FINANCIAL STATEMENTS 1993

Desjardins Life

HIGHLIGHTS 1993

	(in thousands of dollars)	Variation
Assets under management	3,913,382	16%
Assets (general funds)	2,653,526	14%
Assets (segregated funds)	1,259,856	22%
Capital and surplus	241,000	15%
Premiums and contributions	750,658	22%
Total revenue	920,805	16%
Net income	43,668	99%
Business in force	55,910,784	9%

A Note to the Reader

The 1993 annual report for Desjardins Life Assurance Company Inc. is included in the annual report of La Confédération des caisses populaires et d'économie Desjardins du Québec, as are those of the other subsidiaries and holding companies of the Mouvement des caisses Desjardins. Desjardins Life Assurance Company Inc. is publishing this document for those persons who wish to obtain more detailed information concerning the Company's financial results.

PRESIDENT'S MESSAGE

In 1993, Desjardins Life's efforts to meet objectives for growth, productivity and profitability have met with extraordinary results which, in turn, preserve its status as a solvent insurer and, consequently, the security of its insureds.

At three times the industry's rate of growth, Desjardins Life's 22% increase in business volume is the result of unrelenting work on all fronts: a rise in productivity and the number of individual insurance agents, success in obtaining major group insurance and pensions contracts, judicious business acquisitions and a sustained offensive in certain markets, such as travel insurance. The Company has broadened its customer base outside the Desjardins network, thus further diversifying the source of its business.

The business volume expansion and its ensuing activity have been absorbed, as have been other unforeseen and highly important tasks that I will discuss later, with an increase in administrative expenses of only 3%. The substantial difference between the increase in activity – and, as we shall see, of profitability – and the increase in administrative expenses is explained by a $12 million gain in productivity, expressed in terms of unit costs versus business volume. I must pay homage to our personnel for their devotion and efficiency which resulted in this extremely successful unit cost reduction.

Desjardins Life's profitability, stemming from its expanded business volume, increased productivity and insurance operations for which the claims experience was in keeping with forecasts, has made a giant leap, even for a company that is used to record results year after year. In 1993, the net income of its operations alone was $28.5 million. This constitutes a 30% increase with respect to the net income for the preceding year. The addition of a nonrecurring income brings the net income for the year to $43.7 million which represents a 99% increase. In terms of the current operations, the participating policy fund having become profitable generated a net income of $2.9 million. The shareholders' fund yielded a $40.8 million return, including the nonrecurring income, which produces a rate of return on investment of 22.9%. A total of $12.6 million in dividends was paid to shareholders during the year.

The Company's solvency, the ultimate measure of its financial health, far exceeds the current provincial and federal standards set by the Inspecteur général des institutions financières du Québec and the Office of the Superintendant of Financial Institutions, and it fully guarantees the security of its insureds.

This extraordinary overall success was attained in a year where many demands were made on our human resources. Many due diligence examinations were carried out, some of which led to the profitable acquisition of business blocks. However, the examination that proved to be most important, in effect as well as in effort, is that in which we participated and which was a determining factor for the transaction between La société financière des caisses Desjardins inc. and The Laurentian Group Corporation. The additional workload, as well as the moratorium with respect to the hiring of permanent employees which was announced in view of the upcoming business combinations, are indicative of the conditions in which we achieved the year's spectacular results.

Desjardins Life's contribution to the many successes of the corporate network of the Mouvement Desjardins and to the financial security of its members and employees is constantly renewed and intensified. As Desjardins' contribution to the new individual insurance group currently being organized within La société de portefeuille Assurance-vie Desjardins Laurentienne, Desjardins Life will bring human resources whose know-how, motivation and commitment to Mouvement Desjardins values will enable it to consistently produce such results.

President and Chief Executive Officer

Claude Gravel

Claude Gravel

COMMENTS ON THE FINANCIAL STATEMENTS

The Results

Overall income grew by 16% and totals almost $921 million. Consolidated with the income of Laurier Life Insurance Company, a subsidiary of the Company, overall income nears the billion dollar mark.

Premiums and contributions increased by 22%, thus exceeding $750 million. More than 63% of this amount was generated by sales outside the Desjardins caisse network. The volume of business in individual insurance and pensions increased by 16% and stands at $141 million, of which $82.5 million was recorded in insurance only. In group insurance and pensions sold outside the Desjardins caisse network, the business volume made a 37% leap compared to 1992, and exceeds $302 million. For the insurance and pension services provided to the Desjardins caisse network and to its members, the total premiums and contributions reached $274 million, representing an 11% increase. Premiums from direct marketing services show a 41% increase and total $32.9 million.

Investment income stands at nearly $171 million after a 4% growth. The increase is mainly attributable to fixed term investments and gains on disposals. Since 1991, the mortgage and real estate portfolio, like that of other financial institutions, has been affected by the economic difficulties encountered by borrowers. For the third consecutive year, the Company made provisions in 1993 to cover all insufficient collateral on defaulted loans as well as the decline in the market value of real estate acquired through foreclosure, while respecting recognized standards and practices. The situation, however, is in the process of being redressed since, by the end of 1993, the ratio of unproductive assets to Company surplus returned to the 1990 level.

Operating expenses increased by 16%, standing at $853 million. The most significant charges – the benefits and annuities paid by the Company – grew by 24% to reach almost $538 million.

The reserve for future policy benefits increased by only 2% to nearly $153 million, mainly as the result of the transfer of pension contributions to segregated funds at the request of customers and the discharge of reserves for the payment of higher group pension benefits.

Administrative expenses increased only by 3%, that is, a percentage seven times lower than that of the business volume increase of 22%. The difference between these two growth rates translates into a significant improvement in productivity, estimated at $12 million. Administrative expenses are lower than provided for in the budget, despite a greater than anticipated growth in business volume, and include a contribution of $1.6 million to the Canadian Life and Health Insurance Compensation Corporation with respect to the liquidation of the Cooperants and the Sovereign.

At the end of the year, operating results were established at over $67 million, a 24% increase.

The policy dividends and experience refunds that the Company will distribute total $32 million, up by 15%. Participating policyholders will receive policy dividends totalling $2.9 million, in accordance with the scale provided for by the law under which Desjardins Life Assurance Company Inc. is incorporated. Group insurance policyholders whose contracts contain a clause providing for an experience rating refund will receive $5 million.

Nonrecurring income of $16.7 million results from the cancellation of a provision for future taxes, deemed no longer necessary under the terms and conditions of current commercial agreements.

The year's net results show a 99% increase over 1992 net results, reaching a record $43.7 million; the 1992 net results had already improved by 169% over the previous year. The portion of results which pertains to participating policyholders amounts to nearly $2.9 million, while the portion of results which pertains to shareholders is $40.8 million, representing a return of 22.9% on shareholders' equity. During the year, dividends totalling $12.6 million were paid to shareholders directly from the surplus. The dividend ratio on shareholders' equity is 7.1%.

Without the nonrecurring income accumulated over the years, the net income on current activities would still total some $28.5 million, a 30% increase over the previous year. On such a basis, the return on shareholders' equity is 15%.

Balance Sheet

The year of 1993 shows an increase of 14% for general funds assets, now exceeding $2.6 billion. Taking into account the value of segregated funds, total assets under management stand at $3.9 billion, a 16% increase.

The value of investments in affiliated companies totals $27.3 million. Laurier Life Holdings, the Company's main subsidiary, generated profits of nearly $5 million in 1993, a 27% climb compared to the previous year.

Share capital and surplus grew by 15% and now total $241 million. They constitute sufficient capitalization in comparison with assets to guarantee insureds complete security and allow the Company to markedly exceed the solvency standards established by both the regulatory authorities and the industry.

Segregated Funds

Segregated funds are recorded at their market value. Any increase or decrease in the value of these portfolios produces a corresponding effect on the value of the Company's commitments under these funds and thus, has no impact on operating income.

Segregated funds under management grew by 22% and now stand in excess of $1.2 billion. Operating income, that is, income from contributions and investments, shows a 133% increase resulting mainly from net capital gains, which surpass those of 1992 by approximately $163 million. These results can be attributed to the outstanding performance of the stock and bond portfolios. Benefits stand at $49 million, a 20% increase.

Various independent studies undertaken in order to compare the return of numerous segregated funds concluded that the yield obtained by Desjardins Life is above the reference index median for all types of funds for the periods covered by the studies (1 to 4 years). Returns on unit value funds, for periods of 5 and 10 years, have earned the Company its rank among the best managers of comparable funds.

Business in Force

The value of Desjardins Life's commitments under life insurance contracts increased by 9% in 1993 and, at the end of the year, totalled nearly $56 billion. Consolidated with that of its subsidiary, Laurier Life Insurance Company, total business in force surpasses $63.2 billion.

AN OVERVIEW OF THE YEAR'S ACTIVITIES

The Company's accomplishments in 1993 – a bountiful year with respect to activities – demonstrated once again its dynamism, efficiency and the scope of its commitment in the true Desjardins tradition.

Dynamic Growth

Desjardins Life sustained growth on all levels in 1993.

In individual insurance, new business grew 13%, while that of the Canadian industry stagnated. For the first time in Company history, six agencies generated over $1 million in new premiums each.

Additions to Desjardins' team of life and health insurance agents, a goal relentlessly pursued since 1990, is one factor that explains such growth. In 1993, the 454-member team earned third place among sales teams in Québec, up from the team's previous fifth place. Moreover, the conservation rate of agents who have been part of the team for the last four years is 70% greater than the average conservation rate of competitors. An entire revision of the insurance product portfolio, including many innovations, has also contributed to growth.

New business in group insurance outside the Desjardins caisse network doubled in 1993, even though 1992 had proven to be an exceptional year. Among Desjardins Life's new clients are some 45,000 members of the Fédération des infirmières et infirmiers du Québec and a large group of Cascades employees, found throughout Québec, Sweden, Belgium and the United States.

The breakthrough outside Québec also extends to the field of group pensions, where sales increased by 42%, mainly as the result of government contracts which are part of the older worker adjustment programs. More than $31 million of the $71 million collected under these programs came from outside Québec.

Premiums for direct response marketing services have risen by 41% mainly as a result of the success of Desjardins Travel Insurance in Ontario. CS CO-OP, the largest savings and credit co-operative in Ontario, three Toronto credit unions and three other organizations, totalling 186,000 members, now offer this coverage which accounts for $19 million in premiums.

The sales of insurance services offered by caisses and credit unions maintained steady growth. Desjardins Savings-Life Insurance was marketed in Western Canada during the past year and several credit unions are already offering the product to their members. In Ontario, CS CO-OP and the Caisse populaire Trillium, the largest caisse of the Fédération des caisses populaires de l'Ontario in terms of assets, are now part of the numerous institutions who have chosen Desjardins Life to provide loan insurance for their members. Moreover, significant modifications have been made to Desjardins Loan Insurance in order to better meet the needs of caisse and credit union members. Finally, an increasing number of caisses and credit unions offer their members Desjardins Financial Planning, a service created in 1992.

Proven Efficiency

Throughout 1993, Desjardins Life was true to its reputation as an efficient company.

Despite a 22% increase in the volume of business, the Company managed to limit the increase in administrative expenses to 3%, resulting in productivity gains of $12 million. Productivity gains for the last three years total $34 million.

The Company's group insurance customers can now benefit from a new management tool: a detailed interim report for their plan. Even with a 30% increase in claims for these groups, the allotted time for claim processing has been respected and the level of customer satisfaction, verified by means of an on-going survey, has been steadily rising.

Desjardins life and health insurance agents now work with high-performance laptop computers which allow the agents to better meet the wide range of customer needs.

To provide more efficient service to the caisses and credit unions of Western Canada, a market with great potential, and more particularly to those of the well-established Fédération des caisses populaires du Manitoba, the Company opened an administrative center in Winnipeg in the spring of 1993.

Moreover, Desjardins Life was the recipient of no less than ten provincial, national or international awards for certain communications projects.

In keeping with this tradition of success, Desjardins Life earmarked the equivalent of 1% of its total payroll for employee training. Among the many programs offered, the *Incroyable programme sur la coopération* allowed almost 900 employees and agents who regularly work with Desjardins caisses and credit unions to better understand the principles of cooperation and its functioning within the Mouvement Desjardins.

Finally, the unionized employees of the Company and Management successfully negotiated a new three-year labour agreement which will be in force until 1996.

The Desjardins Commitment

Having embraced the commitment of the Mouvement des caisses Desjardins to serve its members and the community, Desjardins Life proved to be true to such a commitment.

In 1993, the Company acquired mortgage loans receivable from Desjardins caisses and credit unions estimated at nearly $71 million. The purchase of the loans enables the caisses and credit unions to strengthen their liquid assets and thus better meet the growing need for credit, while giving the Company the possibility of diversifying its mortgage investment portfolio. The Company intends to exert much effort in the diversification of its mortgage portfolio in the next few months.

Furthermore, Desjardins Life participated in joint promotional campaigns of the Mouvement des caisses Desjardins, by offering a total of $5.3 million in free insurance coverage to its members.

The Company has been actively promoting the services of the *Centre d'autorisation et de paiement des services de santé* (CAPSS) to its insured groups; the CAPSS service enables the insured person to pay only the non-insured portion of certain health service expenses and eliminates the necessity of filing a claim with the insurer. Over 74% of the CAPSS cards in circulation result from the activities of Desjardins Life, thus contributing more than 73% of the income for this Mouvement des caisses Desjardins subsidiary.

Among Desjardins Life's many commitments to the community, one worth mentioning is its sponsorship of *Santé votre coeur*, an activity organized to raise Montrealers' awareness concerning the prevention of heart disease. The Company's active participation in the Qualité-Québec campaign, promoting the purchase of products made in Québec and in the *Prix de la famille* extending recognition for positive actions in favour of families, are also among Desjardins Life's numerous efforts to support the community.

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1993	1992
OPERATING INCOME		
Premiums and contributions	**750,658**	614,334
Net investment income (Note 4 – *iii*)	**170,727**	164,929
Management fees and other income	**9,301**	8,712
Transfers from (to) segregated funds	**(9,881)**	3,063
	920,805	791,038
OPERATING EXPENSES		
Benefits and annuities	**537,762**	432,032
Increase in the reserve for future policy benefits	**152,739**	150,192
Interest on benefits and deposits	**9,671**	13,846
Premiums taxes and other taxes	**14,694**	11,402
Commissions	**34,424**	31,745
Administration	**81,074**	78,772
Management fees	**22,812**	18,586
	853,176	736,575
OPERATING RESULTS	**67,629**	54,463
Policy dividends and experience refunds	**32,152**	28,077
INCOME BEFORE NONRECURRING ITEM	**35,477**	26,386
Nonrecurring income (Note 7)	**16,739**	—
INCOME BEFORE INCOME TAXES	**52,216**	26,386
Income taxes (Note 8)	**8,548**	4,461
NET INCOME FOR THE YEAR	**43,668**	21,925

MANAGEMENT'S REPORT

Desjardins Life Assurance Company Inc. financial statements and the information contained herein have been prepared by Management. These financial statements were prepared in accordance with the accounting policies described in the accompanying notes and contain amounts based on Management's best judgment.

In order to ensure the reliability and the integrity of the financial data, Management has implemented strict internal control systems which are applied to accounting records and operations as well as to the different systems used.

The Board of Directors has approved the information contained herein; the Board exercises its responsibility with regard to the supervision of Management in the preparation of the financial statements and the maintenance of adequate internal control systems, primarily through its Audit Committee, the members of which are neither members of Management nor employees of Desjardins Life Assurance Company Inc. The Audit Committee meets on a regular basis with Management, as well as with internal and external auditors. The auditors may, if they so choose and deem necessary, request meetings with the Audit Committee.

The Appointed Actuary, mandated by the Board of Directors, carries out a valuation of policy liabilities and the increase in actuarial liabilities in accordance with accepted actuarial practice governed by the Canadian Institute of Actuaries.

The external auditors, Samson Bélair Deloitte & Touche, appointed by the shareholders, are responsible for examining the financial statements and have full access to Audit Committee meetings, as well as to any information they require in order to support an opinion on the financial statements.

The Inspecteur général des institutions financières du Québec is empowered to carry out audits in order to ensure that the provisions of the Québec Insurance Act are complied with; the purpose of these provisions is to protect the interests of policyholders and to maintain a sound financial situation.

Claude Gravel
President and Chief Executive Officer

Marcel Pepin
Senior Vice-President
Human Resources and Advisory Services

Lévis, January 31, 1994

SURPLUS

SURPLUS FOR PARTICIPATING POLICIES

FOR THE YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1993			1992
	APPROPRIATED	UNAPPROPRIATED	**TOTAL**	TOTAL
BALANCE AT BEGINNING	9,048	45,200	**54,248**	56,810
Net income (loss) for the year	—	2,889	**2,889**	(2,389)
Changes in the complementary reserve to future policy benefits under certain contracts	(2,420)	2,420	**—**	—
Transfer from participating policy funds to the shareholders' fund	—	(177)	**(177)**	(173)
BALANCE AT END	6,628	50,332	**56,960**	54,248

SURPLUS FOR NON-PARTICIPATING POLICIES

FOR THE YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1993			1992
	APPROPRIATED	UNAPPROPRIATED	**TOTAL**	TOTAL
BALANCE AT BEGINNING	8,798	130,613	**139,411**	116,424
Net income for the year	—	40,779	**40,779**	24,314
Changes in the complementary reserve to future policy benefits under certain contracts	4,188	(4,188)	**—**	—
Transfer from participating policy funds to the shareholder's fund	—	177	**177**	173
Dividends	—	(12,577)	**(12,577)**	(1,500)
BALANCE AT END	12,986	154,804	**167,790**	139,411

BALANCE SHEET

AT DECEMBER 31
(in thousands of dollars)

	1993	1992
ASSETS		
GENERAL FUNDS		
Investments		
Bonds and debentures (Note 4 – *i*)	**1,295,441**	1,082,998
Mortgage loans (Note 4 – *i*)	**819,582**	775,330
Real estate (Note 4 – *i*)	**149,195**	128,623
Shares (Note 4 – *i*)	**141,616**	127,877
Term deposits	**53,443**	39,069
Policy loans	**23,972**	25,112
Investments in affiliated companies	**27,345**	24,646
Cash	**11,327**	5,939
	2,521,921	2,209,594
Furniture and equipment	**9,238**	6,444
Deferred commissions	**22,063**	25,943
Premiums and contributions receivable	**36,216**	30,436
Investment income receivable	**25,901**	25,741
Other current assets	**38,187**	32,260
Total general funds assets	**2,653,526**	2,330,418
SEGREGATED FUNDS	**1,259,856**	1,030,155

Approved by the Board of Directors
Yves Malo, Chairman of the Board
Claude Gravel, F.S.A., F.I.C.A., President and Chief Executive Officer

AUDITORS' REPORT

To the Shareholders of Desjardins Life Assurance Company Inc.

We have audited the non-consolidated balance sheet of Desjardins Life Assurance Company Inc. as at December 31, 1993, and the non-consolidated statements of operations, surplus for participating and non-participating policies, changes in financial position and changes in net segregated funds assets 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 generally accepted auditing standards. These standards require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation.

In our opinion, these non-consolidated financial statements present fairly, in all material aspects, the financial position of the Company at December 31, 1993, and the results of its operations and the changes in its financial position for the year then ended in accordance with accounting principles described in Note 2.

Samson Bélair Deloitte & Touche
Chartered Accountants

Québec City, January 31, 1994

AT DECEMBER 31
(in thousands of dollars)

	1993	1992
LIABILITIES		
GENERAL FUNDS		
Commitments to policyholders		
Reserve for future policy benefits	**2,083,339**	1,822,994
Reserve for claims in course of settlement and unreported claims	**59,483**	45,401
Reserve for policy dividends and experience refunds	**37,349**	32,366
Policyholders' deposits	**133,479**	144,535
	2,313,650	2,045,296
Commissions, salaries and other amounts payable	**15,396**	12,955
Mortgages payable	**6,326**	9,245
Taxes and income taxes payable	**7,007**	4,466
Other current liabilities	**46,297**	39,405
	2,388,676	2,111,367
Deferred realized gains and losses on investments (Note 4 – *ii*)	**23,850**	9,142
SURPLUS FOR PARTICIPATING POLICIES	**56,960**	54,248
SHAREHOLDERS' EQUITY		
Share capital (Note 5)	**2,120**	2,120
Contributed surplus	**14,130**	14,130
Surplus for non-participating policies	**167,790**	139,411
	241,000	209,909
Total general funds liabilities and surplus	**2,653,526**	2,330,418
SEGREGATED FUNDS	**1,259,856**	1,030,155

Commitments and contingencies (Note 9)

REPORT OF THE APPOINTED ACTUARY

To the Policyholders and Shareholders of Desjardins Life Assurance Company Inc.

I have valued the policy liabilities in the Company's balance sheet at December 31, 1993, and the increase in the actuarial liabilities in the Company's statement of operations for the year then ended, in accordance with accepted actuarial practice.

In my opinion, the valuation is appropriate and the financial statements present fairly its results.

Camil Lévesque
Fellow of the Canadian Institute of Actuaries

Lévis, January 31, 1994

CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1993	1992
OPERATIONS		
Net income for the year	**43,668**	21,925
Items not involving cash flow		
Depreciation of furniture and equipment and amortization of deferred commissions	**6,855**	7,277
Net capitalization of investment income	**(32,831)**	(17,581)
Current increase in commitments to policyholders	**166,821**	167,529
Amortization of deferred realized gains and losses, unrealized gains and losses and other than temporary decline in value of investments	**15,798**	17,449
Share of affiliated companies' net income accounted for under the equity method	**(2,699)**	(3,616)
	197,612	192,983
Special increase in commitments to policyholders	**107,606**	100,833
Changes in items other than investments and reserve for future policy benefits	**(11,835)**	6,845
	293,383	300,661
INVESTMENTS		
Investments - acquisitions	**(972,763)**	(749,134)
Investments - disposals	**714,638**	445,290
	(258,125)	(303,844)
FINANCING		
Dividends	**(12,577)**	(1,500)
Increase (decrease) in mortgages payable	**(2,919)**	2,818
	(15,496)	1,318
Increase (decrease) in cash and term deposits	**19,762**	(1,865)
Cash and term deposits, beginning of year	**45,008**	46,873
CASH AND TERM DEPOSITS, END OF YEAR	**64,770**	45,008

SEGREGATED FUNDS

CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1993	1992
BALANCE AT BEGINNING	**998,724**	917,077
Operating income		
Contributions	**70,462**	68,993
Interest and dividends	**56,918**	50,748
Realized and unrealized net capital gains	**170,379**	7,821
	297,759	127,562
Operating expenses		
Benefits and annuities	**49,173**	40,962
Management fees	**2,023**	1,890
Transfers to (from) general funds	**(9,881)**	3,063
	41,315	45,915
BALANCE AT END	**1,255,168**	998,724

COMPOSITION OF NET ASSETS

AT DECEMBER 31
(in thousands of dollars)

	1993	1992
Bonds	**426,324**	368,639
Shares	**652,390**	535,715
Mortgage loans	**46,754**	50,877
Other assets	**134,388**	74,924
Total assets	**1,259,856**	1,030,155
Other liabilities	**(4,688)**	(31,431)
Policyholders' equity	**1,255,168**	998,724

NOTES TO FINANCIAL STATEMENTS

1 - INCORPORATION

The Company was incorporated under the Québec Insurance Act and a private act of the Québec National Assembly.

2 - ACCOUNTING POLICIES FOR GENERAL FUNDS

The financial statements in this report have been prepared in accordance with generally accepted accounting principles except for the fact that they are not consolidated pursuant to instructions from the Inspecteur général des institutions financières du Québec. The significant accounting policies used to prepare these financial statements are as follows:

(A) RESERVE FOR FUTURE POLICY BENEFITS

The reserve for future policy benefits represents the amount necessary to respect the Company's commitments with regard to insurance and pension contracts. The actuarial liabilities were calculated according to the policy premium method. These reserves are determined on the basis of assumptions which the appointed actuary considers to be appropriate for the contracts in force. In 1993, changes in assumptions resulted in an increase of $3,059,000 in the reserve for future policy benefits; in 1992, such changes generated an increase in the reserve for future policy benefits in the amount of $7,228,000.

(B) FIXED TERM INVESTMENTS

(i) Bonds and debentures

Bonds and debentures are carried at amortized cost less the provisions for losses. Bond discounts and premiums are amortized over the period between the purchase date and the maturity date.

(ii) Mortgage loans

Mortgage loans are carried at their unpaid balance less provisions for losses. Mortgage loan discounts and premiums are amortized over the period between the purchase date and the maturity date.

(iii) Policy loans

Policy loans are carried at cost and are fully secured by the cash surrender value of the policies on which they were extended.

(C) EQUITY INVESTMENTS

Equity investments are presented in the balance sheet at a value based on the moving average of market values and are calculated as follows:

(i) Shares

Shares are carried at cost to which 15% of the difference between the book value and the market value is added annually.

(ii) Real estate

Real estate which is held for investment purposes and for the Company's own use is carried at cost while real estate acquired through foreclosure is transferred at fair market value. Each year, 10% of the difference between the book value and the market value is added to these amounts. The Company must have its real estate appraised once every 3 years by a chartered appraisor.

(D) INVESTMENTS IN AFFILIATED COMPANIES

The most significant investments in affiliated companies are those in the wholly-owned subsidiaries: Laurier Life Holdings Limited and Évacmed (1990) inc. The investments in affiliated companies are carried using the equity method.

(E) GAINS AND LOSSES ON INVESTMENTS

(i) Realized gains and losses

Realized gains and losses on fixed term investments are amortized over the lesser of 20 years or the term to maturity. Realized gains and losses on equity investments are recorded in income at 15% per year for shares and at 10% per year for real estate using the declining balance method.

The unamortized balance of realized gains and losses on fixed term and equity investments is shown in the liabilities as deferred income.

(ii) Unrealized gains and losses

Unrealized losses on fixed term investments are recorded in income in each case where there is other than temporary decline in value. Unrealized gains and losses on equity investments are recorded in income at 15% per year for shares and at 10% per year for real estate according to the difference between the book value and the market value. The book value of investments is adjusted through these gains and losses as mentioned in Notes 2 (C) (*i*) and (*ii*).

(F) INCOME TAXES

Income tax expense is recorded on a taxes payable basis. According to this method, the income tax provision is based on taxable income instead of on accounting income.

(G) FURNITURE AND EQUIPMENT

Furniture and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives which vary from three to ten years. The results for the year include a depreciation expense of $2,665,000 ($3,075,000 in 1992).

(H) DEFERRED COMMISSIONS

Deferred commissions are carried at amortized cost using the declining balance method at a rate of 15%. The results for the year include a depreciation expense of $3,880,000 ($3,249,000 in 1992).

3 - ACCOUNTING POLICIES FOR SEGREGATED FUNDS

Segregated funds investments are carried at market values. Realized and unrealized net capital gains and losses are fully recognized in income during the year in which they occur.

4 - INVESTMENT PORTFOLIO

(i) Investment value

	(in thousands of dollars) 1993		*(in thousands of dollars)* 1992	
	Book value	**Market value**	Book value	Market value
Bonds and debentures	**1,295,441**	**1,469,158**	1,082,998	1,160,440
Mortgage loans	**819,582**	**862,291**	775,330	803,161
Real estate	**149,195**	**154,242**	128,623	127,955
Shares	**141,616**	**167,207**	127,877	141,335
	2,405,834	**2,652,898**	2,114,828	2,232,891

(ii) Deferred realized gains and losses on investments

	(in thousands of dollars) **1993**	1992
Bonds and debentures	**11,753**	1,570
Mortgage loans	**—**	(4,720)
Real estate	**(2,305)**	1,105
Shares	**14,402**	11,187
	23,850	9,142

(iii) Net investment income

In 1993, the Company recorded income totalling $182,590,000 ($178,741,000 in 1992) on its fixed term investments and net losses in the amount of $23,387,000 ($21,672,000 in 1992) on disposals and declines in value. Equity investments generated income of $3,603,000 ($3,843,000 in 1992) and net gains on disposals of $7,921,000 ($4,017,000 in 1992).

5 - SHARE CAPITAL

	(in thousands of dollars) 1993	1992
AUTHORIZED		
100,000,000 common shares, without par value, which can be issued for an aggregate consideration of $100,000,000.		
ISSUED		
4,238,851 common shares	**2,120**	2,120

6 - EARNINGS PER SHARE

The portion of net income for the year which pertains to shareholders represents net earnings of $9.65 per share ($5.71 in 1992).

7 - NONRECURRING INCOME

The nonrecurring income results from the cancellation of a provision for future taxes which is no longer deemed necessary under the terms and conditions of the commercial agreements in force.

8 - INCOME TAXES

The Company's effective income tax rate is made up as follows:

	1993 %	1992 %
Statutory income tax rate	**38.2**	37.2
Increase (decrease) of the combined income tax rate as a result of:		
- the tax treatment of investment income	**9.2**	(35.5)
- the tax treatment of the reserve for future policy benefits	**(34.1)**	35.6
- the miscellaneous capital taxes	**(4.1)**	11.4
- the tax treatment of various other items	**7.2**	(31.8)
Effective income tax rate	**16.4**	16.9

9 - COMMITMENTS AND CONTINGENCIES

(A) During the year, the Company paid under protest, $263,000 ($2,035,000 in 1992) as a special contribution required by the Canadian Life and Health Insurance Compensation Corporation (COMCORP) with respect to the liquidation of Cooperants. Despite COMCORP's claim that it can request an additional contribution for one or several more years, the Company believes, on the basis of the opinion of its legal advisors and a decision of the Cour supérieure du Québec on April 28, 1992, and confirmed by the Cour d'appel on August 3, 1993, but for which an appeal to the Supreme Court of Canada has been lodged, that in the future it will not have to pay a contribution as reimbursement of the contribution already paid by other insurance companies.

(B) The Company signed a net lease which expires on December 31, 2005, for its Montréal office premises, with Place Desjardins Inc., an affiliated company. In addition to the basic rental payment, the Company will pay its share of all operating expenses for the occupied space with the exception of the debt service and capital expenditures.

The commitments under several other leases are spread out over approximately three years.

Minimum lease payments aggregate $26,509,000 and payments for the next five years amount to $6,119,000 in 1994, $2,994,000 in 1995, $2,634,000 in 1996, $2,146,000 in 1997 and $1,676,000 in 1998.

(C) Various lawsuits totalling $35,000,000 have been brought against the Company for damages and breach of contract. Management considers these claims unfounded. No provisions have been made in these financial statements with respect to the aforementioned disputes.

10 - RELATED PARTY TRANSACTIONS

The Company is owned by La société financière des caisses Desjardins inc., whose outstanding shares are entirely held by La Confédération des caisses populaires et d'économie Desjardins du Québec and caisses. The majority of the Company's banking transactions are with member institutions of the Mouvement Desjardins. Furthermore, on December 31, 1993, in addition to investments in its affiliated companies, the Company held, as portfolio investments, bonds, shares and mortgage loans of member institutions of the Mouvement for an overall amount of $73,722,000 ($45,700,000 in 1992).

In addition to the transactions previously mentioned in Note 9 concerning commitments, the most significant transactions conducted by the Company with certain member institutions and with its subsidiary, Laurier Life Insurance Company, are as follows:

- acceptance of insurance and reinsurance contracts by the Company for a net premium of $57,794,000 ($45,603,000 in 1992);
- computer processing services for an overall amount of $599,000 ($521,000 in 1992);
- fees and contributions paid in the amount of $1,878,000 ($1,885,000 in 1992);
- acquisition of pools of mortgages for a total of $70,829,000 (nil in 1992).

Management considers that these transactions were conducted in conditions similar to those prevailing in the market.

11 - PENSION PLAN

A defined benefit plan is provided to employees through a multi-employer pension plan. The latest actuarial valuation, at January 1, 1993, indicated that the plan was entirely funded.

The employer contribution charged to income and paid to the Mouvement Desjardins pension plan amounted to $3,355,000 in 1993 ($3,696,000 in 1992).

12 - COMPARATIVE FIGURES

Certain items of the previous year have been reclassified to conform with the presentation adopted for 1993.

A CORPORATE PROFILE

Desjardins Life Assurance Company Inc. was the first life and health insurance company of the Mouvement des caisses Desjardins. The Company's beginning can be traced back to the turn of the century, since Desjardins Life is the result of the amalgamation of the activities of several companies namely, l'Économie and The Safeguard. The Company is one of the most important subsidiaries of the Desjardins Laurentian Financial Corporation, a holding company that groups the Desjardins companies specialized in life and health insurance, property insurance, trust services, securities and banking activities.

Desjardins Life is the leader in the Québec life and health insurance market, where 90% of its activities are concentrated. The Company has the largest market share, insures the greatest number of persons and uses the greatest number of distribution networks, among which the Desjardins caisse network is the largest. In addition, the Company insures individuals, groups, as well as savings and credit cooperatives and their members throughout Canada.

Desjardins Life is also the owner of Laurier Life Holdings Ltd., which controls the Ontario-based Laurier Life Insurance Company. Laurier Life specializes in individual insurance and pensions and operates across Canada through a network of 4,500 brokers.

Company Services

Desjardins Life offers the complete range of life and health insurance products on a group or individual basis. The Company also provides coverage designed for the members, employees and directors of Desjardins caisses as well as other savings and credit unions. The Company also grants mortgage loans and offers pension fund management services, assistance services and financial, fiscal and estate planning.

Individual insurance and pension services are offered by some 460 Desjardins life and health insurance agents working at 19 agencies throughout the province of Québec. These services include the usual range of coverages and options, as well as certain exclusive features that ensure the financial security of a person and his or her family, whether the person is a wage-earner or self-employed. Thanks to their knowledge and expertise, Desjardins agents, assisted by the use of computers and the support of a multidisciplinary team of specialists, are able to assess their customers' financial situation and propose a solution suited to both the customer's needs and budget.

More than 12,000 groups of all sizes benefit from Desjardins Life group insurance and pension services. The flexibility of these services allows for personalized plans adapted to the specific needs of each customer as can be attested by the various types of contracts, methods of administration and financial agreements. In such a competitive market, few companies can boast of insuring certain groups for over twenty years, as Desjardins Life can. The Company's group insurance products are offered through specialized advisors, brokers and actuarial consultants.

The many insurance services that Desjardins Life provides to Desjardins caisses and other savings and credit unions for 40 years have contributed to the recognition of the Mouvement Desjardins as a world leader in allfinanz. Some services are offered directly to members at their financial institution in particular situations: for example, loan insurance is offered when the member contracts a loan and savings-life insurance is offered when the member opens an account or makes a term deposit. Other services, such as accident insurance and travel insurance, are offered to caisse or credit union members through folders inserted in strategically placed display units at the financial institution. Customers may also enroll in insurance by telephone or by completing a short insurance application that is distributed by different networks, such as travel agencies. Approximately 1,500 Desjardins caisses and other savings and credit unions in Canada offer one or another of these services.

In keeping with its concern for the well-being of its insureds, Desjardins Life adds assistance services to many of its financial services. Travel assistance provides help to Desjardins Travel Insurance insureds who encounter emergency situations abroad. Desjardins Assistance is a telephone information service to help insureds find solutions to all kinds of everyday problems.

Finally, thanks to an agreement made in early 1991 with two French companies, the Association Générale de Retraites par Répartition and the Assurance du Crédit Mutuel, Desjardins Travel Insurance is now offered to the clients of these institutions who are travelling on the American continent. Tens of thousands of French citizens benefit from the coverage.

A Dedicated Staff

Desjardins Life provides work for over 1,500 persons. Approximately 950 work at the head office in Lévis and at the Complexe Desjardins office in Montréal. The remainder represent the Company with insureds or work in conjunction with representatives and agents across Canada.

Providing top notch service is the prime preoccupation of every staff member and thus is everpresent in the customer-insurer relationship. The Desjardins Life commitment to quality can be felt at all levels, be it in the preparation of group insurance proposals, an agent's analysis of an individual's needs, a request for information or the processing of a claim.

Our staff is deserving of the trust of so many insureds, year after year.

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