letters of credit. As at December 31, 2009, letters of credit in the amount of \$3.8M were outstanding.

**d) Contractual Guarantees**

The significant guarantees granted by the Company and in force as at December 31, 2009 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.

These swaps mature on various dates until 2014. As at December 31, 2009, the maximum amount that could be disbursed under this guarantee totalled \$399.8M (\$614.7M in 2008).

### Indemnification Agreements

In the normal course of business, the Company has entered into a number of contracts containing indemnification provisions, such as purchasing contracts, service agreements, outsourcing agreements, lease agreements, netting agreements and asset or stock transfer contracts. 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 caused by 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. Due to the nature of these indemnities, it is not possible 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.

### e) Securities Lending

In the normal course of its investment activities, the Company lends securities. All loans 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 low since the Company does business with only 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 \$179.5M (\$330.9M in 2008), for which securities were received as collateral, were not accounted for in the balance sheet.

### f) 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:

|  | 2009            | 2008             |
|--|-----------------|------------------|
| Financial assets pledged as collateral for the following transactions:                   |                 |                  |
| Derivative transactions  | \$ 84.0         | \$ 99.4          |
| Repurchase agreements, reverse repurchase agreements and securities lending transactions | 889.7           | 984.0            |
| Other transactions   | 23.3            | 19.8             |
|  | <b>\$ 997.0</b> | <b>\$1,103.2</b> |

### g) Financial Assets Received as Collateral

As at December 31, 2009, 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 \$293.5M (\$576.1M in 2008). The fair value of the financial assets accepted as collateral, which were sold or repledged as collateral, was \$138.3M (\$559.5M in 2008).

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

## Note 19

# 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. A preliminary actuarial valuation was performed on December 31, 2009, in order to begin covering the significant solvency deficit with the payment of special contributions at the beginning of 2010. The capitalization deficit has been estimated at \$526.6M and the solvency deficit at \$1,917.7M. The official actuarial valuation will be filed with the Régie des rentes du Québec in March 2010. If necessary, the special contributions will be adjusted. To eliminate the solvency deficit of \$1,917.7M as at December 31, 2009, special payments will be required from January 1, 2010 to December 31, 2016, or until a subsequent actuarial valuation shows that the Plan no longer has capitalization and solvency deficits. Expenses related to the Plan, including the Company's share of the special payments, totalled \$20.2M in 2009 (\$19.2M in 2008).

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 \$14.9M (\$15.1M in 2008) was recorded in other liabilities. The expense for the year totalled \$0.4M (\$0.4M in 2008).

## Note 20

## 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 \$19.3M (\$18.9M in 2008), \$13.3M after taxes (\$12.9M in 2008), as a reduction to operating expenses.

## Note 21

## Related Party Transactions

### Related Party Transactions in the normal course of business

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:

|                           | 2009            | 2008             |
|---------------------------|-----------------|------------------|
| <b>Revenue</b>            |                 |                  |
| Premium income            | \$ 156.8        | \$ 142.6         |
| Net investment income     | 40.6            | (163.2)          |
|                           | <b>\$ 197.4</b> | <b>\$ (20.6)</b> |
| <b>Operating expenses</b> | <b>\$ 141.6</b> | <b>\$ 120.3</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.

The Company's related party account balances included in the balance sheet as at December 31 are as follows:

|                                   | 2009            | 2008            |
|-----------------------------------|-----------------|-----------------|
| <b>Assets</b>                     |                 |                 |
| Bonds                             | \$ 17.1         | \$ 0.7          |
| Stocks                            | 12.3            | 85.7            |
| Cash and money market instruments | 197.4           | 372.5           |
| Other loans and investments       | 107.0           | —               |
| Other assets                      | 16.9            | 15.2            |
|                                   | <b>\$ 350.7</b> | <b>\$ 474.1</b> |
| <b>Liabilities</b>                |                 |                 |
| Other liabilities                 | \$ 549.2        | \$ 71.6         |
| Long-term debt                    | 10.3            | 12.0            |
| Liabilities for preferred shares  | 275.0           | 275.0           |
|                                   | <b>\$ 834.5</b> | <b>\$ 358.6</b> |

### Related party transactions not in the normal course of business

On April 1, 2009, the Company sold the majority of its Term Asset-Backed Notes worth \$102.7M to 9186-8034 Québec inc., a subsidiary of the FCDQ. The selling price of the notes represented the estimated fair value of these securities and corresponded to the carrying value of the Term Asset-Backed Notes traded.

On December 29, 2009, the Company purchased the shares of 9186-4132 Québec inc., a corporation under common control, from another corporation under common control for an amount of \$0.1M. As this transaction occurred outside the normal course of business, it was measured at the book value of the net assets acquired. These assets were composed of a future tax asset of \$31.3M and a loan of an equal amount with a subsidiary company. On December 29, the new subsidiary was wound up into the Company. The transferred future tax assets were revalued on that date and an amount of \$0.4M (net of the impact on actuarial liabilities) was credited to retained earnings. On December 30, the loan was repaid in full.

## Note 22

# 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 area of activity 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 main key assets to which they are matched provided in Note 7, the following table summarizes the results by segment.

## 2009

|  | Group<br>Insurance | Individual<br>Insurance | Savings          | Other       | Total           |
|--|--------------------|-------------------------|------------------|-------------|-----------------|
| Premium income                         |                    |                         |                  |             |                 |
| Products distributed to Desjardins     |                    |                         |                  |             |                 |
| Group members                          | \$ 558.7           | \$ 149.5                | \$ 14.3          | \$ —        | \$ 722.5        |
| Other distribution networks            | 1,607.3            | 287.0                   | 366.2            | —           | 2,260.5         |
| Net investment income                  | 187.4              | 317.2                   | 245.8            | (0.9)       | 749.5           |
| Other revenue                          | 18.1               | 15.3                    | 94.1             | 4.7         | 132.2           |
| <b>Total revenue</b>                   | <b>2,371.5</b>     | <b>769.0</b>            | <b>720.4</b>     | <b>3.8</b>  | <b>3,864.7</b>  |
| Expenses attributable to policyholders | 1,682.9            | 496.2                   | 588.0            | —           | 2,767.1         |
| Other expenses                         | 444.8              | 223.8                   | 176.0            | 3.3         | 847.9           |
| <b>Total expenses</b>                  | <b>2,127.7</b>     | <b>720.0</b>            | <b>764.0</b>     | <b>3.3</b>  | <b>3,615.0</b>  |
| <b>Operating income</b>                | <b>243.8</b>       | <b>49.0</b>             | <b>(43.6)</b>    | <b>0.5</b>  | <b>249.7</b>    |
| Income taxes                           | 57.6               | 8.3                     | (10.5)           | 0.5         | 55.9            |
| <b>Net income</b>                      | <b>\$ 186.2</b>    | <b>\$ 40.7</b>          | <b>\$ (33.1)</b> | <b>\$ —</b> | <b>\$ 193.8</b> |

## 2008

|  | Group<br>Insurance | Individual<br>Insurance | Savings          | Other       | Total          |
|--|--------------------|-------------------------|------------------|-------------|----------------|
| 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> |

## Note 23

## Comparative Figures

Certain figures for 2008, presented for comparative purposes, have been reclassified to conform to the presentation adopted for 2009.

# Five-year summary

## For the years ended December 31

(in M\$, unless otherwise indicated)

|   | 2009            | 2008            | 2007            | 2006            | 2005            |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Profitability and capitalization</b>           |                 |                 |                 |                 |                 |
| Net income  | 193.8           | 34.5            | 216.7           | 151.3           | 159.7           |
| Continuing operations                             | 193.8           | 34.5            | 216.7           | 151.3           | 154.4           |
| Discontinued operations                           | 0.0             | 0.0             | 0.0             | 0.0             | 5.3             |
| Operating income                                  | 249.7           | 56.1            | 287.4           | 202.1           | 183.1           |
| Net income attributable to shareholder            | 192.8           | 40.2            | 211.1           | 145.8           | 151.6           |
| Return on shareholder's equity                    | 25.9%           | 5.9%            | 27.5%           | 20.7%           | 24.9%           |
| <b>Business growth</b>                            |                 |                 |                 |                 |                 |
| Insurance in force                                | 190,699.0       | 183,490.6       | 171,009.4       | 151,191.9       | 137,117.7       |
| <b>Net premiums</b>                               |                 |                 |                 |                 |                 |
| Insurance premiums                                | 2,602.5         | 2,552.9         | 2,329.7         | 2,065.7         | 1,905.3         |
| Annuity premiums                                  | 380.5           | 315.5           | 245.6           | 372.7           | 395.0           |
| <b>Total</b>                                      | <b>2,983.0</b>  | <b>2,868.4</b>  | <b>2,575.3</b>  | <b>2,438.4</b>  | <b>2,300.3</b>  |
| <b>Savings</b>                                    |                 |                 |                 |                 |                 |
| Group products                                    | 403.6           | 260.1           | 218.5           | 290.6           | 316.1           |
| Individual products                               | 1,096.2         | 432.3           | 251.8           | 250.9           | 233.7           |
| Mutual funds                                      | 314.5           | 462.8           | 636.3           | 516.9           | 461.7           |
| <b>Total</b>                                      | <b>1,814.3</b>  | <b>1,155.2</b>  | <b>1,106.6</b>  | <b>1,058.4</b>  | <b>1,011.5</b>  |
| <b>Assets under management and administration</b> |                 |                 |                 |                 |                 |
| General funds                                     | 14,471.5        | 13,759.2        | 15,307.9        | 12,804.0        | 11,921.3        |
| Segregated funds                                  | 3,502.1         | 2,050.8         | 2,246.9         | 2,112.1         | 5,292.3         |
| Mutual funds                                      | 4,792.0         | 3,856.1         | 5,021.4         | 5,028.4         | 3,170.2         |
| <b>Total</b>                                      | <b>22,765.6</b> | <b>19,666.1</b> | <b>22,576.2</b> | <b>19,944.5</b> | <b>20,383.8</b> |
| <b>Investment quality</b>                         |                 |                 |                 |                 |                 |
| <b>Bonds</b>                                      |                 |                 |                 |                 |                 |
| Rated A or higher                                 | 93.6%           | 92.0%           | 95.2%           | 95.0%           | 96.4%           |
| <b>Real estate</b>                                |                 |                 |                 |                 |                 |
| Market value as a percentage of carrying value    | 135.8%          | 142.3%          | 127.1%          | 116.8%          | 116.2%          |
| <b>Other information</b>                          |                 |                 |                 |                 |                 |
| Number of employees                               | 3,873           | 3,816           | 3,893           | 3,734           | 3,659           |
| Number of representatives and brokers             | 6,709           | 5,942           | 5,542           | 5,321           | 5,873           |

# Corporate information

## Board of Directors

As at December 31, 2009

### Board Chair

#### **Sylvie St-Pierre Babin**

Gatineau, Quebec  
Legal Counsel  
President of CORE Abitibi-Témiscamingue - North and West of Québec

### Senior Deputy Chair

#### **Jacques Sylvestre, Ad. E.**

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

### Directors

#### **Martin Desrosiers**

Matane, Quebec  
General Manager  
Caisse populaire Desjardins de Matane

#### **Robert Guerriero, CA**

Laval, Quebec  
Corporate and Cooperative Director  
Chair of the Board of Directors  
Caisse populaire Canadienne Italienne

#### **Serge Hamelin, F.I.C.A.**

Laval, Quebec  
Consulting Actuary  
Daigneault & Hamelin, Actuaire

#### **Monique Lefebvre, Ph.D.**

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

#### **Suzanne L. Lemay**

Trois-Rivières, Quebec  
Corporate Director

#### **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

#### **Michel Rouleau, ASC**

Sainte-Marie-de-Beauce, Quebec  
Corporate Director

#### **Réal Sureau, FCA**

Verdun, Quebec  
Chartered Accountant  
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

#### **Monique Lefebvre**

#### **Suzanne Maisonneuve-Benoit**

#### **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

#### **Suzanne L. Lemay**

#### **Denis Levesque**

# Company management

## Monique F. Leroux

Chair of the Board, President and Chief Executive Officer, Desjardins Group  
Chief Executive Officer of Desjardins Financial Security

## Bruno Morin

Senior Vice-President and General Manager  
Wealth Management and Life and Health Insurance  
Desjardins Group

## Richard Fortier

Chief Operating Officer, Life and Health Insurance <sup>(1)</sup>

## Alain Bédard

Vice-President Individual Insurance and Savings Division <sup>(1)</sup>

## Alain Thauvette

Vice-President Group and Business Insurance Division <sup>(1)</sup>

## Michel Desmarais

Vice-President Group Retirement Savings Division <sup>(1)</sup>

## Jean-François Chalifoux

Vice-President Creditor and Direct Insurance Division <sup>(1)</sup>

## Camil Lévesque

Vice-President Corporate Actuarial Services and Underwriting Division <sup>(1)</sup>

## François Drouin

Vice-President, Finance Division, Wealth Management and  
Life and Health Insurance <sup>(1)</sup>

## Luc Loisel

Vice-President, Technology Division, Wealth Management and  
Life and Health Insurance <sup>(1)</sup>

## Raynald Bisson

Vice-President, Human Resources Division, Wealth Management and  
Life and Health Insurance <sup>(1)</sup>

(1) Desjardins Financial Security Management Committee

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

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### SFL Investments

[www.sfl.qc.ca](http://www.sfl.qc.ca)

### Desjardins Financial Security Independent Network

[www.dfsin.ca](http://www.dfsin.ca)

### Desjardins Financial Security Investments Inc.

[www.dfsin.ca](http://www.dfsin.ca) and [www.dfsinvestments.ca](http://www.dfsinvestments.ca)

### Sigma Assistel

[www.assistel.com](http://www.assistel.com)

### Desjardins Group

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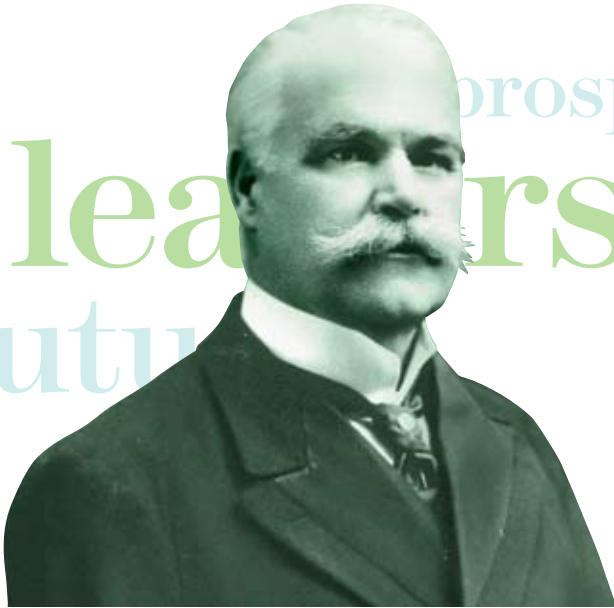
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vision

prosperity

leadership

future



**COOPERATION:  
A MODEL WITH PROMISE FOR THE FUTURE**

Leading up to the 110th anniversary of Desjardins Group, its founder, Alphonse Desjardins, was named the Greatest Canadian Co-operator following a popular vote held by the Canadian Co-operative Association.

This nomination, received in June 2009, recognizes the cooperative vision of Alphonse Desjardins, who not only created financial cooperatives in Québec, but also inspired the creation of credit unions elsewhere in Canada and in the United States.

This great honour also demonstrates that cooperation, as it has been perpetuated for more than a century at Desjardins Group, remains a promising model.

Drawing strength from this vision it shares with its members and clients, elected officers and employees, Desjardins helps improve the quality of life of individuals and communities with a view to creating sustainable prosperity.

That's how we give full meaning to the phrase "Cooperate to shape our destiny".

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