Assets and Values

2002 ANNUAL REPORT

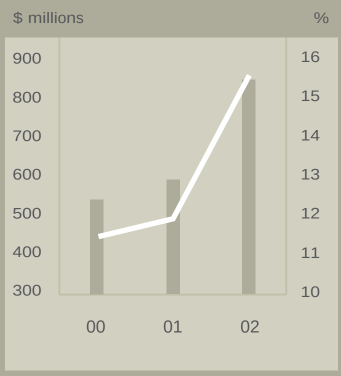
Desjardins


848
601
526
527
300
174
2000
2001
2002
COMBINED SURPLUS EARNINGS AFTER TAXES ($ millions)
RETURN TO COMMUNITY ($ millions)

Successfully Combining Assets and Values

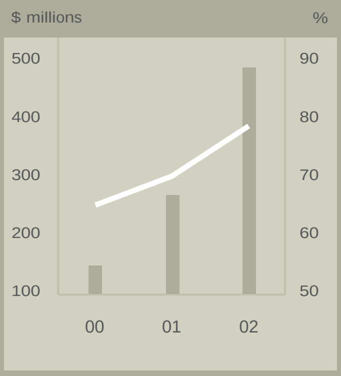
In 2002, Desjardins experienced its most profitable year yet, giving back over half a billion dollars to its members and the community: $490 million in patronage allocations, $37 million in sponsorships, donations and bursaries. Only a major financial cooperative can make such a difference!

Highlights



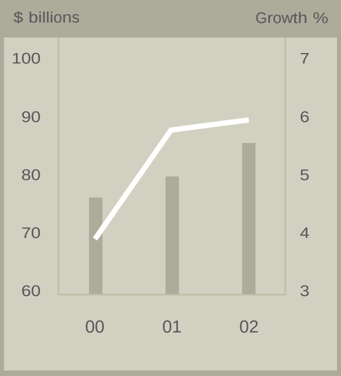
Surplus earnings before goodwill charges and patronage allocations to members

▬ Return on average equity (%)



Patronage allocations paid out to members

▬ Percentage of caisses paying out allocations in Québec



Total assets of Desjardins Group

▬ Growth (%)

FINANCIAL POSITION AS AT DECEMBER 31

Balance sheet and off-balance sheet[1] ($ millions and percentage)

	% change 2002-2001	2002	2001[2]	2000[2]
Total assets	6.0%	**$85,343**	$80,493	$76,117
Average assets	5.9	**83,449**	78,770	74,640
Liquid assets	4.4	**18,122**	17,357	16,238
Loans	6.7	**61,044**	57,210	54,855
Deposits, notes and subordinated debentures	5.1	**64,109**	61,009	58,001
Equity	9.0	**5,676**	5,205	4,810
Assets under administration	(1.3)	**145,717**	147,609	152,064
Assets under management	(3.3)	**14,013**	14,484	12,755
Tier 1 capital ratio (as per BIS standards)	—	**12.78%**	12.95%	12.26%

[1] Excluding the caisses and federations in New Brunswick, Ontario and Manitoba.
[2] Data adjusted to presentation format adopted in 2002.

OPERATING RESULTS[1]

For the years ended December 31 ($ millions and percentage)

	% change 2002–2001	2002	2001	2000
Total revenues[2]	8.9 %	**$6,937**	$6,372	$5,869
Provisions and loan losses	(54.0)	**109**	237	127
Non-interest expenses	4.7	**5,585**	5,332	5,072
Surplus earnings before goodwill charges and patronage allocations to members	41.1	**848**	601	526
Patronage allocations to members	82.2	**490**	269	143
Surplus earnings before goodwill charges and patronage allocations as a percentage of average assets	—	**1.02%**	0.76%	0.70%
Return on average equity	—	**15.6%**	12.0%	11.4%

[1] Excluding the caisses and federations in New Brunswick, Ontario and Manitoba.
[2] Including net interest income and other income.

CREDIT RATINGS

Desjardins Group enjoys excellent credit ratings.

	Short term	Medium and long term
Standard & Poor's	A-1 +	AA –
Moody's	P-1	Aa3
Dominion Bond Rating Service	R-1M	AA (low)

$848 million

in combined surplus earnings after taxes

$490 million

in patronage allocations to owner-members

15.6%

return on average equity

Business Segments

FINANCIAL INTERMEDIATION THE DESJARDINS CAISSES, THE FÉDÉRATION DES CAISSES DESJARDINS DU QUÉBEC AND ITS BUSINESS UNITS, CAISSE CENTRALE DESJARDINS AND FONDS DE SÉCURITÉ DESJARDINS ■ NUMBER ONE SUPPLIER OF FINANCIAL PRODUCTS AND SERVICES IN QUÉBEC WITH 1,520 POINTS-OF-SERVICE ■ MARKET SHARE AT 46.6% OF TRADITIONAL DEPOSITS, 38.3% OF HOME MORTGAGES, 44.0% OF FARM FINANCING AND 29.7% OF CONSUMER CREDIT ■ INTEGRATED OFFER OF SERVICES FOR INDIVIDUALS AND BUSINESSES ■ LEADER IN E-COMMERCE: MOST VISITED FINANCIAL SITE IN QUÉBEC AND SECOND MOST VISITED IN CANADA ■ LARGEST CREDIT CARD ISSUER IN QUÉBEC, WITH 2.2 MILLION CARDHOLDERS (VISA DESJARDINS)
www.desjardins.com

Life and health insurance, general insurance, trust services and securities brokerage services are grouped under a holding company, Desjardins Financial Corporation, which oversees their development and collaboration with the other components of the Group.
www.desjardinsfinancialcorporation.com

LIFE AND HEALTH INSURANCE DESJARDINS FINANCIAL SECURITY ■ Top life and health insurance company in Québec and seventh in Canada ■ Five million clients ■ Vast range of life and health insurance and retirement savings products ■ Business offices in many major Canadian cities, including St. John's, Halifax, Lévis, Québec City, Montréal, Ottawa, Toronto, Winnipeg, Regina, Calgary and Vancouver ■ A wide variety of delivery networks, with 3,530 employees, including 300 financial security advisors in the caisse network
www.desjardinsfinancialsecurity.com

GENERAL INSURANCE DESJARDINS GROUP GENERAL INSURANCE ■ Leader among P&C (property and casualty) insurers in Québec, ranking first in direct distribution to individual consumers ■ Seventh-largest P&C insurer in Canada, with 1.6 million insurance policies in force ■ Third-largest in Canada for general group insurance ■ Centres in Lévis, Montréal, Ottawa, Mississauga and Calgary ■ Offices in the Desjardins caisse network throughout Québec
www.assurancegeneraledesjardins.com www.thepersonal.com www.certas.ca

TRUST SERVICES DESJARDINS SPECIALIZED FINANCIAL SERVICES MANAGEMENT ■ Largest trust company in Québec (Desjardins Trust) ■ Wealth management products and services ■ Private management, group savings plans and trust services for individuals and businesses ■ Major mutual fund provider, with over 40 Desjardins and Maestral mutual funds ■ Leader in securities administration and custodial services in Québec
www.desjardins.com

SECURITIES BROKERAGE DESJARDINS SECURITIES ■ Full-service and discount brokerage (Disnat) for individuals ■ Integrated broker serving companies with its Corporate Financing, Fixed-Income and Institutional Sales divisions ■ Thirty full-service branches in Québec ■ Three branches in Toronto, Ottawa and Thunder Bay ■ Over 230 investment advisors
www.disnat.com www.dsia.ca

DEVELOPMENT CAPITAL INVESTISSEMENT DESJARDINS ■ Venture capital fund manager ■ Invests through Six Desjardins regional investment funds, ID Limited Partnership and Capital régional et coopératif Desjardins ■ Partner to more than 150 businesses, helping to create and maintain over 12,800 jobs in Québec ■ Offices in Ottawa
www.desjardins.com/id

An Integrated Cooperative Financial Group With more than 5 million members and clients and overall assets of $89.9 billion as at December 31, 2002, Desjardins Group is the largest financial institution in Québec and the sixth largest in Canada. Created in 1900, Desjardins is a cooperative financial group that belongs to its owner-members. It is composed of a vast network of caisses and Corporate Financial Centres throughout Québec, a Caisse centrale and more than twenty subsidiaries, counting those that are grouped under the Desjardins Financial Corporation banner, several which have offices across the country. Desjardins also comprises supervision and support organizations, such as the Fédération des caisses Desjardins du Québec. Having pioneered the offer of integrated financial products and services, we provide our members and clients, both individuals and businesses, with a full range of products and services backed by the expertise of our specialists, 1,000 financial planners, 928 account managers, and numerous advisors within our subsidiaries and business units. Our goal is now to become the preferred institution for Quebecers in wealth management and the preferred partner of SMBs. Our physical distribution network is the most successful in Québec and is seconded by powerful virtual access modes including www.desjardins.com, which is the most visited financial site in Québec and second-most visited in Canada. Our members and clients benefit from the skill and commitment of our 39,252 employees and more than 8,000 volunteer officers. We know how to combine assets and values, contributing to the well-being of individuals and to the economic and social development of their communities.

ALBAN D'AMOURS,
President and Chief Executive Officer
Desjardins Group

2002: A Banner Year for Desjardins

Although financial market turbulence hindered returns for several major financial institutions in 2002, results for Desjardins Group reached new heights. Surplus earnings before goodwill charges and patronage allocations reached a record $848 million, for an increase of 41% over 2001. The owner-users of the caisses were the first to profit from these exceptional results, sharing a record $490 million in patronage allocations, compared with $269 million in 2001. The additional $37 million distributed as bursaries, sponsorships and donations once again confirmed the active presence of the caisses and the Group in the community, as well as caisse support for institutions and projects that play a structuring role throughout Québec. By distributing a material share of its surplus earnings, Desjardins has clearly and most eloquently demonstrated its cooperative difference.

A Year for Consolidation

As 2002 was its first full year in operation, the single Fédération had the opportunity to gain an even greater benefit from the collaborative mechanisms associated with its newly formed democratic and decision-making bodies. Gains in efficiency and cost reductions have already significantly improved Desjardins Group's productivity ratio from 68.3% in 2001 to 64.7% in 2002. The implementation of the new, unified management covering the Group as a whole has also yielded tangible results. The share of earnings attributable to subsidiaries' results reached $138 million, or 30% more than in 2001, largely due to closer business ties between the caisses and the corporations. While these positive results were certainly aided by the strength of Québec's economy in 2002, they nonetheless provide an idea of what the Group can achieve in the coming years, as our new ways of doing things and ongoing projects continue to produce the desired results. Desjardins members and clients and their communities will now benefit even more from the presence of an integrated cooperative financial group.

A Year for Sharing in Transformation

The process of adopting a shared 2003–2005 vision and strategic orientations for the entire Group, and the strategic plan for the cooperative network, was an opportunity for the caisses and their regional and provincial bodies to collaborate on defining objectives and activities complementary to those of the corporate network. Today, people from all components of the Group are committed to realizing the caisse vision for 2005. By becoming a financial centre of expertise, each caisse will be able to provide its members with a team of experts to assist them in the professional management of their financial assets. The caisses continued to transform their physical network over the past year with that vision in mind. Through amalgamations to increase their size, and with strategic management of their points-of-service, the caisses will be in a position to offer their members a complete and integrated range of services. The Desjardins caisses will remain the most accessible financial institutions in Québec. They will continue to ensure a presence throughout the province, enabling each local environment to fully express itself through a dynamic and vibrant democratic process. A strategy was also developed in 2002 to emphasize quality of service to members. The strategy, implemented throughout the entire network as of 2003, is aimed at improving member satisfaction with the provision of service throughout the caisses and Group.

In this year of consolidation, Desjardins Group continued to develop its integrated risk management approach, guided by the new Basle Accord, which will come into effect in 2006. Desjardins is also very closely following the development of best practices in terms of governance, and its Board has adopted most of the best practices advocated throughout Canada. With respect to capital security, Desjardins issued $800 million in debentures in the spring of 2002, enabling the Group to post one of the best capital ratios in the industry in terms of both the quality and the quantity of its capital.

A Year for Development

The year 2002 was also a year devoted to development. For example, a total of $17 million was invested in the implementation of a vast human resources plan. Major efforts also focused on health and well-being in the workplace, better conditions, professional development and training. Already the largest advisory force in Québec, Desjardins continued its many activities focused on employee skill development. Ongoing concerted efforts in this regard will guarantee members and clients leading-edge knowledge and expertise from our staff. Meanwhile, concrete measures implemented with respect to preparing a new generation to move up through the ranks were aimed not only at renewing the Desjardins workforce but also at caisse membership and increased participation by young people as elected officers or intern officers.

Desjardins continued to develop its online services in 2002 in order to maintain its long-standing leadership in this field. There were 114 million transactions on the Desjardins Internet site last year, and its development is ongoing to ensure that members and clients always have on-line access to all services offered by the various components of the Group. Following the extension and expansion of the partnership agreement with CGI for payroll management functions, it will be possible to market that service to a broader range of clientele. Another measure included in our new strategic plan is the creation of a corporate business line separate from the business line for individuals. This action, which will also require major investments, includes providing the Corporate Financial Centres (CFCs) and Caisse centrale with high-performance tools and systems to handle the task. A more integrated offer of business services will make Desjardins the preferred financial institution for small- and mid-sized businesses.

The year 2002 also marked the start of investment activities for Capital régional et coopératif Desjardins, which injected a total of $33.7 million into 45 businesses and cooperatives across Québec. This first year of operations was just the beginning of an even more intense commitment by Desjardins to develop regions and support the vitality of the cooperative sector. The Student Loan Management Centre in Gaspé, which began serving the caisses over the past year, will be fully operational in 2003. Desjardins' presence outside Québec is also steadily growing, through the activities of Desjardins Financial Security, Desjardins Group General Insurance and Desjardins Securities. In 2002, our brokerage subsidiary accelerated its development, adding to its team in Toronto and opening new offices in Vancouver, Boston and New York. Desjardins Securities is significantly increasing its workforce in line with its objective to establish an integrated Desjardins brokerage firm ready to take on a greater presence in the area of services to businesses and institutions in the coming years. Desjardins Group's participation in the acquisition of the Province of Ontario Savings Office, achieved through a new Ontario financial cooperative called Desjardins Credit Union, will now make it possible, once an expected $170 million in investments has been realized, to increase sales of Desjardins products and services via a network of close to 30 branches throughout Ontario. Meanwhile, negotiations under way with the Fédération des caisses populaires de l'Ontario are seen as an excellent opportunity for the caisse network in Ontario and Desjardins Group to review their relationship and forge a newer and stronger business partnership. These recent developments are related to one of Desjardins Group's major strategic orientations, which is to expand its activities and business partnerships across Canada. Strengthening the Desjardins brand image will contribute to its positioning throughout all provinces while making existing members and clients more aware of the specialized expertise offered by the network of caisses and corporations. In line with its objective to emphasize the Desjardins brand, Desjardins-Laurentian Financial Corporation made the decision to change its name, and will now be known as Desjardins Financial Corporation.

To ensure integration of the strategic orientations of the cooperative and corporate networks, and to coordinate business development of the Group as a whole, the Desjardins Group President and CEO and the Fédération Board of Directors are supported by a Strategic Planning and Development Committee. The committee is made up of senior management personnel from the major components of Desjardins.

Before being adopted by the Board of Directors in April 2002, the Group vision statement and the strategic orientations for 2003–2005 were the focus of a special consultation of caisse representatives. The Chairs and General Managers of the caisses and Corporate Financial Centres also provided input for the 2005 caisse vision.

Desjardins Cooperative Renewal: A Year for Reflection and Consultation

After having devoted its efforts in recent years to increasing efficiency, adapting to change and promoting business development, Desjardins is now directing its attention to the practices that will ensure its long-term survival as a cooperative. Hence the Desjardins Cooperative Renewal project, which reaffirms the cooperative nature of Desjardins Group and provides input for the changes needed to update and revitalize our democratic practices. Indeed, 2002 was a year that was particularly active in terms of reflection and consultation. Last spring, we approached specialists for their opinions and asked many of our socio-economic partners for comments and suggestions. In the fall, more than 17,000 people—caisse members, officers and employees—participated in the local sessions of the 18th Congress. This was a completely unique democratic experience and was one of the most significant events in the recent history of Desjardins. The local sessions were a major part of the Congress approach, paving the way for the Group session discussions to be held in March 2003. We expect nothing less than the beginning of an entirely new relationship between the caisses and their members.

Combined Efforts

At the end of this year, we can look back over a remarkable job and observe our exceptional results. I would like to thank all the people who continue to make Desjardins an impressive force that is continually moving forward. First of all, I must thank the elected officers, as well as the managers and employees of the caisses and their affiliates, who faithfully provide services to members with a constant concern for improvement. The caisses receive professional and skilled support from teams at the Fédération, Caisse centrale and the subsidiaries, whom I would also like to thank for their excellent work. My sincere thanks go out as well to the members of all the CORE organizations, and to my colleagues on the Board of Directors, for their personal commitment and their shared desire to make Desjardins the most competent and most human of financial institutions. Desjardins owes its ability to successfully combine assets and values to you and your efforts.

Alban D'Amours

Alban D'Amours
PRESIDENT AND CHIEF EXECUTIVE OFFICER
DESJARDINS GROUP

BOARD OF DIRECTORS

Frances Carrier
Caisse General Manager
CORE Richelieu-Yamaska

Jean-Guy Bureau
President CORE
Group Caisses

Clément Samson
President CORE
Québec-Ouest–Rive-Sud

Thomas Blais
Fédération des caisses populaires de l'Ontario
Observer

Richard Sarrazin
Caisse General Manager
CORE Québec-Ouest–Rive-Sud

Pierre Leblanc
President
CORE Mauricie

Marcel Lauzon
President
CORE Laval–Laurentides

Denis Paré
President
CORE Estrie

Jacques Baril
President
CORE Est de Montréal

Benoît Turcotte
Vice-President and Managing Director CORE Abitibi-Témiscamingue–Nord et Ouest du Québec

Andrée Lafortune
President
CORE Ouest de Montréal

André Jean
President
CORE Centre-du-Québec

Jacqueline Mondy
President
CORE Kamouraska–Chaudière-Appalaches

André Lachapelle
President
CORE Lanaudière

The Most Successful Year in Desjardins' History

Paul-André Lavoie
Vice-President and Managing Director CORE Bas-Saint-Laurent et Gaspésie–Îles-de-la-Madeleine

Gilles Lepage
Fédération des caisses populaires acadiennes
Observer

Louise Charbonneau
Caisse General Manager
CORE Est de Montréal

Raymond Gagné
President
CORE Bas-Saint-Laurent et Gaspésie–Îles-de-la-Madeleine

Olivier Lavoie*
President CORE Saguenay–Lac Saint-Jean–Charlevoix–Côte-Nord

Madeleine Lapierre*
President
CORE Richelieu-Yamaska
Vice-Chair of the Board

André Shatskoff*
Caisse General Manager
CORE Lanaudière

Alban D'Amours*
Desjardins Group
President and Chief Executive Officer and Chairman of the Board

Sylvie St-Pierre Babin*
President CORE Abitibi-Témiscamingue–Nord et Ouest du Québec

Pierre Tardif*
President
CORE Rive-Sud de Montréal
Board Secretary

André Gagné*
President
CORE Québec-Est

Not shown:

Normand Collet
Fédération des caisses populaires du Manitoba
Observer

***Members of the Executive Committee.**

CORE stands for Council of Representatives. ■ The members of the Board of Directors of the Fédération des caisses Desjardins du Québec are also directors of Desjardins Financial Corporation and Caisse centrale Desjardins. ■ The Board of Directors is made up of 21 members, including 20 who are elected by the Regional General Meeting, Group Caisse General Meeting or Fédération General Meeting. The following are Members of the Board: The 16 CORE Presidents, the four caisse General Managers elected by the General Meeting and the President and Chief Executive Officer of Desjardins Group. For the Bas-Saint-Laurent–Gaspésie–Îles-de-la-Madeleine and Abitibi-Témiscamingue–Nord et Ouest du Québec regions, the CORE Vice-President, who is also a Managing Director, sits on the Board but does not have the right to vote. Representatives of the New Brunswick, Ontario and Manitoba federations sit on the Board as Observers.

MANAGEMENT COMMITTEE

Following page, top, from left to right.

Marc Laplante
Senior Vice-President
Corporate Market Group

Robert Marcotte
Senior Vice-President
Finance and Administration

Marie-Huguette Cormier
Executive Vice-President
Consumer Market Group

Pierre Brossard
Senior Vice-President
Institutional Affairs
and Executive Assistant
to the President

Monique F. Leroux
Desjardins Financial Corporation
President and Chief Executive Officer
of the Subsidiaries

Alban D'Amours
Desjardins Group President
and Chief Executive Officer
and Chairman of the Board

Bertrand Laferrière
President and Chief Operating Officer
Fédération des caisses Desjardins
du Québec

Following page, bottom, from left to right.

Pierre Moran
Senior Vice-President
E-Commerce Solutions

Richard Halley
Senior Vice-President
Information Technology

Gaston Sirois
Senior Vice-President
Integrated Risk Management

Jacques Dignard
Senior Vice-President
Human Resources and Operations

Marc Jean
Senior Vice-President
Planning and Cooperation and Assistant to
the President and Chief Operating Officer

Michel Latour
Senior Vice-President
Central Region

Pierre Robitaille
Senior Vice-President
Eastern Region

Bruno Morin
Senior Vice-President
Western Region

Serge Dufresne
Senior Vice-President
Group Caisses

From left to right:

Raynald Corriveau
Inspector and Auditor General
Desjardins Group

Pauline D'Amboise
Secretary General
Fédération des caisses
Desjardins du Québec

Michel Pratte
Internal Auditor
Desjardins Group

Jean-Guy Langelier
President and Chief
Operating Officer
Caisse centrale Desjardins

Bruno Riverin
President and Chief
Operating Officer
Investissement Desjardins

A Shared Vision

In 2002, we drew up the vision and strategic orientations to be shared for the following three years by all components of Desjardins Group. This vision was the product of Desjardins Group's CORE organizations, elected officers and executive management. It reads as follows:

"Desjardins Group, on the strength of its cooperative mission, its network of subsidiaries and its financial equilibrium, aims to be the best financial institution as much in terms of member and client satisfaction as in terms of business development through an accessible, efficient and complete offer of services." The following pages summarize our accomplishments in 2002 with respect to each of the major orientations that guided us in carrying out our vision.

LISE LESSARD, Financial Planner, Caisse populaire Desjardins de Lévis
RICHARD DÉSILETS, Financial Security Advisor, Desjardins Financial Security

Becoming a leader in customer consideration and in the quality of our business relationship with members

Skilled Employees Anticipating Needs

Our personalized approach, integrated offer of products and services and highly qualified advisory force, whose main goal is member and client satisfaction, is what sets us apart and makes us a leader in the quality of our business relationships. In the financial services industry, customer satisfaction depends first and foremost on the employees' professional skills and their ability to anticipate needs. Our staff is our most important means of differentiating Desjardins with respect to our relationship with members, since they provide the primary contact. It is up to our employees to give the members the kind of business experience we wish to offer, i.e., one that is based on consideration, confidence and respect.

This is why we invest so much in the recruitment, professional development and motivation of our human resources, as demonstrated by the seven orientations listed in our 2002–2005 Human Resources Plan, implemented last year. In 2002, we saw the first wave of achievements with respect to those orientations, which are designed to make us a leader in terms of our business relations with members and clients. The human resources plan targets positive results based on three basic elements we like to call the quality triangle: customer satisfaction (responding to legitimate expectations), personnel motivation (creating a pleasant workplace that encourages accountability and skills development), and productivity (honing the efficiency of our working methods).

Acting more quickly and decisively in terms of hiring and succession Among the achievements of our Human Resources Plan, our manpower planning process helped the caisses and the Fédération define the employment issues ahead of us, particularly with respect to regional areas and the upcoming generation of financial planners. The caisses now have three recruitment and evaluation centres serving the Eastern, Central and Western regions of Québec, respectively. These centres will help attract the best talent by promoting the advantages of being employed by Desjardins, and will provide the caisses with expertise for evaluating the skills and potential of prospective candidates. In addition, in 2002 we worked on creating a centralized job posting program for the caisses, the Fédération and the subsidiaries on the www.desjardins.com site.

THE CAISSE OF 2005 WILL BE A FINANCIAL CENTRE OF EXPERTISE PROVIDING ACCESS TO ALL DESJARDINS INTEGRATED PRODUCTS AND SERVICES. IT WILL BE RECOGNIZED FOR THE DISTINCTIVE RELATIONSHIP THAT IT HAS WITH ITS MEMBERS AND ITS COMMUNITY.

Increasing our knowledge of the workforce with a view to succession, development, productivity and equity An extensive survey was carried out among all Fédération employees and 5,000 caisse employees to give us a clear idea of employee satisfaction and motivation levels. The survey revealed a very high overall degree of satisfaction and helped us pinpoint areas for improvement, which were then included among the priorities set forth in our Human Resources Plan. We also continued work on integrating training program management to the employee files in our database, to give us even greater knowledge for managing our human resources.

Hiring more women to management positions We have continued to take steps to promote career advancement among women, in particular by targeting and supporting those who are interested and have the potential to take on management positions. In cooperation with the Women's Advisory Commission, we also made efforts to increase the number of women officers, at all levels of decision. According to figures on December 31, 2002, 18% of general manager positions were held by women. In addition, following a call in 2002 for candidates for the position of general manager, 58 women, or 33%, were pre-selected out of a total of 177 candidates hired, which augurs well for the future.

Promoting career paths at Desjardins To meet the challenges posed by recruitment, motivation and development of our human resources, we have decided to actively promote career paths at Desjardins. To do so, we established mechanisms to help people better understand and access the various career paths available within our organization. We also expanded the mission of our reassignment centre, which up to now had been devoted exclusively to supporting employees on temporary lay-off. That centre will now add full career management to its functions.

Innovating in our training approach and content, to remain ahead of member needs In the financial services industry, it is essential to have the trade skills to anticipate and respond to members' needs. Such skills involve the technical knowledge and abilities that our employees need to be able to provide the services members expect. In 2002, there were numerous achievements illustrating our efforts to provide our staff the required knowledge and abilities. ■ 5.15% of payroll invested in training. ■ Two technical training centres were inaugurated, one in Montréal's East End, the other in Lévis. ■ 9,500 employees took part in *à la carte* training programs, which are increasingly in demand. ■ A total of 904 employees participated in specific internal succession programs or personalized coaching activities. ■ A total of 3,196 employees took part in training activities targeting business solutions deployment and developments. ■ 160 new employees were hired through our university and CÉGEP succession programs. ■ A total of 8,000 employees registered for our distance teaching program, which offers several virtual courses and over 350 learning modules. Distance training proves to be a most valuable asset where rich course content combines with the use of new technologies, which we plan to upgrade in 2003.

These initiatives will continue in 2003 with a new motivation program regarding service quality designed for caisse employees and officers; 32,000 employees and officers will benefit from this program over the next two or three years. This massive project is based on Desjardins' basic points of excellence that will be progressively applied throughout the caisse network and our other distribution channels. Performance indicators related to these basic points will make it possible to uniformly measure the quality of our provision of service to members with respect to seven essential areas: consideration, professionalism, thoughtfulness, confidentiality, accessibility, courtesy and efficiency. Technical and vocational training will be continued as a priority for the years to come. We will then complement these initiatives by creating a Cooperative Institute offering programs intended primarily for the managers and elected officers of various Group components, which will be conducive to shared support for Desjardins' values, vision and orientations, as well as for the acquisition of the governance and management practices needed to implement major changes in the future. All these programs will benefit each and every one of our employees.

OUR "DESJARDINS MEMBERS FILE" PROJECT, WHICH, WITH THE MEMBERS' CONSENT, WILL ENABLE THE AGGREGATION OF DATA FROM THE CAISSES, SUBSIDIARIES AND BUSINESS UNITS, WILL SIGNIFICANTLY FURTHER KNOWLEDGE OF OUR MEMBERS AND CONSIDERABLY IMPROVE OUR ABILITY TO ANTICIPATE THEIR NEEDS AND TO BECOME TRULY RESPONSIVE IN OUR SERVICE RELATIONSHIPS.

Supporting the network in its transformation and productivity In order to better motivate our personnel and make us more competitive on the job market, we recently updated our salary management practices with changes to payroll and working conditions for non-management caisse and Fédération employees. The changes include adjustments to salary scales to be in effect at the beginning of 2003, as well as a review of the group insurance plan. Our remuneration package for employees will now be more attractive, compared to what is available on the market. Moreover, by the end of last year, over 60% of the caisses had implemented a profit-sharing plan aimed at motivating their teams to reach sales and quality objectives. A similar plan has been in place for Fédération employees since January 2002. The profit-sharing plans are designed to be competitive and are intended as a form of recognition to employees for the results attained.

Promoting life-work balance In order to promote a balance between work and family obligations among our employees, we adopted first a series of measures aimed at offering employees more latitude in leave management. We also reviewed parental leave policies and encouraged further skill development, for the same reasons. We extended the health and well-being management program, deployed in the caisses in 2001, to Fédération employees. The program, which was designed to develop a culture of health and well-being and encourage employees to take care of themselves, was very well received in terms of participation and satisfaction levels.

Excellence in our subsidiaries The subsidiaries of Desjardins Financial Corporation are also committed to excellence in business relations, investing in their human resources to improve member and client satisfaction. Desjardins Financial Security (DFS) received an award from the Life Office Management Association for the fourth consecutive year; only three other companies in the world can claim as much. This performance is testimony to the excellence of the company's employees, who ranked much higher than the North American average in the association's evaluation tests. A SOM poll indicated a high satisfaction rate among members with respect to DFS financial security advisors, underlining among other things their ability to establish a relationship of trust. Finally, a study by *Affaires Plus* magazine and the Watson Wyatt consulting firm, recognized DFS as one of the best employers in Québec in 2002.

Desjardins Group General Insurance (DGGI), which plans to create 250 new jobs by 2005, established a new competitive and uniform remuneration policy to be applied across Canada, and continued its ongoing training program for agents and adjusters. Year after year, DGGI customer satisfaction and loyalty rates (95% and 96% respectively) are among the highest in the industry. In 2003, Desjardins Financial Corporation and its subsidiaries are also working on achieving an overall portrait of their human resources. They will then be better able to identify future challenges and implement a succession program appropriate to each subsidiary's particular situation. They will also set up tools for measuring employee satisfaction and commitment, as well as that of members, clients and partners.

SÉBASTIEN RIOPEL, Account Manager, Outaouais Corporate Financial Centre

Having the best integrated offer of services to businesses

Financial Centres and Subsidiaries Serving SMBs

As we continue supporting our substantial growth in the individual consumer market, we also plan to gain a greater share of the business market. Our objective is to become the preferred partner of SMBs, by offering them the best integrated offer of products and services on the market. Backed by our Corporate Financial Centres (CFCs) and our subsidiaries, we aim to increase our market share among SMBs and large corporations while maintaining our leadership in the agricultural sector. Already well established throughout the province, the CFCs are the central axis of our strategy to respond promptly, professionally and cost effectively to the overall business needs of our corporate clientele. Dominating the market through their proximity and accessibility, the CFCs stand out due to the quality and range of integrated services they offer. As at December 31, 2002, there were 501 caisses participating in one of the 61 CFCs operating across Québec; more than 75% of the business volume and financing granted by the caisse network was being managed by CFCs. Objectives for farm loans were surpassed, with growth of $485 million. A number of factors, such as improved employee skills, a broader offer of service, and the progressive implementation of a uniform operational model in our CFCs, definitely contributed to those results. By the end of 2003, all the CFCs will have adopted a common business model, mainly inspired by their respective best practices.

Throughout the year, we worked on better coordinating the CFC offer of services with Caisse centrale, Investissement Desjardins, the personal and general insurance subsidiaries, Desjardins Financial Corporation's trust and securities brokerage services, and business units such as E-Commerce Solutions, Desjardins Electronic Payroll Services and Desjardins Payment Services. With expertise available from all our components, the CFCs have the tools to accompany businesses from different sectors of activity through all the phases of their development.

THE 928 ACCOUNT MANAGERS ASSIGNED TO OUR 61 CORPORATE FINANCIAL CENTRES GUARANTEE CONTINUITY OF OUR BUSINESS RELATIONSHIP WITH MEMBER COMPANIES. ADVISORS FROM DESJARDINS FINANCIAL CORPORATION SUBSIDIARIES, CAISSE CENTRALE DESJARDINS AND INVESTISSEMENT DESJARDINS PROVIDE INPUT ON AN AS-NEEDED BASIS, TO SUPPORT ANYTHING FROM START-UP TO EXPANSION TO PENETRATING NEW INTERNATIONAL MARKETS.

In order to contribute to Desjardins' growing business volume and presence in the corporate sector, we developed a number of innovative tools and solutions especially designed for that clientele. A media campaign was launched to build awareness about the expertise shared by our account managers and our subsidiaries' specialized advisors, highlighting our extensive integrated offer of services for business. A major survey among 1,800 business members revealed that business people are very appreciative of the recent improvements to our corporate services and that they are well aware of how much Desjardins values that sector.

Serving the needs of SMBs In order to meet the needs of SMBs, we launched several new products last year, including *Desjardins Integrated Payroll Solutions*, offered to retail organizations, and *Construction Payroll*, a new electronic tool especially designed for entrepreneurs in the construction sector. We also introduced *VISA Desjardins Business Freedom Solutions* for small businesses, combining the flexibility of a credit line, the simplicity of a credit card, and the term financing you get with accord D; in addition, there is accord D Business FINANCING, which provides a second, separate credit limit associated with the Business cards that can be used to obtain loans for up to $25,000.

As manufacturers of non-banking products, Desjardins Financial Corporation's subsidiaries added to our offer of service. A caissassurance pilot project is now under way in a number of CFCs. Also, more intensive marketing of general insurance products for businesses by Assurances générales des caisses Desjardins was highly successful as sales increased by 30%. In collaboration with the Fédération and Desjardins Financial Security, Desjardins Trust modernized Desjardins' Group RRSP, a plan they administer on behalf of the caisses. The improvements, which include new features, greater flexibility and more detailed statements, due to the use of a new technological platform, should show results as early as 2003.

Caisse centrale Desjardins was also called upon in 2002 to support the CFCs in their offer of service. Among other things, the Caisse designed the ExportD factoring service, a turnkey solution particularly valued by exporting SMBs. With varying fees depending on transactions, ExportD enables the exporting company to transfer to Desjardins all or part of the risks related to international trade. Caisse centrale also made a considerable effort to increase the visibility of its international services, training some 2,000 caisse and CFC employees and more than 950 SMBs in this regard. These efforts have resulted in an increase exceeding 50% in exchange transactions carried out directly through its agents. More than 300 member companies have used this direct access, setting us apart from the competition in terms of international services.

Development capital We also facilitate access to development capital through Investissement Desjardins, which now manages the assets of ID Limited Partnership, the six Desjardins regional investment funds, and Capital régional et coopératif Desjardins. In the course of 2002, $77 million was invested in 88 companies, representing a tangible contribution to the economic development of regions and of Québec as a whole by creating and/or supporting over 12,800 jobs. Investissement Desjardins also supports these businesses by its expertise in their start-up, growth and expansion phases, and even in their merger, acquisition or IPO projects. It plans to invest more than $640 million in the next three years in dynamic and innovative SMBs and cooperatives across Québec. As at December 31, 2002, Investissement Desjardins had $450 million in assets under management.

AN AGREEMENT WITH THE FÉDÉRATION DES COOPÉRATIVES QUÉBÉCOISES EN MILIEU SCOLAIRE WILL ENABLE MEMBERS OF COOPSCO TO BENEFIT FROM AN INTEGRATED OFFER ADAPTED TO THEIR OWN NEEDS AND FACILITATING THE PURCHASE OF COMPUTER PRODUCTS. THIS INNOVATIVE PLAN INCLUDES PRODUCTS AND SERVICES FROM THE CAISSES, FROM ELECTRONIC PAYROLL SERVICES AND VISA DESJARDINS, AS WELL AS INSURANCE COVERAGE OFFERED BY ASSURANCES GÉNÉRALES DES CAISSES DESJARDINS AND DESJARDINS FINANCIAL SECURITY.

Recognizing the importance of women entrepreneurs and their contribution to Québec's economic development, we developed an approach enabling CFC account managers to better understand and better support women business owners. We also joined the Community Futures Development Corporation and the *Association féminine d'éducation et d'action sociale* in creating the *Aide aux femmes entrepreneures en région* program. The purpose of the program is to educate, motivate and equip women in rural areas who would like to open their own business, and facilitate their access to financial institutions.

Large businesses and institutions Supported by a strong and renewed network, reinforced strategic ties and a continually improving line of products, we also developed the means to serve even the most demanding businesses and institutions. Caisse centrale Desjardins maintained direct relationships with large corporations, for example, as interim financing agent in Montréal's E-Commerce Place project. Our subsidiary, Opvest, which acted as project manager, has continued to oversee Desjardins Group's interests on this major site, which saw phase one completed in December 2002. Opvest also acted as associate agent in a $440 million project for CGI Group. In the public and parapublic sectors, Caisse centrale increased its financing for large Crown corporations, namely Société des alcools du Québec and Financière agricole du Québec, as well as its banking services, for instance to the Régie des rentes du Québec and Ministère des Finances du Québec. Elantis Investment Management launched several new funds in 2002 to better serve the investment needs of our institutional clientele. This was in part made possible through its partnership with AllianceBernstein, a major U.S. investment manager active on international markets. The new funds include the Canadian Equity Value Fund, the U.S. Strategic Value Fund, the Long-Term Government Bond Fund and the Elantis Multi-Strategy Fund.

Our insurance subsidiaries have clearly proven that we have the expertise to create group plans that meet the needs of any organization, regardless of its size. Desjardins Financial Security (DFS) had an exceptional year in 2002, particularly for its larger groups of 1,000 employees or more. Thanks to the tireless efforts of its sales team, its excellent customer service reputation and its competitive rates, the company was able to obtain a number of major, nation-wide contracts, including one with CGI Group for its 9,500 employees located all across Canada. These factors also helped DFS win the group insurance contract for the 3,000 employees at Concordia University, a large English-speaking university in Montréal. Group insurance sales reached new heights in 2002, surpassing the threshold of $135 million, for an increase of 15% over last year. Desjardins Group General Insurance contracted several new group policies under the Canada-wide The Personal banner with the Federation of Medical Specialists of Québec and the Ontario Society of Professional Engineers, among others.

Finally, in order to better serve our business clients and provide the Group with an integrated brokerage service suited to our needs, Desjardins Securities continued its dynamic push into the fields of corporate financing, institutional brokering and fixed-income products. Desjardins Securities in particular sought to expand its expertise by hiring 20 professionals to round out its corporate financing, research and institutional and derivative product sales teams. Desjardins Securities, which aims to offer follow-up services for all Québec government-owned businesses and to participate in all underwriting groups, already employs the largest research team of any brokerage firm in Montréal. Desjardins Securities also achieved gains in terms of merger and acquisition projects as one of the financial advisors to CGI Group involved in the Cognicase transaction. Concerted efforts to increase our presence among businesses should intensify in the coming years. Our 2003–2005 strategic plan includes the establishment of a new line of business services, with its own goals and strategies, as well as distinct measures of sales, performance, results and profitability. This new sector, which will require major investments, will promote increased coordination between the various Desjardins components, with the aim of offering the best integrated solution to businesses and institutions across Québec, especially SMBs.

NASIR AMEERIAR, Member, C.N. Employees Desjardins Credit Union

Becoming the preferred wealth management institution in Québec

Your Professional Asset Managers

As pioneers of the integrated offer of financial products and services, our focus is now to become the main manager of financial wealth for individual Quebecers. To reach that objective, we continued our efforts throughout 2002 to develop our employee skills and customer consideration, make our offer of wealth management services accessible across the province, and carve an even greater niche in this growing market. We particularly intend to gain our fair share of the major depositor market.

With a head start in terms of our integrated offer of services, we now also have the largest number of financial planners in Québec in addition to the specialized advisory forces from Desjardins Financial Corporation subsidiaries. The caisse network alone has 630 financial planners, to which can be added the expertise of 6,000 group savings representatives, 300 financial security advisors exclusively serving caisse members, 233 investment advisors at Desjardins Securities and 400 general insurance agents. The Group hires in excess of 1,000 financial planners. We also have one of the most extensive ranges of wealth management investment products in Québec, including no less than 42 Desjardins and Maestral mutual funds, 28 segregated funds and five Millennia fund portfolios, numerous indexed term and traditional savings products and the Capital régional et coopératif Desjardins investment security, in addition to all the types of investments available on the stock and bond markets through our brokerage corporation.

According to sales results for 2002, real gains were achieved in the specialized savings products sector despite difficult economic conditions. The caisses are the top-ranking institution in Canada for stock market-linked products, with $6 billion outstanding at the end of 2002. This represents an increase of over $779 million with respect to the previous year and $2.4 billion over the past two years. It is worthy of note that the caisses are still the only establishments able to offer life and health insurance directly though financial security advisors located on the premises; sales in that sector grew by 64% this year. The number of policies issued to members rose by 46%, while requests for consultation were up 44%. To accommodate this phenomenal growth, and because the direct offer of insurance products is an essential part of our plan to become the largest wealth manager in Québec, Desjardins Financial Security will increase the number of its advisors in the caisses to 400 by the end of 2003.

THE CAISSES AIM TO ACHIEVE AN OPTIMAL WORKING RELATIONSHIP WITH DESJARDINS FINANCIAL CORPORATION SUBSIDIARIES IN ORDER TO STRENGTHEN THEIR LEADERSHIP IN TERMS OF INTEGRATED FINANCIAL PRODUCTS AND SERVICES. ALL OUR MEMBERS, REGARDLESS OF WHETHER THEY LIVE IN A RURAL OR URBAN ENVIRONMENT, WILL HAVE ACCESS BY 2005 TO A FULL AND INTEGRATED OFFER OF SERVICES CALLED "YOUR PROFESSIONAL ASSET MANAGERS."

AS WINNERS OF THE "YOUR HOME FREE" CONTEST, FIVE MEMBERS WHO TOOK OUT A MORTGAGE DURING THE PROMOTIONAL PERIOD WERE HANDED A CHEQUE FOR THE AMOUNT OF THE MUNICIPAL ASSESSMENT OF THEIR HOUSE. THE CONTEST WAS ORGANIZED BY THE CAISSES AND DESJARDINS FINANCIAL SECURITY.

We also consolidated our leadership in the ebullient mortgage financing market in 2002. Overall, our market share was estimated at 38.3% in this sector as at the end of last year, up by 0.2% over 2001. This growth is due to the vitality of our network of expert advisors in mortgage financing and the impressive performance of the sales team at our point-of-sale financing centre. The volume of home mortgages signed through real estate brokers rose to $1.67 billion, representing 19% of the total volume of loans for the year. Other innovations to consumer credit included associating the Desjardins VISA card to the Desjardins accord D FINANCING card for members' financing needs of $5,000 or less. Since the end of November, accord D FINANCING has been available at all caisses. By granting a second credit limit, separate from the Desjardins VISA card, this new financing solution has greatly accelerated the processing of loans and provides more flexibility to our members. For those who require a substantial amount of credit, we also launched the Liberty credit line at the end of the year, offering flexible payment conditions and a very competitive interest rate.

Furthermore, the transformation of the physical caisse network, increased synergy among our various distribution networks and the expertise available through our specialized subsidiaries should also serve to augment our market position in wealth management. All our efforts are aimed at turning the caisses into true centres of financial expertise, recognized for the quality of their business relationship with members and for the complete and integrated offer of financial products that meet all their needs, from the simplest to the most complex. We especially have high hopes for our new range of services designed for major depositors. Marketed as Your Professional Asset Managers, this new service is provided by an expert group, a highly qualified advisory force whose main goal is member satisfaction. Since the beginning of January 2003, pilot projects in six caisses have begun using the program, which will gradually be deployed throughout the caisse network. Central to the expert group is the caisse financial planner, who works closely with our subsidiaries' advisors to guarantee members a high level of service and expertise. Financial planning, investment, securities, discretionary portfolio management, estate planning and financial security are all part of this integrated offer, which is based on a long-term business relationship that is based in turn on members' life-long financial goals and needs.

The creation of this expert group is one of the many initiatives aimed at further strengthening the close working relationship between the cooperative network and the subsidiaries. Desjardins Financial Corporation must ensure the cohesion and convergence of strategic objectives between the subsidiaries and the caisses. Last year, the focus was on increasing the interaction between the two networks. Discretionary portfolio management and estate liquidation services offered by Desjardins Trust were thus integrated into the overall caisse offer of services, while procedures to increase our presence in the securities brokerage sector, which is very important for major depositors, are ongoing. To that effect, Desjardins Securities has acquired the branches of a competitor's firm in Abitibi and opened a branch in Montréal's Place Ville-Marie, bringing our total number of investment advisors to 233. Working on developing a closer relationship with the caisses, Desjardins Security created an assignment policy for investment advisors and has worked out the terms of their collaboration with the caisses. Assets under management at integrated caisses (i.e., caisses offering the full range of Desjardins products and services) have continued to grow, reaching $1.7 billion in 2002. Moreover, at the beginning of 2003, the caisses and subsidiaries will be called upon to sign business pacts describing their chosen means for supporting the joint business development plan. Through such partnership agreements, each of our components will channel its strengths toward providing optimal member service and satisfaction.

Broadening our Range of Products

Several new investment and financial security products and services were introduced during the year, which enabled us to further diversify our member and client portfolio and contributed to strengthening our position in the highly competitive and constantly changing world of wealth management. The new “International Index” and “World-wide Sectorial Index” stock market indexed term savings (SMITS) products, Desjardins Tactical Rate Management Term Savings product, Desjardins Canadian Equity Value Fund, and Desjardins Dividend Fund are just some of the recent arrivals. Other new products involved additions to the Maestral line, such as their new Altimaître RESP fund, Planimaîtres asset management program, Dividend Fund, as well as Maestral’s new Dynamic Portfolio of Funds and the Millennia III Ultimate Equity Portfolio of Funds. Finally, with the growing popularity of fee-based brokerage accounts, we developed the Fortuna Plan and the Desjardins Securities Elite Accounts.

Desjardins Financial Security also launched a number of innovative life and health insurance products. Three of them, Family Advantage, Solo Health and MAXLife, were designed to appeal to a broad customer base, while a fourth, Wealth Builder, specifically targets high-income clientele looking for a tax strategy for their savings. Always seeking better ways to serve its clientele, Desjardins Financial Security is also the first life and health insurance company in Canada to tackle the challenge of contract readability, which is a growing concern in an industry where consumers are demanding more transparency. In cooperation with Shawinigan Consumer Aid Services, DFS drew up a new contract template that is much more user friendly than the current standard, not only with respect to syntax and terminology but presentation as well.

Signing on a New Generation of Members

Since it is so important to ensure the adhesion of a new generation of members, we paid even greater attention to the youth sector, with a view to long-term education and business development. A number of projects were undertaken in this regard in 2002, including the creation of the Teen Internet Portal for the 12–17 age group at www.desjardins.com and the Youth Club Chrome Program, where young people can benefit from a number of advantages offered through partnerships with the business community. Also with a view to attracting a new generation of members, we have sought to increase our visibility among allophone and anglophone communities, who represent a growing part of Québec’s population. Our first initiative in that regard will be to reinforce our physical presence in areas where there is a high concentration of allophone and anglophone populations. The spring 2003 opening of a point-of-service on Montréal’s West Island offering our entire range of advisory services promises to provide a dynamic presence in those communities.

Over the coming years, we will continue to make our wealth management services accessible throughout Québec and claim a sizeable portion of that market. To do so, we plan to devote ourselves to reaching a critical mass in order to distribute all of our products and services, develop our employees’ skills and customer consideration, and broaden our offer of services through the convergence of the caisses and subsidiaries.

FOR THE SECOND YEAR IN A ROW, WE WON FIRST PLACE IN ON-LINE MARKETING AT THE 2002 FLÈCHE D’OR (GOLDEN ARROW) GALA FROM THE ASSOCIATION DU MARKETING DIRECT ET DE LA RELATION CLIENTÈLE, IN THE BANKING AND FINANCIAL INSTITUTIONS AND INSURANCE COMPANIES, PRODUCTS AND SERVICES CATEGORY. THE WINNING PROGRAM THIS TIME WAS THE PERSONALIZED PORTFOLIO/RETIREMENT SIMULATOR FROM OUR SAVINGS-INVESTMENT CAMPAIGN IN 2001–2002. DESJARDINS FINANCIAL SECURITY’S DIRECT DISTRIBUTION CENTRE ALSO WON A FLÈCHE D’OR FOR THE CLIENT CONTACT CENTRES SECTOR, SALES CATEGORY. THE FLÈCHE D’OR IS THE MOST PRESTIGIOUS AWARD IN QUÉBEC IN THE FIELD.

DIANE LEBRUN, General Manager, and GASTON M. OUELLET, President of the Board of Directors of the Caisse populaire de L'Île-Perrot

Maximizing performance and synergies among our distribution networks

The Most Accessible Financial Institution

By maximizing efficiencies and synergies in our physical and virtual networks, we aim to position ourselves as the largest and most accessible financial services institution in Québec. In 2002, following the major changes accomplished in the past few years, such as reengineering our business practices, setting up CFCs, consolidating our caisses, creating the new Fédération to support the caisse network and implementing new technologies, we continued work on another aspect of our strategic plan: to optimizie our physical and virtual networks. The focus of this large-scale project is to transform the physical caisse network, based on the 2005 caisse vision, which is essential to ensuring the long-term survival of our institution, both as a cooperative and as a financial institution. This transformation, along with optimal management of all our networks combined, is primarily aimed at adjusting the caisse offer of services to better correspond to our members' new buying patterns, and to making that offer of services accessible everywhere in Québec.

Desjardins members have followed the significant changes in general consumer patterns with respect to financial products and services. While they are making substantial use of automated services, they are also demanding personalized service in managing their assets and financial security. They are now looking for a financial institution that is capable of both guaranteeing them full automated and virtual access at all times and offering them products and services that are perfectly adapted to their needs, at the time and place most convenient to them. Major steps have therefore been taken over the past year to ensure that, by 2005, all caisses across Québec can claim to be financial centres of expertise offering members integrated Desjardins products and services with added value, under the heading Your Professional Asset Managers. As the result of a large-scale consensus, the 2005 caisse vision—adopted at the same time as the Group's major strategic orientations for 2003–2005—was the subject of intense communication efforts throughout the year aimed at ensuring that it was fully understood and accepted by all caisses.

WITH 1,520 POINTS-OF-SERVICE, MORE THAN ALL BANK BRANCHES COMBINED, WE ARE BY FAR THE LARGEST FINANCIAL INSTITUTION IN QUÉBEC. WE PLAN TO MAINTAIN THIS POSITION THROUGH THE PHYSICAL TRANSFORMATION OF OUR NETWORK, WHICH SHOULD BRING US CLOSER TO OUR MEMBERS. ONCE THIS AMBITIOUS PROJECT HAS BEEN COMPLETED, DESJARDINS CAISSES WILL BE SURE TO REMAIN THE MOST PRESENT AND MOST ACCESSIBLE FINANCIAL INSTITUTION ON THE MARKET.

In those communications, we especially emphasized three indissociable aspects that form the basis for this truly profound transformation of the caisse network. First of all, the caisses need to reach a sufficient size and have a certain critical mass in their markets to be able to offer their members a complete range of services and accurate advice. Secondly, it is essential that they remain the most accessible financial institutions in Québec. And thirdly, a strong and balanced caisse network must continue to foster the expression of a dynamic democratic life that is representative of the local community.

We continued to support caisse consolidations throughout the year, as well as the processes related to real estate sales, new site selection and sub-leasing and managing vacant space, to help the caisses reach the size they need to achieve the caisse vision by 2005. As soon as a caisse becomes large enough to support one or more financial planners on its team, it will be able to offer its members the Your Professional Asset Managers service, through the expert group. This group consists of financial planners and advisors operating in various fields such as securities, private management, estate planning and insurance. The larger caisses may organize the delivery of these services in various ways, depending on needs and capacities. However, regardless of size, every caisse will demonstrate the same level of professionalism, offering the utmost service quality and responding to all their members' needs, great or small.

Also, after having intensified consolidation efforts and organized their corporate financial centres, several caisses are today reviewing the locations of their points-of-service to bring them closer to members. We therefore carried out numerous financial, human and market studies according to our transformation plan, creating business scenarios for each micro-market. The purpose of this transformation is to enable our members to find caisse outlets in the places they frequent the most, offering business hours better adapted to their needs, and improved access to a complete and professional offer of services, particularly in terms of asset and estate management.

Network Synergy

The network transformation will also be based on increased collaboration between the caisses and the other components of the Group, so the caisses can offer the full range of services along with advice best suited to the profile of each member. We made significant progress in this regard in 2002, especially with respect to establishing a connection among all the components, the on-site approach, and the offer of services. Among other things, we formed a coordination and distribution group, composed of business development managers at Desjardins Financial Corporation subsidiaries and the Fédération. This group is charged with establishing mechanisms for coordinating sales and marketing activities among the partners of our subsidiaries and business units. In addition, we improved coordination of support activities for the delivery of securities, trust services and life and health insurance. Many initiatives were also made in terms of developing our offer of services at the caisse itself. For example, we intensified our brokerage services through an off-site Desjardins Securities investment advisor. This additional follow-up service enables the caisses to better serve its clientele with strategic investor profiles. We have also instituted a new estate liquidation telephone help line in the caisses, through our subsidiary Sigma Assistel.

IN 2002, WE CONTINUED TO INNOVATE IN TERMS OF ELECTRONIC SERVICES SO AS TO MAINTAIN OUR TRADITIONAL LEADING POSITION. OUR INTERNET SERVICE SETS US AMONG THE TOP PROVIDERS AND WWW.DESJARDINS.COM IS STILL THE MOST FREQUENTLY VISITED SITE IN QUÉBEC AND THE SECOND IN CANADA.

Virtual Networks

Automated transactions today represent some 88% of all transactions made at Desjardins, and their popularity is still growing. Once again this year, the www.desjardins.com site was the most visited financial site in Québec, with an average of 2 million visits per month. The number of users of AccèsD Internet, the transactional module for individuals, grew from 406,000 in 2001 to 600,000 last December. The number of companies registered with AccèsD Affaires likewise rose from 37,000 to 55,000. The total number of transactions jumped from 74.3 million to close to 114.2 million in one year, or 54%. The number of self-serve telephone transactions also grew, from 39.5 million to nearly 51.5 million at the end of 2002. As for the ATM network, 321 million transactions were made in 2002.

Numerous efforts were put forth during the year to maximize the efficiency and synergy of our virtual networks and automated services. We were the first institution in the country to offer individuals an on-line bill payment service for one-time invoices such as drivers' licence renewals and traffic tickets. Several changes were also made to the AccèsD Internet service interface to facilitate browsing, improve efficiency and increase transaction security, for example, with direct access to all forms available under the Online Applications tab or discount brokerage services available through the Disnat brokerage tab. The Disnat discount brokerage division also completely revised the infrastructure of its transactional site, paving the way to implement new functionalities in 2003, including on-line trading of mutual funds and fixed-income securities. We are also proud to note that the Desjardins Financial Security Web site won "Best of Show" in the 2002 Life Communicators Association awards. This major North American association particularly appreciated the quality of our presentation of products and services and calculators, which help consumers draw up a portrait of their financial situation. Finally, all our on-line financial services have become more accessible thanks to computer terminals installed in certain caisses as part of a joint pilot project with Bell Canada. These new terminals, which complement the ATMs, will help publicize and promote the services offered through AccèsD Internet.

In the coming years, we will intensify our network transformation and optimization efforts. We will carefully determine the optimal location and appropriate business model for each caisse point-of-service, taking into account demographic changes and changes in member traffic and consumer buying patterns. Thus, no matter where they live, be it in a rural or urban setting, members will always have access to all Desjardins products and services.

DEBORAH GRAY, Vice-President, Marketing and Group Sales
Desjardins Group, General Insurance (Mississauga)

Ensuring profitable business development in new markets

Growing Presence in Canada

We plan to develop our business outside Québec, with a view to increasing our revenues, diversifying our market risk and broadening our range of services. As increasing numbers of national and international institutions are competing heavily for a share of the Québec market, our development strategies must reflect the imperatives of an open economy. While affirming our cooperative difference, we too must seek to develop new markets, drawing on our unique strengths and expertise. In today's economic conditions, it is especially critical to diversify geographic risk and sources of revenue. Since we are already active in many locations across Canada, our first plan is to develop those markets through our subsidiaries and our alliances with the caisses populaires and credit unions in other provinces. Another advantage of developing our business outside Québec is that it creates added value for caisse members. Increased revenues from a greater variety of sources will not only have a positive effect on profitability, but will make our products more competitive, heighten our development potential, and enhance our ability to continue to develop products and services in line with the changing needs of our members and clients.

In 2002, we filed a brief with the federal Department of Finance in response to a nationwide call for consultations on the possibility of creating cooperative banks, once again demonstrating our willingness to work in partnership with other cooperative institutions on Canadian projects. For the past decade, the caisses populaires in New Brunswick, Ontario and Manitoba have all been part of the great Desjardins family. Last year, we worked towards strengthening our collaboration with those organizations. Negotiations currently under way between the Fédération des caisses populaires de l'Ontario and the Fédération des caisses Desjardins du Québec provide an excellent opportunity for both networks to review their relationship and form a renewed, stronger business partnership based on their respective 2005 strategic plans and orientations. Caisse centrale Desjardins also approached a number of other Canadian cooperatives to offer them Desjardins savings products. In addition, we intensified our business ties with Canadian credit unions. Caisse centrale brokered four financing deals, for a total value around $300 million, in favour of Coast Capital/Surrey Metro Savings Credit Union, North Shore Credit Union, Envision Credit Union and Vancouver City Savings Credit Union, which together represent nearly 80% of the cooperative sector of British Columbia.

IN THE EARLY PART OF 2003, WE ANNOUNCED OUR PARTICIPATION IN THE ACQUISITION OF THE PROVINCE OF ONTARIO SAVINGS OFFICE (POSO) BY DESJARDINS CREDIT UNION, A NEW FINANCIAL COOPERATIVE WHOSE CREATION WE SUPPORTED. THE $170 MILLION INVESTMENT THAT WE PUT INTO THAT PROJECT WILL CONTRIBUTE TO TRANSFORMING POSO INTO A FINANCIAL COOPERATIVE OFFERING AN EXTENSIVE RANGE OF DESJARDINS PRODUCTS AND SERVICES. POSO HAS A NETWORK OF 25 BRANCHES AND THREE AGENCIES IN CENTRAL ONTARIO AND IN TORONTO, WITH 190 EMPLOYEES. FULLY IN LINE WITH OUR STRATEGIC ORIENTATIONS, THIS ACQUISITION WILL CONTRIBUTE BOTH TO REINFORCING THE CANADIAN COOPERATIVE SECTOR AND TO STRENGTHENING OUR DEVELOPMENT POTENTIAL ON THE CANADIAN MARKET WITH THE SUPPORT OF OUR SUBSIDIARIES.

Desjardins Financial Corporation and Its Subsidiaries

Because of the diversity of both their physical and virtual distribution networks, Desjardins Financial Corporation's subsidiaries contributed in 2002 to expanding Desjardins Group's commercial reach beyond its traditional markets. Profitable growth of our insurance, trust services, securities brokerage and investment management subsidiaries in other Canadian provinces involves reaching the critical mass necessary to take advantage of resulting economies of scale. Desjardins Financial Security (DFS) has made major inroads into the group insurance market in Ontario as well as in Atlantic and Western Canada. Among other developments, the company signed group agreements with the Ottawa-Carleton Elementary Teachers Federation, TNT Transportation, Herbert A. Watts and the Ontario Electrical League. With more systematic response to calls for tender, DFS is now a major player in the 1000-plus group market in Canada. The company continued to expand distribution of its personal insurance products, signing agreements with some twenty financial services distributors including National Financial and IPC Insurance. These agreements, in addition to the 15 agreements signed the previous year, serve to strengthen the company's position with respect to insurance and savings products on all Canadian markets.

Desjardins Group General Insurance (DGGI) meanwhile continued to develop and consolidate corporations acquired outside Québec in recent years. All the company's group insurance operations now fall under The Personal banner, which adopted a nationwide logo and has a new bilingual Web site. The Personal also signed several group agreements with different organizations in 2002, including the Ontario Society of Professional Engineers, the Prince Albert Credit Union, the Investment Dealers Association of Canada and the Canadian Association of Optometrists. In an effort to gain an advantage from its winning practices, DGGI also successfully implemented its automobile insurance IT system outside Québec, where profitable business development potential remains very high. Finally, Opvest, which has offices in Toronto and Vancouver, completed a hefty $225 million in mortgage transactions and $32.4 million in real-estate transactions outside Québec. Desjardins Securities continued to increase its consumer clientele. The company pursued its ongoing expansion outside Québec through the consolidation of its branch in Toronto, by opening a full-service branch in Thunder Bay and acquiring operating permits for 15 U.S. states. In addition, Desjardins Securities now has representatives in Boston, Vancouver and New York for its institutional clientele.

Investissement Desjardins

Investissement Desjardins continued to develop business in Ontario through its Ottawa office, which opened in 2001. The company invested $21.6 million in six companies, mostly in the telecommunications sector. This has enabled us to broaden our network of contacts and create new outlets for companies that we support in Québec. In addition, Investissement Desjardins made its mark among several venture capital corporations in Canada and the U.S. with a number of joint investments. Several transactions were made in 2002 with companies such as BTF of Holland, MVI from Europe, HBM BioVentures of Switzerland, Shaw Ventures Inc., Schneider Electric Ventures, Western Technology Seed Investment Fund Limited Partnership of Vancouver, Fidelity Canadian Growth Company Fund of Boston, MDS Capital, Working Ventures Canadian Fund Inc., and MedTech Partners of Toronto. The total value of these cash injections into Québec companies amounted to $26 million.

Desjardins Group aims to further strengthen its presence across Canada in 2003. To fulfil that goal, our subsidiaries plan to maximize the efficiency of our physical and virtual distribution networks and position us as a front-line player in Canadian group and individual health and life insurance. We will also remain on the lookout for transactions and partnerships that would profitably increase our securities brokerage activities and mutual funds distribution, nationwide. We will also continue to efficiently and effectively accompany our members and clients who travel and do business outside Québec, through the international services offered by Caisse centrale Desjardins, the Desjardins Federal Savings Bank in Hallandale and Pompano Beach in Florida, as well as our cooperation agreements with foreign institutions around the world.

Desjardins: A Global Presence

Important leadership within international cooperative organizations With a concern for the vitality of the cooperative movement around the world, Desjardins Group is an active participant in the work of international cooperative organizations. In 2002, we were a member of the executive committee of the International Co-operative Banking Association and the International Confederation of Popular Banks (CIBP), as well as a member of the Board of Directors of the International Co-operative and Mutual Insurance Federation (ICMIF). Desjardins Group's excellent credibility and reputation within the international cooperative community make it a very highly respected player in the development of cooperative-type financial organizations. Through the CIBP, we are also partners of an international consulting and investment corporation, B.P. Invest Consult. This corporation offers investment projects in Eastern European countries and the Balkans, such as Poland, Hungary, Romania and Bosnia, to companies who are clients of the five institutional partners.

Développement international Desjardins Développement international Desjardins (DID) specializes in technical support and investment in community financing for developing and emerging countries. DID is financially supported by the Canadian International Development Agency, the Québec government and a number of multilateral organizations. DID is a world leader in its sector and currently advises organizations in approximately 20 countries throughout Africa, Latin America, the West Indies, Asia and Central and Eastern Europe. DID mandates are varied in nature, and may involve anything from the start-up or consolidation of basic institutions, to control and inspection, legal and regulatory framework, strategic planning, the design and marketing of products and services, work organization, financial management, transactional computer systems and information management systems. At the end of 2002, the 21 networks supported by DID included 2,365 caisses or groups with a total of 3,801 employees, 179 more than in December 2001. In the past year, major efforts were devoted to a sub-regional project in Africa to provide technical support to community financial institutions (FINACO). Pilot projects for transactional software have been implemented in four networks working with DID in Madagascar, Burkina Faso, Senegal and Mali as a first stage in an overall modernization process. Also, the official implementation in October of the Centre d'innovations financières, a consortium of six mutualist networks in West Africa, paves the way to a pooling of resources and business strategies on a sub-regional basis.

In Mexico, where DID is perceived as a model, support for the development of the Banca Popular remained a priority in 2002. DID innovated by setting up two financial cooperatives in the Huasteca and Chiapas regions, marginalized zones where financial intermediation is greatly underdeveloped. By strengthening its presence in Mexico, DID hopes to support cooperatives with their network organization and in expanding their offer of services. Desjardins Group will be called in for prospective analyses of insurance, small business and financing for community housing. Due to major upcoming changes in development assistance programs, DID should continue to adapt in order to maintain its added value with respect to increasingly demanding partners.

SERGE LUPIEN, Advisor, Risk Management and Strategic Balance Sheet Management, Fédération des caisses Desjardins du Québec

Maintaining healthy profitability, maximizing productivity and optimizing development capital, to hone our competitive edge and ensure our long-term stability

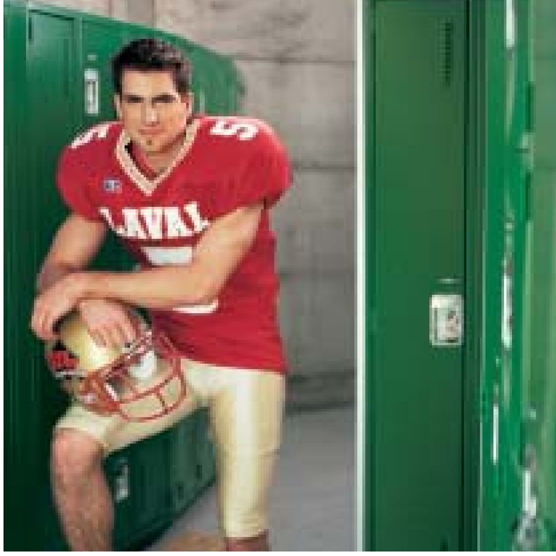
Unprecedented Financial Results

The past year was an exceptional one. Our surplus earnings before goodwill charges and patronage allocations to members were up 41% over the previous year, reaching a record $84.8 million. Our productivity ratio improved to 64.7% in 2002, compared to 68.3% in 2001. With rising profit margins in financial intermediation, tight cost controls, increased efficiency and our best productivity showings ever, we have achieved the profitability we need to continue our expansion and ensure our long-term continuity. We have earmarked a part of our earnings to be invested in human resources development, new markets and e-commerce projects that will enable us to maintain our on-line leadership.

It was no accident that *Les Affaires* newspaper chose Desjardins Group as "Business of the Year." We managed to increase our profitability and establish a single federation, while still maintaining our commitment to our members and making a substantial social contribution as well. That is what we call "healthy profits"—something that enables us to provide better quality services and reinvest in our communities. We believe that maintaining strong levels of high-quality capitalization is the best way to guarantee our financial integrity. That is why, on the strength of sustained volume increases and significant asset growth, we issued $800 million in senior notes for Canadian investors in May 2002. As a result, we are one of the best-capitalized financial institutions in the country. Financial results are discussed in detail in the Management's Discussion and Analysis section, starting on page 43.

FOR US, CREATING VALUE HAS A SPECIAL MEANING. THROUGH OUR LONG-TERM OBJECTIVES, WE AIM TO ENSURE THAT DESJARDINS GROUP CAN CONTINUE TO PROVIDE SKILLED, QUALITY SERVICES TO OUR MEMBERS AND THEIR COMMUNITIES, WHILE IN PURSUIT OF ITS MISSION AND LONG-TERM CONTINUITY.










Realizing our cooperative difference, in particular through member participation and our commitment to community development, as well as through commercial practices and management techniques

Strengthening Our Cooperative Difference

At the top of the list of the six major strategic orientations discussed in the preceding pages, our cooperative difference is more vital today than ever before. In an era of market globablization, cooperation is still highly relevant in terms of achieving sustainable development. Since it belongs to its owner-users, Desjardins Group is in a better position to achieve convergence among collective and individual interests than any other integrated financial group. Beyond its competitive offer of products and services, what distinguishes Desjardins Group most is the participation of its members and its contribution to community development.

Through our commitment to the community, our increased participation in the development of Québec and its regions, our efforts to achieve optimal representation of all members, as well as through the many manifestations of our internal democracy, we have proven over the past year that we are more motivated and determined than ever to strengthen our cooperative difference. In 2002, we gave a significant proportion of our surplus earnings back to the Québec community in the form of patronage allocations, sponsorships, donations and bursaries. Our achievements in that regard are described in a separate brochure attached to this annual report, the *2002 Community Involvement Report*. While full details can be found in the brochure, here we will simply note that the caisses paid out a total of $490 million in patronage allocations to owner-members, and a total of $37 million in sponsorships, donations and bursaries was paid out by the Group as a whole. As longstanding partners of Québec and its regional areas, we further intensified our participation in their economic development, particularly through Capital régional et coopératif Desjardins, which began its investment activities in 2002. This new venture capital corporation took in $208.3 million from 72,105 Québec investors by December 31, 2002. Since its creation, $33.7 million has been invested in 45 SMBs and cooperatives located in various regions throughout Québec.

Meanwhile, more than 280 caisses outsourced their student loans to the Desjardins Student Loan Management Centre in Gaspé in 2002. The Centre, which required major investments in data-processing systems and technology, will gradually serve all Desjardins caisses in Québec. It will eventually be staffed by approximately 100 employees, making Desjardins the largest private employer in the region. We also partnered with Place aux jeunes du Québec, the Québec government and the Fonds jeunesse du Québec in setting up the *Agents de migration Place aux jeunes–Desjardins* project. The purpose of this project, for which we have earmarked $75,000 annually for each of the next three years, is to halt the exodus of young people to major urban centres, to facilitate their professional integration and stimulate regional entrepreneurship. Also, we signed an agreement with the Community Futures Development Corporation and the *Association féminine d'éducation et d'action sociale* to promote female entrepreneurs in regional areas and facilitate women's access to financial services.

OUR EXCELLENT RESULTS AND THE REMARKABLE CONSEQUENT SPINOFFS FOR OUR MEMBERS AND THEIR COMMUNITIES, WITH MORE THAN HALF A BILLION DOLLARS PAID OUT IN PATRONAGE ALLOCATIONS, SPONSORSHIPS, DONATIONS AND BURSARIES, ARE JUST ANOTHER HIGHLY ELOQUENT EXAMPLE PROVING THAT COOPERATION AND FINANCIAL PERFORMANCE CAN GO HAND IN HAND. OUR SLOGAN "ASSETS AND VALUES" MEANS MORE TODAY THAN EVER BEFORE.

Internal Democratic Practices

Our cooperative difference is also shown through the vitality of our internal democracy. The two *Rendez-vous des présidents et présidentes* held in Québec City at the beginning and at the end of the year were an opportunity for the more than 1,100 officers to discuss the new strategic orientations for the Group, the new 2005 caisse vision, the implementation of the quality of service program and the deployment of Desjardins integrated products and services. In addition, the Fédération des caisses Desjardins drew up and implemented an action plan aimed at improving officer representation and strengthening their role, sensitizing Fédération employees and management to the cooperative difference and integrating that difference into our commercial operations and practices.

Representation

We are also active during the year in our efforts to see that our officer representation accurately reflects the various publics that we serve. Thus, the four advisory commissions created in 2001 continued to work on increasing the presence of women, youth, cultural communities and aboriginal people within the Group and improving our ability to respond to the specific needs of each of those clienteles. The presence of six women on the Board of Directors of the Fédération and three on the Board of Ethics, in addition to the 28.8% of female caisse officers as at December 31, 2002, places Desjardins Group at the forefront of major Canadian institutions with respect to representation of women. In half of the 671 caisses at least 30% of elected officers are women, and in 15% of caisses the Boards have as many women as men, if not more. Young people under 35 now constitute 5.6% of our officers. In addition, we are counting on our new positioning with respect to allophone and anglophone communities to better meet their needs and promote better representation of these groups among our officers. The results of various projects carried out in 2002 will also lead to the adoption of a position targeting the same objectives with respect to native groups by the end of 2003.

Desjardins Cooperative Renewal

In 2001, with a view to revitalizing the associative and democratic practices of the caisses, we undertook the most comprehensive reflection process of our history, known as the *Desjardins Cooperative Renewal*. In the course of the past year, we carried out an intense consultation of our members and various socio-economic groups in order to redefine the caisse mission in light of the current expectations, aspirations and needs of members. The results of the consultations were used to define major orientations that were the focus of the local sessions held in 575 caisses in the fall of 2002. Some 17,000 participants in those sessions expressed their opinions on issues such as the caisse purpose, democratic and financial participation by members, patronage allocations, commercial practices, remuneration of elected officers, caisse autonomy and network solidarity. In March 2003, the Desjardins Group General Sessions in Montréal marked the culmination of the *Desjardins Cooperative Renewal* process. Participants at the 18th Congress came to a decision on the major orientations that will guide the activities of the caisses and of the Group as a whole with respect to the expression of their cooperative difference for many years to come.

Desjardins Group Financial Review

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS This Annual Report may contain forward-looking statements concerning Desjardins Group's activities and strategies. By their very nature, such statements involve risks and uncertainties, and it is therefore possible that the predictions or forecasts made may not materialize because of a number of factors. Legislative and regulatory developments, changes in the economic environment, technological changes and the effects of increased competition in a market open to globalization are only some of the important factors which could cause actual results to differ from the forward-looking statements made in this report.

Economic conditions

The global economic recovery, which seemed to be well established at the beginning of 2002, quickly lost steam in the spring, unable to withstand the financial scandals that rocked stock markets worldwide. Increased geopolitical uncertainty also helped undermine the climate of confidence, preventing the rally from taking off. The sluggishness of the recovery in the United States weighed heavily in the balance, given that the U.S. is expected to be an engine of growth on the international scene.

Anemic economic activity prompted a number of major central banks around the world to lower their leading rates. The U.S. kicked off the movement in November with a 50 basis point reduction; the European central bank quickly followed suit, visibly concerned about the economic quasi-stagnation in the old continent. Elsewhere in the world, Latin America went through one of the toughest times in its history, and Japan remained locked in its slump.

The growing threat of an armed conflict with Iraq translated into a risk premium on the price of oil, which several times exceeded the OPEC target range of US$22-28 a barrel and was another factor putting the brakes to the global economic recovery. The uncertainty of the situation therefore impacted not only financial markets but also the economic climate of the entire planet.

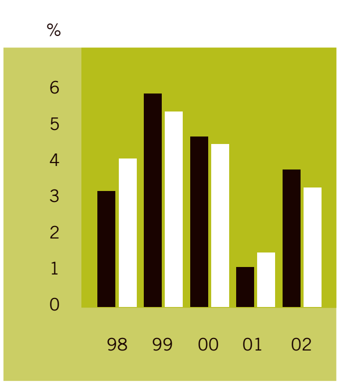
Despite the weakness of the world economy, Canada and Québec launched into a new expansionary cycle with remarkable vigour. Canada led the G-7 in real GDP growth in 2002. Clearly, the Canadian and Québec economies were in a league of their own, unaffected by the pessimism prevailing elsewhere.

There were several good reasons why Canada and Québec were able to outperform the U.S. in terms of economic growth. First, the industrial sector was in a much better position, since it did not suffer from excess production capacity. This led to strong job creation across Canada, while the number of workers declined considerably in the U.S. The real estate boom also helped Canada and Québec outdistance their neighbour to the south.

The economic environment was therefore different in several respects north of the border, which was reflected in the management of monetary policy. The Bank of Canada began tightening the money supply in the spring. The leading rates were raised three times, for a total of 75 basis points. However, the central bank marked time in the fall given the heightened geopolitical uncertainty and the sluggishness of the U.S. economy.

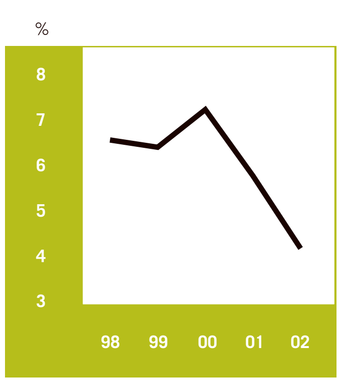
In Québec, real GDP growth was close to 4% in 2002, outpacing both Canada as a whole and the U.S. Record job creation, the buoyant housing market and massive government investment made the province an outstanding player on the North American scene. On account of the shaky recovery in the U.S., exports were the weak link in the Québec economy. But businesses turned in a much improved performance in terms of earnings and investments, while the number of bankruptcies marked a 20-year low.

OUTLOOK FOR 2003 The year began in an atmosphere fraught with uncertainty. Until the risk of a conflict with Iraq is completely eliminated, the world economy will have trouble returning to its cruising speed. However, we anticipate that the Canadian economy will continue to expand, supported by a more muscular recovery on the part of the U.S. economy. And so the outlook is positive for Canada and Québec, and they are likely to surpass the U.S. for a fifth straight year in terms of economic growth. Nonetheless, there are some major risks clouding the economic horizon.

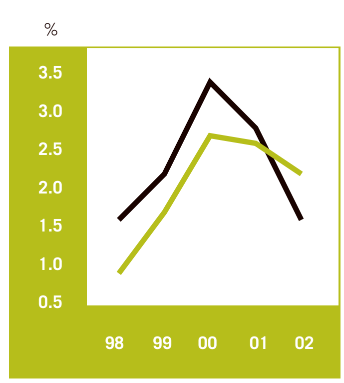


GDP growth
(at market price, in 1992 dollars)

■ Québec
□ Canada

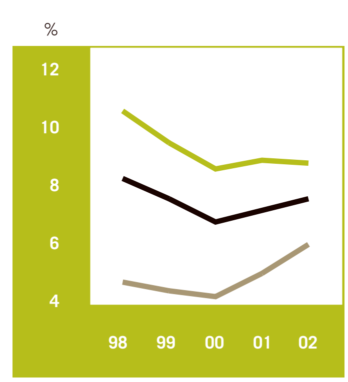


Prime rate



Inflation rate

- Canada
- United States



Unemployment rate

- Québec
- Canada
- United States

Combined results by business segment – Desjardins Group

Table 1 Contribution to combined surplus earnings by business segment

For the year ended December 31 ($ millions and percentage)

	2002		2001		2000	
Financial intermediation - *cooperative network*	**$ 766**	**90.3%**	$ 496	82.5%	$ 386	73.3%
Desjardins Financial Corporation:						
Life and health insurance	**71**	**8.4**	66	11.0	58	11.0
General insurance	**32**	**3.8**	33	5.5	36	6.8
Other segments						
Trust services	**17**	**2.0**	15	2.5	12	2.3
Securities brokerage	**(4)**	**(0.5)**	5	0.8	14	2.7
Other	**22**	**2.6**	1	0.2	3	0.6
	138	**16.3**	120	20.0	123	23.4
Development capital investment and other	**(41)**	**(4.8)**	(3)	(0.5)	33	6.3
Non-controlling interests and other	**(15)**	**(1.8)**	(12)	(2.0)	(16)	(3.0)
Surplus earnings before goodwill charges and patronage allocations to members	**848**	**100.0**	601	100.0	526	100.0
Patronage allocations to members	**490**	**—**	269	—	143	—
Average assets	**83,449**	**—**	78,770	—	74,640	—

Overview

STRONG GROWTH IN SURPLUS EARNINGS

Fourth quarter 2002 results For the fourth quarter of 2002, Desjardins Group reported surplus earnings before goodwill charges and patronage allocations to members of $281 million, compared to $121 million in the corresponding quarter of 2001. Net interest income for the quarter rose from $813 million to $979 million, for a $166 million increase, confirming the trend observed during the year. Provisions and loan losses stood at $2 million, compared to $128 million in 2001. It should be remembered that during fourth quarter 2001, a $121 million expense was recorded as an upward adjustment in the general provision. Other income was $1,013 million, or $114 million more than in fourth quarter 2001, largely due to income from insurance and annuity premiums. Non-interest expenses totalled $1,583 million, compared to $1,455 million in the fourth quarter of 2001, taking into consideration a $79 million adjustment for costs related to employee future benefits.

2002 results Desjardins Group had an outstanding year in many respects. In financial terms, our surplus earnings before goodwill charges and patronage allocations to members amounted to $848 million, an unprecedented amount that represented a remarkable 41% increase over the total for 2001. In terms of return to the community, record patronage allocations of $490 million, or 58% of surplus earnings, were paid to members, along with another $37 million in donations and sponsorships.

The financial intermediation segment, whose entities are concentrated in the cooperative network, was an important factor in this performance, with a $766 million contribution to surplus earnings, which is $270 million or 54% more than in 2001. This upsurge was chiefly attributable to very favourable developments in net interest income.

The operations grouped under the subsidiary Desjardins Financial Corporation (known prior to March 27, 2003 as Desjardins-Laurentian Financial Corporation) consist of life and health insurance, general insurance, trust services, investment fund design and distribution, securities brokerage and asset and investment management. Desjardins Financial Corporation's profitability has advanced in a very satisfactory manner, with net earnings of $138 million in 2002, up 30% over $106 million in 2001, after $14 million of goodwill charges ($120 million before goodwill charges), in spite of difficult conditions on account of declining financial markets. The year 2002 was marked by aggregate growth of 9% in net premiums from the insurance subsidiaries.

The unfavourable economic context also had a major impact on our operating results for development capital investment and transportation of currency, which posted a $41 million deficit.

Consolidating our operations, transforming our network and devising strategies based on service quality, a value shared by all Desjardins Group components, were some of the elements that led to our achievements in 2002. They all contributed to the significant increase in business volumes across all our business segments. In this context, our revenues experienced strong growth of $565 million or 8.9% in 2002, while expense growth was limited to $253 million or 4.7%, enabling us to achieve efficiency gains and substantially improve our productivity ratio, which went from 68.3% to 64.7% (cooperative network). Furthermore, excluding the addition of $121 million to the general provision in 2001, the sustained effort to enhance credit quality helped keep our loan loss expense at a level comparable to 2001.

These unprecedented financial results raised our return on equity — one of the most revealing performance indicators — by more than 360 basis points, from 12.0% in 2001 to 15.6% in 2002.

It is worth noting that as a cooperative integrated financial group, beyond the financial results that demonstrate our excellent financial performance, every effort was deployed to continue delivering the best financial products and superior service to members throughout Québec and increasingly in the rest of Canada, as well as to maximize the return to the community.

58% of surplus earnings returned to members This substantial improvement in profitability made it possible to pay out record patronage allocations to members, totalling $490 million, or 58% of surplus earnings, for an increase of more than 82% versus 2001. From 1998 to 2002, $1,162 million was redistributed to members in the form of patronage allocations, which is close to 44% of surplus earnings realized. In fact, Desjardins Group's cooperative authenticity can be seen in the redistribution to members of a sizable portion of surplus earnings, a distinctive practice that is fully compatible with maintaining the necessary financial resources for its development and its financial equilibrium.

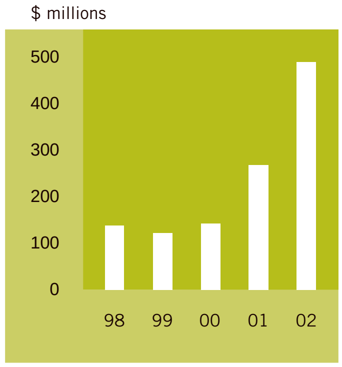
The cooperative nature of our operations means that members can count on us for a comprehensive service offer supported by competent advisors, as well as competitive interest rates and service charges, and a share of the profits in the form of patronage allocations. The return to members, decided at the annual general meeting of the caisses, when the year's surplus earnings are distributed, is comparable to a price rebate and an additional bonus made possible by disciplined and effective management throughout the Group.

Desjardins Group makes an important contribution to the community in other ways as well, either through sponsorships and donations, remuneration paid as the leading employer in Québec, direct income taxes, and municipal taxes, as Desjardins is the principal owner of real estate in Québec.

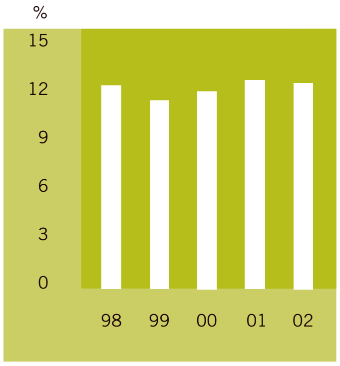
Excellent capitalization As at December 31, 2002, Desjardins Group had a high Tier I capital ratio with quality components, one of the best in the industry, amounting to 12.78%, and a total capital ratio of 13.34%, a 148 basis point increase over the previous year. The increase can be explained by the addition of $462 million through surplus earnings and an $800 million public issue of senior notes to Canadian investors.

The high quality of our capital structure, owing to stable Tier 1 capital, was once again recognized by the credit rating agencies, which maintained our credit rating in 2002.

A financial analysis of each business segment is given in the sections that follow.



Patronage allocations to members



Tier 1 capital ratio (BIS)

Financial intermediation, cooperative network – Segmented results

Table 2

Selected data for the year ended December 31 ($ millions and percentage)

	2002	2001	2000
Total revenues [1]	**$ 3,458**	$ 3,064	$ 2,816
Provisions and loan losses	**112**	247	124
Non-interest expenses	**2,290**	2,155	2,183
Surplus earnings before patronage allocations to members [1]	**766**	496	386
Contribution to combined surplus earnings	**90.3%**	82.5%	73.3%
Patronage allocations to members	**$ 490**	$ 269	$ 143
Average assets [2]	**69,952**	66,210	63,067
Average loans	**57,006**	53,649	50,443
Average deposits	**61,189**	58,428	56,093
Productivity ratio [3]	**64.7%**	68.3%	74.2%
Return on average equity [3]	**15.6**	12.0	11.4

1 *These items for the financial intermediation segment exclude the share of earnings resulting from the caisses' investments in subsidiary companies, which amounted to $82 million in 2002 (2001: $105 million and 2000: $140 million).*

2 *Average assets for the financial intermediation segment exclude the value of the investment carried at equity resulting from the caisses' investments in subsidiary companies, which amounted to $1.3 billion in 2002 (2001 and 2000: $1.1 billion).*

3 *The productivity and return on average equity ratios include the share of earnings from the caisses' investments in the subsidiary companies.*

Financial results

AN UNPARALLELED PERFORMANCE The cooperative network, which carries on financial intermediation activities, turned in an excellent financial performance in 2002, with exceptional surplus earnings before patronage allocations of $766 million, patronage allocations to members of $490 million, a 360 basis point improvement in the productivity ratio, a return on average equity of 15.6% and growth of close to $4.2 billion in credit activities. The architects of this collective success story were the caisses (the main component of the cooperative network), a federation that serves as their supporting body, a central caisse and a security fund which complement the cooperative network.

The cooperative network was able to capitalize on the economic recovery in Québec in 2002, continuing to be a major player in credit activities and wealth management services. The financial intermediation segment posted a $270 million increase in its surplus earnings before patronage allocations, the strongest growth in its history. An important contributing factor to this achievement was the $345 million or 14.6% increase in net interest income, as a result of outstanding 7.5% growth in the loan portfolio as well as sound and prudent risk management. Operating expenses were up only $135 million or 6.3%; thanks to disciplined cost control and positive spinoffs from the optimization of both virtual and physical distribution networks, the increase was contained in a context of sustained business volume growth. The unprecedented improvement in credit quality, which generated a low level of non-performing loans, also contributed to these results.

Return on members' average equity rose from 12% in 2001 to 15.6% in 2002. Because of this remarkable performance, we were able to continue our development activities while maintaining adequate capitalization to ensure our network's continued existence. The combination of these excellent results and a higher level of capitalization than in the industry made it possible for the caisse network to distribute close to 58% of our after-tax surplus earnings to their members, a record $490 million of patronage allocations in 2002.

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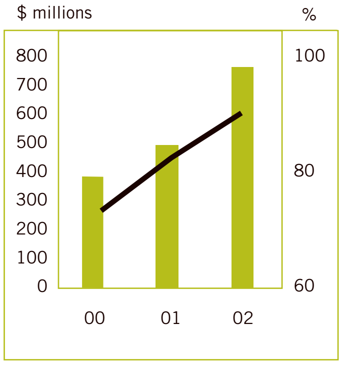
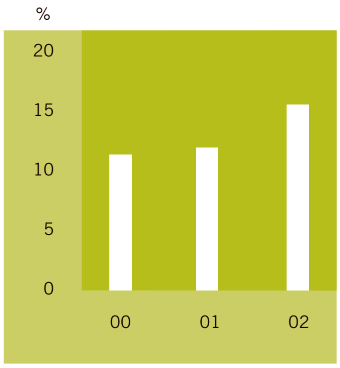


Financial intermediation Contribution to combined surplus earnings

■ $ millions
– %

15.6% RETURN ON AVERAGE EQUITY The substantial rise in our profitability in 2002 paved the way for a $469 million increase in members' equity.

As part of its 2003-2005 strategic planning, management is aiming to maintain a fairly high minimum return through sustained earnings growth. It will thereby ensure that there is sufficient leeway to mitigate the negative impact of any unusual situations and to invest in selected development projects or take advantage of new opportunities.



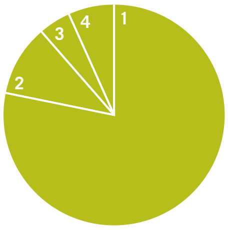
Financial intermediation
Return on equity

REVENUE GROWTH Total revenues, consisting in net interest and other income, amounted to $3,458 million in 2002, for an increase of $394 million or 12.9% over 2001. Of this increase, $345 million was attributable to net interest income, which totalled $2,705 million or 3.87% as a percentage of average assets, its best performance in recent years. This very favourable development in the interest margin is the result of strategies related to dynamic rate risk management combined with significant business volume growth.

Low interest rates and the favourable economic climate in Québec had positive effects, particularly on the housing market. The cooperative network took advantage of this opportunity and continued its 2001 expansion in credit activities, experiencing outstanding loan portfolio growth in 2002. The gross loan portfolio, which stood at $55.7 billion as at December 31, 2002, grew almost twice as fast as in 2001, advancing by $4.2 billion or 7.5%, versus $2.8 billion or 5.2% the previous year. The cooperative network gave a particularly good account of itself in the area of residential mortgage loans, with growth of $2.6 billion or 8.8%, versus $1.6 billion or 5.6% in 2001. Home mortgages alone accounted for almost 62% of the increase in the total loan portfolio. Furthermore, the cooperative network's vigorous activity in other loan categories translated into 8.3% growth in consumer loans and 4.7% growth in business and agricultural loans.

By relying on the corporate financial centres (CFCs) and the subsidiary companies, the cooperative network aims to increase its market shares of small and medium-sized enterprises (SMEs) and large corporations while maintaining its leadership in other credit categories. Honing the skills of its personnel, expanding its service offer and introducing a standard operating model will help the network achieve good results.

In 2002, other income, i.e. non-interest income, totalled $753 million, an increase of $49 million or 7.0% over the previous year. Lending fees and card service revenues jumped by $23 million; members' continued reliance on credit cards and business volume growth fostered the advance in revenues. The freeze on service charges for individual members that has been in effect since April 2001 was extended until March 2003, which is why deposit and payment service charges were stable versus 2001.



Financial intermediation
Breakdown of total revenues in 2002

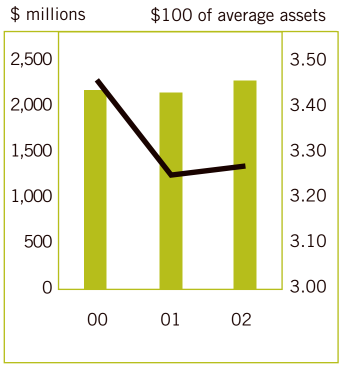
1 78.2% Net interest income
2 10.4% Deposit and payment service charges
3 4.7% Lending fees and card service revenues
4 6.7% Other

NON-INTEREST EXPENSES During the previous two years, the financial intermediation segment experienced outstanding growth in its business volumes and transaction volumes. The reorganization of the caisse network and its supporting bodies, investments in technology and other strategic initiatives undertaken in recent years are some of the principal reasons for this success.

In 2002, non-interest expenses were $2,290 million, an increase of $135 million or 6.3% over 2001, and $107 million or 4.9% over 2000. During this two-year period, our total revenues grew by 22.8%. Per $100 of average assets, our operating expenses represented a unit cost of $3.27 and $3.25 respectively in 2002 and 2001, while in 2000, they were $3.46. This controlled evolution of our costs is revealing, and confirms that we have been making the right changes over the years.

During 2002, the caisses continued with the transformation of their physical network and proceeded with other consolidations in order to reach critical mass and be able to offer their members some of the best financial expertise on the market. At year end, there were 671 caisses, compared to 814 a year earlier. In this respect, Desjardins Group remains the most accessible financial institution in Québec, with a network of 1,520 points of service.

But 2002 was also a year of development. The rapid and profound transformation of the service offer at the caisses and CFCs, and our determination to stay at the forefront of technology in order to maintain our leadership, resulted in investments to implement a plan focusing on both human resources and technology. Moreover, in 2002 the financial intermediation segment took part in the launch of the major effort that will equip Desjardins Group with an integrated risk management system that complies with the requirements of the new Basel accord that takes effect in 2006.



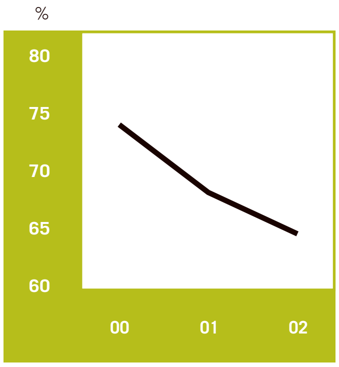
Financial intermediation
Non-interest expenses

- $ millions
- Per $100 of average assets

PRODUCTIVITY RATIO For a second straight year, the significant increase in total revenues considerably improved the financial indicator that measures profitability. When the indicator is lower, it means that it costs less to generate $1 of revenue.

In 2000, the cooperative network posted a productivity ratio of 74.2%, but has realized significant efficiency gains in the two years since, in a context of strong business volume growth, such that this performance indicator dropped below the 65% mark. Taking into account that the cooperative network is primarily involved in activities related to individuals and wealth management, Desjardins Group ranks among the top performing financial institutions in this field of activity.

Among the priorities for 2002 were improving the productivity ratio, continuing with the transformation of the caisse network, developing wealth management services and the integrated offer for businesses, upgrading competencies and planning succession. The outstanding results at year end clearly show that the cooperative network was fully able to rise to these challenges so as to ensure it can count on a sound financial base to continue offering members all the benefits of a cooperative integrated financial group.



Financial intermediation
Productivity ratio

OUTLOOK FOR 2003

Express the cooperative difference, notably through members' participation and through commitment to local development and to business and management practices.

Maintain healthy profitability, maximize productivity and optimize development capital to enhance Desjardins Group's competitiveness and ensure its longevity.

Become the leader in relationship quality with its personalized approach and its integrated offer of products and advisory services and the ongoing development of a highly qualified advisory force whose aim is customer satisfaction.

Ensure business development by doing our utmost to become the leading wealth management provider in Québec for individuals, and a partner for SMEs with the best integrated service offer.

Maximize performance and synergy of physical and virtual distribution networks.

Life and health insurance – Segmented results

Table 3
Selected data for the year ended December 31 ($ millions and percentage)

	2002	2001	2000
Insurance and annuity premiums	**$1,764**	$1,612	$1,556
Net investment and other income	**597**	619	690
Benefits, annuities and changes in insurance provisions	**1,687**	1,632	1,683
Operating expenses	**548**	549	535
Earnings before goodwill charges	**71**	66	58
Contribution to combined surplus earnings	**8.4%**	11.0%	11.0%
Segment average assets	**$8,848**	$8,626	$8,363

Financial results

The activities of the life and health insurance segment are carried on by Desjardins Financial Security, a subsidiary of Desjardins Financial Corporation.

The life and health insurance segment contributed $71 million or 8.4% to the combined surplus earnings of Desjardins Group in 2002, compared to $66 million in the previous year. Earnings were boosted by remarkable growth in group insurance sales, combined with an excellent underwriting experience for various product types and improved unit costs as a result of strict control of operating expenses in a context of business growth. These elements mitigated the negative impact of the provisions for investments taken after the deterioration of financial markets, specifically the commercial credit market in the United States.

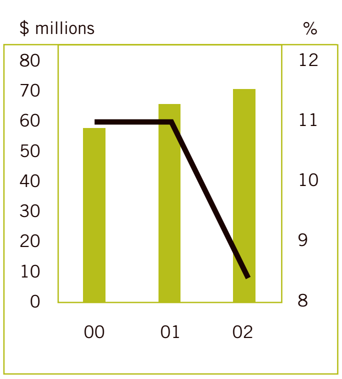
Synergy with the Desjardins caisse network translated into fee income of the order of $39 million for the caisses in 2002, up 10.1% over 2001. Networking between the life and health insurance subsidiary and the caisse network — in other words, the proportion of business volume referred by the network — amounted to approximately 31% of the total, a level similar to 2001. The complementary relationships between this segment and the caisses will gradually expand as a result of a major project to develop the life and health insurance service offer in the caisses, which required investments of about $67 million from operating income in recent years.

ANALYSIS OF RESULTS Insurance and annuity premiums collected amounted to $1.8 billion in 2002, an increase of 9% over 2001. Premium growth was much more pronounced in group insurance, where premiums totalled $1.2 billion, up 15%, attributable notably to $135 million in new contracts, premium increases that reflect policy provisions and a rise in the number of holders.

In individual insurance, sales expanded by 12% as a result, among other things, of a 64% increase in sales to caisse members, a client segment that is currently being developed.

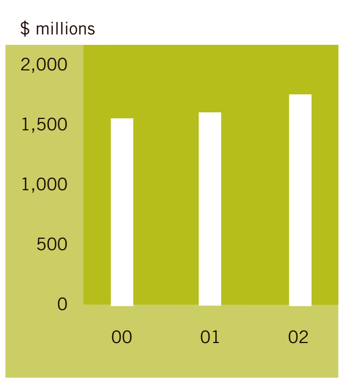
Net investment and other income was $597 million in 2002, down $22 million or 3.6% compared to 2001, chiefly because of lower interest rates. However, the decline was partially offset by a reduction in policy reserves since some of these investments were matched to products in which the risk is totally transferred to clients.

For group insurance, unit costs, which represent the cost per $100 of premiums administered, improved by more than 9% in 2002 as a result of growth in group business and tight control of distribution and administration costs. Unit costs for individual insurance, other than those related to the delivery method currently under development for Desjardins caisse members, improved by more than 6% in 2002 over the previous year, once again as a result of tight control of expenses.



Life and health insurance
Contribution to combined surplus earnings

- $ millions
- %



Life and health insurance
Total premiums

OUTLOOK FOR 2003

Consolidate the company's leadership position in the Québec market and position itself among the top five Canadian insurers nationwide.

As a priority, aim at achieving a minimum 12% return on capital, based on its present capital structure, for each network and business line in 2005, following its three-year development plan.

Focus on sustained internal growth in order to grow its market shares both in Québec and elsewhere in Canada. Maximize business development in the caisse network, notably by increasing the number of financial security advisors, and help position Desjardins Group as the leading provider of wealth management and financial security services in Québec. Develop a slate of protection products in the Desjardins CFC network aimed at businesses and their officers and employees.

Enhance the competitiveness and quality of products and services in both the individual and group segments. Ensure profitability in group insurance by sustained sales growth across the country, improving its administrative systems and rationalizing its operating expenses in order to position itself as a major player in this business segment.

Increase efficiency and reduce operating costs by changing the way we do things, optimizing business processes, improving administrative systems and making use of technology and E-commerce.

General insurance – Segmented results

Table 4
Selected data for the year ended December 31 ($ millions and percentage)

	2002	2001	2000
Gross premiums written	**$1,068**	$ 936	$ 672
Net premiums earned	**971**	883	610
Combined ratio (as a percentage of net premiums earned)	**96.8%**	98.2%	96.9%
Underwriting profit [1]	**$ 31**	$ 16	$ 19
Earnings before goodwill charges	**32**	33	36
Contribution to combined surplus earnings	**3.8%**	5.5%	6.8%
Segment average assets	**$1,685**	$1,562	$1,106

[1] *Earnings from insurance operations before investment income.*

Financial results

The general insurance segment is served by Desjardins Group General Insurance (DGGI), a subsidiary of Desjardins Financial Corporation. Desjardins Group General Insurance has two subsidiaries that operate in Québec, namely Assurances générales des caisses Desjardins and The Personal General Insurance, as well as two subsidiaries that operate in the rest of Canada, namely, The Personal Insurance Company of Canada and Certas Direct Insurance Company.

This segment contributed $32 million to combined surplus earnings in 2002. Its profitability reflects 14% growth in gross premiums written and a drop in its operating expense ratio, which offset a reduction in investment income. In fact, the significant decline on stock markets during the previous two years once again led to low returns on the investment portfolio.

In 2002, for a tenth straight year, DGGI earned an underwriting profit on its insurance operations before investment income, a Canadian first.

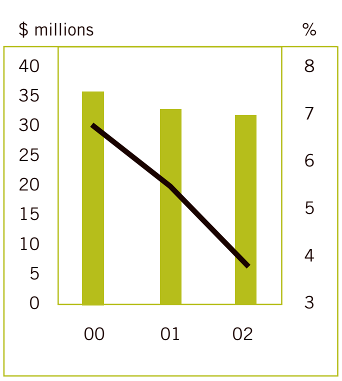
Networking with the Desjardins caisses generated revenues of approximately $11 million for the caisses in 2002, or 12% more than in 2001. The volume of general insurance business realized through the caisses represented approximately 38% of total revenues for this segment, a comparable level to 2001.

ANALYSIS OF RESULTS Gross premiums written passed the $1 billion mark in 2002, closing out the year at $1,068 million, for a 14% increase over 2001. In-force policies grew 4%, representing more than double the growth rate in the previous year. Net premiums earned rose 10% in 2002, to total $971 million.

The combined ratio, which includes the claims ratio and operating expenses, was 96.8% in 2002, a 1.4% improvement over 2001. The claims ratio was 72.6%, a slight increase of 1.4%. However, it was still lower than the industry's estimates for Canada as a whole. The operating expense ratio fell from 27% in 2001 to 24.2% in 2002, thanks to the subsidiaries in the rest of Canada, where these expenses declined.

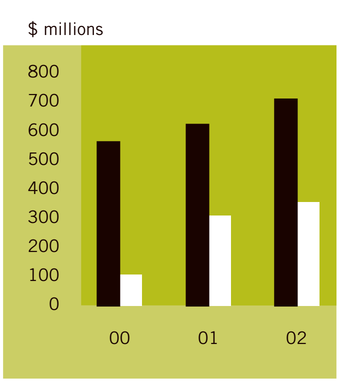
In Québec, the claims experience was excellent in both automobile and property insurance because of the quality of underwriting as well as normal weather conditions in 2002. However, it remained high in the rest of Canada in automobile insurance because of the cost of bodily injuries, which continued to climb throughout the industry.

The operating expense ratio for Québec operations, one of the competitive advantages for these subsidiaries, remained stable in 2002 compared to 2001. Operating expenses for the rest of Canada posted large reductions in 2002, in spite of the substantial investments made in these subsidiaries. Tighter management of operating expenses related to integration of the subsidiaries outside Québec began to have noticeable effects in 2002.



General insurance
Contribution to combined surplus earnings

■ $ millions
– %



General insurance
Gross premiums written

■ Québec
□ Rest of Canada (4 months in 2000)

OUTLOOK FOR 2003

Maintain DGGI's leadership position in Québec in individual insurance, and increase market shares in commercial insurance.

Continue with the integration of operations in the rest of Canada. The main projects underway involve the alignment of management practices, the integration of group insurance, the development of new mechanisms for accident benefits and bodily injuries and the elimination of old systems. Efforts will be stepped up in group insurance business development.

Aim at achieving accelerated growth in collaboration with partners in the Desjardins caisse network and in group insurance.

Develop products and enhance profitability. Consequently, emphasis will be placed on underwriting rules, pricing structures, product review, operational efficiency and reducing auto theft.

Trust services, securities brokerage, development capital investment and other – Segmented results

Table 5
Selected data for the year ended December 31 ($ millions and percentage)

	2002	2001	2000
Total revenues	**$ 438**	$ 429	$ 437
Operating expenses	**433**	396	365
Net earnings (net loss) before goodwill charges	**(21)**	6	46
Contribution to combined surplus earnings	**(2.5)%**	1.0%	8.9%
Segment average assets	**$3,505**	$2,608	$2,345

These activities, consisting of trust services, investment fund design and distribution and securities brokerage, services offered by Desjardins Financial Corporation subsidiaries, as well as development capital investment and other activities, reported a $21 million loss compared to a $6 million contribution in 2001.

The contribution of trust services (Desjardins Specialized Financial Services Management, Desjardins Trust) was up slightly in 2002 to $17 million, reflective of a continued improvement in loan portfolio quality and a small increase in commission income. In spite of massive withdrawals in the investment fund industry, Desjardins Funds and Maestral Funds performed well, with net sales of $355 million in 2002, thereby raising our market share. This good performance in net sales was offset, however, by disappointing stock market returns, which had a negative impact of more than $550 million on funds outstanding, and thus on commission income. Operating expenses remained fairly stable versus 2001, in a context of continued business development efforts and repositioning of certain business segments.

Securities brokerage operations, carried on by Desjardins Securities, took place in an extremely difficult industry-wide environment, on account of the performance of stock markets. This had a significant impact on Desjardins Securities' profitability; its contribution shrank by $9 million in 2002. Furthermore, the subsidiary's results were strongly influenced by non-recurring expenses related specifically to its development strategy, such as start-up costs for various activities, amortization of recruitment expenses for advisors and transfer fees for their clients. At their meeting held on February 28, 2003, the boards of directors of the Fédération des caisses Desjardins du Québec (FCDQ) and Desjardins Financial Corporation authorized the transfer of ownership of Desjardins Securities to be held directly by the FCDQ. Since it is a wholly-owned subsidiary, the transfer will have no impact on the financial position of Desjardins Group.

With respect to development capital investment activities (Investissement Desjardins and ID, Limited Partnership), it must be acknowledged that market conditions were not very favourable in 2002. But in spite of everything, investment and reinvestment activities for all funds under management translated into commitments totalling almost $77 million to 88 Québec businesses and cooperatives. Certain participations were realized for cash receipts of almost $18 million.

The $26 million loss at the main subsidiary in this business segment, that is, ID, Limited Partnership, was attributable mainly to management fees and to the fact that certain partner companies in the technology sector experienced major difficulties in 2002. Furthermore, at the beginning of 2002, in a desire to harmonize accounting methods for all the funds under management, a decision was made to record venture capital investments at their fair value and no longer at cost or at equity value. The decision had a considerable impact on the carrying value of the portfolio with the recording as at January 1, 2002 of a $29 million appreciation through a direct allocation to the general reserve without passing through the statement of income. The result was a net increase in equity of over $3 million in 2002.

With respect to the other services included in this segment, especially operations related to transportation of currency, the subsidiary Sécur recorded a $15 million loss in 2002. These unfavourable results were caused by a labour conflict that disrupted operations for a number of weeks before being settled during the third quarter.

OUTLOOK FOR 2003

Trust services
Continue positioning itself as an investment fund producer and assembler, notably by promoting its fund families in the Desjardins networks, including the caisses, Services financiers SFL and Desjardins Securities, both in Québec and in the rest of Canada.

Negotiate partnerships and acquisitions in order to speed up asset growth, diversify its products and strengthen its presence in intermediary networks.

Continue growing its portfolio management business for individuals through referrals from the caisses.

Maintain its competitive position in securities custodial services in Québec with a market share of close to 60%.

Securities brokerage
Further develop markets outside Québec as well as the full-service brokerage and institutional equity segments by hiring expert advisors.

Aim at growing market shares in Québec and Ontario for retail services by increasing the number of full-service brokerage advisors, constantly upgrading the website and expanding the product offer for discount brokerage.

Favour increased coordination with the caisses in order to offer the best integrated solutions and satisfy all members' needs.

Intensify development efforts in the area of fixed-income instruments and become a more active participant in the various Canadian bond markets, and expand distribution outside Québec.

Development capital investment
Substantially increase Desjardins' presence in Québec's venture capital industry.

Provide more support to promising projects involving businesses and cooperatives in resource regions.

Work in close cooperation with the network of corporate financial centres and secure significant spinoffs for Desjardins.

Be the most accessible venture capital company for Québec entrepreneurs, with 16 offices.

Total revenues

HIGHLIGHTS

- Total revenues rose by 8.9%
- Net interest income was $3,260 million, a $334 million increase
- Other income, at $3,677 million, was up 6.7%

Table 6 Total revenues

For the year ended December 31 ($ millions and percentage)

	2002		2001		2000	
Net interest income	**$3,260**	**47.0%**	$2,926	45.9%	$2,718	46.3%
Other income	**3,677**	**53.0**	3,446	54.1	3,151	53.7
	$6,937	**100.0%**	$6,372	100.0%	$5,869	100.0%

Desjardins Group's total revenues, comprising net interest income plus other income, were $6,937 million, for an increase of $565 million or 8.9% over 2001. Net interest income was up $334 million or 11.4% as a result of excellent business volume growth, the implementation over the years of active rate risk management strategies for assets and liabilities and the reduction in non-performing loans. Net interest income therefore made a larger contribution to the increase in total revenues.

Other income amounted to $3,677 million in 2002, which was $231 million or 6.7% higher than in the previous year. This growth was attributable, among other things, to increased income from insurance and annuity premiums, especially in the life and health insurance segment, which experienced marked growth in group insurance business.

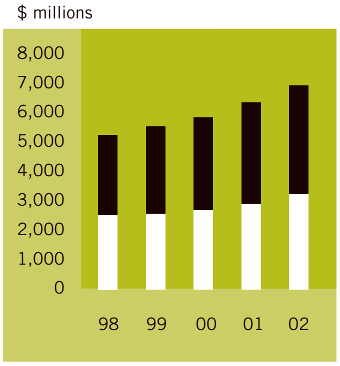
NET INTEREST INCOME Net interest income is the difference between interest income earned on assets such as loans and securities, and interest expense related to liabilities such as deposits, notes, borrowings and subordinated debentures. Interest rate fluctuations, funding strategies and the composition of financial instruments are factors that have a direct influence on net interest income. Table 7 explains changes in net interest margin for the main asset and liability classes, while Table 8 presents a breakdown of the impacts on net interest income of changes in volumes and rates for the different assets and liabilities.

At year end, net interest income totalled $3,260 million, for an increase of $334 million or 11.4% from $2,926 million in 2001. The financial intermediation segment alone, made up primarily of the caisses, generated more than 83.0% of net interest income for the Group as a whole, an even higher percentage than the 80.7% contribution made in 2001.

In 2002, interest income from interest-bearing assets was down $314 million or 6.1% from 2001 results because of a decline in the average yield on these assets, which was 6.32% in 2002, compared to 7.08% in 2001. The downward trend in interest rates, combined with borrowers' preference for shorter maturities in 2002 reduced interest income by $559 million, as shown in Table 8. However, this impact was mitigated by a significant rise in interest-bearing assets, which generated another $245 million of interest income.

In fact, the strength of the Québec economy, our highly competitive loan offerings and the low interest rate environment led to sustained growth in financing operations, adding approximately $3 billion to average loan portfolio outstandings. With its dominant position in home mortgages in Québec, Desjardins Group's average volume of residential mortgage loans expanded by more than $2.1 billion.

At the same time, interest expense was down $648 million or 28.7%. The low level of interest rates throughout the year, and more specifically their effect on members' depositing behaviour, accounts for the reduction in our cost of funds from 2.87% in 2001 to 1.92% in 2002, trimming interest expense by $744 million, as shown in Table 8 on page 55.



Total revenues

- Net interest income
- Other income

However, interest expense was affected by an additional charge of $96 million as a result of $2.7 billion of average growth in deposits, concentrated mainly in the least costly savings categories, and by the increase in borrowings and subordinated debentures following the public issue of $800 million of senior notes in 2002.

Because of the quality and wide variety of its financial products, Desjardins Group was able to make good use of its expertise by acting on new business opportunities. The marked rise in net interest income was the result of effective interest rate risk management and a significant $113 million reduction in impaired loans.

Table 7 Net interest income on average assets and liabilities

For the year ended December 31 ($ millions and percentage)

	2002			2001		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate
ASSETS						
Interest-bearing assets						
Securities, cash and deposits with financial institutions	**$17,980**	**$ 834**	**4.64%**	$17,068	$ 887	5.20%
Loans	**59,100**	**4,035**	**6.83**	56,124	4,296	7.65
Total interest-bearing assets	**77,080**	**4,869**	**6.32**	73,192	5,183	7.08
Other assets	**6,369**	**—**	**—**	5,578	—	—
Total assets	**$83,449**	**$4,869**	**5.83%**	$78,770	$5,183	6.58%
LIABILITIES AND EQUITY						
Interest-bearing liabilities						
Deposits and notes	**$62,219**	**$1,531**	**2.46%**	$59,473	$2,204	3.71%
Borrowings and subordinated debentures	**1,166**	**78**	**6.69**	749	53	7.08
Total interest-bearing liabilities	**63,385**	**1,609**	**2.54**	60,222	2,257	3.75
Other liabilities	**14,610**	**—**	**—**	13,517	—	—
Equity	**5,454**	**—**	**—**	5,031	—	—
Total liabilities and equity	**$83,449**	**$1,609**	**1.92%**	$78,770	$2,257	2.87%
NET INTEREST INCOME		**$3,260**			$2,926	
AS A PERCENTAGE OF AVERAGE ASSETS			**3.91%**			3.71%

Table 8 Impact on net interest income of changes in balances and rates

For the year ended December 31 ($ millions and percentage)

	2002-2001		Increase (decrease)		
	Change in average volume	Change in average rate	Interest	Average volume	Average rate
ASSETS					
Securities, cash and deposits with financial institutions	**$ 912**	**(0.56)%**	**$ (53)**	**$ 42**	**$ (95)**
Loans	**2,976**	**(0.82)**	**(261)**	**203**	**(464)**
CHANGE IN INTEREST INCOME			**$(314)**	**$245**	**$(559)**
LIABILITIES					
Deposits and notes	**$2,746**	**(1.25)%**	**$(673)**	**68**	**$(741)**
Borrowings and subordinated debentures	**417**	**(0.39)**	**25**	**28**	**(3)**
CHANGE IN INTEREST EXPENSE			**$(648)**	**$ 96**	**$(744)**
CHANGE IN NET INTEREST INCOME			**$ 334**	**$149**	**$ 185**

OTHER INCOME Other income is all income not classified as interest income. It totalled $3,677 million in 2002, for an increase of $231 million or 6.7% over the previous year. Other income accounted for 53.0% of total revenues in 2002, as against 54.1% in 2001. The increase in the amount of other income was derived primarily from growth in income from insurance and annuity premiums.

Life and health insurance Insurance and annuity premium income in the life and health insurance segment totalled $1,764 million in 2002, up $152 million or 9% over 2001. Premium growth was much stronger in group insurance, with the recruitment of some very large groups, as well as pricing adjustments, mainly in health and long-term disability coverages.

Premiums for group insurance products once again posted solid growth, totalling $1,181 million in 2002, compared to $1,025 million in 2001, a more than 15% increase, chiefly because of $135 million in new contracts, premium increases that reflect policy provisions and a rise in the number of holders. This remarkable performance was the result, among other things, of the sales force's hard work and good reputation for customer service. Enrolment for institutional caissassurance products also contributed to significant premium growth.

Desjardins Group ranked first in Québec in life and health insurance with a market share of 16.6%.

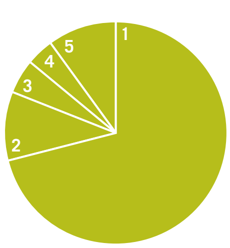
Networking with the caisses produced about 31% of business volumes for the life and health insurance segment in 2002, a level comparable to 2001. The caisses received $39 million in remuneration, or 10.1% more than in the previous year. Synergies will continue to grow as a result of a major project to develop the life and health insurance service offer in the caisses. The project, launched in May 2000, will extend the complete life and health insurance offer to caisse members.

Table 9 Other income by business segment

For the year ended December 31 ($ millions and percentage)

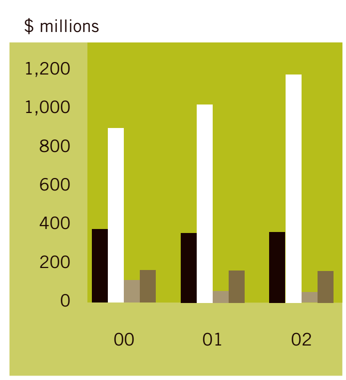
	2002					2001	2000
	Financial intermediation	Life and health insurance	General insurance	Other segments	Combined [1]	Combined	Combined
Insurance and annuity premiums	$ —	$1,764	$971	$ —	$2,623	$2,389	$2,064
Deposit and payment service charges	359	—	—	—	359	363	348
Lending fees and card service revenues	164	—	—	—	161	141	134
Trust services and securities dealing	46	—	—	142	188	180	187
Other	184	106	(15)	276	346	373	418
	$753	$1,870	$956	$418	$3,677	$3,446	$3,151
Growth in other income	7.0%	8.2%	7.4%	7.2%	6.7%	9.4%	6.3%
Other income as a % of total revenues	10.9%	27.0%	13.8%	6.0%	53.0%	54.1%	53.7%

[1] *The difference between the combined total and the horizontal sum of results for the business segments presented in the table is due to intersegment transactions.*



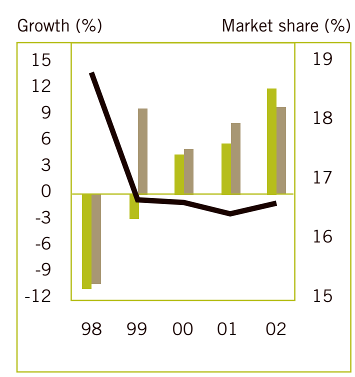
Diversified sources of other income
For the year ended December 31, 2002

1 71.3% Insurance and annuity premiums
2 9.8% Deposit and payment service charges
3 5.1% Trust services and securities dealing
4 4.4% Lending fees and card service revenues
5 9.4% Other



Life and health insurance
Insurance and annuity premiums

- Personal insurance and annuities
- Group insurance
- Group annuities
- Participating premiums



Life and health insurance
Premiums written in Québec

- Business volume growth – Desjardins Group
- Business volume growth – market
- Québec market share

General insurance Gross premiums written in the general insurance segment passed the $1 billion mark in 2002 to total $1,068 million, for year-over-year growth of more than 14%. Net earned premiums were up 10% to $971 million.

The two subsidiaries serving Québec, Assurances générales des caisses Desjardins and The Personal General Insurance, posted a combined gross premium volume of $712 million, for an increase of close to 14%, compared to $625 million in 2001.

The subsidiaries outside Québec, namely, The Personal Insurance Company of Canada and Certas Direct Insurance Company, wrote gross premiums of $357 million, as against $311 million in 2001, for growth of almost 15% due to a larger number of in-force policies as well as price increases.

The caisses earned $11 million in remuneration, up 12% over 2001, for selling general insurance products. Synergy with the caisse network generated roughly 38% of the general insurance segment's business volume, a comparable level to 2001.

Financial intermediation Deposit and payment service charges totalled $359 million in 2002, relatively unchanged from a year earlier. It should be remembered that a freeze on service charges for individual clients has been in effect since April 2001 and will apply until March 2003. Members are doing more and more of their transactions using electronic capabilities such as automated teller machines and the AccèsD virtual network, as the following statistics indicate. The transaction automation rate reached 88.0% in 2002, compared to 86.9% in 2001 and 77.3% in 1998. At the same time, the popularity of the AccèsD service continued to grow.

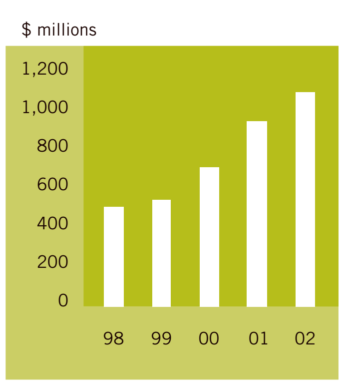
The individual members enrolled for the AccèsD service (telephone and Internet) carried out 51.5 million transactions by telephone in independent and assisted modes, as against 39.5 million in 2001, for an increase of over 30%. Transactions via the Internet climbed from 74.3 million in 2001 to 114.2 million in 2002, a remarkable increase of close to 54%. Furthermore, the AccèsD Affaires service had more than 55,000 business members at the end of 2002, for solid year-over-year growth of 52%.

Credit card utilization also produced excellent results. Revenues from lending fees and credit cards, composed mainly of card service revenues, totalled $161 million, as against $141 million in 2001, a 14.2% rise. This growth reflects members' reliance on credit cards and the accord D financing service. In 2002, VISA Desjardins business volumes reached a new record of $6.7 billion, for a 21.8% increase over 2001. Purchase volumes at merchants were up by more than 16.9% in 2002, and the cardholder base totalled 2.2 million, or 12.5% more than in 2001.

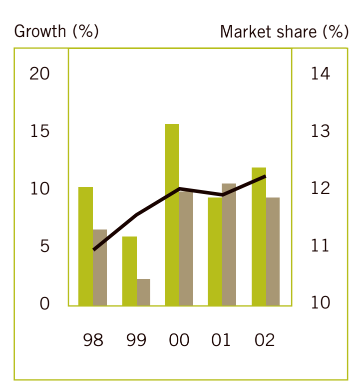
OTHER SEGMENTS Income from trust services and securities dealing was $188 million in 2002, up 4.4%. This class of other income is comprised mainly of fee income from trust activities and securities brokerage commissions.

Trust services Fee income from trust activities totalled $91 million in 2002, for year-over-year growth of 2.5%. The increase was derived from fees for securities administration and custodial services, which were up 10%, discretionary portfolio management services, which generated 17% more revenues, and administration of institutional savings plans, which rose 4%.

Fee income from investment funds posted a slight increase over 2001 to total $42 million, despite the stock market decline during the year. In spite of massive withdrawals in the investment fund industry, net sales of Desjardins Funds and Maestral Funds performed well, reaching $355 million in 2002. This result was offset, however, by the negative effect of the markets, which caused the value of funds outstanding to drop by more than $550 million. Investment funds outstanding fell from $5.1 billion as at December 31, 2001 to $4.9 billion a year later.

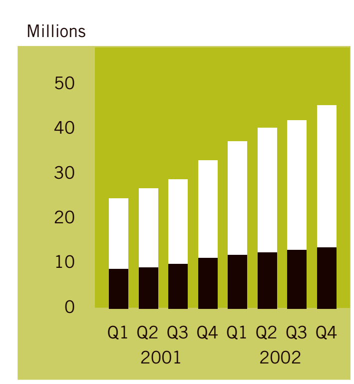


General insurance
Gross premiums written



General insurance
Premiums written in Québec

- Business volume growth – Desjardins Group
- Business volume growth – market
- Québec market share



AccèsD for individuals
Number of transactions

- Telephone (independent and assisted modes)
- Internet

Networking with the caisses accounted for about 56% of trust activity business volumes, a similar level to 2001. The caisses received $32 million in remuneration, a 12.2% increase over 2001.

Securities brokerage Securities brokerage commissions totalled $78 million, up $6 million or 8.3% compared to 2001, in spite of low stock trading volumes. The increase reflects the addition of new advisors in 2002, part of the dynamic development strategy for Desjardins Securities' full-service brokerage function. The caisses, including the integrated caisses, received a remuneration of $14 million, an increase of 19.2% over 2001.

Other The Other category of other income totalled $346 million, a reduction of $27 million or 7.2% in 12 months. This reduction was mainly attributable to a drop in investment income at certain subsidiaries, which changed the accounting method for their investments as at January 1, 2002 to bring it into line with the prevailing practice in their sector of activity. The investments of these subsidiaries are now accounted for at their fair value, rather than at cost or at equity value.

ASSETS UNDER ADMINISTRATION AND MANAGEMENT Assets entrusted by members and clients to Desjardins Group as trustee or manager totalled $145.7 billion as at December 31, 2002, as against a volume of $147.6 billion at the same date in 2001, down $1.9 billion or 1.3% over the year, a less dramatic decline than some of its closest competitors experienced. This industry, which is heavily influenced by the performance of stock markets, suffered because of the substantial decline on most world indexes, on top of 2001's already very disappointing results.

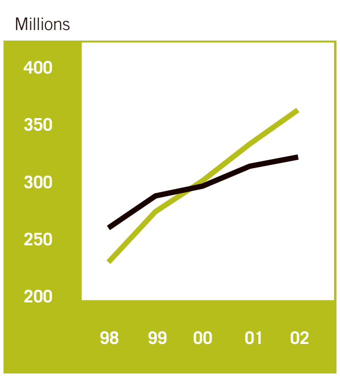
Assets under administration and management, it should be remembered, are comprised chiefly of financial assets in the form of investment funds, securities held in custody and accrued pension fund assets, which do not belong directly to Desjardins Group, but to its members and clients. For this reason, they are not recorded on its balance sheet.

Table 10 Assets under administration and management

As at December 31 ($ millions and percentage)

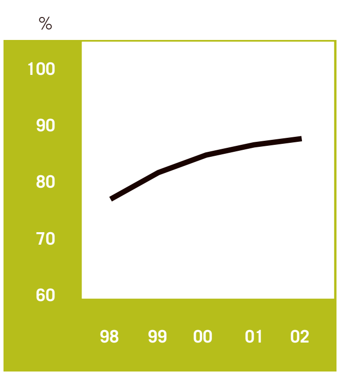
	2002	Percentage change	2001	Percentage change
ASSETS UNDER ADMINISTRATION				
Individual and institutional trust and custodial services	**$140,237**	**(1.1)%**	$141,801	(3.4)%
Investment funds [1]	**5,480**	**(5.6)**	5,808	9.9
	$145,717	**(1.3)%**	$147,609	(2.9)%
ASSETS UNDER MANAGEMENT				
Individuals and institutions	**$ 8,533**	**(1.6)%**	$ 8,676	16.2%
Investment funds [1]	**5,480**	**(5.6)**	5,808	9.9
	$ 14,013	**(3.3)%**	$ 14,484	13.6%

[1] *Includes $4.7 billion of Desjardins Funds and $0.8 billion of other funds issued by the subsidiaries.*



Automated transactions

- Automated teller transactions
- Direct payment transactions



Rate of automation

Non-interest expenses

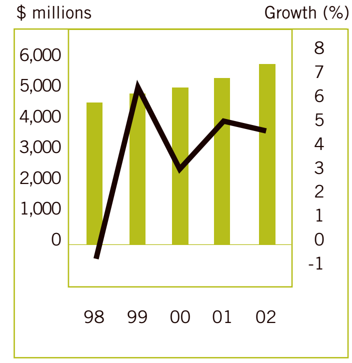
HIGHLIGHTS

- Outstanding improvement in the productivity ratio for the cooperative network, from 68.3% in 2001 to 64.7% in 2002
- Non-interest expenses were $5,585 million, a $253 million or 4.7% rise

For fiscal 2002, non-interest expenses, which include all the operating expenses at Desjardins Group entities except interest expense, provisions and loan losses and income taxes, were $5,585 million, a year-over-year increase of $253 million or 4.7%. Table 11 below presents a breakdown of non-interest expenses.

The controlled rise in operating expenses in a context of vigorous business volume growth and an improved interest margin, confirms that Desjardins Group has been making all the right changes over the years. Measures taken in recent years, such as the continued transformation of the caisses' bricks-and-mortar network and the creation of a single federation have been particularly profitable, as can be seen in the resulting operational efficiency. As at December 31, 2002, the productivity ratio for the financial intermediation segment (cooperative network) was 64.7%, versus 68.3% a year earlier.

This appreciable improvement in productivity was the result of revenues that grew at more than double the pace of operating expenses, in line with the Group's strategic orientations to enhance the effectiveness and efficiency of all its business processes.



Non-interest expenses

Table 11 Non-interest expenses

For the year ended December 31 ($ millions and percentage)

	2002	2001	2000
Claims, benefits, annuities and changes in insurance provisions	**$2,392**	$2,280	$2,114
Salaries and fringe benefits			
Salaries	**1,318**	1,255	1,241
Fringe benefits	**305**	246	244
	1,623	1,501	1,485
Premises, equipment and furniture, including depreciation			
Technology	**79**	61	150
Depreciation	**146**	146	191
Other	**106**	140	106
	331	347	447
Communications	**170**	178	174
Other			
Business and capital tax and deposit insurance premiums	**94**	80	73
Sponsorships	**37**	31	31
Employee training	**23**	21	21
Deposit-related expenses	**25**	31	59
Commissions	**181**	180	183
Other personnel-related expenses	**45**	47	62
Other	**664**	636	423
	1,069	1,026	852
	$5,585	$5,332	$5,072
Productivity - Cooperative network	**64.7%**	68.3%	74.2%

CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE PROVISIONS Expenses related to claims, benefits, annuities and changes in insurance provisions were $2,392 million, or $112 million more than in 2001, as a result of growth in life and health and general insurance business.

SALARIES AND FRINGE BENEFITS Personnel-related expenses, that is, salaries and fringe benefits, totalled $1,623 million, which is $122 million or 8.1% more than in 2001. At year end, salaries and fringe benefits represented 29.1% of non-interest expenses, as against 28.2% a year earlier.

Total payroll was $1,318 million, versus $1,255 million for 2001. This growth of more than 5.0% is attributable mainly to a general increase in salary levels as well as additional expenses related to business development. In this connection, it should be mentioned that more investments were made, among other things, to support the niche growth strategies in institutional brokerage and caissassurance deployment. As a result, Desjardins Group had a personnel complement of 39,252 as at December 31, 2002, compared to 38,816 a year earlier.

Employee benefits expense rose by $59 million, from $246 million as at December 31, 2001 to $305 million a year later. The difference is partially on account of the additional charge in 2002 for employee future benefits, to absorb some of the impact of the partial contribution holiday for the Desjardins Group pension plan. Note 18 to the Combined Financial Statements on page 92 gives details on the pension plans and other post-retirement benefit plans.

In accordance with the Québec *Act Respecting the Disclosure of the Compensation Received by the Executive Officers of Certain Legal Persons*, Desjardins Group publishes the compensation received by its five most highly-paid officers.

These are the President and Chief Executive Officer of Desjardins Group, the President of Desjardins Financial Corporation and Chief Executive Officer of the subsidiaries, the President and Chief Operating Officer of the Fédération des caisses Desjardins du Québec, the President and Chief Operating Officer of Desjardins Group General Insurance, and the President and Chief Operating Officer of Elantis Investment Management.

Table 12 on page 61 provides detailed information on the individual remuneration paid to these executives for the year ended December 31, 2002.

OTHER EXPENSES Premises, equipment and furniture, including depreciation, was $331 million, down $16 million from $347 million in 2001. During the year, Desjardins Group made substantial investments in the optimization program for the caisses' physical distribution network. The basic aim of the program is to implement initiatives to expand the delivery network and finetune it so that the service offer responds better to members' new consuming habits.

In spite of all efforts to contain costs, the Other category of other expenses totalled $1,069 million, up $43 million over the year. As mentioned earlier, sustained business volume growth in each business segment explains the slight increase in expenses.

Finally, Desjardins Group continued to focus special attention on its training programs during the year in order to offer its member-owners a level of service quality that will make Desjardins Group stand out from the competition and ensure its growth. A total of $23 million was invested in this area in 2002.

Table 12 Remuneration of key executive officers in 2002

Name and main responsibility	Salary $	Incentive plan $	Other benefits $	Other annual benefits $
Mr. Alban D'Amours President and Chief Executive Officer Desjardins Group	**795,654**	**349,421** [1, 2]	**N.A.**	[6]
Ms. Monique F. Leroux President of Desjardins Financial Corporation and Chief Executive Officer of the subsidiaries	**499,860**	**217,964** [1, 3]	**N.A.**	[6]
Mr. Bertrand Laferrière President and Chief Operating Officer Fédération des caisses Desjardins du Québec	**499,860**	**184,448** [1]	**N.A.**	[6]
Mr. Jude Martineau President and Chief Operating Officer Desjardins Group General Insurance	**350,000**	**179,428** [1]	**17,500** [5] **50,000** [5]	[6]
Mr. Richard Neault President and Chief Operating Officer Elantis Investment Management	**280,000**	**284,705** [1, 4]	**N.A.**	[6]

1 *Bonuses are paid in cash in the year following the year in which they are earned.*
2 *As he is President of Desjardins Group, Mr. D'Amours asked to be excluded from the long-term bonus plan.*
3 *Ms. Leroux participates in the integrated management incentive bonus plan, which combines short- and long-term bonuses. The bonus available under the plan is determined at the end of each year based on the extent to which the objectives set at the beginning of the year have been met, and Desjardins Group's overall performance. The bonus portion thus accrued but not earned is generally not paid out until death, retirement or disability.*
4 *Mr. Neault participates in an integrated bonus plan (IBP). The amount paid for fiscal 2002 takes into consideration all amounts accrued under previous plans that were abolished with the introduction of the IBP. The bonus available under the plan is determined at the end of each year based on the extent to which the objectives set at the beginning of the year have been met, and Elantis Investment Management's overall performance. For a given year, 50% of the available bonus is payable in cash, and the other 50% (long term) is not vested and remains at risk based on the results of Elantis Investment Management. The bonus portion thus accrued but not earned is generally not paid out until death, retirement or disability.*
5 *For 2002, Mr. Martineau received the sum of $17,500 as a salary adjustment, as well as a $50,000 allowance as acting Chief Executive Officer of the general insurance subsidiaries outside Québec.*
6 *The personal benefits awarded to these senior executives over the course of the year did not exceed the lesser of 10% of their annual salary plus bonus, or $50,000.*

INCOME AND OTHER TAXES Desjardins Group is a decentralized cooperative financial group in which each individual caisse is a private and independent company, unlike most other financial institutions, which are large public corporations. Each caisse is therefore subject to the tax regulations applicable to private companies, and the legislature has made these regulations adaptable so that the caisses can accumulate a large enough general reserve to serve as a capital base for the protection of member deposits.

However, unlike the retained earnings of financial institutions, categorized as large public corporations, the caisses' general reserves cannot be distributed to members.

Each caisse pays its fair share of income taxes as a private company, while large financial institutions are subject to the tax regulations that govern public corporations.

With respect to the payroll tax, commodity taxes and property taxes, the caisses also pay their fair share, given that Desjardins Group has the largest number of employees and points of service in Québec. Since May 1996, the caisses have been paying a tax on capital as well, based on a formula adapted to cooperative organizations. As for Desjardins Group companies that are not financial services cooperatives, most of them have public corporation status and, as such, are subject to the tax regulations that apply to public corporations.

Desjardins Group therefore paid its fair share into the public coffers in 2002. Including its employer contributions, it paid close to $456 million in direct and indirect taxes.

Credit quality

HIGHLIGHTS

- $128 million reduction in provisions and loan losses charged to income
- Gross impaired loans outstanding down $113 million or 15.1%
- 10 basis point improvement in net impaired loans ratio
- Coverage ratio of 140.0% as against 123.9% in 2001

IMPAIRED LOANS Desjardins Group maintained stringent credit management standards and policies in 2002. This prudent management kept impaired loans and provisions and loan losses at a minimum level, even in a context of strong loan portfolio growth. This outcome, reflective of the vigour of Québec's economy, was the result of several strategic positions, such as the continued deployment of centres specializing in commercial credit (known as corporate financial centres, or CFCs). Already well established throughout Québec, the CFCs finetuned the early detection process for problem loans.

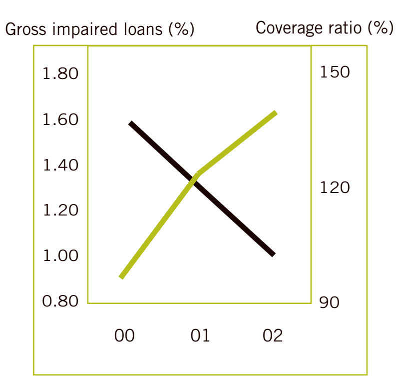
In management's opinion, and in accordance with generally accepted accounting principles, a loan is considered impaired when there is reasonable doubt as to the collectibility of the principal or interest. All loans 90 days or more past due fall into this category, unless the loan is fully secured or in the process of collection. Finally, a loan is considered impaired when it is contractually more than 180 days in arrears, as stipulated in Note 1 to the Combined Financial Statements on page 81.

Gross impaired loans outstanding were reduced to $637 million as at December 31, 2002, which is down $113 million or 15.1% compared to 2001. Gross impaired residential mortgages, for which loan losses are always low, and gross impaired commercial mortgages were down $70 million and $78 million respectively. Impaired consumer loans fell by $8 million.

Other impaired loans in the commercial segment were up $43 million. Gross impaired loans as a percentage of the gross loan portfolio were 1.03% at year-end 2002, versus 1.29% a year earlier.

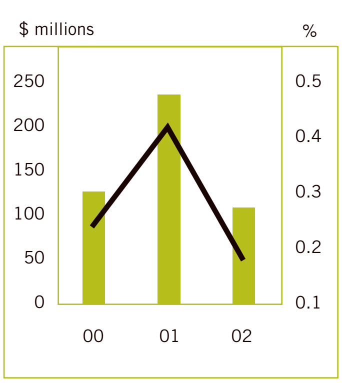
Compared with December 31, 2001, the net balance of impaired loans, i.e., the gross amount of these loans less the cumulative provision for loan losses, fell by $76 million to a negative amount of $255 million at the end of 2002. As Table 13 on page 63 shows, net impaired loans outstanding represented (0.41)% of the total gross loan portfolio, their lowest level in many years. In 2001, the ratio was (0.31)%.

PROVISIONS AND LOAN LOSSES During the year, Desjardins Group made a $109 million charge for provisions and loan losses, compared to $237 million at year-end 2001. This represented 0.18% of the average loan portfolio, compared to 0.42% a year earlier. In 2001, the economic slowdown prompted a $121 million addition to the general provision for credit risk. This increase enabled Desjardins Group to protect itself against the risks anticipated following the unexpected events of September 2001.



Credit quality

- Gross impaired loans as a % of average gross loans
- Coverage ratio



Provisions and loan losses

- $ millions
- As a % of average gross loans

Table 13 Impaired loans by category of borrower

As at December 31 ($ millions and percentage)

	2002 Gross amount	2002 Specific provisions for loan losses	2002 Carrying value	2001 Carrying value	2000 Carrying value
Residential mortgages	**$159**	**$ 51**	**$ 108**	$ 158	$200
Consumer, credit card and other personal loans	**73**	**48**	**25**	30	35
Farm loans	**18**	**8**	**10**	9	13
Commercial mortgages	**151**	**60**	**91**	123	152
Other loans	**236**	**133**	**103**	102	109
	$637	**$300**	**$ 337**	$ 422	$509
General provision			**(592)**	(601)	(480)
			$(255)	$(179)	$ 29
Coverage ratio – specific provisions [1]					
Broken down as follows:					
Residential mortgages			**32.1%**	31.0%	28.8%
Consumer, credit card and other personal loans			**65.8**	63.0	60.7
Farm loans			**44.4**	43.8	27.8
Commercial mortgages			**39.7**	46.3	46.5
Other loans			**56.4**	47.7	48.1
TOTAL COVERAGE RATIO INCLUDING GENERAL PROVISION			**140.0%**	123.9%	96.7%
NET IMPAIRED LOANS AS A PERCENTAGE OF GROSS LOANS			**(0.41)%**	(0.31)%	0.05%

[1] *Specific provisions for loan losses expressed as a percentage of the gross amount of the related impaired loans.*

CUMULATIVE PROVISION FOR LOAN LOSSES The cumulative provision for loan losses in the combined balance sheets is maintained at a level high enough to absorb management's best estimate of potential losses related to the loan portfolio, given its assessment of economic conditions. It is decreased by actual write-offs, net of recoveries, and increased by provisions and loan losses charged to the combined statements of income. In the combined balance sheets, it is deducted from the appropriate assets and is made up of two components, the specific provisions and the general provision.

Desjardins Group's good performance in credit risk management enabled it to lower the level of the cumulative provision for loan losses by $37 million from 2001. As a result, at December 31, 2002, the cumulative provision for loan losses totalled $892 million, compared to $929 million for the previous year. This balance exceeded total gross impaired loans outstanding by $255 million; it exceeded them by $179 million a year earlier.

At 140.0%, the total coverage ratio for impaired loans, i.e., the cumulative provision for loan losses divided by gross impaired loans outstanding, also reflects the Group's excellent credit portfolio quality. In 2001, the ratio was 123.9%.

Specific provisions For follow-up and control purposes, the management of Desjardins Group detects loans considered impaired and assesses the credit risk related to each. If need be, a specific provision is taken on these accounts. No specific provision is taken on credit card balances; they are written off completely when no payment has been received for a period of 180 days.

Specific provisions stood at $300 million as at December 31, 2002, down $28 million from a total of $328 million a year earlier. This balance represented 0.48% of the gross loan portfolio, as against 0.56% on the year-earlier date.

General provision The general provision for credit risk is maintained at a level high enough to reflect management's best estimate of provisions and losses with regard to loans not yet identified as impaired in the loan portfolio. According to the guidelines issued by the Office of the Superintendent of Financial Institutions Canada, the general provision qualifies as eligible Tier 2 capital, to an amount equal to 87.5 basis points of risk-weighted assets. At December 31, 2002, the general provision for credit risk totalled $592 million, or $9 million less than in 2001.

Balance sheet

TOTAL ASSETS Desjardins Group's total assets amounted to $85.3 billion for the year ended December 31, 2002, up by $4.9 billion or 6% in 12 months, versus an increase of $4.4 billion or 5.7% in 2001. This sustained expansion is reflective, among other things, of Desjardins Group's dynamic credit offer for individuals and businesses.

Without a doubt, 2002 was a very good year for the Québec and Canadian economies, and Desjardins Group, which is a major player on Québec's economic scene, took full advantage of their vigorous growth. The economic upturn in Québec could be seen in a genuine boom in real estate investment, especially home-buying, a strong resurgence in consumer spending as a result of a record level of job creation, and a more solid recovery in business spending, especially in the form of capital expenditure.

Desjardins Group can therefore be proud of its sustained growth in 2002. It was one of the main factors enabling it to increase its market share of most of the segments in which it is active, i.e., recruitment of savings, financing and insurance.

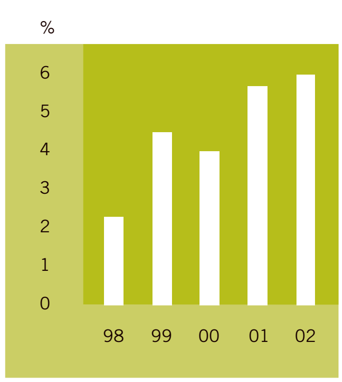
Liquidity up 4.4%

As at December 31, 2002, cash and securities at Desjardins Group totalled $18.1 billion, for a year-over-year increase of $765 million or 4.4%, versus a $1.1 billion or 6.9% advance in 2001. In spite of sustained growth in Desjardins Group deposits and notes, a significant upswing in credit demand from members and clients slowed the pace of liquidity growth for the year somewhat. Nonetheless, liquid assets represented 21.3% of total assets as at December 31, 2002, down only slightly from 21.5% a year earlier. Desjardins Group's liquidity management standards are discussed in greater detail under liquidity risk management on page 73.

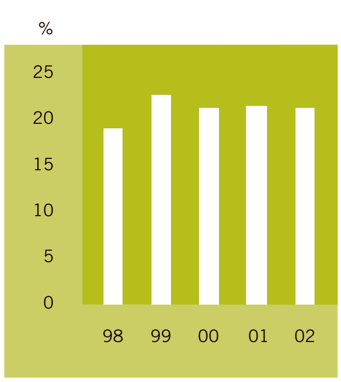
Table 14 Condensed balance sheet
As at December 31 ($ millions and percentage)

	2002		2001[1]		2000[1]	
ASSETS						
Cash and deposits with financial institutions	**$ 1,355**	**1.6%**	$ 1,316	1.6%	$ 1,065	1.4%
Securities	**16,767**	**19.7**	16,041	19.9	15,173	19.9
Loans	**61,044**	**71.5**	57,210	71.1	54,855	72.1
Other assets	**6,177**	**7.2**	5,926	7.4	5,024	6.6
	$85,343	**100.0%**	$80,493	100.0%	$76,117	100.0%
LIABILITIES AND EQUITY						
Deposits and notes	**$62,901**	**73.7%**	$60,565	75.2%	$57,507	75.6%
Other liabilities	**15,153**	**17.8**	13,880	17.2	12,909	17.0
Subordinated debentures	**1,208**	**1.4**	444	0.6	494	0.6
Non-controlling interests	**405**	**0.5**	399	0.5	397	0.5
Equity	**5,676**	**6.6**	5,205	6.5	4,810	6.3
	$85,343	**100.0%**	$80,493	100.0%	$76,117	100.0%

[1] *Data restated to reflect the presentation adopted in 2002.*



Asset growth



Liquid assets as a % of total assets

GROWTH OF DEPOSITS AND NOTES

$2.3 billion growth in deposits and notes

Combined deposits and notes at Desjardins Group totalled $62.9 billion at December 31, 2002, as against $60.6 billion at the end of 2001. This $2.3 billion or 3.9% increase was derived largely from amounts deposited with Desjardins Group by its members and clients, individuals, businesses and government institutions alike. These deposits, which made up almost 94% of its deposit liability during fiscal 2002, grew by $2.9 billion or 5.1% to $59.1 billion as at December 31, 2002. They represented the principal source of funds for Desjardins Group at this date. Other sources of funds, such as securities issues on financial markets, used only as a complement to deposits, fell by $542 million or 12.5% to close out the year at $3.8 billion. Such funds accounted for only 6.1% of the Group's deposit liability at year end, as against 7.2% a year earlier. Comments on the liquidity risk management policies of Desjardins Group are presented on page 73.

Individual savings Desjardins Group has always paid particular attention to its individual customers when recruiting savings. Most financial institutions have a marked preference for personal savings because they are more stable and more accessible, among other things. Consequently, they represented a significant proportion of the deposits and notes of Desjardins Group at December 31, 2002, namely, 74% of its deposit liability, for a volume of $46.6 billion, versus $44.9 billion at the end of 2001, an increase of $1.7 billion or 3.8% in one year. Desjardins Group accounted for close to 47% of personal savings in Québec in 2002.

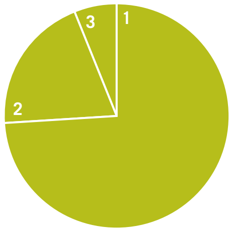
Desjardins Group offers a wide variety of savings products that have all been very well received by individual clients. As the table below illustrates, these products can be grouped into three main categories: demand deposits, notice deposits and fixed-term deposits. This last category, highly sought-after by investors, is made up mainly of traditional guaranteed investment certificates (GICs) and the popular index-linked GICs, which combine capital protection and the potential of stock market returns based on the world's main stock exchanges. At December 31, 2002, fixed-term deposits represented close to 71% of the total volume of personal savings at Desjardins Group, or $33.0 billion. More specifically, index-linked GICs totalled $6.1 billion at that date, up $779 million or 13% in 12 months. These excellent results show that Desjardins Group has built up solid expertise over the years in selling hybrid savings products; it holds an enviable position in this market in Québec and in Canada as a whole.

Desjardins Group distinguishes itself in brokerage activities

For most of the world's major stock markets, 2002 was one of the darkest years in their history. The revelation of several cases of corporate fraud in financial reporting, mainly in the U.S., a lower earnings outlook, the shakiness of the economic recovery south of the border and uncertainty surrounding the geopolitical context joined together to undermine investor confidence. This caused the major stock indexes to decline even further after sustaining a major correction following the tragic events of September 11, 2001. Obviously, it was not a favourable climate for selling savings products like investment funds and securities.

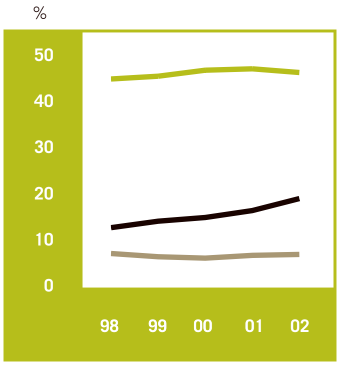
Table 15 Deposits and notes
As at December 31 ($ millions and percentage)

	Payable on demand	Payable after notice	Payable on a fixed date	2002 Total		2001 Total	
Individuals	**$10,871**	**$2,697**	**$33,013**	**$46,581**	**74.0%**	$44,870	74.1%
Businesses and government	**6,408**	**192**	**5,909**	**12,509**	**19.9**	11,342	18.7
Deposit-taking institutions and other	**42**	**—**	**3,769**	**3,811**	**6.1**	4,353	7.2
	$17,321	**$2,889**	**$42,691**	**$62,901**	**100.0%**	$60,565	100.0%



Distribution of deposit and note portfolio
As at December 31, 2002

1 74.0% Individuals
2 19.9% Businesses and government
3 6.1% Deposit-taking institutions and other



Québec market share
Personal savings recruitment activities

- Traditional deposits
- Securities
- Investment funds

However, in its concern to respond efficiently to the changing needs of its members and clients in its savings product offer, Desjardins Group was able to limit the damage in 2002 through a strategy of accelerating the deployment of its brokerage activities throughout the cooperative network and its specialized subsidiaries. At December 31, 2002, assets under administration or management for investment funds and securities sold were $16.1 billion, a year-over-year rise of $1.1 billion or 7.2%, compared to growth of $1.4 billion or 10.4% observed in 2001. These results compare very favourably with those of most other financial institutions present in this area of expertise.

LOAN GROWTH

Dynamic lending activity

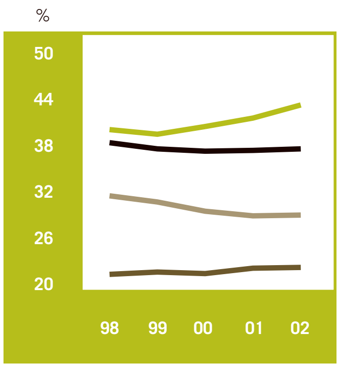
For credit activities, 2002 will go down in the annals of Desjardins Group as a period of spectacular growth. Its ongoing commitment to Québec's economic development gave it an opportunity to excel in a number of markets, including the housing sector. Thanks to its dynamic credit offer, Desjardins Group did well with both individual and business clients.

As at December 31, 2002, the Group's loan portfolio, net of the cumulative provision for loan losses, amounted to $61 billion, for enviable growth of $3.8 billion or 6.7% over the year, compared to an increase of $2.4 billion or 4.3% in 2001. Loans to individuals were the driving force behind much of this growth, representing 71.5% of Desjardins Group's loan portfolio at the end of 2002. They totalled $44.3 billion, for an increase of $3.4 billion or 8.4% over the year, versus an increase of $1.9 billion or 4.9% at the end of 2001.

Other financing activities, such as loans to businesses and government, also contributed to Desjardins Group's soaring results, although to a lesser degree. As at December 31, 2002, they represented 28.5% of total outstanding loans, for a volume of $17.7 billion. They were up $348 million or 2% over the year, as against an increase of $506 million or 3% recorded in 2001.

A closer look at Desjardins Group's results by market will show that it gave a good account of itself in 2002. It even succeeded in improving the already enviable position it occupies in Québec in the various segments in which it operates.

The financing activities of Desjardins Group are governed by strict credit risk management practices. The credit risk management section on page 72 describes these practices in detail.



Québec market share
Credit activities

- Farm loans
- Residential mortgages
- Consumer, credit card and other personal loans
- Commercial mortgages and other loans

Table 16 Loans by borrower category
As at December 31 ($ millions and percentage)

	2002		2001	
Residential mortgages	**$33,230**	**53.7%**	$30,617	52.7%
Credit card loans	**2,196**	**3.5**	1,736	3.0
Other consumer loans	**8,843**	**14.3**	8,467	14.6
Farm loans	**4,056**	**6.6**	3,571	6.1
Governments and other public and parapublic institutions	**2,110**	**3.4**	2,213	3.8
Commercial mortgages	**4,920**	**7.9**	5,114	8.8
Other loans	**6,581**	**10.6**	6,421	11.0
	61,936	**100.0%**	58,139	100.0%
Cumulative provision for loan losses	**(892)**	**—**	(929)	—
	$61,044	**—**	$57,210	—
Loans guaranteed by governments and other public and parapublic institutions included above	**$15,813**	**—**	$14,354	—
Loans guaranteed by governments and other public and parapublic institutions as a percentage of total gross loans	**25.5%**	**—**	24.7%	—
Loans to individuals as a percentage of total gross loans	**71.5%**	**—**	70.2%	—

Notable acceleration in the housing market

Residential mortgages Québec's housing industry has always been able to count on the full participation of Desjardins Group. The decisive role it has played in its members' home ownership plans has garnered it a leading role among the financial institutions that partner this highly competitive industry. With a penetration rate in Québec estimated at 38.3% at December 31, 2002, it far outstripped its closest competitors. Other considerations also motivated Desjardins Group to expand its involvement in this market, including greater loyalty among borrowers and a generally lower loss experience. Desjardins Group therefore did its utmost to maintain its dominant position in this area.

As at December 31, 2002, Desjardins Group's residential mortgage loan portfolio was $33.2 billion, up $2.6 billion or 8.5%, compared to an increase of $1.6 billion or 5.4% at the same date in 2001. These excellent results were generated by Desjardins Group's increased presence in sales of both new and existing homes. The substantial improvement in Québec's economic environment in 2002, driven in part by a housing market boom, clearly helped to create very favourable conditions for business development. Housing starts, for instance, climbed 53.4% to 42,452 units, while the number of transactions reported by MLS (the multiple listing service) set a new record with slightly over 71,000 sales of existing homes, 15.2% more than in 2001.

Consumer credit Desjardins Group also did well in consumer loans during 2002, especially in financing durable goods. Because of the spectacular gains made with the accord D program of its subsidiary VISA Desjardins and its increased involvement with automobile dealerships, the Group was able to capitalize on sustained consumer spending during the year. At December 31, 2002, its outstanding consumer loans, including credit card advances, amounted to $11 billion, for vigorous year-over-year growth of $836 million or 8.2%, compared to an increase of $344 million or 3.5% at the end of 2001. Despite the keen competitiveness of this field, Desjardins Group was able through its outstanding results to expand its market penetration rate in Québec to close to 30% at the end of 2002.

Increased business confidence

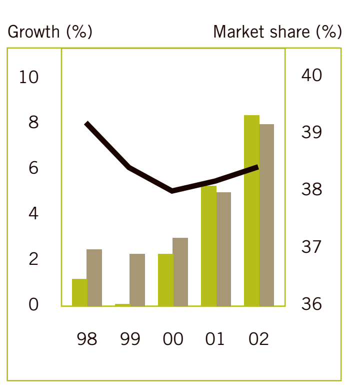
Commercial and industrial credit Thanks to the upswing in Québec's economy and the completion of several major public and private investment projects, business spending turned the corner in 2002 with 1.6% growth, after a 6.5% contraction in 2001. More specifically, investment spending improved by 7.7% during the same period, after a 3.6% decline a year earlier. The fact that excess capacity was much less of a problem north of the border, combined with buoyant domestic demand, definitely offset the negative impact of the shaky economic recovery in the United States.

However, in spite of this more favourable environment, Desjardins Group continued to act with caution because of the risks inherent in commercial and industrial credit. As at December 31, 2002, Desjardins Group's outstanding loan portfolio in this market, including commercial mortgages and other loans, was $11.5 billion, for a slight reduction of $34 million or 0.3% in 12 months.

Over the years, Desjardins Group has forged close ties with Québec-based SMEs. Because of its presence throughout Québec and the quality and variety of its products, it is one of the most trusted financial institutions for businesses in this coveted market. The consolidation of its corporate financial centres (CFCs), the creation of the *Capital régional et coopératif Desjardins* regional development fund and the many other commercial initiatives it has undertaken in recent years are a testimony to Desjardins Group's desire to remain a leading partner for small and medium-sized enterprises.

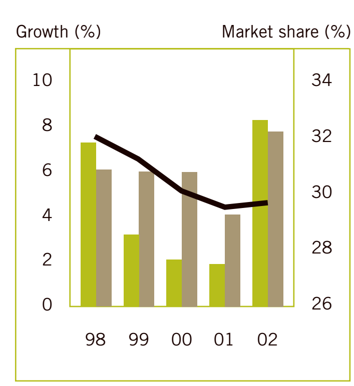
Farm and other loans With its long-standing commitment to the agricultural sector and the welcome collaboration of regional players, Desjardins Group turned in a remarkable performance in 2002. As at December 31, 2002, its outstanding farm loans jumped by $485 million or 13.6% to a volume of $4.1 billion, versus an increase of $347 million or 10.8% observed at the end of 2001. These excellent results translated into a further increase in its Québec market share, which ended the year at 44%.

And lastly, Desjardins Group was also very active in financing for governments and public and parapublic institutions. However, its loan portfolio in this segment contracted slightly, to total $2.1 billion as at December 31, 2002.



Residential mortgages in Québec

- Business volume growth – Desjardins Group
- Business volume growth – market
- Québec market share



Consumer loans in Québec

- Business volume growth – Desjardins Group
- Business volume growth – market
- Québec market share

Capital management

HIGHLIGHTS

- Substantial increase in the total capital ratio, from 11.86% in 2001 to 13.34% in 2002
- Issue of $800 million of debentures on Canadian markets
- $462 million rise in reserves and undistributed surplus earnings
- Tier 1 capital ratio maintained, one of the highest in the Canadian banking industry

The objective: Good-quality capitalization Desjardins Group maintains a high level of quality capital to enable it to pursue its development and to protect itself against the various risks to which it is exposed in the normal course of business. To achieve this objective, management favours a strategy of optimal capital management in order to maintain a competitive Tier 1 capital ratio.

Desjardins Group has for several years now posted one of the highest ratios in the Canadian banking industry. Its capital structure is stable and solid, since it is largely comprised of reserves. Desjardins Group's equity at December 31, 2002 totalled $5.9 billion, for a year-over-year increase of $1.2 billion

Regulatory capital – Frame of reference (BIS) Desjardins Group voluntarily undertook a number of years ago to comply with the regulatory requirements set out by the Basel Committee on Banking Supervision of the Bank for International Settlements (BIS) which govern the capital adequacy of financial institutions active on international markets. This position was taken to permit comparison with other financial institutions involved on international markets, given that Desjardins Group is active in that arena.

Desjardins Group has adopted a prudent stance by calculating regulatory capital based on the consolidated balance sheet of its cooperative network, taking into account investments by the caisses in the subsidiary companies.

Method In accordance with BIS standards, total regulatory capital, which constitutes equity, is divided into two categories, Tier 1 and Tier 2 capital. Tier 1 capital includes more permanent elements of capital, such as reserves and shares, while Tier 2 capital is comprised essentially of debentures and the general provision for credit risk.

As stipulated in the BIS standards, total capital is then reduced by investments in the subsidiary companies. According to these same rules, certain investments by the caisses in the subsidiaries are recorded using the equity method, given the nature of their operations. Finally, the standard allows for certain small and passive investments to be treated as a credit risk.

Assets at risk in the Desjardins cooperative network are calculated according to the risk weighting for each on- and off-balance sheet item.

Capital ratios The minimum level of capitalization recommended to meet BIS regulatory requirements and to be considered a well-capitalized institution is a minimum total ratio of 8.0%. Moreover, Tier 1 capital must represent at least half of the total ratio. The Office of the Superintendent of Financial Institutions Canada has set targets of 7% and 10% respectively for the Tier 1 and total capital ratios. Desjardins Group significantly surpassed these minimum limits in 2002.

Comparison of 2002 and 2001 results

The total capital ratio rose from 11.86% in 2001 to 13.34% in 2002. The growth of equity at Desjardins Group in 2002 was achieved essentially by the issue of $800 million of subordinated debentures for Canadian investors.

The different components of equity are given in Table 17 on page 69.

At December 31, 2002, risk-weighted assets amounted to $44.2 billion, for an increase of $4.2 billion or 10.5% over 2001. Table 19 on page 71 lists the components that make up risk-adjusted assets according to BIS rules.

In addition, the level and particularly the high quality of our capital structure were recognized by the credit rating agencies, which maintained our favourable credit rating in 2002, one of the best among the major Canadian banks.

At December 31, 2002, and as in previous years, all Desjardins Group entities were in compliance with the minimum regulatory requirements for capital adequacy, according to the applicable jurisdiction.

Table 17 Capital and capital ratios [1]

As at December 31 ($ millions and percentage)

	2002	2001
TIER 1 CAPITAL		
Shares	**$ 819**	$ 812
Reserves	**4,332**	4,022
Undistributed surplus earnings	**473**	321
Non-controlling interests	**32**	32
	5,656	5,187
TIER 2 CAPITAL		
Subordinated debentures	**1,042**	272
General provision	**361**	350
	1,403	622
INVESTMENTS [2]	**(1,159)**	(1,060)
TOTAL CAPITAL	**$ 5,900**	$ 4,749
RISK-WEIGHTED ASSETS		
On-balance sheet assets	**$41,255**	$39,952
Off-balance sheet financial instruments	**4,148**	1,150
Investments [2]	**(1,159)**	(1,060)
	$44,244	$40,042
CAPITAL RATIOS		
Tier 1 capital	**12.78%**	12.95%
Tier 2 capital	**3.17**	1.55
Total capital ratio	**13.34**	11.86

1 *On-balance sheet and off-balance sheet financial instruments are those of the cooperative network only.*
2 *These amounts correspond to the consolidated value of the investment in the subsidiary companies, and the surplus of the value of the investment in Investissement Desjardins and ID, Limited Partnership in relation to the cost.*

Outlook In 1999, the BIS launched a major review of its capital adequacy requirements in order to keep pace with the many changes that have occurred in financial markets in recent years. They are expected to be adopted in 2003 and implemented in 2006. Their objective is to link a financial group's capital requirements to specific foreseeable risks according to the financial institution's individual experience. Desjardins Group has already begun work in this regard.

Off-balance sheet financial instruments Off-balance sheet financial instruments consist of credit instruments and derivative financial instruments. Desjardins Group manages these commitments by applying the same strict rules as those applied to on-balance sheet items. Risks related to this type of commitment are assessed in compliance with BIS regulatory requirements.

Notes 19 and 22 to the Financial Statements of Desjardins Group present an overview of the derivative financial instruments and the credit instruments held by Desjardins Group as at December 31, 2002. In the opinion of management, no losses were anticipated and off-balance sheet financial instruments did not represent an undue risk.

Table 18 Derivative financial instruments by counterparty type and notional amounts [1]

As at December 31 ($ millions and percentage)

	2002					2001	
	Interest rate contracts	Foreign exchange contracts	Other contracts	Total		Total	
Financial institutions	$21,880	$4,872	$ 4,703	$31,455	70.4%	$29,370	85.0%
Other counterparties	4,769	1,951	6,525	13,245	29.6	5,191	15.0
	$26,649	$6,823	$11,228	$44,700	100.0%	$34,561	100.0%

[1] *For the cooperative network only.*

Credit instruments Credit instruments are issued mainly to ensure that Desjardins Group members and clients have funds available when necessary. The policy for managing these instruments is the same as for the granting of loans, which reduces the risk associated with such instruments. Furthermore, the contractual amount of these commitments, as indicated in Table 19 on page 71, does not necessarily represent future cash requirements since many of these instruments will expire or terminate without being funded. Credit instruments include guarantees, standby letters of credit, securities lending, loan substitutes and credit commitments representing amounts authorized but not used by members or clients.

As shown in Table 19, the risk-weighted balance of credit instruments as at December 31, 2002, was $3,908 million, versus $924 million a year earlier. The increase in this balance is chiefly attributable to a new commitment for loan substitutes related to the management of certain index-linked term savings products, and represents the guarantee assumed by the Group in this regard.

Derivative financial instruments Derivative financial instruments are one of the strategic tools used by Desjardins Group to manage its assets and liabilities and to meet the needs of its members and clients. Instruments designated for management purposes are designed to reduce risk related to interest rates, foreign exchange rates and other financial indexes. Derivatives include forward rate agreements, swaps and options.

Derivative financial products, like on-balance sheet financial instruments, are subject to monitoring by the Fédération des caisses Desjardins du Québec to ensure compliance with the rules and policies in place for managing the risk inherent in these products, such as credit, liquidity and market risk.

Credit risk is the risk of loss in the event that a counterparty does not respect its commitments to Desjardins Group. It represents the replacement cost (positive value) of the contract plus an amount representing the future risk related to changes in replacement cost based on the maturity of a given instrument. As indicated in Table 18, more than 70% of the derivative financial instruments are used in relations with financial institutions with high credit ratings; furthermore, Desjardins Group has master netting agreements with certain counterparties, which reduce their insolvency risk by allowing net settlement of all positions covered by master agreements.

Liquidity risk represents the risk associated with future receipts and disbursements related to commitments made by Desjardins Group through derivative financial instruments. This risk is managed overall by the Group as part of the management of its asset and liability matching.

Market risk represents the risk related to changes in the benchmark indexes for derivative financial instruments, such as interest rates, exchange rates or other financial indexes. As in past years, Desjardins Group manages this risk by negotiating short-term agreements aimed at limiting fluctuations in these indexes. Note 19 to the Combined Financial Statements shows that over 75% of derivative financial instruments had a remaining term to maturity of less than three years, with more than half of these instruments maturing within one year. In 2001, 77% of the total notional principal for these contracts had a term to maturity of less than three years.

From a credit, liquidity and market risk perspective, the risk-weighted balance for the derivative financial instruments of Desjardins Group's cooperative network was $240 million, including the master netting agreements, as indicated in Table 19.

Table 19 Risk-weighted assets [1]

As at December 31 ($ millions and percentage)

On-balance sheet assets	2002 Amount on balance sheet	2002 Principal risk weighting factors	2002 Risk-weighted balance	2001 Risk-weighted balance
Cash and deposits with financial institutions	$ 1,261	0%	$ —	$ —
Securities issued or guaranteed by Canada, the provinces and municipalities	5,034	0-20	26	222
Other securities	4,497	20-100	3,229	3,544
Loans issued or guaranteed by Canada, the provinces and municipalities	7,601	0-20	634	532
Mortgages insured by the government	8,680	0	—	—
Other mortgages	25,172	50-100	18,312	18,017
Other loans	17,588	20-100	16,557	14,567
Other assets	3,500	20-100	2,497	3,070
	$73,333		$41,255	$39,952

Off-balance sheet financial instruments	2002 Notional amount	2002 Credit conversion factor	2002 Credit risk equivalent	2002 Principal risk weighting factors	2002 Risk-weighted balance	2001 Risk-weighted balance
CREDIT INSTRUMENTS						
Guarantees and standby letters of credit	$ 280	0-100%	$ 270	20-100%	$ 250	$ 139
Credit substitutes	2,800	100	2,800	100	2,800	—
Credit commitments:						
Original term of one year or less	11,507	0	—	0	—	—
Original term of over one year	2,214	0-50	1,126	0-100	858	785
					3,908	924
DERIVATIVE FINANCIAL INSTRUMENTS						
Interest rate contracts	26,649	[2]	731	20-50	187	168
Foreign exchange contracts	6,823	[2]	497	20-50	150	124
Other contracts	11,228	[2]	457	20-50	121	114
					458	406
Impact of master netting agreements					(218)	(180)
					240	226
TOTAL OFF-BALANCE SHEET FINANCIAL INSTRUMENTS					4,148	1,150
TOTAL RISK-WEIGHTED ASSETS					$45,403	$41,102

1 *On-balance sheet and off-balance sheet financial instruments are those of the cooperative network.*

2 *Interest rate, foreign exchange and other contracts are converted into their "credit risk equivalent" by adding the total replacement cost (obtained by market valuation) of all outstanding contracts that have a positive value and an amount of potential risk exposure based on the total contract amount, distributed according to the remaining term as shown in the above table.*

Risk management

INTEGRATED RISK MANAGEMENT Desjardins Group, in the normal course of its operations, is exposed to different types of risk. Its goal in this regard is to optimize its risk/return ratio by applying sound and prudent strategies, policies as well as management and control processes that are integrated across all of the organization's functions.

To reach this objective, and as part of an approach aimed at constant improvement, Desjardins Group and each of its components implemented three major strategic initiatives in recent years, namely, reinforcing the single management structure for the principal second-level components exposed to risk in the normal course of their activities; strengthening the structure and operations of the committees that support the officers; and creating a unit at the Fédération specifically dedicated to integrated risk management.

The single management structure, consisting of a single board of directors and chief executive officer, ensures an overall vision of and synergy in risk management at Desjardins Group. The operations of the entire Group are guided by this management structure, which integrates in a more direct and ongoing manner the operations of the caisses, the Fédération, Caisse centrale Desjardins and Desjardins Financial Corporation (known prior to March 27, 2003 as Desjardins-Laurentian Financial Corporation).

A number of committees support the single management structure as well as the board of directors and management of each component in carrying out their main risk management responsibilities. Since 2001, principally, the committees' operating methods have been enhanced and other committees have been set up. Their chief duties include determining and periodically reviewing strategies, policies and processes as well as monitoring their application and material risk exposures. Some of these committees have defined powers for approving operating policies, setting diversification limits, and, in certain cases, authorizing transactions.

This method of governance ensures that the integrated risk management unit of the Group has the independence it requires, and that the duties of each party involved in risk management are clearly defined, at the same time as it favours partnership between them. The integrated risk management unit of the Fédération develops strategies, orientations, standards and general policies applicable to the entire Group and ensures that each component exercises sound and prudent risk management. This unit also develops the practices and procedures applied in the caisse network. The risk management team at each component takes part in these activities and defines operating policies and processes that are specifically adapted to their component. Competent, experienced personnel at each component are the main persons responsible for stringent application of the rules defined as well as sound and prudent management of risks.

The Group's policies and processes aim to be proactive in identifying potential risks, and measuring, assessing and managing them soundly and prudently, notably by specifying the controls to be applied and the responsibility of producing reports for officers. In addition, the Group's internal audit team carries out independent examinations of the operations of the Fédération and its subsidiary companies in order to provide further assurance as to the degree of risk control within the organization.

The caisse network is monitored by the Desjardins Bureau for Financial Monitoring and Enforcement (the Bureau) as required by the Québec *Act respecting Financial Services Cooperatives*. The purpose of this monitoring, which is done by applying best practices, is to evaluate the policies, processes and controls in the caisse network, as well as the quality of their application in order to ensure sound and prudent risk management. Furthermore, the Bureau examines activities performed for the caisses by the Fédération, including liquidity management. The Bureau's reports to the board of directors of the caisses and the Fédération are subject to careful follow-up.

For the next few years, the evolution of risk management and monitoring practices will be guided by the changes recommended by the Basel Committee on Banking Supervision. The Committee anticipates finalizing the new accord concerning capitalization and its implementation schedule during the fourth quarter of 2003. In line with its orientation to apply the best industry practices as well as the recommended changes in the Basel Accord, Desjardins Group carried out an exhaustive analysis of the risk management function throughout its components during 2002. Following this, it designed and launched an implementation plan that will be phased in over several years.

CREDIT RISK MANAGEMENT Credit risk corresponds to the likelihood of financial loss that may arise from a borrower's inability to fully meet its financial or contractual obligations. This risk is one of the main inherent risks in on-balance sheet items for Desjardins Group. To a lesser extent at Desjardins, this risk can also be found in the possibility of a counterparty not respecting other types of off-balance sheet commitments, such as settlement of derivative financial instruments.

The integrated risk management framework described above allows increasingly dynamic credit risk management to ensure sound, prudent, efficient and profitable management.

A single general standard provides a framework for all the credit risk management activities of the Group; this standard is complemented by policies and procedures aimed at outlining the duties of the parties involved, specifying the degree of risk that Desjardins Group is willing to assume, defining concentration limits and determining risk management and monitoring guidelines.

Credit is subject to analysis and authorization by specialists and committees according to the level of the authorization limits assigned. To that end, the Group has recourse to the necessary segment specialists and provides continuous training in order to hone their skills. Detection mechanisms are in place to quickly identify, manage and provision problem loans. If necessary, management of such loans is transferred to specialized teams.

All large loans in the caisse network are submitted for prior approval to the Fédération, which also monitors changes in risk for these loans. In addition to the controls in the caisses and at the Fédération, the Bureau ensures compliance with the standards and policies in place to provide sound and prudent management of loans by the caisses.

Overall portfolio quality is monitored, and concentration limits are set to ensure good diversification. The Group's portfolio is highly diversified, among other things because of the proportion of personal loans and loans to small and medium-sized enterprises in every sphere of the economy. Table 16 on page 66 shows the different markets on which Desjardins Group is active. For instance, residential mortgages and consumer credit represent approximately 72% of the portfolio. When required, the Group uses mechanisms to share the risk between components and with other financial institutions. It plans to introduce a new automated process for the caisse network in 2003 that will facilitate follow-up on risk diversification.

Desjardins Group is pursuing its objective of serving all its members effectively. To that end, it has equipped itself with highly efficient distribution systems and networks corresponding to the scope and nature of member needs. This is how the caisse network came to create the corporate financial centres (CFCs), specializing in commercial credit. The experts working out of these centres make it easier for us to reach our member satisfaction and risk management objectives. Systems are in place to support all financing and risk management activities, including systems to analyze and rate risk and to review commitments. These systems and tools are continually reviewed and finetuned to improve their performance.

Changes in the loan portfolio were very positive in 2002. Tables 13 and 16 on pages 63 and 66 provide details in this regard.

LIQUIDITY RISK MANAGEMENT The object of liquidity risk management is to ensure that Desjardins Group has access, at all times and at a competitive price, to the funds it requires to meet its financial commitments as they become due. Management of this risk involves maintaining a minimum level of liquid securities, stable and diversified sources of funding as well as an action plan in the event of unusual circumstances. Moreover, liquidity risk management is a key component of our overall risk strategy because it is essential in order to maintain market and depositor confidence. In line with the separate nature of their operations, the cooperative network and the network of subsidiaries manage their liquidity risk prudently. The caisses, the Fédération and Caisse centrale Desjardins must maintain a minimum level of liquid securities which is defined by a specific framework. Management of the level of liquidity is centralized at Caisse centrale Desjardins and monitored on a daily basis. Eligible securities must meet high security and negotiability standards. At the same time, Caisse centrale Desjardins maintains optimal matching of cash flows arising from its financial transactions and those of the entire cooperative network. Additional information on changes in assets and liabilities can be found in the balance sheet analysis section on page 64.

As for the network of subsidiaries, specific policies and requirements have been defined and put in place for its operations. Desjardins Group has a marginal presence in securities trading. See Note 4 to the Combined Financial Statements on page 85.

Furthermore, stable and diversified funding according to type, source and maturity is ensured through the competitive range of savings products offered by Desjardins Group through its extensive distribution network in Québec and elsewhere in Canada. In addition to offering retail savings products, Desjardins Group can issue securities and borrow on national and international markets to complete and diversify its funding. Access to these markets is facilitated by the Group's high level of capitalization and the excellent credit ratings it has received from the rating agencies. The Group has drawn up an action plan for rapid and effective intervention to minimize disturbances caused by sudden changes in market conditions. With this fallback plan, Desjardins Group would be able to meet its commitments in the event of a disruption on the markets or in economic conditions.

MARKET RISK MANAGEMENT Market risk is primarily the risk of loss related to interest rate and exchange rate volatility. The cooperative network and the network of subsidiaries have both established stop-loss mechanisms for financial market positions.

Interest rate risk management Financial intermediation operations that involve taking deposits and granting loans expose Desjardins Group to market risk, mainly in the form of interest rate risk. The interest rate risk of activities other than trading corresponds to the potential impact of interest rate fluctuations on net interest income and economic value. The extent of this risk is a function of gaps in the amounts of assets, liabilities and off-balance sheet instruments that reprice during a given period.

Dynamic and prudent management is applied in order to reach the goal of optimizing net interest income while limiting the negative impact of rate movements. The policies developed describe the principles and mechanisms applicable to management of this type of risk. The main methods used are gap position and economic value analysis. Simulations are used to measure the impact of different variables on changes in net interest income and economic value for several years.

These scenarios reflect different assumptions involving strategies, rate movements, members' behaviour and other underlying variables. Strategies are applied chiefly through interest rate swaps. The effect of being inside the security corridor at December 31, 2002 made rate increases favourable to net interest income and unfavourable to economic value, illustrating the importance of using more than one tool to measure short, medium and long-term risk.

Desjardins Group evaluates its aggregate risk on a regular basis, and periodic reports are submitted to senior management. The Asset and Liability Management (ALM) Committee meets on a regular basis to adapt the strategies and resulting positions to the various rate contexts related to changing economic conditions.

Note 20 to the Combined Financial Statements on page 96 shows Desjardins Group's position with respect to interest rate sensitivity and matching of maturities at December 31, 2002. The situation as presented reflects the position on this date only and may vary subsequently according to changes in members' behaviour, the interest rate environment and the strategies adopted by the ALM Committee.

Foreign exchange risk management Desjardins Group holds assets and liabilities in several currencies. Foreign exchange market risk arises when there is an imbalance between the total present value of assets and liabilities denominated in the same currency. This situation also applies to off-balance sheet financial instruments when the maturity profile for foreign exchange contracts purchased differs from the maturity profile for contracts sold. Risk can also arise from a transactional position, i.e., when cash inflows and outflows in the same currency do not match.

Since by far most of Desjardins' transactions are performed in Canadian dollars, its exposure to exchange rate risk is small. These risks are managed to optimize return while maintaining very prudent management within acceptable limits established in specific policies.

Trading risk management Desjardins Group trades interest rate and exchange rate contracts mainly to meet risk management needs related to matching of balance sheet items. To a lesser extent, securities, foreign exchange, interest rate and financial instrument arbitrage is also carried out, mainly to meet the needs of its members and clients. All these transactions are governed by very restrictive limits.

OPERATIONAL RISK MANAGEMENT Operational risk is the possibility of loss or damage as a result of breakdown or inefficiency of processes and internal systems due to human error or outside events and activities.

The primary objective of operational risk management is to contain this risk at an acceptable level while ensuring quality service for Desjardins members and clients as well as organizational efficiency. An administrative unit at the Fédération is responsible for supporting operational risk management and establishing orientations, policies and procedures for managing, monitoring and following up on risk exposure. Internal controls and systems in place are examined periodically by the internal auditors and, for the caisses, by the Bureau. These systems include risk monitoring, insurance coverage, security equipment as well as recovery plans and back-up facilities to continue providing service in the event of a disaster. They also include an organization structure that favours segregation of duties, delegation of decision-making powers and transaction controls.

No substantial loss related to operational risk has occurred in recent years, and Desjardins Group has the necessary insurance coverages for this purpose. As part of the continuous improvement process, and given new legislation adopted since the events of September 11, 2001 in the United States, certain practices have been adjusted in order, among other things, to increase efforts to counter certain types of crime and to ensure that developments in control mechanisms keep pace with technology. These adjustments have been effective, and others are planned for 2003.

E-business risk management E-business incorporates a number of value-added commercial practices and products. With its various committees, backed up by specialists, Desjardins Group ensures that developments in this area are closely monitored and that the risks presented by these operations are managed effectively with ongoing practices and controls. Strategic planning, robust systems, back-up capabilities, security, management of human resources who specialize in this area and knowledge management are some of the areas in which Desjardins Group is making substantial efforts in order to offset E-business risks.

INSURANCE RISK Insurance risk mainly covers the risks associated with insurance settlements and pricing. Risks related to claims and insurance settlements are managed by Desjardins Group insurance subsidiaries chiefly by setting appropriate risk selection criteria and limiting potential losses by using reinsurance treaties. They must also manage credit risk related to reinsurers by avoiding excessive concentration and by dealing only with established and accredited companies. Pricing risk relates to the possibility that actuarial or other forecasts may be incorrect. This risk is actively managed in several ways, including timely checks comparing forecasts and results and, in certain cases, with pricing adjustment clauses.

Desjardins Group
Combined Financial Statements

Management's responsibility for financial reporting

The combined financial statements of Desjardins Group and all the information contained in this Annual Report are the responsibility of the management of the Fédération des caisses Desjardins du Québec, whose duty is to ensure their integrity and fairness.

The combined financial statements were prepared in accordance with Canadian generally accepted accounting principles and the accounting requirements of the Inspector General of Financial Institutions of Québec, as applicable. The combined financial statements necessarily contain amounts established by management according to estimates which it deems fair and reasonable. These estimates include, among other things, the valuations of the actuarial and related liabilities performed by the valuation actuaries of the insurance subsidiaries. All financial information presented in the Annual Report is consistent with the audited combined financial statements.

As it is responsible for the reliability of the Group's combined financial statements and related information, and the accounting systems from which they are derived, the management of the Fédération des caisses Desjardins du Québec maintains appropriate internal controls over operations and related accounting practices. The organizational structure provides for effective segregation of duties, standards in personnel hiring and training, as well as the application of control methods which are updated regularly, thereby ensuring adequate supervision of operations. The effectiveness of the controls and systems is evaluated on a regular basis by the Audit Department of the Desjardins Bureau for Financial Monitoring and Enforcement and by the Group's internal audit team.

The Inspector General of Financial Institutions of Québec conducts an inspection of the Desjardins Group components under its authority at least once a year.

The Board of Directors of the Fédération des caisses Desjardins du Québec ensures that management fulfills its responsibilities with regard to the presentation of financial information, and is responsible for approving the combined financial statements of Desjardins Group. The Board exercises this role chiefly through the Audit and Inspection Commission, consisting exclusively of directors who are neither officers nor employees of any Desjardins Group component.

The combined financial statements were examined by the auditors appointed by the Board of Directors, namely, Samson Bélair / Deloitte & Touche, S.E.N.C. and the Audit Department of the Desjardins Bureau for Financial Monitoring and Enforcement, whose report follows. The auditors may meet with the Audit and Inspection Commission at any time to discuss their audit and any matters related thereto, notably the integrity of the financial information provided and the quality of internal control systems.

Alban D'Amours
PRESIDENT AND CHIEF EXECUTIVE OFFICER
DESJARDINS GROUP

Bertrand Laferrière
PRESIDENT AND CHIEF OPERATING OFFICER
FÉDÉRATION DES CAISSES DESJARDINS DU QUÉBEC

Lévis, February 23, 2003

Auditors' report

TO THE MEMBERS OF THE FÉDÉRATION DES CAISSES DESJARDINS DU QUÉBEC

We have audited the combined balance sheets of Desjardins Group as at December 31, 2002 and the combined statements of income, the combined statements of changes in equity and the combined statements of cash flows for the year then ended. These financial statements are the responsibility of the management of the Fédération des caisses Desjardins du Québec. Our responsibility is to express an opinion on these combined 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 combined financial statements present fairly, in all material respects, the financial position of Desjardins Group as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The combined financial statements for the years ended December 31, 2001 and 2000 were audited by Raymond Chabot Grant Thornton, S.E.N.C. and the Audit Department of the Desjardins Bureau for Financial Monitoring and Enforcement, which expressed an opinion without reservation in their report dated March 1, 2002.

Samson Bélair / Deloitte & Touche, S.E.N.C.
CHARTERED ACCOUNTANTS

Québec City, February 23, 2003

Audit Department
DESJARDINS BUREAU FOR FINANCIAL MONITORING AND ENFORCEMENT

Lévis, February 23, 2003

Combined balance sheets

As at December 31 ($ millions)

	2002	2001
ASSETS		
Cash and deposits with financial institutions	**$ 1,355**	$ 1,316
Securities **(Note 4)**		
Investment account	**15,993**	15,658
Trading account	**774**	383
	16,767	16,041
Loans **(Notes 5 and 6)**		
Residential mortgages	**33,230**	30,617
Consumer, credit card and other personal loans	**11,039**	10,203
Business and government	**17,667**	17,319
	61,936	58,139
Cumulative provision for loan losses **(Note 6)**	**(892)**	(929)
	61,044	57,210
Other assets		
Fixed assets **(Note 7)**	**1,181**	1,213
Interest receivable	**341**	342
Derivative-related assets	**1,098**	1,228
Customers' liability under acceptances	**349**	281
Other **(Note 8)**	**3,208**	2,862
	6,177	5,926
TOTAL ASSETS	**$85,343**	$80,493
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits and notes **(Note 9)**		
Individuals	**$46,581**	$44,870
Business and government	**12,509**	11,342
Deposit-taking and other institutions	**3,811**	4,353
	62,901	60,565
Other liabilities		
Actuarial and related liabilities **(Note 10)**	**8,370**	8,065
Borrowings **(Note 11)**	**237**	270
Interest payable	**614**	745
Derivative-related liabilities	**1,699**	1,169
Acceptances	**349**	281
Other **(Note 12)**	**3,884**	3,350
	15,153	13,880
Subordinated debentures **(Note 13)**	**1,208**	444
Non-controlling interests **(Note 14)**	**405**	399
EQUITY		
Capital stock **(Note 15)**	**851**	844
Undistributed surplus earnings	**475**	321
Reserves	**4,350**	4,040
	5,676	5,205
TOTAL LIABILITIES AND EQUITY	**$85,343**	$80,493

On behalf of the Board of Directors of the Fédération des caisses Desjardins du Québec

Alban D'Amours
CHAIRMAN OF THE BOARD

Madeleine Lapierre
VICE-CHAIR OF THE BOARD

Combined statements of income

For the years ended December 31 ($ millions)

	2002	2001	2000
INTEREST INCOME			
Loans	**$4,035**	$4,296	$4,055
Securities	**834**	887	1,041
	4,869	5,183	5,096
INTEREST EXPENSE			
Deposits and notes	**1,531**	2,204	2,329
Subordinated debentures and borrowings	**78**	53	49
	1,609	2,257	2,378
NET INTEREST INCOME	**3,260**	2,926	2,718
Provisions and loan losses	**109**	237	127
NET INTEREST INCOME AFTER PROVISIONS AND LOAN LOSSES	**3,151**	2,689	2,591
OTHER INCOME			
Insurance and annuity premiums	**2,623**	2,389	2,064
Deposit and payment service charges	**359**	363	348
Lending fees and card service revenues	**161**	141	134
Trust services and securities dealing	**188**	180	187
Other	**346**	373	418
	3,677	3,446	3,151
NON-INTEREST EXPENSES			
Claims, benefits, annuities and changes in insurance provisions	**2,392**	2,280	2,114
Salaries and fringe benefits	**1,623**	1,501	1,485
Premises, equipment and furniture, including depreciation	**331**	347	447
Communications	**170**	178	174
Other	**1,069**	1,026	852
	5,585	5,332	5,072
OPERATING SURPLUS EARNINGS	**1,243**	803	670
Income taxes **(Note 16)**	**371**	179	114
SURPLUS EARNINGS BEFORE NON-CONTROLLING INTERESTS, GOODWILL CHARGES AND PATRONAGE ALLOCATIONS	**872**	624	556
Non-controlling interests **(Note 14)**	**24**	23	30
SURPLUS EARNINGS BEFORE GOODWILL CHARGES AND PATRONAGE ALLOCATIONS	**848**	601	526
Goodwill charges **(Note 8)**	**—**	13	43
SURPLUS EARNINGS BEFORE PATRONAGE ALLOCATIONS	**848**	588	483
Patronage allocations to members **(Note 17)**	**490**	269	143
Tax recovery on patronage allocations **(Note 16)**	**(157)**	(78)	(41)
SURPLUS EARNINGS FOR THE YEAR AFTER PATRONAGE ALLOCATIONS	**$ 515**	$ 397	$ 381

Combined statements of changes in equity

For the years ended December 31 ($ millions)

	2002	2001	2000
CAPITAL STOCK			
Balance at beginning of year	**$ 844**	$ 819	$ 809
Changes during the year	**7**	25	10
Balance at end of year	**$ 851**	$ 844	$ 819
UNDISTRIBUTED SURPLUS EARNINGS			
Balance at beginning of year	**$ 321**	$ 279	$ 96
Surplus earnings for the year after patronage allocations	**515**	397	381
Remuneration on permanent shares (net of income taxes recovered)	**(20)**	(27)	(25)
Transfer to stabilization reserve	**(12)**	(18)	(7)
Transfer to general reserve	**(329)**	(310)	(166)
Balance at end of year	**$ 475**	$ 321	$ 279
RESERVES			
STABILIZATION RESERVE			
Balance at beginning of year	**$ 248**	$ 230	$ 223
Transfer from undistributed surplus earnings	**12**	18	7
Balance at end of year	**$ 260**	$ 248	$ 230
GENERAL RESERVE			
Balance at beginning of year	**$3,792**	$3,482	$3,344
Transfer from undistributed surplus earnings	**329**	310	166
Combined effect of changes in accounting policies **(Note 2)**	**(31)**	—	(28)
Balance at end of year	**$4,090**	$3,792	$3,482
TOTAL RESERVES	**$4,350**	$4,040	$3,712

Combined statements of cash flows

For the years ended December 31 ($ millions)

	2002	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus earnings for the year after patronage allocations to members	**$ 515**	$ 397	$ 381
Adjusted for:			
Depreciation of fixed assets and amortization of goodwill charges and other	**145**	159	234
Amortization of realized and unrealized deferred net gains on investment securities	**(2)**	(7)	(27)
Net change in actuarial and related liabilities	**305**	246	80
Future income taxes	**8**	(10)	(55)
Provisions and loan losses	**109**	237	127
Non-controlling interests	**24**	23	30
Net gain on disposal of investment securities	**(48)**	(49)	(36)
Net change in interest receivable	**1**	51	25
Net change in interest payable	**(131)**	(186)	36
Net change in trading account securities	**(391)**	(183)	(118)
Net change in derivative-related assets	**130**	(714)	(164)
Net change in derivative-related liabilities	**530**	582	76
Net change in other items receivable and payable	**131**	(85)	(331)
	1,326	461	258
CASH FLOWS FROM FINANCING ACTIVITIES			
Net change in deposits and notes	**2,336**	3,058	1,286
Issue of debt securities and debentures	**850**	39	124
Repayment of debt securities and debentures	**(119)**	(63)	(15)
Net change in capital stock	**7**	25	10
Remuneration on permanent shares (net of income taxes recovered)	**(20)**	(27)	(25)
	3,054	3,032	1,380
CASH FLOWS FROM INVESTING ACTIVITIES			
Net change in loans	**(3,943)**	(2,592)	(1,563)
Purchase of investment account securities	**(125,713)**	(150,279)	(155,283)
Proceeds from disposal of investment account securities	**6,285**	18,466	35,103
Repayment of investment account securities	**119,143**	131,184	120,877
Net change in fixed assets	**(113)**	(20)	(151)
Business acquisitions, net of cash	**—**	(1)	(491)
	(4,341)	(3,242)	(1,508)
NET INCREASE IN CASH	**39**	251	130
Cash and deposits with financial institutions at beginning of year	**1,316**	1,065	935
CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS AT END OF YEAR	**$ 1,355**	$ 1,316	$ 1,065
SUPPLEMENTAL CASH FLOW INFORMATION			
Interest paid during the year	**$ 1,740**	$ 2,443	$ 2,337
Income taxes paid during the year	**118**	178	98

Notes to the Combined Financial Statements

(Tabular amounts are in millions of dollars.)

Desjardins Group is made up of the caisses, the Fonds de sécurité Desjardins and the Fédération des caisses Desjardins du Québec and its subsidiaries, which contribute to the development of activities at the caisses. Desjardins Group, a cooperative financial movement, is a leading player in the economic and social development of the communities it serves.

Note 1 Significant accounting policies

Pursuant to the *Act respecting financial services cooperatives*, the Combined Financial Statements of Desjardins Group have been prepared by management in accordance with Canadian generally accepted accounting principles and the accounting requirements of the Inspector General of Financial Institutions of Québec, as applicable. In preparing the financial statements, management is required to make certain estimates and assumptions that affect assets and liabilities and the reporting of contingent assets and liabilities in the financial statements, as well as income and expenses for the periods covered. Actual results may differ from these estimates.

COMBINED FINANCIAL STATEMENTS These financial statements include the accounts of the components of Desjardins Group. The principles used in the preparation of the combined financial statements are similar to those used in the preparation of consolidated financial statements. The Combined Financial Statements include the assets, liabilities, equity and operating results of the Desjardins Group entities, following the elimination of intercompany transactions and balances.

SECURITIES Securities include investment account and trading account securities.

Investment account securities Investment account securities are held until maturity or until the market offers more attractive investment opportunities.

Securities with a stated maturity are carried at unamortized cost. Premiums and discounts are amortized using the effective yield method over the terms of the related securities and are recorded in Interest income. Gains and losses on the disposal of these securities, as well as any write-downs necessary to reflect other-than-temporary impairments in value, are recognized immediately in Other income - other. Only gains and losses realized on the disposal of securities held by the life and health insurance subsidiary are deferred and included in income using the straight-line method until maturity, maximum 20 years.

Equity securities held in companies subject to significant influence are carried at equity while other equity securities are carried at cost and preferred shares are carried at cost, net of premiums and discounts, except those held by the life and health insurance subsidiary, which are accounted for using the moving average market value method. Gains and losses realized on the disposal of equity securities as well as any write-downs necessary to reflect other-than-temporary impairments in value are recognized immediately in Other income - other. However, realized and unrealized gains and losses on equity securities of the life and health insurance subsidiary are deferred and included in income using the declining balance method at a rate of 15.0% per annum.

The venture capital investments of subsidiaries in the development capital investment segment are carried at their fair value.

Trading account securities Trading account securities, which are acquired for resale in the short term, are carried at their fair value. Interest income from trading account securities is recorded with income from securities. Securities sold short are recorded as liabilities and carried at their fair value. Gains and losses, either realized or unrealized, are recognized immediately in Other income - other.

LOANS Loans, including advances to policyholders, are stated at cost, net of the cumulative provision for loan losses.

A loan is considered impaired and interest is no longer calculated when: a) there is reasonable doubt as to the collectibility of a portion of the principal or the interest, b) the interest or principal repayment is contractually 90 days or more past due, unless the loan is fully secured or in the process of collection, or c) the loan is more than 180 days in arrears. As soon as a loan is considered impaired, interest accrued but not collected is capitalized to the loan, and no interest is recorded thereafter. Subsequent payments received are accounted for as a credit to the principal. A loan ceases to be considered impaired and interest is once again accounted for under the accrual method when principal and interest payments are up to date and the collectibility of the loan is no longer in doubt.

Collateral is obtained if deemed necessary for a member's or client's loan facility following an assessment of their creditworthiness. Collateral normally takes the form of an asset such as cash, government securities, shares, receivables, inventory or premises and equipment.

Assets acquired to settle an impaired loan are recorded at the loan's carrying value on the date of transfer. A provision is taken for any portion of the loan's carrying value beyond the fair value of the assets. Operating income along with any gains or losses on the disposal of these assets are treated as provisions and loan losses.

Note 1 Significant accounting policies (continued)

CUMULATIVE PROVISION FOR LOAN LOSSES The cumulative provision for loan losses reflects management's best estimate of potential losses related to the loan portfolio and its assessment of economic conditions. Any material change could result in a modification of the cumulative provision for loan losses currently recognized.

The cumulative provision is increased by provisions and loan losses charged to the statements of income and decreased by write-offs and recoveries on loans for which provisions have already been taken. The cumulative provision for loan losses is made up of specific and general provisions. Credit risk is assessed regularly and specific provisions are determined, on a loan by loan basis, for all loans considered impaired. Credit card balances are written off completely when no payment has been received for a period of 180 days. In addition, a general provision is taken in order to reflect management's best estimate of probable losses within the portion of the loan portfolio not yet classified as impaired. The general provision is determined in advance using a statistical model based on changes in loans by category. Moreover, an additional amount is considered in order to reflect the impact of economic and other factors. The general provision does not represent future losses or serve as a substitute for the specific provisions.

Loans are written off when all attempts at restructuring and collection have been made and the prospect of further recovery is remote.

The carrying value of impaired loans is adjusted by discounting expected future cash flows at the rate of interest inherent in the original loan. The provision is equal to the difference between this valuation and the balance of the loan. Any variation in the cumulative provision for loan losses due either to the passage of time or a revision of expected payments is recorded under Provisions and loan losses in the statements of income.

FIXED ASSETS Fixed assets are carried at cost less accumulated depreciation, and are depreciated over their estimated useful lives using the straight-line or declining balance method. Gains and losses on disposal of fixed assets are recognized in Other income - other in the year during which they are realized.

Depreciation periods:	
Buildings	25 to 40 years
Computer equipment	2 to 5 years
Furniture, fixtures and other	2 to 20 years
Leasehold improvements	Lease term plus first renewal option

ACCEPTANCES AND CUSTOMERS' LIABILITY UNDER ACCEPTANCES The potential liability of a Desjardins Group entity under acceptances is recorded as a liability in the combined balance sheets. The entity's recourse against the customer, in the event of a call on any of these commitments, is recorded as an equivalent offsetting asset. Fees earned are reported under Other income - other.

REAL ESTATE INVESTMENTS Real estate investments are carried at cost, and gains and losses on disposal, as well as any write-downs necessary to reflect other-than-temporary impairments in value, are included in income in the year they are realized.

Real estate investments held by the life and health insurance subsidiary are carried according to the moving average market method at a rate of 10% per annum. Their value is appraised based on a three-year cycle by a qualified outside appraiser. Gains and losses on the disposal of these investments are deferred and recorded in income using the declining balance method at a rate of 10% per annum. Any decline in value that is other than temporary affecting the whole real estate investment portfolio is immediately charged to income for the year.

ACTUARIAL AND RELATED LIABILITIES In life and health insurance, actuarial and related liabilities include policy liabilities under life insurance and annuity contracts. Policy liabilities represent the amounts that, together with estimated future premiums and investment income, will provide for all the life and health insurance subsidiary's commitments under policies in force regarding estimated future benefits, policyholder dividends and related expenses. Policy liabilities are determined using the Canadian asset liability method, which is consistent with accepted Canadian actuarial practice.

In general insurance, the amounts of unsettled claims are calculated on a discounted basis with margins for adverse deviation. Premium income is spread out evenly over the term of the insurance policies using the monthly expiry method. The portion of the premium that remains to be covered at year end is included in unearned premiums.

REINSURANCE In life and health insurance, premium income, payments to policyholders, policy liabilities and changes in policy liabilities related to policies under reinsurance agreements are recorded net of amounts ceded to other insurers.

In general insurance, the reinsurer's interest in unearned premiums and unsettled claims is recorded under Other assets. Insurance earnings are recorded net of reinsurance transactions.

DERIVATIVE FINANCIAL INSTRUMENTS Derivative financial instruments (derivatives) are financial contracts which derive their value from an asset, interest rate, foreign exchange rate or other financial index. By far most derivatives are traded privately between Desjardins Group and the counterparty, and include forward exchange contracts, interest rate and currency swaps, total return swaps, forward rate agreements, and currency, interest rate and stock index options. The remaining transactions are carried out on regulated exchanges and consist mainly of futures contracts.

Derivatives are primarily used to manage the assets and liabilities of Desjardins Group and to meet the needs of members and clients. Derivatives used for asset and liability management purposes are used to manage the interest rate and foreign currency exposure of balance sheet assets and liabilities, firm commitments and forecasted transactions. Some of these derivatives may qualify for hedge accounting treatment. To be considered as a hedge, the derivative must be designated for non-trading purposes, and must offset Desjardins Group's price, interest rate or exchange rate exposures with a high correlation between the derivative and the exposure both at inception and over the life of the hedge.

Note 1 Significant accounting policies (continued)

Derivatives used for asset and liability management purposes are carried at cost, with gains or losses recognized in income at the same time as the gains, losses, income and expenses related to the risks being hedged. In particular, the interest rate and currency swaps used to manage the financial risks of Desjardins Group are recorded using the accrual method. Under this method, interest income or expense related to these derivatives is recognized in income as an adjustment to interest income or expense for the underlying instrument. Interest payable to or receivable from the counterparties is recorded in Other assets or Other liabilities in the combined balance sheets. Translation gains and losses on foreign currency swaps offset translation gains and losses on the corresponding foreign-currency denominated instruments.

Hedge accounting is discontinued in the following cases: the hedged item is sold or matures, the hedge is no longer effective, Desjardins Group terminates the hedging relationship or it is no longer likely that the forecasted transaction will take place essentially at the time and in the way indicated at the inception of the hedging relationship. Realized and unrealized gains or losses on derivatives that have terminated or have ceased to be effective before maturity are recorded in Derivative-related assets or Derivative-related liabilities in the combined balance sheets and recognized in income for the same period as the underlying transaction being hedged. If a designated hedged item is sold, is extinguished or matures before the related derivative terminates, any realized and unrealized gains or losses on the derivative are recognized in Other income - other.

Derivative financial instruments used for trading purposes are carried at their estimated fair value, and the corresponding realized and unrealized gains or losses are recorded under Other income - other. Estimated fair value is calculated using pricing models that incorporate current market prices and the contractual prices of the underlying instruments, the time value of money, yield curves and volatility factors. In the combined balance sheets, derivatives used for trading purposes that have a positive fair value appear as assets, and those with a negative fair value appear as liabilities, under the headings Derivative-related assets and Derivative-related liabilities respectively.

FOREIGN CURRENCY TRANSLATION Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate prevailing on the balance sheet date; income and expenses are translated at the average exchange rate in effect during the year. The resulting gains and losses, realized or unrealized, are recognized in Other income - other.

When foreign exchange contracts are taken as a hedge against the risk related to foreign currency fluctuations, the resulting gain or loss from the translation of the hedging contracts is applied against the resulting realized or unrealized gain or loss from the translation of the hedged item, and is recognized in Other income - other.

INCOME TAXES Income taxes are accounted for on a tax liability basis, whereby income taxes reflect the expected future tax effects of temporary differences between the value of assets and liabilities for accounting purposes compared with tax purposes. The future income tax assets or liabilities are calculated based on the tax rates expected to apply when the assets are realized and the liabilities are settled. Future income tax assets and liabilities are recognized under Other assets and Other liabilities.

EMPLOYEE FUTURE BENEFIT PLANS Most employees participate in the Desjardins Group pension plan provided through a multi-employer defined benefit plan. The cost of benefits is determined through actuarial calculations using the projected benefit method pro-rated on years of service and management's best estimate assumptions concerning the expected return on plan investments, salary increases and employees' retirement age. Calculation of the expected return on plan assets is based on the value of pension fund assets measured at market-related values. Pension expense consists of the aggregate of: a) the actuarially computed cost of pension benefits provided in respect of the current year's service, b) imputed interest on the accrued benefit obligation, c) the expected return on plan assets, and d) the amortization, over the expected average remaining service life of employees, of any net actuarial gains and losses. The cumulative excess of pension fund contributions over the amounts recorded as pension expense is reported in Other assets - other.

The employees of some subsidiaries benefit from various defined benefit or defined contribution pension plans. These subsidiaries use the projected benefit method pro-rated on years of service and management's best estimate assumptions concerning the expected return on plan investments, salary increases, retirement age, expected health care costs and an interest rate established based on market rates to value pension obligations under defined benefit plans. Pension fund assets are valued at market value.

Desjardins Group also offers its retired employees and their dependants life, medical and dental insurance coverage. The cost of these benefits is accrued over the service life of employees according to accounting policies similar to those used for pension costs. The accrued cost of post-retirement benefits is reported in Other liabilities - other.

ASSETS UNDER MANAGEMENT AND SEGREGATED FUNDS Assets under management and segregated funds of the life and health insurance subsidiary are held for the direct beneficial interest of policyholders and customers, and are therefore excluded from the combined balance sheets.

FUTURE ACCOUNTING CHANGES In 2001, the Canadian Institute of Chartered Accountants (CICA) issued Accounting Guideline AcG-13 on hedging relationships, which will take effect for fiscal years beginning on or after July 1, 2003. The Guideline establishes specific criteria for the identification, designation, documentation and effectiveness of relationships for them to be designated as hedging relationships. The impact of the application of this Guideline on the Combined Financial Statements cannot be determined at this time.

Note 1 Significant accounting policies (continued)

In August 2002, the CICA issued a Draft Guideline on the consolidation of special purpose entities, proposing specific criteria for consolidating such entities in the financial statements. Studies are underway to determine the impact of the application of the Guideline on the Combined Financial Statements.

The CICA also issued a Guideline in 2002 on the disclosure of guarantees which applies to annual and interim periods as of January 1, 2003. The Guideline requires that entities make specific disclosures about the guarantees they give. Studies are underway to determine the impact of the application of the Guideline on the Combined Financial Statements.

The CICA approved amendments to Section 3025, Impaired Loans, which will apply to all foreclosed assets as of May 1, 2003. The amendments specify that long-lived foreclosed assets held for sale are to be accounted for at the lower of the carrying amount and the fair value less cost to sell at the date of foreclosure. Any subsequent change is to be recorded in income under Provisions and loan losses and any excess to be remitted to the debtor is to be recorded as a liability. The impact of the application of these amendments on the Combined Financial Statements cannot be determined at this time.

COMPARATIVE FIGURES Certain audited financial information for prior periods has been restated to conform with the financial statement presentation adopted in 2002.

Note 2 Changes in accounting policies

2002

On January 1, 2002, the Desjardins Group entities prospectively adopted the new standard relating to goodwill and other intangible assets. Under the standard, goodwill and intangible assets with indefinite useful lives ceased to be amortized and are tested for impairment. The impairment test consists in a comparison, by reporting unit, of the fair value of goodwill versus its carrying value. When the carrying value of goodwill exceeds its fair value, the excess amount is recorded as an impairment.

During the year, the Desjardins Group subsidiary mainly affected by the new guidelines completed its transitional goodwill impairment test. As a result of the analysis by reporting unit, an impairment loss of $71 million was recognized. Under the transitional provisions, a $65 million impairment after income taxes, non-controlling interests and policy liabilities was recorded as the effect of a change in accounting policy and charged to the opening balance of the general reserve.

On January 1, 2002, certain Desjardins Group subsidiaries changed their accounting method for investments in order to comply with the prevailing practice in their business segment. These subsidiaries' investments are now recorded at fair value instead of at cost or at equity. The change in accounting policy was adopted prospectively and increased the balance of securities and the opening balance of the general reserve by $34 million.

2000

During the year ended December 31, 2000, Desjardins Group retroactively applied the recommendations of the Canadian Institute of Chartered Accountants (CICA) with respect to employee future benefits, requiring that all costs related to employee future benefits be accounted for on an accrual basis. The impact of the application of these recommendations was the recognition of an additional $316 million under Other assets, an additional $371 million under Other liabilities, a future income tax asset of $95 million and a future income tax liability of $82 million as at January 1, 2000 and a $42 million reduction in the opening balance of the general reserve. As a result of this change, expenses for 2000 increased by an estimated $34 million. In compliance with the transitional provisions for the new standard, Desjardins Group applied the recommendations retroactively without restatement of prior year results.

During the year ended December 31, 2000, Desjardins Group retroactively applied the new recommendations of the CICA with respect to income taxes. The new standard was applied retroactively without restatement of prior year results. The impact of the change was a $14 million increase in the opening balance of the general reserve.

Note 3 Business acquisitions and disposals

2001

On April 12, 2001, a Desjardins Group subsidiary acquired all the shares of 2995271 Canada Inc. and its subsidiary Gabbay International Inc. This transaction was recorded using the purchase method. The purchase price, payable in three cash instalments, was set based on a percentage of the market value of assets under management that will continue to be managed as at March 31, 2001, 2002 and 2003. A preliminary purchase price of $0.7 million was estimated and recorded entirely as goodwill. An amount of $0.3 million was paid in cash at the purchase date and the balance of $0.4 million is payable over the two years following the acquisition.

On August 8, 2001, another Desjardins Group subsidiary acquired certain assets and assumed certain liabilities of Groome Capital.com Inc. for a cash consideration of $1, including costs related to the transaction. Once the fair value of the net assets was allocated, the surplus amount of $2.6 million was recorded as goodwill.

During the year, the life and health insurance subsidiary sold its investment in the Centre d'autorisation et de paiement des services de santé (C.A.P.S.S.). The general insurance subsidiary sold a 10% interest in The Personal General Insurance Inc. The gains, totalling $20 million, were included in Other income - other.

Note 4 Securities

	Maturity						2002		2001	
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Over 10 years	No specific maturity	Carrying value	Fair value	Carrying value	Fair value
INVESTMENT ACCOUNT SECURITIES ISSUED OR GUARANTEED BY										
Canada	**$ 281**	**$ 342**	**$ 144**	**$ 327**	**$ 789**	**$ —**	**$ 1,883**	**$ 1,975**	$ 1,591	$ 1,622
Yield	***3.96%***	***4.61%***	***4.89%***	***6.01%***	***5.91%***		***5.32%***		*5.59%*	
The provinces or municipal corporations in Canada	**1,555**	**1,049**	**1,838**	**1,204**	**2,407**	**—**	**8,053**	**8,553**	7,907	8,239
Yield	***5.40%***	***5.59%***	***5.23%***	***6.30%***	***6.52%***		***5.85%***		*6.00%*	
School or public corporations in Canada	**84**	**96**	**32**	**67**	**94**	**—**	**373**	**394**	507	532
Yield	***5.08%***	***7.25%***	***6.80%***	***7.22%***	***6.86%***		***6.62%***		*6.04%*	
Government institutions abroad	**5**	**37**	**43**	**54**	**75**	**—**	**214**	**225**	254	257
Yield	***7.82%***	***5.66%***	***3.32%***	***4.21%***	***4.13%***		***4.34%***		*4.08%*	
OTHER SECURITIES IN CANADA										
Financial institutions	**1,319**	**350**	**35**	**28**	**9**	**—**	**1,741**	**1,748**	1,156	1,159
Yield	***2.94%***	***3.62%***	***5.27%***	***6.23%***	***4.61%***		***3.19%***		*2.75%*	
Other issuers	**1,929**	**211**	**191**	**226**	**154**	**42**	**2,753**	**2,742**	3,108	3,087
Yield	***2.97%***	***5.65%***	***5.77%***	***6.90%***	***7.07%***		***3.88%***		*3.79%*	
Equity securities	**25**	**58**	**9**	**9**	**—**	**547**	**648**	**611**	688	696
SECURITIES FROM FOREIGN ISSUERS										
Financial institutions	**73**	**—**	**17**	**21**	**—**	**—**	**111**	**126**	108	117
Yield	***4.10%***		***2.07%***	***8.39%***			***4.60%***		*4.91%*	
Other issuers	**—**	**3**	**67**	**22**	**—**	**—**	**92**	**104**	243	254
Yield		***13.29%***	***4.40%***	***5.44%***			***4.94%***		*1.69%*	
Equity securities	**—**	**—**	**—**	**—**	**—**	**125**	**125**	**100**	96	83
TOTAL INVESTMENT ACCOUNT	**5,271**	**2,146**	**2,376**	**1,958**	**3,528**	**714**	**15,993**	**16,578**	15,658	16,046
TRADING ACCOUNT SECURITIES ISSUED OR GUARANTEED BY										
Canada	**48**	**179**	**51**	**24**	**14**	**—**	**316**	**316**	104	104
The provinces or municipal corporations in Canada	**115**	**93**	**42**	**78**	**27**	**—**	**355**	**355**	245	245
School or public corporations in Canada	**5**	**21**	**7**	**2**	**1**	**—**	**36**	**36**	2	2
OTHER SECURITIES IN CANADA										
Financial institutions	**—**	**1**	**—**	**—**	**—**	**—**	**1**	**1**	2	2
Other issuers	**6**	**1**	**1**	**6**	**1**	**—**	**15**	**15**	29	29
Equity securities	**—**	**—**	**—**	**—**	**—**	**51**	**51**	**51**	1	1
TOTAL TRADING ACCOUNT	**174**	**295**	**101**	**110**	**43**	**51**	**774**	**774**	383	383
	$5,445	**$2,441**	**$2,477**	**$2,068**	**$3,571**	**$765**	**$16,767**	**$17,352**	$16,041	$16,429

Yields are calculated based on the carrying value of the securities and the contractual interest rates adjusted to take into account any amortization of premiums and discounts. Trading account securities are carried at their estimated market value.

Total securities held for investment purposes included an amount of CAD $997 million (2001: $1,192 million) in foreign-currency denominated securities, of which CAD $799 million (2001: $973 million) was denominated in US dollars.

UNREALIZED GAINS AND LOSSES ON INVESTMENT ACCOUNT SECURITIES

	2002				2001			
	Carrying value	Unrealized gross gains	Unrealized gross losses	Fair value	Carrying value	Unrealized gross gains	Unrealized gross losses	Fair value
SECURITIES ISSUED OR GUARANTEED BY								
Canada	**$ 1,883**	**$ 92**	**$ —**	**$ 1,975**	$ 1,591	$ 48	$ (17)	$ 1,622
The provinces or municipal corporations in Canada	**8,053**	**500**	**—**	**8,553**	7,907	348	(16)	8,239
School or public corporations in Canada	**373**	**21**	**—**	**394**	507	25	—	532
Government institutions abroad	**214**	**11**	**—**	**225**	254	4	(1)	257
OTHER SECURITIES IN CANADA								
Financial institutions	**1,741**	**7**	**—**	**1,748**	1,156	4	(1)	1,159
Other issuers	**2,753**	**52**	**(63)**	**2,742**	3,108	60	(81)	3,087
Equity securities	**648**	**14**	**(51)**	**611**	688	23	(15)	696
SECURITIES FROM FOREIGN ISSUERS								
Financial institutions	**111**	**15**	**—**	**126**	108	9	—	117
Other issuers	**92**	**14**	**(2)**	**104**	243	75	(64)	254
Equity securities	**125**	**—**	**(25)**	**100**	96	—	(13)	83
	$15,993	**$726**	**$(141)**	**$16,578**	$15,658	$596	$(208)	$16,046

Note 5 Impaired loans

	2002				2001			
	Gross amount	Specific provisions	General provision	Net amount	Gross amount	Specific provisions	General provision	Net amount
Residential mortgages	**$159**	**$ 51**	**$ —**	**$ 108**	$229	$ 71	$ —	$ 158
Consumer, credit card and other personal loans	**73**	**48**	**—**	**25**	81	51	—	30
Business and government	**405**	**201**	**—**	**204**	440	206	—	234
General provision for credit risk	**—**	**—**	**592**	**(592)**	—	—	601	(601)
	$637	**$300**	**$592**	**$(255)**	$750	$328	$601	$(179)

As at December 31, 2002 and 2001, net impaired loans included $49 million and $66 million respectively of foreclosed assets held for sale. Specific provisions on repossessed property amounted to $44 million (2001: $66 million).

Note 6 Cumulative provision for loan losses

	2002	2001
Balance at beginning of year	**$ 929**	$ 853
Provisions and loan losses	**109**	237
Write-offs and recoveries	**(146)**	(161)
Balance at end of year	**$ 892**	$ 929

Note 7 Fixed assets

	2002			2001
	Cost	Accumulated depreciation	Net carrying value	Net carrying value
Land	**$ 88**	**$ —**	**$ 88**	$ 90
Buildings	**1,169**	**404**	**765**	808
Computer equipment	**546**	**434**	**112**	120
Furniture, fixtures and other	**538**	**398**	**140**	128
Leasehold improvements	**153**	**77**	**76**	67
	$2,494	**$1,313**	**$1,181**	$1,213

Depreciation for the year amounted to $145 million (2001: $146 million and 2000: $191 million). As at December 31, 2001, cost and accumulated depreciation were $2,479 million and $1,266 million respectively.

Note 8 Other assets

	2002	2001
Real estate investments	**$ 411**	$ 372
Goodwill	**121**	161
Premiums receivable	**504**	420
Future income tax assets **(Note 16)**	**431**	430
Accrued benefit assets **(Note 18)**	**231**	303
Accounts receivable and other assets	**$1,510**	$1,176
	$3,208	$2,862

No amortization of goodwill was recognized during the year (2001: $13 million and 2000: $11 million). During the year ended December 31, 2000, a permanent impairment in goodwill was recognized and a charge of $32 million was applied against income. The fair value of real estate investments was $426 million (2001: $390 million).

Note 9 Deposits and notes

	Payable on demand 2002	Payable on demand 2001	Payable after notice 2002	Payable after notice 2001	Payable on a fixed date 2002	Payable on a fixed date 2001	Total 2002	Total 2001
Individuals	**$10,871**	$10,004	**$2,697**	$2,510	**$33,013**	$32,356	**$46,581**	$44,870
Businesses and government	**6,408**	5,974	**192**	185	**5,909**	5,183	**12,509**	11,342
Deposit-taking institutions and other	**42**	71	**—**	—	**3,769**	4,282	**3,811**	4,353
	$17,321	$16,049	**$2,889**	$2,695	**$42,691**	$41,821	**$62,901**	$60,565

Deposits payable on demand, interest-bearing or non-interest-bearing, are usually deposits held in chequing accounts. Desjardins Group does not have the right to demand a withdrawal notice with respect to these deposits. Deposits payable after notice are interest-bearing deposits, usually held in savings accounts. Desjardins Group does have the legal right to demand a withdrawal notice with respect to these deposits. Term deposits are interest-bearing deposits usually held in fixed-term deposit accounts, guaranteed investment certificates or similar instruments with terms generally varying between one day and seven years, and maturing on a predetermined date.

Notes of $34 million (2001: $47 million) were secured by a mortgage on all present and future property, rights and assets of a Desjardins Group entity, and must respect the conditions of the deed of hypothec and power of attorney.

Note 10 Actuarial and related liabilities

The actuarial and related liabilities are as follows:

	2002	2001
Policy liabilities	**$6,770**	$6,698
Unsettled claims and adjustment expenses	**734**	619
Unearned premiums	**524**	458
Policyholder deposits	**279**	270
Provisions for participating policyholders' dividends and experience refunds	**63**	20
	$8,370	$8,065

COMPOSITION OF POLICY LIABILITIES As at December 31, policy liabilities and related matched assets included the following amounts:

2002	Non-participating policies			Participating policies	Total
	Group insurance	Group pensions	Personal insurance and annuities		
Gross policy liabilities	**$1,256**	**$1,103**	**$3,410**	**$1,367**	**$7,136**
Amounts transferred under reinsurance agreements	**(114)**	**—**	**(195)**	**(57)**	**(366)**
NET POLICY LIABILITIES	**$1,142**	**$1,103**	**$3,215**	**$1,310**	**$6,770**
COMPOSITION OF ASSETS MATCHED TO POLICY LIABILITIES					
Bonds	**$ 952**	**$ 541**	**$2,286**	**$ 998**	**$4,777**
Mortgage loans	**63**	**546**	**793**	**174**	**1,576**
Real estate property	**—**	**1**	**12**	**7**	**20**
Shares	**40**	**—**	**5**	**6**	**51**
Other	**87**	**15**	**119**	**125**	**346**
	$1,142	**$1,103**	**$3,215**	**$1,310**	**$6,770**

2001	Non-participating policies			Participating policies	Total
	Group insurance	Group pensions	Personal insurance and annuities		
Gross policy liabilities	$1,197	$1,128	$3,361	$1,321	$7,007
Amounts transferred under reinsurance agreements	(112)	—	(155)	(42)	(309)
NET POLICY LIABILITIES	$1,085	$1,128	$3,206	$1,279	$6,698
COMPOSITION OF ASSETS MATCHED TO POLICY LIABILITIES					
Bonds	$ 822	$ 602	$2,077	$ 908	$4,409
Mortgage loans	80	484	836	201	1,601
Real estate property	1	4	13	25	43
Shares	64	11	49	5	129
Other	118	27	231	140	516
	$1,085	$1,128	$3,206	$1,279	$6,698

The fair value of the assets matched to policy liabilities was $7,154 million (2001: $6,889 million).

Note 10 Actuarial and related liabilities (continued)

ACTUARIAL ASSUMPTIONS AND SENSITIVITY OF ASSUMPTIONS TO CHANGES The nature and method of determining the most significant assumptions used in the computation of policy liabilities comply with industry practice. The actuarial assumptions deal with mortality and morbidity, policy lapse rates, investment income, operating expenses and participating policyholders' dividends.

The process of determining policy liabilities necessarily involves risks of adverse deviation from best estimates that vary in relation to the length of the estimation period and the potential volatility of each component. Due to these uncertainties, best estimate assumptions are adjusted by margins for adverse deviation, which increase policy liabilities and reduce the amount of income that would otherwise be recognized at inception of the policies. On participating policies, margins for adverse deviation are reduced, since future adverse experience would result in a reduction in the amount of policyholders' dividends paid. With the passage of time and the resulting reduction in estimation risk, these margins are released to income. If estimates of future conditions change throughout the life of a policy, the present value of these changes is recognized in income immediately. For the life and health insurance subsidiary, the assumptions that are most likely to change in the year are related to policy lapse rates on Term-to-100 life insurance policies and future investment yields.

RISK MANAGEMENT In addition to the risks related to actuarial assumptions, the life and health insurance subsidiary is exposed to reinsurance risk and credit risk.

Reinsurance risk To mitigate the risk related to extensive claims, the life and health insurance subsidiary enters into reinsurance agreements for policies with coverage in excess of certain maximum amounts that vary in relation to business activities and maintains catastrophe insurance for losses over $5 million per event to a maximum liability of $55 million. The coverage includes a risk related to terrorism, but excludes any loss resulting from a nuclear, biological, chemical or radioactive attack. In order to reduce the risk related to reinsurance, the subsidiary deals with 23 different registered reinsurers, which are subject to the same regulatory control as the subsidiary. These reinsurance agreements do not release the life and health insurance subsidiary from its obligations towards its policyholders.

Credit risk Future net investment income is affected by the level of credit losses. In addition to allowances for impairment applied as reductions to the carrying value of assets, the life and health insurance subsidiary included a provision of $125 million (2001: $128 million) in its projections of investment income to cover the risk of underperforming assets.

ANALYSIS OF CHANGES Changes in policy liabilities during the year were caused by business activities and the following changes in actuarial estimates:

	2002	2001
Balance at beginning of year	**$6,698**	$6,523
Normal change due to the update of actuarial assumptions	**5**	34
Normal change due to the passage of time	**85**	121
Other changes	**(18)**	20
Balance at end of year	**$6,770**	$6,698

UNSETTLED CLAIMS AND ADJUSTMENT EXPENSES Unsettled claims and adjustment expenses consist of the $588 million provision for general insurance unsettled claims and adjustment expenses at December 31, 2002 ($484 million at December 31, 2001) and a $146 million provision for life and health insurance benefits at December 31, 2002 ($135 million at December 31, 2001).

The amounts related to reported claims are uncertain since not all the information is available at the reporting date, and consequently the claims cost could increase or decrease thereafter. Moreover, since certain claims are not reported immediately, the value of incurred but unreported claims is estimated at the end of the year. In order to set up the provision adequately, the general insurance subsidiary uses assumptions based on characteristics of the lines of business, settlement history and other relevant factors. The methods used produce reasonable results given data currently known.

To reduce the risk related to extensive claims, the general insurance subsidiary has a policy of subscribing to and reinsuring insurance policies which, for the most part, limits its exposure to a maximum amount of $2 million per policy. The subsidiary also has a catastrophe reinsurance program in place under which its maximum liability is $13 million. These reinsurance agreements do not release the subsidiary from its obligations toward its policyholders.

The inability of reinsurers to honour their commitments could result in losses for this subsidiary. It examines the creditworthiness of the companies to which it cedes a portion of the risks. It has no knowledge of any information that could lead it to believe that a reinsurer with which it currently does business is insolvent; consequently, no allowance for doubtful accounts has been made. In addition, the subsidiary does business with several reinsurers.

Note 10 Actuarial and related liabilities (continued)

The provision for unsettled claims and adjustment expenses for the general insurance subsidiary, by risk category, was as follows:

	2002		2001	
	Gross amount	Ceded amount	Gross amount	Ceded amount
Property	**$113**	**$ 8**	$ 97	$ 5
Automobile	**422**	**23**	346	19
Other	**53**	**—**	41	1
	$588	**$31**	$484	$25

Note 11 Borrowings

	2002	2001
Revolving credit facility with a bank consortium, at prime rate plus 0.00% to 0.25% or bankers' acceptance rate plus stamping fees varying from 0.45% to 0.95% (3.50% as at December 31, 2002 and 3.10% as at December 31, 2001), maturing in May and August 2003	**$ 98**	$155
Series B and C bonds with a par value of $105 million, $90 million of which were sinking fund bonds, redeemable by the member entity, with a fixed interest rate of 8.45% and 9.18%, payable monthly and at maturity, maturing between 2003 and 2013[1]	**100**	102
Mortgage debt bearing interest at rates ranging from 4.70% to 11.00% (average rate of 7.09% as at December 31, 2002 and 8.47% as at December 31, 2001), maturing on various dates through 2012	**39**	13
	$237	$270

[1] *These bonds were secured by real estate mortgages on assets of the subsidiary. These assets include premises and equipment with a carrying value of $296 million (2001: $281 million).*

The annual principal repayments on borrowings over the next five years are as follows:

YEAR	AMOUNT
2003	$115
2004	3
2005	3
2006	3
2007	3

Note 12 Other liabilities

	2002	2001
Cooperative shares and preferred shares	**$ 49**	$ 52
Deferred net gains realized on disposal of investments	**486**	474
Future income tax liabilities **(Note 16)**	**135**	126
Accrued benefit liabilities **(Note 18)**	**483**	444
Accounts payable and other liabilities	**2,731**	2,254
	$3,884	$3,350

Note 13 Subordinated debentures

The debentures are unsecured bonds subordinated in right of payment to the claims of depositors and certain other creditors, and are included in regulatory capital. Redemption and cancellation of subordinated debentures are subject to the consent and approval of the various regulatory authorities.

	2002	2001
Debentures, par value of 76,000,000 euros, bearing interest at the annual rate of 5.50%, payable annually until March 18, 2008; thereafter payable quarterly at the rate of 1.40% plus Euribor, maturing on March 18, 2013. With the prior consent of the Inspector General of Financial Institutions of Québec, the subsidiary may call the subordinated debentures on March 18, 2008 or at any time in the event of changes in the tax system applicable to it	**$ 125**	$107
Senior Series "A" bonds of US$179 million, bearing interest at the annual rate of 7.37%, maturing in 2005	**283**	284
Senior Series "B" bonds, maturing in June 2012, bearing interest at an annual rate of 5.552% for the first five years, and for the following five years, at an annual rate equal to the 90-day bankers' acceptance rate plus 1%, redeemable at the option of Desjardins Group	**500**	—
Senior Series "C" bonds, maturing in June 2017, bearing interest at an annual rate of 6.322% for the first ten years, and for the following five years, at an annual rate equal to the 90-day bankers' acceptance rate plus 1%, redeemable at the option of Desjardins Group	**300**	—
Debentures, par value of 37,000,000 euros, bearing interest at the annual rate of 8.50%, matured during the year	**—**	53
	$1,208	$444

The subordinated debentures issued in foreign currencies totalled $408 million (2001: $444 million). For these debentures, Desjardins Group used hedging operations to eliminate foreign exchange risks.

For the next five years, the aggregate sinking fund requirements and maturities of the debentures, assuming the earliest maturity dates under the terms of the contracts, are as follows:

YEAR	AMOUNT
2003	$ —
2004	—
2005	283
2006	—
2007	—

Note 14 Non-controlling interests

	2002	2001
NON-CONTROLLING INTERESTS INCLUDE:		
Participating policyholders of the life and health insurance subsidiary	**$169**	$163
Preferred shareholders of subsidiaries, including $171 million at 6.00%, redeemable after December 1, 2003	**194**	193
Common shareholders of subsidiaries	**42**	43
	$405	$399

	2002	2001	2000
EARNINGS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS INCLUDE:			
Earnings attributable to participating policyholders of the life and health insurance subsidiary	**$ 8**	$ 3	$ 6
Dividends to preferred shareholders of subsidiaries	**13**	16	11
Earnings attributable to common shareholders of subsidiaries	**3**	4	13
	$24	$23	$30

Note 15 Capital stock

AUTHORIZED: The capital stock is composed of qualifying shares and permanent shares.

The caisses may issue an unlimited number of qualifying shares with a par value of $5, payable on demand under certain conditions stipulated by law. Members have only one vote each, no matter how many qualifying shares they own.

The by-laws of the caisses authorize the issue of permanent shares with a par value of $10. The Québec Securities Commission first approves the prospectus of each caisse issuing permanent shares. These shares do not carry any voting rights and cannot be redeemed, except under certain conditions stipulated by law. Their interest rate is determined annually by the general meeting of each caisse.

Issued and fully paid capital stock is as follows:

	2002	2001
Qualifying shares	**$ 63**	$ 64
Permanent shares	**788**	780
	$851	$844

Note 16 Income taxes

Income taxes reported in the financial statements are as follows:

	2002	2001	2000
COMBINED STATEMENTS OF INCOME			
Income taxes	**$371**	$179	$114
Tax recovery on patronage allocations	**(157)**	(78)	(41)
	214	101	73
COMBINED STATEMENTS OF CHANGES IN EQUITY			
Impact of changes in accounting policies **(Note 2)**	**—**	—	(27)
Tax recovery on payment of remuneration on permanent shares	**(9)**	(9)	(9)
	(9)	(9)	(36)
TOTAL INCOME TAXES	**$205**	$ 92	$ 37

Income taxes are as follows:

	2002	2001	2000
Current	**$197**	$102	$ 92
Future	**8**	(10)	(55)
	$205	$ 92	$ 37

The provision for income taxes in the combined statements of income differs from the provision obtained by applying the Canadian statutory rate for the following reasons:

	2002	2001	2000
Income taxes at the statutory rate	**$255**	$185	$173
Deduction for eligible small businesses taken by certain Desjardins Group entities	**(39)**	(54)	(44)
Non-taxable investment income and other non-taxable items	**—**	(17)	—
Impact of new tax rates	**1**	3	(9)
Previously unrecognized future income tax assets	**—**	—	(47)
Other	**(3)**	(16)	—
	$214	$101	$ 73

Note 16 Income taxes (continued)

Future income tax assets and liabilities are as follows:

	2002	2001
FUTURE INCOME TAX ASSETS		
Fixed assets	**$ 33**	$ —
Actuarial and related liabilities	**31**	68
Securities	**1**	—
Cumulative provision for loan losses	**139**	145
Unused tax losses	**30**	39
Accrued benefit liabilities	**126**	115
Other	**71**	63
	$431	$430
FUTURE INCOME TAX LIABILITIES		
Fixed assets	**$ 45**	$ 22
Securities	**5**	13
Accrued benefit assets	**59**	79
Other	**26**	12
	$135	$126

Note 17 Patronage allocations

Desjardins Group recorded a total of $333 million (2001: $191 million and 2000: $102 million) in patronage allocations to caisse members, after the recovery of related taxes. The annual patronage allocation expense for the caisses as a whole is evaluated based on an estimate model which takes into account that the Desjardins caisses had different fiscal year ends during the calendar year. This annual expense was evaluated based on the moving annual average of patronage allocations paid out over two years and the surplus earnings before taxes for the current year. This expense was previously estimated by computing the moving annual average of patronage allocations paid over 24 months. The distribution base takes into consideration interest on loans and deposits as well as various service charges collected from members. The caisses may pay out patronage allocations when legal and regulatory requirements have been met.

Note 18 Employee future benefit plans

Desjardins Group offers its employees a multi-employer defined benefit pension plan, the Desjardins Group pension plan, which is 65% financed by employers and 35% by participants. Benefits are calculated based on the number of years of participation in the plan and take into consideration the average salary for the employee's five most highly-paid years.

Desjardins Group also allows its retired employees to maintain certain insurance coverage, also within a multi-employer defined benefit plan. The retiree pays 25% of the total premium.

Note 18 Employee future benefit plans (continued)

The following table contains information on these plans:

As at December 31	2002 Pension plans	2002 Other plans	2001 Pension plans	2001 Other plans
CHANGE IN ACCRUED BENEFIT OBLIGATION				
Accrued benefit obligation at beginning of year	**$3,396**	**$ 469**	$3,017	$ 433
Service cost for the year	**174**	**23**	176	21
Interest cost	**209**	**29**	192	28
Benefits paid	**(144)**	**(9)**	(147)	(9)
Transfers from other plans	**2**	**—**	1	—
Transfers to other plans	**(3)**	**—**	(4)	—
Plan amendments	**—**	**(52)**	—	—
Actuarial losses (gains)	**(205)**	**(39)**	161	(4)
ACCRUED BENEFIT OBLIGATION AT VALUATION DATE	**$3,429**	**$ 421**	$3,396	$ 469
CHANGE IN FAIR VALUE OF PLAN ASSETS				
Fair value of plan assets at beginning of year	**$3,234**	**$ —**	$3,736	$ —
Actual return on plan assets	**(115)**	**—**	(481)	—
Employers' contributions	**54**	**—**	89	—
Participants' contributions	**29**	**—**	53	—
Benefits paid	**(144)**	**—**	(147)	—
Transfers from other plans	**2**	**—**	1	—
Transfers to other plans	**(3)**	**—**	(4)	—
Other changes	**(20)**	**—**	(13)	—
FAIR VALUE OF PLAN ASSETS AT VALUATION DATE	**$3,037**	**$ —**	$3,234	$ —
FUNDED STATUS				
Funding deficit at year end	**$ (392)**	**$(421)**	$ (162)	$(469)
Unamortized net losses (gains)	**609**	**(62)**	450	25
Employers' contributions after valuation date	**14**	**—**	15	—
ACCRUED BENEFIT ASSETS (LIABILITIES) AT YEAR END	**$ 231**	**$(483)**	$ 303	$(444)
WEIGHTED AVERAGE ASSUMPTIONS				
Discount rate	**6.25%**	**6.25%**	6.00%	6.00%
Expected rate of return on plan assets	**7.00**	**—**	7.00	—
Rate of compensation increase	**3.75**	**3.75**	3.75	3.75

For valuation purposes, the assumed average annual rate of increase in health care cost per participant was set at 8.5% for 2003. According to the assumption chosen, this rate should gradually decline to 5.3% in 2007 and remain approximately at this level thereafter. As at December 31, 2002, the plans held investments totalling $103 million (2001: $123 million) in Desjardins Group entities.

BREAKDOWN OF NET PLAN EXPENSE

As at December 31	2002 Pension plans	2002 Other plans	2001 Pension plans	2001 Other plans	2000 Pension plans	2000 Other plans
Service cost for the year	**$ 145**	**$19**	$ 123	$21	$120	$14
Interest cost	**209**	**29**	192	28	177	24
Expected return on fund assets	**(247)**	**—**	(242)	—	(211)	—
Distribution of surplus to retirees and others	**11**	**—**	16	—	7	—
NET PLAN EXPENSE	**$ 118**	**$48**	$ 89	$49	$ 93	$38

For the period from July 1, 2001 to December 27, 2003, a partial contribution holiday relative to the Desjardins Group pension plan was granted to participants and employers as a result of the accumulated surplus as at January 1, 2000.

Note 18 Employee future benefit plans (continued)

SENSITIVITY OF KEY ASSUMPTIONS IN 2002

	Change in benefit obligation	Change in benefit expense
PENSION PLANS		
Discount rate		
1% increase	**$(531)**	**$(49)**
1% decrease	**720**	**89**
Rate of compensation increase		
1% increase	**228**	**38**
1% decrease	**(194)**	**(31)**
Long-term rate of return on plan assets		
1% increase	**—**	**(35)**
1% decrease	**—**	**35**
OTHER PLANS		
Discount rate		
1% increase	**(66)**	**(7)**
1% decrease	**86**	**7**
Rate of compensation increase		
1% increase	**25**	**4**
1% decrease	**(18)**	**(3)**

The effect of a one percentage point increase or decrease in the assumed health care cost trend would have increased or decreased the benefit expense for the year by $8 million and increased the benefit obligation by $63 million and reduced the benefit obligation by $48 million respectively.

Note 19 Derivative financial instruments

Derivative financial instruments are contracts whose value is derived from an underlying asset, interest rate, exchange rate or other financial index. They are used to transfer, modify or reduce actual or expected risks related to market risk. Derivative financial instruments can be traded over the counter or on regulated exchanges.

Interest rate derivatives include swaps, forward rate agreements, futures contracts and options. Interest rate swaps are transactions in which two parties exchange cash flows on a specified notional amount for a specified period. Fixed and floating interest payments are exchanged between the parties, but not the notional principal amount. A forward rate agreement is an instrument that requires both parties to settle in cash at a later date any difference between a contracted interest rate and the market interest rate, based on a notional amount. Futures contracts are commitments to buy or sell commodities or financial instruments on a future specified date at a specified price. Futures are standardized contracts transacted on regulated exchanges and are subject to daily cash margining.

Foreign exchange contracts include over-the-counter spot and forward exchange contracts and currency swaps. Over-the-counter forward exchange contracts are commitments to exchange, at a future specified date, a given quantity of one currency for another at a rate of exchange determined by the two parties when the contract is signed. Spot transactions are similiar to over-the-counter forward exchange contracts, except that delivery must be made within two business days following the contract date.

Currency swaps are transactions in which two parties exchange fixed interest payments on notional amounts in different currencies. In a cross-currency interest rate swap, the parties exchange fixed and floating interest payments on notional amounts in different currencies. Desjardins Group uses currency swaps and cross-currency interest rate swaps to manage its asset and liability exposure.

Options are contractual agreements under which the seller grants the purchaser the right but not the obligation to buy (call option) or sell (put option) a specified amount of a financial instrument at a specified price, on or before a specified date. The seller receives a premium from the purchaser in exchange for this right. Desjardins Group deals in options primarily to meet its customers' needs and to manage its own asset and liability exposure.

The other derivative instruments used are related to financial index transactions and include options and swaps.

Note 19 Derivative financial instruments (continued)

Derivative financial instruments are primarily used to manage assets and liabilities related to interest rates and exchange rates, and to meet the needs of member caisses. The table Derivative Financial Instruments – Credit Risk gives an overview of the portfolio of derivative financial instruments at Desjardins Group and the related credit risk.

NOTIONAL AMOUNT — Amount to which a rate or price is applied in order to calculate the exchange of cash flows.

REPLACEMENT COST — Cost of replacing, at the current market rates, all contracts having a positive market value, without factoring in the impact of master netting agreements or any collateral which may be obtained.

FUTURE CREDIT EXPOSURE — Potential for future changes in replacement value over the remaining life of the contracts based upon a formula prescribed by the Bank for International Settlements (BIS).

CREDIT RISK EQUIVALENT — Total of the replacement cost and future credit exposure, except for certain items prescribed by the BIS, i.e., the replacement cost of forward exchange contracts with an original maturity of less than 14 days and exchange-traded derivatives subject to daily cash margining.

RISK-WEIGHTED BALANCE — Risk related to the creditworthiness of the counterparty, calculated at the rates prescribed by the BIS.

DERIVATIVE FINANCIAL INSTRUMENTS – CREDIT RISK

	2002					2001		
	Notional amount	Replacement cost	Future credit exposure	Credit risk equivalent	Risk-weighted balance	Replacement cost	Credit risk equivalent	Risk-weighted balance
INTEREST RATE CONTRACTS								
Swaps	**$24,885**	**$ 701**	**$ 97**	**$ 798**	**$201**	$619	$ 704	$175
Forward rate agreements	**1,255**	**2**	**1**	**3**	**1**	1	3	1
Futures contracts	**2,826**	**1**	**—**	**—**	**—**	—	—	—
Options purchased	**7**	**—**	**—**	**—**	**—**	—	2	—
Options written	**420**	**—**	**—**	**—**	**—**	—	—	—
	29,393	**704**	**98**	**801**	**202**	620	709	176
FOREIGN EXCHANGE CONTRACTS								
Forward contracts	**3,294**	**17**	**37**	**54**	**16**	18	44	13
Swaps	**3,893**	**272**	**196**	**468**	**140**	236	477	117
Options purchased	**—**	**—**	**—**	**—**	**—**	1	2	1
Options written	**—**	**—**	**—**	**—**	**—**	—	—	—
	7,187	**289**	**233**	**522**	**156**	255	523	131
OTHER CONTRACTS [1]								
Swaps	**3,340**	**10**	**195**	**205**	**43**	8	171	38
Options purchased	**2,675**	**100**	**195**	**295**	**86**	335	563	133
Options written	**5,854**	**—**	**—**	**—**	**—**	—	—	—
	11,869	**110**	**390**	**500**	**129**	343	734	171
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS	**$48,449**	**1,103**	**$721**	**$1,823**	**487**	1,218	$1,966	478
Impact of master netting agreements [2]		**368**			**101**	403		167
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS AFTER NETTING AGREEMENTS		**$ 735**			**$386**	$815		$311

1 Includes contracts related to indexed term savings products.
2 Impact of offsetting credit exposure when Desjardins Group holds master netting agreements without intent to settle net or simultaneously.

Almost all of the replacement cost is related to transactions with financial institutions that have high credit ratings. By far most contracts are concluded by mutual agreement.

Note 19 Derivative financial instruments (continued)

The following table presents the maturities of the notional amounts of derivative financial instruments:

	Maturity				2002	2001
	Under 1 year	From 1 to 3 years	Over 3 to 5 years	Over 5 years	Total	Total
INTEREST RATE CONTRACTS						
Swaps	$ 8,236	$ 9,472	$5,995	$1,182	$24,885	$25,928
Forward rate agreements	1,005	250	—	—	1,255	556
Futures contracts	2,499	327	—	—	2,826	2,375
Options purchased	7	—	—	—	7	146
Options written	120	200	100	—	420	1,275
	11,867	10,249	6,095	1,182	29,393	30,280
FOREIGN EXCHANGE CONTRACTS						
Forward contracts	3,134	157	—	3	3,294	1,999
Swaps	775	1,401	412	1,305	3,893	5,508
Options purchased	—	—	—	—	—	48
Options written	—	—	—	—	—	48
	3,909	1,558	412	1,308	7,187	7,603
OTHER CONTRACTS [1]						
Swaps	2,969	292	47	32	3,340	2,728
Options purchased	934	1,107	634	—	2,675	2,940
Options written	1,262	2,618	1,712	262	5,854	5,122
	5,165	4,017	2,393	294	11,869	10,790
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS	$20,941	$15,824	$8,900	$2,784	$48,449	$48,673

[1] *Includes contracts related to indexed term savings products.*

Note 20 Interest rate sensitivity and maturity matching

As at December 31, 2002	Immediately rate-sensitive	Under 3 months	From 3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Non-interest sensitive and liabilities	Total
ASSETS								
Cash and deposits with financial institutions	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,355	$ 1,355
Securities	202	4,171	849	1,302	3,804	5,600	839	16,767
Effective interest rate		*2.90%*	*5.23%*	*4.91%*	*5.61%*	*6.28%*		
Loans	7,599	8,523	8,778	10,419	24,521	1,459	(255)	61,044
Effective interest rate		*7.28%*	*6.19%*	*6.42%*	*6.89%*	*7.09%*		
Other assets	—	696	—	—	—	—	5,481	6,177
	$7,801	$13,390	$9,627	$11,721	$28,325	$7,059	$ 7,420	$85,343
LIABILITIES AND EQUITY								
Deposits and notes	$6,873	$ 6,196	$5,589	$ 9,766	$19,400	$ 839	$ 14,238	$62,901
Effective interest rate		*2.70%*	*3.06%*	*2.68%*	*4.06%*	*4.71%*		
Subordinated debentures and borrowings	—	98	—	21	785	541	—	1,445
Effective interest rate		*3.50%*		*7.49%*	*6.21%*	*6.64%*		
Actuarial and related liabilities	—	—	—	—	—	—	8,370	8,370
Other liabilities	—	751	—	—	—	—	6,200	6,951
Equity	—	—	—	—	—	—	5,676	5,676
	$6,873	$ 7,045	$5,589	$ 9,787	$20,185	$1,380	$ 34,484	$85,343
On-balance sheet gap	$ 928	$ 6,345	$4,038	$ 1,934	$ 8,140	$5,679	$(27,064)	$ —
Off-balance sheet gap	—	(4,070)	(1,586)	(1,940)	7,670	(74)	—	—
TOTAL GAP	$ 928	$ 2,275	$2,452	$ (6)	$15,810	$5,605	$(27,064)	$ —

Note 20 Interest rate sensitivity and maturity matching (continued)

As at December 31, 2001	Immediately rate-sensitive	Under 3 months	From 3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Non-interest sensitive and liabilities	Total
Total assets	$5,997	$13,216	$6,328	$9,815	$30,917	$6,277	$ 7,943	$80,493
Total liabilities and equity	5,316	10,138	5,638	9,561	16,276	848	32,716	80,493
On-balance sheet gap	681	3,078	690	254	14,641	5,429	(24,773)	—
Off-balance sheet gap	—	(4,065)	(5)	247	3,547	276	—	—
TOTAL GAP	$ 681	$ (987)	$ 685	$ 501	$18,188	$5,705	$(24,773)	$ —

The determination of the interest rate gap, which is based on the earlier of the repricing or maturity date of assets, liabilities and derivative financial instruments used to manage interest rate risk, relies on various assumptions.

The interest rate gap may change significantly in subsequent periods based on member and client preferences, and the application of the Group's asset and liability management policy.

The main assumptions used are:

Non-interest sensitive instruments and actuarial and related liabilities Some combined balance sheet items, such as equity securities and equity, are not sources of interest rate risk. These items are indicated in the Non-interest sensitive instrument column.

In addition, actuarial and related liabilities are presented in this column. During the normal course of business, the life and health insurance subsidiary has adopted a policy of matching assets and liabilities which clearly defines acceptable differences in order to prevent mismatched cash flows. Compliance with the policy is strictly monitored on a regular basis by the life and health insurance subsidiary. One of the controls is to test the difference between the duration of liabilities and the duration of the assets matching them. The duration measures the sensitivity of the market value of assets and liabilities to changes in interest rates. This test is performed for savings products and insurance products separately, because they have different matching policies stipulating different acceptable targets, and because savings products are more interest-sensitive than insurance products. For the savings product segment as at December 31, 2002, the duration of assets was lower than the duration of liabilities by 0.12 years (the duration of assets was lower than the duration of liabilities by 0.16 years in 2001 and by 0.18 years in 2000). Since the valuation method required for savings already recognizes the impact of possible changes in interest rates, a sudden increase or decrease in interest rates would have no material impact on the life and health insurance subsidiary.

Deposits or liabilities Non-interest bearing deposits are considered non-interest sensitive. Interest bearing, non-maturity deposits with an interest rate that does not move on a specific rate basis, such as the prime rate, are considered non-interest sensitive.

Assets Assets such as loans are reported based on the scheduled repayment date.

Effective interest rate The effective interest rates indicated represent the historical rates for fixed-rate instruments carried at unamortized cost, and the current market rates for variable-rate instruments or for instruments carried at fair value.

Note 21 Fair value of financial instruments

ON-BALANCE SHEET FINANCIAL INSTRUMENTS Although estimated fair value is used to determine the approximate value at which these financial instruments could be traded in a current transaction between willing parties, a number of these financial instruments have no trading market. As a result, their fair value is based on estimates using net present value and other valuation methods which are strongly influenced by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates, which reflect varying degrees of risk. Furthermore, the estimated fair values presented do not reflect the value of assets and liabilities that are not considered financial instruments, such as premises and equipment. Also, the value of other non-financial assets and liabilities, such as intangible values of customer relationships and leases, has been excluded. Given the role of judgment in applying many of the accepted estimation and valuation techniques for calculating fair value, fair values are not necessarily comparable among financial institutions. Estimated fair value reflects market conditions on a given date, and for this reason cannot be representative of future fair values. They also cannot be considered as being realizable in the event of immediate settlement of these instruments.

Note 21 Fair value of financial instruments (continued)

The following methods and assumptions were used to estimate the fair values of the on-balance sheet financial instruments.

Financial instruments valued at carrying value The fair value of certain financial instruments recorded on the balance sheet that are maturing in the short term was assumed to be approximately equal to their carrying value. These financial instruments include the following items: Cash and deposits with financial institutions, Other financial assets, and Other financial liabilities.

Securities The estimated fair value of the securities is disclosed in Note 4 to the Combined Financial Statements as a function of quoted market prices, when available. When quoted market prices are not available, the estimated fair value is determined using the market rates for similar securities.

Loans For certain variable-rate loans, whose rates are frequently revised, the estimated fair value is assumed to be equal to their carrying value. The fair value of other loans is estimated using a discounted cash flow calculation method that uses market interest rates currently charged for similar new loans as at December 31, applied to expected maturity amounts. For impaired loans, the fair value is equal to the carrying value in accordance with the valuation techniques described in Note 1.

Deposits and notes The fair value of deposits with no stated maturity is assumed to be equal to their carrying value. The estimated fair value of fixed-rate deposits is determined by discounting the contractual cash flows using market interest rates currently being offered for deposits with relatively the same remaining terms to maturity.

Actuarial and related liabilities The fair value of policy liabilities is based on the fair value of the related assets hedging them, given the interrelationship existing between these two combined balance sheet items.

Subordinated debentures and borrowings The fair value of subordinated debentures and borrowings is based on the market rates for similar issues or borrowings, or on the rates currently offered to Desjardins Group for debt securities with the same remaining terms to maturity.

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS The following methods and assumptions were used to estimate the fair value of off-balance sheet items:

Off-balance sheet financial instruments with contractual amounts representing a credit risk As credit commitments are primarily assigned variable interest rates, they do not present an interest rate risk.

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

ON-BALANCE SHEET FINANCIAL INSTRUMENTS

	2002			2001		
	Fair value	Carrying value	Difference	Fair value	Carrying value	Difference
ASSETS						
Cash and deposits with financial institutions	**$ 1,355**	**$ 1,355**	**$ —**	$ 1,316	$ 1,316	$ —
Securities	**17,352**	**16,767**	**585**	16,429	16,041	388
Loans	**61,862**	**61,044**	**818**	58,481	57,210	1,271
Other financial assets	**2,935**	**2,935**	**—**	2,522	2,522	—
LIABILITIES						
Deposits and notes	**64,241**	**62,901**	**1,340**	62,212	60,565	1,647
Actuarial and related liabilities	**8,754**	**8,370**	**384**	8,256	8,065	191
Borrowings	**257**	**237**	**20**	297	270	27
Subordinated debentures	**1,288**	**1,208**	**80**	467	444	23
Other financial liabilities	**4,226**	**4,226**	**—**	3,776	3,776	—

Note 21 Fair value of financial instruments (continued)

DERIVATIVE FINANCIAL INSTRUMENTS (ON- AND OFF-BALANCE SHEET)

	2002 Positive value	2002 Negative value	2002 Net fair value	2001 Positive value	2001 Negative value	2001 Net fair value
INTEREST RATE CONTRACTS						
Swaps	**$ 701**	**$ 263**	**$ 438**	$ 619	$ 247	$ 372
Forward rate agreements	**2**	**1**	**1**	1	—	1
Futures contracts	**1**	**—**	**1**	—	4	(4)
Options purchased	**—**	**—**	**—**	—	—	—
Options written	**—**	**1**	**(1)**	—	8	(8)
FOREIGN EXCHANGE CONTRACTS						
Forward contracts	**17**	**13**	**4**	18	16	2
Swaps	**272**	**358**	**(86)**	236	570	(334)
Options purchased	**—**	**—**	**—**	1	—	1
Options written	**—**	**—**	**—**	—	1	(1)
OTHER CONTRACTS [1]						
Swaps	**10**	**41**	**(31)**	8	9	(1)
Options purchased	**100**	**—**	**100**	335	—	335
Options written	**—**	**567**	**(567)**	—	660	(660)
	1,103	**1,244**	**(141)**	1,218	1,515	(297)
Impact of master netting agreements [2]	**368**	**368**		403	403	
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS	**$ 735**	**$ 876**	**$(141)**	$ 815	$1,112	$(297)

1 *Includes contracts related to indexed term savings products.*
2 *Impact of offsetting credit exposure when Desjardins Group holds master netting agreements without intent to settle net or simultaneously.*

Note 22 Commitments

FINANCIAL INSTRUMENTS WITH CONTRACTUAL AMOUNTS REPRESENTING A CREDIT RISK The primary purpose of these instruments is to ensure that members and clients have funds available when necessary for variable terms to maturity and under specific conditions. The collateral security requirements of Desjardins Group with respect to these credit instruments are generally the same as for loans.

Guarantees and standby letters of credit are irrevocable undertakings by Desjardins Group to make payments for a member or client that cannot meet its financial obligations toward third parties, and represent the same credit risk as loans.

In securities lending transactions, Desjardins Group acts as an agent for the owner of a security who agrees to lend it to a borrower for a fee under the terms of a pre-arranged contract. Securities loans must at all times be guaranteed by the borrower.

Credit substitutes represent the guarantee fully assumed by Desjardins Group with respect to credit commitments related to certain indexed term savings products. The credit risk related to credit substitutes is basically the same as for the issue of a letter of credit.

Credit commitments represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit.

The total amount of credit instruments does not necessarily represent future cash requirements since many of these instruments will expire or terminate without being funded. The following table represents the contractual amounts:

	2002	2001
Guarantees and standby letters of credit	**$ 246**	$ 150
Securities lending [1]	**3,272**	3,332
Credit substitutes	**2,800**	2,544
Credit commitments		
Original term of one year or less	**18,485**	16,634
Original term of over one year	**2,148**	2,067
	$26,951	$24,727

1 *Secured by marketable securities, generally issued by the federal and provincial governments, representing 105% of the contractual amount.*

Note 22 Commitments (continued)

COMMITMENTS UNDER LEASES AND SERVICE CONTRACTS The minimum future commitments as at December 31, 2002 under building and equipment leases and service contracts were as follows:

YEAR	PREMISES AND EQUIPMENT	INFORMATION TECHNOLOGY AND TELECOMMUNICATIONS
2003	$ 76	$ 242
2004	45	242
2005	35	242
2006	20	242
2007	14	242
2008 and thereafter	31	582
	$221	$1,792

Building lease expenses, net of rental income, included in non-interest expenses for the year ended December 31, 2002 were $26 million (2001: $25 million and 2000: $23 million).

OTHER COMMITMENTS Furthermore, Desjardins Group member entities pledge assets as collateral for commitments in the normal course of business. As at December 31, 2002, these entities deposited $352 million (2001: $397 million) of assets, chiefly securities, in order to participate in clearing and payments systems and to secure the settlement of contracts signed with derivatives exchanges or with other counterparties in respect of derivative financial instruments.

Note 23 Concentration of credit risk

By far most of the securities, loans and deposits of Desjardins Group are related to the Québec market.

Note 24 Contingencies

Desjardins Group entities are the subject of claims and lawsuits for damages amounting to approximately $51 million, all of which are being contested. A lawsuit filed in March 1993 for the sum of $48 million was settled in 2000. From a legal standpoint, the case is closed. However, other parties have replaced the previous ones and have petitioned to have the settlement annulled. Their petition was rejected by Superior Court in July 2002, but the parties launched an appeal in August 2002. No provision has been recorded as management believes that the claim is unfounded.

Over the past several years, legal actions have been filed against a number of insurance companies operating in the United States and Canada related to the sale of vanishing premium life insurance policies. In certain cases, these actions have resulted in substantial payments for these companies. A Desjardins Group subsidiary has been named in a class action suit related to such policies in Canada. Although the case is in the preliminary stages and, accordingly, it is difficult to make a conclusive assessment of the probable outcome of such litigation, based on past settlement of similar proceedings, management does not believe that significant liability will result.

In addition, other Desjardins Group entities are engaged in various lawsuits arising in the normal course of business. Many of these suits are in connection with measures taken by the entities to collect past-due loans and exercise their rights in respect of assets given as collateral for a loan. In management's opinion, the total amount of contingent liability resulting from these lawsuits will not have a material impact on the financial position of Desjardins Group.

Note 25 Segmented information

Desjardins Group is a cooperative financial movement operating mainly in Québec. Under the authority of the Board of Directors of the Fédération des caisses Desjardins du Québec, the President of Desjardins Group manages the cooperative network and the network of subsidiary companies. The cooperative network, whose main activity is financial intermediation, offers individuals and businesses a wide range of credit, investment and banking services as well as financial advice. The activities of the network of subsidiaries are primarily in the areas of insurance, trust services and securities brokerage.

The activities of the two networks complement each other. Transactions between them in the normal course of business are measured at the exchange amount, which corresponds to the amount of consideration agreed to and accepted by the partners. The results of the main segments reflect internal financial reporting systems and are compatible with the principles established and used in preparing the Combined Financial Statements of Desjardins Group.

Note 25 Segmented information (continued)

2002	Financial intermediation	Life and health insurance	General insurance	Other segments - total [1]	Combined total [2]
Net interest income	$ 2,705	$ 491	$ 37	$ 20	$ 3,260
Provisions and loan losses	(112)	(2)	—	5	(109)
Other income					
Insurance and annuity premiums	—	1,764	971	—	2,623
Other	753	106	(15)	418	1,054
	3,346	2,359	993	443	6,828
Non-interest expenses					
Claims, benefits, annuities and changes in insurance provisions	—	1,687	705	—	2,392
Other	2,290	548	235	433	3,193
	2,290	2,235	940	433	5,585
OPERATING SURPLUS EARNINGS	1,056	124	53	10	1,243
Income taxes	(290)	(45)	(17)	(19)	(371)
Non-controlling interests	—	(8)	(4)	(12)	(24)
SURPLUS EARNINGS BEFORE GOODWILL CHARGES AND PATRONAGE ALLOCATIONS	766	71	32	(21)	848
Goodwill charges	—	—	—	—	—
SURPLUS EARNINGS BEFORE PATRONAGE ALLOCATIONS	766	71	32	(21)	848
Patronage allocations, net of taxes	333	—	—	—	333
SURPLUS EARNINGS FOR THE YEAR AFTER PATRONAGE ALLOCATIONS	$ 433	$ 71	$ 32	$ (21)	$ 515
SEGMENT ASSETS	$71,405	$8,896	$1,772	$3,308	$85,343

2001	Financial intermediation	Life and health insurance	General insurance	Other segments - total [1]	Combined total [2]
Net interest income	$ 2,360	$ 502	$ 25	$ 39	$ 2,926
Provisions and loan losses	(247)	9	—	1	(237)
Other income					
Insurance and annuity premiums	—	1,612	883	—	2,389
Other	704	117	7	390	1,057
	2,817	2,240	915	430	6,135
Non-interest expenses					
Claims, benefits, annuities and changes in insurance provisions	—	1,632	629	19	2,280
Other	2,155	549	238	377	3,052
	2,155	2,181	867	396	5,332
OPERATING SURPLUS EARNINGS	662	59	48	34	803
Income taxes	(166)	10	(11)	(12)	(179)
Non-controlling interests	—	(3)	(4)	(16)	(23)
SURPLUS EARNINGS BEFORE GOODWILL CHARGES AND PATRONAGE ALLOCATIONS	496	66	33	6	601
Goodwill charges	—	4	8	1	13
SURPLUS EARNINGS BEFORE PATRONAGE ALLOCATIONS	496	62	25	5	588
Patronage allocations, net of taxes	191	—	—	—	191
SURPLUS EARNINGS FOR THE YEAR AFTER PATRONAGE ALLOCATIONS	$ 305	$ 62	$ 25	$ 5	$ 397
SEGMENT ASSETS	$67,610	$8,791	$1,614	$2,910	$80,493

Note 25 Segmented information (continued)

2000	Financial intermediation	Life and health insurance	General insurance	Other segments - total [1]	Combined total [2]
Net interest income	$ 2,106	$ 533	$ 45	$ 38	$ 2,718
Provisions and loan losses	(124)	(3)	—	—	(127)
Other income					
Insurance and annuity premiums	—	1,556	610	—	2,064
Other	710	157	—	399	1,087
	2,692	2,243	655	437	5,742
Non-interest expenses					
Claims, benefits, annuities and changes in insurance provisions	—	1,683	431	—	2,114
Other	2,183	535	160	365	2,958
	2,183	2,218	591	365	5,072
OPERATING SURPLUS EARNINGS	509	25	64	72	670
Income taxes	(123)	43	(20)	(14)	(114)
Non-controlling interests	—	(10)	(8)	(12)	(30)
SURPLUS EARNINGS BEFORE GOODWILL CHARGES AND PATRONAGE ALLOCATIONS	386	58	36	46	526
Goodwill charges	—	40	3	—	43
SURPLUS EARNINGS BEFORE PATRONAGE ALLOCATIONS	386	18	33	46	483
Patronage allocations, net of taxes	102	—	—	—	102
SURPLUS EARNINGS FOR THE YEAR AFTER PATRONAGE ALLOCATIONS	$ 284	$ 18	$ 33	$ 46	$ 381
SEGMENT ASSETS	$63,848	$8,461	$1,510	$2,306	$76,117

[1] Segmented results and segment assets for segments which did not reach the quantitative thresholds required under the accounting standards are combined under the heading Other segments – total. This heading includes four companies active respectively in trust services, securities brokerage, transportation of securities and leasing, as well as investment of venture capital in Québec businesses.
[2] The difference between the total of results and the sum of the operating segments presented above is related to intersegment transactions.

Note 26 Subsequent event

On January 27, 2003, a Desjardins Group entity gave an irrevocable joint and several guarantee for the obligations assumed by Desjardins Credit Union Inc. (DCU) under the terms of a contract signed between the Government of Ontario and DCU regarding the acquisition of $49 million of assets of the Province of Ontario Savings Office. DCU will receive a cash consideration equivalent to the deposits taken in charge and accrued interest thereon, estimated at $2.3 billion. In addition, the agreement contains several conditions, including minimum standards for personnel and the operation of branches. The transaction, which is expected to close on March 31, 2003, is subject to the approval of Ontario regulatory authorities.

Five-year statistical review – Desjardins Group in Québec

COMBINED BALANCE SHEETS

As at December 31 ($ millions)

	2002	2001 [1]	2000 [1]	1999 [1]	1998 [1]
ASSETS					
Cash and deposits with financial institutions	**$ 1,355**	$ 1,316	$ 1,065	$ 935	$ 756
Securities	**16,767**	16,041	15,173	14,894	11,978
Loans	**61,044**	57,210	54,855	53,419	53,170
Other assets	**6,177**	5,926	5,024	3,939	4,100
TOTAL ASSETS	**$ 85,343**	$ 80,493	$ 76,117	$ 73,187	$ 70,004
LIABILITIES AND EQUITY					
Deposits and notes	**$ 62,901**	$ 60,565	$ 57,507	$ 56,221	$ 53,371
Other liabilities	**16,766**	14,723	13,800	12,494	12,148
Equity	**5,676**	5,205	4,810	4,472	4,485
TOTAL LIABILITIES AND EQUITY	**$ 85,343**	$ 80,493	$ 76,117	$ 73,187	$ 70,004

COMBINED STATEMENTS OF INCOME

For the year ended December 31 ($ millions)

	2002	2001 [1]	2000 [1]	1999 [1]	1998 [1]
Interest income					
Loans	**$4,035**	$4,296	$4,055	$3,845	$3,842
Securities	**834**	887	1,041	935	771
	4,869	5,183	5,096	4,780	4,613
Interest expense	**1,609**	2,257	2,378	2,201	2,063
Net interest income	**3,260**	2,926	2,718	2,579	2,550
Provisions and loan losses	**109**	237	127	179	218
Net interest income after provisions and loan losses	**3,151**	2,689	2,591	2,400	2,332
Other income	**3,677**	3,446	3,151	2,963	2,730
	6,828	6,135	5,742	5,363	5,062
Non-interest expenses					
Salaries and fringe benefits	**1,623**	1,501	1,485	1,417	1,328
Restructuring costs	**—**	—	—	55	—
Other expenses	**3,962**	3,831	3,587	3,442	3,293
	5,585	5,332	5,072	4,914	4,621
Operating surplus earnings from continuing operations	**1,243**	803	670	449	441
Income taxes	**371**	179	114	138	98
Surplus earnings from continuing operations before non-controlling interests, goodwill charges and patronage allocations	**872**	624	556	311	343
Non-controlling interests	**24**	23	30	19	33
Surplus earnings from continuing operations before goodwill charges and patronage allocations	**848**	601	526	292	310
Discontinued operations	**—**	—	—	55	24
SURPLUS EARNINGS BEFORE GOODWILL CHARGES AND PATRONAGE ALLOCATIONS	**848**	601	526	347	334
Goodwill charges	**—**	13	43	11	7
Surplus earnings before patronage allocations	**848**	588	483	336	327
Patronage allocations to members	**490**	269	143	122	138
Tax recovery on patronage allocations to members	**(157)**	(78)	(41)	(26)	(29)
Surplus earnings for the year after patronage allocations to members	**$ 515**	$ 397	$ 381	$ 240	$ 218

[1] *Data restated to reflect the presentation adopted in 2002.*

Combined balance sheets (unaudited) of the Desjardins caisses, the Fédération des caisses Desjardins du Québec (non-consolidated), Capital Desjardins, Caisse centrale Desjardins and Fonds de sécurité Desjardins

As at December 31 ($ millions)

	Caisses, Fédération and Capital Desjardins	Fonds de sécurité Desjardins	Caisse centrale Desjardins	2002 Combined [2]	2001 [1] Combined [2]
ASSETS					
Cash and deposits with financial institutions	$ 1,275	$ —	$ 67	$ 1,261	$ 1,315
Securities					
Investment account	7,188	453	3,690	9,354	9,294
Trading account	—	—	178	178	38
	7,188	453	3,868	9,532	9,332
Loans					
Residential mortgages	31,871	—	127	31,998	29,386
Consumer, credit card and other personal loans	10,804	—	46	10,850	10,007
Business, government and related institutions [3]	13,204	—	4,914	16,193	15,429
	55,879	—	5,087	59,041	54,822
Other assets					
Fixed assets	744	—	8	752	794
Other	1,770	12	1,574	2,748	2,489
	2,514	12	1,582	3,500	3,283
TOTAL ASSETS	$66,856	$465	$10,604	$73,334	$68,752
LIABILITIES AND EQUITY					
LIABILITIES					
Deposits and notes					
Individuals	$45,509	$ —	$ —	$45,509	$43,692
Business and government	12,383	—	4,304	13,061	11,468
Deposit-taking institutions and other	—	—	3,484	3,484	4,353
	57,892	—	7,788	62,054	59,513
Borrowings	144	7	—	—	—
Other liabilities	2,545	5	2,158	4,416	3,608
Subordinated debentures	1,116	—	126	1,208	444
	3,805	12	2,284	5,624	4,052
EQUITY					
Capital stock	828	—	511	851	844
Undistributed surplus earnings [4]	430	43	—	473	321
Reserves	3,901	410	21	4,332	4,022
	5,159	453	532	5,656	5,187
TOTAL LIABILITIES AND EQUITY	$66,856	$465	$10,604	$73,334	$68,752

1 *Data restated to reflect the presentation adopted in 2002.*
2 *The combined data include the data related to the cooperative network of Desjardins caisses in Québec after eliminating the balances and transactions of the caisses among themselves.*
3 *For presentation purposes, the general provision for credit risk was applied to reduce loans to business, government and related institutions.*
4 *Because the financial years of the caisses do not coincide, the undistributed surplus earnings do not correspond to the surplus earnings presented in the statements of income.*

Combined statements of income (unaudited) of the Desjardins caisses, the Fédération des caisses Desjardins du Québec (non-consolidated), Capital Desjardins, Caisse centrale Desjardins and Fonds de sécurité Desjardins

As at December 31 ($ millions)

	Caisses, Fédération and Capital Desjardins	Fonds de sécurité Desjardins	Caisse centrale Desjardins	2002 Combined[2]	2001[1] Combined[2]
INTEREST INCOME					
Loans	**$3,751**	**$—**	**$187**	**$3,880**	$4,108
Securities, cash and deposits with financial institutions[3]	**354**	**26**	**160**	**473**	542
	4,105	**26**	**347**	**4,353**	4,650
INTEREST EXPENSE					
Deposits	**1,431**	**—**	**244**	**1,502**	2,169
Subordinated debentures and other borrowings	**53**	**—**	**11**	**64**	29
	1,484	**—**	**255**	**1,566**	2,198
NET INTEREST INCOME	**2,621**	**26**	**92**	**2,787**	2,452
Provisions and loan losses	**91**	**—**	**21**	**112**	247
NET INTEREST INCOME AFTER PROVISIONS AND LOAN LOSSES	**2,530**	**26**	**71**	**2,675**	2,205
OTHER INCOME					
Deposit and payment service charges	**349**	**—**	**10**	**359**	363
Lending fees and card service revenues	**164**	**—**	**—**	**164**	141
Trust services and securities dealing	**46**	**—**	**—**	**46**	40
Foreign exchange, international services and other	**245**	**38**	**21**	**184**	160
	804	**38**	**31**	**753**	704
NON-INTEREST EXPENSES					
Salaries and fringe benefits	**1,233**	**—**	**17**	**1,250**	1,152
Premises, equipment and furniture, including depreciation	**252**	**—**	**11**	**263**	278
Communications	**129**	**—**	**—**	**129**	142
Other	**678**	**19**	**12**	**648**	570
	2,292	**19**	**40**	**2,290**	2,142
OPERATING SURPLUS EARNINGS	**1,042**	**45**	**62**	**1,138**	767
Income taxes	**272**	**2**	**16**	**290**	166
SURPLUS EARNINGS BEFORE GOODWILL CHARGES AND PATRONAGE ALLOCATIONS	**770**	**43**	**46**	**848**	601
Goodwill charges for operations of the subsidiary companies	**—**	**—**	**—**	**—**	13
SURPLUS EARNINGS BEFORE PATRONAGE ALLOCATIONS	**770**	**43**	**46**	**848**	588
Patronage allocations to members	**490**	**—**	**16**	**490**	269
Tax recovery on patronage allocations to members	**(157)**	**—**	**(5)**	**(157)**	(78)
SURPLUS EARNINGS FOR THE YEAR AFTER PATRONAGE ALLOCATIONS	**$ 437**	**$43**	**$ 35**	**$ 515**	$ 397

1 Data restated to reflect the presentation adopted in 2002.
2 The combined data include data relative to the cooperative network of Desjardins caisses in Québec, after eliminating the balances and transactions of the caisses among themselves.
3 Income from securities includes the share of earnings resulting from the caisses' investments in the subsidiary companies before recognition of goodwill charges; these shares amounted to $82 million in 2002 and $105 million in 2001.

Principal statistics for the network of subsidiary companies

As at December 31 ($ millions and percentage, unless otherwise indicated)

	2002	2001	2000	1999	1998
DESJARDINS FINANCIAL SECURITY					
Insurance and annuity premiums	**$ 1,764**	$ 1,612	$ 1,563	$ 1,457	$ 1,457
In-force life insurance (insured capital)	**126,569**	117,497	114,606	115,119	113,402
In-force pension contracts (funds held)	**3,272**	3,387	3,505	3,636	3,846
Return on equity (%)	**10.8%**	10.5%	10.5%	2.8%	3.2%
Segregated funds	**$ 4,025**	$ 4,505	$ 4,855	$ 4,781	$ 4,578
DESJARDINS GROUP GENERAL INSURANCE					
Gross premiums written	**$ 1,068**	$ 936	$ 672	$ 512	$ 483
Growth in number of in-force policies (%)	**4.4%**	2.0%	5.6%	3.0%	3.4%
Combined ratio (%)	**96.8**	98.2	96.9	98.2	100.0
Return on equity (%)	**10.5**	8.7	13.6	14.3	14.9
DESJARDINS SPECIALIZED FINANCIAL SERVICES MANAGEMENT					
Fee income	**$ 91**	$ 89	$ 87	$ 81	$ 75
Return on equity (%)	**22.6%**	23.9%	22.6%	46.3%	28.8%
Investment funds outstanding	**$ 4,870**	$ 5,055	$ 4,438	$ 4,117	$ 3,755
Assets under administration	**143,432**	145,675	148,630	133,640	118,048
DESJARDINS SECURITIES					
Total revenues	**$ 116**	$ 104	$ 116	$ 71	$ 60
Number of clients (in thousands)	**254**	223	212	167	153
Return on equity (%)	**(11.0)%**	11.8%	40.9%	14.6%	16.4%
Assets under administration	**$ 9,822**	$ 8,244	$ 7,158	$ 5,986	$ 4,281
ELANTIS INVESTMENT MANAGEMENT					
Fee income	**$ 21**	$ 22	$ 20	$ 19	$ 17
Assets under administration	**11,301**	11,714	10,975	11,476	11,680
INVESTISSEMENT DESJARDINS [1]					
Assets	**$ 198**	$ 183	$ 156	$ 154	$ 253
Long-term investments	**176**	170	120	82	67
Equity	**174**	78	151	138	151
Net earnings (net loss)	**(26)**	4	18	57	22

[1] *At the beginning of 2002, a reorganization took place that divided the operations of Investissement Desjardins into two legal entities. The two new entities are Investissement Desjardins inc. and ID, Limited Partnership. For the purpose of compiling statistics for the above table, the results of the two new entities were added together.*

Principal financial results of the caisses and federations of Ontario, Manitoba and New Brunswick

The Ontario, Manitoba and New Brunswick federations, comprising 77 caisses, are auxiliary members of the Fédération des caisses Desjardins du Québec. They are governed by their own legislation, regulations and by-laws.

COMBINED BALANCE SHEETS (unaudited)[1]

As at December 31 ($ millions)

	2002	2001
ASSETS		
Cash and securities	**$ 823**	$ 852
Loans	**3,531**	3,192
Premises and equipment	**92**	91
Other assets	**69**	65
TOTAL ASSETS	**$4,515**	$4,200
LIABILITIES AND EQUITY		
Deposits	**$4,055**	$3,803
Other liabilities	**123**	110
Equity		
Cooperative shares	**22**	21
Capital stock	**73**	38
Undistributed surplus earnings	**19**	23
Reserves	**223**	205
TOTAL LIABILITIES AND EQUITY	**$4,515**	$4,200

COMBINED STATEMENTS OF INCOME (unaudited)[1]

As at December 31 ($ millions)

	2002	2001
Interest income	**$265**	$281
Interest expense	**112**	135
Net interest income	**153**	146
Provisions and loan losses	**3**	8
Net interest income after provisions and loan losses	**150**	138
Other income	**47**	50
	197	188
Non-interest expenses	**163**	155
Operating surplus earnings	**34**	33
Income taxes	**7**	6
OPERATING SURPLUS EARNINGS BEFORE PATRONAGE ALLOCATIONS TO MEMBERS	**27**	27
Patronage allocations to members	**5**	7
Tax recovery on patronage allocations to members	**(1)**	(2)
Surplus earnings for the year after patronage allocations to members	**$ 23**	$ 22

[1] The combined balance sheets and combined statements of income include data from the caisses and federations in Ontario, Manitoba and New Brunswick, after eliminating the transactions and balances of the caisses and federations among themselves. Because the financial years of the caisses do not coincide, the undistributed surplus earnings do not correspond to the surplus earnings presented in the statements of income.

Corporate governance

The Fédération des caisses Desjardins du Québec has been developing its corporate governance program since 1998 and subscribes to the corporate governance guidelines adopted by the financial services industry. It monitors industry trends and adapts them to its cooperative nature. The Fédération assumes a leadership role with the Desjardins caisses and the Desjardins Group subsidiaries to promote the ongoing and continued enhancement of their governance.

The following information concerns the Fédération, but has a broader application as well, since Desjardins Financial Corporation (the Corporation), called Desjardins-Laurentian Financial Corporation prior to March 27, 2003, and Caisse centrale Desjardins (CCD), also adopted governance programs which harmonize with that of the Fédération. It should be noted that the Fédération, the Corporation and CCD have the same directors.

On two occasions in 2002, the some 650 chairs of the boards of directors of the Desjardins caisses were informed of governance-specific issues. In 2003, the caisses will be asked to adopt a corporate governance policy, which reflects their reality as financial services cooperatives.

Corporate governance policy of the Fédération

The corporate governance policy adopted by the Fédération describes what the Fédération must do in order to comply with the spirit of the guidelines of the Toronto Stock Exchange, while adapting them to the cooperative nature of Desjardins.

The first difference is a fundamental one because it relates to the very purpose behind the Board of Directors' decisions with respect to corporate governance. Ultimately, the purpose of these decisions is to enable the Fédération to carry out its mission, which is to contribute to improving the economic and well-being of individuals and the community. It is guided by long-term objectives and is focused on creating value for its members, who thus benefit from:

- a competitive, comprehensive, integrated and accessible service offering;
- individual and collective patronage allocations;
- active contribution to local and regional development.

To attain these objectives, Desjardins gives itself the means to ensure sufficient profitability, which allows it to ensure its longevity and respect its cooperative difference.

Application of the guidelines of the Toronto Stock Exchange

Overall, the Fédération respects the spirit of the guidelines, adapted to reflect the distinctive nature of its cooperative values.

MANDATE OF THE BOARD OF DIRECTORS

1) MANAGEMENT OF THE FÉDÉRATION The Board of Directors assumes full responsibility for the administration of the Fédération by administering its business in a sound and prudent manner. It ensures that procedures and structures are established in line with its role of oversight and control. Periodically, it reviews its operations from the standpoint of continued improvement and safeguards the assets of Desjardins Group and its five million members.

It plays a dual role since its responsibilities apply both to the Fédération as a business as well as to Desjardins Group. The Fédération is in fact the organization which guides, plans and coordinates all Desjardins Group operations.

The Board exercises all the powers of the Fédération except for those which it may delegate from time to time to its commissions and committees. The Board is responsible for the following responsibilities in particular:

a. Strategic planning process The Board of Directors implemented a continuous strategic planning process for Desjardins Group. It confirms the Board's responsibility for preparing a plan that will enable Desjardins Group to achieve its long-term strategic orientations and objectives. The plan also takes into account risks and business opportunities. The Board of Directors ensures follow-up of the plan and obtains the information to correct any discrepancies. In 2002, the Board of Directors held a meeting to draw up the Group's strategic plan for the 2003-2005 cycle.

The Board of Directors and the President and Chief Executive Officer of Desjardins Group are supported by the Strategic Planning and Development Committee in their tasks of integrating the strategic plans and orientations of the cooperative network and the subsidiaries, and ensuring that business development strategies are consistent, from the perspective of a single management structure.

As part of the strategic planning process, the cooperative network's business plan (known as PARC) was drafted, implementation of which is monitored by the Management Committee. In 2002, the Management Committee created a committee to help it prioritize projects. The boards of directors of the Corporation and CCD adopted a three-year strategic and financial plan which is updated annually.

Responsibility for implementing the strategic planning process rests with the Management Committee, and the Board's role in this respect is one of follow-up, monitoring and control.

b. Identification and management of main risks The Board is responsible for identifying the main risks of the Fédération and Desjardins Group and ensures that the required systems are in place for integrated management of the main risks. The Fédération has the support of the Integrated Risk Management Group. The Audit and Inspection Commission supports the Board of Directors in its risk monitoring role.

As part of the coming into force of the Basel Accord in 2006, the Board of Directors received, in 2002, a comprehensive analysis of the current situation at Desjardins Group and authorized implementation of the project which will enable Desjardins Group to meet the expectations of the Basel Accord. In 2003, the governance of risk management will be reviewed.

c. Succession planning The task of providing the business with a succession planning program is the responsibility of the Human Resources and Operations Group of the Fédération as part of a three-year human resources plan. The Human Resources Commission oversees the plan and reports to the Board of Directors or makes recommendations to it.

The President and Chief Executive Officer of Desjardins Group has a specific objective with respect to succession planning given the strategic nature of this issue. It should be noted that the various components of Desjardins Group offer a natural pool of candidates for assuming key management functions.

One of the hallmarks of Desjardins' cooperative difference is that the President and Chief Executive Officer is chosen by a 241-member electoral college in a process governed by a Fédération by-law and supervised by an elections committee. The Board of Directors is responsible for determining the priorities for each four-year mandate, and candidates for the position use these priorities to support their candidacy. The candidates meet with all the electors by region once during the process.

As regards the training of its officers, Desjardins will innovate by creating a corporate school, which will be described subsequently.

d. Communication policy The Board has adopted internal and external communication policies in order to improve its relations with the caisses and their members, the subsidiaries and their clients, socio-economic and community organizations, opinion makers, the public, the media, the rating agencies and the various levels of government and their employees.

The Fédération uses different channels to communicate effectively with its various audiences, including its Communications and Public Affairs Branch, the Ombudsman, the complaint settlement process in the caisses (*Your Satisfaction is Our Priority*), the annual general meetings, the release of Desjardins Group's quarterly financial results, publications (including the Annual Report, Community Involvement Report, such publications as *Mes Finances-Ma Caisse, Revue Desjardins, Desjardins Entreprises* and *Partenaires*, as well as information bulletins distributed to employees), a toll-free telephone line, the website, including a section entitled "Relations with members" (www.desjardins.com) as well as member services at the Fédération (1-866-835-8444, ext. 8422).

The Board of Directors set up four advisory commissions to help identify and validate strategies and action plans to enhance Desjardins Group's responsiveness to the needs and representation of young people, women, cultural communities and native peoples. It also formed a member satisfaction commission which is chaired by the President and Chief Executive Officer of the Group. In 2002, the Chairman of the Board and Chief Executive Officer also set up a Round Table on agriculture, which brought together some 30 farmers from various sectors and regions of Québec.

In addition, the Fédération communicates with rating agencies and coordinates relations with the various levels of government.

e. Internal reporting system and integrity of control systems The Board, seconded by its Audit and Inspection Commission, ensures the implementation of effective control systems (accounting, administrative and management) to safeguard the integrity of its operations, and obtains the required rendering of accounts from its managers. The Board is supported in this responsibility by the Internal Auditor of the Group.

The Board also ensures that the Management Committee of the Fédération provides the Board and its commissions and committees with information that is reliable, timely, and adapted to the particular needs of the Board members so that they may take advantage of opportunities as they arise and also measure the risks involved.

Board members receive a quarterly management information report which combines the main financial and non-financial indicators that will enable them to assess Desjardins Group's situation and the status of the Fédération's projects. The Board ensures that appropriate policies and procedures are in place to facilitate the production and presentation of this information.

To effectively carry out its orientation and control duties, the Board meets regularly, according to a predetermined schedule. In 2002, 17 Board meetings were held. Board members receive the agenda, along with any appropriate documentation, far enough in advance to ensure productive discussions and facilitate the decision-making process.

2) COMPOSITION OF THE BOARD OF DIRECTORS The Fédération's Board of Directors is composed of 21 members, a majority of whom are unrelated parties. The criteria for membership are listed in paragraph 3. The Board includes six women, representing 30% of members, a first in Canada for a financial institution.

3) APPLYING THE DEFINITION OF UNRELATED PARTY The Chairman of the Board and Chief Executive Officer of Desjardins Group is the only related director. The directors have no business or personal relationships with members of the Management Committee of the Fédération, or interests which, in the opinion of the Board, could significantly interfere with their ability to act in the best interests of the Fédération or the Group, or interests of another nature which, again in the opinion of the Board, could reasonably be perceived as such. For guidance in these matters, the Board refers to the Code of Ethics, which governs the actions of its directors, and to the declarations of interest filed annually by the directors.

In 2003, the Corporate Governance Commission will examine the status of four directors of the Fédération who, without being members of the Fédération's Management, assume general management duties in the Desjardins caisses. A recommendation will be made to the Board of Directors concerning their status as to whether they are related or unrelated directors.

4) NOMINATION PROCEDURE Given the cooperative structure of Desjardins Group, and the principle of delegation which prevails within the Group, the Board of Directors of the Fédération is composed of persons elected by the delegates of the caisses belonging to the Fédération who, at meetings in each region, directly elect 16 of the 21 Board members. They assume the chairmanship of the Council of Representatives (CORE [1]). Thus, it is the caisse delegates who must choose from among the interested candidates the persons most apt to assume two roles, namely that of director of the Fédération and the Group as a whole and that of regional representative.

It should be noted that the chairs of the councils of representatives are responsible for ensuring that the orientations, as defined by the Board, are understood by the caisses and for communicating to the Board the concerns of the caisses they represent.

Four of the remaining positions are filled by caisse general managers at an election held at a general meeting of the Fédération, and the final position is reserved for the Chairman of the Board and Chief Executive Officer of Desjardins Group. Consequently, the Corporate Governance Commission is not required to play a role in the selection of the Board of Directors of the Fédération.

Thus, the process of electing the directors of the Fédération ensures the independence of the members of the Board vis-à-vis the Chief Executive Officer of Desjardins Group.

The rules governing the composition of the Board foster a certain stability and continuity in the corporate governance of Desjardins Group given that its members have three-year renewable terms and that each year one-third of Board members withdraw from their positions. This affords the directors the time needed to deepen their understanding of issues and to make a valuable contribution to the Board.

The composition of the Board is balanced by the presence of representatives from all regions of Québec and from the group caisses, elected directly by the caisses, but also by the skills and experience they offer (chartered accountants, lawyers, notaries, managers, professional mediators, professors of management, entrepreneurs, etc.).

The Corporate Governance Commission is responsible for selecting the directors of Desjardins Group subsidiaries. In 2002, it used the services of an outside consultant to recommend to the Board of Directors the choice of independent directors for the boards of directors of the Group's subsidiaries.

5) ASSESSING THE EFFECTIVENESS OF STRUCTURES At the beginning of 2002, the Board of Directors adopted an assessment program whose ultimate objective is to ensure continuous improvement of the efficiency of the Board, its commissions and committees and the performance of its members. The assessment program for all Fédération structures also calls for a personal self-assessment component, followed by a meeting with the Chairman of the Board, who is responsible for the assessment process, and the Corporate Governance Commission provides oversight.

The Board of Directors and its commissions and committees evaluated their performance at the end of 2002 using quantifiable objectives set by the Board at the beginning of the year. Areas for improvement, as well as the points to be monitored as part of the assessment exercise, were part of an action plan recommended to the Board by the Corporate Governance Commission, which provides oversight.

6) ORIENTATION AND TRAINING PROGRAM FOR NEW DIRECTORS The Fédération offers its directors orientation and ongoing training, and develops sessions tailored to their specific needs. New directors attend an integration session that involves meeting with members of Management and receiving a reference manual containing all the information they need to carry out their duties.

Meetings with specialists from the Fédération are also organized to give new directors a more complete picture of certain strategic projects.

The training program for directors will be part of the activities programmed by Desjardins Institut Coopératif, the new training institute created for the volunteer officers and the managers of Desjardins Group. The Institute's mission is three-fold: *Savoir-être Desjardins; Gouvernance et management Desjardins;* and *Innovation Desjardins*.

[1] *CORE are democratically-elected entities of the Fédération which are responsible for making decisions in each region with regard to adopting the regional business plan, granting sponsorships and donations and designating the representatives of Desjardins with outside regional agencies.*

7) SIZE OF THE BOARD The Board of Directors is of a size that prioritizes adequate representation of the caisses in the 16 Québec regions. Moreover, the presence of four caisse general managers ensures that the orientations adopted by the Board and their implementation are adapted to the realities of the caisses.

The efficient running of meetings and good discipline among the directors themselves compensate for the size of the Board. Furthermore, as the Chairman of the Board and Chief Executive Officer holds an informal gathering with directors the day before a Board meeting, it ensures that the discussion of the agenda remains on topic at the formal meeting the next day.

8) REMUNERATION OF DIRECTORS The Board has adopted a policy for the payment of remuneration to directors that reflects the responsibilities, risks and requirements involved in their duties and is in line with industry trends. Moreover, in 2003, the Corporate Governance Commission will review industry practices in this regard.

9) COMPOSITION OF COMMISSIONS AND COMMITTEES The Board has created a number of commissions and committees to support and streamline its control and monitoring activities. These commissions and committees are comprised entirely or almost entirely of unrelated parties. Their mandates were reviewed at the beginning of 2003 based on the results of the performance assessments of the decision-making authorities of the Fédération. (A list of the committees and commissions and their mandates can be found on page 112.)

10) RESPONSIBILITY FOR CORPORATE GOVERNANCE The Board has given the Corporate Governance Commission the responsibility of applying and updating the corporate governance program in light of industry trends. The commission reports on its observations and makes recommendations to the Board of Directors.

11) DEFINING THE AUTHORITY OF THE MANAGEMENT COMMITTEE The responsibilities of the Chairman of the Board and Chief Executive Officer of Desjardins Group are set out in the corporate governance by-law of the Fédération. The responsibilities of the President and Chief Operating Officer of the Fédération are also defined in this by-law. The Board has very clearly segregated the responsibilities of the Board of Directors and the Management Committee.

The annual objectives of the Chairman of the Board and Chief Executive Officer of Desjardins Group are recommended to the Board of Directors by the Committee on the Aggregate Remuneration of the President and Chief Executive Officer of Desjardins Group. The objectives of the President and Chief Operating Officer of the Fédération are established by the Board of Directors as part of the incentive plan for the Fédération.

The degree to which these objectives are achieved is measured through an annual review process. With respect to the performance of the Chairman and Chief Executive Officer of Desjardins Group, under the supervision of the aforementioned committee, each director participates anonymously in the review process using a model prepared in advance by the commission. Management is not present during this process.

12) THE BOARD'S INDEPENDENCE FROM THE MANAGEMENT COMMITTEE The Board has created different structures and procedures to safeguard its independence from the Management of the Fédération. These include:

1) having only one member of Management on the Board (i.e., the Chairman and Chief Executive Officer of Desjardins Group);
2) holding an informal gathering of directors the day before each Board meeting, for which the Chairman and Chief Executive Officer does the follow-up with the members of Management;
3) assigning responsibility to the Corporate Governance Commission (of which only one member is a related party) for
   a) managing relations between the Board and the Management Committee of the Fédération, and
   b) ensuring that the Board fulfills its duties;
4) Ensuring that the members of the Human Resources Commission and the Committee on the Aggregate Remuneration of the President and Chief Executive Officer of Desjardins Group are seconded by an external consultant with respect to matters dealing with the aggregate remuneration of officers.

The General Meeting of the Fédération does not intend to separate the functions of Chairman of the Board and of President and Chief Executive Officer of Desjardins Group, because the President and Chief Executive Officer of Desjardins Group is an officer chosen by a 241-member electoral college, whose primary responsibility is to protect the interests of the Desjardins members. The Board believes that it is important for the Chairman of the Board to be knowledgeable about the activities and affairs of both the Fédération and Desjardins Group in order to be effective, whether with elected officers, members or Management of the various Desjardins components.

It should be noted that the Annual Meeting created the position of President and Chief Operating Officer of the Fédération to free up the Chairman of the Board and Chief Executive Officer of Desjardins Group of operational considerations. Moreover, the Management Committee is chaired by the President and Chief Operating Officer. The Chairman of the Board and Chief Executive Officer is a member of the Committee to ensure that the orientations of the Board are adequately reflected in issues discussed.

13) AUDIT COMMITTEE - MANDATE AND COMPOSITION The Audit and Inspection Commission (AIC) acts as an audit committee for the Fédération. It is composed entirely of members who are not related parties. Two of the members, including the Committee Chair, have expertise in the field of accounting.

The roles and responsibilities of the AIC have been defined in such a way as to give its members a very clear understanding of their monitoring duties. The AIC has all the powers and information it needs to fulfill its mandate. Its role is to review all financial information, and supervise the implementation of an effective control process and the required rendering of accounts. It has direct communication channels with the persons responsible for internal audit at Desjardins Group, with the Desjardins Bureau for Financial Monitoring and Enforcement and with the external auditors in order to discuss and review certain issues. The AIC may, as needed, discuss these issues without the managers responsible being present.

The AIC must ensure the independence of the internal audit division of Desjardins Group.

14) HIRING OUTSIDE ADVISORS A director may engage the services of an outside advisor at the expense of the Fédération. However, to ensure that such services are relevant, a request must be submitted to the Corporate Governance Commission.

Mandates of the Commissions, Committees and Board of Ethics of the Fédération

EXECUTIVE COMMITTEE (*composed of seven directors*)

This Committee has the same functions and powers as the Board of Directors, with the exception of those which the Board may reserve for itself or assign to another committee or commission. Its mandate was drawn up by the Board of Directors. In 2002, it held 11 meetings.

MEMBERS:
Alban D'Amours, Chairman of the Board
Madeleine Lapierre, Vice-Chair of the Board
Pierre Tardif, Secretary of the Board
André Gagné
Olivier Lavoie
André Shatskoff
Sylvie St-Pierre-Babin

AUDIT AND INSPECTION COMMISSION (*composed of five directors*)

This commission oversees the internal audit activities of Desjardins Group and the Desjardins Bureau for Financial Monitoring and Enforcement, supports the Board in its monitoring and control responsibilities, and acts as an audit committee for the Fédération. It held 13 meetings in 2002.

MEMBERS:
Andrée Lafortune, FCA, Chair
Jean-Guy Bureau
Raymond Gagné
Pierre Leblanc, FCA
Jacqueline Mondy

COOPERATIVE ORIENTATIONS COMMISSION (*composed of five directors*)

This commission ensures compliance with cooperative values and the elements of the cooperative difference. If need be, it submits recommendations to the Board. In 2001, this commission was assigned the task of overseeing the preparations for the upcoming Congress of officers in March 2003. It held 14 meetings in 2002.

MEMBERS:
Clément Samson, Chair
Frances Carrier
Marcel Lauzon
Sylvie St-Pierre-Babin
Benoit Turcotte

HUMAN RESOURCES COMMISSION (*composed of five directors*)

This commission is mandated to periodically review Desjardins Group's positioning in terms of aggregate compensation to ensure that the Group remains competitive on the market. It makes sure that the compensation practices applied at Desjardins Group comply with the Group's policies and guiding principles. The Commission's mandate excludes the review of matters regarding the employment contracts of the Chairman of the Board and Chief Executive Officer. It held 10 meetings in 2002.

MEMBERS:
Alban D'Amours, Chairman of the Board
Madeleine Lapierre, Vice-Chair of the Board
Pierre Tardif, Secretary of the Board
Raymond Gagné
Denis Paré

COMMITTEE ON THE AGGREGATE REMUNERATION OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER OF DESJARDINS GROUP

At the beginning of 2003, the Board of Directors created the Committee on the Aggregate Remuneration of the President and Chief Executive Officer of Desjardins Group, all the members of which are unrelated parties. The Committee is mandated to make recommendations to the Board regarding the remuneration and working conditions, as well as the annual objectives, of the President and Chief Executive Officer.

MEMBERS:
Madeleine Lapierre, Vice-Chair of the Board
Pierre Tardif, Secretary of the Board
Raymond Gagné
Denis Paré

CORPORATE GOVERNANCE COMMISSION (*composed of five directors*)

This commission is mandated to support the Board of Directors in applying and updating the corporate governance program. It also oversees the process for recommending candidates for seats on the boards of directors of Desjardins Group subsidiaries. In addition, it is responsible for supervising the performance review program for members of the Board of Directors and its commissions and committees. The Corporate Governance Commission held eight meetings in 2002.

MEMBERS:
Alban D'Amours, Chairman of the Board
Pierre Tardif, Secretary of the Board
André Gagné
André Lachapelle
Pierre Leblanc

DESJARDINS GROUP RETIREMENT COMMITTEE (*composed of representatives of employers, participants and retirees, plus one external member*)

The Board of Directors assumes responsibility for the sound and prudent management of the pension plan in compliance with statutes and regulations. The Retirement Committee is the administrator of the Desjardins Group pension plan and trustee of the pension fund. Its responsibilities are set out in the Québec *Supplemental Pension Plans Act* and by the Board of Directors within the Desjardins Group pension plan by-law. The Retirement Committee is supported by an Investment Committee whose mandate is to monitor observance and application of the established investment policy. The Retirement Committee held five meetings in 2002.

MEMBERS FROM THE BOARD OF DIRECTORS REPRESENTING THE EMPLOYERS:
Madeleine Lapierre, Chair
Jacques Baril, Secretary
Reynald Harpin
André Jean, Vice-Chair
Olivier Lavoie
Paul-André Lavoie
Denis Paré

REPRESENTING THE PARTICIPANTS:
Odette Breton
Gérard Cormier
Edgar Joly
Michel Michaud
Clément Roberge

OBSERVER, REPRESENTING THE EMPLOYERS:
Louise Charbonneau

OBSERVERS, REPRESENTING THE PARTICIPANTS:
Yvon Lesiège
Johanne Rock

STRATEGIC PLANNING AND DEVELOPMENT COMMITTEE (*composed of members of Management*)

This committee supports the President and Chief Executive Officer of Desjardins Group and the Board of Directors in their task of equipping Desjardins Group with a single management structure. In this regard, it supports the Board in integrating the strategic orientations of the cooperative network and the subsidiaries, and in implementing business development strategies. It held 10 meetings in 2001.

MEMBERS:

Alban D'Amours	**Chairman of the Board and Chief Executive Officer, Desjardins Group**
Bertrand Laferrière	President and Chief Operating Officer, Fédération des caisses Desjardins du Québec
Pierre Brossard	Senior Vice-President, Institutional Affairs and Executive Assistant to the President of Desjardins Group
Pauline D'Amboise	Secretary General, Fédération des caisses Desjardins du Québec
Jean-Pierre DeMontigny	President and Chief Operating Officer, Desjardins Securities
Marc Jean	Senior Vice-President, Planning and Cooperation, and Executive Assistant to the President and Chief Operating Officer of the Fédération
Jean-Guy Langelier	President and Chief Operating Officer, Caisse centrale Desjardins
Monique F. Leroux	President of Desjardins Financial Corporation and Chief Executive Officer of the Subsidiaries
Marcel Pepin	Senior Executive Vice-President and Head, Corporate Affairs
Bruno Riverin	President and Chief Operating Officer, Investissement Desjardins

BOARD OF ETHICS (*composed of elected officers*)

A Board of Ethics was created at the General Meeting, which is independent of the Board of Directors and whose members are elected from among the elected officers. The Board of Ethics is supported by a team which reports to the Secretary General of the Fédération.

Overall, the role of the Board of Ethics is to adopt the rules of conduct applicable to the officers of Desjardins Group and to the employees of the Fédération, caisses and subsidiaries (officers only), present them for approval to the Board of Directors and ensure that they are respected by the caisses and the Fédération, support the caisses and the Fédération in applying the rules of conduct, issue notices, make observations and recommendations with respect to ethical issues, more specifically if there is derogation from the rules, and notify the Board thereof, and, if the Fédération violates the provisions of the *Act respecting financial services cooperatives* and regulations governing restricted party transactions and conflicts of interest, ensure that the complaints regarding the Fédération originating from the caisses or other members of the Fédération (Caisse centrale, holding companies, Ontario, Manitoba and New Brunswick caisse federations) are dealt with, ensure the independence and objectivity of the Inspection and Audit Commission of the Fédération with respect to the caisses and make recommendations to the President of the Fédération regarding the appointment of the person who will manage these services.

MEMBERS:

Hélène Lee-Gosselin, Chair
Norman Grant, Secretary
Éric Béchard
Isabelle Bourgeois
Marcel Cardinal
Marc Méthot
Claire Sarrazin

Glossary of financial terms

Acceptances and customers' liability under acceptances: Short-term debt securities that can be traded in the money market, which a financial institution guarantees for a borrower in exchange for a stamping fee.

Assets under administration or management: Assets administered or managed by a financial institution that are beneficially owned by members and clients and therefore do not appear on the financial institution's balance sheet. The services provided in respect of assets under administration are administrative in nature, such as custodial services, collection of investment income and settlement of buy and sell transactions, while the services provided in respect of assets under management include selecting investments and offering investment advice. The assets may also be administered by the financial institution.

Company subject to significant influence: A company in Québec in which Desjardins Group holds between 20% and 50% of the capital stock.

Credit commitment: Credit facilities offered to members and clients in the form of loans and other financing vehicles appearing on the balance sheet, or in the form of off-balance sheet products such as guarantees, letters of credit and securities lending.

Cumulative provision for loan losses: An amount that management deems sufficient to cover the anticipated credit losses related to the portfolio of loans, letters of guarantee and letters of credit. Specific provisions and the general provision are added to the cumulative provision for loan losses, and write-offs and recoveries are deducted from it.

Derivative financial instrument: A contract whose value is "derived" primarily from interest or exchange rates. Derivative financial instruments are used to transfer, modify or reduce current or expected risks, including risks related to interest and exchange rates and other market risks.

Estimated market value: Year-end market rate valuation of on- and off-balance sheet instruments.

Forward exchange contract: A commitment to buy or sell a fixed amount of foreign currency at a future specified date and at a set rate of exchange.

Forward rate agreement: A commitment that requires both parties to settle in cash at a later date any difference between a contracted interest rate and the market interest rate, based on a notional amount. When used as a hedge, the forward rate agreement protects against interest rate fluctuations.

Guarantees and standby letters of credit: Essentially, an irrevocable undertaking by a financial institution to make payments for a member or client who cannot meet his or her financial obligations towards third parties.

Hedging: A risk management technique used to offset or manage market, interest rate or foreign exchange exposure.

Impaired loans: Loans are classified as impaired when, in the opinion of management, timely collection of principal and interest is almost certain to be impossible. Loans, except for credit card balances, are generally accounted for on a cash basis when a payment has been past due for 90 days or more, unless they are adequately secured and in the process of being collected. All loans more than 180 days past due are classified as impaired.

Investment account: Securities held until maturity or until the market offers more attractive investment opportunities.

Matching: The process of adjusting asset and liability maturities as well as off-balance sheet items in order to minimize interest rate and exchange rate risk.

Net interest income: The difference between what a financial institution receives on assets such as loans and securities and what it pays out on liability items such as deposits and subordinated debentures.

Notional amount: Reference amount used to calculate payments for instruments like forward rate agreements and interest rate swaps. It is called "notional" because it does not change hands.

Off-balance sheet instruments: A wide range of products, divided into two main categories: (i) credit arrangements, which offer members and clients liquid asset protection, and (ii) derivative financial instruments.

Patronage allocation: A distribution of surplus earnings to members on the basis of their transactions with their caisse, decided by the members at the general meeting.

Permanent share: Capital stock offered to caisse members.

Provisions and loan losses: An amount added to the cumulative provision for loan losses. Specific provisions are established to reduce the carrying value of some assets (especially loans) to an estimated realizable value. The general provision is established for losses anticipated in regard to total loans, particularly in sectors of activity where loan losses may not yet be estimated on an individual basis.

Risk-weighted off-balance sheet assets and financial instruments: An integral part of calculating risk-based capital ratios. The face value of low-risk assets is adjusted using risk weighting factors to take into account a comparable risk among all types of assets. The inherent risk of off-balance sheet financial instruments is also taken into consideration, first by adjusting the notional values to balance sheet (or credit) equivalents, and then by applying the appropriate risk weighting factors.

Securities lending: Operations by which a financial institution acts as the authorized agent of a security owner, who agrees to lend the security to a borrower in exchange for a commission paid under the terms and conditions of a pre-established contract.

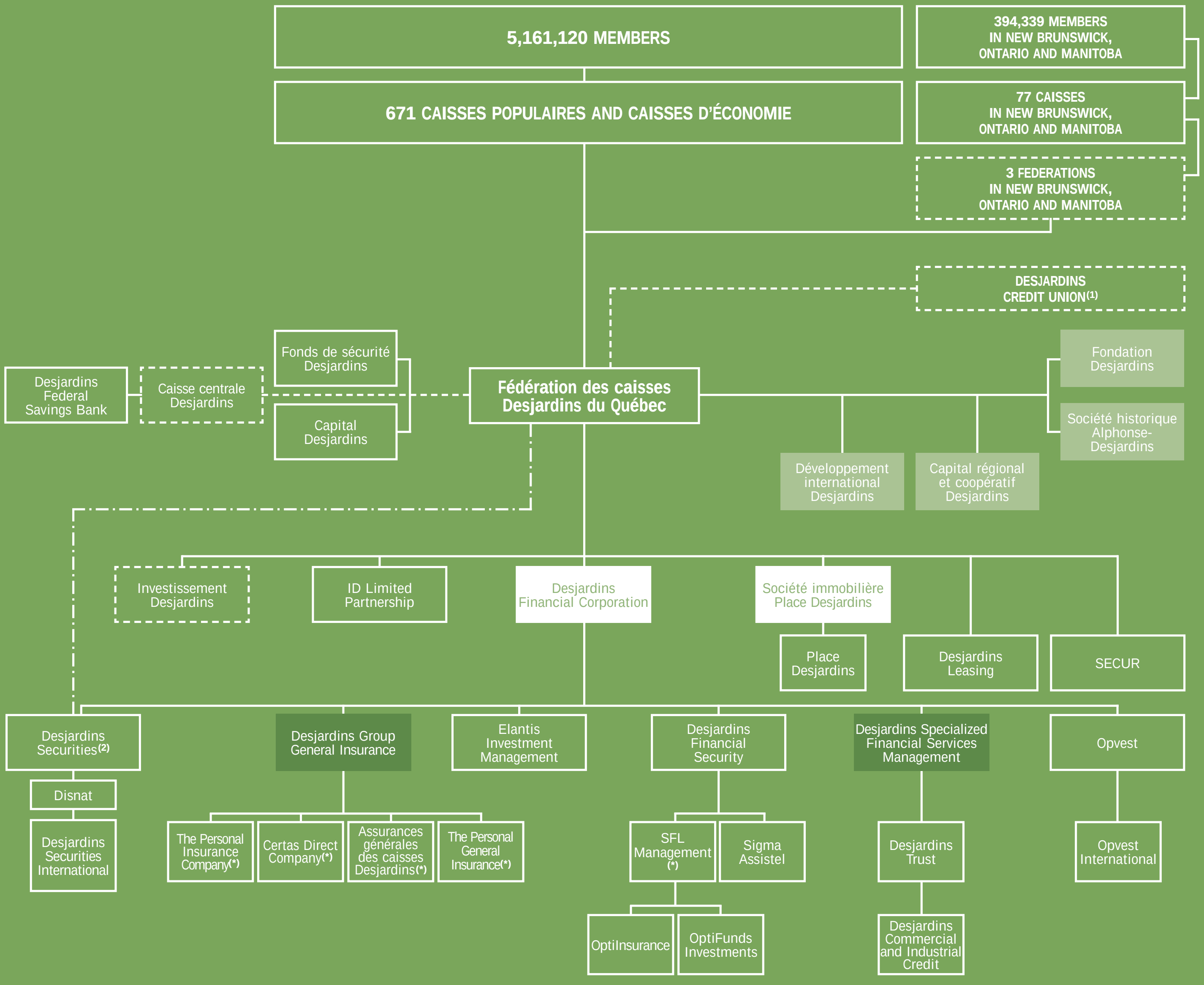
Stock index option: The right (but not the obligation) to buy (call option) or sell (put option) at or by a specific date a given quantity of a stock index at a specific price (strike price).

Subordinated debenture: An unsecured bond subordinated in right of payment in the event of liquidation to the claims of depositors and certain other creditors.

Subsidiary, or subsidiary company: A company in which Desjardins Group holds the majority of the stock.

Trading account: Short-term securities held for trading purposes.

Desjardins Group



EXECUTIVE INTERFACE WITH THE PRESIDENT AND CEO OF THE GROUP

OWNERSHIP LINK

AUXILIARY MEMBERS

HOLDING COMPANIES

INTERMEDIARY HOLDING COMPANIES

CORPORATIONS LINKED TO THE FÉDÉRATION

NOTES:

(1) The decision-making bodies of Desjardins Credit Union and the Fédération des caisses Desjardins du Québec will soon decide upon the entry of that component as an auxiliary member of FCDQ.

(2) A project to transfer the ownership of Desjardins Securities to the Fédération des caisses Desjardins du Québec is under way.

(*) Shared ownership

December 31, 2002. Chart does not reflect the legal ownership structure.

OTHER INFORMATION

As at December 31

	2002 Québec	2002 Network outside Québec	2002 Desjardins Group Total	2001 Québec	2001 Network outside Québec	2001 Desjardins Group Total
Total number of employees	**37,320**	**1,932**	**39,252**	36,851	1,965	38,816
Cooperative network of Desjardins caisses	***27,245***	***1,932***	***29,177***	*27,708*	*1,965*	*29,673*
Subsidiary companies and other Group components(1)	***10,075***	**—**	***10,075***	*9,143*	—	*9,143*
Number of members	**5,161,120**	**394,339**	**5,555,459**	5,165,173	395,270	5,560,443
Number of volunteer officers	**7,980**	**761**	**8,741**	9,514	754	10,268
Number of member caisses	**671**	**77**	**748**	814	87	901
Number of services centres	**849**	**178**	**1,027**	754	150	904
Number of automated teller machines	**2,688**	**210**	**2,898**	2,633	206	2,839

(1) Includes employees of subsidiary companies active outside Québec.

HEAD OFFICE Fédération des caisses Desjardins du Québec, 100 avenue des Commandeurs, Lévis (Québec), Canada G6V 7N5, Tel.: (418) 835-8444

VERSION FRANÇAISE La version française de ce Rapport annuel peut être obtenue sur demande.

The Senior Vice-President, Institutional Affairs and Executive Assistant to the President of Desjardins Group (Communications and Public Affairs) and the Senior Vice-President, Finance and Administration (Financial Information and Analysis) of the Fédération des caisses Desjardins du Québec are responsible for the production of this annual report.

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ARTWORK Page 16: Caroline Bussières, *Ciel (Sky),* 1990, mixed media, 122 cm x 91 cm, Desjardins art collection
■ Page 20: Hélène Richard, *Herbier #3 (Grass Bed #3),* 2000, mixed media, 89 cm x 69 cm.

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