



# Desjardins Group Financial Report Third Quarter 2009

# 3

September 30, 2009

## HIGHLIGHTS

	For the three months ended September 30			For the nine months ended September 30		
	2009	2008	Change	2009	2008	Change
Surplus earnings before member dividends	\$378 million	\$149 million	153.7%	\$833 million	\$554 million	50.4%
Return on equity	14.4%	6.2%	----	10.9%	7.8%	----

Assets	\$163.2 billion	\$150.3 billion	8.6%
Equity	\$10.7 billion	\$9.7 billion	10.4%
Tier I capital ratio (*)	14.94%	14.15%	----
Growth in total loans	6.1%	8.9%	----
Growth in total deposits	5.1%	7.0%	----

(\*): The 2009 ratio was calculated on the basis of the new Basel II Accord rules whereas the 2008 ratio was based on the former regulatory framework (Basel I Accord).

## MESSAGE FROM SENIOR MANAGEMENT

For the first nine months of 2009, Desjardins Group reported surplus earnings before member dividends of \$833 million, up \$279 million or 50.4% from the corresponding period in 2008. Return on equity was 10.9%, versus 7.8% on a year-over-year basis. Profitability for the first nine months of 2009 was enhanced by improved market conditions, which positively affected trading income and income from available-for-sale securities, and by the smaller write-down in the ABCP restructured note portfolio than that recorded for the same period a year earlier. It should be noted that the caisse network's surplus earnings decreased mainly as a result of the decline in interest rates, which put pressure on caisses' net interest income.

Surplus earnings before member dividends stood at \$378 million for the third quarter of 2009, up sharply by \$229 million or 153.7% from the same quarter in 2008. Return on equity rose to 14.4%, versus 6.2% for the third quarter of 2008. The quarter's financial performance was boosted by a significant increase in trading income despite the decline in interest rates, and the solid results for insurance operations, particularly those of the life and health insurance subsidiary, and for securities brokerage operations, as well as by a higher business volume.

The Personal and Commercial segment's financial results for the first nine months of 2009 were affected by the caisse network's declining profitability, as previously mentioned. However, the profitability of Caisse centrale Desjardins (CCD) increased, due to the outstanding performance of all business segments, including the Treasury's trading activities and asset-liability and liquid asset management. It should be remembered that in 2008, CCD had to recognize an other-than-temporary impairment for collateralized debt obligations.

A solid financial performance was turned in by insurance operations for the first nine months of 2009, compared to the same period in 2008. The life and health insurance subsidiary recorded a 2.0% increase in its insurance premium income, while the general insurance subsidiary benefited in particular from favourable loss experience in automobile insurance and improved results in home insurance.

Lastly, securities brokerage and venture capital operations posted higher profitability as a result of the gradual market recovery. Results for asset management operations, however, were on a downtrend. It should be remembered that in 2008, a disinvestment program for investments underlying structured products was initiated because of the financial crisis, and the impact of this program is being fully felt in 2009.

Every quarter, Desjardins Group establishes the most accurate possible estimate of the amount to be recorded for payment of caisse member dividends at the end of the fiscal year. A \$239 million provision for member dividends was therefore recognized for the first nine months of 2009, versus \$304 million a year ago. It should be noted that the 2009 provision included a \$29 million upward adjustment for 2008 dividends.

## SPECIFIC ITEMS

### Implementation of new organizational structure

It may be recalled that in the second quarter of fiscal 2009, the Board of Directors of the Fédération des caisses Desjardins du Québec (FCDQ) approved the implementation of a new simplified organizational structure for Desjardins Group. This restructuring is part of the Desjardins Group Development Plan proposed in the fall of 2008.

This plan provides for Desjardins Group getting closer to its caisses, which are its driving force. It will also enable all of Desjardins Group to optimize its performance and fast track its development, while drawing on the strength of its human capital and reaffirming that its cooperative values are central to its action.

Through its new organizational structure, Desjardins Group intends to build on the strengths and expertise of the teams within the FCDQ and its subsidiaries in developing a more integrated service offer that better meets the needs of its members and clients. Accordingly, it has established four business sectors representing the core markets in which it operates: Wealth Management and Life Insurance; Personal Services; Business Services; and General Insurance. Similarly, to ensure greater consistency among Desjardins Group's key business sectors, four Desjardins Group Functions will expand their scope to cover all the activities of the FCDQ and the subsidiaries: Finance and Treasury; Risk Management; People and Culture; and Technology and Shared Services. A sector called Strategy, Performance and Development will see to it that the objectives of the organizational shift are met without losing sight of Desjardins Group's development as part of its Development Plan. For more consistent communications, the main teams within this sector have been grouped together. Lastly, in order to achieve the objective of getting closer to the caisse network, a Cooperative Network Support Function and a Support Function for Cooperative Development and Democratic Bodies have been set up.

The new structure will enable Desjardins, among other things, to:

- Improve cohesiveness among the various entities of the Group;
- Strengthen financial governance and risk management;
- Ensure proximity between Desjardins Group Management and the caisses;
- Enhance productivity.

In the past few months, the first-, second- and third-level reportees of the new organization were appointed. The new organizational structure will continue to be implemented in the weeks ahead and is expected to be completed by the end of the current year. As part of this restructuring, Desjardins Group recognized \$37 million in severance benefits, professional fees, assets impairment and other expenses in combined income for the third quarter of 2009, for a total of \$65 million for the first nine months of the year. These charges are presented under "Restructuring expenses" in the Combined Statement of Income.

### Impact of asset-backed commercial paper (ABCP) – new notes

As at December 31, 2008, Desjardins Group held investments on the non-bank asset-backed commercial paper (ABCP) market, although it had never issued this type of financial product to its clients. It should be noted that to safeguard its members and clients, Desjardins Group had repurchased in September 2007 and, to a lesser extent, in 2008, ABCP assets in the money market mutual funds it managed and in the securities lending operations of Desjardins Trust clients for which it had not originally assumed the risk. In the second quarter ended June 30, 2009, Desjardins Group bought back at their fair value the new notes held by the Desjardins Group Pension Plan.

The implementation of the ABCP restructuring plan was completed on January 21, 2009. The aim of the plan included replacing ABCP by new long-term floating rate notes having a maturity similar to that of the underlying assets.

The main features of the restructuring plan are as follows:

- Creation of three new trusts, called “Master Asset Vehicles” (MAV):
  - ✓ MAV 1 and MAV 2 are comprised exclusively of synthetic asset transactions, being a combination of assets pledged as collateral and credit default swap contracts, or of hybrid asset transactions, being a combination of synthetic assets and traditional assets. They also include the so-called ineligible (subprime and other) assets of these series.
  - ✓ MAV 3 is comprised of exclusively ineligible (subprime) asset and traditional asset transactions.
- Creation of five classes of notes for MAV 1 and MAV 2 (A-1, A-2, B, C and IA) and of two classes of notes for MAV 3 (IA and TA). The IA and TA notes are divided into multiple series of tracking notes that reflect the cash flows of the original underlying assets.
- Establishment of funding facilities in support of MAV 1 and MAV 2 to fund collateral calls that may occur with respect to underlying credit default swaps.
- Establishment of an initial 18-month moratorium period during which no additional collateral calls may be made for the vast majority of underlying credit default swaps.
- Widening of certain “spread-loss” triggers, which will apply again at the expiration of the moratorium period, thereby reducing the likelihood of additional collateral calls.

Desjardins Group participates in the MAV 1 and MAV 3 trusts.

For more information on the restructuring, please refer to the “Securities — Asset-backed commercial paper” section of Note 4, “Securities”, to the Combined Financial Statements for the year ended December 31, 2008.

In addition to the assets already pledged as collateral by the trusts for credit default swaps, the plan stipulates that MAV 1 and MAV 2 must each have a margin funding facility (MFF) intended to cover any potential collateral calls from swap counterparties. Desjardins Group has chosen to self-finance its share of the margin funding facility, which explains its participation in MAV 1.

Desjardins Group’s share in this credit commitment, totalling \$1,193 million, ranks equal to that of the other participants in the MFF and matures in July 2017 or earlier if all credit default swap transactions have been settled. Desjardins Group will not receive any fees from MAV 1 for this credit commitment. Advances made under this funding facility will bear interest at a rate based on the bankers’ acceptance rate or prime rate. Any advance under the margin funding facility will rank senior to amounts payable under the notes issued by MAV 1. Should Desjardins Group fail to honour its commitment to provide funds for its share of the margin funding facility, a proportionate share of the MAV 1 notes held by Desjardins Group will be subordinated to the notes held by the other participants. Caisse centrale Desjardins, as the MFF signatory for Desjardins Group, must maintain a credit rating equivalent to A (low) with at least two of the four credit rating agencies (DBRS, S&P, Fitch and Moody’s), failing which it must provide collateral or another form of credit support to MAV 1 or have another entity with a sufficiently high credit rating assume its obligations. As at September 30, 2009, no amount had been drawn on the MFF.

Under a separate agreement, Desjardins Group purchased a \$400 million protection for its MFF commitments from one of the participants in MAV 1 in exchange for an annual commitment fee of 1.2%, which is the same rate as the third-party institutions that have contributed to the equivalent MFF of MAV 2. This participation will automatically end upon the maturity of MAV 1’s MFF.

In the event that the MAV 1 margin funding facility and the equivalent MAV 2 facility are not sufficient to meet the collateral calls on the vehicle in question, a senior funding facility has been put in place to provide access to additional liquidities. This funding facility has been provided by the governments of Canada, Québec, Alberta and Ontario, and by one of the MAV 1 participants. MAV 1 can draw on an amount of \$1,772 million under this facility.

Upon the restructuring on January 21, 2009, Desjardins Group derecognized the carrying value of its ABCP holdings and recognized the new notes at fair value. These new notes were classified as “designated as held for trading under the fair value option.”

In the three-month period ended September 30, 2009, principal payments on the new notes, amounting to \$27 million, were received by Desjardins Group. In addition, interest totalling \$7 million was also collected during the same period. As a result of measurement uncertainties, Desjardins Group recorded interest income only on the MAV 1 A-1 and A-2 notes that rank senior to other notes with respect to interest and principal.

On April 1, 2009, Desjardins Group bought back the new notes held by the Desjardins Group Pension Plan, at their fair value of \$48 million. The effect of this purchase was to increase the face value of the new notes held by Desjardins Group by \$86 million. The purchase had no impact on Desjardins Group’s combined income.

As at September 30, 2009, these new notes held by the Desjardins Group have a face value of \$2,261 million and a fair value of \$1,242 million. It should be remembered that as at December 31, 2008, the amortized cost and fair value of ABCP holdings amounted to \$2,446 million and \$1,436 million, respectively.

#### *Valuation methodology*

Since there is no active market for these securities, Desjardins Group’s Management estimated the fair value of its holdings and the resulting changes in value by using a valuation technique. At the time these financial statements were prepared, no active market

existed yet for the various restructured notes. In addition, the trading of MAV 1 notes is subject to considerable restrictions, since MAV 1 A-1, A-2, B and C note holders may transfer the notes to a third party only if such a transfer is made on a pro rata basis for each of the classes held by the seller and if the buyer assumes an equivalent share of the MFF commitments, either directly or through another entity, as long as the party assuming the MFF share has a sufficiently high credit rating.

The fair value of ABCP restructured in the form of MAV 1 A-1, A-2, B and C notes, i.e. synthetic and hybrid assets, is based on a financial model incorporating uncertainties regarding return, credit spreads, the nature and credit risk of underlying assets, the amounts and timing of cash inflows, the maturity dates and the liquidity restrictions of the new notes in order to provide a fair value reflecting market conditions as at September 30, 2009. Anticipated cash flows from the new notes were discounted using the bankers' acceptance rate plus a premium ranging from 646 to 6,700 basis points over periods ranging from six to seven years.

The fair value of tracking notes backed by traditional and ineligible (other) assets was determined using benchmark indices selected based on the assets underlying each tracking note since the cash flows generated by these notes stem directly from the cash flows generated by the underlying assets. As for tracking notes comprised exclusively of ineligible (subprime) assets, given the nature of the underlying assets and their marked deterioration in the current economic environment, their fair value was determined to be nil as at September 30, 2009.

Assumptions used are based as much as possible on observable market data such as interest rates, credit spreads and benchmark indices for similar assets. They also reflect, if necessary, any specific features of the restructuring and are partially based on assumptions not supported by observable market prices or rates for similar assets. Discount rates used take into account the maturity, the credit rating and the market and liquidity risks of each note.

#### *Impact on income*

The favourable impact on Desjardins Group's combined income before income taxes for the three-month period ended September 30, 2009 totalled \$14 million. This impact consisted of unrealized gains of \$7 million, attributable to the net improvement during the quarter in credit spreads, foreign currency translation and other benchmark indices; a realized gain of \$4 million on ineligible assets for which principal payments had been collected; and income of \$3 million from the phased recognition of deferred income related to the credit facility. The net negative impact of \$50 million for the nine months ended September 30, 2009 on Desjardins Group's combined income before income taxes resulted from unrealized losses of \$31 million caused by the previously mentioned factors and the restructuring of ABCP holdings, from realized gains of \$12 million on ineligible assets, from the \$34 million write-off of a security excluded from the moratorium period under the Montréal Accord, and from income of \$3 million arising from the phased recognition of deferred income related to the credit facility. The MFF, which had been previously recognized in securities, has been recorded as deferred income under "Other liabilities – Other" since the restructuring on January 21, 2009. This reclassification had no impact on combined income.

For the three-month period ended September 30, 2008, a decline in value of \$94 million (a decline in value of \$246 million for the nine months ended September 30, 2008) was recorded in Desjardins Group's combined income. It should be noted that for securities classified as available-for-sale, a decline in value of \$31 million was recognized in other comprehensive income for the third quarter ended September 30, 2008 (an increase in value of \$7 million for the nine months ended September 30, 2008).

The above estimated fair value may not be indicative of the ultimate net realizable value or the future fair value. While Management believes that its valuation technique is appropriate in the circumstances, changes in significant assumptions, especially those relating to the determination of the return, the credit risk spreads for the underlying assets, and the quality of assets given as collateral by the trusts, which are incorporated in the discount rate, could significantly affect the value ascribed to the replacement notes in the future. A 1% increase in the estimated discount rates could reduce the estimated fair value of the replacement note portfolio now held by Desjardins Group by approximately \$52 million, which would reduce Tier 1 capital by \$34 million or 0.4% as at September 30, 2009. However, a 1% decrease in the estimated discount rates could increase the estimated fair value of Desjardins Group's current replacement note portfolio by approximately \$55 million, which would increase Tier 1 capital by \$36 million or 0.4% as at September 30, 2009. For more information on capital, please refer to Note 28 "Capital Management" of Desjardins Group's most recent Annual Combined Financial Statements.

Some uncertainties remain regarding the value of underlying assets, the amount and timing of cash flows, the development of a secondary market for the replacement notes and the liquidity of this market, which could further change the value of Desjardins Group's investment in replacement notes. Economic conditions resulted in a decrease in the floating interest rates of the underlying assets. Therefore, the mismatch between the floating interest rates and payment dates of the underlying assets and the cost of the senior funding facility and the interest payment period of MAV 1 leads to measurement uncertainties. The prospect of a major prolonged slowdown in the North American economy could also have a negative impact on the fair value of the replacement notes.

In 2009, an amount of \$90 million, net of Desjardins Group's estimated share of the \$19 million in restructuring fees assumed by the Pan-Canadian Committee, was paid to Desjardins Group as accrued interest on ABCP holdings for the period from August 20, 2007 to January 21, 2009. As at December 31, 2008, Desjardins Group had recognized net interest income on ABCP holdings in the fair value of the securities.

*Variable interest entities (VIEs)*

Desjardins Group participates in MAV 1, which is a VIE with assets totalling approximately \$15,642 million and no equity and is comprised mainly of synthetic asset transactions for which investors are committed to contribute to a margin funding facility. Since Desjardins Group does not absorb a majority of MAV 1's expected losses and does not receive a majority of its expected residual returns, it has not consolidated MAV 1. Furthermore, Desjardins Group holds significant interests in this vehicle, namely the margin funding facility of \$1,193 million and the investment in new MAV 1 notes having a fair value of \$1,144 million, the total of which represents the maximum risk of loss for Desjardins Group.

On August 11, 2009, the rating agency DBRS issued a press release to announce that it had placed the rating of the Class A-2 Notes issued by MAV 1 under review, with negative implications. On October 26, DBRS reinstated the "Under review" status for these notes. Desjardins Group's Management has decided that no additional write-down of the restructured ABCP note portfolio is required since the factors giving rise to these press releases have already been taken into consideration in the valuation methodology as at September 30, 2009.

**Income tax adjustment for 2007 and 2008**

It may be recalled that in the first quarter of 2009, Desjardins Group recognized an income tax expense of \$16 million for 2007 and 2008 as a result of an amendment to the Québec *Taxation Act*.

**Asset write-offs in the first nine months of 2008**

It should also be remembered that in the first quarter of 2008, Desjardins repositioned certain cross-Canada development initiatives, including its IT service offer to Canadian credit unions as well as the development of Desjardins Credit Union. As a result, deferred charges of \$25 million (\$19 million after income taxes) for technological developments were written off.

**MATERIAL EVENTS***Capital funding*

In the third quarter of 2009, Desjardins Group launched a \$500 million issue of medium-term deposit notes maturing in 2011 and 2012, in two series of \$250 million each, through Caisse centrale Desjardins (CCD). This deposit note issue is the first to be made by CCD under a short-form base shelf prospectus dated March 14, 2008, allowing it to issue up to \$5 billion in notes.

It should be remembered that in the second quarter of 2009, Desjardins Group successfully issued \$500 million of Series F subordinated debentures at a rate of 5.541%, maturing in 2021, through Capital Desjardins. This was the second issuance made by Capital Desjardins under a base shelf prospectus dated June 30, 2008, which allows securities to be issued for a maximum amount of \$2 billion. In addition, in the first quarter of 2009, Desjardins Group issued \$500 million of Series E subordinated debentures at a rate of 5.756%, maturing in 2019, through Capital Desjardins. In January 2009, CCD also successfully issued five-year fixed rate notes for €500 million on European markets.

*Basel II Accord*

It may be recalled that in the first quarter of 2009, the Autorité des marchés financiers du Québec (AMF) allowed Desjardins Group, under the guideline on adequacy of capital base standards, to use the Advanced Internal Ratings Based approach for credit risk associated with retail loan portfolios (Personal). Other credit exposures and market risk are assessed using a standardized approach, whereas the Basic Indicator approach is used for operational risk. These approaches are used to calculate Desjardins Group's capital ratios, which are still the highest among the best capitalized financial institutions in Canada.

**MONITORING OF PRIORITY FINANCIAL OBJECTIVES**

Under the 2009 Business Plan which carries forward the financial objectives determined in the 2006-2008 Strategic Plan, Desjardins Group set medium-term financial objectives aimed at achieving profitability reflecting the desired balance between cooperative performance and financial performance. In this context, the table below provides a follow-up on the results at the end of the first nine months of 2009 in relation to these objectives. It should be noted that these objectives must be considered more from a longer term perspective.

Important work was begun in 2008 and will continue in 2009 to implement the organizational structure announced in May 2009 as well as to develop and implement Desjardins Group's Strategic Plan for 2010-2012. The Group's 2009 Capitalization Plan was also approved by the Board of Directors in January 2009. This plan sets capitalization targets that will ensure Desjardins Group's development and enable it to face the financial challenges that 2009 will bring. Desjardins has a very good level of capitalization, still one of the best in the industry. However, the anticipated consequences of the financial crisis in particular have prompted Desjardins Group Management to take a cautious attitude that favours strengthening the capital base, as several Canadian financial institutions have done.

Desjardins Group	2009 priority financial objectives	Year-to-date results as at September 30, 2009 (unaudited)
<b>Return/profitability</b>		
- Return on equity	Between 12% and 15%	<b>10.9%</b>
<b>Balance sheet quality</b>		
- Gross impaired loans/gross loans	Less than 1.0%	<b>0.46%</b>
<b>Growth</b>		
- Growth in surplus earnings (after income taxes)	Between 5% and 10%	<b>50.4%</b>
<b>Productivity</b>		
- Gap between income growth <sup>(1)</sup> and expense growth	Greater than 1.0%	<b>9.4%</b>
<b>Capital</b>		
- Total capital ratio	Greater than or equal to 13.0%	<b>14.94%</b>
- Tier I capital ratio	Greater than or equal to 13.0%	<b>14.94%</b>
<b>Cooperative difference</b>		
- Member dividends (before income taxes)/ surplus earnings (after income taxes)	Limited to 45%	<b>On an annual basis<sup>(2)</sup></b>

(1) Total income, net of expenses related to claims and insurance benefits.

(2) Although an accounting provision for member dividends is recorded quarterly for the purposes of preparing Desjardins Group's Combined Financial Statements, the annual amount of member dividends is determined at the beginning of the following year, after each caisse has completed its surplus earnings distribution plan. The ratio would be 28.7% as at September 30, 2009. It should be pointed out that the 2009 provision contains an upward adjustment of \$29 million in regard to 2008 dividends. If this adjustment were excluded, the ratio would be 25.2%.

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Desjardins Group

**Raymond Laurin, CA**  
Senior Vice-President, Finance and Treasury  
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Desjardins Group

November 13, 2009

## **C** **CAUTION CONCERNING FORWARD-LOOKING STATEMENTS**

This report may contain forward-looking statements concerning Desjardins Group's activities and strategies. These forward-looking statements are typically identified by such words as "believe," "expect", "anticipate" and "may," words and expressions of similar import, and verbs conjugated in the future and conditional tenses. By their very nature, such statements involve assumptions, uncertainties and risks, both general and specific. It is therefore possible that the predictions, projections or other forward-looking statements may not materialize or may prove to be inaccurate because of a number of factors. Various significant factors could influence the accuracy of the forward-looking statements mentioned in this report, notably legislative or regulatory developments, changes in the economic environment, including the impact of the current volatile capital markets, which are causing a liquidity shortage in some markets, particularly the asset-backed commercial paper market (new notes), fluctuations in interest rates and foreign currencies, monetary and tax policies, consumer spending, the demand for credit, individual savings patterns, the unemployment rate, trade between Québec and the United States, technological changes, the effects of increased competition in a market open to globalization, the ability to design new products and services and bring them to market in a timely fashion, the capacity to gather complete and accurate information from our clients and their counterparties, legal or regulatory procedures, the ability to form and integrate strategic alliances and acquisitions, the effect of possible international conflicts, including terrorism, or natural disasters, Desjardins Group's ability to successfully implement its new organizational structure, the capacity to recruit and retain key managers, and Management's ability to foresee and manage the risks stemming from the preceding factors.

It is important to note that the above-mentioned list of factors that could influence future results is not exhaustive. Other factors could have an adverse effect on results. Although Desjardins Group believes that the expectations expressed in these forward-looking statements are reasonable, it can give no assurance or guarantee that these expectations will prove to be correct. Desjardins Group cautions readers against placing undue reliance on forward-looking statements when making decisions.

Desjardins Group does not undertake to update forward-looking statements, whether verbal or written, that could be made from time to time by or on behalf of Desjardins Group, except as required under applicable securities legislation. The purpose of the forward-looking statements contained in this report is to help members understand Desjardins Group's financial position as at the dates indicated or for the periods ended on such dates, as well as Desjardins Group's strategic priorities and objectives, and these statements may not be appropriate for other purposes.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This interim Management's Discussion and Analysis (MD&A) provides information about the financial position and operating results of Desjardins Group. It was prepared in accordance with the regulations respecting continuous disclosure obligations of the Canadian Securities Administrators (Ref.: 51-102). It is dated November 13, 2009, and is based on Desjardins Group's Unaudited Quarterly Combined Financial Statements for the first nine months of 2009.

The interim MD&A should be read in conjunction with Desjardins Group's Unaudited Quarterly Combined Financial Statements, which have been prepared in accordance with Canadian generally accepted accounting principles. All amounts shown in this MD&A are expressed in Canadian dollars, unless otherwise indicated. Prior-period data have been reclassified to reflect the presentation adopted in 2009. There were no unusual items that had an impact on the results of the first nine months of 2009 and 2008, other than those mentioned in the Message from Senior Management under "Specific Items". During these periods, no business acquisitions were completed.

Additional information about Desjardins Group and its components is available on the SEDAR Web site at [www.sedar.com](http://www.sedar.com) (under the Capital Desjardins inc. profile) or on the Desjardins Web site at [www.desjardins.com](http://www.desjardins.com)

## GENERAL REVIEW OF DESJARDINS GROUP

### OVERVIEW

#### Selected Financial Data of Desjardins Group<sup>(1)</sup>

(unaudited)

(in millions of dollars and as a percentage)

Operating results	For the three months ended September 30		For the nine months ended September 30	
	2009	2008	2009	2008
Total income	\$3,070	\$2,010	\$8,087	\$6,644
Provisions for credit losses	80	65	185	155
Claims, benefits, annuities and changes in insurance provisions	1,216	579	2,985	2,179
Non-interest expense	1,220	1,145	3,716	3,543
Surplus earnings after income taxes and before member dividends	378	149	833	554
Provision for member dividends	133	10	239	304
<b>Key ratios</b>				
Return on equity	14.4%	6.2%	10.9%	7.8%
Group's productivity ratio <sup>(2)</sup>	65.8	80.0	72.8	79.4
Member dividends/Surplus earnings <sup>(4)</sup>	35.2	6.7	28.7	54.9
Tier I capital ratio – BIS <sup>(3)</sup>	14.94	14.15	14.94	14.15
Total capital ratio – BIS <sup>(3)</sup>	14.94	13.45	14.94	13.45

Financial position	September 30, 2009	December 31, 2008
Total assets	\$163,213	\$152,298
Average assets	161,540	149,676
Loans	108,494	104,462
Average equity	10,434	9,569
Deposits and subordinated debentures	107,179	102,184

(1) Excluding the caisses and the federations of Manitoba and New Brunswick.

(2) The productivity ratio is Desjardins Group's non-interest expense to total income, net of expenses related to claims and insurance benefits.

(3) Bank for International Settlements.

(4) On an annual basis. It should be noted that the 2009 provision for member dividends includes a \$29 million upward adjustment for 2008 dividends, and that this adjustment was the same as in 2008. Had it not been for this adjustment, the ratio would have been 25.2% for the first nine months of 2009, versus 49.6% a year earlier.

## Financial Reporting

It may be recalled that on May 14, 2009, Desjardins Group announced a new Group-wide organizational structure, which will include four main business sectors, as previously described in the Message from Senior Management. Desjardins Group is undertaking various work to implement its structural reorganization and plans to report its financial information according to this new structure in the future.

Desjardins Group presents its segmented information according to four main business segments in addition to another category labelled "Other", which includes the consolidation adjustments attributable to all components and which presents, since the first quarter of 2009, companies specifically created to hold the ABCP securities purchased by Desjardins Group. These companies were previously included in the Personal and Commercial segment. It should also be noted that since the second quarter of 2009, all ABCP securities held by Desjardins Group were grouped together in the "Other" segment following the sale of these securities to newly created entities. Prior quarter figures have been reclassified to conform to this new presentation.

*Personal and Commercial:* This segment comprises mainly the Québec and Ontario caisse network, Caisse centrale Desjardins, the Fonds de sécurité Desjardins, Capital Desjardins, Desjardins Trust, MM Trust I, MM Trust II, the Fédération des caisses populaires de l'Ontario and the FCDQ. As mentioned in the previous paragraph, the parent company of ABCPCO, 9186-8034 Québec inc., has been presented under "Other" since the first quarter of 2009.

*Life and Health Insurance:* This segment comprises the activities of Desjardins Financial Security.

*General Insurance:* This segment presents the activities of Desjardins General Insurance Group.

*Securities Brokerage, Asset Management and Venture Capital:* This segment comprises the activities of Desjardins Securities, Desjardins Asset Management and Desjardins Venture Capital.

## Contribution to Combined Surplus Earnings by Business Segment

(unaudited)  
(in millions of dollars)

	For the three months ended September 30		For the nine months ended September 30	
	2009	2008	2009	2008
Personal and Commercial	\$260	\$197	\$617	\$636
Life and Health Insurance <sup>(1)</sup>	65	20	147	110
General Insurance	32	25	67	38
Securities Brokerage, Asset Management and Venture Capital	13	(7)	23	(10)
Other <sup>(2)</sup>	8	(86)	(21)	(220)
Surplus earnings after income taxes and before member dividends	\$378	\$149	\$833	\$554

(1) This contribution differs from the results of the subsidiary itself, as it includes consolidation adjustments.

(2) Since the first quarter of 2009, the financial results of the "Other" segment also include companies specifically created to hold ABCP securities purchased by Desjardins Group, which were previously included in the Personal and Commercial segment. In addition, as previously mentioned, since the second quarter of 2009, all ABCP securities held by the Group were aggregated in the "Other" segment following the sale of these securities to the newly created entities. Prior quarter figures have been reclassified to conform to this new presentation.

Information about each segment is provided in Note 15 to Desjardins Group's Unaudited Quarterly Combined Financial Statements.

## ANALYSIS OF COMBINED RESULTS

### Comparison between the third quarters of 2009 and 2008

For the third quarter of 2009, Desjardins Group reported combined surplus earnings before member dividends of \$378 million, compared to \$149 million for the same quarter in 2008. Return on equity, i.e. surplus earnings before member dividends to average equity, was 14.4% for the third quarter of 2009, versus 6.2% a year earlier.

The third quarter's financial performance was enhanced by a sharp increase in trading income despite the drop in interest rates, which put pressure on caisses' net interest income, thereby affecting their profitability. Solid quarterly results were also presented for insurance operations, particularly those of the life and health insurance subsidiary, and for securities brokerage operations, not to mention the growth in business volume.

Total income was \$3,070 million for the third quarter of 2009, up \$1,060 million or 52.7% from the same quarter in 2008.

Net interest income stood at \$958 million for the third quarter of 2009, up \$76 million or 8.6% from the same quarter in the previous year, particularly because of asset-liability management, which correctly anticipated market fluctuations during the quarter. Net premiums totalled \$1,102 million, relatively unchanged from the third quarter of 2008.

Other income was \$1,010 million, compared to \$17 million for the corresponding quarter of 2008. This significant increase was attributable to the increase of \$943 million in trading income and of \$146 million in income from available-for-sale securities as a result of improved markets. Of the trading income, \$726 million was generated by the life and health insurance subsidiary, but was offset by a \$669 million increase in expenses related to claims, benefits, annuities and changes in insurance provisions of this segment. It should be noted that the higher income from available-for-sale securities is mainly from the Personal and Commercial segment.

Desjardins continues to enjoy a high-quality loan portfolio with a ratio of gross impaired loans to the gross loan portfolio of 0.46%. The provisions for credit losses amounted to \$80 million for the third quarter of 2009, versus \$65 million a year earlier.

Expenses related to claims, benefits, annuities and changes in insurance provisions totalled \$1,216 million for an increase of \$637 million or 110.0% over the third quarter of 2008. This increase was largely due to an equivalent increase in the life and health insurance subsidiary's investment income, as previously mentioned

Non-interest expense amounted to \$1,220 million, up \$75 million or 6.6% from a year earlier. This rise was mostly due to the increase in salaries and fringe benefits resulting from the annual indexing of salaries. Combined income for the third quarter of 2009 included a \$37 million charge for severance benefits, professional fees, assets impairment and other expenses, which was presented under "Restructuring expenses."

The productivity ratio, i.e., Desjardins Group's non-interest expense to total income, net of expenses related to claims and insurance benefits, was 65.8% for the third quarter of 2009, compared to 80.0% for the corresponding period in 2008. In addition, various initiatives were taken to enhance productivity, including the implementation of Desjardins Group's new organizational structure.

### Comparison between the first nine months of 2009 and 2008

Desjardins Group reported combined surplus earnings before member dividends of \$833 million for the first nine months of 2009, compared to \$554 million for the year-earlier period. Return on equity was 10.9%, versus 7.8% for the same period in 2008.

Profitability for the first nine months of 2009 was enhanced by improved market conditions, which favourably affected trading income and income from available-for-sale securities, and by a smaller write-down in the ABCP restructured note portfolio than that recognized for the corresponding period in 2008. An amount of \$68 million was recognized for the first nine months of 2009 for the decline in the fair value of all ABCP restructured note portfolios and for the write-off of an ABCP security excluded from the moratorium period under the Montréal Accord, while a write-down of \$292 million had been recorded for the corresponding period in 2008. The stronger financial performance in the area of insurance and securities brokerage operations should also be noted. The caisse network, for its part, recorded a decline of 33.9% in surplus earnings from \$570 million for the first nine months of 2008 to \$377 million for the same period in 2009, chiefly because of the lower interest rates, which negatively affected net interest income.

Every quarter, Desjardins Group establishes the most accurate possible estimate of the amount to be recognized for payment of caisse member dividends at the end of the fiscal year, basing its estimate on the prospects for the caisse network's surplus earnings. A \$239 million provision for member dividends was therefore recorded for the first nine months of 2009, versus \$304 million a year earlier. It should be noted that the 2009 provision includes a \$29 million upward adjustment for 2008 dividends.

Desjardins Group's total income stood at \$8,087 million for the first nine months of 2009, up \$1,443 million or 21.7% on a year-over-year basis.

Net interest income was \$2,581 million, up \$43 million or 1.7% from the corresponding period in 2008. Net premiums increased by \$61 million or 2.0% because of the solid growth in insurance premiums, especially at the life and health insurance subsidiary. Other income was up \$1,339 million as a result of the \$1,167 million increase in trading income and the \$289 million growth in income from available-for-sale securities because of improved markets. Of the trading income, \$868 million was from the life and health insurance subsidiary but was offset by a \$795 million increase in expenses related to claims, benefits, annuities and changes in insurance provisions of this segment. Other income benefited from a write-down of the portfolio of restructured ABCP notes that was \$224 million less than the write-down recorded in the same period of 2008. Other income also benefited from the increase of \$23 million or 7.6% in lending fees and credit card service revenues. Income from brokerage, investment fund and trust services was affected mainly by market volatility and fell by \$66 million or 13.7%.

Desjardins continues to enjoy a high-quality loan portfolio even though the provisions for credit losses rose to \$185 million from \$155 million a year earlier.

Expenses related to claims, benefits, annuities and changes in insurance provisions totalled \$2,985 million for the first nine months of 2009, up \$806 million or 37.0% on a year-over-year basis. This increase was largely due to an equivalent increase in the life and health insurance subsidiary's investment income, as previously mentioned.

Non-interest expense amounted to \$3,716 million, up \$173 million or 4.9% from the first nine months of 2008. More than 46% of this rise resulted from the increase in salaries and fringe benefits notably because of the annual indexing of salaries. It should be noted that a charge of \$65 million for severance benefits, professional fees, assets impairment and other expenses was included in combined income for the first nine months of 2009. Non-interest expense for 2008, it may be recalled, included a \$25 million write-off of deferred charges relating to technological developments.

The productivity ratio, i.e., Desjardins Group's non-interest expense to total income, net of expenses related to claims and insurance benefits, improved to 72.8% for the first nine months of 2009, compared to 79.4% for the corresponding period a year earlier. It may be recalled that various initiatives were taken to enhance productivity, including the implementation of Desjardins Group's new organizational structure, announced in May 2009.

## **B** BUSINESS SEGMENTS

### **PERSONAL AND COMMERCIAL**

Surplus earnings before member dividends for the Personal and Commercial segment totalled \$260 million for the third quarter of 2009, up \$63 million or 32% from the same quarter in 2008.

It should be remembered that since the first quarter of 2009, companies specifically created to hold ABCP securities purchased by Desjardins Group and previously included in the Personal and Commercial segment are now presented in the "Other" segment. Prior quarter figures have been reclassified to conform to this new presentation.

For the first nine months of 2009, surplus earnings before member dividends for this segment totalled \$617 million, down \$19 million or 3.0% from the corresponding period in 2008, particularly because of the caisse network's lower financial results. Note, however, the enhanced profitability of Caisse centrale Desjardins (CCD), as explained below.

The Personal and Commercial segment's total income stood at \$3,905 million for the first nine months of 2009, up \$122 million or 3.2% from the same period a year earlier. Net interest income was \$2,613 million, up \$25 million or 1.0%. The caisse network reported growth in business volume, favourably affecting net interest income, which however was partially offset by the impact of interest rates.

Other income amounted to \$1,292 million for the first nine months of 2009, up \$97 million or 8.1% from the first nine months of 2008. As previously mentioned, it was boosted by an increase of \$150 million in trading income and of \$84 million in income from available-for-sale securities as a result of improved markets. Other income also benefited from an increase of \$23 million or 7.5% in income from credit card activities. Growth in other income was, however, reduced, among other things, by the \$29 million or 11.0% drop in income from brokerage, investment fund and trust services.

The provisions for credit losses charged to income for the first nine months of 2009 totalled \$184 million, versus \$155 million for the same period a year earlier.

Non-interest expense totalled \$2,877 million, for an increase of \$137 million or 5.0% compared to the first nine months of 2008. This rise largely resulted from the increase in salaries and fringe benefits chiefly because of the annual indexing of salaries. It may be recalled that \$25 million was written off for deferred charges related to technological developments in the first nine months of 2008.

In addition, CCD's net income totalled \$33.3 million for the third quarter of 2009, bringing net income for the first nine months of 2009 to \$116.5 million, for an increase of \$107.7 million over the same period in 2008. It may be recalled that third quarter results in 2008 had been affected by the financial crisis on global capital markets. Accordingly, CCD had to recognize an other-than-temporary impairment of \$78.3 million for collateralized debt obligations. Had it not been for this one-time item, net income would still have risen by \$46.9 million over the previous year. This outstanding performance was attributable to all business segments, in particular the Desjardins Group Treasury segment, which reported a \$122.1 million increase in income for the first nine months of 2009, compared to the same period in 2008, largely due to trading activities as well as asset-liability and liquid asset management. CCD contributed \$111 million to the Personal and Commercial segment, versus \$8 million in 2008.

### **LIFE AND HEALTH INSURANCE**

The Life and Health Insurance segment comprises the activities of Desjardins Financial Security (DFS). For the third quarter of 2009, the contribution of DFS to Desjardins Group's combined income was \$65 million, compared to \$20 million in 2008. Net earnings amounted to \$67.6 million, versus \$16.4 million for the corresponding quarter in 2008. Return on shareholder's equity was 33.8%. Insurance premium income rose to \$682.4 million, and annuity premium income totalled \$129.3 million. Investment income and other income amounted to \$474.3 million. Assets under management and under administration stood at \$21.9 billion.

For the first nine months of 2009, DFS posted net earnings of \$150.9 million, versus \$112.0 million for the corresponding year-earlier period. Return on shareholder's equity was 26.3% and ranks among the best in the financial services industry. Its contribution to Desjardins Group's year-to-date income was \$146.5 million, compared to \$109.8 million in 2008.

Desjardins Financial Security continues to be financially solid and its capitalization is excellent.

Income from insurance premiums for the first nine months of 2009 continued to increase, totalling \$2,027.3 million, as against \$1,987.0 million for the same period in 2008, for growth of 2.0%. Of this total premium income, 33.6% came from outside Québec. New insurance sales totalled \$159.9 million.

In group insurance, group and business insurance premiums amounted to \$1,226.2 million, for a \$9.7 million increase over the corresponding period of 2008. Sales totalled \$126.7 million. Premiums related to plans offered through financial institutions, including Desjardins caisses, and more specifically credit insurance, amounted to \$424.4 million, up \$16.9 million over the same year-earlier period.

In individual insurance, new sales through the network of SFL financial centres, the Desjardins Financial Security Independent Network, and Financial Security Advisors assigned to the Desjardins caisses totalled \$33.2 million compared to \$30.9 million in 2008, a 7.4% increase. Gross premiums were \$376.8 million, or \$13.7 million more than in 2008.

In savings, aggregate sales were \$1,260.3 million. In individual savings, total sales amounted to \$725.4 million, up \$485.4 million over 2008. In group retirement savings, sales totalled \$309.4 million. Mutual fund sales stood at \$225.5 million.

## GENERAL INSURANCE

Desjardins General Insurance Group (DGIG) contributed \$32 million to Desjardins Group's results in the third quarter of 2009, versus \$25 million for the same quarter in 2008. The loss experience in automobile insurance was comparable to the same quarter in 2008. However, all the subsidiaries recorded an increase in their home insurance loss experience because of inclement weather conditions in July. Premium income was up at all DGIG brands. Gross premiums written went from \$362.2 million in the third quarter of 2008 to \$374.2 million in the third quarter of 2009, a 3.3% increase that was primarily due to growth in home insurance. Investment income amounted to \$26.4 million, as against \$6.6 million in the third quarter of 2008.

For the first nine months of 2009, the contribution to Desjardins Group's results was \$67 million, compared to \$38 million in 2008. Return on equity at DGIG was 17.1%, compared to 11.7% for the same period of 2008, mainly owing to a good loss experience in automobile insurance and improved results in home insurance. Mild weather conditions in the first half of the year and fewer automobile insurance claims in Québec continued to have a positive effect on loss ratios.

Higher investment income was also a factor in the improved return. Investment income amounted to \$68.9 million for the first nine months of 2009 compared to \$43.0 million for 2008. This year, falling interest rates and narrower credit spreads have increased the value of bonds, and the repositioning of the portfolio in the first quarter led to the realization of gains on the disposal of bonds.

The operating expense ratio was up slightly over 2008, but still compares advantageously with the industry.

DGIG's capitalization largely exceeds regulatory requirements since 2009 profits and the significant increase in the value of equity investments have improved equity.

## SECURITIES BROKERAGE, ASSET MANAGEMENT AND VENTURE CAPITAL

The Securities Brokerage, Asset Management and Venture Capital segment posted overall net earnings of \$13 million for the third quarter of 2009 versus a net loss of \$7 million in the corresponding quarter of 2008. For the first nine months of 2009, the segment posted net earnings of \$23 million versus a net loss of \$10 million a year earlier. The gradual recovery of markets favoured this improved financial performance.

Desjardins Securities posted net earnings of \$10.3 million for the third quarter of 2009, compared to a net loss of \$6.3 million a year earlier, bringing year-to-date earnings to \$19.9 million for the first nine months of 2009 compared to a net loss of \$10.6 million a year earlier. This improved profitability is attributable, among other things, to the solid performance of the Fixed Income Group, whose income of \$81.9 million for the first nine months of 2009 was increased in part from its participation in 100 new bond issues in 2009 compared to 55 in 2008, as well as strong growth in trading income, which was up by approximately \$50 million over the corresponding period of 2008. It should be mentioned that during the third quarter of 2009, the Fixed Income Group successfully acted as lead manager for a \$500 million issue by Caisse centrale Desjardins. The Online Brokerage sector maintained its growth, with income in the order of \$44 million, for a 14.9% increase from the same period last year. The Full-Service Brokerage sector recorded its best quarter of 2009, generating \$35.2 million of income, bringing the year-to-date figure to \$100.9 million. The sector experienced \$1 billion growth in its assets under management in the third quarter, which brought them to \$15.6 billion.

Desjardins Asset Management initiated a program in 2008 in response to the financial crisis which involved the disinvestment of investments underlying structured products; the full impact of this program was not felt until 2009. For the quarter ended September 30, 2009, it posted a net loss of \$0.6 million compared to net earnings of \$3 million for the same quarter in 2008. For the nine months ended September 30, 2009, net earnings amounted to \$0.1 million, as against \$9.5 million during the corresponding year-earlier period. Outstanding assets under management were down 11% compared to the same period last year, essentially because of the reduction in the securities lending and hedge fund portfolios. As a result, management income was down by more than \$30 million compared to 2008. However, prudent expense management helped to offset part of this significant drop in income. While maintaining a targeted development strategy, Desjardins Asset Management was able to reduce its expenses by 35% compared to 2008. Although ongoing disinvestment activities have continued to contribute to the gradual reduction in assets under management since the start of the year, the gradual market recovery has favoured an increase in securities assets that has largely offset the reduction. As at September 30, 2009, total assets under management were \$39.7 billion versus \$38.4 billion as at December 31, 2008.

Desjardins Venture Capital (DVC) reported net earnings of \$1 million for the third quarter of 2009, equivalent to net earnings generated in the corresponding quarter of 2008, thus bringing net earnings to \$2 million for the first nine months of 2009 compared to year-to-date net earnings of \$4 million for the same period in 2008. The decrease in net earnings was mainly due to a reduction in income resulting from a drop in the percentage of management fees generated by the main fund managed by the company, as provided for in the management agreement.

For the third quarter of 2009, the Desjardins Group investment funds managed by DVC generated net earnings of \$4 million compared to a net loss of \$6 million for the corresponding quarter last year, which means that income was equivalent to expenses for the first nine months of 2009 compared to a net loss of \$15 million for the same period in 2008. These results stem mainly from significant fluctuations in the value of certain investments in public companies because of changes in their quoted market prices, as well as the losses experienced in 2008 on certain private investments.

#### **OTHER**

Finally, as mentioned earlier, since the first quarter of 2009, the "Other" category has also included the deficit of companies specifically created to hold ABCP securities purchased by Desjardins Group, and which were formerly included in the Personal and Commercial segment. In addition, since the second quarter of 2009, all ABCP securities held by Desjardins Group have been aggregated in the "Other" category following the sale of these securities to newly-created entities. This segment reported net earnings of \$8 million for the third quarter of 2009 compared to a net loss of \$86 million a year ago, primarily because of an upward variation of \$11 million after income taxes in the fair value of the portfolio of ABCP restructured notes. For the first nine months of 2009, the net loss was \$21 million compared to \$220 million a year earlier. It should be pointed out that these results were primarily affected by a change in the fair value of the portfolio of ABCP restructured notes and the write-off of an ABCP security that was not included in the moratorium under the Montréal Accord.

Furthermore, the Group's combined results also include various consolidation adjustments not reflected in the results of the business segments, including, in particular, the adjustment to the employee future benefits expense, which was up \$3 million after income taxes compared to the first nine months of 2008, primarily due to the update of certain actuarial assumptions.

# ANALYSIS OF THE COMBINED FINANCIAL STATEMENTS

## CREDIT QUALITY

As at September 30, 2009, gross impaired loans outstanding stood at \$499 million, up by \$77 million since December 31, 2008. This increase is attributable to business loans and residential mortgage loans. The gross impaired loans ratio, as a percentage of the total gross loan portfolio, was 0.46% as at September 30, 2009, compared to 0.40% as at December 31, 2008.

The provisions for credit losses stood at \$185 million for the first nine months of 2009, up \$30 million compared to the corresponding period of 2008. The increase is attributable to an increase in bad debt recognized in credit card portfolios.

Specific allowances totalling \$138 million provided a specific coverage ratio of 27.7%, versus 30.8% as at December 31, 2008. The general allowance amounted to \$695 million as at September 30, 2009, almost the same as the \$696 million recorded as at December 31, 2008.

Information on credit risk management is presented in "Risk Management" below.

## IMPAIRED LOANS BY CATEGORY OF BORROWER

(unaudited)	As at September 30, 2009				As at December 31, 2008
	Gross loans	Gross impaired loans	Specific allowances for credit losses	Net impaired loans	Net impaired loans
<i>(in millions of dollars and as a percentage)</i>					
Residential mortgages	\$63,472	\$139	\$10	\$129	\$96
Consumer, credit card and other personal loans	20,194	88	34	54	52
Business and government	25,661	272	94	178	144
Total	\$109,327	\$499	\$138	\$361	\$292
As a percentage of gross loans		0.46%		0.33%	0.28%
Specific coverage ratio <sup>(1)</sup>					
Broken down as follows:					
Residential mortgages				7.2%	10.3%
Consumer, credit card and other personal loans				38.6	38.1
Business and government				34.6	37.7
Total specific coverage ratio				27.7%	30.8%

(1) The specific coverage ratio is the sum of the specific allowances for each impaired loan, divided by the total balance of gross impaired loans.

## BALANCE SHEET MANAGEMENT

**Total assets:** As at September 30, 2009, Desjardins Group's total assets stood at \$163.2 billion, up 7.2% or \$10.9 billion from the end of 2008. Desjardins Group's growth was sustained during the third quarter by improved economic conditions, particularly in the housing sector.

**Cash and securities:** As at September 30, 2009, Desjardins Group's total cash and securities amounted to \$35.0 billion, compared to \$30.7 billion as at December 31, 2008, for a significant increase of 13.9% or \$4.3 billion. For further information on changes in the Group's liquidities, refer to "Cash Position and Sources of Financing" below.

**Financing activities:** Desjardins Group's loan portfolio, net of the allowance for credit losses, amounted to \$108.5 billion as at September 30, 2009, a 3.9% or \$4.0 billion advance since the end of 2008. Residential mortgages and consumer, credit card and other personal loans were solely responsible for the growth in the Group's credit activities, since loans to business and government decreased during the period.

Residential mortgages were up 3.9% or \$2.4 billion since the beginning of 2009, totalling \$63.5 billion as at September 30, 2009. Even though a volume of \$837 million was securitized during the period, this was a solid advance due to Desjardins Group's highly proactive approach in the housing market in Québec and Ontario. It was able to take advantage of this market's improvement during the third quarter in both provinces, in terms of loans for new construction and home resale transactions. With a market share of close to 40.0% in Québec, it is without a doubt a leader in home financing.

Consumer, credit card and other personal loans jumped by 11.4% or \$2.1 billion since December 31, 2008, to stand at \$20.2 billion as at September 30, 2009. The great popularity of the Versatile Line of Credit and the Desjardins VISA card was a factor in Desjardins Group's strong third quarter performance. However, in loans to business and government, the Group posted a 1.6% or \$425 million decrease in its outstandings during the same period, to total \$25.7 billion as at September 30, 2009.

## LOANS BY CATEGORY OF BORROWER

(unaudited)

<i>(in millions of dollars and as a percentage)</i>	As at September 30, 2009		As at December 31, 2008	
Residential mortgages	\$63,472	58.1%	\$61,081	58.0%
Consumer, credit card and other personal loans	20,194	18.5	18,121	17.2
Business	25,661	23.4	26,086	24.8
	<b>\$109,327</b>	<b>100.0%</b>	\$105,288	100.0%
Allowance for credit losses	(833)	-	(826)	-
	<b>\$108,494</b>	-	\$104,462	-
Loans guaranteed by governments and other public and parapublic institutions included above	\$28,438	-	\$27,211	-

**Deposits:** As at September 30, 2009, Desjardins Group's outstanding deposits amounted to \$105.9 billion, up 4.4% or \$4.5 billion since year-end 2008. More specifically, recruitment of personal savings, which constitutes the Group's main source of financing for its expansion (accounting for 70.2% of deposit liabilities at the end of the quarter), was up 3.3% or \$2.4 billion during the same period, to total \$74.3 billion as at September 30, 2009. Deposits by business and government rose at a fairly quick pace of 9.4% or \$2.0 billion, to total \$23.5 billion on the same date. Finally, deposits made by deposit-taking institutions and other entities, such as securities issues on capital markets, increased by only 0.6% or \$44 million since December 31, 2008, to stand at \$8.0 billion.

## DEPOSITS

(unaudited)

<i>(in millions of dollars and as a percentage)</i>	As at September 30, 2009		As at December 31, 2008	
Individuals	\$74,336	70.2%	\$71,958	70.9%
Business and government	23,540	22.2	21,512	21.2
Deposit-taking institutions and other	8,010	7.6	7,966	7.9
	<b>\$105,886</b>	<b>100.0%</b>	\$101,436	100.0%

**Off-balance sheet savings products:** Canadian stock market activity continued to improve during the third quarter of 2009. For instance, the Toronto Stock Exchange S&P/TSX index was up 9.8% during this period, even though it has made an impressive leap of 50.6% since its low point on March 9. Desjardins Group is very active in Québec and Ontario in selling off-balance sheet savings products, such as investment funds and securities brokerage, and turned in excellent results as at September 30, 2009. Assets under administration or management for its investment funds and securities grew by 20.3% or \$6.4 billion over December 31, 2008, to total \$37.8 billion.

**CAPITAL MANAGEMENT AND CREDIT RATINGS**

Desjardins Group's capital ratios are calculated according to the guideline on adequacy of capital base standards applicable to financial services cooperatives, issued by the Autorité des marchés financiers du Québec (AMF). This new regulatory framework, which took effect in first quarter 2009, is largely based on the revised framework for international convergence of capital measurement and capital standards (Basel II) issued by the Bank for International Settlements (BIS). In this regard, the AMF recently allowed Desjardins Group to use the Advanced Internal Ratings Based approach for credit risk related to retail loan portfolios (Personal). Other credit exposures and market risk are assessed according to a standardized approach, while operational risk is calculated based on the Basic Indicator approach. The new methods have mainly affected the calculation of risk-weighted assets. The calculation of capital, however, has not been significantly changed.

The goal of capital management at Desjardins Group is to ensure that a sufficient level of high-quality capital is maintained in order to provide flexibility for its development, keep a favourable credit rating and maintain the confidence of depositors and capital markets.

Desjardins ranks among the best capitalized financial institutions in Canada: its Tier 1 and total capital ratios, evaluated under the new regulatory framework (Basel II), both stood at 14.94% as at September 30, 2009. As at September 30, 2008, these ratios, evaluated under the previous regulatory framework (Basel I) stood at 14.15% and 13.45% respectively. Desjardins Group therefore still enjoys excellent capitalization, with a Tier I capital ratio above its 13% objective and at a level more than 300 basis points higher than the median of the major Canadian banks.

In the third quarter, the Desjardins caisse network issued \$252 million of permanent shares, included in Tier 1 capital. The issue will continue over the next few quarters.

**CAPITAL AND CAPITAL RATIOS****(unaudited)**As at September 30,  
2009*(in millions of dollars and as a percentage)*

	As at September 30, 2009
<b>Tier 1 capital</b>	
Eligible capital stock	\$1,208
Reserves	8,214
Undistributed surplus earnings (deficit)	554
Non-controlling interests	42
Goodwill	(123)
Unrealized cumulative losses on available-for-sale securities (net of income taxes)	----
Other deductions <sup>(1)</sup>	(264)
<b>Total Tier 1 capital</b>	<b>9,631</b>
<b>Tier 2 capital</b>	
Subordinated debentures	1,300
Eligible general allowance	392
Other eligible securities	76
Other deductions <sup>(1)</sup>	(1,768)
<b>Total Tier 2 capital</b>	<b>----</b>
<b>Total capital</b>	<b>\$9,631</b>
<b>Capital ratios</b>	
Tier 1 capital ratio	14.94%
Total capital ratio	14.94%

(1) Includes the provision deficit related to the Internal Ratings Based approach as well as investments in unconsolidated subsidiaries and in affiliated companies.

During the first nine months of 2009, CCD's credit ratings did not change from those provided on page 85 of Desjardins Group's 2008 Annual Report, reflecting the financial soundness of Desjardins Group and its caisse network. The rating agencies have mentioned Desjardins' strong capitalization, excellent level of liquid assets, dominant position in its local markets and the high quality of its assets.

### RISK-WEIGHTED ASSETS

As at September 30, 2009 (unaudited)	Internal Ratings Based approach		Standardized approach		Total		
	Exposures <sup>(1)</sup>	Risk-weighted assets	Exposures <sup>(1)</sup>	Risk-weighted assets	Exposures <sup>(1)</sup>	Risk-weighted assets	Average risk-weighting rate (%)
<i>(in millions of dollars and as a percentage)</i>							
Sovereign borrowers	\$---	\$---	\$9,048	\$---	\$9,048	\$---	0%
Financial institutions	---	---	8,358	1,670	8,358	1,670	20
Businesses	---	---	30,154	22,415	30,154	22,415	74
Mortgage loans	41,081	4,649	1,860	461	42,941	5,110	12
Revolving exposures for eligible retail clients	22,122	5,757	---	---	22,122	5,757	26
Other retail client exposures	27,936	3,767	5,070	3,181	33,006	6,948	21
Securitization	---	---	1,567	722	1,567	722	46
Equities	---	---	568	568	568	568	100
Trading portfolio	---	---	1,753	412	1,753	412	24
Other assets <sup>(2)</sup>	---	---	---	---	10,412	2,950	28
Scaling factor <sup>(3)</sup>	---	850	---	---	---	850	---
<b>Total credit risk</b>	<b>\$91,139</b>	<b>\$15,023</b>	<b>\$58,378</b>	<b>\$29,429</b>	<b>\$159,929</b>	<b>\$47,402</b>	
Market risk				1,951		1,951	
Operational risk <sup>(4)</sup>						9,716	
Transitional adjustment for floor <sup>(5)</sup>						5,398	
<b>Total risk-weighted assets</b>	<b>\$91,139</b>	<b>\$15,023</b>	<b>\$58,378</b>	<b>\$31,380</b>	<b>\$159,929</b>	<b>\$64,467</b>	

(1) Net exposure, after credit risk mitigation (net of specific allowances under the standardized approach but not under the advanced approach, in accordance with the AMF guideline).

(2) Other assets are valued using a method other than the standardized approach or the Internal Ratings Based approach.

(3) The scaling factor is a 6% calibration of risk assets assessed using the advanced approach for credit exposures in accordance with section 1.3 of the AMF guideline.

(4) The Basic Indicator approach was used to assess operational risk.

(5) As prescribed in section 1.6 of the AMF guideline.

## CASH POSITION AND SOURCES OF FINANCING

Desjardins Group's cash position and sources of financing are addressed on page 88 of the 2008 Annual Report.

Cash and securities totalled \$35.0 billion, or \$4.3 billion more than at the end of 2008. The ratio of cash and securities to total assets therefore stood at 21.4% at the end of September 2009, compared to 20.2% at the end of December 2008. Liquidities, it should be remembered, are comprised of the aggregate of securities, and cash and deposits with financial institutions. Securities consist largely of instruments issued by governments and public bodies.

During the third quarter, the wave of optimism that began earlier in the year gained momentum. Renewed consumer confidence, an improvement in the real estate market and bullish stock markets are all indicators suggesting that an economic recovery is underway. On the other hand, it is a very fragile recovery. Credit conditions are still difficult, and in Canada, the continuing rise of the dollar could seriously affect the recovery. The current economic and financial environment is prompting the main central banks to put off tightening their monetary policy, which could take place toward the end of second quarter 2010.

Short-term and corporate financing spreads have narrowed in recent months. Bond rates have been up slightly, despite a certain amount of volatility. The markets remain skeptical about the strength of the economic recovery. The next few months will be a good indicator of how the market will behave in 2010. We firmly believe that the higher rates observed recently will not last, and rates are unlikely to rise again before second quarter 2010.

The combined balance sheets for the caisses reached their neutral matching target in the past quarter. Net interest income rose, mainly as a result of higher long-term interest rates as well as an improvement in the intermediation margins for certain products.

CCD did not take part in the Canada Mortgage and Housing Corporation (CMHC) securitization program during the third quarter. The need for reinvestment is great and still increasing. On the other hand, a considerable number of mortgage loans were purchased during the quarter, enabling CCD to accumulate a large volume. Based on current inventory, CCD could take part in the CMHC program during the December 2009 issue.

As mentioned in the "Material Events" section, on September 10, 2009, CCD announced a C\$500 million issue of floating-rate medium-term deposit notes, in two series of \$250 million due 2011 and 2012. This deposit note issue was the first to be made by CCD under the terms of its short-form base shelf prospectus dated March 14, 2008, which provides for the issuance of a maximum of \$5 billion of notes. This was Desjardins Group's third issue on the Canadian market since the beginning of 2009. It may be recalled that Capital Desjardins issued, both in March and May 2009, C\$500 million of senior notes (subordinated debt) redeemable on April 1, 2014 and June 1, 2016 respectively.

During the third quarter of 2009, the Canadian dollar continued to rise against its U.S. counterpart, closing at 1.0690. The solid performance of stock markets and commodities as well as positive signs from the global economy were important factors behind the strength of the Canadian dollar during the quarter. The loonie varied between 1.0590 and 1.1724, continuing the rise it began in mid-March 2009. In annual terms, the Canadian dollar turned in a stable performance, going from 1.0627 as at September 30, 2008 to 1.0690 at the end of the third quarter of 2009. However, it experienced considerable volatility during this period, falling to 1.3066 during the worst of the crisis in March 2009.

## COMBINED CASH FLOWS

### Comparison between the third quarters of 2009 and 2008

During the quarter ended September 30, 2009, cash flows from operating activities totalled \$(38) million compared to \$3,113 million a year earlier. This \$3,151 million decrease stems mainly from a \$4,141 million downward variation in securities held for trading mitigated by upward variations of \$604 million in actuarial and related liabilities and \$382 million in other operating assets and liabilities.

Cash flows from financing activities were \$2,126 million for the third quarter of 2009 compared to \$(1,978) million a year earlier. This \$4,104 million increase was chiefly attributable to a positive net variance of \$3,458 million in commitments related to securities sold short and a \$708 million increase in commitments related to securities lent or sold under repurchase agreements.

Cash flows used in investing activities totalled \$(2,426) million for the third quarter of 2009, compared to \$(1,221) million for the corresponding quarter of 2008. The \$1,205 million increase was mainly attributable to increases of \$1,319 million in proceeds from maturities of available-for-sale securities, \$1,127 million arising from securities borrowed or purchased under reverse repurchase agreements and \$811 million in proceeds from sales of available-for-sale securities, offset by a negative net variance of \$1,266 million in loans and a \$1,161 million decrease in purchases of available-for-sale securities.

### Comparison between the first nine months of 2009 and 2008

For the first nine months of 2009, cash flows from operating activities totalled \$(781) million compared to \$2,562 million for the same period in 2008. This \$3,343 million decrease in cash flows stems mainly from a \$5,837 million downward variation in securities held for trading mitigated by positive variances of \$753 million in the net change in actuarial and related liabilities, \$675 million in other operating assets and liabilities and \$665 million in changes in the fair value of derivative financial instruments.

Cash flows from financing activities were \$8,767 million for the first nine months of 2009, compared to \$4,715 million a year earlier. This \$4,052 million increase was chiefly attributable to a \$4,722 million rise in the net change in commitments related to securities sold short as well as a \$1,041 million positive variance in issues of debt securities and subordinated debentures, offset by negative variances of \$669 million in repayment of debt securities and subordinated debentures, \$538 million in the net change in deposits and \$392 million in commitments related to securities lent or sold under repurchase agreements.

Cash flows used in investing activities totalled \$(8,455) million for the first nine months of 2009, compared to \$(7,632) million for the corresponding period of 2008, for an increase of \$823 million. This difference is due to a \$5,003 million increase in proceeds from maturities of available-for-sale securities as well as a \$4,063 million positive variance in securities borrowed or purchased under reverse repurchase agreements, cancelled out by a \$4,780 million decline in purchases of available-for-sale securities and a negative net variance of \$3,641 million in loans.

## OFF-BALANCE SHEET ITEMS

In the normal course of its operations, Desjardins Group makes various off-balance sheet commitments. These include assets under administration and under management for members and clients, credit instruments, securitization, contractual obligations and financial assets received as collateral, which are described on pages 89 to 91 of the 2008 Annual Report. There were no material changes to these off-balance sheet items as at September 30, 2009, apart from securitization transactions involving mortgage loans of \$837 million guaranteed by Canada Mortgage and Housing Corporation during the first nine months of 2009.

## RISK MANAGEMENT

Desjardins Group is exposed to different types of risks in the normal course of business, including credit risk, liquidity risk and market risk. Desjardins Group's objective in risk management is to optimize the risk-return trade-off, within set limits, by applying integrated risk management and control strategies, policies and procedures throughout the organization's functions. During the first nine months of 2009, Desjardins Group's risk management policies and practices did not change from those stated on pages 91 to 97 of the 2008 Annual Report.

Desjardins Group's risk management approach is based on principles promoting the accountability of entities and units with respect to combined results and risk management quality and the leading role played by the Board of Directors of all Desjardins Group subsidiaries in risk and result monitoring. Many committees support the Board of Directors and Management of each subsidiary in discharging their risk management responsibilities.

**Counterparty and issuer risk**

Of the securities held in all securities portfolios by Desjardins Group, approximately 70% are issued or guaranteed by public or parapublic entities. The portfolios are concentrated with Canadian issuers and counterparties of very high quality.

The Integrated Risk Management Executive Division of Desjardins Group sets the maximum exposure for each counterparty and issuer based on quantitative and qualitative criteria. These limits are then approved by the Desjardins Group Finance and Risk Management Committee and allocated to components based on their investment needs.

**Market risk**

Market risk refers to the risk of changes in the fair value of financial instruments resulting from fluctuations in the parameters affecting this value, in particular, interest rates, exchange rates and their volatility.

Desjardins Group is primarily exposed to market risk through the interest rate risk related to its traditional financing and savings recruitment activities. It is also exposed to market risk through its trading activities. Desjardins Group and its components have adopted policies that set out the principles, limits and procedures to use in managing market risk.

**Interest rate risk management**

Desjardins Group is exposed to interest rate risk, which represents the potential impact of interest rate fluctuations on net interest income and on the economic value of equity.

Dynamic and prudent management is applied to achieve the objective of optimizing net interest income while minimizing the negative impact of interest rate movements. Desjardins Group's policies describe the principles, limits and mechanisms used to manage this risk. Simulations are run to measure the impact of different variables on net interest income and the economic value of equity. The assumptions used in the simulations are based on an analysis of historical data and the impact of different interest rate conditions on the data, and concern changes in the structure of the Combined Balance Sheets, member behaviour and pricing by Desjardins Group's asset and liability management committee (the Asset/Liability Committee), which is responsible for analyzing and adopting the global matching strategy while respecting the parameters defined in interest rate risk management policies.

The following table presents the potential impact on the non-trading portfolio of a sudden and sustained 100-basis-point increase or decrease in interest rates on the economic value of equity.

**Interest Rate Sensitivity (before income taxes)**

**As at September 30, 2009**

(unaudited)

(in millions of dollars)

Impact on the economic value of equity of a 100-basis-point increase in interest rates	<b>\$(56)</b>
Impact on the economic value of equity of a 100-basis-point decrease in interest rates	<b>80</b>

The extent of the interest rate risk depends on the gap between cash flows from assets, liabilities and off-balance sheet instruments. The position presented reflects the position as at that date, and may change depending on members' behaviour, the interest rate environment and the strategies adopted by the Asset/Liability Committee.

**Management of market risk related to trading activities – Value-at-Risk**

Market risk management for trading portfolios is done on a daily basis and is governed by a specific policy.

The main tool used to measure the market risk of trading portfolios is the "Value-at-Risk" (VaR), which represents an estimate of the potential loss for a certain period of time at a given confidence level.

A Monte Carlo VaR is calculated daily, using a 99% confidence level, on the trading portfolios for a holding horizon of one day. It is therefore reasonable to expect a loss exceeding the VaR figure once every 100 days. The calculation of VaR is based on historical data for a one-year interval.

The following table presents the aggregate VaR of the trading activities of Desjardins Group by risk category as well as the diversification effect, which represents the difference between aggregate VaR and the sum of VaR for the different risk categories. Equity, interest rate and foreign exchange risks are the three risk categories to which Desjardins Group is exposed. The definition of trading portfolio meets the various criteria set out in the Basel Accord.

### VaR by Risk Category (Trading portfolio)

(unaudited)

(in millions of dollars)

	As at September 30, 2009	For the quarter ended September 30, 2009			As at June 30, 2009	For the quarter ended June 30, 2009
		Average	High	Low		Average
Equity	1.1	0.9	1.3	0.5	1.0	0.7
Foreign exchange	0.1	0.2	0.6	---	0.1	0.1
Interest rate	4.4	3.8	4.9	2.7	4.3	4.5
Diversification effect <sup>(1)</sup>	(1.3)	(1.1)	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>	(1.3)	(1.0)
Aggregate VaR	4.3	3.7	4.7	2.7	4.1	4.3

(1) Risk reduction related to diversification, namely the difference between the sum of the VaR for the various market risks and the aggregate VaR.

(2) Not applicable; the highs and lows of the various market risk categories can refer to different dates.

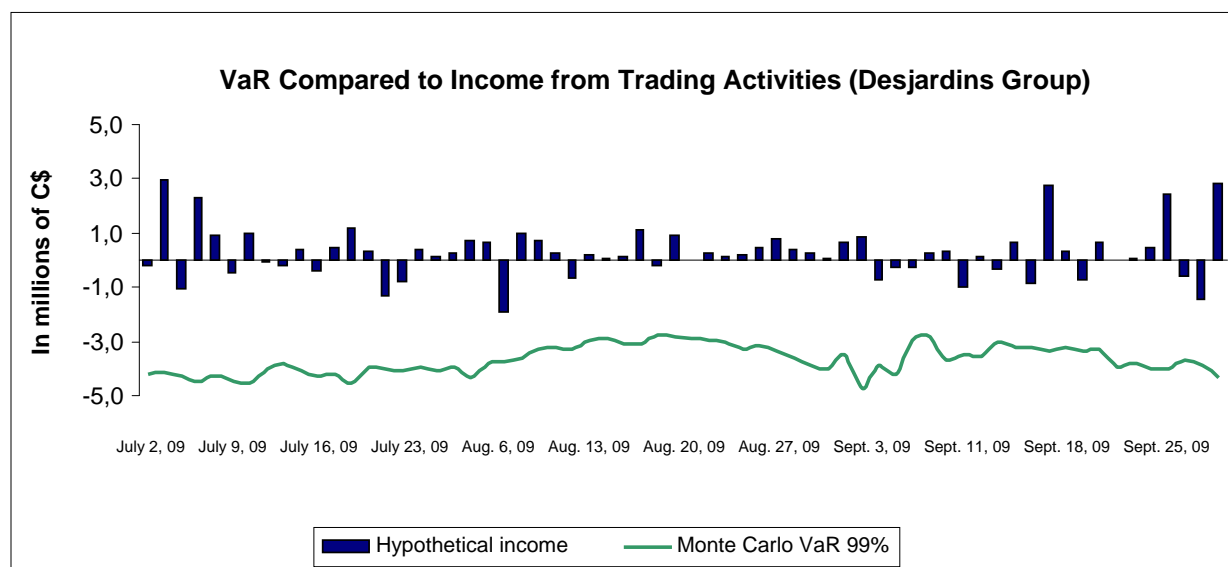
As at September 30, 2009, aggregate VaR was \$4.3 million, the interest rate VaR being the largest component. The aggregate VaR was higher than its quarterly average of \$3.7 million but equivalent to its June 30, 2009 level. The risk mitigation related to diversification amounted to \$1.3 million as at September 30, 2009.

### Back testing

Back testing is conducted to validate the VaR model used by comparing the VaR daily with profits or losses (P&L) on Desjardins Group portfolios.

Desjardins Group carries out back testing daily, applying a hypothetical P&L on its trading portfolios. The hypothetical P&L is calculated by determining the difference in value resulting from changes in market conditions between two consecutive days. The portfolio mix between these two days remains static.

The following chart presents changes in VaR for trading activities as well as income related to these activities. During the past quarter, losses never exceeded VaR.



## ADDITIONAL INFORMATION RELATED TO EXPOSURE TO CERTAIN RISKS

To give external users a better idea of Desjardins Group's exposure to risk related to current market events, the Group decided to use the best practices promoted by the Financial Stability Forum (FSF) as a guideline. It should be mentioned that in April 2008, a report was issued by the FSF in response to a request from G7 ministers and central bank governors.

These best practices include enhanced disclosure of risks related to financial instruments which markets consider to be higher risk. Some of these disclosures are already included in this Management's Discussion and Analysis under "Risk Management" and "Off-Balance Sheet Items".

Desjardins Group used these recommendations as a guideline in making the additional disclosures below as at September 30, 2009:

### Exposure to subprime residential and Alt-A mortgage loans

As part of its operations, Desjardins Group is exposed to credit risks related to subprime residential mortgage loans (defined as loans to borrowers with a high credit risk profile) and Alt-A mortgage loans (defined as loans to borrowers with non-standard income documentation). However, Desjardins Group's exposure to subprime residential mortgage loans was less than \$2 million, and its exposure to Alt-A mortgage loans was \$64 million. Subprime residential and Alt-A mortgage loans are recorded on the Combined Balance Sheets as loans measured at amortized cost. As at September 30, 2009, total subprime residential mortgage loans and Alt-A mortgage loans represented less than 0.1% of Desjardins Group's total assets.

### Leveraged finance loans

Exposure to leveraged finance loans (defined as loans to large corporations and finance companies whose credit rating is between BB+ and D and whose debt level is very high compared to other companies in the same industry) was \$74 million, and is in the form of disbursed and undisbursed commitments. Leveraged finance is generally used to achieve a specific objective, such as making an acquisition, or effecting a takeover or share buy-back. Leveraged finance loans are recorded on the Combined Balance Sheets as loans and receivables and represented less than 0.1% of Desjardins Group's total assets.

### Collateralized debt obligations

The fair value of collateralized debt obligations was \$141 million (notional amount: \$157 million). None of the securities held is directly backed by subprime residential mortgages. Collateralized debt obligations are presented in the Combined Balance Sheets as available-for-sale securities and securities held for trading.

### Commercial mortgage-backed securities

For commercial mortgage-backed securities, the fair value and principal amount were \$340 million and \$361 million respectively. These securities are presented in the Combined Balance Sheets as securities held for trading.

### Financial asset-backed securities

For financial asset-backed securities, the fair value and notional amount were \$194 million and \$226 million respectively. These securities are presented in the Combined Balance Sheets as available-for-sale securities and securities held for trading.

### Credit default swap portfolio

First-to-default credit default swaps and credit default swaps (collateralized debt obligations) were entered into with counterparties. As at September 30, 2009, the negative fair value of these credit default swaps amounted to \$77 million (notional amount: \$161 million). These swaps are presented in the Combined Balance Sheets as derivative financial instruments.

### Total return swap portfolio

The positive and negative fair values of total return swaps, excluding those carried out in connection with securitization activities, were \$9 million and \$7 million respectively (notional amount: \$404 million). Total return swaps are presented in the Combined Balance Sheets as derivative financial instruments.

### Assets under administration and under management

Desjardins Group is one of the leading wealth managers and trustees in Canada. Assets under administration and under management are essentially comprised of financial assets in the form of investment funds held mainly by individuals, and securities in custody and assets accumulated by pension funds; they therefore do not belong to Desjardins Group, but to its members and clients. These assets are described in detail under "Off-Balance Sheet Items".

### Securitization

Desjardins Group participates in the Canada Mortgage-Backed Securities Program under the *National Housing Act*. Transactions involve the use of off-balance sheet arrangements with special purpose entities. The special purpose entity used by Desjardins Group is Canada Housing Trust, set up by the Canada Mortgage and Housing Corporation under the Canada Mortgage Bonds Program. These arrangements are described under "Off-Balance Sheet Items" and in Note 7 to the Quarterly Combined Financial Statements.

**Special purpose entities**

In the normal course of business, Desjardins Group enters into various financial transactions with special purpose entities, or SPEs. The entities are usually created for a unique and distinct purpose; they often have a limited life; and they are used to legally isolate the financial assets they hold from the transferring organization, which could be one of its clients or the organization itself. SPEs are not operating entities and generally have no employees. In accordance with generally accepted accounting principles, special purpose entities can be recognized or not recognized on the Combined Balance Sheets.

Details concerning significant exposure to SPEs are provided in the table below:

**Significant Exposure to Special Purpose Entities**

**As at September 30, 2009**

Unaudited

(in millions of dollars)

	Exposure of Desjardins Group	Total assets of special purpose entities <sup>(1)</sup>
<b>Unconsolidated special purpose entities</b>		
Trusts for Canadian non-bank asset-backed term notes subject to the Montréal Accord restructuring plan <sup>(2)</sup>	\$2,435	\$16,833
Other trusts for bank and non-bank asset-backed commercial paper	31	5,922
Private investment funds related to guaranteed-capital products and other activities <sup>(3)</sup>	195	522
<b>Consolidated special purpose entities</b>		
Private hedge funds related to guaranteed-capital products and other activities <sup>(3)</sup>	79	156
Desjardins Credit Union Inc.	147	1,483

<sup>(1)</sup> The total assets of special purpose entities disclosed correspond to the most recent data obtained by Desjardins Group's Management. For the investment funds and hedge funds related to guaranteed-capital structured products, the amount presented corresponds to the structure's net assets.

<sup>(2)</sup> See "Specific Items - Impact of asset-backed commercial paper (ABCP) – new notes" in this MD&A. The amount indicated comprises the margin funding facility of \$1,193 million and the fair value of the new notes of \$1,242 million.

<sup>(3)</sup> For presentation purposes, cross-investments between investment funds and hedge funds have not been eliminated.

## **A**DDITIONAL INFORMATION

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The significant accounting policies used by Desjardins Group are described in Note 1 to the 2008 Annual Report, on pages 124 to 126 or, where possible, in the notes to the financial statements to enable the reader to understand these policies. Some of these policies are of particular importance to the presentation of Desjardins Group's financial position and results of operations since they require Management to make assumptions and estimates, some of which may involve uncertainties. Pages 101 to 103 of the 2008 Annual Report summarize these accounting policies. No significant changes were made to these assumptions and estimates during the first nine months of 2009.

### **CHANGES IN ACCOUNTING POLICIES**

A description of the new accounting standards adopted in 2009 and future changes in accounting policies may be found in Notes 2 and 3 to the Unaudited Quarterly Combined Financial Statements of Desjardins Group.

Furthermore, in February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to apply International Financial Reporting Standards (IFRS) in 2011. Desjardins Group and its entities, which are publicly accountable enterprises, will therefore adopt IFRS on January 1, 2011.

During the nine months ended September 30, 2009, Desjardins Group continued to analyze the accounting implications of the conversion to IFRS and its repercussions on its business operations, information systems, processes and change management activities. As a result of its analyses, the Group was able to design and carry out the implementation work necessary for adopting IFRS. It plans to publish a summary of the main differences between its present accounting policies and those that should be applied pursuant to IFRS in its 2009 Annual Report.

However, given IFRS developments and the unavailability of certain market data, it is still too early for Desjardins Group to comment on the financial implications of the transition to IFRS will have on its current balance sheet and results of operations.

Until the transition, Desjardins Group will monitor amendments to IFRS and will adjust its changeover plan accordingly. The progress made to date is in line with the established timeframe.

The reader is referred to page 103 of Desjardins Group's 2008 Annual Report for a list of the key elements of its changeover plan.

### **ECONOMIC ENVIRONMENT**

The global economy and capital markets are gradually recovering from the period of heavy turbulence, helped along by governments' expansionist monetary policies, unconventional interventions and ambitious recovery plans. The worldwide improvement in economic indicators suggests that the recession seems to be over almost everywhere. A number of developed countries, including the United States, will start growing again in the third quarter, while France, Germany and Japan have been out of the recession since the spring. Enthusiasm has returned to capital markets. Tensions have diminished, with the result that risk premiums have virtually returned to normal. Stock markets continue to be bullish. In the United States, the S&P 500 posted a gain of about 60% over its low point in March and 20% since the start of the year. The Canadian stock market is up 27% since January, among other things because of the rise in oil prices, which exceeded US\$80 for the first time in a year during the October 20 session. The more favourable global economic outlook and the weak greenback are the reasons for the increase.

The emerging recovery in the United States is not on a firm foundation. The program aimed at stimulating new vehicle sales in the summer and the \$8,000 tax credit for buying a first home helped certain statistics to stage a temporary rally. Job losses continue to mount, limiting the contribution of households in the short term. Even if the recession is over, growth is likely to be fairly lacklustre between now and year-end 2009. The deterioration in public finances is an increasing worry for investors, which puts downward pressure on the U.S. dollar.

In Canada, the loonie has soared in the past few weeks. A negative sentiment about the greenback along with higher oil prices even brought the Canadian dollar close to US\$0.98 on October 14. It slipped back to US\$0.95 when the Bank of Canada reiterated that it intended to keep its key rates unchanged until mid-2010. Parity is not impossible by the end of the year if energy prices rise higher. However, the dollar's already high level will slow the recovery which will begin in Canada by year-end.

The Québec economy is presently taking a new direction which should put an end to the recession. After starting a slide in November 2008, real GDP posted its first increase in June (+0.5%). The third quarter should be slightly positive since consumer spending has recovered because of increased confidence on the part of households. The real estate market has been surprisingly vigorous, and home sales have regained the ground they lost during the recession. Ontario also seems to be back on a growth track. Automobile production is increasing, the labour market is improving and residential construction is emerging from its slump.

**SUMMARY OF DESJARDINS GROUP QUARTERLY RESULTS**

Combined results

*(unaudited, by quarter, in millions of dollars and as a percentage)*

	2009			2008				2007
	Q3	Q2 <sup>(1)</sup>	Q1 <sup>(1)</sup>	Q4 <sup>(1)</sup>	Q3 <sup>(1)</sup>	Q2 <sup>(1)</sup>	Q1 <sup>(1)</sup>	Q4 <sup>(1)</sup>
Total income	<b>\$3,070</b>	\$2,772	\$2,245	\$1,729	\$2,010	\$2,452	\$2,182	\$2,699
Surplus earnings before member dividends	<b>378</b>	338	117	(476)	149	338	67	273
Provision for member dividends, net of income taxes	<b>95</b>	29	39	(63)	7	123	86	124
Surplus earnings for the period after member dividends (excess of provision for member dividends over surplus earnings for the period)	<b>\$283</b>	\$309	\$78	\$(413)	\$142	\$215	\$(19)	\$149
Return on equity	<b>14.4%</b>	13.4%	4.8%	(19.3%)	6.2%	14.3%	2.9%	11.8%
Total assets	<b>\$163,213</b>	\$159,867	\$159,734	\$152,298	\$150,321	\$151,940	\$149,760	\$144,059
Tier 1 capital ratio	<b>14.94%</b>	14.73%	13.67%	13.39%	14.15%	13.98%	14.04%	14.17%
Total capital ratio	<b>14.94%</b>	14.73%	13.67%	12.85%	13.45%	13.17%	13.25%	13.59%

*(1) Data restated to reflect the presentation adopted as at September 30, 2009.*

**COMBINED STATEMENT OF INCOME**

(unaudited)

<i>(in millions of dollars)</i>	For the three months ended September 30		For the nine months ended September 30	
	2009	2008	2009	2008
<b>Interest income</b>				
Loans	\$ 1,316	\$ 1,401	\$ 3,784	\$ 4,204
Securities	114	120	336	334
	<b>1,430</b>	1,521	<b>4,120</b>	4,538
<b>Interest expense</b>				
Deposits	453	629	1,496	1,970
Subordinated debentures and borrowings	19	10	43	30
	<b>472</b>	639	<b>1,539</b>	2,000
<b>Net interest income</b>	<b>958</b>	882	<b>2,581</b>	2,538
<b>Net premiums</b>	<b>1,102</b>	1,111	<b>3,165</b>	3,104
<b>Other income</b>				
Deposit and payment service charges	136	128	380	373
Lending fees and credit card service revenues	115	105	326	303
Brokerage, investment fund and trust services	154	153	417	483
Income (loss) from available-for-sale securities	23	(123)	57	(232)
Trading income (loss) <i>(Note 8)</i>	494	(449)	707	(460)
Other investment income	71	62	204	181
Other	17	141	250	354
	<b>1,010</b>	17	<b>2,341</b>	1,002
<b>Total income</b>	<b>3,070</b>	2,010	<b>8,087</b>	6,644
<b>Provisions for credit losses</b>	<b>80</b>	65	<b>185</b>	155
<b>Claims, benefits, annuities and changes in insurance provisions</b>	<b>1,216</b>	579	<b>2,985</b>	2,179
<b>Non-interest expense</b>				
Salaries and fringe benefits	562	534	1,791	1,711
Premises, equipment and furniture, including amortization	102	108	307	298
Outsourcing of processing services	120	80	276	243
Communications	52	53	176	182
Restructuring expenses <i>(Note 9)</i>	37	-	65	-
Other	347	370	1,101	1,109
	<b>1,220</b>	1,145	<b>3,716</b>	3,543
<b>Operating surplus earnings from continuing operations</b>	<b>554</b>	221	<b>1,201</b>	767
Income taxes on surplus earnings	167	73	351	205
<b>Surplus earnings before non-controlling interests and member dividends</b>	<b>387</b>	148	<b>850</b>	562
Non-controlling interests	9	(1)	17	8
<b>Surplus earnings before member dividends</b>	<b>378</b>	149	<b>833</b>	554
Provision for member dividends	133	10	239	304
Tax recovery on provision for member dividends	(38)	(3)	(76)	(88)
<b>Surplus earnings for the period after member dividends</b>	<b>\$ 283</b>	\$ 142	<b>\$ 670</b>	\$ 338

The accompanying notes are an integral part of the Quarterly Combined Financial Statements.

**COMBINED BALANCE SHEET**

(unaudited)

(in millions of dollars)

	September 30, 2009	December 31, 2008
<b>ASSETS</b>		
<b>Cash and deposits with financial institutions</b>	<b>\$ 1,020</b>	<b>\$ 1,489</b>
<b>Securities (Note 5)</b>		
Available-for-sale securities	11,368	11,338
Securities held for trading	22,487	17,765
Equity method securities	117	119
	<b>33,972</b>	<b>29,222</b>
<b>Securities borrowed or purchased under reverse repurchase agreements</b>		
	<b>9,727</b>	<b>6,130</b>
<b>Loans (Note 6)</b>		
Residential mortgages	63,472	61,081
Consumer, credit card and other personal loans	20,194	18,121
Business and government	25,661	26,086
	<b>109,327</b>	<b>105,288</b>
Allowance for credit losses	<b>(833)</b>	<b>(826)</b>
	<b>108,494</b>	<b>104,462</b>
<b>Other assets</b>		
Land, buildings and equipment	1,013	1,025
Interest receivable	497	520
Derivative financial instruments (Note 10)	3,022	4,588
Clients' liability under acceptances	207	428
Amounts receivable from clients, brokers and financial institutions	1,431	614
Other	3,830	3,820
	<b>10,000</b>	<b>10,995</b>
<b>Total assets</b>	<b>\$ 163,213</b>	<b>\$ 152,298</b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
<b>Deposits</b>		
Individuals	\$ 74,336	\$ 71,958
Business and government	23,540	21,512
Deposit-taking and other institutions	8,010	7,966
	<b>105,886</b>	<b>101,436</b>
<b>Other liabilities</b>		
Actuarial and related liabilities	13,474	12,874
Borrowings	72	338
Interest payable	963	916
Derivative financial instruments (Note 10)	1,984	2,773
Acceptances	207	428
Commitments related to securities lent or sold under repurchase agreements	13,072	11,905
Commitments related to securities sold short	7,136	4,112
Amounts payable to clients, brokers and financial institutions	1,920	899
Other	6,107	5,220
	<b>44,935</b>	<b>39,465</b>
<b>Subordinated debentures</b>	<b>1,293</b>	<b>748</b>
<b>Non-controlling interests</b>	<b>365</b>	<b>776</b>
<b>EQUITY</b>		
Capital stock	1,250	955
Share capital	69	67
Undistributed surplus earnings (deficit)	565	(96)
Accumulated other comprehensive income (Note 11)	604	685
Reserves	8,246	8,262
	<b>10,734</b>	<b>9,873</b>
<b>Total liabilities and equity</b>	<b>\$ 163,213</b>	<b>\$ 152,298</b>

The accompanying notes are an integral part of the Quarterly Combined Financial Statements.

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

Monique F. Leroux  
Chair of the Board

Denis Paré  
Vice-Chair of the Board

**COMBINED STATEMENT OF CHANGES IN EQUITY**

(unaudited)

<i>(in millions of dollars)</i>	For the three months ended September 30		For the nine months ended September 30	
	2009	2008	2009	2008
<b>Capital stock</b>				
Balance at beginning of period	\$ 995	\$ 955	\$ 955	\$ 894
Net change during the period	255	4	295	65
Balance at end of period	\$ 1,250	\$ 959	\$ 1,250	\$ 959
<b>Share capital</b>				
Balance at beginning of period	\$ 67	\$ 67	\$ 67	\$ 67
Issuance of preferred shares	2	-	2	-
Balance at end of period	\$ 69	\$ 67	\$ 69	\$ 67
<b>Undistributed surplus earnings (deficit) <sup>(1)</sup></b>				
Balance at beginning of period	\$ 337	\$ 241	\$ (96)	\$ 795
Surplus earnings for the period after member dividends	283	142	670	338
Remuneration on permanent shares, net of income tax recovery	(11)	(7)	(23)	(20)
Dividends on preferred shares	(1)	(1)	(2)	(3)
Transfer to the stabilization reserve	-	-	(4)	(3)
Transfer to the reserve for future member dividends	(4)	(2)	(82)	(141)
Transfer from (to) the general reserve	(39)	(30)	102	(623)
Balance at end of period	\$ 565	\$ 343	\$ 565	\$ 343
<b>Accumulated other comprehensive income <sup>(1)</sup></b>				
Balance at beginning of period	\$ 532	\$ 89	\$ 685	\$ 50
Other comprehensive income for the period	72	22	(81)	61
Balance at end of period <i>(Note 11)</i>	\$ 604	\$ 111	\$ 604	\$ 111
<b>Reserves</b>				
<b>Stabilization reserve</b>				
Balance at beginning of period	\$ 282	\$ 278	\$ 278	\$ 275
Transfer from undistributed surplus earnings	-	-	4	3
Balance at end of period	\$ 282	\$ 278	\$ 282	\$ 278
<b>Reserve for future member dividends</b>				
Balance at beginning of period	\$ 428	\$ 348	\$ 350	\$ 209
Transfer from undistributed surplus earnings	4	2	82	141
Balance at end of period	\$ 432	\$ 350	\$ 432	\$ 350
<b>General reserve</b>				
Balance at beginning of period	\$ 7,493	\$ 7,585	\$ 7,634	\$ 6,992
Transfer from (to) undistributed surplus earnings	39	30	(102)	623
Balance at end of period	\$ 7,532	\$ 7,615	\$ 7,532	\$ 7,615
<b>Total reserves</b>	\$ 8,246	\$ 8,243	\$ 8,246	\$ 8,243
<b>Total equity</b>	\$ 10,734	\$ 9,723	\$ 10,734	\$ 9,723

The accompanying notes are an integral part of the Quarterly Combined Financial Statements.

<sup>(1)</sup> The sum of undistributed surplus earnings and accumulated other comprehensive income is \$1,169 million (\$454 million in 2008).

<b>COMBINED STATEMENT OF COMPREHENSIVE INCOME</b> (unaudited)	<b>For the three months</b> <b>ended September 30</b>		<b>For the nine months</b> <b>ended September 30</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<i>(in millions of dollars)</i>				
<b>Surplus earnings for the period after member dividends</b>	<b>\$ 283</b>	<b>\$ 142</b>	<b>\$ 670</b>	<b>\$ 338</b>
<b>Other comprehensive income, net of income taxes</b>				
Net unrealized gains (losses) on available-for-sale securities <sup>(1)</sup>	<b>107</b>	(168)	<b>216</b>	(183)
Reclassification to the Combined Statement of Income of losses (gains) on available-for-sale securities <sup>(2)</sup>	<b>(7)</b>	66	<b>(6)</b>	54
	<b>100</b>	(102)	<b>210</b>	(129)
Gains (losses) on derivative financial instruments designated as cash flow hedges <sup>(3)</sup>	<b>(14)</b>	127	<b>(243)</b>	196
Reclassification to the Combined Statement of Income of gains on derivative financial instruments designated as cash flow hedges <sup>(4)</sup>	<b>(14)</b>	(3)	<b>(47)</b>	(4)
	<b>(28)</b>	124	<b>(290)</b>	192
Net unrealized exchange losses on the translation of the financial statements of self-sustaining foreign operations, net of hedging transactions	-	-	<b>(1)</b>	(2)
<b>Total other comprehensive income</b>	<b>72</b>	22	<b>(81)</b>	61
<b>Comprehensive income</b>	<b>\$ 355</b>	<b>\$ 164</b>	<b>\$ 589</b>	<b>\$ 399</b>

The accompanying notes are an integral part of the Quarterly Combined Financial Statements.

<sup>(1)</sup> Net of income tax expense of \$56 million and of income tax benefit of \$41 million for the nine-month periods ended September 30, 2009 and 2008, respectively (expense of \$28 million and benefit of \$35 million for the three-month periods, respectively).

<sup>(2)</sup> Net of income tax expense of \$2 million and of income tax benefit of \$10 million for the nine-month periods ended September 30, 2009 and 2008, respectively (expense of \$3 million and benefit of \$5 million for the three-month periods, respectively).

<sup>(3)</sup> Net of income tax benefit of \$110 million and of income tax expense of \$60 million for the nine-month periods ended September 30, 2009 and 2008, respectively (benefit of \$42 million and expense of \$34 million for the three-month periods, respectively).

<sup>(4)</sup> Net of income tax expense of \$11 million and \$1 million for the nine-month periods ended September 30, 2009 and 2008, respectively (expense of \$1 million and \$1 million for the three-month periods of 2009 and 2008, respectively).

**COMBINED STATEMENT OF CASH FLOWS**

(unaudited)

	For the three months ended September 30		For the nine months ended September 30	
	2009	2008	2009	2008
<i>(in millions of dollars)</i>				
<b>Cash flows from (used in) operating activities</b>				
Surplus earnings for the period after member dividends	\$ 283	\$ 142	\$ 670	\$ 338
Adjustments for:				
Amortization of buildings and equipment	39	51	117	122
Amortization of intangible assets with finite useful lives	9	9	26	26
(Increase in value) write-down of venture capital investments	(3)	-	(1)	2
Net change in actuarial and related liabilities	428	(176)	600	(153)
Future income taxes	45	(99)	69	(194)
Provisions for credit losses	80	65	185	155
Assets impairment	30	-	30	-
Write-off of deferred charges	-	-	-	25
Non-controlling interests	9	(1)	17	8
Net (gains) losses realized on available-for-sale securities	(14)	108	(14)	209
Change in operating assets and liabilities				
Interest receivable	(13)	22	23	52
Interest payable	1	(8)	47	29
Securities held for trading	(1,823)	2,318	(4,009)	1,828
Net change in equity method securities	(2)	(2)	2	(2)
Net change in fair value of derivative financial instruments	286	459	384	(281)
Other	607	225	1,073	398
	(38)	3,113	(781)	2,562
<b>Cash flows from (used in) financing activities</b>				
Net change in deposits	(792)	(315)	4,450	4,988
Issuance of debt securities and subordinated debentures	68	(13)	1,063	22
Repayment of debt securities and subordinated debentures	(67)	-	(781)	(112)
Net change in capital stock	269	4	294	33
Issuance of preferred shares	2	-	2	-
Net change in non-controlling interests	(2)	(139)	(428)	(54)
Remuneration on permanent shares, net of income tax recovery	(11)	(7)	(23)	(20)
Dividends on preferred shares	-	(1)	(1)	(3)
Commitments related to securities lent or sold under repurchase agreements	1,460	752	1,167	1,559
Net change in commitments related to securities sold short	1,199	(2,259)	3,024	(1,698)
	2,126	(1,978)	8,767	4,715
<b>Cash flows from (used in) investing activities</b>				
Net change in loans	(2,146)	(3,412)	(4,884)	(8,525)
Proceeds from securitization of mortgage loans	84	468	667	1,551
Purchase of available-for-sale securities	(3,560)	(4,721)	(15,042)	(19,822)
Proceeds from disposals of available-for-sale securities	1,846	2,657	10,086	9,430
Proceeds from maturities of available-for-sale securities	867	2,186	4,420	9,423
Securities borrowed or purchased under reverse repurchase agreements	512	1,639	(3,597)	466
Net acquisitions of land, buildings and equipment	(29)	(38)	(105)	(155)
	(2,426)	(1,221)	(8,455)	(7,632)
<b>Net decrease in cash and cash equivalents</b>	(338)	(86)	(469)	(355)
Cash and cash equivalents at beginning of period	1,358	1,230	1,489	1,499
<b>Cash and cash equivalents at end of period</b>	\$ 1,020	\$ 1,144	\$ 1,020	\$ 1,144
<b>Composition of cash and cash equivalents</b>				
Cash	\$ 788	\$ 744	\$ 788	\$ 744
Deposits with financial institutions and the Bank of Canada	80	242	80	242
Cheques and other items in transit (net amount)	152	158	152	158
	\$ 1,020	\$ 1,144	\$ 1,020	\$ 1,144
<b>Supplemental cash flow information</b>				
Interest paid during the period	\$ 470	\$ 647	\$ 1,492	\$ 1,971
Income taxes on surplus earnings paid during the period	25	72	116	185

**NOTES TO THE QUARTERLY COMBINED FINANCIAL STATEMENTS**

(unaudited)

As at September 30, 2009

**1. ACCOUNTING POLICIES**

The Unaudited Quarterly Combined Financial Statements of Desjardins Group have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and the accounting requirements of the Autorité des marchés financiers of Québec (AMF), which do not differ from GAAP, applied in the same manner as in the most recent audited financial statements, except for the accounting changes described in Note 2. These Unaudited Quarterly Combined Financial Statements should be read in conjunction with the Audited Combined Financial Statements for the year ended December 31, 2008.

The preparation of unaudited quarterly combined financial statements requires Management to make certain estimates and assumptions that have an impact on assets and liabilities and the disclosures of contingent assets and liabilities in the unaudited quarterly combined financial statements, as well as income and expenses for the reporting periods. In the opinion of Management, the necessary adjustments have been made to these Unaudited Quarterly Combined Financial Statements to ensure that they present fairly the results of the periods presented.

Actual results may differ from those estimates, and the results of the interim periods presented are not necessarily representative of anticipated results for the full year.

Certain comparative figures have been reclassified to conform to the presentation adopted for Fiscal 2009.

**2. NEW ACCOUNTING POLICIES****GOODWILL AND INTANGIBLE ASSETS**

On January 1, 2009, Desjardins Group retroactively adopted the new accounting standard of the Canadian Institute of Chartered Accountants (CICA) entitled "Goodwill and Intangible Assets" (Section 3064).

This standard reinforces an approach based on principles and criteria to recognize costs as assets and clarifies the application of the matching principle in order to eliminate the practice of recognizing as assets items that do not meet the definition of an asset nor the criteria for asset recognition. The adoption of this standard had no impact on the Combined Financial Statements.

**CREDIT RISK AND THE FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

On January 1, 2009, Desjardins Group retroactively adopted the new abstract issued by the Emerging Issues Committee (EIC) entitled "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" (EIC-173).

This new EIC states that an entity's own credit risk and the credit risk of the counterparty must be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of this EIC had no significant impact on the fair value measurement models for financial instruments and on the results and financial position of Desjardins Group.

**TREATMENT OF EMBEDDED DERIVATIVES UPON RECLASSIFICATION OF A FINANCIAL ASSET**

In June 2009, the Canadian Accounting Standards Board (AcSB) amended CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement", by adding guidance concerning the reassessment of embedded derivatives upon reclassification of a financial asset out of the held-for-trading category. The Group has applied the new guidance to reclassifications made on or after July 1, 2009. This amendment did not have any material impact on its Combined Financial Statements.

**3. FUTURE ACCOUNTING CHANGES****IMPROVEMENT TO DISCLOSURE REQUIREMENTS ABOUT FINANCIAL INSTRUMENTS**

In June 2009, the AcSB issued amendments to CICA Handbook Section 3862, "Financial Instruments – Disclosures", in order to incorporate the improvements to disclosure requirements about fair value measurements of financial instruments and liquidity risk, issued by the International Accounting Standards Board (IASB) in March 2009. These amendments include in particular the requirement to classify financial instruments reported at fair value using a hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following three levels:

- Level 1 – Measurement based on quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 – Valuation techniques based primarily on observable market data; and
- Level 3 – Valuation techniques not based primarily on observable market data.

Desjardins Group will apply the amendments to this standard to its annual financial statements as at December 31, 2009. For this first year of application, it will not be required to provide comparative information for the disclosures required by the amendments. Since these amendments specifically concern disclosures, they will not have any impact on Desjardins Group's combined results or financial position.

**EFFECTIVE INTEREST METHOD**

In June 2009, the AcSB issued an amendment to CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement", in order to clarify the interest calculation method for a financial asset after recognition of an impairment loss. Desjardins Group will adopt this amendment retroactively in its fiscal year beginning on January 1, 2010. It is currently analyzing the impact of this amendment on its Combined Financial Statements.

**IMPAIRMENT OF FINANCIAL ASSETS**

In August 2009, the CICA amended CICA Handbook Section 3855 "Financial Instruments – Recognition and Measurement" in order to change the categories into which debt instruments are required or permitted to be classified and to eliminate the distinction between debt securities and other debt instruments. These amendments include the following:

- debt instruments not quoted in an active market may be classified as loans and receivables, and impairment will be assessed using the incurred credit loss model;
- loans and receivables that Desjardins Group intends to sell immediately or in the near term must be classified as held for trading and loans, and receivables for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, must be classified as available for sale;
- reclassifying financial assets from the held-for-trading and available-for-sale categories into the loans and receivables category is permitted under specified circumstances;
- reversing an impairment loss relating to an available-for-sale debt instrument is required when, in a subsequent period, the fair value of the instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized.

Desjardins Group will apply the amendments to this standard retrospectively as at January 1, 2009, to its annual financial statements as at December 31, 2009. It is currently analyzing the impact of this amendment on its Combined Financial Statements.

**INTERNATIONAL FINANCIAL REPORTING STANDARDS**

On February 13, 2008, the Canadian Accounting Standards Board issued a news release confirming that publicly accountable enterprises will be required to apply International Financial Reporting Standards (IFRS) in 2011. Desjardins Group therefore initiated its IFRS conversion project in the summer of 2007.

Since Desjardins Group will adopt IFRS on January 1, 2011, new Canadian GAAP standards that will be effective on or after January 1, 2011 are not disclosed as future accounting changes because they will never be applied by Desjardins Group.

## 4. CARRYING VALUE OF FINANCIAL INSTRUMENTS

The following tables present the carrying value of all financial assets and liabilities according to their classification in the categories defined in the financial instrument standards.

As at September 30, 2009

(in millions of dollars)

	Held for trading	Designated as held for trading under the fair value option	Available-for-sale	Loans and receivables and financial liabilities other than held for trading	Total
<b>FINANCIAL ASSETS</b>					
Cash and deposits with financial institutions	\$1,020	\$---	\$---	\$---	\$1,020
Securities					
Available-for-sale securities	---	---	11,368	---	11,368
Securities held for trading	11,825	10,662	---	---	22,487
Securities borrowed or purchased under reverse repurchase agreements	---	---	---	9,727	9,727
Loans	---	---	---	108,494	108,494
Other financial assets					
Interest receivable	---	---	---	497	497
Derivative financial instruments <sup>(1)</sup>	3,022	---	---	---	3,022
Clients' liability under acceptances	---	---	---	207	207
Amounts receivable from clients, brokers and financial institutions	---	---	---	1,431	1,431
Other	---	---	18	1,482	1,500
<b>TOTAL FINANCIAL ASSETS</b>	<b>\$15,867</b>	<b>\$10,662</b>	<b>\$11,386</b>	<b>\$121,838</b>	<b>\$159,753</b>
<b>FINANCIAL LIABILITIES</b>					
Deposits	\$---	\$---	\$---	\$105,886	\$105,886
Other financial liabilities					
Borrowings	---	---	---	72	72
Interest payable	---	---	---	963	963
Derivative financial instruments <sup>(1)</sup>	1,984	---	---	---	1,984
Acceptances	---	---	---	207	207
Commitments related to securities lent or sold under repurchase agreements	---	---	---	13,072	13,072
Commitments related to securities sold short	7,136	---	---	---	7,136
Amounts payable to clients, brokers and financial institutions	---	---	---	1,920	1,920
Other	---	---	---	2,337	2,337
Subordinated debentures	---	---	---	1,293	1,293
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>\$9,120</b>	<b>\$---</b>	<b>\$---</b>	<b>\$125,750</b>	<b>\$134,870</b>

<sup>(1)</sup> Include derivative financial instruments related to fair value and cash flow hedging activities amounting to \$1,590 million in assets and \$335 million in liabilities.

## 4. CARRYING VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

As at December 31, 2008

*(in millions of dollars)*

	Held for trading	Designated as held for trading under the fair value option	Available-for-sale	Loans and receivables and financial liabilities other than held for trading	Total
<b>FINANCIAL ASSETS</b>					
Cash and deposits with financial institutions	\$1,489	\$---	\$---	\$---	\$1,489
Securities					
Available-for-sale securities	---	---	11,338	---	11,338
Securities held for trading	10,001	7,764	---	---	17,765
Securities borrowed or purchased under reverse repurchase agreements	---	---	---	6,130	6,130
Loans	---	---	---	104,462	104,462
Other financial assets					
Interest receivable	---	---	---	520	520
Derivative financial instruments <sup>(1)</sup>	4,588	---	---	---	4,588
Clients' liability under acceptances	---	---	---	428	428
Amounts receivable from clients, brokers and financial institutions	---	---	---	614	614
Other	---	---	15	1,570	1,585
<b>TOTAL FINANCIAL ASSETS</b>	<b>\$16,078</b>	<b>\$7,764</b>	<b>\$11,353</b>	<b>\$113,724</b>	<b>\$148,919</b>
<b>FINANCIAL LIABILITIES</b>					
Deposits	\$---	\$---	\$---	\$101,436	\$101,436
Other financial liabilities					
Borrowings	---	---	---	338	338
Interest payable	---	---	---	916	916
Derivative financial instruments <sup>(1)</sup>	2,773	---	---	---	2,773
Acceptances	---	---	---	428	428
Commitments related to securities lent or sold under repurchase agreements	---	---	---	11,905	11,905
Commitments related to securities sold short	4,112	---	---	---	4,112
Amounts payable to clients, brokers and financial institutions	---	---	---	899	899
Other	---	---	---	4,555	4,555
Subordinated debentures	---	---	---	748	748
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>\$6,885</b>	<b>\$---</b>	<b>\$---</b>	<b>\$121,225</b>	<b>\$128,110</b>

<sup>(1)</sup> Include derivative financial instruments related to fair value and cash flow hedging activities amounting to \$2,436 million in assets and \$174 million in liabilities.

## 5. SECURITIES

## UNREALIZED GAINS AND LOSSES ON AVAILABLE-FOR-SALE SECURITIES

(in millions of dollars)

As at September 30, 2009

	Amortized cost <sup>(1)</sup>	Unrealized gross gains	Unrealized gross losses	Carrying value <sup>(1)</sup>
<b>SECURITIES ISSUED OR GUARANTEED BY</b>				
Canada	\$3,484	\$64	\$1	\$3,547
Provinces and municipal corporations in Canada	3,793	113	2	3,904
School or public corporations in Canada	76	---	---	76
Foreign public administrations	9	---	---	9
<b>OTHER SECURITIES IN CANADA</b>				
Financial institutions	2,808	71	1	2,878
Other issuers	225	1	19	207
Shares	474	18	34	458
<b>SECURITIES FROM FOREIGN ISSUERS</b>				
Shares	318	7	36	289
	<b>\$11,187</b>	<b>\$274</b>	<b>\$93</b>	<b>\$11,368</b>

(in millions of dollars)

As at December 31, 2008

	Amortized cost <sup>(1)</sup>	Unrealized gross gains	Unrealized gross losses	Carrying value <sup>(1)</sup>
<b>SECURITIES ISSUED OR GUARANTEED BY</b>				
Canada	\$2,286	\$98	\$6	\$2,378
Provinces and municipal corporations in Canada	3,496	87	39	3,544
School or public corporations in Canada	4	---	---	4
Foreign public administrations	12	---	1	11
<b>OTHER SECURITIES IN CANADA</b>				
Financial institutions	3,425	33	47	3,411
Other issuers	1,478	6	54	1,430
Shares	407	1	87	321
<b>SECURITIES FROM FOREIGN ISSUERS</b>				
Financial institutions	4	---	---	4
Shares	298	---	63	235
	<b>\$11,410</b>	<b>\$225</b>	<b>\$297</b>	<b>\$11,338</b>

<sup>(1)</sup> Desjardins Group holds available-for-sale securities accounted for at cost since they are not quoted on an active market. Available-for-sale securities recorded at cost on the Combined Balance Sheet total \$29 million (\$40 million as at December 31, 2008), and that cost is presented in the "Carrying value" column in the table above. The fair value of some of these securities can be estimated and represents an immaterial gain.

As at September 30, 2009, the gross unrealized losses on available-for-sale securities resulted from wider credit spreads due to recent disruptions on capital markets and fluctuations in market interest rates. Declines in value of available-for-sale securities are monitored daily by Management. Desjardins Group has the ability and intent to hold these securities for a period of time sufficient to allow for recovery in fair value. It determined that the gross unrealized losses are temporary in nature.

## 5. SECURITIES (continued)

### SECURITIES – ASSET-BACKED COMMERCIAL PAPER / NEW NOTES

As at December 31, 2008, Desjardins Group held investments on the non-bank asset-backed commercial paper (ABCP) market, although it had never issued this type of financial product to its clients. It should be noted that to safeguard its members and clients, Desjardins Group had repurchased in September 2007 and, to a lesser extent, in 2008, ABCP assets in the money market mutual funds it managed and in the securities lending operations of Desjardins Trust clients for which it had not originally assumed the risk. In the second quarter ended June 30, 2009, Desjardins Group bought back at their fair value the new notes held by the Desjardins Group Pension Plan.

The implementation of the ABCP restructuring plan was completed on January 21, 2009. The aim of the plan included replacing ABCP by new long-term floating rate notes having a maturity similar to that of the underlying assets.

The main features of the restructuring plan are as follows:

- Creation of three new trusts, called “Master Asset Vehicles” (MAV):
  - ✓ MAV 1 and MAV 2 are comprised exclusively of synthetic asset transactions, being a combination of assets pledged as collateral and credit default swap contracts, or of hybrid asset transactions, being a combination of synthetic assets and traditional assets. They also include the so-called ineligible (subprime and other) assets of these series.
  - ✓ MAV 3 is comprised of exclusively ineligible (subprime) asset and traditional asset transactions.
- Creation of five classes of notes for MAV 1 and MAV 2 (A-1, A-2, B, C and IA) and of two classes of notes for MAV 3 (IA and TA). The IA and TA notes are divided into multiple series of tracking notes that reflect the cash flows of the original underlying assets.
- Establishment of funding facilities in support of MAV 1 and MAV 2 to fund collateral calls that may occur with respect to underlying credit default swaps.
- Establishment of an initial 18-month moratorium period during which no additional collateral calls may be made for the vast majority of underlying credit default swaps.
- Widening of certain “spread-loss” triggers, which will apply again at the expiration of the moratorium period, thereby reducing the likelihood of additional collateral calls.

Desjardins Group participates in the MAV 1 and MAV 3 trusts.

For more information on the restructuring, please refer to the “Securities — Asset-backed commercial paper” section of Note 4, “Securities”, to the Combined Financial Statements for the year ended December 31, 2008.

In addition to the assets already pledged as collateral by the trusts for credit default swaps, the plan stipulates that MAV 1 and MAV 2 must each have a margin funding facility (MFF) intended to cover any potential collateral calls from swap counterparties. Desjardins Group has chosen to self-finance its share of the margin funding facility, which explains its participation in MAV 1.

Desjardins Group's share in this credit commitment, totalling \$1,193 million, ranks equal to that of the other participants in the MFF and matures in July 2017 or earlier if all credit default swap transactions have been settled. Desjardins Group will not receive any fees from MAV 1 for this credit commitment. Advances made under this funding facility will bear interest at a rate based on the bankers' acceptance rate or prime rate. Any advance under the margin funding facility will rank senior to amounts payable under the notes issued by MAV 1. Should Desjardins Group fail to honour its commitment to provide funds for its share of the margin funding facility, a proportionate share of the MAV 1 notes held by Desjardins Group will be subordinated to the notes held by the other participants. Caisse centrale Desjardins, as the MFF signatory for Desjardins Group, must maintain a credit rating equivalent to A (low) with at least two of the four credit rating agencies (DBRS, S&P, Fitch and Moody's), failing which it must provide collateral or another form of credit support to MAV 1 or have another entity with a sufficiently high credit rating assume its obligations. As at September 30, 2009, no amount had been drawn on the MFF.

Under a separate agreement, Desjardins Group purchased a \$400 million protection for its MFF commitments from one of the participants in MAV 1 in exchange for an annual commitment fee of 1.2%, which is the same rate as the third-party institutions that have contributed to the equivalent MFF of MAV 2. This participation will automatically end upon the maturity of MAV 1's MFF.

In the event that the MAV 1 margin funding facility and the equivalent MAV 2 facility are not sufficient to meet the collateral calls on the vehicle in question, a senior funding facility has been put in place to provide access to additional liquidities. This funding facility has been provided by the governments of Canada, Québec, Alberta and Ontario, and by one of the MAV 1 participants. MAV 1 can draw on an amount of \$1,772 million under this facility.

Upon the restructuring on January 21, 2009, Desjardins Group derecognized the carrying value of its ABCP holdings and recognized the new notes at fair value. These new notes were classified as “designated as held for trading under the fair value option.”

## 5. SECURITIES (continued)

**SECURITIES – ASSET-BACKED COMMERCIAL PAPER / NEW NOTES (continued)**

In the three-month period ended September 30, 2009, principal payments on the new notes, amounting to \$27 million, were received by Desjardins Group. In addition, interest totalling \$7 million was also collected during the same period. As a result of measurement uncertainties, Desjardins Group recorded interest income only on the MAV 1 A-1 and A-2 notes that rank senior to other notes with respect to interest and principal.

On April 1, 2009, Desjardins Group bought back the new notes held by the Desjardins Group Pension Plan, at their fair value of \$48 million. The effect of this purchase was to increase the face value of the new notes held by Desjardins Group by \$86 million. The purchase had no impact on Desjardins Group's combined income.

As at September 30, 2009, Desjardins Group held new notes of which the face value is allocated among the various following vehicles:

As at September 30, 2009	Face value	Fair value
<b>MAV 1</b>		
Class A-1	\$907	\$642
Class A-2	820	469
Class B	140	18
Class C	57	---
Class IA – Ineligible (subprime) assets	146	---
Class IA – Ineligible (other) assets	28	15
<b>Total MAV 1</b>	<b>2,098</b>	<b>\$1,144</b>
<b>MAV 3</b>		
Class IA – Ineligible (subprime) assets	51	---
Class TA – Traditional assets	112	98
<b>Total MAV 3</b>	<b>163</b>	<b>98</b>
<b>Total MAV 1 and MAV 3</b>	<b>\$2,261</b>	<b>\$1,242</b>

As at December 31, 2008, ABCP securities held were broken down as follows:

2008	Amortized cost	Cumulative write-down	Fair value
<b>ABCP</b>			
Synthetic and hybrid assets	\$1,962	\$772	\$1,190
Traditional assets	255	11	244
Ineligible (subprime) assets	229	227	2
<b>Total</b>	<b>\$2,446</b>	<b>\$1,010</b>	<b>\$1,436</b>

2008	Amortized cost	Income	Cumulative write-down Deposit liabilities and actuarial liabilities	Fair value
Available-for-sale securities	\$1,257	\$506	\$---	\$751
Securities held for trading	1,189	243	261	685
<b>Total</b>	<b>\$2,446</b>	<b>\$749</b>	<b>\$261</b>	<b>\$1,436</b>

**Valuation methodology**

Since there is no active market for these securities, Desjardins Group's Management estimated the fair value of its holdings and the resulting changes in value by using a valuation technique. At the time these financial statements were prepared, no active market existed yet for the various restructured notes. In addition, the trading of MAV 1 notes is subject to considerable restrictions, since MAV 1 A-1, A-2, B and C note holders may transfer the notes to a third party only if such a transfer is made on a pro rata basis for each of the classes held by the seller and if the buyer assumes an equivalent share of the MFF commitments, either directly or through another entity, as long as the party assuming the MFF share has a sufficiently high credit rating.

## 5. SECURITIES (continued)

### SECURITIES – ASSET-BACKED COMMERCIAL PAPER / NEW NOTES (continued)

#### Valuation methodology (continued)

The fair value of ABCP restructured in the form of MAV 1 A-1, A-2, B and C notes, i.e. synthetic and hybrid assets, is based on a financial model incorporating uncertainties regarding return, credit spreads, the nature and credit risk of underlying assets, the amounts and timing of cash inflows, the maturity dates and the liquidity restrictions of the new notes in order to provide a fair value reflecting market conditions as at September 30, 2009. Anticipated cash flows from the new notes were discounted using the bankers' acceptance rate plus a premium ranging from 646 to 6,700 basis points over periods ranging from six to seven years.

The fair value of tracking notes backed by traditional and ineligible (other) assets was determined using benchmark indices selected based on the assets underlying each tracking note since the cash flows generated by these notes stem directly from the cash flows generated by the underlying assets. As for tracking notes comprised exclusively of ineligible (subprime) assets, given the nature of the underlying assets and their marked deterioration in the current economic environment, their fair value was determined to be nil as at September 30, 2009.

Assumptions used are based as much as possible on observable market data such as interest rates, credit spreads and benchmark indices for similar assets. They also reflect, if necessary, any specific features of the restructuring and are partially based on assumptions not supported by observable market prices or rates for similar assets. Discount rates used take into account the maturity, the credit rating and the market and liquidity risks of each note.

#### Impact on income

The favourable impact on Desjardins Group's combined income before income taxes for the three-month period ended September 30, 2009 totalled \$14 million. This impact consisted of unrealized gains of \$7 million, attributable to the net improvement during the quarter in credit spreads, foreign currency translation and other benchmark indices; a realized gain of \$4 million on ineligible assets for which principal payments had been collected; and income of \$3 million from the phased recognition of deferred income related to the credit facility. The net negative impact of \$50 million for the nine months ended September 30, 2009 on Desjardins Group's combined income before income taxes resulted from unrealized losses of \$31 million caused by the previously mentioned factors and the restructuring of ABCP holdings, from realized gains of \$12 million on ineligible assets, from the \$34 million write-off of a security excluded from the moratorium period under the Montréal Accord, and from income of \$3 million arising from the phased recognition of deferred income related to the credit facility. The MFF, which had been previously recognized in securities, has been recorded as deferred income under "Other liabilities – Other" since the restructuring on January 21, 2009. This reclassification had no impact on combined income.

For the three-month period ended September 30, 2008, a decline in value of \$94 million (a decline in value of \$246 million for the nine months ended September 30, 2008) was recorded in Desjardins Group's combined income. It should be noted that for securities classified as available-for-sale, a decline in value of \$31 million was recognized in other comprehensive income for the third quarter ended September 30, 2008 (an increase in value of \$7 million for the nine months ended September 30, 2008).

The above estimated fair value may not be indicative of the ultimate net realizable value or the future fair value. While Management believes that its valuation technique is appropriate in the circumstances, changes in significant assumptions, especially those relating to the determination of the return, the credit risk spreads for the underlying assets, and the quality of assets given as collateral by the trusts, which are incorporated in the discount rate, could significantly affect the value ascribed to the replacement notes in the future. A 1% increase in the estimated discount rates could reduce the estimated fair value of the replacement note portfolio now held by Desjardins Group by approximately \$52 million, which would reduce Tier 1 capital by \$34 million or 0.4% as at September 30, 2009. However, a 1% decrease in the estimated discount rates could increase the estimated fair value of Desjardins Group's current replacement note portfolio by approximately \$55 million, which would increase Tier 1 capital by \$36 million or 0.4% as at September 30, 2009. For more information on capital, please refer to Note 28 "Capital Management" of Desjardins Group's most recent Annual Combined Financial Statements.

Some uncertainties remain regarding the value of underlying assets, the amount and timing of cash flows, the development of a secondary market for the replacement notes and the liquidity of this market, which could further change the value of Desjardins Group's investment in replacement notes. Economic conditions resulted in a decrease in the floating interest rates of the underlying assets. Therefore, the mismatch between the floating interest rates and payment dates of the underlying assets and the cost of the senior funding facility and the interest payment period of MAV 1 leads to measurement uncertainties. The prospect of a major prolonged slowdown in the North American economy could also have a negative impact on the fair value of the replacement notes.

In 2009, an amount of \$90 million, net of Desjardins Group's estimated share of the \$19 million in restructuring fees assumed by the Pan Canadian Committee, was paid to Desjardins Group as accrued interest on ABCP holdings for the period from August 20, 2007 to January 21, 2009. As at December 31, 2008, Desjardins Group had recognized net interest income on ABCP holdings in the fair value of the securities.

## 5. SECURITIES (continued)

## SECURITIES – ASSET-BACKED COMMERCIAL PAPER / NEW NOTES (continued)

## Variable interest entities (VIEs)

Desjardins Group participates in MAV 1, which is a VIE with assets totalling approximately \$15,642 million and no equity and is comprised mainly of synthetic asset transactions for which investors are committed to contribute to a margin funding facility. Since Desjardins Group does not absorb a majority of MAV 1's expected losses and does not receive a majority of its expected residual returns, it has not consolidated MAV 1. Furthermore, Desjardins Group holds significant interests in this vehicle, namely the margin funding facility of \$1,193 million and the investment in new MAV 1 notes having a fair value of \$1,144 million, the total of which represents the maximum risk of loss for Desjardins Group.

## 6. LOANS AND ALLOWANCE FOR CREDIT LOSSES

## LOANS AND IMPAIRED LOANS

<i>(in millions of dollars)</i>	As at September 30, 2009						As at December 31, 2008
	Gross loans neither past due nor impaired	Gross loans past due but not impaired	Gross impaired loans	Specific allowances	General allowance	Net impaired loans	Net impaired loans
Residential mortgages	\$63,047	\$286	\$139	\$10	\$---	\$129	\$96
Consumer, credit card and other personal loans	18,324	1,782	88	34	---	54	52
Business and government	24,888	501	272	94	---	178	144
General allowance	---	---	---	---	695	(695)	(696)
	<b>\$106,259</b>	<b>\$2,569</b>	<b>\$499</b>	<b>\$138</b>	<b>\$695</b>	<b>\$(334)</b>	<b>\$(404)</b>

Past due loans are loans on which the counterparty has failed to make a payment when contractually due.

When a portion of an impaired loan is written-off and the balance is restructured, interest is recorded again using the accrual method when there is no reasonable doubt as to the collection of principal and interest and payments have not been past due for 90 days.

The carrying value of loans that would otherwise be past due or impaired, but whose terms have been renegotiated during the nine-month period ended September 30, 2009 amounted to \$141 million (\$140 million as at December 31, 2008).

## GROSS LOANS PAST DUE BUT NOT IMPAIRED

As at September 30, 2009

*(in millions of dollars)*

	1 to 29 days	30 to 59 days	60 to 89 days	90 days and more	Total
Residential mortgages	\$225	\$26	\$13	\$22	\$286
Consumer, credit card and other personal loans	1,372	195	93	122	1,782
Business and government	334	36	46	85	501
	<b>\$1,931</b>	<b>\$257</b>	<b>\$152</b>	<b>\$229</b>	<b>\$2,569</b>

## 6. LOANS AND ALLOWANCE FOR CREDIT LOSSES (continued)

## GROSS LOANS PAST DUE BUT NOT IMPAIRED (continued)

As at December 31, 2008

*(in millions of dollars)*

	1 to 29 days	30 to 59 days	60 to 89 days	90 days and more	Total
Residential mortgages	\$150	\$21	\$10	\$7	\$188
Consumer, credit card and other personal loans	1,369	219	91	99	1,778
Business and government	244	55	41	71	411
	\$1,763	\$295	\$142	\$177	\$2,377

## ALLOWANCE FOR CREDIT LOSSES

*(in millions of dollars)*

	As at September 30, 2009				As at December 31, 2008
	Balance at beginning of period	Provision for credit losses	Write-offs and recoveries	Balance at end of period	Balance at end of period
Residential mortgages	\$11	\$5	\$(6)	\$10	\$11
Consumer, credit card and other personal loans	32	28	(26)	34	32
Business and government	87	35	(28)	94	87
General allowance	696	117	(118)	695	696
	\$826	\$185	\$(178)	\$833	\$826

## 7. SECURITIZATION OF MORTGAGE LOANS

Under the *National Housing Act* Mortgage-Backed Securities Programme of Canada, Desjardins Group securitized residential mortgage loans guaranteed by the Canada Mortgage and Housing Corporation through the creation of NHA-MBSs. The following table summarizes the impact of its new mortgage loan securitization activities during the three-month and nine-month periods ended September 30.

<i>(in millions of dollars)</i>	For the three months ended September 30		For the nine months ended September 30	
	2009	2008	2009	2008
Mortgage loans securitized	\$213	\$588	\$837	\$1,696
Net cash proceeds received	84	468	667	1,551
Retained interests	2	23	27	84
Assumed servicing liabilities	1	5	5	15
Gain on sale, net of transaction expenses	2	26	36	87

As at September 30, 2009, Desjardins Group had recorded retained interests of \$138 million (\$170 million as at December 31, 2008) and assumed servicing liabilities of \$23 million (\$30 million as at December 31, 2008) on its Combined Balance Sheet. In 2009, cash flows from retained interests amounted to \$16 million for the three-month period and \$51 million for the nine-month period ended September 30, 2009 (\$13 million for the three-month period and \$34 million for the nine-month period ended September 30, 2008). In addition, the impact of the amortization of servicing liabilities on the Combined Statement of Income was \$4 million for the three-month period and \$13 million for the nine-month period ended September 30, 2009 (\$3 million for the three-month period and \$8 million for the nine-month period ended September 30, 2008). An amount of \$372 million (\$202 million as at December 31, 2008) representing created and retained mortgage-backed securities was recorded in securities held for trading as at September 30, 2009.

Total mortgage loans securitized outstanding amounted to \$3,926 million (\$4,074 million as at December 31, 2008).

**7. SECURITIZATION OF MORTGAGE LOANS (continued)**

The key assumptions used in determining the initial fair value of the retained interests as at the date of sale are as follows:

	For the three months ended September 30		For the nine months ended September 30	
	2009	2008	2009	2008
Discount rate	2.78%	3.42%	2.45%	3.70%
Prepayment rate for fixed rate and floating rate mortgages, respectively	15 and 25%	15 and 25%	15 and 25%	15 and 25%
Weighted average life of loans	33 months	33 months	30 months	32 months

No credit losses are expected because the mortgage loans transferred are guaranteed.

**8. NET INCOME FROM FINANCIAL INSTRUMENTS HELD FOR TRADING****Income from financial instruments required to be classified as held for trading**

<i>(in millions of dollars)</i>	For the three months ended September 30		For the nine months ended September 30	
	2009	2008	2009	2008
<b>Income</b>				
Net interest income	\$24	\$9	\$58	\$29
Trading income (loss)	125	(130)	313	(174)

**Income from instruments designated as held for trading under the fair value option**

<i>(in millions of dollars)</i>	For the three months ended September 30		For the nine months ended September 30	
	2009	2008	2009	2008
<b>Income</b>				
Net interest income	\$11	\$4	\$22	\$12
Trading income (loss)	369	(319)	394	(286)

**Financial instruments designated as held for trading under the fair value option**

Financial instruments designated as held for trading under the fair value option are composed of: (i) certain investments in derivative instruments not designated in hedging relationships, thereby significantly reducing accounting disparities; (ii) securities whose underlying security is composed of hedge funds that are managed using a supported investment strategy aimed at taking advantage of short-term market volatility; (iii) securities backing actuarial liabilities in life and health insurance for life insurance and other contracts, as well as provisions for general insurance claims for which the option is used to significantly reduce a recording disparity that would otherwise occur, because assets or liabilities would be recorded differently; (iv) securities including embedded derivatives for which Desjardins Group is unable to measure the fair value of the embedded derivative separately either at acquisition or at a subsequent date; (v) securities that do not include embedded securities and managed under the fair value option using a supported investment strategy that is communicated to the key officers, and whose portfolio performance is measured based on fair value to more adequately reflect its substance.

**9. RESTRUCTURING EXPENSES**

In the second quarter of fiscal 2009, the Board of Directors of the Fédération des caisses Desjardins du Québec (FCDQ) began a transformation and, among other things, approved the implementation of a new simplified organizational structure for Desjardins Group. This restructuring is part of the Desjardins Group Development Plan proposed in the fall of 2008.

Management has appointed the first-, second- and third-level reportees of the new organization. The new organizational structure will continue to be implemented in the weeks ahead and is expected to be completed by the end of the year.

As part of this restructuring, Desjardins Group recognized \$37 million in severance benefits, professional fees, asset impairments and other expenses in combined income for the three months ended September 30, 2009 (\$65 million pour the nine months ended September 30, 2009).

**9. RESTRUCTURING EXPENSES (continued)**

The impact of assets impairment is mainly attributable to the Personal and Commercial segment and is comprised of the following:

- goodwill and intangible assets related, among other things, to a demand deposit portfolio and a distribution network;
- leasehold improvements.

The fair value of impaired assets was determined using a cash flow discounting technique. Desjardins Group does not expect to recover these assets due to the reorganization of certain activities as part of the restructuring.

These charges are presented under "Restructuring expenses" in the Combined Statement of Income for the period.

The following table summarizes the amounts payable and the effect on combined income related to this process. The amounts payable are recorded under "Other liabilities – Other".

<b>As at September 30, 2009</b>						
<i>(in millions of dollars)</i>	Severance benefits	Professional fees	Other	Total amounts payable	Assets impairment	Total restructuring expenses
Restructuring expenses	\$22	\$10	\$3	\$35	\$30	\$65
Payments	---	10	3	13	n/a <sup>(1)</sup>	n/a <sup>(1)</sup>
Balance at end of period	\$22	\$---	\$---	\$22	n/a <sup>(1)</sup>	n/a <sup>(1)</sup>

<sup>(1)</sup> Not applicable

**10. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

<b>As at September 30, 2009</b>		<b>Carrying value</b>	
<i>(in millions of dollars)</i>	Notional amount	Positive	Negative
Fair value hedges	\$12,945	\$693	\$59
Cash flow hedges	26,069	897	276

A gain of \$3 million related to the ineffectiveness of fair value hedging activities and a loss of \$2 million related to the ineffectiveness of cash flow hedging activities were recorded under "Trading income" in the Combined Statement of Income for the nine months ended September 30, 2009.

With respect to cash flow hedge relationships, a net gain of \$60 million from the Combined Statement of Comprehensive Income as at September 30, 2009 will be reclassified to the Combined Statement of Income in the next twelve months. The remaining balance of accumulated other comprehensive income related to cash flow hedges will be reclassified to the Combined Statement of Income over the next seven years.

**11. ACCUMULATED OTHER COMPREHENSIVE INCOME**

The following table presents the main components of accumulated other comprehensive income (net of taxes)

<i>(in millions of dollars)</i>	<b>As at September 30, 2009</b>	As at December 31, 2008
Unrealized gains (losses) on available-for-sale securities	\$123	\$(87)
Gains on derivative financial instruments designated as cash flow hedges	480	770
Net unrealized exchange gains on the translation of the financial statements of a self-sustaining foreign operation	1	2
Accumulated other comprehensive income	\$604	\$685

**12. EMPLOYEE FUTURE BENEFIT PLANS**

<i>(en millions de dollars)</i>	<b>For the three months ended September 30</b>		<b>For the nine months ended September 30</b>	
	2009	2008	2009	2008
Costs recognized for defined benefit pension plans	\$29	\$33	\$87	\$103
Costs recognized for other defined benefit plans	5	10	15	28

### 13. CONTINGENCIES

Desjardins was identified in a class action suit to reimburse foreign currency exchange fees on credit cards. On June 11, 2009, the Québec Superior Court allowed the class action by ruling that foreign currency exchange fees are credit fees under the *Consumer Protection Act* ("CPA"). Desjardins Group decided to appeal the judgment on July 10, 2009 by filing a notice with the Court of Appeal, because it is of the opinion that Desjardins' practice conforms more to the objectives of the CPA, which does not require that credit cardholders who do not use this service, pay foreign currency exchange fees. Given the current situation, Desjardins is not in a position to determine the outcome of this dispute and, accordingly, its impact on its Combined Financial Statements. Consequently, no amount has been recorded.

### 14. CAPITAL MANAGEMENT

Desjardins Group's capital ratios are calculated according to the guideline on adequacy of capital base standards applicable to financial services cooperatives, issued by the AMF. This new regulatory framework, which applies as of the first quarter of 2009, is largely based on the revised framework for international convergence of capital measurement and capital standards (Basel II) issued by the Bank for International Settlements (BIS). In this regard, the AMF recently allowed Desjardins Group to use the Advanced Internal Ratings Based approach for credit risk related to retail loan portfolios (Personal). Other credit exposures and market risk are assessed according to a standardized approach, while operational risk is calculated based on the basic indicator approach. The AMF's minimum requirement has been set at a total capital ratio of 11.5%. The new methods have mainly affected the calculation of risk-weighted assets. The calculation of capital, however, has not been significantly changed.

The goal of capital management at Desjardins Group is to ensure that a sufficient level of high-quality capital is maintained in order to provide flexibility for its development, keep a favourable credit rating and maintain the confidence of depositors and capital markets.

At the beginning of the year, the financial goal for the Desjardins Group's total capital ratio was set at 13%, at Desjardins Group's initiative, to take into account the prevailing global economic context and the implementation, effective in the first quarter of 2009, of the new framework established by the AMF guideline on adequacy of capital base standards. Previously, this target was established at 12.5%.

On March 17, 2009, Desjardins Group called the Series D subordinated debentures for a face value of \$450 million. Pursuant to a purchase and resale agreement entered into on March 30, 2009, Desjardins Group agreed to issue for a consideration of \$500 million (carrying value of \$498 million as at September 30, 2009) Series E subordinated debentures maturing in April 2019. These debentures bear interest at an annual rate of 5.756% for the first five years, and for the following five years, at an annual rate equal to the 90-day bankers' acceptance rate plus 4.97%, and are redeemable at the option of Desjardins Group.

Pursuant to a purchase and resale agreement entered into on June 1, 2009, Desjardins Group issued for a consideration of \$500 million (carrying value of \$497 million as at September 30, 2009) Series F subordinated debentures maturing in June 2021. These debentures bear interest at an annual rate of 5.541% for the first seven years, and for the following five years, at an annual rate equal to the 90-day bankers' acceptance rate plus 3.88%, and are redeemable at the option of Desjardins Group.

During the third quarter, the Desjardins caisse network issued permanent shares for an amount of \$252 million. These shares qualify as Tier 1 capital for regulatory purposes.

### 15. SEGMENTED INFORMATION

Desjardins Group is a cooperative financial group. Under the authority of the Board of Directors of the FCDQ, it manages the components operating in the Personal and Commercial segment as well as the subsidiaries.

The Personal and Commercial segment is comprised of all activities related to financial intermediation, investment funds and trust services. The network of subsidiaries is comprised of activities related to the Life and Health Insurance segment, the General Insurance segment and the Securities Brokerage, Asset Management and Venture Capital segment. The last segment, labelled Other, includes different consolidation adjustments attributable to all of Desjardins Group's subsidiaries.

Since the first quarter of 2009, the activities related to 9186-8034 Québec inc., a subsidiary, and its own subsidiaries, which hold ABCP assets repurchased in the money market mutual funds and in the securities lending operations of Desjardins Trust clients for which it had not assumed the risk, have been transferred from the Personal and Commercial segment to the Other segment for segmented information purposes. The ABCP assets are now held by 9210-6855 Québec inc., a subsidiary, whose activities are included in the Other segment. Prior period figures were revised to reflect this reclassification.

The activities of the Personal and Commercial segment and those of the subsidiaries complement each other. Intersegment transactions are carried out in the normal course of business and are valued at the exchange amount, which corresponds to the amount of consideration established and agreed to by the components. The results of the main segments reflect internal financial reporting systems and are consistent with the policies used in preparing the Combined Financial Statements of Desjardins Group.

## 15. SEGMENTED INFORMATION (continued)

The following table provides a summary of Desjardins Group's financial results by business segment for the three months ended September 30.

<b>SEGMENTED INFORMATION</b>												
<b>(unaudited)</b>												
For the three months ended September 30 (in millions of dollars)	Personal and Commercial		Life and Health Insurance		General Insurance		Securities Brokerage, Asset Management and Venture Capital		Other		Combined <sup>(1)</sup>	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Net interest income	\$970	\$927	\$---	\$---	\$---	\$---	\$---	\$---	\$1	\$---	\$958	\$882
Net premiums	---	---	782	805	365	357	---	---	---	---	1,102	1,111
Income (loss) from available-for-sale securities	7	(79)	6	(3)	9	11	---	---	---	(49)	23	(123)
Trading income (loss)	62	(25)	362	(364)	16	(5)	28	8	61	(63)	494	(449)
Other investment income (loss)	---	(31)	77	77	---	(5)	---	(7)	(4)	(8)	71	62
Other income (loss)	349	458	37	27	---	3	76	80	(21)	6	422	527
<b>Total income (loss)</b>	<b>1,388</b>	<b>1,250</b>	<b>1,264</b>	<b>542</b>	<b>390</b>	<b>361</b>	<b>104</b>	<b>81</b>	<b>37</b>	<b>(114)</b>	<b>3,070</b>	<b>2,010</b>
Provisions for credit losses	80	65	---	---	---	---	---	---	---	---	80	65
Claims, benefits, annuities and changes in insurance provisions	---	---	961	331	254	248	---	---	---	---	1,216	579
Non-interest expense (income)	958	891	211	186	83	75	88	89	(4)	14	1,220	1,145
<b>Operating surplus earnings (deficit)</b>	<b>350</b>	<b>294</b>	<b>92</b>	<b>25</b>	<b>53</b>	<b>38</b>	<b>16</b>	<b>(8)</b>	<b>41</b>	<b>(128)</b>	<b>554</b>	<b>221</b>
Income tax expense (recovery) on surplus earnings	89	99	24	7	18	10	3	(1)	33	(42)	167	73
Non-controlling interests	1	(2)	3	(2)	3	3	---	---	---	---	9	(1)
<b>Surplus earnings (deficit) before member dividends</b>	<b>260</b>	<b>197</b>	<b>65</b>	<b>20</b>	<b>32</b>	<b>25</b>	<b>13</b>	<b>(7)</b>	<b>8</b>	<b>(86)</b>	<b>378</b>	<b>149</b>
Provision for member dividends, net of income taxes	95	7	---	---	---	---	---	---	---	---	95	7
<b>Surplus earnings (deficit) for the period after member dividends</b>	<b>\$165</b>	<b>\$190</b>	<b>\$65</b>	<b>\$20</b>	<b>\$32</b>	<b>\$25</b>	<b>\$13</b>	<b>\$(7)</b>	<b>\$8</b>	<b>\$(86)</b>	<b>\$283</b>	<b>\$142</b>
<b>Segment assets</b>	<b>\$124,418</b>	<b>\$118,497</b>	<b>\$13,961</b>	<b>\$14,034</b>	<b>\$3,083</b>	<b>\$3,232</b>	<b>\$19,571</b>	<b>\$13,102</b>	<b>\$2,180</b>	<b>\$1,456</b>	<b>\$163,213</b>	<b>\$150,321</b>

<sup>(1)</sup> The differences between "Combined" results and the sum of the results of the business segments, shown above, are due to intersegment transactions.

## 15. SEGMENTED INFORMATION (continued)

The following table provides a summary of Desjardins Group's financial results by business segment for the nine months ended September 30.

<b>SEGMENTED INFORMATION</b>												
<b>(unaudited)</b>												
For the nine months ended September 30 (in millions of dollars)	Personal and Commercial		Life and Health Insurance		General Insurance		Securities Brokerage, Asset Management and Venture Capital		Other		Combined <sup>(1)</sup>	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	Net interest income	\$2,613	\$2,588	\$---	\$---	\$---	\$---	\$---	\$---	\$3	\$---	\$2,581
Net premiums	---	---	2,222	2,159	1,077	1,066	---	---	---	---	3,165	3,104
Income (loss) from available-for-sale securities	2	(82)	27	12	28	19	---	---	---	(178)	57	(232)
Trading income (loss)	109	(41)	492	(376)	39	24	85	38	18	(103)	707	(460)
Other investment income (loss)	(7)	(2)	233	223	(1)	(5)	(6)	(24)	(8)	(26)	204	181
Other income (loss)	1,188	1,320	94	86	(2)	(2)	234	261	(6)	16	1,373	1,513
<b>Total income (loss)</b>	<b>3,905</b>	<b>3,783</b>	<b>3,068</b>	<b>2,104</b>	<b>1,141</b>	<b>1,102</b>	<b>313</b>	<b>275</b>	<b>7</b>	<b>(291)</b>	<b>8,087</b>	<b>6,644</b>
Provisions for credit losses	184	155	1	---	---	---	---	---	---	---	185	155
Claims, benefits, annuities and changes in insurance provisions	---	---	2,216	1,368	769	811	---	---	---	---	2,985	2,179
Non-interest expense (income)	2,877	2,740	639	580	268	248	284	286	(4)	18	3,716	3,543
<b>Operating surplus earnings (deficit)</b>	<b>844</b>	<b>888</b>	<b>212</b>	<b>156</b>	<b>104</b>	<b>43</b>	<b>29</b>	<b>(11)</b>	<b>11</b>	<b>(309)</b>	<b>1,201</b>	<b>767</b>
Income tax expense (recovery) on surplus earnings	223	252	60	42	30	1	6	(1)	32	(89)	351	205
Non-controlling interests	4	---	5	4	7	4	---	---	---	---	17	8
<b>Surplus earnings (deficit) before member dividends</b>	<b>617</b>	<b>636</b>	<b>147</b>	<b>110</b>	<b>67</b>	<b>38</b>	<b>23</b>	<b>(10)</b>	<b>(21)</b>	<b>(220)</b>	<b>833</b>	<b>554</b>
Provision for member dividends, net of income taxes	163	216	---	---	---	---	---	---	---	---	163	216
<b>Surplus earnings (deficit) for the period after member dividends</b>	<b>\$454</b>	<b>\$420</b>	<b>\$147</b>	<b>\$110</b>	<b>\$67</b>	<b>\$38</b>	<b>\$23</b>	<b>\$(10)</b>	<b>\$(21)</b>	<b>\$(220)</b>	<b>\$670</b>	<b>\$338</b>
<b>Segment assets</b>	<b>\$124,418</b>	<b>\$118,497</b>	<b>\$13,961</b>	<b>\$14,034</b>	<b>\$3,083</b>	<b>\$3,232</b>	<b>\$19,571</b>	<b>\$13,102</b>	<b>\$2,180</b>	<b>\$1,456</b>	<b>\$163,213</b>	<b>\$150,321</b>

<sup>(1)</sup> The differences between "Combined" results and the sum of the results of the business segments, shown above, are due to intersegment transactions.

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