

# COMBINED FINANCIAL STATEMENTS OF DESJARDINS GROUP

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# ANNUAL REPORT BY THE AUDIT AND INSPECTION COMMISSION

The role of the Audit and Inspection Commission is to support the Board of Directors of the Fédération des caisses Desjardins du Québec (FCDQ) in its various oversight responsibilities for Desjardins Group. Its mandate consists primarily of analyzing the financial statements, their presentation and the quality of the accounting principles adopted, risk management as it relates to financial reporting, internal control systems, internal and external audit processes, the procedures applied to such audits, and the management of regulatory compliance.

The Commission reviews Desjardins Group's quarterly and annual financial statements, related press releases, the annual Management's Discussion and Analysis, and the Annual Information Form.

The Commission ensures that Management has designed and implemented an effective internal control system with respect to financial reporting, asset protection, fraud detection and regulatory compliance. It also ensures that Management has implemented systems to manage the main risks that may influence the financial results of the caisse network and Desjardins Group.

Also examined are files that document the caisse network's growth, including the financial position of the caisses, particular situations detected in the caisses, any follow-ups made, credit losses and how certain accounting policies and practices, such as the management method for the general allowance, are applied. With respect to the Desjardins Bureau for Financial Monitoring and Enforcement, the Commission ensures that the action plan on caisse audits and inspections is carried out and also reviews comment letters, inspection reports with adjustments and the follow-ups that are performed.

The external auditor is under the authority of the Commission. To satisfy its responsibilities regarding the external auditor, the Commission ensures and preserves the external auditor's independence by authorizing all non-audit-related services, by recommending auditor appointments and renewals, by setting and recommending auditor compensation and by conducting annual auditor evaluations. In addition, the Commission supervises the work of the external auditors and examines their audit proposal, their audit mandate, their annual audit strategy, their auditors' reports, their auditors' management letter and Management's comments. Desjardins Group has a policy that governs the awarding of contracts for related services. Specifically, this policy addresses the following:

- a) the services that can or cannot be performed by the external auditor,
- b) the governance procedures that must be followed before mandates may be awarded, and
- c) the responsibilities of the key players involved.

Accordingly, the Commission receives a quarterly report on the contracts awarded to external auditors by each of the Desjardins Group entities.

The Commission ensures and preserves the independence of Desjardins Group's Internal Audit service. It analyzes the internal audit team's annual audit strategy as well as its responsibilities, performance, objectivity and staffing. The Commission reviews the internal audit team's summary reports and, if necessary, takes follow-up action. When doing so, the Commission meets with the head of Internal Audit of Desjardins Group to discuss any important matters submitted to Management. With respect to relations with the Autorité des marchés financiers, the Commission reviews and follows up on the inspection report issued by this organization, as well as the financial reports that are submitted each quarter to the Autorité des marchés financiers.

The Commission meets privately with external auditors, Management, the head of Internal Audit of Desjardins Group, the Inspector and Auditor General of Desjardins Group and representatives from the Autorité des marchés financiers. Every quarter, it reports to the Board of Directors and, if necessary, makes recommendations. Lastly, to comply with sound corporate governance practices, the Commission annually reviews the degree of efficiency and effectiveness with which it has performed the tasks set out in its charter.

The Commission is made up of five independent directors. With the exception of one member who serves as an instructor at training sessions intended for Desjardins personnel and elected officers, Desjardins Group does not remunerate any other member, either directly or indirectly, for services other than those rendered as a member of the FCDQ's Board of Directors or other Desjardins Group entities and their committees.

All the members of the Commission have the knowledge required to read and interpret the financial statements of a financial institution, based on the criteria established by the Commission's charter.

The Commission met on 13 occasions and held 3 training sessions, including a seminar with the members of Desjardins Group's audit committees and commissions, in fiscal 2008. As at December 31, 2008, the members of the Commission were Ms. Andrée Lafortune, FCA, Mr. Pierre Leblanc, FCA, Mr. Thomas Blais, Mr. Serge Tourangeau and Mr. Benoît Turcotte.

**Andrée Lafortune, FCA**  
Chair

# MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Combined Financial Statements of Desjardins Group and all information contained in this Annual Report are the responsibility of the Management of the Fédération des caisses Desjardins du Québec, whose duty is to ensure reporting integrity and fairness.

The Combined Financial Statements were prepared in accordance with Canadian generally accepted accounting principles and in accordance with the accounting requirements of the Autorité des marchés financiers as applicable. The Combined Financial Statements necessarily contain amounts established by Management based on estimates which it deems fair and reasonable. These estimates include, among other things, valuations of the actuarial and related liabilities performed by the actuaries of the insurance segments. All financial information in the Annual Report is consistent with the audited Combined Financial Statements.

As the Management of the Fédération des caisses Desjardins du Québec is responsible for the reliability of Desjardins Group's Combined Financial Statements and related information and the accounting systems from which they are derived, it maintains controls over transactions and related accounting practices. The controls in place notably include an organizational structure that ensures effective segregation of duties, a code of ethics and professional conduct, standards in personnel hiring and training, policies and a procedures manual, as well as the application of control methods that are regularly updated, thereby exercising adequate supervision of operations. The internal control system is backed by a professional internal audit team and the Desjardins Bureau for Financial Monitoring and Enforcement with full and unrestricted access to the Audit and Inspection Commission. Management also implemented a financial governance structure based on best market practices to ensure the effectiveness of the disclosure controls and procedures over the financial information presented in the annual and interim filings of Desjardins Group.

The Autorité des marchés financiers conducts an inspection of certain components of Desjardins Group under its authority on a continuing basis.

The Board of Directors of the Fédération des caisses Desjardins du Québec approves the financial information contained in the Annual Report of Desjardins Group by relying on the recommendation of the Audit and Inspection Commission. To this effect, the Audit and Inspection Commission is mandated by the Board to review the Combined Financial Statements of Desjardins Group as well as the Management's Discussion and Analysis. In addition, the Audit and Inspection Commission, comprised of directors who are neither officers nor employees of Desjardins Group, exercises an oversight role to ensure that Management has developed and implemented adequate control procedures and systems to ensure quality financial reporting with all the required disclosures within the required timeframes.

The Combined Financial Statements were examined by the auditors appointed by the Board of Directors, PricewaterhouseCoopers LLP and the Audit Department of the Desjardins Bureau for Financial Monitoring and Enforcement, whose report follows. The auditors may meet with the members of the Audit and Inspection Commission at any time to discuss their audit and any questions related thereto, notably the integrity of the financial information provided and the quality of internal control systems.

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

President and Chief Executive Officer  
Desjardins Group

## **Raymond Laurin, CA**

Senior Vice-President and Chief Financial Officer  
Desjardins Group

Lévis, February 27, 2009

## AUDITORS' REPORT

### **TO THE MEMBERS OF THE FÉDÉRATION DES CAISSES DESJARDINS DU QUÉBEC**

We have audited the combined balance sheets of Desjardins Group as at December 31, 2008 and 2007 and the combined statements of income, changes in equity, comprehensive income and cash flows for the years then ended. These combined financial statements are the responsibility of the Management of the Fédération des caisses Desjardins du Québec. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these combined financial statements present fairly, in all material respects, the financial position of Desjardins Group as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

The combined financial statements for the year ended December 31, 2006, before their restatement to reflect the change in accounting policy concerning the consolidation of variable interest entities by investment companies described in Note 1 to the combined financial statements for the previous year, were audited jointly by Samson Bélair/Deloitte & Touche s.e.n.c.r.l. and the Desjardins Bureau for Financial Monitoring and Enforcement, who expressed an opinion without reservation on those combined financial statements in their report dated February 18, 2007. We have audited the restatement made to the combined financial statements for the year ended December 31, 2006 and, in our opinion, this restatement is, in all material respects, appropriate and was adequately performed.

## **PricewaterhouseCoopers LLP<sup>1</sup>**

<sup>1</sup>Chartered accountant auditor permit No. 14043

Montréal, February 27, 2009

## **Audit Department<sup>2</sup>**

<sup>2</sup>Chartered accountant auditor permit No. 11595

Anjou, February 27, 2009

## COMBINED BALANCE SHEETS

As at December 31  
(in millions of \$)

	2008	2007
<b>ASSETS</b>		
<b>Cash and deposits with financial institutions</b>	<b>\$ 1,489</b>	<b>\$ 1,499</b>
<b>Securities</b> (Note 4)		
Available-for-sale securities	11,338	10,315
Securities held for trading	17,765	21,127
Equity method securities	119	118
	<b>29,222</b>	<b>31,560</b>
<b>Securities borrowed or purchased under reverse repurchase agreements</b>	<b>6,130</b>	<b>7,593</b>
<b>Loans</b> (Notes 5 and 6)		
Residential mortgages	61,081	56,662
Consumer, credit card and other personal loans	18,121	16,440
Business and government	26,086	23,063
	<b>105,288</b>	<b>96,165</b>
Allowance for credit losses (Note 5)	(826)	(762)
	<b>104,462</b>	<b>95,403</b>
<b>Other assets</b>		
Land, buildings and equipment (Note 7)	1,025	969
Interest receivable	520	528
Derivative financial instruments (Note 24)	4,588	1,195
Clients' liability under acceptances	428	893
Other (Note 8)	4,434	4,419
	<b>10,995</b>	<b>8,004</b>
<b>Total assets</b>	<b>\$ 152,298</b>	<b>\$ 144,059</b>

**LIABILITIES AND EQUITY**

	<b>2008</b>	2007
<b>Liabilities</b>		
<b>Deposits</b> (Note 10)		
Individuals	\$ 71,958	\$ 66,319
Business and government	21,512	20,784
Deposit-taking and other institutions	7,966	8,663
	<b>101,436</b>	<b>95,766</b>
<b>Other liabilities</b>		
Actuarial and related liabilities (Note 11)	12,874	12,831
Borrowings (Note 12)	338	69
Interest payable	916	907
Derivative financial instruments (Note 24)	2,773	1,321
Acceptances	428	893
Commitments related to securities lent or sold under repurchase agreements	11,905	9,455
Commitments related to securities sold short	4,112	6,875
Other (Note 13)	6,119	4,818
	<b>39,465</b>	<b>37,169</b>
<b>Subordinated debentures</b> (Note 14)	<b>748</b>	<b>858</b>
<b>Non-controlling interests</b> (Note 15)	<b>776</b>	<b>984</b>
<b>Equity</b>		
Capital stock (Note 16)	955	894
Share capital (Note 17)	67	67
Undistributed surplus earnings (deficit)	(96)	795
Accumulated other comprehensive income (Note 18)	685	50
Reserves (Note 19)	8,262	7,476
	<b>9,873</b>	<b>9,282</b>
<b>Total liabilities and equity</b>	<b>\$ 152,298</b>	<b>\$ 144,059</b>

The accompanying notes are an integral part of the 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

**Pierre Tardif**  
Vice-Chair of the Board

# COMBINED STATEMENTS OF INCOME

Years ended December 31  
(in millions of \$)

	<b>2008</b>	2007	2006
<b>Interest income</b>			
Loans	\$ 5,573	\$ 5,438	\$ 4,971
Securities	474	447	386
	<b>6,047</b>	<b>5,885</b>	<b>5,357</b>
<b>Interest expense</b>			
Deposits	2,590	2,578	2,206
Subordinated debentures and borrowings	39	62	70
	<b>2,629</b>	<b>2,640</b>	<b>2,276</b>
<b>Net interest income</b>	<b>3,418</b>	<b>3,245</b>	<b>3,081</b>
<b>Net premiums</b>	<b>4,131</b>	<b>3,824</b>	<b>3,688</b>
<b>Other income</b>			
Deposit and payment service charges	497	484	447
Lending fees and credit card service revenues	410	381	326
Brokerage, investment fund and trust services	617	738	625
Investment and trading income	—	—	878
Income (loss) on available-for-sale securities	(413)	141	—
Trading income (loss) (Note 20)	(993)	262	—
Other investment income	239	179	—
Other	467	417	374
	<b>824</b>	<b>2,602</b>	<b>2,650</b>
<b>Total income</b>	<b>8,373</b>	<b>9,671</b>	<b>9,419</b>
<b>Provisions for credit losses</b>	<b>243</b>	<b>197</b>	<b>139</b>
<b>Claims, benefits, annuities and changes in insurance provisions</b>	<b>3,144</b>	<b>3,171</b>	<b>3,342</b>
<b>Client retention expense</b>	<b>—</b>	<b>121</b>	<b>—</b>
<b>Non-interest expense</b>			
Salaries and fringe benefits	2,250	2,338	2,271
Premises, equipment and furniture, including amortization	393	381	373
Outsourcing of processing services	322	308	315
Communications	252	236	237
Other	1,583	1,439	1,338
	<b>4,800</b>	<b>4,702</b>	<b>4,534</b>
<b>Operating surplus earnings</b>	<b>186</b>	<b>1,480</b>	<b>1,404</b>
Income taxes on surplus earnings (Note 21)	109	358	398
<b>Operating surplus earnings before non-controlling interests and member dividends</b>	<b>77</b>	<b>1,122</b>	<b>1,006</b>
Non-controlling interests (Note 15)	(1)	21	18
<b>Surplus earnings before member dividends</b>	<b>78</b>	<b>1,101</b>	<b>988</b>
Provision for member dividends (Note 22)	215	592	483
Tax recovery on provision for member dividends (Note 21)	(62)	(174)	(148)
<b>Surplus earnings (deficit) for the year after member dividends</b>	<b>\$ (75)</b>	<b>\$ 683</b>	<b>\$ 653</b>

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

## COMBINED STATEMENTS OF CHANGES IN EQUITY

Years ended December 31  
(in millions of \$)

	2008	2007	2006
<b>Capital stock</b>			
Balance at beginning of year	\$ 894	\$ 856	\$ 845
Net change during the year	61	38	11
Balance at end of year	<b>\$ 955</b>	<b>\$ 894</b>	<b>\$ 856</b>
<b>Share capital</b>			
Balance at beginning of year	\$ 67	\$ 66	\$ 64
Issuance of preferred shares (Note 17)	2	2	2
Redemption of preferred shares (Note 17)	(2)	(1)	—
Balance at end of year	<b>\$ 67</b>	<b>\$ 67</b>	<b>\$ 66</b>
<b>Undistributed surplus earnings (deficit)<sup>(1)</sup></b>			
Balance at beginning of year	\$ 795	\$ 634	\$ 729
Impact of the adoption of new accounting standards and other restatements	—	(16)	—
Surplus earnings (deficit) for the year after member dividends	(75)	683	653
Remuneration on permanent shares, net of income tax recovery	(26)	(24)	(15)
Dividends on preferred shares	(4)	(3)	(3)
Transfer to the stabilization reserve	(3)	—	(1)
Transfer to the reserve for future member dividends	(141)	(68)	(136)
Transfer to the general reserve	(642)	(411)	(593)
Balance at end of year	<b>\$ (96)</b>	<b>\$ 795</b>	<b>\$ 634</b>
<b>Accumulated other comprehensive income<sup>(1)</sup></b>			
Balance at beginning of year	\$ 50	\$ —	\$ —
Impact of the adoption of new accounting standards (Note 1)	—	113	—
Other comprehensive income for the year	635	(63)	—
Balance at end of year (Note 18)	<b>\$ 685</b>	<b>\$ 50</b>	<b>\$ —</b>
<b>Reserves</b>			
<b>Stabilization reserve</b>			
Balance at beginning of year	\$ 275	\$ 275	\$ 274
Transfer from undistributed surplus earnings	3	—	1
Balance at end of year	<b>\$ 278</b>	<b>\$ 275</b>	<b>\$ 275</b>
<b>Reserve for future member dividends</b>			
Balance at beginning of year	\$ 209	\$ 141	\$ 5
Transfer from undistributed surplus earnings	141	68	136
Balance at end of year	<b>\$ 350</b>	<b>\$ 209</b>	<b>\$ 141</b>
<b>General reserve</b>			
Balance at beginning of year	\$ 6,992	\$ 6,581	\$ 5,988
Transfer from undistributed surplus earnings	642	411	593
Balance at end of year	<b>\$ 7,634</b>	<b>\$ 6,992</b>	<b>\$ 6,581</b>
<b>Total reserves</b>	<b>\$ 8,262</b>	<b>\$ 7,476</b>	<b>\$ 6,997</b>
<b>Total equity</b>	<b>\$ 9,873</b>	<b>\$ 9,282</b>	<b>\$ 8,553</b>

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

(1) The sum of undistributed surplus earnings and accumulated other comprehensive income is \$589 million (\$845 million in 2007 and \$634 million in 2006).

## COMBINED STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31  
(in millions of \$)

	<b>2008</b>	2007
<b>Surplus earnings (deficit) for the year after member dividends</b>	<b>\$ (75)</b>	<b>\$ 683</b>
<b>Other comprehensive income, net of income taxes</b>		
Net change in net unrealized losses on available-for-sale securities <sup>(1)</sup>	<b>(182)</b>	(42)
Reclassification to the Combined Statements of Income of losses (gains) on available-for-sale securities <sup>(2)</sup>	<b>56</b>	(35)
	<b>(126)</b>	(77)
Net change in gains on derivative financial instruments designated as cash flow hedges <sup>(3)</sup>	<b>767</b>	14
Reclassification to the Combined Statements of Income of gains on derivative financial instruments designated as cash flow hedges <sup>(4)</sup>	<b>(8)</b>	—
	<b>759</b>	14
Net unrealized exchange gain on the translation of the financial statements of self-sustaining foreign operations, net of hedging transactions	<b>2</b>	—
<b>Total other comprehensive income</b>	<b>635</b>	<b>(63)</b>
<b>Comprehensive income</b>	<b>\$ 560</b>	<b>\$ 620</b>

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

(1) Net of income tax benefit of \$42 million (benefit of \$16 million in 2007).

(2) Net of income tax benefit of \$11 million (expense of \$11 million in 2007).

(3) Net of income tax expense of \$244 million (expense of \$5 million in 2007).

(4) Net of income tax expense of \$3 million (nil in 2007).

For fiscal year 2006, there was no other comprehensive income and, therefore, surplus earnings for the year after member dividends were equal to comprehensive income. Consequently, this statement is not presented on a comparative basis for 2006.

# COMBINED STATEMENTS OF CASH FLOWS

Years ended December 31  
(in millions of \$)

	2008	2007	2006
<b>Cash flows from (used in) operating activities</b>			
Surplus earnings (deficit) for the year after member dividends	\$ (75)	\$ 683	\$ 653
Adjustments for:			
Amortization of buildings and equipment	165	141	143
Amortization of intangible assets with finite useful lives	35	36	25
Amortization of realized deferred and unrealized net gains on investment securities	—	—	(32)
Write-down of venture capital investments	28	5	13
Net change in actuarial and related liabilities	43	278	635
Future income taxes	(269)	(62)	(25)
Provisions for credit losses	243	197	139
Write-off of deferred charges and goodwill	56	—	—
Non-controlling interests	(1)	21	18
Net gain on disposal of investment securities <sup>(1)</sup>	—	—	(62)
Net losses realized on available-for-sale securities	446	87	—
Change in operating assets and liabilities			
Interest receivable	8	(42)	(51)
Interest payable	9	60	184
Securities held for trading <sup>(1)</sup>	3,355	(16,416)	(861)
Net change in equity method securities	(1)	(80)	—
Net change in fair value of derivative financial instruments	(930)	251	(373)
Other	1,113	70	320
	<b>4,225</b>	<b>(14,771)</b>	<b>726</b>
<b>Cash flows from (used in) financing activities</b>			
Net change in deposits	5,670	7,623	4,856
Issuance of debt securities and subordinated debentures	276	—	—
Repayment of debt securities and subordinated debentures	(117)	(596)	(182)
Net change in capital stock	23	21	11
Issuance of preferred shares	2	—	2
Redemption of preferred shares	(2)	(1)	—
Net change in non-controlling interests	(207)	374	328
Remuneration on permanent shares, net of income tax recovery	(26)	(24)	(15)
Dividends on preferred shares	(2)	(1)	(3)
Commitments related to securities lent or sold under repurchase agreements	2,450	2,500	1,835
Net change in commitments related to securities sold short	(2,763)	2,774	1,791
	<b>5,304</b>	<b>12,670</b>	<b>8,623</b>
<b>Cash flows from (used in) investing activities</b>			
Net change in loans	(11,407)	(8,524)	(7,561)
Proceeds from securitization of mortgage loans	2,105	1,570	1,248
Net change in investment securities <sup>(1)</sup>	—	12,405	(1,020)
Purchase of available-for-sale securities	(25,147)	(24,559)	—
Proceeds from disposals of available-for-sale securities	11,677	17,865	—
Proceeds from maturities of available-for-sale securities	11,991	7,093	—
Securities borrowed or purchased under reverse repurchase agreements	1,463	(3,446)	(1,758)
Net acquisitions of land, buildings and equipment	(221)	(138)	(202)
	<b>(9,539)</b>	<b>2,266</b>	<b>(9,293)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(10)</b>	<b>165</b>	<b>56</b>
Cash and cash equivalents at beginning of year	1,499	1,334	1,278
<b>Cash and cash equivalents at end of year</b>	<b>\$ 1,489</b>	<b>\$ 1,499</b>	<b>\$ 1,334</b>
<b>Composition of cash and cash equivalents</b>			
Cash	\$ 885	\$ 849	\$ 984
Deposits with financial institutions and the Bank of Canada	398	214	557
Cheques and other items in transit (net amount)	206	436	(207)
	<b>\$ 1,489</b>	<b>\$ 1,499</b>	<b>\$ 1,334</b>
<b>Supplemental cash flow information</b>			
Interest paid during the year	\$ 2,620	\$ 2,580	\$ 2,092
Income taxes on surplus earnings paid during the year	221	208	223

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

(1) Since January 1, 2007, investment securities have been classified under two separate headings, namely available-for-sale securities and securities held for trading in accordance with the new financial instrument accounting standards. Changes presented in the Combined Statements of Cash Flows take this reclassification into account.

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

(Dollar amounts presented in the tables of the Notes to the Combined Financial Statements are in millions of dollars, unless otherwise stated)

Desjardins Group is made up of the Fédération des caisses Desjardins du Québec (FCDQ), its member caisses and its subsidiaries, the Fédération des caisses populaires de l'Ontario and its member caisses, and the Fonds

de sécurité Desjardins. Desjardins Group, a cooperative financial group, is a leading player in the economic and social development of the communities it serves.

## NOTE 1

### SIGNIFICANT ACCOUNTING POLICIES

Pursuant to the *Act respecting financial services cooperatives* (the Act), the Combined Financial Statements of Desjardins Group have been prepared by Management in accordance with Canadian generally accepted accounting principles (GAAP) and the accounting requirements of the Autorité des marchés financiers in Québec (AMF), which do not differ from GAAP. The preparation of financial statements in accordance with GAAP 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 financial statements, as well as income and expenses for the reporting periods. The main items on which Management had to make complex judgment include the allowance for credit losses, the securitization of mortgage loans, the valuation of financial instruments at fair value, the other than temporary decline in value of available-for-sale assets, actuarial and related liabilities, the provisions for contingencies, the provision for member dividends, the net expense related to employee future benefit plans, income taxes on surplus earnings and the consolidation of variable interest entities. Actual results may differ from these estimates.

### COMBINED FINANCIAL STATEMENTS

These financial statements include the accounts of Desjardins Group's components as well as those of certain variable interest entities (VIEs) of which it is the primary beneficiary. The principles used to prepare combined financial statements are similar to those used to prepare consolidated financial statements. The Combined Financial Statements include the assets, liabilities, equity, comprehensive income and operating results of Desjardins Group's components, after elimination of intercompany transactions and balances.

### CAPITAL MANAGEMENT

On January 1, 2008, Desjardins Group adopted the new standard of the Canadian Institute of Chartered Accountants (CICA) entitled "Capital Disclosures" (Section 1535). The purpose of this Section is to require the disclosure of information that enables users of the Combined Financial Statements to evaluate the entity's objectives, policies and processes for managing capital. This new standard, which specifically covers the disclosures to be provided on capital management, had no impact on Desjardins Group's results or financial position.

### FINANCIAL INSTRUMENTS

On January 1, 2008, Desjardins Group adopted the new CICA standards entitled "Financial Instruments – Disclosures" (Section 3862), and "Financial Instruments – Presentation" (Section 3863). These Sections supersede Section 3861, "Financial Instruments – Disclosure and Presentation". Section 3863 carries forward unchanged the presentation standards contained in Section 3861. The purpose of Section 3862 is to inform users in order to enhance their understanding and evaluation of the significance of financial instruments for the entity's financial position and performance, as well as to help them better evaluate the nature and extent of risks arising from financial instruments and how the entity manages those risks. Since these new standards specifically cover the disclosures to be provided, they had no impact on Desjardins Group's results or financial position.

Since January 1, 2007, Desjardins Group has recognized its financial instruments in accordance with the CICA standards entitled "Financial Instruments – Recognition and Measurement" (Section 3855), "Hedges" (Section 3865) and "Comprehensive Income" (Section 1530).

The impact of transitional adjustments on accumulated other comprehensive income as at January 1, 2007, net of income taxes, resulted from a \$117 million increase following revaluation of available-for-sale securities and a \$4 million decrease due to the effective portion of cash flow hedging relationships.

The impact of the transitional adjustments on opening combined undistributed surplus earnings as at January 1, 2007, net of income taxes, resulted from a decrease of \$21 million due to the change in fair value of financial instruments held for trading and other restatements, losses of \$1 million due to the ineffective portion of fair value hedges and gains of \$6 million related to the ineffective portion of cash flow hedges.

### Financial instruments – recognition and measurement

Financial assets must be classified as one of the following: "held for trading", "available for sale", "held to maturity", or "loans and receivables", based on their characteristics and the purpose of their acquisition. Financial liabilities must be classified as "held for trading" or "other". Financial assets and financial liabilities are initially recognized at fair value. Subsequently, financial assets and financial liabilities held for trading as well as available-for-sale financial assets continue to be recorded on the Combined Balance Sheets at fair value. Changes in the fair value of financial assets and financial liabilities held for trading are recognized in combined income under "Other income – Trading income" for the year, while changes in the fair value of available-for-sale financial assets are recorded in combined other comprehensive income until they are derecognized. Available-for-sale equity securities that are not quoted on an active market are recorded at cost. Available-for-sale securities continue to be monitored on a regular basis to determine whether they have sustained a decline in value that is other than temporary. Any impairment losses are recognized in "Other income – Income from available-for-sale securities" in the Combined Statements of Income.

Financial assets held to maturity, loans and receivables and financial liabilities other than held for trading are recognized at amortized cost using the effective interest method. Interest income and expenses on these financial assets and liabilities arising from the Personal and Commercial segment are recorded in net interest income, whereas those that are arising from other segments are recognized in "Other income – Other investment income". Desjardins Group does not use the "Held to maturity" category.

Under Section 3855, any financial asset or liability whose fair value can be reliably measured may be classified, on initial recognition or on adoption of this standard, as being held for trading. This designation is then irrevocable. Electing to classify financial instruments as held for trading under the fair value option is subject to the requirements set by the AMF.

The valuation techniques used to determine the fair value of financial instruments have remained substantially the same despite the adoption of these new accounting standards. Thus fair value is based on the market price when an active market exists. Otherwise, it is estimated using valuation models and techniques such as discounted cash flow analysis or option pricing models, based as much as possible on observable market factors and other factors that are likely to affect the instrument's fair value.

Transaction costs for financial instruments are capitalized and then amortized over the term of the instrument using the effective interest method, except if such instruments are classified as "Held for trading", in which case these costs are expensed as incurred.

Regular-way purchases and sales of financial assets are recognized on a trade-date basis.

#### Reclassification of financial assets

On October 24, 2008, the Accounting Standards Board issued amendments to Sections 3855, "Financial Instruments – Recognition and Measurement", and 3862, "Financial Instruments – Disclosures". The amendments permit reclassification of certain financial assets in specified circumstances. They are retroactively effective for reclassifications made on or after July 1, 2008, but only for periods for which annual or interim financial statements have not been issued previously. Any reclassification made on or after November 1, 2008 takes effect from the date of reclassification. Desjardins Group did not reclassify any financial assets as of December 31, 2008.

#### Derivative financial instruments and hedging activities

Derivative financial instruments, including embedded derivatives which are required to be accounted for separately, are recorded on the Combined Balance Sheets at fair value.

Embedded derivative financial instruments are separated from their host contract and accounted for as derivatives if: (a) the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host contract; (b) the embedded derivative has the same terms as a separate instrument; (c) the hybrid instrument or contract is not measured at fair value with changes in fair value recognized in combined income. Embedded derivatives which are to be recognized separately are measured at fair value, and the changes in fair value are recognized in combined income. Desjardins Group selected January 1, 2003 as the transition date for embedded derivatives; consequently, only financial instruments or contracts entered into or modified after such transition date were reviewed in order to identify embedded derivatives.

Derivative financial instruments can be designated as part of a fair value hedge or a cash flow hedge. Designation of hedging relationships as cash flow hedges or fair value hedges did not change with the adoption of the new accounting standards. Note 24 to the Combined Financial Statements, "Derivative Financial Instruments and Hedging Activities", describes financial instruments eligible for hedge accounting, the risk management policy relative to derivative financial instruments and the accounting policies with respect to hedging.

#### Comprehensive income

Other comprehensive income includes, in particular, unrealized gains and losses on available-for-sale financial assets, the effective portion of the change in the fair value of cash flow hedging items and the net unrealized exchange loss on the translation of the financial statements of self-sustaining foreign operations. The Combined Financial Statements include Combined Statements of Comprehensive Income and accumulated other comprehensive income is presented as an equity item on the Combined Balance Sheets.

## CONSOLIDATION OF VARIABLE INTEREST ENTITIES

Desjardins Group consolidates variable interest entities (VIEs) of which it is the primary beneficiary in accordance with the CICA Accounting Guideline AcG-15 (AcG-15), "Consolidation of Variable Interest Entities".

Desjardins Group has consolidated, since January 1, 2006, VIEs that are investment companies of which the primary beneficiary is a component of Desjardins Group.

Investors in consolidated VIEs have recourse only against the assets of the relevant VIEs and not against all of the assets of Desjardins Group, except when it acts as a counterparty in derivative transactions with VIEs.

## ACCEPTANCES AND CLIENTS' LIABILITY UNDER ACCEPTANCES

The potential liability of Desjardins Group under acceptances is recorded as a liability in the Combined Balance Sheets. Recourse against the client, in the event of a call on any of these commitments, is recorded as an equivalent offsetting asset. These financial instruments are recognized at amortized cost on the Combined Balance Sheets. Fees earned are recorded over the expected term using the effective interest method and are reported in combined income under "Other income – Other".

## SECURITIES BORROWED OR PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS AND SECURITIES LENT OR SOLD UNDER REPURCHASE AGREEMENTS

Desjardins Group enters into short-term purchases and sales of securities with concurrent agreements to sell and buy them back at a specified price and on a specified date. These agreements are accounted for as collateralized lending or borrowing transactions and are recorded on the Combined Balance Sheets at the selling or purchase price stated in the agreement. In accordance with the accrual basis of accounting, the interest related to reverse repurchase agreements and repurchase agreements is recorded in combined income for the year.

The obligation to return cash collateral received and the right to receive back cash collateral paid on borrowing and lending of securities are recorded, respectively, under "Other liabilities – Commitments related to securities lent or sold under repurchase agreements" and under "Securities borrowed or purchased under reverse repurchase agreements". Securities borrowed or purchased under reverse repurchase agreements are classified under "Loans and receivables", and commitments related to securities lent or sold under repurchase agreements are classified under "Other liabilities" unless such commitments are required to be classified as held for trading because of Management's intents with regard to them. Interest received or paid on cash collateral is recorded in combined income for the year.

## COMMITMENTS RELATED TO SECURITIES SOLD SHORT

Securities sold short as part of trading activities, which represent Desjardins Group's obligation to deliver securities that it did not possess at the time of sale, are recorded as liabilities at their fair value. Realized and unrealized gains or losses on these securities are recorded in combined income under "Other income – Trading income". Securities sold short are classified as held for trading.

## NOTE 1

**SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES**

Financial assets and liabilities are presented on a net basis when there is a legally enforceable right to set off the recognized amounts and Desjardins Group intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

**IMPAIRMENT OF LONG-LIVED ASSETS**

Land, buildings and equipment and intangible assets are tested for impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable. An impairment loss is recognized when their carrying value exceeds the undiscounted cash flows resulting from their use and eventual disposition. The impairment loss recognized in the Combined Statements of Income is the excess of the carrying value over the fair value of the long-lived asset.

**FOREIGN CURRENCY TRANSLATION**

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate prevailing on the Combined Balance Sheet date, and non-monetary assets and liabilities are translated at historical rates. Income and expenses are translated at the average exchange rate in effect during the year. The resulting gains and losses, realized or unrealized, are included in "Other income – Other", except for unrealized gains and losses on available-for-sale financial instruments

The significant accounting policies are presented in the following notes:

Note number	Note title
4	Securities
5	Loans and Allowance for Credit Losses
6	Securitization of Mortgage Loans
7	Land, Buildings and Equipment
8	Other Assets
11	Actuarial and Related Liabilities
21	Income Taxes on Surplus Earnings
22	Provision for Member Dividends
23	Employee Future Benefit Plans
24	Derivative Financial Instruments and Hedging Activities

and gains and losses on derivatives designated as cash flow hedges, which are reported in other comprehensive income. All assets and liabilities of self-sustaining foreign operations denominated in foreign currencies are translated at rates prevailing on the Combined Balance Sheet date, while income and expenses of these foreign operations are translated at the average rate for the period. Exchange gains and losses resulting from the translation of the financial statements of these operations, including the related effects of hedging and taxes, are recorded in combined other comprehensive income. An appropriate portion of these accumulated gains or losses is reclassified to "Non-interest income" in the Combined Statements of Income upon reduction of the net investment.

**ASSETS UNDER MANAGEMENT AND SEGREGATED FUNDS**

Assets under management and segregated funds of the life and health insurance subsidiary are held for the direct beneficial interest of clients and policyholders. These assets under management are therefore excluded from the Combined Balance Sheets. The income derived from the management services are recorded in combined income under "Other income – Other".

**SPECIFIC ACCOUNTING POLICIES**

The accounting policies related to a note to the Combined Financial Statements are presented with such note so that they may be better understood.

**Accounting policies**

Securities
Loans, allowance for credit losses
Securitization of mortgage loans
Land, buildings and equipment
Real estate investments, goodwill and other intangible assets
Net premiums and reinsurance
Income taxes on surplus earnings
Provision for member dividends
Employee future benefit plans
Derivative financial instruments
Fair value and cash flow hedges

**COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform to the current year's presentation of the Combined Financial Statements.

## NOTE 2

## FUTURE ACCOUNTING CHANGES

## GOODWILL AND INTANGIBLE ASSETS

In January 2008, the CICA issued a new standard 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 meet neither the definition of an asset nor the criteria for asset recognition. Desjardins Group will apply this standard retroactively effective January 1, 2009. Desjardins Group is currently assessing the impact of this standard on the 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 will therefore adopt IFRS as of January 1, 2011. It started its IFRS conversion project in the summer of 2007.

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

On January 20, 2009, the Emerging Issues Committee issued EIC-173, "Credit risk and the fair value of financial assets and financial liabilities". This new EIC states that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative financial instruments. Desjardins Group will apply this accounting treatment retroactively, without restatement of prior periods, to all financial assets and financial liabilities measured at fair value in its interim financial statements as at March 31, 2009. Desjardins Group is currently assessing the impact of this change on the valuation models used to determine the fair value of its financial instruments.

## NOTE 3

## 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.

## 2008

	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
Other	—	—	15	2,184	2,199
<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
Other	—	—	—	5,454	5,454
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>

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

## NOTE 3

## CARRYING VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

2007

	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	\$ 1,499	\$ —	\$ —	\$ —	\$ 1,499
Securities					
Available-for-sale securities	—	—	10,315	—	10,315
Securities held for trading	12,371	8,756	—	—	21,127
Securities borrowed or purchased under reverse repurchase agreements	—	—	—	7,593	7,593
Loans	—	—	—	95,403	95,403
Other financial assets					
Interest receivable	—	—	—	528	528
Derivative financial instruments <sup>(1)</sup>	1,195	—	—	—	1,195
Clients' liability under acceptances	—	—	—	893	893
Other	—	—	21	2,524	2,545
<b>Total financial assets</b>	<b>\$ 15,065</b>	<b>\$ 8,756</b>	<b>\$ 10,336</b>	<b>\$ 106,941</b>	<b>\$ 141,098</b>
<b>Financial liabilities</b>					
Deposits	\$ —	\$ —	\$ —	\$ 95,766	\$ 95,766
Other financial liabilities					
Borrowings	—	—	—	69	69
Interest payable	—	—	—	907	907
Derivative financial instruments <sup>(1)</sup>	1,321	—	—	—	1,321
Acceptances	—	—	—	893	893
Commitments related to securities lent or sold under repurchase agreements	—	—	—	9,455	9,455
Commitments related to securities sold short	6,875	—	—	—	6,875
Other	—	—	—	4,011	4,011
Subordinated debentures	—	—	—	858	858
<b>Total financial liabilities</b>	<b>\$ 8,196</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 111,959</b>	<b>\$ 120,155</b>

(1) Includes derivative financial instruments related to fair value and cash flow hedging activities amounting to \$114 million in assets and \$72 million in liabilities.

## NOTE 4

**SECURITIES**

Securities include available-for-sale securities, securities held for trading and equity method securities. These securities have been classified in financial instrument categories using the methods described in Note 1, "Significant Accounting Policies", and detailed below.

**AVAILABLE-FOR-SALE SECURITIES**

Available-for-sale securities are non-derivative financial assets that were initially designated as available for sale or that were not classified as held for trading, held to maturity or loans and receivables. Available-for-sale securities can be sold further to or in view of fluctuations in interest rates, exchange rates, prices of equity instruments or changes in financing sources or terms, or to meet the liquidity needs of Desjardins Group. They are measured at fair value, and unrealized gains and losses, net of taxes, are recognized in combined other comprehensive income until the securities are derecognized. Premiums and discounts on the purchase of available-for-sale securities are amortized over the life of the security using the effective interest methods and recognized in combined income. Available-for-sale equity securities that are not quoted on an active market are recorded at cost.

Available-for-sale securities continue to be monitored on a regular basis to determine whether they have sustained a decline in value that is other than temporary. Any impairment losses are recognized in "Other income – Income from available-for-sale securities" in the Combined Statements of Income. In evaluating the decline in value, Desjardins Group takes into account many facts specific to each investment and of all the factors that could indicate that there has been a decline in value that is other than temporary. Factors considered include, but are not limited to, a significant or prolonged decline in the fair value, significant financial difficulties of the issuer, a breach of contract, the increasing probability that the issuer will enter bankruptcy or a restructuring and the disappearance of an active market for that financial asset.

Realized gains and losses on disposal of available-for-sale securities, which are calculated based on average cost, are recorded under "Other income – Income from available-for-sale securities". Interest income is recorded in net interest income for the Personal and Commercial segment and in income from available-for-sale securities for the other segments.

**SECURITIES HELD FOR TRADING**

Securities held for trading, which are acquired for resale in the short term or designated under the fair value option, are recognized at fair value. Interest on these securities, other than derivatives, arising from the Personal and Commercial segment, is recorded in net interest income using the effective interest method. Unrealized gains and losses on instruments held for trading, as well as realized gains and losses, including interest from segments other than the Personal and Commercial segment, are presented as trading income in "Other income – Trading income". This item also includes all income from derivative instruments held for trading.

Prior to January 1, 2007, interest income from the Personal and Commercial segment's securities held for trading were recorded in "Interest income – Securities". Interest income from other segments, as well as realized and unrealized gains and losses were recorded immediately in "Other income – Investment and trading income".

**SECURITIES HELD BY INVESTMENT COMPANIES**

The accounting for securities held by Desjardins Group's investment companies is not covered by the new CICA requirements on financial instruments. It is rather dealt with by the standards specific to investment companies. These securities are recognized at fair value under securities held for trading on the Combined Balance Sheets, and changes in their fair value are recorded under "Other income – Trading income".

Up to December 31, 2006, these securities recognized at fair value were classified as investment securities and realized and unrealized gains and losses on such investments were recorded under "Other income – Investment and trading income".

**EQUITY METHOD SECURITIES**

Investments over which Desjardins Group exercises significant influence are accounted for using the equity method. Desjardins Group's share in the net income of these companies is recorded under "Interest income – Securities" in the Combined Statements of Income.

**INVESTMENT SECURITIES**

Before the new sections on financial instruments came into effect on January 1, 2007, securities other than held for trading were classified in this category in accordance with the following policy.

Investment securities were held until maturity or until the market favoured other types of investments.

Debt securities were carried at unamortized cost. Premiums and discounts were amortized using the effective yield method over the terms of the securities. Amortization of these premiums and discounts and interest income were recorded in "Interest income – Securities". The gains and losses realized on the disposal of these securities, which were calculated at the average cost, and any write-downs needed to reflect other than temporary declines in value were recognized immediately in "Other income – Investment and trading income", except for gains and losses realized on the disposal of securities held by the Life and Health Insurance segment, which were deferred and amortized over the remaining life of the disposed security, up to a maximum of 20 years.

Other equity securities were carried at cost and preferred shares were carried at cost, net of premiums and discounts, except securities held by the Life and Health Insurance segment, which were accounted for using the moving average market value method. Income from equity accounting received for securities recorded at cost were recognized in "Interest income – Securities". Gains and losses realized on the disposal of equity securities, as well as any write-downs needed to reflect other than temporary declines in value, were recognized immediately in "Other income – Investment and trading income". However, realized and unrealized gains and losses on equity securities of the Life and Health Insurance segment were deferred and included in combined income using the declining balance method at a rate of 15% per annum.

## NOTE 4

## SECURITIES (CONTINUED)

	Under 1 year	1 to 3 years	Over 3 to 5 years	Maturity Over 5 to 10 years	Over 10 years	No specific maturity	2008 Total	2007 Total
<b>Available-for-sale securities</b>								
<b>Securities issued or guaranteed by</b>								
Canada	\$ 76	\$ 717	\$ 1,564	\$ 10	\$ 11	\$ —	\$ 2,378	\$ 891
Provinces and municipal corporations in Canada	901	1,534	275	459	375	—	3,544	4,267
School or public corporations in Canada	4	—	—	—	—	—	4	24
Foreign public administrations	4	—	—	—	7	—	11	16
<b>Other securities in Canada</b>								
Financial institutions	1,043	1,474	841	36	17	—	3,411	2,548
Other issuers <sup>(1)</sup>	322	192	68	38	31	779	1,430	1,861
Shares	45	54	52	10	—	160	321	544
<b>Securities from foreign issuers</b>								
Financial institutions	4	—	—	—	—	—	4	3
Other issuers	—	—	—	—	—	—	—	3
Shares	—	—	—	1	—	234	235	158
<b>Total available-for-sale securities</b>	<b>\$ 2,399</b>	<b>\$ 3,971</b>	<b>\$ 2,800</b>	<b>\$ 554</b>	<b>\$ 441</b>	<b>\$ 1,173</b>	<b>\$ 11,338</b>	<b>\$ 10,315</b>
<b>Securities required to be classified as held for trading</b>								
<b>Securities issued or guaranteed by</b>								
Canada	521	1,731	2,382	863	576	—	6,073	5,488
Provinces and municipal corporations in Canada	474	354	129	244	532	—	1,733	1,789
School or public corporations in Canada	81	3	9	—	—	—	93	50
Foreign public administrations	—	—	123	2	—	—	125	30
<b>Other securities in Canada</b>								
Financial institutions	87	112	16	1	—	12	228	1,242
Other issuers <sup>(2)</sup>	93	70	12	17	4	462	658	1,207
Shares	—	—	—	—	—	58	58	212
<b>Securities from foreign issuers</b>								
Financial institutions	20	10	—	—	—	—	30	18
Other issuers	—	—	—	—	—	904	904	2,169
Shares	40	—	—	—	—	59	99	166
<b>Total securities required to be classified as held for trading</b>	<b>1,316</b>	<b>2,280</b>	<b>2,671</b>	<b>1,127</b>	<b>1,112</b>	<b>1,495</b>	<b>10,001</b>	<b>12,371</b>
<b>Subtotal of available-for-sale securities and securities required to be classified as held for trading</b>	<b>\$ 3,715</b>	<b>\$ 6,251</b>	<b>\$ 5,471</b>	<b>\$ 1,681</b>	<b>\$ 1,553</b>	<b>\$ 2,668</b>	<b>\$ 21,339</b>	<b>\$ 22,686</b>

	Maturity						2008	2007
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Over 10 years	No specific maturity	Total	Total
<b>Subtotal of available-for-sale securities and securities required to be classified as held for trading (brought forward)</b>	<b>\$ 3,715</b>	<b>\$ 6,251</b>	<b>\$ 5,471</b>	<b>\$ 1,681</b>	<b>\$ 1,553</b>	<b>\$ 2,668</b>	<b>\$ 21,339</b>	<b>\$ 22,686</b>
<b>Securities designated as held for trading under the fair value option</b>								
<b>Securities issued or guaranteed by</b>								
Canada	7	1	—	1	48	—	57	151
Provinces and municipal corporations in Canada	428	580	512	730	2,672	—	4,922	5,125
School or public corporations in Canada	2	1	1	2	122	—	128	220
Foreign public administrations	—	—	—	—	33	—	33	30
<b>Other securities in Canada</b>								
Financial institutions	292	114	124	33	26	—	589	827
Other issuers <sup>(3)</sup>	34	167	361	563	218	249	1,592	1,816
Shares	41	7	1	18	—	132	199	291
<b>Securities from foreign issuers</b>								
Financial institutions	—	—	—	39	48	—	87	110
Other issuers	1	7	23	7	19	—	57	53
Shares	—	—	—	—	—	100	100	133
<b>Total securities designated as held for trading under the fair value option</b>	<b>805</b>	<b>877</b>	<b>1,022</b>	<b>1,393</b>	<b>3,186</b>	<b>481</b>	<b>7,764</b>	<b>8,756</b>
<b>Equity method securities</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>119</b>	<b>119</b>	<b>118</b>
	<b>\$ 4,520</b>	<b>\$ 7,128</b>	<b>\$ 6,493</b>	<b>\$ 3,074</b>	<b>\$ 4,739</b>	<b>\$ 3,268</b>	<b>\$ 29,222</b>	<b>\$ 31,560</b>

(1) Includes ABCP securities with a fair value of \$751 million (\$1,112 million in 2007).

(2) Includes ABCP securities with a fair value of \$437 million (\$643 million in 2007).

(3) Includes ABCP securities with a fair value of \$248 million (\$371 million in 2007).

Total securities include securities denominated in foreign currencies in the amount of C\$1,664 million (\$2,400 million in 2007), of which C\$1,439 million (\$2,154 million in 2007) is denominated in U.S. dollars.

The securities of the venture capital segment, classified as held for trading, include unrealized declines in value of \$41 million (decline in value of \$32 million in 2007). Realized declines in value were \$19 million.

## NOTE 4

## SECURITIES (CONTINUED)

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

## 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 <sup>(2)</sup>	1,478	6	54	1,430
Shares	407	1	87	321
<b>Securities from foreign issuers</b>				
Financial institutions	4	—	—	4
Other issuers	—	—	—	—
Shares	298	—	63	235
	<b>\$ 11,410</b>	<b>\$ 225</b>	<b>\$ 297</b>	<b>\$ 11,338</b>

## 2007

	Amortized cost <sup>(1)</sup>	Unrealized gross gains	Unrealized gross losses	Carrying value <sup>(1)</sup>
<b>Securities issued or guaranteed by</b>				
Canada	\$ 885	\$ 7	\$ 1	\$ 891
Provinces and municipal corporations in Canada	4,202	65	1	4,266
School or public corporations in Canada	24	—	—	24
Foreign public administrations	16	—	—	16
<b>Other securities in Canada</b>				
Financial institutions	2,560	—	11	2,549
Other issuers <sup>(2)</sup>	2,074	—	214	1,860
Shares	529	42	27	544
<b>Securities from foreign issuers</b>				
Financial institutions	3	—	—	3
Other issuers	3	—	—	3
Shares	164	—	5	159
	<b>\$ 10,460</b>	<b>\$ 114</b>	<b>\$ 259</b>	<b>\$ 10,315</b>

(1) 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 Sheets total \$40 million (\$79 million in 2007), and that cost is presented in the "Carrying value" column in the above table. The fair value of some of these securities can be estimated and represents an immaterial loss.

(2) Includes securities that have sustained a decline in value that is other than temporary with an amortized cost of \$1,401 million (\$1,314 million in 2007), including a write-down of \$619 million (\$202 million in 2007).

As at December 31, 2008, the gross unrealized losses on available-for-sale securities amounted to \$297 million (\$259 million in 2007) and resulted from wider credit spreads due to recent disruptions on capital markets, fluctuations in market interest rates as well as a deterioration in the creditworthiness of certain issuers. Declines in value of financial asset-backed securities are monitored regularly 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. Desjardins Group has determined that the gross unrealized losses, other than those related to ABCP securities and collateralized debt obligations, are temporary in nature.

**SECURITIES – ASSET-BACKED COMMERCIAL PAPER**

Desjardins Group holds investments on the non-bank asset-backed commercial paper (ABCP) market, although it never issued this type of financial product to its clients. It should be noted that, to safeguard its members and clients, Desjardins Group 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.

As at December 31, 2008 and 2007, ABCP securities held were broken down as follows:

	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>

	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>

	Amortized cost	Cumulative write-down	Fair value
<b>ABCP</b>			
Synthetic and hybrid assets	\$ 1,985	\$ 228	\$ 1,757
Traditional assets	265	19	246
Ineligible (subprime) assets	187	131	56
Subtotal	<b>2,437</b>	<b>378</b>	<b>2,059</b>
Other ABCP	96	29	67
<b>Total</b>	<b>\$ 2,533</b>	<b>\$ 407</b>	<b>\$ 2,126</b>

	Amortized cost	Income	Cumulative write-down Deposit liabilities and actuarial liabilities	Fair value
Available-for-sale securities	\$ 1,314	\$ 202	\$ —	\$ 1,112
Securities held for trading	1,219	71	134	1,014
<b>Total</b>	<b>\$ 2,533</b>	<b>\$ 273</b>	<b>\$ 134</b>	<b>\$ 2,126</b>

On August 16, 2007, a group of financial institutions and other investors reached an agreement in principle for the restructuring of ABCP following the liquidity crisis that began in August 2007. The aim of this agreement, called the Montréal Accord, was to restore a climate of confidence and implement a solution to the liquidity crisis; it provided for a moratorium period with respect to the ABCP securities issued by 23 trusts. A Pan-Canadian Committee, composed of participants in the Montréal Accord, including Desjardins Group, was formed on September 6, 2007 to oversee the restructuring process.

The Pan-Canadian Committee's efforts to restructure ABCP since that time led to the conclusion of a final restructuring plan on December 24, 2008, which was sanctioned in January 2009. The restructuring plan aims to replace ABCP issued with new longer-term floating rate notes having a maturity similar to that of underlying assets. The section entitled "Subsequent event – ABCP restructuring plan" provides more details on the restructuring.

## NOTE 4

**SECURITIES (CONTINUED)****SECURITIES – ASSET-BACKED  
COMMERCIAL PAPER (CONTINUED)**

The key 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 ineligible (subprime) assets 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 (TA and IA). 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.

**ABCP valuation methodology**

Since there is no active market for ABCP securities, Desjardins Group's Management estimated the fair value of its holdings and the resulting changes in value by using a valuation technique. In light of the Pan-Canadian Committee agreement reached on December 24, 2008, Desjardins Group estimated that, as of December 31, 2008, the probability of realization of the restructuring was 100%.

The fair value of ABCP restructured in the form of A-1, A-2, B and C notes in MAV 1 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 for the ABCP securities reflecting market conditions as at December 31, 2008. Anticipated cash flows from the new notes were discounted using the bankers' acceptance rate plus a premium ranging from 809 to 1,238 basis points over periods ranging from five to eight years.

The fair value of ABCP comprised exclusively of traditional assets was determined using benchmark indices selected based on the underlying assets of each trust. Given that these assets will be restructured into

several series of tracking notes that will directly pass through the cash flows generated by the underlying assets, Desjardins Group assumes that the restructuring will not have a significant impact on their fair value. As for ABCP comprised exclusively of ineligible (subprime) assets, given the nature of the underlying assets and their marked deterioration in the current economic environment, an impairment loss equal to 99% of the cost of these securities was recorded as at December 31, 2008.

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 plan 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.

As at December 31, 2007, Desjardins Group used different assumptions to value ABCP securities. The main difference arises from the fact that Desjardins Group gave a probability of 80% to the realization of the restructuring scenario and a probability of 20% to the liquidation scenario, which was divided into an orderly liquidation scenario and a disorderly liquidation scenario. The fair value used was an average of the estimated values under the liquidation and restructuring scenarios, weighted according to the estimated probability of realization of each scenario. It should be noted that this element only had an impact on synthetic and hybrid assets, as only the liquidation scenario was relevant to determining the fair value of traditional and ineligible (subprime) assets, as previously mentioned.

**Impact on income**

A decline in value totalling \$502 million, not including the impact of the securities restructured during the year, was charged to Desjardins Group's combined income for the year ended December 31, 2008 (\$273 million for the year ended December 31, 2007). Of this amount, \$326 million is due to a decline in value considered to be, in accordance with accounting standards, other than temporary for available-for-sale securities (\$202 million for the year ended December 31, 2007). The decline in value recognized for 2008 was due primarily to the anticipated lowering of the credit rating from AAA to A for the MAV 1 series A-1 and A-2 replacement notes, the widening of credit spreads during 2008 and the deterioration of benchmark indices, partially offset by the increased probability of realization of the restructuring scenario.

A portion of the ABCP held by Desjardins Group as at December 31, 2008 was still held under investment operations associated with certain guaranteed-capital structured products. Given the extreme volatility that has prevailed on markets since the third quarter of 2008, the decline in value of ABCP for the fourth quarter could not be offset by an equivalent reduction in deposit liabilities and actuarial liabilities as was the case in previous quarters. Consequently, the decline in value recorded for fiscal 2008 includes a \$76 million loss for the portion of the decline in value of ABCP that was no longer offset. In the restructuring approved in January 2009, the replacement securities were withdrawn from the activities involving guaranteed-capital structured products and are now included in Desjardins Group's regular securities portfolio.

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 spreads and the credit risk of the underlying assets, and the quality of assets given as collateral by the trusts, which are integrated into the discount rate, could significantly affect the value ascribed to the replacement notes in the future. A 1% increase in the estimated discount rates would reduce the estimated fair value of the replacement note portfolio now held by Desjardins Group by approximately \$64 million, which would reduce Tier 1 capital by \$44 million or 0.5% as at December 31, 2008. For more details on capital, see Note 28, "Capital Management".

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. 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.

### SUBSEQUENT EVENT – ABCP RESTRUCTURING PLAN

The restructuring plan was approved on January 16, 2009, following the agreement reached with all the key stakeholders, including the governments of Canada, Québec, Ontario and Alberta regarding the restructuring of ABCP and the sanction, by the Ontario Superior Court of Justice on January 12, 2009, of the final restructuring plan. On January 21, 2009, the Court-appointed monitor filed the certificate required to implement the plan and proceed to closing.

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 the other participants in the MFF and matures in July 2017 or earlier if all credit default swap transactions have been settled. This amount represents the \$1,066 million commitment negotiated as part of the preliminary agreement in December 2007, along with an amount of \$127 million under the terms of the December 24, 2008 plan. Desjardins Group will not receive any fees 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 will be subordinated to the other notes. 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.

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 and will pay an annual commitment fee of 1.19% until December 2016. This facility matures one month after the end of the moratorium on collateral calls, namely July 2010, unless an amount has been drawn and has not been paid as at that date, in which case all the liquidities available for reimbursement in MAV 1 will be used to pay the interest and the principal of the senior funding facility before the MAV 1 margin funding facility and the notes issued by MAV 1. Advances that can be made under this funding facility will bear interest at a rate based on bankers' acceptance rate or prime rate.

A negative amount of \$98 million (\$93 million in 2007) for margin funding facilities was included in the calculation of the fair value of ABCP as at December 31, 2008.

During the first quarter of 2009, an amount of \$80 million, net of Desjardins Group's estimated share of the \$23 million in restructuring fees assumed by the Pan-Canadian Committee, was paid to Desjardins Group as accrued interest for the period from August 20, 2007 to August 31, 2008. Desjardins Group estimated the accrued interest for the period from September 1, 2008 to December 31, 2008, which will also eventually be paid. This net interest has been taken into account in the estimate of the fair value of ABCP as at December 31. For the year ended December 31, 2007, Desjardins Group recognized in fair value the contractual interest income on ABCP holdings from August 20, 2007.

The following details on the specific rights of each noteholder were established in accordance with the terms and conditions of the plan. Under the plan, noteholders received new notes according to weightings determined based on the various ABCP-issuing trusts. After the restructuring, Desjardins Group holds new notes of which the face value has been allocated among the various following vehicles:

	Face value	Fair value <sup>(1)</sup>
<b>MAV 1</b>		
Class A-1	\$ 904	\$ 540
Class A-2	816	460
Class B	139	79
Class C	57	34
Class 1A ineligible (subprime) assets	168	—
Class 1A ineligible (other) assets	27	13
<b>Total MAV 1</b>	<b>2,111</b>	<b>1,126</b>
<b>MAV 3</b>		
Ineligible (subprime) assets	68	—
Traditional assets	247	230
<b>Total MAV 3</b>	<b>315</b>	<b>230</b>
<b>Interest received</b>	<b>80</b>	<b>80</b>
<b>Total</b>	<b>\$ 2,506</b>	<b>\$ 1,436</b>

(1) Based on the fair value determined as at December 31, 2008.

## NOTE 4

## SECURITIES (CONTINUED)

The following table presents the main features of these new notes:

	Coupon	Legal maturity date	Ranking	Rating
MAV 1 A-1 <sup>(1)</sup>	Bankers' acceptance rate + 30 basis points <sup>(2)</sup>	July 15, 2056 <sup>(3)</sup>	Ranking senior to MAV 1 A-2 notes with respect to interest and to MAV 1 B and C notes with respect to principal and interest	A
MAV 1 A-2 <sup>(1)</sup>	Bankers' acceptance rate + 30 basis points <sup>(2)</sup>	July 15, 2056 <sup>(3)</sup>	Interest ranks senior to the principal of MAV 1 A-1 notes. Subordinated to MAV 1 A-1 notes with respect to principal	A
MAV 1 B <sup>(1)</sup>	Bankers' acceptance rate + 30 basis points <sup>(2)</sup> Interest payable at maturity, cumulative	July 15, 2056 <sup>(3)</sup>	Subordinated to MAV 1 A-2 notes with respect to principal and interest	None
MAV 1 C <sup>(1)</sup>	Bankers' acceptance rate + 20% Interest payable at maturity	July 15, 2056 <sup>(3)</sup>	Subordinated to MAV 1 B notes with respect to principal and interest	None
MAV 1 IA notes and all MAV 3 notes	Floating based on the yield of the underlying assets.	Between September 19, 2012 and July 15, 2056	Certain notes rank senior with respect to interest	No rating for the MAV 1 IA notes and all MAV 3 notes, except for 6 series of MAV 3 notes which were assigned ratings ranging from A (low) to AAA.

(1) No obligation to pay interest before January 22, 2019.

(2) The interest rate is LIBOR + 30 basis points for U.S. dollar notes.

(3) The expected payment maturity date is January 22, 2017.

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 noteholders may only transfer the notes to a third party if such transfer is made on a prorata basis of each of the classes held by the seller and if the buyer assumes an equivalent share of the commitments related to the MFF, either directly or through another entity, as long as the party assuming the share of the MFF has a sufficiently high credit rating.

Desjardins Group's ultimate capacity to recover its investments in replacement notes depends on the credit quality of the underlying assets. The assets underlying the restructured notes can be summarized as follows:

#### Assets underlying MAV 1

Leveraged super senior structures	74.6 %
Collateralized debt obligations	12.2
Commercial mortgage loans	7.6
Canadian subprime residential mortgage loans	3.1
Other assets	2.5

Leveraged super senior structures (LSS) provide investors with an exposure backed by a super senior proportion of a pool of reference assets. This exposure is generally equal to many times the invested amount in a given transaction and pledged as collateral to the credit protection beneficiary, namely the counterparty to the credit default swap.

A super senior tranche has an attachment point, which is the threshold or level of losses that the pool of reference assets must incur before the payment obligations are triggered. In general, this level is significantly higher than the level of losses inherent to an R-1 (high) or AAA rating. Therefore, the level of losses to which the super senior tranche is exposed is usually lower than the historical experience for this level of rating. When the level of losses increases or indicators show that it could increase (additional collateral call triggers), the buyers of protection against the credit default require collateral in addition to the amounts initially invested. To meet such additional collateral calls, the counterparty who has sold the protection must have mechanisms to access liquidities.

If the additional collateral cannot be provided, the LSS is unwound for the benefit of the buyer of the protection against the credit default. Such an unwind results in a loss for the protection seller, even if the actual losses of the pool of reference assets have not reached the attachment point for the super senior tranche. The widening of certain "spread-loss" triggers, which were implemented as part of the restructuring plan and will apply again on LSS at the expiration of the 18-month moratorium period, makes the possibility of triggering additional collateral calls more remote.

Desjardins Group holds or has access to the necessary funds to meet all its financial, operating and regulatory obligations, and it does not expect that the liquidity problems related to ABCP and the replacement notes will have a material adverse impact on its financial soundness, its credit rating or its capital ratios.

In addition, Desjardins Group held other Canadian bank and non-bank ABCP that were restructured during the year and for which it assumed the risk, totalling \$159 million (\$20 million in 2007) before write-down, and it received in exchange liquidities and securities having a fair value of \$87 million (\$20 million in 2007). The valuation technique used for these securities as at December 31, 2008 was similar to that used for synthetic securities subject to the Montréal Accord.

## SECURITIES – COLLATERALIZED DEBT OBLIGATIONS

As at December 31, 2008, the review of some of these securities, having a face value of \$294 million, showed objective evidence of impairment leading to an other than temporary decline in fair value. The cumulative decline of \$113 million in the fair value of these securities, which had been recorded in comprehensive income, was recorded in net income even if the assets in question were not derecognized. The fair value of these securities is based on a model that takes into account changes in the credit spreads of the underlying securities and their correlations. The various economic factors and events of the second half of 2008 contributed to the widening of spreads and the occurrence of defaults in the underlying portfolios.

## SECURITIES – INTEREST IN VISA

Following the global restructuring of VISA, Desjardins Group received, on October 3, 2007, shares of VISA Inc., a new global entity, in exchange for its membership interest in the VISA Canada Association. Shares received were measured at fair value based on an independent valuation of VISA Inc. since they are not yet traded on an active market. Consequently, a gain in the order of \$72 million was recorded in "Other income – Income from available-for-sale securities". Shares received were classified as available-for-sale securities.

Following the filing of a final prospectus dated March 19, 2008, VISA Inc. made an initial public offering (IPO), which led to the mandatory redemption of slightly over 55% of the shares held by Desjardins Group. It should be noted that as part of the finalization of the prospectus of VISA Inc., the total number of shares allocated to Desjardins Group was subject to a final adjustment, as provided for in the global restructuring. Given the combined impact of the net proceeds from the IPO, the adjustment to the number of shares held by Desjardins Group and the fluctuation of the value of the U.S. dollar in relation to the Canadian dollar, Desjardins Group recognized in 2008 a \$5.3 million loss before income taxes (\$4.6 million after income taxes) on its shares of VISA Inc. which had been redeemed under the IPO.

The balance of the shares of VISA Inc. held by Desjardins Group are subject to sales restrictions, which will expire in 2011. Given the nature of these restrictions and the accounting standards currently in effect, temporary fluctuations in value do not result in adjustments to the carrying value of the investment.

## SECURITIES – PARTNERSHIP WITH RESPECT TO NORTHWEST FUNDS AND ETHICAL FUNDS

In December 2007, Desjardins Group and Canada's provincial credit union centrals combined their strengths, resources and distribution networks to boost the growth of Northwest Mutual Funds Inc., owned by Desjardins Group and The Ethical Funds Company. This strategic partnership between two Canadian cooperative systems led to the creation of a national mutual fund company, Northwest & Ethical Investments L.P., equally owned by Desjardins Group and the credit union centrals. Desjardins Group exercises significant influence on this partnership. The creation of this partnership generated a gain of \$45 million, included in "Other income – Other" in 2007.

### NOTE 5

## LOANS AND ALLOWANCE FOR CREDIT LOSSES

### LOANS

Loans, including advances to policyholders, are recorded at amortized cost, using the effective interest method, net of the allowance for credit losses.

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

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

The fees collected and the direct costs related to the origination, restructuring, and renegotiation of loans are treated as being integral to the yield of the loan and are deferred and amortized as interest income over their estimated terms. Commitment and standby fees are also included in "Interest income – Loans" over the expected term if it is likely that a loan will result; if not, these fees are recorded as other income over the commitment or standby period. Loan syndication fees are recorded in other income when the syndication agreement is signed unless the yield on the loan retained by Desjardins Group is less than the yield of other comparable lending institutions that participate in the financing. In such instances, an appropriate portion of the fees is deferred and amortized to interest income over the term of the loan.

## NOTE 5

## LOANS AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

## ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses reflects Management's best estimate of potential credit losses related to a portfolio of both on- and off-balance sheet items as well as its assessment of economic conditions. Any material change could result in a change to the currently recognized amount for the allowance for credit losses.

The allowance for credit losses comprises specific allowances and a general allowance. With respect to the loan portfolio, credit risk is assessed regularly, and specific allowances are determined, on a loan by loan basis, for all loans considered impaired. Impaired loans are valued by discounting expected future cash flows at the rate of interest inherent in the loan. The allowance is equal to the difference between this value and the balance of the loan. Any change in the allowance for credit losses due either to the passage of time or a revision of expected payments is recorded in combined income under "Provisions for credit losses". Credit card balances are written off completely when no payment has been received at the end of a period

of 180 days. In addition, a general allowance is recognized to reflect Management's best estimate of probable losses related to the portion of the loan portfolio not yet classified as impaired. The general allowance is determined by using a statistical model based on changes in losses by loan category. Moreover, an additional amount is taken into account in order to reflect the impact of economic and other factors. The general allowance does not represent future losses nor replace specific allowances.

Loans are written off when all attempts at restructuring or collection have been made and the likelihood of future recovery is remote. 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 in arrears for 90 days.

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

## LOANS AND IMPAIRED LOANS

	2008						2007				
	Gross loans neither past due nor impaired	Gross loans due but not impaired	Gross impaired loans	Specific allowances	General allowance	Net impaired loans	Gross loans	Gross impaired loans	Specific allowances	General allowance	Net impaired loans
Residential mortgages	\$ 60,786	\$ 188	\$ 107	\$ 11	\$ —	\$ 96	\$ 56,662	\$ 81	\$ 9	\$ —	\$ 72
Consumer, credit card and other personal loans	16,259	1,778	84	32	—	52	16,440	87	34	—	53
Business and government	25,444	411	231	87	—	144	23,063	223	80	—	143
General allowance	—	—	—	—	696	(696)	—	—	—	639	(639)
	<b>\$ 102,489</b>	<b>\$ 2,377</b>	<b>\$ 422</b>	<b>\$ 130</b>	<b>\$ 696</b>	<b>\$ (404)</b>	<b>\$ 96,165</b>	<b>\$ 391</b>	<b>\$ 123</b>	<b>\$ 639</b>	<b>\$ (371)</b>

The carrying value of loans that would be past due or impaired, but whose terms have been renegotiated during the year amounted to \$140 million as at December 31, 2008.

**LOANS PAST DUE BUT NOT IMPAIRED****2008**

	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
	<b>\$ 1,763</b>	<b>\$ 295</b>	<b>\$ 142</b>	<b>\$ 177</b>	<b>\$ 2,377</b>

**ALLOWANCE FOR CREDIT LOSSES****2008**

	Balance at beginning of year	Provision for credit losses	Write-offs and recoveries	Balance at end of year
Residential mortgages	\$ 9	\$ 7	\$ (5)	\$ 11
Consumer, credit card and other personal loans	34	34	(36)	32
Business and government	80	33	(26)	87
General allowance	639	169	(112)	696
	<b>\$ 762</b>	<b>\$ 243</b>	<b>\$ (179)</b>	<b>\$ 826</b>

## 2007

	Balance at beginning of year	Provision for credit losses	Write-offs and recoveries	Balance at end of year
Residential mortgages	\$ 11	\$ 3	\$ (5)	\$ 9
Consumer, credit card and other personal loans	32	36	(34)	34
Business and government	76	49	(45)	80
General allowance	605	109	(75)	639
	<b>\$ 724</b>	<b>\$ 197</b>	<b>\$ (159)</b>	<b>\$ 762</b>

## NOTE 6

## SECURITIZATION OF MORTGAGE LOANS

As part of its liquidity and capital management strategy, Desjardins Group participates in the *National Housing Act* Mortgage-Backed Securities Program. Under this program, Desjardins Group converts mortgage loans into mortgage-backed securities (NHA-MBSs) and transfers them to the Canada Housing Trust. These securitization transactions are recorded as sales; the loans are therefore removed from the Combined Balance Sheets since Desjardins Group has surrendered control over the transferred assets and has received consideration other than beneficial interests in these assets.

In securitization transactions, Desjardins Group retains the right to an excess interest spread, which is initially recorded at fair value on the Combined Balance Sheets under "Other assets – Other" and considered a retained interest. The excess spread is amortized over the term of the mortgage loans transferred and is recorded in combined income under "Other income – Other".

Since transfers are made on a fully serviced basis, a servicing liability is initially recorded at fair value and presented under "Other liabilities – Other" on the Combined Balance Sheets. The servicing liability is amortized to combined income over the term of the transferred mortgage loans, and amortization is presented under "Other income – Other".

At the time of transfer, Desjardins Group recognizes the gain or loss on the transfer in combined income under "Other income – Other", net of transaction expenses. The gain or loss on the transfer depends on the prior carrying value of the loans sold as well as the fair value of the assets received and liabilities assumed. This fair value is determined using the present value of expected cash flows and taking into account best estimates, which are based on certain key assumptions made by Management, including the forward yield curve for mortgage loans, discount rates proportional to the risks involved and the prepayment rate.

The following table summarizes the impact of mortgage loan securitization activities on the sales for 2008 and 2007.

	2008	2007
Mortgage loans securitized	\$ 2,228	\$ 1,684
Net cash proceeds received	2,105	1,570
Retained interests	128	62
Assumed servicing liabilities	20	15
Gain on sale, net of transaction expenses	90	43

As at December 31, 2008, Desjardins Group had recorded retained interests of \$170 million (\$82 million in 2007) and assumed servicing liabilities of \$30 million (\$20 million in 2007) on its Combined Balance Sheets.

An amount of \$202 million (\$96 million in 2007) representing mortgage-backed securities created and retained was recorded in securities held for trading as at December 31, 2008.

In 2008, cash flows from retained interests were \$49 million (\$23 million in 2007) and the impact of the amortization of servicing liabilities on the Combined Statements of Income was \$10 million (\$6 million in 2007).

Total mortgage loans securitized outstanding amounts to \$4,074 million (\$2,596 million in 2007).

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

	2008	2007
Discount rate	3.49 %	4.70 %
Prepayment rate for fixed rate and floating rate mortgage loans, respectively	15 and 25 %	11 and 21 %
Weighted average life of loans	33 months	34 months

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

The sensitivity of the current fair value of retained interests to 10% and 20% adverse changes in the key assumptions is as follows:

	2008	2007
Prepayment rate	15 and 25 %	11 and 21 %
Impact of a 10% adverse change	\$ (5)	\$ (2)
Impact of a 20% adverse change	(10)	(5)
Discount rate	3.49 %	4.70 %
Impact of a 10% adverse change	n.s. <sup>(1)</sup>	\$ (1)
Impact of a 20% adverse change	(1)	(1)

(1) Not significant

The results of this analysis should be used with caution because changes in fair value based on a variation in assumptions generally cannot be extrapolated since the relationship involved may not be linear. It should be borne in mind that each change in one factor may contribute to changes in another, magnifying or counteracting the sensitivities.

## NOTE 7

## LAND, BUILDINGS AND EQUIPMENT

Land is recorded at cost. Buildings, equipment, furniture and leasehold improvements are recorded at cost less accumulated amortization and are amortized over their estimated useful lives using the straight-line

or declining balance method. Gains and losses on disposals are recorded in combined income under "Other income – Other" in the year in which they are realized.

Amortization rates and terms:

Buildings	2.5% to 20%
Computer equipment	20% to 50%
Furniture, fixtures and other	10% to 33%
Leasehold improvements	Term of the lease plus first renewal option

	2008			2007
	Cost	Accumulated amortization	Net carrying value	Net carrying value
Land	\$ 96	\$ —	\$ 96	\$ 91
Buildings (Note 29)	896	465	431	431
Computer equipment	496	347	149	146
Furniture, fixtures and other	611	427	184	146
Leasehold improvements	315	150	165	155
	<b>\$ 2,414</b>	<b>\$ 1,389</b>	<b>\$ 1,025</b>	<b>\$ 969</b>

Amortization for the year amounted to \$165 million (\$141 million in 2007 and \$143 million in 2006). As at December 31, 2007, cost and accumulated amortization were \$2,299 million and \$1,330 million, respectively.

## NOTE 8

## OTHER ASSETS

### REAL ESTATE INVESTMENTS

Real estate investments held by the life and health insurance subsidiary, which include buildings occupied in whole or in part by this subsidiary, are recorded at cost, to which is added each quarter 3% of the difference between the carrying value and the estimated market value based on appraisals performed by an external appraiser on a three-year cycle. Real estate also includes foreclosed buildings held for sale, which are recorded at their estimated fair value, less costs to sell. Any difference between the carrying value of the loan prior to foreclosure and the amount at which the foreclosed assets are measured initially is recognized as a gain or a loss in combined income. Any decline in value of the entire real estate portfolio that is other than temporary is charged to combined income under "Other income – Other". Realized gains and losses on real estate are deferred and amortized to combined income at a rate of 3% per quarter using the declining balance method.

Desjardins Group's intangible assets with finite lives mainly include software and are presented at cost less accumulated amortization. They are amortized using the straight-line method over their estimated useful lives, which do not exceed five years.

	2008	2007
Real estate investments (Note 29)	\$ 896	\$ 830
Goodwill	122	153
Premiums receivable	702	708
Future income tax assets (Note 21)	671	389
Accrued benefit asset (Note 23)	9	—
Accounts receivable	293	497
Amounts receivable from clients, brokers and financial institutions	612	657
Other	1,129	1,185
Total	<b>\$ 4,434</b>	<b>\$ 4,419</b>

### GOODWILL AND OTHER INTANGIBLE ASSETS

Business acquisitions are recorded using the purchase method. Therefore, goodwill is the excess of the cost of the purchase of a business over the fair value of net assets acquired. Goodwill as well as intangible assets with indefinite useful lives are not amortized but are tested for impairment at least once a year. For goodwill, the impairment test consists of a comparison, by reporting unit, of the fair value of the assets and their carrying value. Any excess of the carrying value over fair value is charged to combined income during the period in which the impairment is determined under "Non-interest expense – Other". Following the annual impairment test, a reduction in value of \$31 million was recognized in combined income for 2008 with respect to the goodwill of Desjardins Credit Union Inc. For 2007 and 2006, no reduction in value was recognized.

The fair value of real estate investments was \$1,302 million (\$1,070 million in 2007). Income of \$109 million (\$67 million in 2007) from real estate investments is presented net of the operating expenses.

Goodwill is comprised of the following: \$111 million (\$111 million in 2007) from the Desjardins Financial Corporation subsidiary, mainly for its general insurance subsidiary; \$8 million from Desjardins Securities Inc. (\$8 million in 2007); \$3 million from the FCDQ (\$3 million in 2007); and nil from Desjardins Credit Union Inc. in 2008 (\$31 million in 2007).

## NOTE 9

## FINANCIAL ASSETS TRANSFERRED BUT NOT DERECOGNIZED

Desjardins Group carries out transactions by which it transfers financial assets to a third party. These financial assets remain on the Combined Balance Sheets, however, because the transaction fails to meet derecognition criteria.

The carrying value of these transferred financial assets is presented in the following table:

	2008	2007
Securities sold under repurchase agreements	\$ 10,668	\$ 8,007
Securities lent	417	368

## NOTE 10

## DEPOSITS

Deposits payable on demand are interest-bearing or non-interest-bearing deposits, usually accounts with chequing privileges, for which Desjardins Group does not have the right to require notice prior to withdrawal. Deposits payable upon notice are interest-bearing deposits, usually savings accounts, for which Desjardins Group has the legal right to require notice prior to

withdrawal. Term deposits are interest-bearing deposits, usually deposits payable on a fixed date, guaranteed investment certificates or other similar instruments, with a term that generally varies from one day to 10 years and mature on a predetermined date. Deposits are recognized at cost on the Combined Balance Sheets.

	Payable on demand		Payable upon notice		Payable on a fixed date		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
Individuals	\$ 18,327	\$ 16,264	\$ 3,483	\$ 3,270	\$ 50,148	\$ 46,785	\$ 71,958	\$ 66,319
Business and government	10,594	10,002	276	242	10,642	10,540	21,512	20,784
Deposit-taking and other institutions	23	35	—	—	7,943	8,628	7,966	8,663
	<b>\$ 28,944</b>	<b>\$ 26,301</b>	<b>\$ 3,759</b>	<b>\$ 3,512</b>	<b>\$ 68,733</b>	<b>\$ 65,953</b>	<b>\$ 101,436</b>	<b>\$ 95,766</b>

## NOTE 11

## ACTUARIAL AND RELATED LIABILITIES

Actuarial and related liabilities are as follows:

	2008	2007
Actuarial liabilities	\$ 10,114	\$ 10,208
Claims and adjustment expenses	1,371	1,263
Unearned premiums	713	705
Policyholder deposits	420	396
Provisions for participating policyholders' dividends and experience refunds	256	259
	<b>\$ 12,874</b>	<b>\$ 12,831</b>

## ACTUARIAL LIABILITIES

Actuarial liabilities represent the amounts which, together with estimated future premiums and net investment income, will provide for all the life and health insurance subsidiary's commitments regarding estimated future benefits, policyholder dividends, taxes (other than taxes on surplus earnings) and related expenses. Each year, the life and health insurance subsidiary's appointed actuary is required to determine the actuarial liabilities the subsidiary will need to meet its future commitments. Actuarial liabilities are determined using the Canadian Asset Liability Method, in accordance with Canadian accepted actuarial practices.

Under the Canadian Asset Liability Method, the determination of actuarial liabilities is based on an explicit projection of cash flows using current best estimate assumptions for each cash flow component and each significant

contingency. Investment returns are based on projected investment income using the current asset portfolios and projected reinvestment strategies. Each non-economic assumption is adjusted by a margin for adverse deviation. With respect to investment returns, the provision for adverse deviation is established by scenario testing. Scenario testing is generally performed on a deterministic basis that includes testing prescribed by Canadian standards of practice. The provision for minimum guarantees on segregated fund products is established using stochastic modeling.

The period used for the projection of cash flows is the policy lifetime for most insurance contracts. For certain types of contracts, a shorter projection period may be used. This period is however limited to the term of the liability over which the life and health insurance subsidiary is exposed to material risk without the ability to adjust policy premiums or charges.

## NET PREMIUMS

Insurance and annuity premiums are generally recognized as income when they become due. When premiums are recognized, actuarial liabilities are computed to ensure the matching of income and expenses.

## REINSURANCE

Premium income, benefits paid to policyholders, actuarial liabilities, and changes in actuarial liabilities related to contracts under reinsurance treaties are recorded net of amounts ceded to reinsurers.

## COMPOSITION OF ACTUARIAL LIABILITIES

As at December 31, actuarial liabilities and assets backing actuarial liabilities included the following amounts:

### 2008

	Individual insurance	Group insurance	Savings	Total
Gross actuarial liabilities	\$ 4,336	\$ 2,237	\$ 3,989	\$ 10,562
Amounts transferred under reinsurance treaties	(267)	(168)	(13)	(448)
<b>Net actuarial liabilities</b>	<b>\$ 4,069</b>	<b>\$ 2,069</b>	<b>\$ 3,976</b>	<b>\$ 10,114</b>
<b>Composition of assets backing actuarial liabilities</b>				
Bonds	\$ 2,728	\$ 1,113	\$ 2,154	\$ 5,995
Mortgage loans	528	696	1,588	2,812
Real estate	346	—	—	346
Shares	191	30	—	221
Deposit-taking and other institutions	276	230	234	740
	<b>\$ 4,069</b>	<b>\$ 2,069</b>	<b>\$ 3,976</b>	<b>\$ 10,114</b>

### 2007

	Individual insurance	Group insurance	Savings	Total
Gross actuarial liabilities	\$ 4,252	\$ 2,195	\$ 4,215	\$ 10,662
Amounts transferred under reinsurance treaties	(262)	(177)	(15)	(454)
<b>Net actuarial liabilities</b>	<b>\$ 3,990</b>	<b>\$ 2,018</b>	<b>\$ 4,200</b>	<b>\$ 10,208</b>
<b>Composition of assets backing actuarial liabilities</b>				
Bonds	\$ 2,759	\$ 1,291	\$ 2,184	\$ 6,234
Mortgage loans	439	498	1,410	2,347
Real estate	225	—	—	225
Shares	219	38	375	632
Deposit-taking and other institutions	348	191	231	770
	<b>\$ 3,990</b>	<b>\$ 2,018</b>	<b>\$ 4,200</b>	<b>\$ 10,208</b>

The fair value of assets backing actuarial liabilities is \$10,318 million (\$10,337 million in 2007).

## ACTUARIAL ASSUMPTIONS AND SENSITIVITY OF ASSUMPTIONS TO CHANGE IN ACTUARIAL LIABILITIES

The nature of the main assumptions used in the computation of actuarial liabilities and the method used to establish these assumptions are described in the following paragraphs. The basic assumptions used in computing actuarial liabilities are those that prove the best estimates of liability for various contingencies. The appointed actuary must, for each of these assumptions, establish a margin for adverse deviation in order to mitigate the random event, allow for the risk of deteriorating underwriting experience and ensure that provisions are adequate to meet future commitments. These margins for adverse deviation increase actuarial liabilities and reduce the gross income that would otherwise be recognized at inception of the policies. With the passage of time and as estimation risk declines, these margins are released to combined income. If estimates of future conditions change throughout the life of a policy, the present value of those changes is recognized in combined income immediately.

### Mortality and morbidity

Each year, the life and health insurance subsidiary carries out a study of mortality claims experience with respect to its life insurance policies. It uses the results of this study to adjust the mortality assumption used in the valuation. If the subsidiary's underwriting experience cannot serve as the only source of reference due to low volume, the mortality assumption is also based on industry studies and tables. An increase of 1% in the best estimate assumption would lead to an increase in actuarial liabilities of approximately \$13 million.

In terms of annuities, the life and health insurance subsidiary also proceeds with a study of its experience, which provides an adequate level of credibility upon which assumptions would be based. Contrary to insurance, an improvement in mortality claims is predicted in the coming years. A decrease of 1% in the best estimate assumption would lead to an increase in actuarial liabilities of approximately \$8 million.

With respect to the morbidity assumption, which relates to the occurrence of accidental deaths, mutilation, illness, and disability as well as the duration of these disabilities, the life and health insurance subsidiary uses industry-developed morbidity tables and has adapted them according to current underwriting experience studies for itself and for the industry. For products on which morbidity has a significant effect, an increase of 1% in the best estimate assumption would lead to an increase in actuarial liabilities of approximately \$12 million.

## NOTE 11

**ACTUARIAL AND RELATED LIABILITIES (CONTINUED)****Policy cancellation rates**

Policyholders can cancel their policy before the expiration of their contractual coverage period by discontinuing premium payment. For some insurance products with surrender value, an increase in policy cancellation rates will be unfavourable to the life and health insurance subsidiary if the actuarial liabilities are less than the surrender values of the policies. For other products with little or no surrender value, such as Term-to-100 life insurance, a decrease in policy cancellation rates will have an effect of increasing the number of future death benefits, and the benefits will be less significant than anticipated for the subsidiary. Estimates of future policy cancellation rates are based on previous experience for each block of business and take into account industry trends and studies. A negative change of 10% in the best estimate assumption for policy cancellations would lead to an increase in actuarial liabilities of approximately \$73 million.

Actuarial liabilities related to Term-to-100 insurance policies and to Universal Life policies with level mortality costs established by the subsidiary are sensitive to changes in the cancellation rates.

**Investment income**

The life and health insurance subsidiary manages its investments by taking into account the characteristics of the commitments of each of its business segments by way of clearly defined mechanisms in its matching policy.

One of the tests addresses the difference between the duration of liabilities and the duration of the related assets. Comparing durations allows measuring the sensitivity of the market value of assets and liabilities to changes in interest rates. The life and health insurance subsidiary takes care of monitoring the matching situation for all business segments because the matching policies stipulate the targets in this respect.

**Non-interest expense**

Amounts are included in actuarial liabilities to provide for the costs of administering policies in force, including the cost of premium collection, claim processing and adjudication, periodic actuarial valuations, preparation and mailing of policy statements, related indirect expenses, and an appropriate share of overhead. The process of forecasting expenses requires estimates to be made of such factors as inflation, rates for salary increases, productivity changes, new business volumes, and premium tax rates. Estimates of future policy administration costs are based on current per unit costs of the life and health insurance subsidiary, adjusted for the expected rate of inflation. An increase of 5% in the best estimate assumption for unit costs would lead to an increase in actuarial liabilities of approximately \$29 million.

**Participating policyholders' dividends**

Actuarial liabilities include estimated amounts of future participating policyholders' dividends. The life and health insurance subsidiary sets these provisions based on factors such as anticipated future income stream of this business segment and the expectations of participating policyholders. Changes in the best estimate assumptions for participating insurance would result in corresponding changes in policyholders' dividends and an immaterial net change in actuarial liabilities related to participating policies.

**CHANGES IN ACTUARIAL LIABILITIES**

Changes in actuarial liabilities during the year were due to business activities and to changes in actuarial estimates, as follows:

	<b>2008</b>	2007
Balance at beginning of year	\$ 10,208	\$ 8,635
Impact of the adoption of new accounting standards	—	1,418
Normal change due to updates to actuarial assumptions <sup>(1)</sup>	2	13
Normal change due to the passage of time	(120)	149
Other changes	24	(7)
<b>Balance at end of year</b>	<b>\$ 10,114</b>	<b>\$ 10,208</b>

(1) In 2008, the main changes to the actuarial assumptions involved expenses, mortality rates and forfeitures, whereas in 2007 they involved expenses, mortality rates and interest rates.

**CLAIMS AND ADJUSTMENT EXPENSES**

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

**Reinsurance**

To reduce the risk related to extensive claims, the general insurance subsidiary enters into reinsurance treaties with many reinsurers to limit its exposure to a maximum amount per claim or catastrophe. These reinsurance treaties do not release the subsidiary from its obligations towards its policyholders.

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

The general insurance subsidiary presents the reinsurers' share of unearned premiums and claims and adjustment expenses as assets on the balance sheet to indicate the extent of credit risk related to reinsurance and its total obligations to policyholders. Insurance results are presented net of reinsurance activities.

This subsidiary has a policy of underwriting and reinsuring insurance policies, which, for the most part, limits its exposure to \$5 million per policy.

In addition, the general insurance subsidiary has a catastrophe reinsurance program under which its maximum retention is \$28 million.

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

	2008		2007	
	Gross amount	Ceded amount	Gross amount	Ceded amount
Home	\$ 241	\$ 16	\$ 204	\$ 13
Automobile	1,096	28	1,034	24
Other	34	—	25	—
	<b>\$ 1,371</b>	<b>\$ 44</b>	<b>\$ 1,263</b>	<b>\$ 37</b>

Changes in the provision for claims and adjustment expenses are due to the following items:

	2008	2007
Balance at beginning of year		
Gross provision for claims and adjustment expenses	\$ 1,263	\$ 1,185
Less: Share of reinsurers	(37)	(32)
Salvage and subrogation	(65)	(72)
Net provision for claims and adjustment expenses	<b>1,161</b>	<b>1,081</b>
Plus claims incurred: Impact of the adoption of new accounting standards	—	4
Current year	1,141	1,012
Previous years	(85)	(56)
Less claims paid: Current year	(665)	(564)
Previous years	(292)	(316)
Balance at end of year		
Net provision for claims and adjustment expenses	1,260	1,161
Plus: Share of reinsurers	44	37
Salvage and subrogation	67	65
Gross provision for claims and adjustment expenses	<b>\$ 1,371</b>	<b>\$ 1,263</b>

## NOTE 12

### BORROWINGS

Borrowings are recognized at amortized cost on the Combined Balance Sheets.

	2008	2007
Mortgage debt bearing interest at rates ranging from 5.14% to 11% (weighted average rate of 6.37% as at December 31, 2008 and 5.01% as at December 31, 2007), maturing on various dates through 2017	\$ 61	\$ 68
Borrowings (US\$166.8 million and C\$1.1 million) bearing interest at the floating rate of one-month LIBOR plus 0.898% and at the floating rate of one-month CDOR plus 0.949%, maturing in January 2009	204	—
Borrowings (US\$37.2 million and C\$0.1 million) bearing interest at the floating rate of one-month LIBOR plus 0.888% and at the floating rate of one-month CDOR plus 0.9384%, maturing in January 2009	46	—
Obligation under a capital lease, bearing interest at a rate of 4.31%, maturing in May 2010	26	—
Other borrowings	1	1
	<b>\$ 338</b>	<b>\$ 69</b>

The annual principal repayments on borrowings for the next five years are as follows: \$265 million in 2009, \$15 million in 2010 and \$3 million in 2011, 2012 and 2013.

## NOTE 13

## OTHER LIABILITIES

	<b>2008</b>	2007
Cooperative shares and preferred shares	\$ 32	\$ 37
Deferred net gains realized on disposal of investments	46	51
Future income tax liabilities (Note 21)	273	56
Accrued benefit liability (Note 23)	691	703
Accounts payable	1,916	2,216
Amounts payable to clients, brokers and financial institutions	898	1,116
Other	2,263	639
	<b>\$ 6,119</b>	<b>\$ 4,818</b>

## NOTE 14

## SUBORDINATED DEBENTURES

Debentures are bonds subordinated in right of payment to claims of depositors and certain other creditors, and are included in regulatory capital. Redemption and cancellation of subordinated debentures are subject to the

consent and approval of the various regulatory authorities. Debentures are recognized at amortized cost on the Combined Balance Sheets.

	<b>2008</b>	2007
Debenture, par value of €76 million, redeemed in 2008.	\$ —	\$ 110
Senior Series C bonds (par value of \$300 million), maturing in June 2017, bearing interest at an annual rate of 6.322% for the first ten years, and for the following five years, at an annual rate equal to the 90-day bankers' acceptance rate plus 1%, redeemable at the option of Desjardins Group	299	299
Senior Series D bonds (par value of \$450 million), maturing in March 2014, bearing interest at an annual rate of 3.887% for the first five years, and for the following five years, at an annual rate equal to the 90-day bankers' acceptance rate plus 1%, redeemable at the option of Desjardins Group <sup>(1)</sup>	449	449
	<b>\$ 748</b>	<b>\$ 858</b>

(1) Desjardins Group will call the Senior Series D bonds on March 17, 2009.

## NOTE 15

## NON-CONTROLLING INTERESTS

Non-controlling interests include:

	<b>2008</b>	2007
Participating policies of the life and health insurance subsidiary	\$ 189	\$ 208
Common shares of subsidiaries	62	61
Mutual funds combined in accordance with AcG-15	525	715
	<b>\$ 776</b>	<b>\$ 984</b>

Earnings attributable to non-controlling interests are comprised of the following:

	<b>2008</b>	2007	2006
Earnings attributable to participating policyholders of the life and health insurance subsidiary	\$ (6)	\$ 6	\$ 5
Earnings attributable to common shareholders of subsidiaries and holders of capital shares	5	15	13
	<b>\$ (1)</b>	<b>\$ 21</b>	<b>\$ 18</b>

## NOTE 16

## CAPITAL STOCK

## AUTHORIZED

The capital stock is comprised of the following qualifying shares, capital shares, permanent shares and surplus shares.

The caisses may issue an unlimited number of qualifying shares with a par value of \$5, redeemable at the option of the issuer. Members have only one vote each, no matter how many qualifying shares they own.

A subsidiary of Desjardins Group may issue an unlimited number of capital shares. These shares can be issued only to auxiliary members of the subsidiary and have a par value of \$1,000 each. The board of directors has the discretionary power to determine the remuneration payable and the terms of payment on these shares. These shares may be transferred among the members, upon the board's authorization, and their repayment, possible only in the event of the subsidiary's liquidation, insolvency or wind-up, is subordinated to deposits and other debts. The shares are redeemable, in part or in whole, upon the authorization of the AMF. They are convertible, with the board's authorization, into shares of other categories issued for this purpose.

The Act authorizes the issuance of an unlimited number of permanent and surplus shares with a par value of \$10 and \$1, respectively. These shares do not carry any voting rights and cannot be redeemed except under certain conditions stipulated by the Act. Their rate of interest is determined annually by the general meeting of each caisse.

Issued and paid capital stock is as follows:

	2008	2007
Qualifying shares	\$ 38	\$ 33
Capital shares	40	31
Permanent shares	828	813
Surplus shares	49	17
	<b>\$ 955</b>	<b>\$ 894</b>

## NOTE 17

## SHARE CAPITAL

## AUTHORIZED

An unlimited number of Class A preferred shares, offered only to members of the Fédération des caisses populaires de l'Ontario and the caisses populaires of Ontario, non-voting, redeemable at the option of the issuer at the paid-up amount plus declared and unpaid dividends, non-participating and non-cumulative.

An unlimited number of Class B preferred shares, non-voting, redeemable at the option of the issuer, the Fédération des caisses populaires de l'Ontario and the caisses populaires of Ontario, at the paid-up amount plus declared and unpaid dividends, non-participating and non-cumulative. These shares may be issued in one or more series.

An unlimited number of Class C preferred shares, non-voting, redeemable at the option of the issuer, the Fédération des caisses populaires de l'Ontario, at the paid-up amount plus declared and unpaid dividends, non-participating and non-cumulative. These shares may be issued in one or more series.

	Number of shares	2008	Number of shares	2007
<b>Issued and paid</b>				
Class A preferred shares	378,000	\$ 4	619,000	\$ 6
Class B preferred shares – Series 2000	50,000	1	50,000	1
Class B preferred shares – Series 2002	338,000	3	325,000	3
Class B preferred shares – Series 2003	647,000	6	650,000	7
Class C preferred shares – Series 1996	2,052,000	21	1,968,000	20
Class C preferred shares – Series 2002	3,205,000	32	3,077,000	30
	<b>6,670,000</b>	<b>\$ 67</b>	<b>6,689,000</b>	<b>\$ 67</b>

Dividends were paid in the form of preferred shares as follows: \$1 million for Class C – Series 1996 (\$1 million in 2007) and \$1 million for Class C – Series 2002 (\$1 million in 2007). In addition, in 2008, 241,000 Class A shares were redeemed for a consideration of \$2 million.

## SPECIFIC CHARACTERISTICS OF CLASSES B AND C PREFERRED SHARES ISSUED AND PAID

## Class B preferred shares – Series 2000, 2002 and 2003

The dividend rate will be equal to the higher of the average interest rate for the year on non-redeemable term deposits of five years plus 0.50% or 6.00% – Series 2000, 1.00% or 5.25% – Series 2002 and 1.00% or

4.00% – Series 2003, i.e. the minimum rate. In case the issuer cannot pay the dividend in full, a partial dividend may be declared. The dividend may be declared every time the issuer's surplus earnings allow it and when all regulatory requirements in terms of funding and cash have been met. The issuer may redeem, upon the holder's request and the board of directors' approval, up to a maximum of 10% of the issued and outstanding shares of the prior year. These shares have been redeemable at the option of the issuer since September 30, 2005 for Series 2000; since July 1, 2007 for Series 2002; and since March 1, 2008 for Series 2003. Redemption of shares can be made only if the issuer does not or will not violate Section 84 of the *Credit Union and Caisses Populaires Act of Ontario* (1994), regarding capital adequacy.

## NOTE 17

**SHARE CAPITAL (CONTINUED)****Class C preferred shares – Series 1996 and 2002**

The dividend rate will be equal to the higher of the following rates: the average interest rate for the year on non-redeemable term deposits of five years plus 0.50% or 5.75% – Series 1996, and 5.25% – Series 2002, i.e. the minimum rate. In case the issuer cannot pay the dividend in full, a partial dividend may be declared. The dividend may be declared every time the issuer's surplus earnings allow it and when all regulatory

requirements in terms of funding and cash have been met. The issuer may redeem, upon the holder's request and the board of directors' approval, up to a maximum of 10% of the issued and outstanding shares of the prior year. These shares have been redeemable since May 1, 2003 for Series 2000 and since May 1, 2008 for Series 2002. Redemption of shares can be made only if the issuer does not or will not violate Section 84 of the *Credit Union and Caisses Populaires Act of Ontario* (1994), regarding capital adequacy.

## NOTE 18

**ACCUMULATED OTHER COMPREHENSIVE INCOME**

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

	<b>2008</b>	2007
Unrealized gains (losses) on available-for-sale securities	\$ (87)	\$ 39
Gains on derivative financial instruments designated as cash flow hedges	770	11
Net unrealized exchange gain on the translation of the financial statements of self-sustaining foreign operations	2	—
Accumulated other comprehensive income	<b>\$ 685</b>	<b>\$ 50</b>

## NOTE 19

**RESERVES**

Reserves included in equity are comprised of the following elements:

The stabilization reserve of \$278 million (\$275 million in 2007) is comprised of amounts appropriated by the caisses and the FCDQ from their annual surplus earnings. Amounts appropriated to the stabilization reserve are essentially used for the payment of interest on permanent shares when the surplus earnings of a caisse are not sufficient.

The reserve for future member dividends of \$350 million (\$209 million in 2007) is comprised of amounts appropriated by the caisses from their annual surplus earnings. This reserve allows them to manage over time the impact of changes in annual surplus earnings on the payment of member dividends.

The general reserve of \$7,634 million (\$6,992 million in 2007) is essentially comprised of amounts appropriated by the caisses, the FCDQ, Fonds de sécurité Desjardins and Caisse centrale Desjardins. It is also comprised of a portion of the components' surplus earnings since their inception. This reserve can only be used to eliminate a deficit and cannot be divided amongst members nor used to pay a member dividend.

## NOTE 20

**FINANCIAL INSTRUMENTS HELD FOR TRADING**

The following table provides information on financial instruments held for trading.

**Financial instruments required to be classified as held for trading**

	<b>2008</b>	2007
<b>Income</b>		
Net interest income	\$ 45	\$ 52
Trading income (loss)	(901)	64

**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 sustained 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.

	2008	2007
<b>Income</b>		
Net interest income	\$ 18	\$ 11
Trading income (loss)	(92)	198

**NOTE 21****INCOME TAXES ON SURPLUS EARNINGS**

Income taxes on surplus earnings are accounted for using the tax liability method. Under this method, the income tax expense on surplus earnings comprises current and future income taxes. Future income taxes reflect the expected future tax effects of temporary differences between the value of assets and liabilities for accounting and tax purposes. Future income tax assets or liabilities are measured based on the tax rates expected to

apply when the assets are realized and the liabilities are settled. A valuation allowance is created, if necessary, to reduce the value of future income tax assets to the estimated amount that is more likely than not to be realized. Future income tax assets and liabilities are presented under "Other assets – Other" and "Other liabilities – Other".

Income taxes on surplus earnings, presented in the Combined Financial Statements, are as follows:

	2008	2007	2006
<b>Combined Statements of Income</b>			
Income taxes on surplus earnings	\$ 109	\$ 358	\$ 398
Tax recovery on provision for member dividends	(62)	(174)	(148)
<b>Total income tax expense after member dividends</b>	<b>47</b>	<b>184</b>	<b>250</b>
<b>Combined Statements of Changes in Equity</b>			
Impact of the adoption of new accounting standards	—	14	—
Other comprehensive income	210	(22)	—
Tax recovery following payment of remuneration on permanent shares	(10)	(10)	(7)
	<b>\$ 247</b>	<b>\$ 166</b>	<b>\$ 243</b>

The income tax expense for the year is comprised of the following:

	2008	2007	2006
Current income taxes	\$ 312	\$ 236	\$ 268
Future income taxes	(65)	(70)	(25)
	<b>\$ 247</b>	<b>\$ 166</b>	<b>\$ 243</b>

Income taxes on surplus earnings after member dividends presented in the Combined Statements of Income differs from the income tax expense calculated using the Canadian statutory rate for the following reasons:

	2008	2007	2006
Income taxes at the statutory rate	\$ (8)	\$ 279	\$ 294
Eligible small business deduction	(38)	(29)	(49)
Non-taxable investment income and other items	(22)	(80)	(36)
Valuation allowance	17	7	—
Difference between statutory rates and future rates	70	(7)	—
Non-deductible expenses and other	28	14	41
	<b>\$ 47</b>	<b>\$ 184</b>	<b>\$ 250</b>

## NOTE 21

**INCOME TAXES ON SURPLUS EARNINGS (CONTINUED)**

Temporary differences and carryforwards giving rise to future income tax assets and liabilities are detailed as follows:

	2008	2007
<b>Future income tax assets</b>		
Buildings and equipment	\$ 35	\$ 33
Actuarial and related liabilities	543	553
Allowance for credit losses	154	144
Accrued benefit liability	194	202
Tax losses <sup>(1)</sup>	220	87
Securities and other financial instruments	—	22
Valuation allowance	(23)	(7)
	<b>\$ 1,123</b>	<b>\$ 1,034</b>
<b>Future income tax liabilities</b>		
Securities and other financial instruments	(609)	(497)
Accrued benefit asset	(3)	—
Interests in a limited partnership	(9)	(10)
Other	(104)	(194)
	<b>\$ (725)</b>	<b>\$ (701)</b>
Net future income tax assets	<b>\$ 398</b>	<b>\$ 333</b>
Future income tax assets	671	389
Future income tax liabilities	(273)	(56)
	<b>\$ 398</b>	<b>\$ 333</b>

(1) As at December 31, 2008, certain components of Desjardins Group had accumulated non-capital losses amounting to \$815 million (\$275 million in 2007). These losses can be used to reduce the taxable income of these components in future years and expire at the latest in 2028.

## NOTE 22

**PROVISION FOR MEMBER DIVIDENDS**

Desjardins Group recorded a provision for dividends to caisse members for an amount of \$215 million (\$592 million in 2007 and \$483 million in 2006) before recovery of related taxes. In 2008, the process for determining the provision for member dividends was reviewed further to changes made to the standard on distribution of caisse surplus earnings and the standard on future member dividends. Management estimated the amount of the provision using scenarios and assumptions that take information obtained from a number of caisses into account. In 2007 and 2006, the provision for annual member dividends was determined according to the surplus earnings distribution plan for each caisse for the year, and which each caisse board of directors intends to recommend for approval at the general meeting of their caisse. The surplus earnings distribution plan sets out several parameters, notably the amount of the member dividend payment, which, since 2006,

takes into consideration a new program under which members are able to elect to receive their dividends, at a higher amount, in the form of shares. The difference between the amounts of member dividends actually paid, in cash or in shares, following the general meetings held by the caisses, and the amount of the provision, is charged to combined income during the current year. The allocation basis of member dividends depends on the interest recorded on loans and deposits, the average Desjardins Funds outstanding in which the member has invested through the caisse, and the various service charges collected from the member depending on the services used. The caisses can pay out member dividends when the legal and regulatory requirements have been met.

## NOTE 23

**EMPLOYEE FUTURE BENEFIT PLANS****MAIN PLANS**

Desjardins Group offers its employees defined benefit statutory pension plans as well as supplemental plans, which provide pension benefits in excess of statutory limits. Benefits are calculated on the basis of the number of years of membership in the plans and take into consideration the average best five years of salary of the employee. Since the terms of the plans are such that future changes in salary levels will have an impact on the amount of future benefits, the cost of the benefits is actuarially determined using

the projected benefit method prorated on services and Management's best estimate assumptions concerning the expected return of plan investments, salary increases and the retirement ages of employees.

Calculation of the expected return on plan assets is based on a market-related value of the pension fund assets. The method used to calculate the market-related value for all the asset categories consists of amortizing the difference between the long-term return objective of the plans' investment policies and the return on pension fund assets over a five-year period.

Defined benefit costs primarily correspond to the aggregate of: (a) current service cost, computed using an actuarial method; (b) interest cost on accrued benefit obligation; (c) actual return on plan assets; (d) actuarial gains and losses; (e) plan amendments; (f) curtailment and settlement gains; and (g) adjustments to recognize the long-term nature of employee future benefit costs. Actuarial gains (losses) result from the difference between the long-term actual return on plan assets and the expected return, the changes made to the actuarial assumptions used to determine the accrued benefit obligation and the experience gains or losses on this obligation. The excess of any net actuarial gains or any net actuarial losses over 10% of the greater of the accrued benefit obligation balance and the market-related value of plan assets at the beginning of the year is

amortized over the average remaining service period of the employees. The cumulative excess of pension fund contributions over the amounts recorded as defined benefit costs is reported under "Other assets – Other". If such amount is negative, it is accounted for under "Other liabilities – Other".

Desjardins Group also offers life, medical and dental insurance coverage to retiring employees and their dependents through a defined benefit plan. The retiree assumes a portion of the total premium based on years of service. The cost of these benefits is accrued over the service life of employees according to accounting policies similar to those used for pension plans, and the increase in costs will have an impact on future benefits. The accrued cost of post-retirement benefits is reported in "Other liabilities – Other".

The following table contains information on these plans:

As at December 31	2008		2007	
	Pension plans	Other plans <sup>(1)</sup>	Pension plans	Other plans <sup>(1)</sup>
<b>Change in accrued benefit obligation</b>				
Accrued benefit obligation at beginning of year	\$ 5,600	\$ 536	\$ 5,709	\$ 548
Current service cost	274	19	319	20
Interest cost	333	32	312	30
Benefits paid	(191)	(15)	(172)	(14)
Transfers from other plans	5	—	1	—
Transfers to other plans	(2)	—	(2)	—
Actuarial gains	(701)	(75)	(566)	(48)
Plan amendments	—	(46)	—	—
<b>Accrued benefit obligation at measurement date</b>	<b>\$ 5,318</b>	<b>\$ 451</b>	<b>\$ 5,601</b>	<b>\$ 536</b>
<b>Change in fair value of plan assets</b>				
Fair value of plan assets at beginning of year	\$ 5,652	\$ —	\$ 4,926	\$ —
Actual return on plan assets	(793)	—	636	—
Employers' contributions	177	—	170	—
Participants' contributions	95	—	97	—
Benefits paid	(191)	—	(172)	—
Transfers from other plans	5	—	1	—
Transfers to other plans	(2)	—	(1)	—
Other changes	(6)	—	(5)	—
<b>Fair value of plan assets at measurement date</b>	<b>\$ 4,937</b>	<b>\$ —</b>	<b>\$ 5,652</b>	<b>\$ —</b>
<b>Funding status</b>				
Funding at end of year	\$ (381)	\$ (451)	\$ 51	\$ (536)
Unamortized net losses (gains)	347	(240)	(132)	(126)
Employers' contributions after measurement date	43	—	40	—
<b>Accrued benefit asset (liability) at end of year</b>	<b>\$ 9</b>	<b>\$ (691)</b>	<b>\$ (41)</b>	<b>\$ (662)</b>
<b>Weighted average assumptions</b>				
Discount rate for the obligation	6.50 %	6.50 %	5.75 %	5.75 %
Discount rate for the expense	5.75	5.75	5.25	5.25
Expected rate of return on plan assets	7.25	—	7.25	—
Rate of increase in future compensation	3.50	3.50	3.50	3.50

(1) Medical, dental and life insurance plans.

## NOTE 23

**EMPLOYEE FUTURE BENEFIT PLANS (CONTINUED)**

For measurement purposes, the assumed average annual rate of increase in health care cost per participant was set at 9.1% for 2009. According to the assumption used, this rate should gradually decline to 4.8% in 2013 and remain approximately at this level thereafter.

As at December 31, 2008, the plans held investments totalling \$59 million (\$160 million in 2007) in Desjardins Group's entities.

With respect to Desjardins Group's main Pension Plan, the assets and accrued benefit obligation were measured as at September 30, 2008. The most recent actuarial valuation for funding purposes was carried out on December 31, 2006. The next actuarial valuation for funding purposes will be required no later than December 31, 2009.

The fair value of plan assets is detailed as follows as at December 31:

	<b>2008</b>	2007
<b>Main asset categories</b>		
Shares	<b>44.0 %</b>	51.3 %
Bonds	<b>24.8</b>	21.6
Real estate	<b>15.4</b>	12.1
Other	<b>15.8</b>	15.0

**DEFINED BENEFIT COSTS RECOGNIZED IN THE YEAR**

As at December 31

	<b>2008</b>		2007		2006	
	Pension plans	Other plans <sup>(1)</sup>	Pension plans	Other plans <sup>(1)</sup>	Pension plans	Other plans <sup>(1)</sup>
Current service cost, net of participants' contributions	\$ 179	\$ 14	\$ 222	\$ 14	\$ 197	\$ 18
Interest cost	333	31	312	30	291	31
Actual return on assets	793	—	(636)	—	(396)	—
Actuarial gains	(696)	(75)	(566)	(48)	(35)	(72)
Plan amendments	—	(46)	—	—	—	—
Elements of employee future benefit costs before adjustments to recognize the long term nature of these costs	609	(76)	(668)	(4)	57	(23)
Adjustments to recognize the long term nature of employee future benefit costs:						
Difference between expected return and actual return on plan assets	(1,182)	—	292	—	94	—
Difference between actuarial loss (gain) recognized for the year and the actual actuarial loss (gain) on accrued benefit obligation for the year	695	72	598	48	96	73
Difference between amortization of past service costs for the year and actual plan amendments for the year	1	43	4	(3)	3	(4)
<b>Defined benefit costs recognized</b>	<b>\$ 123</b>	<b>\$ 39</b>	<b>\$ 226</b>	<b>\$ 41</b>	<b>\$ 250</b>	<b>\$ 46</b>

(1) Medical, dental and life insurance plans.

**TOTAL CASH PAYMENTS**

Total cash payments on future employee benefits for 2008, which comprise contributions from Desjardins Group to funded pension plans and amounts paid directly to employees, to their beneficiaries or their estate with respect to other non-funded plans totalled \$188 million (\$179 million in 2006).

There are significant uncertainties surrounding the assumptions used, because like employee future benefits, they are long-term. The following table shows the impact of a one percentage point change in key assumptions:

### SENSITIVITY OF KEY ASSUMPTIONS IN 2008

	Change in obligation	Change in defined benefit costs
<b>Pension plans</b>		
Discount rate		
1% increase	\$ (778)	\$ (74)
1% decrease	1,018	89
Rate of increase in future compensation		
1% increase	260	40
1% decrease	(221)	(34)
Long-term rate of return on plan assets		
1% increase	—	(54)
1% decrease	—	54
<b>Other plans</b>		
Discount rate		
1% increase	(59)	(8)
1% decrease	75	10
Rate of increase in future compensation		
1% increase	5	1
1% decrease	(4)	(1)

The effect of a one percentage point increase or decrease in the assumed health care cost trend rates would have been an increase in defined benefit costs for the year of \$9 million or a decrease in them of \$6 million and an increase in the benefit obligation of \$45 million or a decrease in it of \$37 million, respectively.

### OTHER PENSION PLANS

Desjardins Group offers to certain active and retired executive employees a defined benefit supplemental pension plan. The supplemental pension plan for members of Management provides pension benefits in excess of statutory limits and is not funded. Benefits are calculated on the basis of the number of years of membership in the plan and take into consideration the average best five years of salary of the employee. Since the terms of the plan are such that future changes in salary levels will have an impact on the amount of future benefits, the cost of the benefits is actuarially determined using the projected benefit method prorated on services and Management's best estimate assumptions concerning salary increases and the retirement ages of employees.

The following table presents the obligations and costs related to the supplemental plan. The date of the actuarial valuation is December 31, 2008.

	2008	2007
<b>Accrued benefit obligation</b>		
Balance at beginning of year	\$ 79	\$ 80
Current service cost	1	2
Interest cost	4	4
Actuarial gains <sup>(1)</sup>	(4)	(3)
Benefits paid	(4)	(4)
Balance at end of year	\$ 76	\$ 79
Unamortized net gains	(1)	(6)
<b>Accrued benefit liability</b>	\$ 75	\$ 73

(1) The gains on the obligation stem from the addition of experience gains and losses realized during the year and gains and losses on changes in assumptions since the last measurement.

For active executive employees, gains and losses on the obligation are amortized over the remaining service life of the participant. For retired executives, they are entirely recognized in the year after measurement.

Disbursements related to the supplemental pension plan are equal to the benefits paid.

The costs for the year recognized for defined benefits were \$5 million in 2008 (\$11 million in 2007).

The accrued benefit liability of the supplemental plan is recorded under "Other liabilities – Accounts payable".

The main actuarial assumptions used by Desjardins Group are:

	2008	2007
Discount rate for the obligation	6.50 %	5.75 %
Discount rate for the expense	5.75	5.25
Rate of increase in future compensation	3.50	3.50

In addition, the employees of certain components are offered two defined benefit pension plans. To estimate the cost of obligations of these plans, these components use the projected benefit method prorated on services based on Management's best estimate assumptions concerning the expected return on plan investments, salary increases, retirement age, expected health care costs and an interest rate established based on market rates. Pension fund assets are measured at market value.

Based on the most recent valuations:

	2008	2007
Accrued benefit obligation	\$ 32	\$ 34
Plan assets at fair value	23	26
Costs for the year	4	4

## NOTE 24

**DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES**

Derivative financial instruments are financial contracts whose value depends on assets, interest rates, foreign exchange rates, and other financial indices. The vast majority of derivative financial instruments are negotiated by mutual agreement between Desjardins Group and the counterparty and include forward exchange contracts, interest rate and currency swaps, total return swaps, forward rate agreements, and interest rate and stock index options. The other transactions are performed as part of regulated trades and mainly consist of futures.

The fair value of all derivative financial instruments is determined using pricing models that incorporate the current market prices and the contractual prices of the underlying instruments, the time value of money, yield curves, and volatility factors. On the Combined Balance Sheets, derivative financial instruments that have a positive fair value appear as assets, and those with a negative fair value appear as liabilities, respectively, under "Other assets – Derivative financial instruments" and "Other liabilities – Derivative financial instruments".

Interest rate derivatives include swaps, forward rate agreements, futures and options. Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount for a predetermined period based on agreed-upon fixed and floating rates. Principal amounts are not exchanged. Forward rate agreements are forward transactions on interest rates, based on a notional amount, which call for cash settlement at a future date for the difference between the contractual interest rate and the market rate. Futures represent a future commitment to purchase or deliver financial instruments on a future specified date at a specified price. Futures are traded in predetermined amounts on organized exchanges and are subject to daily cash margining.

Foreign exchange contracts include forward contracts, spot transactions and currency swaps. Forward exchange contracts are commitments to exchange, at a future date, two currencies based on a rate agreed upon by both parties at the inception of the contract. Spot transactions are similar to forward exchange contracts except that delivery must be made within two business days following the contract date. Currency swaps are transactions in which two parties exchange fixed interest payments on notional amounts in different currencies. In a cross-currency interest rate swap, the parties exchange fixed and floating interest payments on notional amounts in different currencies. Desjardins Group uses currency swaps and cross-currency interest rate swaps to manage its foreign-currency denominated asset and liability exposures.

Options are contractual agreements under which the seller grants the purchaser the right but not the obligation to buy (call option) or sell (put option) a specified amount of a financial instrument at a predetermined price, on or before a specified date. The seller receives a premium from

the purchaser in exchange for this right. Desjardins Group enters into these contracts primarily to meet its clients' needs and to manage its own asset-liability exposures.

Credit default swaps are transactions in which one of the parties agrees to pay interest to the other party who, in turn, undertakes to make a payment should a predetermined credit incident occur.

The other derivative instruments used are related to financial index transactions and include mainly total return swaps. Total return swaps are transactions in which one party agrees to pay to or to receive from the other party the rate of return on an underlying asset or index.

The derivative financial instruments are used for trading purposes or for asset-liability management purposes. They are used to transfer, modify or reduce actual or expected risks related to market risk. The derivative financial instruments for trading purposes are used to meet the needs of members and clients and to allow Desjardins Group to generate income on its own trading activities. These derivative financial instruments are recognized at fair value on the Combined Balance Sheets, and realized and unrealized gains and losses are recorded under "Other income – Trading income".

Derivative financial instruments held for asset-liability management purposes are used to manage the risks related to interest rates and the foreign currency exposure of assets and liabilities recorded on the Combined Balance Sheets, firm commitments and forecasted transactions.

**Hedging activities**

When derivative financial instruments are used to manage assets and liabilities, Desjardins Group must determine, for each derivative, whether or not hedge accounting is appropriate. To qualify for hedge accounting, the hedge relationship must be designated and documented at its inception. Such documentation must address the specific strategy for managing risk, the asset, liability or cash flows that are being hedged as well as the measure of effectiveness of this hedge. The derivative financial instrument must prove highly effective to offset changes in the fair value or the cash flows attributable to the risk being hedged.

Desjardins Group may also use derivative financial instruments as an economic hedge for certain transactions in situations where the hedging relationship is not eligible for hedge accounting or where it elects not to apply hedge accounting. In such circumstances, the derivative financial instruments are classified as held for trading, and realized or unrealized gains and losses are recorded under "Other income – Trading income".

### Fair value hedges

Fair value hedge transactions involve mostly the use of interest rate swaps to hedge the changes in fair value of a fixed-rate financial instrument caused by a change in interest rates on the market. The change in fair value of hedging derivative financial instruments offsets the change in fair value of hedged items attributable to the hedged risk. Desjardins Group uses fair value hedge strategies for its securities, loan and deposit portfolios.

In a fair value hedging transaction, the hedging derivative is recognized at fair value, and the carrying value of the hedged item is adjusted by the gain or the loss attributable to the hedged risk. When these changes in fair value do not completely offset each other, the resulting amount is recorded under "Other income – Trading income". For the year ended December 31, 2008, a loss of \$1 million (\$1 million in 2007) related to the ineffectiveness of fair value hedging activities was recorded under "Other income – Trading income" in the Combined Statement of Income.

The designation of a derivative financial instrument as a hedge is discontinued in the following cases: the hedged item or the hedging item is sold or matures, the hedge is no longer effective, or Desjardins Group terminates the designation of the hedge. When the hedging relationship is discontinued, hedge accounting is discontinued prospectively. The hedged item is no longer adjusted to reflect the fair value impact of the designated risk. Adjustments previously recorded in the hedged item are amortized to combined income using the effective interest method over the remaining life of the hedged item, unless the hedged item ceased to exist, in which case the adjustments for the impact of the designated risk are immediately recognized in combined income.

### Cash flow hedges

Cash flow hedge transactions involve mostly the use of interest rate swaps to hedge the changes in future cash flows from a floating-rate financial instrument. The hedging derivative financial instruments reduce the variability of the future cash flows from the hedged item. Desjardins Group uses cash flow hedge strategies for its loan, deposit and securities portfolios.

In a cash flow hedging transaction, the gains and losses arising from changes in the fair value of the effective portion of the derivative financial instrument are recognized in other comprehensive income until the hedged item is recognized in combined income, at which time such change is recorded under interest income. The ineffective portion of hedging activities is recognized immediately in combined income under "Other income – Trading income". For the year ended December 31, 2008, a loss of \$2 million (\$7 million in 2007) related to the ineffectiveness of cash flow hedging activities was recorded under "Other income – Trading income" in the Combined Statement of Income. In the next twelve months, a net income of \$20 million from the Combined Statement of Comprehensive Income as at December 31, 2008 should be reclassified to the Combined Statement of Income. The remaining balance of accumulated other comprehensive income related to cash flow hedges will be reclassified to the Combined Statements of Income over the next eight years.

When a cash flow hedging relationship no longer qualifies for hedge accounting, Desjardins Group discontinues hedge accounting prospectively. Amounts recorded in accumulated other comprehensive income are reclassified to combined income in the year when the underlying hedged transaction affects net surplus earnings.

When it is probable that a hedged anticipated transaction will not occur, the gains or losses on the hedging item previously recorded in accumulated other comprehensive income are immediately recognized in combined income.

The table "Derivative Financial Instruments – Credit Risk" gives an overview of the derivative financial instruments portfolio of Desjardins Group and the related credit risk:

<b>Notional amount</b>	Amount to which a rate or price is applied in order to calculate the exchange of cash flows.
<b>Replacement cost</b>	The cost of replacing, at current market rates, all contracts having a positive market value, without taking into consideration the impact of netting agreements or any collateral which may be obtained.
<b>Future credit exposure</b>	The potential for future changes in replacement cost over the remaining life of the contracts based on a formula prescribed by the Bank for International Settlements (BIS).
<b>Credit risk equivalent</b>	The total of the replacement cost and future credit exposure, excluding items prescribed by the BIS, namely the replacement cost of forward exchange contracts with an original maturity of less than 14 days and exchange-traded derivatives subject to daily cash margining.
<b>Risk-weighted balance</b>	The risk related to the creditworthiness of the counterparty calculated at the rates prescribed by the BIS.

## NOTE 24

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES  
(CONTINUED)DERIVATIVE FINANCIAL INSTRUMENTS –  
CREDIT RISK

	Notional amount	Replacement cost	2008 Future credit exposure	Credit risk equivalent	Risk- weighted balance	Replacement cost	2007 Credit risk equivalent	Risk- weighted balance
<b>Interest rate contracts</b>								
Swaps	\$ 77,187	\$ 2,990	\$ 327	\$ 3,317	\$ 673	\$ 241	\$ 501	\$ 90
Forward rate agreements	10,849	11	12	23	5	1	5	1
Futures	5,924	2	—	—	—	2	—	—
Options purchased	312	3	1	4	1	1	2	—
Options written	312	—	—	—	—	—	—	—
	<b>94,584</b>	<b>3,006</b>	<b>340</b>	<b>3,344</b>	<b>679</b>	<b>245</b>	<b>508</b>	<b>91</b>
<b>Foreign exchange contracts</b>								
Forward contracts	10,037	355	114	467	107	191	489	133
Swaps	7,405	958	307	1,266	273	240	494	104
Options purchased	653	42	12	53	16	4	6	1
Options written	760	—	—	—	—	—	—	—
	<b>18,855</b>	<b>1,355</b>	<b>433</b>	<b>1,786</b>	<b>396</b>	<b>435</b>	<b>989</b>	<b>238</b>
<b>Other contracts</b>								
Swaps	9,715	59	935	994	126	41	871	179
Futures	—	—	—	—	—	—	—	—
Options purchased	3,472	168	283	451	100	474	672	173
Options written	3,476	—	—	—	—	—	—	—
	<b>16,663</b>	<b>227</b>	<b>1,218</b>	<b>1,445</b>	<b>226</b>	<b>515</b>	<b>1,543</b>	<b>352</b>
<b>Total derivative financial instruments</b>	<b>\$130,102</b>	<b>4,588</b>	<b>\$ 1,991</b>	<b>\$ 6,575</b>	<b>1,301</b>	<b>1,195</b>	<b>\$ 3,040</b>	<b>681</b>
Impact of master netting agreements <sup>(1)</sup>		<b>3,813</b>			<b>766</b>	1,073		389
<b>Total derivative financial instruments after master netting agreements</b>		<b>\$ 775</b>			<b>\$ 535</b>	<b>\$ 122</b>	<b>\$</b>	<b>292</b>

(1) Impact of offsetting credit exposure when Desjardins Group holds master netting agreements without the intent of settling on a net basis or simultaneously.

The following table presents the term to maturity of the notional amounts of derivative financial instruments.

	Maturity				Total contracts	2008		2007
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years		Classified as held for trading	Designated as hedging items	Total
<b>Interest rate contracts</b>								
Swaps	\$ 15,859	\$ 31,850	\$ 25,444	\$ 4,034	\$ 77,187	\$ 52,360	\$ 24,827	\$ 56,518
Forward rate agreements	8,479	2,370	—	—	10,849	10,849	—	5,526
Futures	5,302	591	31	—	5,924	5,924	—	2,702
Options purchased	106	156	50	—	312	312	—	331
Options written	106	156	50	—	312	312	—	356
	<b>29,852</b>	<b>35,123</b>	<b>25,575</b>	<b>4,034</b>	<b>94,584</b>	<b>69,757</b>	<b>24,827</b>	<b>65,433</b>
<b>Foreign exchange contracts</b>								
Forward contracts	9,642	395	—	—	10,037	9,916	121	10,467
Swaps	1,615	4,776	942	72	7,405	1,180	6,225	5,986
Options purchased	553	100	—	—	653	653	—	141
Options written	631	129	—	—	760	760	—	190
	<b>12,441</b>	<b>5,400</b>	<b>942</b>	<b>72</b>	<b>18,855</b>	<b>12,509</b>	<b>6,346</b>	<b>16,784</b>
<b>Other contracts<sup>(1)</sup></b>								
Swaps	785	2,829	3,707	2,394	9,715	9,715	—	7,914
Futures	—	—	—	—	—	—	—	46
Options purchased	496	1,393	1,475	108	3,472	3,472	—	2,421
Options written	496	1,420	1,452	108	3,476	3,476	—	2,420
	<b>1,777</b>	<b>5,642</b>	<b>6,634</b>	<b>2,610</b>	<b>16,663</b>	<b>16,663</b>	<b>—</b>	<b>12,801</b>
<b>Total derivative financial instruments</b>	<b>\$ 44,070</b>	<b>\$ 46,165</b>	<b>\$ 33,151</b>	<b>\$ 6,716</b>	<b>\$ 130,102</b>	<b>\$ 98,929</b>	<b>\$ 31,173</b>	<b>\$ 95,018</b>

(1) Includes contracts related to indexed term savings products.

The following table presents derivative financial instruments by credit risk rating and type of counterparty.

As at December 31

	2008		2007	
	Replacement cost	Risk-weighted balance	Replacement cost	Risk-weighted balance
Credit risk rating <sup>(1)</sup>				
AAA, AA+, AA, AA-	\$ 2,288	\$ 638	\$ 793	\$ 443
A+, A, A-	1,707	487	258	96
BBB, B, BB-, BBB-	9	7	—	—
Not rated	584	169	144	142
<b>Total</b>	<b>4,588</b>	<b>1,301</b>	<b>1,195</b>	<b>681</b>
Impact of master netting agreements <sup>(2)</sup>	3,813	766	1,073	389
<b>Total after master netting agreements</b>	<b>\$ 775</b>	<b>\$ 535</b>	<b>\$ 122</b>	<b>\$ 292</b>
Type of counterparty				
Financial institutions	\$ 4,331	\$ 1,233	\$ 1,019	\$ 539
Other	257	68	176	142
<b>Total</b>	<b>4,588</b>	<b>1,301</b>	<b>1,195</b>	<b>681</b>
Impact of master netting agreements <sup>(2)</sup>	3,813	766	1,073	389
<b>Total after master netting agreements</b>	<b>\$ 775</b>	<b>\$ 535</b>	<b>\$ 122</b>	<b>\$ 292</b>

(1) Credit risk ratings are established by recognized credit agencies. Non-rated counterparties are mainly members or clients of Desjardins Group.

(2) Impact of offsetting credit exposure when Desjardins Group holds master netting agreements without the intent of settling on a net basis or simultaneously.

## NOTE 24

## DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (CONTINUED)

The following table presents the fair value of derivative financial instruments.

	2008			2007		
	Positive value	Negative value	Net amount	Positive value	Negative value	Net amount
<b>Classified as held for trading</b>						
<b>Interest rate contracts</b>						
Swaps	\$ 1,481	\$ 1,477	\$ 4	\$ 144	\$ 159	\$ (15)
Forward rate agreements	11	10	1	1	1	—
Futures	2	32	(30)	2	1	1
Options purchased	3	—	3	1	—	1
Options written	—	3	(3)	—	1	(1)
<b>Foreign exchange contracts</b>						
Forward contracts	353	393	(40)	186	201	(15)
Swaps	33	100	(67)	228	336	(108)
Options purchased	42	—	42	4	—	4
Options written	—	38	(38)	—	6	(6)
<b>Other contracts</b>						
Swaps	59	378	(319)	41	70	(29)
Futures	—	—	—	—	—	—
Options purchased	168	—	168	474	—	474
Options written	—	168	(168)	—	474	(474)
	<b>2,152</b>	<b>2,599</b>	<b>(447)</b>	<b>1,081</b>	<b>1,249</b>	<b>(168)</b>
<b>Designated as hedging items</b>						
<b>Interest rate contracts</b>						
Swaps	1,509	139	1,370	97	66	31
<b>Foreign exchange contracts</b>						
Forward contracts	2	—	2	5	—	5
Swaps	925	35	890	12	6	6
	<b>2,436</b>	<b>174</b>	<b>2,262</b>	<b>114</b>	<b>72</b>	<b>42</b>
Designated as fair value hedges	1,302	52	1,250	43	25	18
Designated as cash flow hedges	1,134	122	1,012	71	47	24
	<b>2,436</b>	<b>174</b>	<b>2,262</b>	<b>114</b>	<b>72</b>	<b>42</b>
Total gross fair values before master netting agreements	4,588	2,773	1,815	1,195	1,321	(126)
Impact of master netting agreements <sup>(1)</sup>	3,813	3,813	—	1,073	1,073	—
<b>Total derivative financial instruments after master netting agreements</b>	<b>\$ 775</b>	<b>\$ (1,040)</b>	<b>\$ 1,815</b>	<b>\$ 122</b>	<b>\$ 248</b>	<b>\$ (126)</b>

(1) Impact of offsetting credit exposure when Desjardins Group holds master netting agreements without the intent of settling on a net basis or simultaneously.

## NOTE 25

## FAIR VALUE OF FINANCIAL INSTRUMENTS

### FINANCIAL INSTRUMENTS

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

The following methods and assumptions were used to estimate the fair value of the financial instruments:

#### Financial instruments measured at fair value (excluding derivative financial instruments)

The fair value of certain financial instruments presented in the "Financial Instruments" table that are maturing in the short term were assumed to be approximately equal to their carrying value. These financial instruments include the following items: "Cash and deposits with financial institutions", "Securities borrowed or purchased under reverse repurchase agreements", "Other financial assets", "Commitments related to securities lent or sold under repurchase agreements", "Commitments related to securities sold short" and "Other financial liabilities".

#### Securities

The fair value of securities and the valuation methods used are disclosed in Note 4, "Securities".

#### Loans

Changes in interest rates and in the creditworthiness of borrowers are the main causes of changes in the fair value of loans held by Desjardins Group, which result in a favourable or unfavourable difference compared to their carrying value. The fair value of loans is estimated by discounting expected cash flows using market interest rates currently charged for similar new loans as at December 31. For impaired loans, the fair value is assumed to be equal to their carrying value in accordance with the valuation techniques described in Note 5, "Loans and Allowance for Credit Losses".

#### Deposits

The fair value of deposits with no stated maturity is assumed to be equal to their carrying value. The fair value of fixed rate deposits is determined by discounting the expected cash flows using market interest rates currently being offered for deposits with relatively the same term.

#### Subordinated debentures and borrowings

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

#### Derivative financial instruments

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

Note 24, "Derivative Financial Instruments and Hedging Activities" presents the fair value of derivative financial instruments.

### FINANCIAL INSTRUMENTS (EXCLUDING DERIVATIVE FINANCIAL INSTRUMENTS)

	2008			2007		
	Fair value	Carrying value	Favourable (unfavourable) difference	Fair value	Carrying value	Favourable (unfavourable) difference
<b>Assets</b>						
Cash and deposits with financial institutions	\$ 1,489	\$ 1,489	\$ —	\$ 1,499	\$ 1,499	\$ —
Securities	29,105	29,103	2	31,442	31,442	—
Securities borrowed or purchased under reverse repurchase agreements	6,130	6,130	—	7,593	7,593	—
Loans	105,072	104,462	610	94,093	95,403	(1,310)
Other financial assets	3,125	3,147	(22)	3,966	3,966	—
<b>Liabilities</b>						
Deposits	102,723	101,436	(1,287)	97,453	95,766	(1,687)
Borrowings	336	338	2	69	69	—
Commitments related to securities lent or sold under repurchase agreements	11,905	11,905	—	9,455	9,455	—
Commitments related to securities sold short	4,112	4,112	—	6,875	6,875	—
Subordinated debentures	759	748	(11)	869	858	(11)
Other financial liabilities	6,798	6,798	—	5,811	5,811	—

## NOTE 26

## COMMITMENTS, GUARANTEES AND CONTINGENCIES

### COMMITMENTS

#### Commitments related to financial instruments with contractual amounts representing a credit risk

The primary purpose of these instruments is to ensure that members and clients have funds available when necessary for variable terms to maturity and under specific conditions. Desjardins Group's policy with respect to collateral for these credit instruments is generally the same as for loans.

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

	2008	2007
Guarantees and standby letters of credit	\$ 566	\$ 435
Securities lending <sup>(1)</sup>	1,334	1,788
Credit commitments		
Original term of one year or less	33,853	29,930
Original term of over one year	4,252	7,764
	<b>\$ 40,005</b>	<b>\$ 39,917</b>

(1) Secured by marketable securities generally issued by the federal or provincial governments, representing 102% of the contractual amount.

#### Guarantees and standby letters of credit

Guarantees and standby letters of credit represent irrevocable commitments by Desjardins Group to make payments in the event that a member or client cannot meet its financial obligations to third parties. They pose the same credit risks as loans.

#### Securities lending

In the normal course of operations, Desjardins Group lends its own securities or those of members and clients. When lending securities of clients or members, Desjardins Group acts as an agent for the owner of a security who agrees to lend it to a borrower for a fee under the terms of a pre-arranged contract.

In securities lending transactions, the loans must at all times be secured by the borrower (secured by marketable securities generally issued by the federal and provincial governments). There is a risk of loss if the borrower defaults on its commitments and the value of the collateral is not adequate to cover the amount of the loan. The credit risk related to these transactions is considered to be minimal since Desjardins Group deals only with reputable stock brokerage firms and financial institutions. Furthermore, the borrower pledges securities of a value at least equivalent to the amount of the loan adjusted on a daily basis. The securities lending transactions for which securities were received as collateral are included in the table above whereas the securities lending transactions of \$11.9 billion (\$9.5 billion in 2007) for which cash was received as collateral are excluded from the table above because they are recorded in the Combined Balance Sheets as commitments related to securities lent or sold under repurchase agreements.

#### Credit commitments

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

#### Commitments under leases and service contracts

The minimum future commitments as at December 31, 2008 under leases for premises and material as well as service contracts are detailed as follows:

	Premises and equipment	Information technology and telecommunications
2009	\$ 101	\$ 325
2010	80	317
2011	71	161
2012	65	87
2013	52	87
2014 and thereafter	182	86
	<b>\$ 551</b>	<b>\$ 1,063</b>

Building lease expenses, net of rental income, included in non-interest expense for the year ended December 31, 2008 were \$79 million (\$75 million in 2007 and \$62 million in 2006).

Additional information on commitments is provided under "Asset-backed commercial paper" in Note 4, "Securities".

### GUARANTEES

A guarantee is a contract or an indemnification agreement that contingently requires Desjardins Group entities to make payments to the guaranteed party pursuant to i) changes in an interest rate, an exchange rate, a security price or commodity price, a price or rate index or the occurrence or non-occurrence of a specified event; ii) the failure by a third party to perform under an obligating agreement; or iii) the failure by a third party to repay its debt when it becomes due. Since January 1, 2007, Desjardins Group has recorded a liability with respect to the fair value of the obligation resulting from the issuance of the guarantee. No subsequent valuation is required unless the guarantee meets the definition of a derivative financial instrument. In such cases, the guarantee must be remeasured at fair value at each Combined Balance Sheet date and presented under "Other liabilities – Derivative financial instruments". The carrying value of guarantees does not reflect the maximum potential amount of future payments under guarantees. Therefore, Desjardins Group continues to consider these guarantees as off-balance sheet credit instruments.

#### Maximum potential amount of future payments

The guarantees that Desjardins Group granted to third parties and the maximum potential amount of future payments under these guarantees are as follows:

	2008	2007
Guarantees and standby letters of credit	\$ 566	\$ 435
Derivative financial instruments	752	621
Guarantee for securities lending with indemnification	2,548	4,131

### Guarantees and standby letters of credit

Guarantees and standby letters of credit represent irrevocable commitments by Desjardins Group to make payments in the event that a member or client cannot meet its financial obligations to third parties. Desjardins Group's policy with respect to collateral received for these instruments is generally the same as for loans. The term of these products does not exceed five years.

The general allowance for credit losses covers all credit risk, including guarantees and standby letters of credit.

### Derivative financial instruments

Desjardins Group has entered into credit default swaps with bank counterparties. It has made an irrevocable commitment to the counterparties to assume the credit risk for the bonds that constitute the underlying assets for the swaps. The guarantee given by Desjardins Group is to provide partial or total payment for one security or a group of securities following an unfavourable event leading to a payment default.

The maximum amount of the guarantee is equal to the notional amount of the swap. The amounts to be disbursed will depend on the nature of the default and the recovery rates of the securities in collection.

The underlying assets for the swaps are corporate bonds or tranches within high-quality securitization structures. All underlying securities are rated by rating agencies and their rating was at least A- as at December 31, 2008. The swaps mature on various dates through June 2014.

### Guarantee for securities lending with indemnification

As part of its custodial activities, Desjardins Group entered into securities lending agreements with members and clients under which Desjardins Group obtains guarantees in order to protect itself against any potential

losses. The guarantee for securities lending with indemnification represents the contractual amount of members' and clients' securities for which Desjardins Group is the custodian. As at December 31, 2008, commitments related to securities lent or sold under repurchase agreements of \$11.9 billion (\$9.5 billion in 2007) included securities lending with indemnification for which a cash amount of \$1.6 billion (\$2.6 billion in 2007) was received as a guarantee. An additional amount of \$0.9 billion (\$1.5 billion in 2007) received as securities was included in the "Maximum potential amount of future payments" table.

### Other indemnification agreements

In the normal course of its operations, Desjardins Group enters into agreements containing indemnification provisions. The indemnifications are normally related to the sale of assets, purchase agreements, service agreements, lease agreements, clearing agreements, and transfers of assets or shares. Under these agreements, Desjardins Group may be liable for indemnifying a counterparty if certain events occur, such as amendments to statutes and regulations (including tax rules) as well as to disclosed financial positions, the existence of undisclosed liabilities, and losses resulting from third-party activities or as a result of third-party litigation. The indemnification provisions vary from one contract to the next. In several cases, no predetermined amount or limit is stated in the contract, and future events that would trigger a payment would be difficult to foresee. Therefore, the maximum amount that Desjardins Group could be required to pay counterparties cannot be estimated. Historically, payments made under these agreements have been immaterial.

### Financial assets pledged as collateral

Financial assets pledged as collateral by Desjardins Group in the normal course of business are presented in the following table:

	2008	2007
Financial assets pledged as collateral to the following counterparties:		
Bank of Canada	\$ 2,472	\$ 125
Clearing systems, payment systems and depositories	228	180
Financial assets pledged as collateral for the following transactions:		
Transactions on derivative financial instruments	670	1,386
Securities borrowing	167	259
Commitments related to securities lent or sold under repurchase agreements	9,124	6,912
	<b>\$ 12,661</b>	<b>\$ 8,862</b>

### Financial assets held as collateral

As at December 31, 2008, the fair value of the financial assets held as collateral that Desjardins Group is permitted to sell or repledge in the absence of default totalled \$6,478 million (\$9,305 million in 2007). The fair value of financial assets accepted as collateral which have been sold or repledged amounted to \$958 million (\$2,953 million in 2007).

These financial assets held as collateral were obtained as a result of transactions involving securities borrowed or purchased under reverse repurchase agreements. Such transactions were carried out under normal conditions for these types of transactions.

### CONTINGENCIES

Desjardins Group is party to various business litigation matters and lawsuits arising in the course of normal business activities. Many of these lawsuits are in connection with measures taken by entities to collect impaired loans and to exercise their rights in respect of assets given as collateral for a loan. In Management's opinion, the total amount of contingent liability resulting from these lawsuits would not have a material impact on the financial position of Desjardins Group.

## NOTE 27

## FINANCIAL INSTRUMENT RISK MANAGEMENT

Desjardins Group is exposed to different types of risks in the normal course of operations, 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 activities.

Under Desjardins Group's risk management approach, the organization's entities and units are accountable for the combined results and the quality of risk management practices. The boards of directors of all Desjardins Group components also play a pivotal role in monitoring the risks and results of those units and entities. Several committees support the boards of directors and management teams of each component in their efforts to fulfill their risk management responsibilities.

### CREDIT RISK

Credit risk is the risk of losses resulting from a borrower's or a counterparty's failure to honour its contractual obligations, whether or not these obligations appear on the Combined Balance Sheets.

#### Credit risk management

Desjardins Group upholds its goal of effectively serving all its members and clients. To this end, it has developed robust distribution channels specialized by product and client. The units and components that make up these channels are considered centres of expertise and are accountable for their performance in their respective markets, including credit risk. In this regard, they have latitude regarding the framework they use and the approval given and are also equipped with the corresponding management and monitoring tools and structures.

In addition, Desjardins Group has set up centralized structures and procedures to ensure that this risk management framework permits effective management that is also sound and prudent. Accordingly, the Risk Management Commission ensures that risk management activities are adequately structured and monitored throughout Desjardins Group by, among other things, examining the main credit policies and follow-up reports, such as those produced by the independent supervisory units. The Integrated Risk Management Committee supports the members of the Risk Management Commission in carrying out their responsibilities by analyzing the key elements involved in risk management, as well as main reports on specific situations and portfolio status.

#### Credit risk framework

Desjardins Group has set up a Credit Risk Executive Department, whose mandate is to develop a Desjardins-wide framework for managing and monitoring credit risk. The Credit Risk Executive Department is responsible for a single general policy that sets out the main elements of credit risk management at Desjardins Group. Credit risk management units, which have been set up within the main components, assume specific responsibilities related to credit granting, management and providing a framework for their operations and those of the components for which they are responsible. These units establish their own credit risk policies in light of their market niches, products and clients, in accordance with Desjardins Group policies.

These structures and policies make it possible to define the responsibilities of the parties involved, the degree of risk that Desjardins Group is willing to assume, the concentration limits, and risk management and control guidelines.

Finally, a steering and information committee, comprised of senior executives from the main components specializing in credit risk, ensures cohesion between the parties involved.

#### Credit granting

This responsibility is assumed by the risk management units of the main components where they exist in order to meet the characteristics of each product or client. This is done using specialized teams and specific procedures.

To assess the risk of credit activities with individuals and smaller businesses, credit scoring systems based on proven statistics are generally used. These systems were developed using a history of borrower behaviour with a profile or characteristics similar to those of the applicant to determine the transaction risk. The performance of these systems is analyzed on an ongoing basis and adjustments are made regularly with a view to assessing transaction and borrower risks as accurately as possible.

The granting of credit to businesses is based on an analysis of the various parameters of each file, where each borrower is assigned a risk rating. These ratings are assigned individually following a detailed examination of the financial, market and management characteristics of the business.

For the main commercial portfolios, the scoring system has 19 ratings, broken down into 12 levels, each representing a default probability level. The characteristics of each borrower are analyzed using models based on internal and external historical data taking into account the specific features of the borrower's economic sector and the performance of comparable businesses. These analyses are performed using systems that can make quantitative comparisons and are supplemented by the professional judgment of the personnel involved with the file. Real estate and agricultural portfolio files are analyzed using different scoring methods adapted to their specific characteristics.

The depth of the analysis and the approval level required depend on the product, as well as the complexity and scope of the transaction risk. Larger loans are approved by credit committees that include senior executives. The Executive Committee or the Board of Directors is involved in the approval of loans that exceed policy-defined limits.

#### **File monitoring and management of higher risks**

Portfolios are monitored by the business units using procedures that set out the degree of thoroughness and frequency of review based on the quality and extent of the risk related to the commitments. Both portfolios and basic data on certain economic sectors under watch are monitored for warning signs. Various reports are distributed to all levels of the organization, including senior management, the Integrated Risk Management Committee and the Risk Management Commission.

The management of higher-risk loans involves a follow-up adapted to their particular circumstances and is supported by specialized turnaround teams, who are available to help manage more difficult files. Other specialized teams help settle files for which the chances of improvement are slim in order to minimize losses.

#### **Credit risk mitigation**

In its lending operations, Desjardins Group obtains collateral if deemed necessary for a member's or client's loan facility following an assessment of their creditworthiness. Collateral is normally comprised of assets such as cash, government securities, shares, receivables, inventory or capital assets. For some portfolios, programs offered by organizations such as the Canada Mortgage and Housing Corporation and La Financière agricole du Québec are used in addition to customary collateral.

The large number of borrowers, for the most part individuals, but also small and medium-sized businesses from most sectors of the economy, plays a role in the sound diversification of the financing portfolio. When required, Desjardins Group uses mechanisms to share risk with other financial institutions.

In its derivative financial instrument and securities lending transactions, Desjardins Group uses various techniques to reduce its counterparty credit risk.

First, most derivative financial instrument transactions are governed by International Swaps and Derivatives Association (ISDA) master agreements. These agreements are legal contracts binding the counterparties and define the terms and conditions for the transactions. In order to reduce its counterparty risk, Desjardins Group includes netting agreements in its ISDA agreements that determine the net amount of exposure in the event of default. In addition, an annex called a CSA (Credit Support Annex) can be added to the master agreement so that Desjardins can request the pledge of financial collateral from its counterparties to secure transaction settlement, if necessary.

In securities lending transactions, Desjardins Group reduces counterparty risk through IDA (Investment Dealers Association of Canada) participation agreements in order to standardize the documents required in these transactions and clearly set out each party's respective rights and obligations. Desjardins Group also uses netting agreements with its counterparties to mitigate risk and requires a percentage of collateralization (a pledge) on these transactions equivalent to industry best practices.

Desjardins Group accepts from its counterparties financial collateral that complies with the eligibility criteria set out in its policies. These eligibility criteria promote a quick realization, if necessary, of collateral in the event of default. The types of collateral received by Desjardins Group are mainly cash and government securities.

Finally, as another way to mitigate its risks, Desjardins Group enters into long hedges through credit derivatives. With these instruments (credit default swaps and total return swaps), Desjardins Group can transfer credit risk to a counterparty or hedge itself against different types of risks (matching risk, margin risk, etc.).

## NOTE 27

## FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

## MAXIMUM CREDIT RISK EXPOSURE

2008

	Maximum exposure
<b>Recognized on the Combined Balance Sheet</b>	
Deposits with financial institutions	\$ 282
Securities	
Available-for-sale debt securities	10,782
Debt securities designated as held for trading under the fair value option	7,445
Debt securities held for trading	9,834
Securities borrowed or purchased under reverse repurchase agreements	6,130
Loans	
Residential mortgages	61,070
Consumer, credit card and other personal loans	18,089
Business and government	25,999
Interest receivable	520
Derivative financial instruments	4,588
Clients' liability under acceptances	428
Other assets	2,199
<b>Total recognized on the Combined Balance Sheet</b>	<b>\$147,366</b>
<b>Off-balance sheet</b>	
Guarantees and standby letters of credit	566
Credit commitments <sup>(1)</sup>	38,105
<b>Total off-balance sheet</b>	<b>\$ 38,671</b>

(1) Includes the funding facility related to the restructuring plan of the Montréal Accord. Additional information is provided in Note 4, "Securities".

Additional information on credit risk is provided in Notes 24, "Derivative Financial Instruments and Hedging Activities", and 26, "Commitments, Guarantees and Contingencies".

## LIQUIDITY RISK

Liquidity risk refers to Desjardins Group's capacity to raise the necessary funds (by increasing liabilities or converting assets) to meet a financial obligation, whether or not it appears on the Combined Balance Sheets, on the date it is due or otherwise.

Desjardins Group manages liquidity risk in order to ensure that it has access, on a timely basis and in a profitable manner, to the funds needed to meet its financial obligations as they become due in both routine and crisis situations. Managing this risk involves maintaining a minimum level of liquid securities, stable and diversified sources of funding, and an action plan to implement in extraordinary circumstances. Liquidity risk management is a key component in an overall risk management strategy, because it is essential to preserving market and depositor confidence. The components and Desjardins Group have established policies describing the principles, limits and procedures that apply to liquidity risk management. Desjardins Group has also developed a liquidity contingency plan that includes setting up an internal crisis committee vested with special decision-making powers to deal with crisis situations. This plan also lists the sources of liquidity available in exceptional situations.

The plan makes it possible to quickly and effectively minimize disruptions caused by sudden changes in member and client behaviour and potential disruptions in markets or economic conditions.

A specific framework sets out the minimum level of liquid securities that the caisse network, the FCDQ and Caisse centrale Desjardins must maintain. This liquidity level is centrally managed by the Desjardins Group Treasury and is monitored on a daily basis. Eligible securities must meet high security and negotiability standards. The liquid securities portfolio comprises mostly securities issued by governments, public bodies and private companies with high credit ratings, i.e. AA- or better.

The Desjardins Group Treasury ensures stable and diversified sources of funding by type, source and maturity. Desjardins Group can also issue securities and borrow on national and international markets to round out and diversify its funding.

A securitization program for mortgages insured by the Canada Mortgage and Housing Corporation (CMHC) is also in place.

The strategies implemented in recent years to diversify and extend sources of funding have proven to be effective in weathering the current capital market crisis. Desjardins Group is also eligible for the Bank of Canada's various intervention programs.

The following table presents financial liabilities and deposit commitments by remaining contractual maturity. Amounts presented include principal and interest, if any.

## 2008

	Payable on demand	Under 1 year	From 1 to 5 years	Over 5 years	Total
Deposits	\$ 32,648	\$ 35,788	\$ 37,370	\$ 1,491	\$ 107,297
Borrowings	—	270	61	26	357
Interest payable	—	8	—	—	8
Acceptances	—	428	—	—	428
Commitments related to securities lent or sold under repurchase agreements	151	11,127	—	—	11,278
Commitments related to securities sold short	3,622	495	—	—	4,117
Subordinated debentures	—	449	—	299	748
Other financial liabilities	1,863	3,889	131	59	5,942
Loan commitments	—	33,853	4,193	59	38,105
Derivative financial instruments with gross settlement <sup>(1)</sup>	—	10,792	5,439	72	16,303
Derivative financial instruments with net settlement	—	2,267	2,826	72	5,165

(1) Contractual cash outflows for derivative financial instruments with gross settlement are accompanied by related cash inflows that are not included in the above table.

## 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 exposed to market risk primarily through positions taken in the course of 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 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. The established policies describe the principles,

### Interest rate sensitivity (before income taxes)

As at December 31, 2008

(in millions of \$)

Impact on the economic value of equity of a 100-basis-point increase in interest rates	(21)
Impact on the economic value of equity of a 100-basis-point decrease in interest rates	23
Impact on the economic value of equity of a 200-basis-point increase in interest rates	(42)
Impact on the economic value of equity of a 200-basis-point decrease in interest rates	45

The extent of the interest rate risk depends on the gap between cash flows related to assets, liabilities and off-balance sheet financial instruments. The position presented reflects the position as at that date only, and may

limits and procedures that apply to interest rate risk management. Simulations are used to measure the impact of different variables on changes in net income and the economic value of equity. Assumptions used in the simulations are based on an analysis of historical data and on the impact of different interest rate conditions on changes to the data. These assumptions 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- and 200-basis-point increase or decrease in interest rates on the economic value of equity. Amounts presented do not include the impact of interest rates of the financial assets of the insurance subsidiaries that back the actuarial and related liabilities as the effect of changes in interest rates is entirely offset by changes in actuarial and related liabilities.

change depending on member behaviour, the interest rate environment and the strategies adopted by the Asset/Liability Committee.

## NOTE 27

## FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

## INTEREST RATE SENSITIVITY AND MATURITY MATCHING TABLE

2008

	Floating rate	Under 3 months	From 3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Non-interest-rate sensitive and provisions	Total
<b>Assets</b>								
Cash and deposits with financial institutions	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,489	\$ 1,489
Securities	2,121	5,148	710	1,256	10,189	7,749	2,049	29,222
Effective interest rate		2.63 %	2.40 %	2.20 %	3.35 %	4.80 %		
Securities borrowed or purchased under reverse repurchase agreements	—	1,542	—	—	—	—	4,588	6,130
Effective interest rate		1.40 %	—	—	—	—		
Loans	32,122	17,098	7,224	10,270	34,939	3,108	(299)	104,462
Effective interest rate		6.44 %	5.86 %	5.92 %	5.87 %	5.51 %		
Other assets	—	—	—	—	—	—	10,995	10,995
	<b>\$ 34,243</b>	<b>\$ 23,788</b>	<b>\$ 7,934</b>	<b>\$ 11,526</b>	<b>\$ 45,128</b>	<b>\$ 10,857</b>	<b>\$ 18,822</b>	<b>\$ 152,298</b>

<b>Liabilities and equity</b>								
Deposits	\$ 9,049	\$ 15,733	\$ 5,703	\$ 16,525	\$ 30,652	\$ 1,320	\$ 22,454	\$ 101,436
Effective interest rate		2.89 %	3.29 %	2.78 %	3.16 %	3.84 %		
Subordinated debentures and borrowings	250	450	—	—	58	328	—	1,086
Effective interest rate		3.89 %	—	—	6.03 %	6.20 %		
Commitments related to securities lent or sold under repurchase agreements	—	5,647	—	—	—	—	6,258	11,905
Effective interest rate		1.79 %	—	—	—	—		
Commitments related to securities sold short	31	500	10	60	2,080	1,407	24	4,112
Effective interest rate		3.49 %	1.06 %	0.87 %	1.59 %	3.48 %		
Actuarial and related liabilities	—	—	—	—	—	—	12,874	12,874
Other liabilities	—	—	—	—	—	—	11,012	11,012
Equity	—	—	—	—	—	—	9,873	9,873
	<b>\$ 9,330</b>	<b>\$ 22,330</b>	<b>\$ 5,713</b>	<b>\$ 16,585</b>	<b>\$ 32,790</b>	<b>\$ 3,055</b>	<b>\$ 62,495</b>	<b>\$ 152,298</b>

Sensitivity gap – Combined Balance Sheet items	24,913	1,458	2,221	(5,059)	12,338	7,802	(43,673)	—
Sensitivity gap – Derivative financial instruments, based on notional amounts	—	(4,429)	(513)	(4,420)	9,279	83	—	—

<b>Total interest rate sensitivity gap</b>	<b>\$ 24,913</b>	<b>\$ (2,971)</b>	<b>\$ 1,708</b>	<b>\$ (9,479)</b>	<b>\$ 21,617</b>	<b>\$ 7,885</b>	<b>\$ (43,673)</b>	<b>\$ —</b>
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2007

	Floating rate	Under 3 months	From 3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Non-interest-rate sensitive and provisions	Total
Total assets	\$ 18,267	\$ 25,769	\$ 9,245	\$ 13,046	\$ 47,936	\$ 9,973	\$ 19,823	\$ 144,059
Total liabilities and equity	9,694	15,989	5,347	17,493	33,635	3,464	58,437	144,059

Sensitivity gap – Combined Balance Sheet items	8,573	9,780	3,898	(4,447)	14,301	6,509	(38,614)	—
Sensitivity gap – Derivative financial instruments, based on notional amounts	—	(8,003)	(1,491)	623	8,712	159	—	—

<b>Total interest rate sensitivity gap</b>	<b>\$ 8,573</b>	<b>\$ 1,777</b>	<b>\$ 2,407</b>	<b>\$ (3,824)</b>	<b>\$ 23,013</b>	<b>\$ 6,668</b>	<b>\$ (38,614)</b>	<b>\$ —</b>
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## MARKET RISK (CONTINUED)

The determination of the interest rate sensitivity gap, which is based on the earlier of the repricing or maturity date of assets, liabilities and derivative financial instruments used to manage interest rate risk, relies on various assumptions. The gap may change significantly in subsequent years based on the preferences of members and clients and the application of the Desjardins Group policy on asset and liability management.

The main assumptions used are the following:

### Non rate-sensitive instruments

Some Combined Balance Sheet items, such as equity investments, non-performing loans, non-interest-bearing deposits, non-maturity deposits with an interest rate not referenced to a specific rate, such as the prime rate, and equity are not sources of interest rate risk. These items, as well as ABCP holdings, are presented in the non interest-rate-sensitive column in the table.

In addition, actuarial and related liabilities are presented in this column. In the normal course of operations, the life and health insurance subsidiary has developed a policy of matching assets and liabilities that clearly defines acceptable gaps in order to prevent mismatched cash flows. One of the tests addresses the difference between the duration of liabilities and the duration of the related assets. Comparing durations makes it possible to measure the sensitivity of the market value of assets and liabilities to changes in interest rates. The life and health insurance subsidiary takes care of monitoring the matching situation for all business segments, because the matching policies stipulate the targets in this respect. As at December 31, 2008, the difference in the durations of assets and liabilities was 0.1 year (0.1 year as at December 31, 2007). Since the valuation method already recognizes the impact of possible changes in interest rates, a sudden increase or decrease in these interest rates would not have a material impact on the life and health insurance subsidiary.

## VaR BY RISK CATEGORY (TRADING PORTFOLIO)

As at December 31, 2008

(in millions of \$)

	As at December 31, 2008	For the three-month period ended December 31, 2008		
		Average	High	Low
Equity	0.7	1.3	2.5	0.7
Foreign exchange	0.2	0.1	0.7	—
Interest rate	3.2	2.9	4.4	2.1
Diversification effect <sup>(1)</sup>	(1.0)	(1.5)	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>
Aggregate VaR	3.1	2.8	4.1	2.2

(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 December 31, 2008, the aggregate VaR was \$3.1 million, the interest rate VaR being the largest component. This aggregate VaR was higher than its quarterly average of \$2.8 million. The risk mitigation related to diversification amounted to \$1.0 million as at December 31, 2008.

### Back testing

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

Desjardins Group carries out back testing daily, applying a hypothetical P&L to 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.

### Foreign exchange risk management

Foreign exchange risk arises when the actual or expected value of assets denominated in a foreign currency is higher or lower than that of liabilities denominated in the same currency. Certain components have adopted specific policies to manage foreign exchange risk. However, Desjardins Group's exposure to this risk is limited because the majority of its transactions are conducted in Canadian dollars.

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

For purposes of market risk management, the definition of trading portfolio meets the various criteria set out in the Basel Accord. Within Desjardins Group, management of this risk is performed daily and is governed by a specific policy.

The main tool used to measure the market risk of trading portfolios is "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.

### Stress testing

From time to time, certain events that are considered highly unlikely may happen and may have a significant impact on Desjardins Group's trading portfolios. These events at the tail-end of distribution are the result of extreme situations.

The approach used to measure the risk related to events which are highly unlikely, but plausible, is applied through a stress testing program (sensitivity tests, historical scenarios and hypothetical scenarios) at regular intervals. Stress testing results are analyzed together with the VaR calculations in order to detect Desjardins Group's vulnerability to such events. The stress testing program is reviewed periodically to ensure that it is kept current.

## NOTE 27

## FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

## INSURANCE AND REINSURANCE RISK

In the normal course of operations, the life and health insurance subsidiary is exposed to insurance risk. This risk represents the risk that the initial pricing is or will become insufficient: it arises from the selection of risks, from claims settlement and from contractual clause management. To manage this risk, the life and health insurance subsidiary has adopted several policies on the development and pricing of products as well as on the management of underwriting and commitments. It also adopted a reinsurance policy. These policies clearly define its insurance risk management framework. Strict testing is performed on an annual basis by the life and health insurance subsidiary to ensure that these policies are respected.

The life and health insurance subsidiary enters into reinsurance treaties for, among other types of policies, policies with coverage in excess of certain maximum amounts that vary in relation to business activities. The subsidiary also took out catastrophe insurance. This protection includes, among other things, coverage related to terrorism.

In order to reduce the risk related to reinsurance, the life and health insurance subsidiary deals with many different registered reinsurers who meet stringent credit standards and who are subject to the same regulatory authorities as the subsidiary. These reinsurance treaties do not release the life and health insurance subsidiary from its obligations to policyholders.

The detailed impact of reinsurance on premiums and benefits and annuities is as follows:

	2008	2007
Premiums ceded under reinsurance treaties	\$ 119	\$ 116
Benefits settled by reinsurers	63	77

It should be noted that the life and health insurance and general insurance subsidiaries have decided, in accordance with Section 3862 of the CICA Handbook, "Financial Instruments – Disclosures", to apply the disclosure requirements of Section 3861, "Financial Instruments – Disclosures and Presentation", to insurance contracts instead of those of Section 3862.

## NOTE 28

## CAPITAL MANAGEMENT

The goal of capital management at Desjardins Group is to ensure that a sufficient level of high-quality capital is maintained for the following reasons: to preserve flexibility for its development, to maintain a favourable credit rating and to maintain the confidence of depositors and financial markets.

Capital management is the responsibility of Desjardins Group's Board of Directors. To support them with this task, they have mandated the Asset/Liability Committee, comprised of members of senior management, to ensure that Desjardins Group has a sufficient and reliable capital base. Consequently, the Financial Executive Division of Desjardins Group is responsible for preparing, with the help of Desjardins Group's components, a capitalization plan that sets and updates capital objectives and targets for all of the components.

With respect to regulatory capital, the capital adequacy and composition of Desjardins Group as a whole are evaluated against the guideline on capital adequacy requirements issued by the AMF. The AMF requires that a minimum capital be maintained on a combined basis by all the components, notably the caisses, the FCDQ, Caisse centrale Desjardins, Fonds de sécurité Desjardins, Capital Desjardins inc. and Desjardins Credit Union. This capital takes into consideration investments made in other Desjardins Group components.

This guideline, which borrows extensively from international capital standards adopted by the Bank for International Settlements (BIS) in 1988, was adapted to suit the cooperative nature of deposit-taking institutions and financial services institutions governed by the Act.

The regulatory capital of Desjardins Group, which constitutes capital, differs from the equity disclosed on the balance sheet. It comprises two classes:

Tier 1 capital includes more permanent capital items than Tier 2 capital. It consists of eligible capital stock, reserves, undistributed surplus earnings and non-controlling interests. Goodwill is deducted from that amount.

Tier 2 capital consists of subordinated debentures, eligible preferred and qualifying shares and the eligible portion of the general allowance for credit losses up to a maximum of 0.87% of risk-weighted assets.

As prescribed in the current AMF guideline, Desjardins Group's total capital is reduced by certain investments made in subsidiary companies. Investments in insurance, securities, trust services, mutual fund and venture capital subsidiaries are deducted in full from capital and are therefore not combined for purposes of computing risk assets.

Risk assets of Desjardins Group are calculated according to the risk-weighting associated with each on- and off-balance sheet item, taking into account the impact of master netting agreements, in compliance with the AMF's regulations.

The minimum total capital ratio recommended to institutions to conform to the regulatory requirements of the BIS and be considered as adequately capitalized is 8%. In addition, Tier 1 capital must represent at least half of the total ratio. The AMF has adopted these recommendations. Desjardins Group has set its minimum capitalization targets at 13% and 12.5%, respectively. For information purposes, the Office of the Superintendent of Financial Institutions Canada has set the following objectives: 7% for Tier 1 capital ratio and 10% for total capital ratio.

In addition to minimum Tier 1 and total capital ratios, the AMF requires that Desjardins Group maintains an asset/capital ratio of less than 20. This ratio determines the overall capital adequacy with respect to total assets of the entity, including certain off-balance sheet items.

The following table presents the composition of Desjardins Group's regulatory capital for years ended December 31<sup>(1)</sup>.

	2008	2007
<b>Tier 1 capital</b>		
Eligible capital stock	\$ 917	\$ 868
Reserves	8,230	7,445
Undistributed surplus earnings	(96)	772
Non controlling interests	40	31
Other <sup>(2)</sup>	(113)	(146)
	<b>8,978</b>	<b>8,970</b>
<b>Tier 2 capital</b>		
Subordinated debentures	750	860
Eligible general allowance	581	549
Other eligible securities	69	69
	<b>1,400</b>	<b>1,478</b>
Investments <sup>(3)</sup>	(1,766)	(1,842)
<b>Total capital</b>	<b>\$ 8,612</b>	<b>\$ 8,606</b>

(1) These data for Desjardins Group include those of the Ontario federation and caisse network.

(2) Includes adjustments, goodwill and intangible assets, if any.

(3) This amount corresponds to investment in subsidiaries (mainly Desjardins Financial Security, Desjardins General Insurance Group, Desjardins Securities and Desjardins Trust) accounted for using the equity method and to any other investment held that must be deducted in accordance with the AMF's guideline.

Desjardins Group's total capital amounted to \$8.6 billion at the end of 2008, which is comparable to that of 2007. Tier 1 capital remained comparable to 2007 due to the specific items that had a negative impact on Desjardins Group's surplus earnings. However, Tier 2 capital decreased by \$78 million as a result of the reimbursement, in March 2008, of debentures amounting to \$110 million.

The capital adequacy of Québec's caisses and Caisse centrale Desjardins is governed by standards established by the FCDQ. The standards draw on those established by the AMF and deal with base capital adequacy, items comprising capital base and proportions between those items.

The life and health insurance subsidiary is also governed by the AMF under its provincial charter. It must also respect the standards set by the regulatory authorities of the other provinces and territories in which it carries on business. In Québec, insurance companies must comply with the capital adequacy requirements of the AMF in order to support their solvency.

The general insurance subsidiary is subject to the following regulatory requirements. To support their solvency, general insurance subsidiaries in Québec must comply with the AMF's capital adequacy requirements

through the Minimum Capital Test (MCT), while subsidiaries outside Québec must comply with the MCT requirements issued by the Office of the Superintendent of Financial Institutions Canada.

The capital adequacy of the Fédération des caisses populaires de l'Ontario, affiliated caisses and Desjardins Credit Union is governed by a regulation and guidelines issued by the Financial Services Commission of Ontario. Overall, these guidelines are similar to those issued by the AMF, even though they present certain differences. Desjardins Trust, which is of federal jurisdiction, is governed by the Office of the Superintendent of Financial Institutions under a regulatory system which is, for all practical purposes, identical to the guidelines issued by the AMF. Finally, Desjardins Securities is regulated by the Investment Industry Regulatory Organization of Canada (IIROC). This subsidiary must have at all times a risk-adjusted capital of more than 0, as calculated in accordance with the by-laws of the IIROC.

Desjardins Group, as well as all its components subject to regulatory requirements with respect to minimum capital, are in compliance with those requirements as of December 31, 2008, as they were in the prior year.

## NOTE 29

### SEGMENTED INFORMATION

Desjardins Group is a cooperative financial group. Under the authority of the Board of Directors of the FCDQ, the President of Desjardins Group 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 components.

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 operations and are valued at the exchange amount, which corresponds to the amount of consideration established and agreed to by the partners. The results of the main segments reflect internal financial reporting systems and are consistent with the rules used in preparing the Combined Financial Statements of Desjardins Group.

## NOTE 29

## SEGMENTED INFORMATION (CONTINUED)

2008

	Personal and Commercial	Life and Health Insurance	General Insurance	Securities Brokerage, Asset Management and Venture Capital	Other	Combined <sup>(1)</sup>
Net interest income	\$ 3,422	\$ —	\$ —	\$ —	\$ —	\$ 3,418
Net premiums	—	2,868	1,426	—	—	4,131
Income from available-for-sale securities	(421)	16	(20)	—	20	(413)
Trading income (loss)	(658)	(379)	44	50	(42)	(993)
Other investment income (loss)	(28)	304	(7)	(33)	30	239
Other income	1,746	112	(2)	338	22	1,991
<b>Total income</b>	<b>4,061</b>	<b>2,921</b>	<b>1,441</b>	<b>355</b>	<b>30</b>	<b>8,373</b>
Provisions for credit losses	(242)	(1)	—	—	—	(243)
Claims, benefits, annuities and changes in insurance provisions	—	(2,089)	(1,055)	—	—	(3,144)
Client retention expense	—	—	—	—	—	—
Non-interest expense	(3,732)	(774)	(338)	(387)	(4)	(4,800)
<b>Operating surplus earnings (deficit)</b>	<b>87</b>	<b>57</b>	<b>48</b>	<b>(32)</b>	<b>26</b>	<b>186</b>
Income taxes on surplus earnings	(72)	(22)	(7)	3	(11)	(109)
Non-controlling interests	1	5	(5)	—	—	1
<b>Surplus earnings (deficit) before member dividends</b>	<b>16</b>	<b>40</b>	<b>36</b>	<b>(29)</b>	<b>15</b>	<b>78</b>
Provision for member dividends, net of income tax recovery	(153)	—	—	—	—	(153)
<b>Surplus earnings (deficit) for the year after member dividends</b>	<b>\$ (137)</b>	<b>\$ 40</b>	<b>\$ 36</b>	<b>\$ (29)</b>	<b>\$ 15</b>	<b>\$ (75)</b>
<b>Segment assets</b>	<b>\$ 124,710</b>	<b>\$ 13,281</b>	<b>\$ 2,808</b>	<b>\$ 11,242</b>	<b>\$ 257</b>	<b>\$ 152,298</b>

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

2007

	Personal and Commercial	Life and Health Insurance	General Insurance	Securities Brokerage, Asset Management and Venture Capital	Other	Combined <sup>(1)</sup>
Net interest income	\$ 3,271	\$ —	\$ —	\$ —	\$ —	\$ 3,245
Net premiums	—	2,575	1,379	—	—	3,824
Income (loss) from available-for-sale securities	11	57	58	12	—	141
Trading income (loss)	(49)	274	46	46	—	262
Other investment income (loss)	(45)	226	(10)	(15)	24	179
Other income	1,650	120	—	361	21	2,020
<b>Total income</b>	<b>4,838</b>	<b>3,252</b>	<b>1,473</b>	<b>404</b>	<b>45</b>	<b>9,671</b>
Provisions for credit losses	(197)	—	—	—	—	(197)
Claims, benefits, annuities and changes in insurance provisions	—	(2,215)	(956)	—	—	(3,171)
Client retention expense	(121)	—	—	—	—	(121)
Non-interest expense	(3,481)	(748)	(321)	(379)	(114)	(4,702)
<b>Operating surplus earnings (deficit)</b>	<b>1,039</b>	<b>289</b>	<b>196</b>	<b>25</b>	<b>(69)</b>	<b>1,480</b>
Income taxes on surplus earnings	(245)	(71)	(56)	(8)	22	(358)
Non-controlling interests	—	(7)	(14)	—	—	(21)
<b>Surplus earnings (deficit) before member dividends</b>	<b>794</b>	<b>211</b>	<b>126</b>	<b>17</b>	<b>(47)</b>	<b>1,101</b>
Provision for member dividends, net of income tax recovery	(418)	—	—	—	—	(418)
<b>Surplus earnings (deficit) for the year after member dividends</b>	<b>\$ 376</b>	<b>\$ 211</b>	<b>\$ 126</b>	<b>\$ 17</b>	<b>\$ (47)</b>	<b>\$ 683</b>
<b>Segment assets</b>	<b>\$ 114,930</b>	<b>\$ 14,592</b>	<b>\$ 3,129</b>	<b>\$ 11,139</b>	<b>\$ 269</b>	<b>\$ 144,059</b>

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

2006

	Personal and Commercial	Life and Health Insurance	General Insurance	Securities Brokerage, Asset Management and Venture Capital	Other	Combined <sup>(1)</sup>
Net interest income	\$ 3,091	\$ —	\$ —	\$ —	\$ —	\$ 3,081
Net premiums	—	2,438	1,376	—	—	3,688
Investment and trading income	3	703	68	48	52	878
Other income	1,423	115	—	338	94	1,772
<b>Total income</b>	<b>4,517</b>	<b>3,256</b>	<b>1,444</b>	<b>386</b>	<b>146</b>	<b>9,419</b>
Provisions for credit losses	(139)	—	—	—	—	(139)
Claims, benefits, annuities and changes in insurance provisions	—	(2,361)	(981)	—	—	(3,342)
Non-interest expense	(3,324)	(692)	(284)	(366)	(198)	(4,534)
<b>Operating surplus earnings (deficit)</b>	<b>1,054</b>	<b>203</b>	<b>179</b>	<b>20</b>	<b>(52)</b>	<b>1,404</b>
Income taxes on surplus earnings	(302)	(51)	(60)	(6)	21	(398)
Non-controlling interests	—	(6)	(12)	—	—	(18)
<b>Surplus earnings (deficit) before member dividends</b>	<b>752</b>	<b>146</b>	<b>107</b>	<b>14</b>	<b>(31)</b>	<b>988</b>
Provision for member dividends, net of income tax recovery	(335)	—	—	—	—	(335)
<b>Surplus earnings (deficit) for the year after member dividends</b>	<b>\$ 417</b>	<b>\$ 146</b>	<b>\$ 107</b>	<b>\$ 14</b>	<b>\$ (31)</b>	<b>\$ 653</b>
<b>Segment assets</b>	<b>\$ 106,144</b>	<b>\$ 12,440</b>	<b>\$ 2,439</b>	<b>\$ 7,420</b>	<b>\$ 697</b>	<b>\$ 129,140</b>

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

As part of the restructuring of the holding and management of some Desjardins Group properties carried out during 2007, properties of the FCDQ and its subsidiaries were combined into a single component of Desjardins Group, namely Desjardins Financial Security. Accordingly, a property was transferred from the Other segment to the Life and Health Insurance segment, where it is now recorded as a real estate investment. The net carrying value of the property transferred was \$295 million on

the transaction date. In addition, properties with a net carrying value of \$21 million were transferred from the Personal and Commercial segment to the Life and Health Insurance segment. Finally, properties with a net carrying value of \$29 million were transferred from the General Insurance segment to the Life and Health Insurance segment. These properties remain in the "Land, buildings and equipment" category.

### NOTE 30

## RELATED PARTY TRANSACTIONS

Desjardins Group carries out transactions with related parties. These transactions are accounted for at the exchange amount.

Transactions with these entities generated income of \$49 million in 2008 (\$24 million in 2007 and \$24 million in 2006) and expenses of \$6 million (\$3 million in 2007 and \$4 million in 2006), whereas the Combined Balance Sheets include assets of \$45 million (\$1 million in 2007) as well as liabilities of \$59 million (\$81 million in 2007).