MANAGEMENT'S REPORT

Preparation of the consolidated financial statements of SSQ, LIFE INSURANCE COMPANY INC. (the Company) is the responsibility of Management. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain figures which are based on best judgments and estimates. The financial information presented elsewhere in this annual report is consistent with the information contained in the financial statements, which have been approved by the Board of Directors.

In order to carry out its responsibilities with respect to the financial statements, Management maintains internal systems of control aimed at providing a reasonable degree of certitude that operations have been duly authorized, that assets are well safeguarded and that adequate and proper records have been kept. These systems of control are reinforced by the work of a team of internal auditors who regularly review of all sectors of activity within the Company.

In conformity with the *Insurance Act*, the Board of Directors appoints the actuary, who is charged with the responsibility of valuating the actuarial liabilities of the Company in accordance with the standards and practices of the Canadian Institute of Actuaries. Moreover, independent auditors, appointed at the Annual General Meeting of shareholders assure the accuracy of the data presented in the financial statements and express their opinion on these.

Audits are carried out regularly by the Autorité des marchés financiers to ascertain that the Company is in compliance with the *Act respecting insurance*, which aims primarily to protect policyholder interests and maintain a sound financial position. The Audit Committee of the Board of Directors, the members of which are neither from Management nor employees of the Company, ensures that Management fulfills its responsibilities with respect to financial information. The Audit Committee meets regularly with Management, internal auditors and external auditors. The latter can, if they wish, meet with said Committee in the presence or absence of Management, to discuss questions regarding the audit and the financial information.

Adoption of International Financial Reporting Standards (IFRS)

In February 2008, the Accounting Standards Board of Canada confirmed that publicly accountable entities will be obliged to adopt IFRS in replacement of Canadian generally accepted accounting principles effective January 1, 2011. The Company will adopt IFRS for presentation of its financial statements for the year ended December 31, 2011, including the corresponding figures for the previous year.

To migrate to IFRS, the Company has initiated a project and drawn up a transition plan. A preliminary IFRS assessment has been completed and the company has begun to train its staff and implement the changes required by the IFRS changeover. It is still too early to determine the impact of the transition on the Company's financial position or income.

René Hamel

René Hamel
Chief Executive Officer

Quebec City, Canada
February 3, 2009

ACTUARY'S REPORT

To the Policyholders and Shareholders of
SSQ, Life Insurance Company Inc.

I have valued the amount of obligations towards insureds of **SSQ, LIFE INSURANCE COMPANY INC.** for its consolidated balance sheet as at December 31, 2008 and the change in the consolidated statement of income for the year then ended. This valuation was carried out in accordance with accepted actuarial practices, using appropriate assumptions and methods.

In my opinion, the amount of obligations towards insureds makes appropriate provision for all policyholders' obligations. The results are also fairly presented in the consolidated financial statements.

Serge Boiteau

Serge Boiteau
Fellow, Canadian Institute of Actuaries

Quebec City, Canada
February 3, 2009

AUDITORS' REPORT

To the Shareholders of
SSQ, Life Insurance Company Inc.

We have audited the consolidated balance sheet of **SSQ, LIFE INSURANCE COMPANY INC.** general funds as at December 31, 2008 and the consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company's general funds as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Mallette [1]

Mallette
L.L.P.
Chartered Accountants

Quebec City, Canada
February 3, 2009

[1] CA auditor permit No 14443

For the year ended December 31, (in millions of dollars)

	2008	2007
	$	$
REVENUES		
Gross premiums (Note 13)	**1,676.7**	1,596.9
Premiums ceded to reinsurance	**(259.4)**	(248.5)
Net premiums	**1,417.3**	1,348.4
Increase in unearned premiums	**(6.0)**	(19.1)
Investments (Note 4)	**104.7**	103.6
Changes in fair value on held for trading assets	**(16.2)**	(17.8)
Administration fees and other revenues	**29.9**	28.1
	1,529.7	1,443.2
BENEFITS AND EXPENSES		
Insurance and annuity		
Net benefits	**759.9**	686.7
Transfers to segregated funds (Note 15)	**409.5**	446.7
Net increase in actuarial reserve	**64.8**	44.1
Interest on deposits	**4.1**	3.9
	1,238.3	1,181.4
Selling and administrative (Note 13)	**140.3**	134.7
Commissions and fees on sales	**50.4**	45.7
Premium taxes	**27.0**	25.7
	1,456.0	1,387.5
INCOME BEFORE EXPERIENCE REFUNDS AND INCOME TAXES	**73.7**	55.7
Experience refunds	**39.1**	15.7
INCOME BEFORE INCOME TAXES	**34.6**	40.0
Income taxes (Note 11)	**8.8**	12.0
NET INCOME	**25.8**	28.0

CONSOLIDATED BALANCE SHEET

As at December 31, (in millions of dollars)

	2008	2007
	$	$
ASSETS		
Investments (Note 4)		
Bonds	**1,257.3**	1,256.0
Loans	**336.6**	271.2
Shares	**67.0**	80.7
Investment fund	**30.1**	51.4
Real estate	**92.3**	77.4
Cash and deposit certificates	**213.4**	174.2
Other investments	**33.8**	27.3
	2,030.5	1,938.2
Outstanding premiums	**146.6**	145.0
Other receivables	**95.7**	59.4
Fixed assets	**28.4**	23.2
Future income taxes (Note 11)	**6.3**	–
GENERAL FUNDS ASSETS	**2,307.5**	2,165.8
SEGREGATED FUNDS ASSETS (Note 15)	**1,651.7**	1,720.7
LIABILITIES		
Obligations towards insureds (Note 6)		
Actuarial reserve	**1,529.2**	1,464.4
Provisions for claims and experience refunds	**96.3**	75.2
Deposits	**144.3**	121.4
	1,769.8	1,661.0
Unearned premiums	**89.5**	83.5
Unpaid claims	**26.7**	22.8
Accounts payable	**100.9**	94.8
Subordinated debts (Note 8)	**85.0**	65.0
Future income taxes (Note 11)	**–**	3.2
	2,071.9	1,930.3
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	**36.6**	36.6
Retained earnings	**216.9**	191.1
Accumulated other comprehensive income	**(17.9)**	7.8
	235.6	235.5
GENERAL FUNDS LIABILITIES AND EQUITY	**2,307.5**	2,165.8
SEGREGATED FUNDS CONTRACTS LIABILITIES (Note 15)	**1,651.7**	1,720.7

On behalf of the Board,

Pierre Genest
Chairman of the Board

René Hamel
Chief Executive Officer

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
For the year ended December 31, (in millions of dollars)

	2008	2007
	$	$
SHARE CAPITAL	**36.6**	36.6
RETAINED EARNINGS		
Balance, beginning of year	**191.1**	168.0
Impact of new accounting standards	**–**	0.6
Net income	**25.8**	28.0
Dividends	**–**	(5.5)
Balance, end of year	**216.9**	191.1
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance, beginning of year	**7.8**	–
Impact of new accounting standards	**–**	18.7
Other comprehensive income	**(25.7)**	(10.9)
Balance, end of year[1]	**(17.9)**	7.8
	199.0	198.9
SHAREHOLDERS' EQUITY, end of year	**235.6**	235.5

[1] *Including unrealized gains and losses on available for sale assets.*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, (in millions of dollars)

	2008	2007
	$	$
NET INCOME	**25.8**	28.0
OTHER COMPREHENSIVE INCOME, NET OF INCOME TAXES		
Unrealized gains and losses on available for sale assets[2]	**(20.7)**	(6.1)
Reclassification of gains and losses on available for sale assets[3]	**(5.0)**	(4.8)
	(25.7)	(10.9)
COMPREHENSIVE INCOME	**0.1**	17.1

[2] *Net of income taxes of $9.8 (2007 – $3.4).*
[3] *Net of income taxes of $1.5 (2007 – $1.8).*

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, (in millions of dollars)

	2008	2007
	$	$
CASH FLOWS FROM FOLLOWING ACTIVITIES:		
OPERATING		
Net income	**25.8**	28.0
Items not affecting cash flows		
Gains and losses on investments	**27.2**	10.3
Amortization of bonds discounts	**(21.4)**	(18.6)
Depreciation of fixed assets	**8.2**	11.1
Obligations towards insureds	**108.8**	62.8
Future income taxes	**(8.9)**	6.7
Other assets	**0.1**	1.2
	139.8	101.5
Net change in other operating assets and liabilities	**(11.3)**	(8.7)
	128.5	92.8
INVESTING		
Acquisition of investments	**(710.3)**	(493.7)
Proceeds from sales of investments	**614.4**	446.0
Net acquisition of fixed assets	**(13.4)**	(6.2)
	(109.3)	(53.9)
FINANCING		
Dividends	**–**	(5.5)
Subordinated debts	**20.0**	10.0
	20.0	4.5
INCREASE IN CASH AND DEPOSIT CERTIFICATES	**39.2**	43.4
CASH AND DEPOSIT CERTIFICATES, beginning of year	**174.2**	130.8
CASH AND DEPOSIT CERTIFICATES, end of year	**213.4**	174.2
Cash flows from operating activities include:		
Interest paid on debts and loans	**4.4**	3.3
Income taxes paid	**12.4**	12.9

1. STATUS AND NATURE OF ACTIVITIES

SSQ, Life Insurance Company Inc. (the Company), incorporated in conformity with the *Insurance Act,* offers its insureds a complete range of financial services including financial protection in the event of death, disability, illness or retirement through a variety of individual and group insurance products as well as savings, retirement and investment products. The Company is also active in property and casualty insurance and real estate management.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Presentation of financial statements — The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP). The consolidated financial statements include the accounts of the Company and of its wholly-owned subsidiaries SSQ General Insurance Company Inc. and SSQ Realty Inc.

Use of estimates — The preparation of financial statements in accordance with Canadian GAAP requires Management to rely on best estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting year. Actual results may differ from estimates. The most significant estimates consist in determining liabilities related to obligations towards insureds.

Revenue recognition — Insurance and annuity premiums are recognized as revenue when they become due. Once premiums are recognized, obligations towards insureds are computed in a manner such that expenses are matched with such revenue.

Property and casualty insurance premiums are recognized as revenue over the terms of the policies. Unearned premiums entered in the balance sheet represent the portion of written premiums for the unexpired in-force policies, according to the daily pro rata method.

Investment income is recorded on an accrual basis and is reported net of investment expenses.

Other revenues are recognized when earned and include fees for the management of segregated funds and for the management of administrative service contracts.

Bonds — Bonds backing obligations towards insureds are designated as assets held for trading using the fair value option and are carried at fair value. Revenues from bonds and changes in fair value are recorded in income.

Bonds not backing obligations towards insureds are classified as assets available for sale. They are carried at fair value and revenues from these bonds are recorded in income. Changes in fair value of these bonds are recorded in Other Comprehensive Income. On sale of these bonds, or at any permanent decline in value, the realized gain or loss is reversed from Accumulated Other Comprehensive Income and recorded in income.

Purchases and sales of bonds are recognized on trade-date.

Loans — Loans are classified as loans and receivables and are carried at the outstanding principal balance receivable less the allowance for investment losses. Fair value is measured by discounting expected future cash flows using observable market prices. The allowance for investment losses is established on an account-by-account basis from the estimated realizable value measured by discounting the expected future cash flows.

Shares — Classified as available for sale, shares include equity securities and units of Canadian investment funds. Purchases and sales of shares are recognized on trade-date. Shares are carried at fair value and all changes in fair value are recorded in Other Comprehensive Income. In occurrence, transaction costs paid upon purchase are capitalized to the cost of shares. On sale of these shares, or at any permanent decline in value, the realized gain or loss is reversed from Accumulated Other Comprehensive Income and recorded in income.

Shares in U.S. dollars are translated using the temporal method. Under this method, monetary items are translated at the exchange rate in effect as at the balance sheet date. The Company uses foreign exchange contracts as derivative financial instruments under its currency risk management strategy. Such instruments cover fair value and their effectiveness is reviewed on a monthly basis. Exchange gains and losses on forward contracts and fluctuations in fair value related to asset currency price are recognized in income under investment income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Investment fund — Investment fund is held for trading and includes Canadian equity securities acquired with the proceeds from the offering of debentures of $30.0 and $15.0. In accordance with the debenture acts, the excess fair value of these securities over the capital of the debentures is recorded to the liability account of the Company. When fair value of the securities is less than the capital value of the debentures, the Company records a receivable from the decline in value equal to the difference.

Fair value — The best evidence of fair value is published price quotations in an active market. Fair value of bonds and shares is based on their bid price at year end. When the market for an investment is not active, fair value is established by using a valuation technique that makes maximum use of inputs observed from the markets.

Real estate — Real estate held by the Company is recorded under the moving average market valuation method, using an amortization rate of 3% per quarter. No depreciation expense is recorded. Each property is valued by an independent chartered appraiser once every three years. Gains and losses on sale of real estate are deferred and amortized to income using the same amortization rate of 3% per quarter. Properties acquired by foreclosure and held for sale are recorded at the lower of either the investment in the mortgage foreclosed or the estimated net proceeds from the sale of the property. Gains and losses on sale of these properties are recorded in income in the period in which they arise.

Cash and deposit certificates — Cash and deposit certificates are made up of bank accounts and short-term fixed income securities held with financial institutions. They are carried at their fair value.

Other investments — Interest of the Company in a real estate investment partnership is recorded under the moving average market valuation method, using an amortization rate of 5% per quarter. Fair value of real estate properties is valuated annually based on market values. Gains and losses on sale of this interest are deferred and amortized to income using the same amortization rate of 5% per quarter.

Interest of the Company in an entity subject to significant influence is accounted for by the equity method.

Fixed assets — Fixed assets include furniture, equipment and information systems and are recorded at cost less depreciation calculated according to the straight-line method over their estimated useful life varying from three to ten years. A decline in value is recognized in the statement of income when the carrying value exceeds fair value of the asset.

Other financial assets and liabilities — Other financial assets and liabilities are carried at cost.

Obligations towards insureds — The actuarial reserve, provisions for claims and experience refunds and deposits related to insurance contracts are established by the actuary in accordance with the standards of practice of the Canadian Institute of Actuaries and reflect the amounts required to meet obligations resulting from insurance and annuity contracts in force. The actuarial reserve is calculated using the Canadian asset liability method and includes additional amounts for plausible adverse deviations related to assumptions.

Unpaid claims — Unpaid claims are charged to events associated with claims settled in property and casualty insurance. The amount of unpaid claims is actualized and is based on the claims experience of the Company.

Employee retirement benefits — The Company offers to its employees pension plans and other retirement benefits such as severance pay and life and health insurance coverage. The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on services and Management's best estimate of expected returns on plan assets, salary increases, retirement ages of employees and expected health care costs. Past service costs related to plan amendments and the excess of actuarial gains and losses over 10% of the benefit liability are amortized based on a straight-line method over the average remaining active service period of employees. Plans' assets are carried at market values and are held in separate trustee pension funds.

Subordinated debts — Subordinated debts are carried at cost as they are not held for trading.

3. CHANGE IN ACCOUNTING POLICIES

Impact of change in accounting policies — On January 1, 2008, the Company adopted new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA): Section 1535 "Capital Disclosures," Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation."

Section 1535 stipulates that the Company must disclose information on its objectives, policies and processes for managing capital, what it manages as capital, and its compliance with capital requirements as well as the possible consequences of non-compliance with these requirements.

Section 3862 requires additional disclosure about the nature, extent and manner in which the Company manages risks related to financial instruments. Section 3862 and Section 3863 replace Section 3861 "Financial Instruments – Disclosure and Presentation."

These new standards only affect the disclosures and have no impact on the financial results of the Company.

Future accounting policies — Effective January 1, 2009, the Company will adopt the new CICA Handbook Section 3064 "Goodwill and Intangible Assets" which replaces Section 3062 "Goodwill and Other Intangible Assets." This section reinforces the practise under which items are recognized as assets only if they meet the definition of an asset as well as the recognition criteria. It also specifies the application of the method of assigning expenses to revenue, in order to eliminate the recognition of items that do not meet the definition of an asset and the recognition criteria. The Company is currently evaluating the impact of this new standard on its financial statements.

International Financial Reporting Standards (IFRS) — In February 2008, Canada's Accounting Standards Board confirmed that publicly accountable enterprises must use IFRS for fiscal years beginning on or after January 1, 2011. These standards replace the Canadian GAAP. The Company will adopt the IFRS and is currently evaluating the impact of these new standards on its operations, information systems and financial statements.

For the year ended December 31, 2008 (in millions of dollars, unless otherwise indicated)

4. INVESTMENTS

A) Carrying value and fair value

						2008
	Financial Instruments					
	Held for trading	Available for sale	Loans and receivables	Other	Carrying value Total	Fair value Total
	$	$	$	$	$	$
Bonds						
Quebec, Canada and provinces	756.4	71.3	–	–	827.7	
Municipal, Education and Health	84.0	0.4	–	–	84.4	
Canadian corporations	318.1	27.1	–	–	345.2	
	1,158.5	98.8	–	–	1,257.3	1,257.3
Loans						
Residential mortgages	–	–	271.2	–	271.2	
Non-residential mortgages	–	–	18.9	–	18.9	
Other	–	–	46.5	–	46.5	
	–	–	336.6	–	336.6	337.6
Shares						
Canadian shares	–	63.8	–	–	63.8	
American shares	–	3.2	–	–	3.2	
	–	67.0	–	–	67.0	67.0
Investment fund	30.1	–	–	–	30.1	30.1
Real estate	–	–	–	92.3	92.3	118.9[1]
Cash and deposit certificates	213.4	–	–	–	213.4	213.4
Other investments						
Real estate investment fund	–	–	–	25.9	25.9	29.5
Other	–	–	–	7.9	7.9	–[2]
	–	–	–	33.8	33.8	–
	1,402.0	165.8	336.6	126.1	2,030.5	–

[1] *Fair value has been determinated based on the appraisal of an independent chartered appraiser at October 1, 2007.*
[2] *The Company does not establish fair value of this investment.*

For the year ended December 31, 2008 (in millions of dollars, unless otherwise indicated)

4. INVESTMENTS (cont'd)

A) Carrying value and fair value (cont'd)

						2007
	Financial Instruments					
	Held for trading	Available for sale	Loans and receivables	Other	Carrying value Total	Fair value Total
	$	$	$	$	$	$
Bonds						
Quebec, Canada and provinces	694.0	75.8	–	–	769.8	
Municipal, Education and Health	97.3	0.3	–	–	97.6	
Canadian corporations	378.3	10.3	–	–	388.6	
	1,169.6	86.4	–	–	1,256.0	1,256.0
Loans						
Residential mortgages	–	–	221.7	–	221.7	
Non-residential mortgages	–	–	25.6	–	25.6	
Other	–	–	23.9	–	23.9	
	–	–	271.2	–	271.2	258.7
Shares						
Canadian shares	–	77.0	–	–	77.0	
American shares	–	3.7	–	–	3.7	
	–	80.7	–	–	80.7	80.7
Investment fund	51.4	–	–	–	51.4	51.4
Real estate	–	–	–	77.4	77.4	107.5
Cash and deposit certificates	174.2	–	–	–	174.2	174.2
Other investments						
Real estate investment fund	–	–	–	21.3	21.3	26.6
Other	–	–	–	6.0	6.0	–
	–	–	–	27.3	27.3	–
	1,395.2	167.1	271.2	104.7	1,938.2	–

For the year ended December 31, 2008 (in millions of dollars, unless otherwise indicated)

4. INVESTMENTS (cont'd)

B) Net investment income

	2008				
	Financial Instruments				
	Held for trading	Available for sale	Loans and receivables	Other	Total
	$	$	$	$	$
Bonds					
Interest	60.8	5.0	–	–	65.8
Realized gains	–	7.8	–	–	7.8
Loans					
Interest	–	–	17.2	–	17.2
Change in allowance for investment losses	–	–	(2.3)	–	(2.3)
Shares					
Dividends	–	2.3	–	–	2.3
Realized losses	–	(1.0)	–	–	(1.0)
Investment fund					
Dividends	1.6	–	–	–	1.6
Real estate					
Real estate[1]	–	–	–	7.1	7.1
Amortization of unrealized gains	–	–	–	3.4	3.4
Cash and deposit certificates	6.0	–	–	–	6.0
Other investments	–	–	–	1.7	1.7
	68.4	14.1	14.9	12.2	109.6
Investment charges					(4.9)
					104.7

[1] Net of operating expenses of $7.6.

For the year ended December 31, 2008 (in millions of dollars, unless otherwise indicated)

4. INVESTMENTS (cont'd)

B) Net investment income (cont'd)

	2007				
	Financial Instruments				
	Held for trading	Available for sale	Loans and receivables	Other	Total
	$	$	$	$	$
Bonds					
Interest	60.4	5.2	–	–	65.6
Realized gains	–	3.5	–	–	3.5
Loans					
Interest	–	–	13.3	–	13.3
Change in allowance for investment losses	–	–	(0.8)	–	(0.8)
Shares					
Dividends	–	4.3	–	–	4.3
Realized losses	–	3.2	–	–	3.2
Investment fund					
Dividends	1.8	–	–	–	1.8
Real estate					
Real estate[1]	–	–	–	7.1	7.1
Amortization of unrealized gains	–	–	–	1.4	1.4
Cash and deposit certificates	7.3	–	–	–	7.3
Other investments	–	–	–	1.6	1.6
	69.5	16.2	12.5	10.1	108.3
Investment charges					(4.7)
					103.6

[1] Net of operating expenses of $7.3.

For the year ended December 31, 2008 (in millions of dollars, unless otherwise indicated)

4. INVESTMENTS (cont'd)

C) Allowance for investment losses

	2008	2007
	$	$
Balance, beginning of year	**1.9**	1.1
New provision	**2.5**	1.3
Recoveries	**(0.2)**	(0.5)
Balance, end of year	**4.2**	1.9

The allowance includes an amount of $2.0 (2007 – $1.9) for mortgage loans of $5.9 (2007 – $6.3) and a general allowance of $2.2 for other loans.

5. FINANCIAL INSTRUMENT RISK MANAGEMENT

The Company has adopted control policies and procedures to manage risks related to financial instruments. An investment policy was approved by the Board of Directors to provide a framework for making investment decisions. The control procedures arising from this policy ensure sound management of investment risks.

Risks related to financial instruments are credit risk, liquidity risk and market risk.

Credit risk — Credit risk is the risk of financial loss to the Company if a debtor fails to honour its obligations. The Company is exposed to this type of risk through its investment portfolios and, in particular, through credit extended as loans. The Company is also exposed to credit risk with regard to outstanding premiums and amounts receivable from reinsurers. It manages credit risk by applying the following control procedures:

- Utilization guidelines that set minimum and maximum limits are established for each class of investment to meet the specific needs of each business sector.
- The guidelines allocate liability among various quality Canadian issuers with credit ratings from recognized sources of BBB and higher as at the date of issue.
- An overall limit is established for each credit rating quality level.
- A detailed loan policy specifies the requirements for guarantees and credit.
- An overall limit is also established for investments of related issuers or groups of issuers to mitigate concentration risk.
- The Investment Committee of the Board of Directors carries out regular reviews of the investment portfolio and its transactions.
- When entering into reinsurance agreements, the Company monitors the financial position of the reinsurers.

For the year ended December 31, 2008 (in millions of dollars, unless otherwise indicated)

5. FINANCIAL INSTRUMENT RISK MANAGEMENT (cont'd)

Maximum exposure to credit risk

	2008 $	2007 $
Bonds		
Held for trading	**1,158.5**	1,169.6
Available for sale	**98.8**	86.4
Loans		
Mortgage loans	**290.1**	247.3
Other loans	**46.5**	23.9
Cash and deposit certificates	**213.4**	174.2
Outstanding premiums	**78.7**	82.1
Investment income due and accrued	**10.0**	10.7
Other financial assets	**40.2**	12.6
	1,936.2	1,806.8

Bond portfolio quality

	2008 $	2007 $
Bonds		
Quebec, Canada and provinces	**827.7**	769.8
Municipal, Education and Health	**84.4**	97.6
Canadian corporations, per credit rating		
AAA	**68.7**	97.1
AA	**59.7**	75.2
A	**190.2**	186.2
BBB	**24.9**	30.1
BB	**1.7**	–
	1,257.3	1,256.0

5. FINANCIAL INSTRUMENT RISK MANAGEMENT (cont'd)

Loan portfolio quality

	2008 $	2007 $
Insured mortgage loans	**124.3**	71.6
Conventional mortgage loans	**212.3**	199.6
	336.6	271.2

Allowance for investment losses — The allowance for investment losses is established based on the Company's assessment of its financial assets, considering all objective evidence of impairment. Such evidence stems from the financial difficulties of the issuer or from defaults on principal or interest payments. Obligations to insureds also include an allowance to cover any potential loss on loans and investments in debt securities.

The Company maintains an allowance for credit losses relating to the carrying value of its loans. A loss provision is established when the Company entertains doubt regarding the full recovery of the principal or interest on a loan. For allowance purposes, estimated realizable loan value takes into account recovery forecasts, guarantee valuations and market conditions.

Past due financial assets — A financial asset is deemed past due when a counterparty has failed to make a payment when contractually due. Other than for certain impaired loans, the Company has no financial assets past due that substantially impact its financial position.

Liquidity risk — Liquidity risk refers to the risk that the Company might experience cash flow difficulties arising from its obligations and financial liabilities. The Company manages liquidity risk by applying the following control procedures:

- The Company manages its liquidities by matching cash flows from operations and investments to those required to meet its obligations.
- Its cash position is analyzed on short and medium term horizons to meet the needs of the different business sectors.

Market risk — Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to market factors. Market risk comprises three types of risk: interest rate risk, market risk and currency risk.

A) Interest rate risk — The Company matches its assets with liabilities from obligations in each of its business sectors. Interest rate risk exists when interest rates fluctuate due to widening spreads in matching expected cash flows between assets and liabilities.

In managing interest rate risk, the Company focuses on matching expected cash flows of assets and liabilities in selecting the investments backing its obligations. It uses different measures and performs sensitivity analyses to evaluate the spreads between the cash flows generated by investments held and those required to meet obligations according to various future interest rate scenarios. The Company's investment policy sets maximum spread limits for those measures as applied to assets and liabilities. This information is disclosed to the Investment Committee on a quarterly basis.

The results of the interest rate sensitivity analyses also serve to establish the amounts to be included in the valuation of obligations to insureds for interest rate risk. A 1% change of the interest rate curve would have an insignificant impact on income.

For its available for sale assets not matched to obligations to insureds, the Company believes that a 1% increase of the interest rate curve would result in a decrease of $5.5 in other comprehensive income.

For the year ended December 31, 2008 (in millions of dollars, unless otherwise indicated)

5. **FINANCIAL INSTRUMENT RISK MANAGEMENT** (cont'd)

B) Market risk — The Company is exposed to market risk through its available for sale equity investments. The investment policy puts restrictions on equity investments and sets out their limits. The Company does not invest in equities to back its obligations to insureds.

Changes in the fair value of these investments are recognized in comprehensive income. A sudden 10% decrease in the value of such investments would result in an estimated decrease of $4.6 in other comprehensive income.

The Company is also exposed to market risk through income from investment fund management fees and expenses related to capital guarantees provided to segregated funds. A sudden 10% decrease in stock markets would result in an estimated decrease of $1.9 in income.

C) Currency risk — Currency risk exists when transactions in currencies other than the Canadian dollar are affected by unfavourable exchange rate changes. The Company's foreign currency risk exposure is low as only Canadian currency investments are acquired to back obligations to insureds. The Company uses foreign exchange contracts to hedge against currency risk for associated with American shares. A variation of 10% in the exchange rate would have an insignificant impact on income.

6. **OBLIGATIONS TOWARDS INSUREDS**

Composition of obligations

	2008	2007
	$	$
Obligations towards insureds	**2,437.1**	2,289.2
Obligations ceded to reinsurance	**667.3**	628.2
Net obligations towards insureds	**1,769.8**	1,661.0

Composition of assets backing the obligations

	2008	*2007*
	$	$
Bonds and other fixed income investments	**1,315.3**	1,286.4
Loans	**335.5**	270.6
Real estate	**34.6**	32.5
Other assets	**84.4**	71.5
	1,769.8	1,661.0

6. OBLIGATIONS TOWARDS INSUREDS (cont'd)

Changes in obligations

	2008	2007
	$	$
Balance, beginning of year	**1,661.0**	1,463.1
Normal changes	**87.9**	197.9
Effect of changes in valuation assumptions	**20.9**	–
Balance, end of year	**1,769.8**	1,661.0

Nature of obligations — The obligations towards insureds are amounts that, added to future premiums and investment revenues, will allow the Company to respect its commitment to pay future claims, experience refunds and corresponding expenses originating from contracts in force. The obligations towards insureds are periodically reviewed and allow for additional amounts required to cover risks originating from plausible adverse deviations in experience as compared to the most probable assumptions. These amounts take into account the uncertainty included in the valuation assumptions.

Inherent uncertainty of the appraisal process — In order to estimate the obligations towards insureds, assumptions are required regarding future events related to mortality, morbidity, investment returns and operating expenses. These assumptions also include a provision for adverse deviations attributable to the inherent uncertainty of the appraisal process.

Mortality — The mortality assumption is mostly used in the valuation of life-annuity liabilities. The mortality tables used are those published by the industry adjusted to consider mortality improvement until each payment is scheduled.

Morbidity — The morbidity assumptions used are those published by the industry adjusted to consider the Company's own experience over a long period of time. Each year, the actual experience is compared to the one anticipated to ensure that the morbidity assumptions used are adequate.

Investment returns — The investment returns considered in the valuation of obligations towards insureds are based mostly on those of the assets held to back these obligations. In this context, cash inflows from assets are compared to those of the obligations towards insureds to detect any mismatch taking properly into account the reinvestment or disinvestment risks inherent to such situations. To ensure that the amount of assets will be sufficient to cover all the obligations, a multiscenario analysis is performed regarding future evolution of interest rates when cash flows mismatches are expected.

Losses due to credit impairment have impacts on the future cash flows of assets backing the obligations. In addition to the allowance for investment losses already deducted from the carrying value of mortgages, additional credit risk, whose level is close to the one experienced by the Company or determined through analysis performed by the industry, is considered in the determination of future cashflows from invested assets.

Expenses charges — The assumptions regarding expenses charges are drawn from an analysis performed yearly by the Company, with adjustments for future inflation.

Reinsurance — In the normal course of business, the Company protects itself against risk associated with potentially large claims by using reinsurance from reinsurers who are governed by the same rules and authorities as the Company. In addition, reinsurance treaties protecting the Company from catastrophic claims resulting from a single event affecting multiple insureds are used.

For the year ended December 31, 2008 (in millions of dollars, unless otherwise indicated)

7. BANK LOANS

The Company has authorized lines of credit worth $10.0 with financial institutions at prime rate, unsecured.

8. SUBORDINATED DEBTS

	2008	2007
	$	$
Debenture, 5.5%, maturing in 2016, redeemable by the Company under certain conditions	**30.0**	30.0
Debenture, 4.175%, maturing in 2014, redeemable by the Company under certain conditions	**15.0**	15.0
Debenture, 6.4%, maturing in 2027	**10.0**	10.0
Debenture Series A, 7.75%, maturing in 2019[1]	**3.0**	3.0
	58.0	58.0
Subordinated notes, 7.09% semi-annual, maturing in 2020[1]		
Parent company	**6.1**	6.1
Shareholder	**0.9**	0.9
	7.0	7.0
Subordinated note, 5.93% semi-annual, maturing in 2018	**20.0**	–
	27.0	7.0
	85.0	65.0

[1] Convertible at the option of the holder into shares under certain circumstances such a change in control, a merger, a public offering or a default in the payment of interest and principal at maturity.

The Company does not establish fair value for its subordinated debts as they are issued privately.

For the year ended December 31, 2008 (in millions of dollars, unless otherwise indicated)

9. SHARE CAPITAL

Authorized

Series A

150,000,000 shares, without par value, participating and voting

Series B

150,000,000 shares, without par value, participating and voting, redeemable by mutual agreement, convertible at the option of the holder into Series A share, one Series A share for each Series B share exchanged

Series C

100,000,000 shares with par value of 1 dollar, non-voting, preferred dividend, issuable in one or several issues. On December 31, 2008, no Series C shares were issued

	2008	2007
	$	$
Issued		
29,901,210 Series A shares	**24.0**	24.0
15,872,860 Series B shares	**12.6**	12.6
	36.6	36.6

10. CAPITAL MANAGEMENT

The Company maintains a capital amount that satisfies the criteria of the *Autorité des marchés financiers (Autorité)* guideline on capital adequacy requirements.

The guideline requires the calculation of a solvency ratio of capital available to capital required, with both amounts established in accordance with the guideline.

Capital is required for each type of risk to which the Company is exposed, being mortality, morbidity, asset yield deficiency, and changes in interest rate environment as well as segregated fund guarantee risk.

Capital available corresponds primarily to equity increased by subordinated debts and decreased by amounts prescribed by the *Autorité,* including the required capital of its subsidiary SSQ, General Insurance Company Inc., which is established in accordance with the *Autorité* guideline on capital adequacy requirements (MCT) that apply to the subsidiary.

Due to their limited life, subordinated debts cease to be recognized as capital linearly over the last five years prior to their maturity; moreover, they are recognized up to 50% of the equity of the Company.

To maintain a capital amount that satisfies the criteria of the *Autorité,* the Company makes annual financial forecasts for the next five years; among the data reviewed are the solvency ratio and changes to the solvency ratio for the next five years. The actuary, appointed by the Board of Directors in conformity with the *Insurance Act,* prepares an annual assessment of the financial position of the Company; he carries out dynamic capital adequacy testing (DCAT) of which one objective is to verify the capital adequacy of the Company despite plausible unfavourable events. These documents are submitted and presented to the Board of Directors.

The *Autorité* guideline states that the Company must set a target capital available level that exceeds the minimum requirements. The Company has determined to maintain a solvency ratio that exceeds the minimum requirements in order, among others, to take advantage of any business opportunities. The Company's current solvency ratio exceeds minimum requirements and is higher than the set target.

For the year ended December 31, 2008 (in millions of dollars, unless otherwise indicated)

10. CAPITAL MANAGEMENT (cont'd)

Capital position as at December 31

	2008	2007
	$	$
Equity	**235.6**	235.5
Subordinated debts	**85.0**	65.0
Prescribed reductions and other adjustments	**(22.7)**	(14.7)
Capital available	**297.9**	285.8

In 2008, the Company issued a subordinated note of $20.0 in respect of subordinated debts. In 2007, the Company had issued a debenture in the amount of $10.0.

Concerning its subsidiary, SSQ General Insurance Company Inc., the policy of the Company is to maintain a superior target capital level than required under the *Autorité* guideline on the capital adequacy requirements (MCT) that apply to the subsidiary. The solvency ratios of the subsidiary as at December 31, 2008 and 2007 exceed the level required under the guideline.

11. INCOME TAXES

	2008	2007
	$	$
Income taxes expense – Income		
Current income taxes	**17.7**	5.3
Future income taxes	**(8.9)**	6.7
	8.8	12.0
Reconciliation of income taxes expense – Income		
Base income taxes	**10.8**	13.0
Decrease due to:		
Differences between accounting and tax purposes	**(2.0)**	(1.0)
	8.8	12.0
Income taxes expense – Comprehensive income		
Current income taxes	**(10.7)**	0.4
Future income taxes	**(0.6)**	(5.6)
	(11.3)	(5.2)
Future income taxes asset (liability)		
Investments	**(36.4)**	(41.4)
Fixed assets	**(3.2)**	(1.5)
Obligations towards insureds	**41.3**	34.9
Employee retirement benefits	**5.4**	5.5
Other	**(0.8)**	(0.7)
	6.3	(3.2)

For the year ended December 31, 2008 (in millions of dollars, unless otherwise indicated)

12. EMPLOYEE RETIREMENT BENEFITS

The Company offers to its employees contributory defined-benefit pension plans based on years of service and final average salary. It also offers to eligible employees retirement benefits such as severance pay and health and life insurance coverage. Amounts recorded in the balance sheet of the Company under accounts payable and included into selling and administrative expenses are as follows:

	2008		2007	
	Pension plans	**Other benefits**	Pension plans	Other benefits
	$	**$**	$	$
Accrued benefit obligation				
Obligation, beginning of year	**135.3**	**11.2**	133.1	13.2
Employees' contributions	**4.5**	**–**	3.2	–
Transfers from other plans	**1.1**	**–**	0.7	–
Current service cost	**6.6**	**0.7**	6.4	0.8
Past service cost	**–**	**–**	0.2	(2.0)
Interest cost	**7.8**	**0.6**	7.0	0.7
Actuarial gain	**(24.1)**	**(2.2)**	(11.1)	(1.4)
Benefits paid	**(5.1)**	**(0.3)**	(4.2)	(0.1)
Obligation, end of year	**126.1**	**10.0**	135.3	11.2
Pension plans assets				
Fair value, beginning of year	**111.0**	**–**	103.5	–
Actual return	**(14.9)**	**–**	0.7	–
Employer contributions	**8.7**	**0.3**	7.1	0.1
Employees' contributions	**4.5**	**–**	3.2	–
Transfers from other plans	**1.1**	**–**	0.7	–
Benefits paid	**(5.1)**	**(0.3)**	(4.2)	(0.1)
Fair value, end of year	**105.3**	**–**	111.0	–

For pension plans with accrued benefit obligation in excess of plans assets, the amounts of obligation and assets are respectively $124.8 and $103.6.

For the year ended December 31, 2008 (in millions of dollars, unless otherwise indicated)

12. EMPLOYEE RETIREMENT BENEFITS (cont'd)

	2008		2007	
	Pension plans	**Other benefits**	Pension plans	Other benefits
	$	**$**	$	$
Reconciliation of funded status to the accrued benefit liability				
Funded plans deficit	**12.5**	**–**	16.4	–
Unfunded plans deficit	**8.3**	**10.0**	7.9	11.2
	20.8	**10.0**	24.3	11.2
Unamortized past service cost	**(2.0)**	**1.8**	(2.1)	1.9
Unamortized actuarial gain (loss)	**(13.3)**	**2.2**	(15.3)	–
Accrued benefit liability	**5.5**	**14.0**	6.9	13.1
Employee retirement benefit expenses				
Current service cost	**6.6**	**0.7**	6.4	0.8
Past service cost	**–**	**–**	0.2	(2.0)
Interest cost	**7.8**	**0.6**	7.0	0.7
Actual return on plans assets	**14.9**	**–**	(0.7)	–
Actuarial gain	**(24.1)**	**(2.2)**	(11.1)	(1.4)
Cost arising from events in the year	**5.2**	**(0.9)**	1.8	(1.9)
Adjustments to recognize the long-term nature of employee retirement benefits:				
Difference between actual return and expected return on plans assets	**(22.0)**	**–**	(6.7)	–
Difference between unamortized actuarial loss or gain and its amortization	**24.0**	**2.2**	11.0	1.4
Difference between unamortized past services cost and its amortization	**0.1**	**(0.1)**	–	1.9
Expenses for the year	**7.3**	**1.2**	6.1	1.4

Cash payments for employee future benefits for the year totalled $8.9 (2007 – $7.9).

For the year ended December 31, 2008 (in millions of dollars, unless otherwise indicated)

12. EMPLOYEE RETIREMENT BENEFITS (cont'd)

	2008	2007
	%	%
Actuarial assumptions used for calculation of obligation and cost according to the weighted average as at December 31		
Discount rate – obligation	**6.75**	5.50
Discount rate – cost	**5.50**	5.00
Expected return on plans assets – obligation	**6.25**	6.25
Expected return on plans assets – cost	**6.25**	7.00
Rate of compensation increase – obligation	**3.00**	3.00
Rate of compensation increase – cost	**3.00**	3.00
Rate of increase in cost of covered health care (decreasing gradually to 4% in 2015)	**8.20**	8.20

Assumed health care cost trend rates have an effect on the amounts reported. Effect on costs for the year of 1% change in assumed rate would be as follows:

	1% Increase	1% Decrease
	$	$
Effect on current service cost and interest cost	0.1	(0.1)
Effect on accrued benefit liability	1.1	(0.8)

Valuation date — The Company measures its accrued benefit obligation and the fair value of plans assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the plans for funding purposes was as of December 31, 2006, and the next valuation will be based on plans' situation as at December 31, 2009.

Asset allocation — Pension plans assets are invested in the Company's segregated funds. Asset allocation as at December 31 is as follows:

	2008	2007
	%	%
Canadian bonds	**40**	44
Canadian shares	**13**	28
American shares	**8**	7
International shares	**16**	9
Other	**23**	12

For the year ended December 31, 2008 (in millions of dollars, unless otherwise indicated)

13. OTHER ITEMS OF CONSOLIDATED STATEMENT OF INCOME

	2008	2007
	$	$
Gross premiums		
Life insurance	**1,076.0**	998.3
Investment and retirement		
Invested in general funds	**62.8**	28.3
Invested in segregated funds (Note 15)	**409.5**	446.7
Property and casualty	**128.4**	123.6
	1,676.7	1,596.9
Selling and administrative expenses		
Depreciation of fixed assets	**8.2**	11.1
Interest on subordinated debts	**4.5**	3.4

For the year ended December 31, 2008 (in millions of dollars, unless otherwise indicated)

14. SEGMENTED INFORMATION

			2008
	Life insurance	Property and casualty	Total
	$	$	$
Assets			
Bonds	1,227.8	29.5	1,257.3
Loans	336.6	–	336.6
Shares	33.4	33.6	67.0
Investment fund	30.1	–	30.1
Real estate	92.3	–	92.3
Cash and deposit certificates	215.0	(1.6)	213.4
Other investments	33.8	–	33.8
Total investments	1,969.0	61.5	2,030.5
Other assets	170.9	106.1	277.0
	2,139.9	167.6	2,307.5
Revenues			
Gross premiums	1,548.3	128.4	1,676.7
Premiums ceded to reinsurance	(252.9)	(6.5)	(259.4)
Net premiums	1,295.4	121.9	1,417.3
Increase in unearned premiums	–	(6.0)	(6.0)
	1,295.4	115.9	1,411.3
Investments	102.4	2.3	104.7
Changes in fair value on held for trading assets	(16.2)	–	(16.2)
Administration fees and other revenues	29.9	–	29.9
	1,411.5	118.2	1,529.7

For the year ended December 31, 2008 (in millions of dollars, unless otherwise indicated)

14. SEGMENTED INFORMATION (cont'd)

			2007
	Life insurance	Property and casualty	Total
	$	$	$
Assets			
Bonds	1,221.5	34.5	1,256.0
Loans	271.2	–	271.2
Shares	41.1	39.6	80.7
Investment fund	51.4	–	51.4
Real estate	77.4	–	77.4
Cash and deposit certificates	174.0	0.2	174.2
Other investments	27.3	–	27.3
Total investments	1,863.9	74.3	1,938.2
Other assets	142.5	85.1	227.6
	2,006.4	159.4	2,165.8
Revenues			
Gross premiums	1,473.3	123.6	1,596.9
Premiums ceded to reinsurance	(243.3)	(5.2)	(248.5)
Net premiums	1,230.0	118.4	1,348.4
Increase in unearned premiums	–	(19.1)	(19.1)
	1,230.0	99.3	1,329.3
Investments	98.9	4.7	103.6
Changes in fair value on held for trading assets	(17.8)	–	(17.8)
Administration fees and other revenues	28.1	–	28.1
	1,339.2	104.0	1,443.2

For the year ended December 31, 2008 (in millions of dollars, unless otherwise indicated)

15. SEGREGATED FUNDS

Assets, liabilities and income from segregated funds related to the benefits of policyholders are not included in the financial statements of the Company. Segregated funds data, presented for information purposes, are excerpted from financial statements of segregated funds audited by other auditors.

During the year, premiums revenue related to units issued reported by segregated funds totalled $409.5 (2007 – $446.7) and asset components are as follows:

	2008	2007
	$	$
Assets		
Bonds and other fixed income investments	**532.8**	541.6
Shares	**87.9**	87.5
Investment fund units	**1,012.9**	1,080.2
Total investments	**1,633.6**	1,709.3
Other assets	**18.1**	11.4
	1,651.7	1,720.7

16. CONTINGENCIES AND COMMITMENTS

Contingencies — The Company and its subsidiaries are subject to legal actions, including proposed class actions, arising in the normal course of business. The Company does not expect that conclusion of current legal actions will have a material adverse effect on its consolidated financial position.

Letters of credit — In the normal course of business, banking institutions issue letters of credit on the Company's behalf. As at December 31, 2008, letters of credit totalled $12.0 (2007 – $7.6). No assets were pledged against these letters of credit.

Commitments — Future minimum commitments related to leasing agreements totalled $38.9 and payments for the next five years are as follows:

2009 – $4.3
2010 – $4.4
2011 – $4.4
2012 – $4.4
2013 – $3.3

17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation used in the current year.