COMBINED FINANCIAL STATEMENTS OF DESJARDINS GROUP

TABLE OF CONTENTS

Report by the Audit and Inspection Commission	**92**
Management's Responsibility for Financial Reporting	**93**
Auditors' Report	**93**
Combined Balance Sheets	**94**
Combined Statements of Income	**96**
Combined Statements of Changes in Equity	**97**
Combined Statements of Cash Flows	**98**
Notes to the Combined Financial Statements	**99**
Note 1 – Significant Accounting Policies	99
Note 2 – Future Accounting Changes	100
Note 3 – Securities	101
Note 4 – Loans and Cumulative Provision for Credit Losses	103
Note 5 – Securitization of Mortgage Loans	104
Note 6 – Land, Buildings and Equipment	105
Note 7 – Other Assets	105
Note 8 – Deposits	106
Note 9 – Actuarial and Related Liabilities	106
Note 10 – Borrowings	110
Note 11 – Other Liabilities	111
Note 12 – Subordinated Debentures	111
Note 13 – Non-Controlling Interests	111
Note 14 – Capital Stock	112
Note 15 – Share Capital	112
Note 16 – Reserves	113
Note 17 – Income Taxes on Surplus Earnings	113
Note 18 – Provision for Patronage Dividends to Members	115
Note 19 – Employee Future Benefit Plans	115
Note 20 – Derivative Financial Instruments	118
Note 21 – Interest Rate Sensitivity and Maturity Matching	122
Note 22 – Fair Value of Financial Instruments	123
Note 23 – Commitments, Guarantees and Contingencies	125
Note 24 – Concentration of Credit Risk	126
Note 25 – Segmented Information	127
Note 26 – Discontinued Operations	129
Note 27 – Related Party Transactions	129
Note 28 – Subsequent Event	129

REPORT BY THE AUDIT AND INSPECTION COMMISSION

The Audit and Inspection Commission is tasked with supporting the Board of Directors of the Fédération des caisses Desjardins du Québec in its various oversight responsibilities for Desjardins Group. Its mandate consists primarily of analyzing the financial statements, their presentation, the appropriateness 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 regulatory compliance management.

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 risk categories that may influence the financial results of the caisse network and Desjardins Group.

Also examined are files that document the caisse network's evolution, including the financial position of the caisses, particular situations detected in the caisses, follow-ups made, credit losses, and how certain accounting policies and practices, such as the management method for the general provision, are applied. As for 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.

External auditors are also under the direct authority of the Commission. To satisfy its responsibilities regarding external auditors, the Commission ensures and preserves the external auditors' independence by authorizing all non-audit-related services, by recommending auditor appointments and renewals, by recommending and settling 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 external auditors; b) the governance procedures that must be followed before mandates may be awarded; and c) the responsibilities of the key players involved. The Commission receives a quarterly report on the contracts awarded to external auditors by each of Desjardins Group's components.

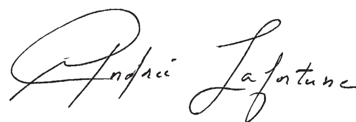
The Commission ensures and preserves the independence of Desjardins Group's internal audit service. It analyzes the internal audit team's annual audit strategy as well as its responsibilities, performance, objectivity, and team personnel. The Commission reviews the internal audit team's summary reports 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 the inspection report issued by this organization, as well as the financial reports that the Fédération must submit each quarter to the Autorité.

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 specified in its charter.

The Commission is made up of five independent administrators. With the exception of one member who serves as an instructor at training sessions intended for Desjardins Group personnel and elected officers, the Group does not remunerate, either directly or indirectly, any other member for services other than those rendered as a member of the Fédération's Board of Directors and its 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 14 times in fiscal 2006. During the same year, Mr. Jean-Guy Bureau and Mr. Marcel Lauzon left the Commission while Mr. Thomas Blais and Mr. Serge Tourangeau became new members. As at December 31, 2006, the members 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 the information contained in this Annual Report are the responsibility of the Management of the Fédération des caisses Desjardins du Québec, whose duty is to ensure reporting integrity and fairness.

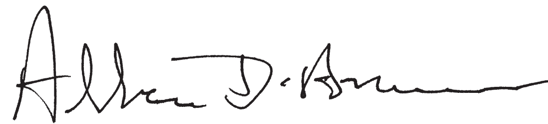
The Combined Financial Statements were prepared in accordance with Canadian generally accepted accounting principles and according to the accounting requirements of the Autorité des marchés financiers in Québec, as applicable. The Combined Financial Statements necessarily contain amounts established by Management that are 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 presented 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 relies on controls over operations and related accounting practices. The controls in place notably include an organizational structure that ensures effective segregation of duties, a code of ethics, 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 team from internal audit and the Desjardins Group Bureau for Financial Monitoring and Enforcement that has full and unrestricted access to the Audit and Inspection Commission. Management also implemented a financial governance framework based on best market practices to ensure the effectiveness of the communication and financial reporting procedures and controls used to prepare the annual and periodic documents of Desjardins Group.

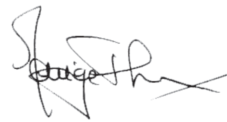
The Autorité des marchés financiers conducts an inspection of Desjardins Group components under its authority on an ongoing basis.

The Board of Directors of the Fédération des caisses Desjardins approves the financial information presented in the Annual Report of Desjardins Group based on the recommendation of the Audit and Inspection Commission. The Audit and Inspection Commission is mandated by the Board of Directors to examine the Combined Financial Statements and Management's Discussion and Analysis of Desjardins Group. Also, the Audit and Inspection Commission, consisting 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 a quality presentation of financial information that contains the required disclosures within the delays requested.

The Combined Financial Statements were examined by the auditors appointed by the Board of Directors: Samson Bélair/Deloitte & Touche s.e.n.c.r.l. and the Audit Department of the Desjardins Group Bureau for Financial Monitoring and Enforcement, whose report follows. The auditors may meet with the Audit and Inspection Commission at any time to discuss their audit and any questions related thereto, notably the integrity of the financial information provided and the quality of internal control systems.



Alban D'Amours
President and Chief Executive Officer
Desjardins Group



Monique F. Leroux, FCA
Senior Executive Vice-President, Chief Financial Officer
Desjardins Group

Lévis, February 18, 2007

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, 2006 and 2005 and the Combined Statements of Income, the Combined Statements of Changes in Equity and the Combined Statements of Cash Flows for each of the years in the three-year period ended December 31, 2006. These financial statements are the responsibility of the Management of the Fédération des caisses Desjardins du Québec. Our responsibility is to express an opinion on these Combined Financial Statements based on our audits.

Our audits were conducted in accordance with Canadian generally accepted auditing standards. Those 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, 2006 and 2005 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2006 in accordance with Canadian generally accepted accounting principles.

Samson Bélair/Deloitte & Touche, s.e.n.c.r.l.
Chartered Accountants

Québec City, February 18, 2007

Audit Department
Desjardins Group Bureau for Financial Monitoring and Enforcement

Lévis, February 18, 2007

COMBINED BALANCE SHEETS

As at December 31
(in millions of $)

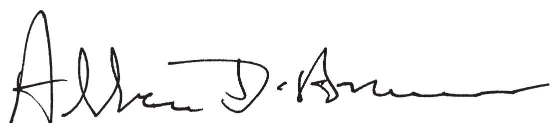
	2006	2005
ASSETS		
Cash and deposits with financial institutions	$ 1,798	$ 1,278
Securities (Note 3)		
Investment account	28,427	22,036
Trading account	3,906	3,045
	32,333	25,081
Securities borrowed or purchased under reverse repurchase agreements	4,147	2,389
Loans (Notes 4 and 5)		
Residential mortgages	52,461	48,505
Consumer, credit card and other personal loans	15,377	14,411
Business and government	21,532	20,278
	89,370	83,194
Cumulative provision for credit losses (Note 4)	(724)	(722)
	88,646	82,472
Other assets		
Land, buildings and equipment (Note 6)	1,267	1,208
Interest receivable	486	435
Derivative-related assets	1,098	827
Clients' liability under acceptances	1,247	848
Other (Note 7)	4,104	3,555
	8,202	6,873
Total assets	**$ 135,126**	**$ 118,093**

LIABILITIES AND EQUITY

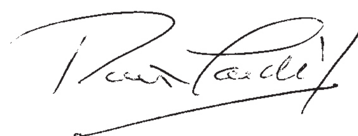
	2006	2005
Liabilities		
Deposits (Note 8)		
Individuals	$ 62,650	$ 59,291
Business and government	16,282	16,428
Deposit-taking institutions and other	9,211	7,568
	88,143	83,287
Other liabilities		
Actuarial and related liabilities (Note 9)	11,135	10,500
Borrowings (Note 10)	163	345
Interest payable	847	663
Derivative-related liabilities	971	1,075
Acceptances	1,247	848
Commitments related to securities lent or sold under repurchase agreements	6,955	5,120
Commitments related to securities sold short	4,101	2,310
Other (Note 11)	5,549	4,452
	30,968	25,313
Subordinated debentures (Note 12)	1,367	1,355
Non-controlling interests (Note 13)	6,095	233
Equity		
Capital stock (Note 14)	856	845
Share capital (Note 15)	66	64
Undistributed surplus earnings	634	729
Reserves (Note 16)	6,997	6,267
	8,553	7,905
Total liabilities and equity	**$ 135,126**	**$ 118,093**

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

Approved by the Board of Directors of Fédération des caisses Desjardins du Québec



Alban D'Amours
Chairman of the Board



Pierre Tardif
Vice-Chair of the Board

COMBINED STATEMENTS OF INCOME

Years ended December 31
(in millions of $)

	2006	2005	2004
Interest income			
Loans	$ 4,971	$ 4,522	$ 4,249
Securities	386	332	330
	5,357	**4,854**	**4,579**
Interest expense			
Deposits	2,206	1,739	1,613
Subordinated debentures and borrowings	70	81	84
	2,276	**1,820**	**1,697**
Net interest income	**3,081**	**3,034**	**2,882**
Net premiums	**3,688**	**3,547**	**3,263**
Other income			
Deposit and payment service charges	447	417	402
Lending fees and credit card service revenues	326	263	229
Brokerage, investment fund and trust services	577	491	407
Investing and trading income	878	965	941
Other	401	354	340
	2,629	**2,490**	**2,319**
Total income	**9,398**	**9,071**	**8,464**
Provisions for credit losses	**139**	**96**	**94**
Claims, benefits, annuities and changes in insurance provisions	**3,342**	**3,252**	**2,970**
Non-interest expenses			
Salaries and fringe benefits	2,271	2,104	1,984
Premises, equipment and furniture, including amortization	373	369	338
Outsourcing of processing services	315	315	295
Communications	237	228	212
Other	1,317	1,196	1,064
	4,513	**4,212**	**3,893**
Operating surplus earnings from continuing operations	**1,404**	**1,511**	**1,507**
Income taxes on surplus earnings (Note 17)	398	403	418
Surplus earnings from continuing operations before non-controlling interests and patronage dividends to members	**1,006**	**1,108**	**1,089**
Non-controlling interests (Note 13)	18	24	18
Surplus earnings from continuing operations before patronage dividends to members	**988**	**1,084**	**1,071**
Discontinued operations (Note 26)	—	5	1
Surplus earnings before patronage dividends to members	**988**	**1,089**	**1,072**
Provision for patronage dividends to members (Note 18)	483	408	372
Income tax recovery related to the provision for patronage dividends to members (Note 17)	(148)	(120)	(106)
Surplus earnings for the year after patronage dividends to members	**$ 653**	**$ 801**	**$ 806**

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 $)

	2006	2005	2004
Capital stock			
Balance at beginning of year	$ 845	$ 851	$ 848
Net change during the year	11	(6)	3
Balance at end of year	**$ 856**	**$ 845**	**$ 851**
Share capital			
Balance at beginning of year	$ 64	$ 79	$ 77
Issuance of preferred shares (Note 15)	2	2	2
Redemption of preferred shares	—	(17)	—
Balance at end of year	**$ 66**	**$ 64**	**$ 79**
Undistributed surplus earnings			
Balance at beginning of year	$ 729	$ 553	$ 535
Surplus earnings for the year after patronage dividends to members	653	801	806
Remuneration on permanent shares (net of income taxes recovered)	(15)	(13)	(20)
Dividends on preferred shares	(3)	(3)	(3)
Transfer to the stabilization reserve	(1)	(3)	(3)
Transfer to the reserve for future patronage dividends	(136)	(5)	—
Transfer to the general reserve	(593)	(601)	(762)
Balance at end of year	**$ 634**	**$ 729**	**$ 553**
RESERVES			
Stabilization reserve			
Balance at beginning of year	$ 274	$ 271	$ 268
Transfer from undistributed surplus earnings	1	3	3
Balance at end of year	**$ 275**	**$ 274**	**$ 271**
Reserve for future patronage dividends			
Balance at beginning of year	$ 5	$ —	$ —
Transfer from undistributed surplus earnings	136	5	—
Balance at end of year	**$ 141**	**$ 5**	**$ —**
General reserve			
Balance at beginning of year	$ 5,988	$ 5,406	$ 4,644
Initial impact of the adoption of AcG-15, Consolidation of Variable Interest Entities (Note 1)	—	(19)	—
Transfer from undistributed surplus earnings	593	601	762
Balance at end of year	**$ 6,581**	**$ 5,988**	**$ 5,406**
Total reserves	**$ 6,997**	**$ 6,267**	**$ 5,677**
Total equity	**$ 8,553**	**$ 7,905**	**$ 7,160**

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

COMBINED STATEMENTS OF CASH FLOWS

Years ended December 31
(in millions of $)

	2006	2005	2004
Cash flows from (used in) operating activities			
Surplus earnings for the year after patronage dividends to members	**$ 653**	$ 801	$ 806
Adjustments for:			
Amortization of buildings and equipment	**143**	135	135
Amortization of realized deferred and unrealized net gains on investment securities	**(32)**	(14)	(24)
Net change in actuarial and related liabilities	**635**	679	670
Future income taxes	**(74)**	45	105
Provisions for credit losses	**139**	96	94
Non-controlling interests	**18**	24	18
Net gain on disposal of investment securities	**(62)**	(88)	(25)
(Appreciation) depreciation, venture capital investment	**13**	17	(14)
Changes in operating assets and liabilities			
Interest receivable	**(51)**	(20)	(68)
Interest payable	**184**	27	(4)
Trading account securities	**(861)**	(1,156)	(856)
Derivative-related assets	**(271)**	469	(159)
Derivative-related liabilities	**(104)**	222	142
Other	**482**	222	1,895
	812	**1,459**	**2,715**
Cash flows from (used in) financing activities			
Net change in deposits	**4,856**	6,451	4,757
Issuance of debt securities and subordinated debentures	**—**	422	450
Repayment of debt securities and subordinated debentures	**(182)**	(444)	(28)
Net change in share capital	**11**	(6)	3
Issuance of preferred shares	**2**	2	2
Redemption on preferred shares	**—**	(17)	—
Change in non-controlling interests	**832**	—	—
Remuneration on permanent shares (net of income taxes recovered)	**(15)**	(13)	(20)
Dividends on preferred shares	**(3)**	(3)	(3)
Change in the commitments of securities sold short	**1,791**	1,451	350
	7,292	**7,843**	**5,511**
Cash flows from (used in) investing activities			
Net change in loans	**(7,561)**	(7,434)	(6,607)
Proceeds from securitization of mortgage loans	**1,248**	121	—
Net change in investment account securities	**(1,419)**	(1,875)	(1,571)
Net change in land, buildings and equipment	**(202)**	(161)	(134)
Net proceeds on disposal of discontinued operations	**—**	22	—
	(7,934)	**(9,327)**	**(8,312)**
Net decrease in cash and cash equivalents	**170**	**(25)**	**(86)**
Impact on cash resulting from the consolidation of variable interest entities as at January 1, 2006 (Note 1)	**350**	—	—
Cash and cash equivalents at beginning of year	**1,278**	1,303	1,389
Cash and cash equivalents at end of year	**$ 1,798**	**$ 1,278**	**$ 1,303**
Composition of cash and cash equivalents			
Cash	**$ 984**	$ 972	$ 1,005
Deposits with financial institutions and the Bank of Canada	**557**	124	107
Cheques and other notes in transit (net amount)	**257**	182	191
	$ 1,798	**$ 1,278**	**$ 1,303**
Supplemental cash flow information			
Interest paid during the year	**$ 2,092**	$ 1,793	$ 1,701
Income taxes on surplus earnings paid during the year	**223**	247	270

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

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

Desjardins Group ("Desjardins") is made up of the Fédération des caisses Desjardins du Québec, 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 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, which do not differ from GAAP. In preparing the financial statements according to GAAP, Management is required to make certain estimates and assumptions that have an impact on assets and liabilities and the reporting of contingent assets and liabilities in the financial statements, as well as income and expenses for the periods covered. The main items for which Management had to pass subjective and complex judgment include the cumulative provision for credit losses, the securitization of mortgage loans, the valuation of financial instruments at fair value, actuarial and related liabilities, the provision for patronage dividends to members, the net charge related to employee future benefit plans, and income taxes on surplus earnings. Actual results could differ from these estimates.

COMBINED FINANCIAL STATEMENTS

These financial statements include the accounts of the components of Desjardins Group. 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 and the operating results of Desjardins' components, following the elimination of intercompany transactions and balances.

CONSOLIDATION OF VARIABLE INTEREST ENTITIES

Effective January 1, 2005, Desjardins Group has consolidated variable interest entities (VIEs) for which it is the primary beneficiary in accordance with Accounting Guideline No. 15 (AcG-15) entitled "Consolidation of Variable Interest Entities" issued by the Canadian Institute of Chartered Accountants (CICA).

In addition, on January 1, 2006, Desjardins Group adopted the new requirements of Accounting Guideline No. 18 (AcG-18) entitled "Investment Companies," issued in 2004, applicable to fiscal years beginning on or after July 1, 2005. Under this Guideline, investment companies that are the primary beneficiaries of a VIE, which itself is also an investment company, must consolidate this VIE. Until January 1, 2006, such an investment was recorded at fair value.

Also in 2005, the Emerging Issues Committee of the CICA issued Abstract No. 157, "Implicit Variable Interests Under AcG-15" (EIC-157). This EIC clarifies that implicit variable interests are implied pecuniary interests in a VIE that varies with changes in the fair value of the entity's net assets, excluding variable interests. An implicit variable interest is similar to an explicit variable interest except that it involves absorbing and/or receiving variability indirectly from the entity. The identification of an implicit variable interest is a matter of judgment that depends on the relevant facts and circumstances. EIC-157 came into effect January 1, 2006.

The application of these new accounting requirements on January 1, 2006 resulted in the consolidation of investment companies that are VIEs in which Desjardins Group holds implicit variable interests that make it the primary beneficiary of these companies under the provisions of AcG-15. As at December 31, 2006, the consolidation of these VIEs had the following impact on Combined Balance Sheets items: an increase in "Cash and deposits with financial institutions" of $599M; an increase in "Securities" of $5,618M; an increase in other assets of $244M; an increase in "Non-controlling interests" of $5,860M; and an increase in other liabilities of $578M. In the Combined Statements of Income, the impact was a $24M increase in "Surplus earnings before patronage dividends to members".

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. Fees earned are reported in the Combined Statements of Income under "Other income – Other."

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

Desjardins Group makes short-term purchases of securities under reverse repurchase agreements and also sells securities under agreements to purchase and, at the same time, is committed to sell or repurchase securities at a fixed price and date. These agreements are treated as collateralized lending transactions and are recorded in the Combined Balance Sheets at the selling or purchase price committed to in the agreement. According to the accrual basis of accounting, the interest related to reverse repurchase agreements and repurchase agreements is recorded in 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 "Commitments related to securities lent or sold under repurchase agreements" and under "Securities borrowed or purchased under reverse repurchase agreements." Interest received or paid on cash collateral is recorded in the Combined Statements of Income for the year.

NOTE 1

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

COMMITMENTS RELATED TO SECURITIES SOLD SHORT

Securities sold short as part of trading activities, which represent Desjardins' obligation to deliver securities that it did not possess at the time of sale, are recorded as liabilities at their fair values. Realized and unrealized gains or losses on these securities are recorded in the Combined Statements of Income under "Other income – Investing and trading income."

FOREIGN CURRENCY TRANSLATION

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

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 these management services are recorded in the Combined Statements of Income under "Other income – Other."

SPECIFIC ACCOUNTING POLICIES

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

The significant accounting policies are presented in the following notes:

Note Number	Note Heading	Accounting Policies
3	Securities	Securities
4	Loans and cumulative provision for credit losses	Loans and cumulative provision for credit losses
5	Securitization of mortgage loans	Securitization of mortgage loans
6	Land, buildings and equipment	Land, buildings and equipment
7	Other assets	Real estate investments, goodwill and other intangible assets and disposal of long-lived assets and discontinued operations
9	Actuarial and related liabilities	Reinsurance and net premiums
17	Income taxes on surplus earnings	Income taxes on surplus earnings
19	Employee future benefit plans	Employee future benefit plans
20	Derivative financial instruments	Derivative financial instruments

COMPARATIVE FIGURES

Certain comparative figures from the previous year have been reclassified to conform to the presentation adopted in this year's Combined Financial Statements.

NOTE 2

FUTURE ACCOUNTING CHANGES

FINANCIAL INSTRUMENTS

In January 2005, the Canadian Institute of Chartered Accountants published new standards entitled "Financial Instruments – Recognition and Measurement" (Section 3855); "Hedges" (Section 3865); and "Comprehensive Income" (Section 1530). These standards will be applicable to Desjardins Group on January 1, 2007. The main requirements of these standards are subsequently described.

Financial instruments – recognition and measurement

Financial assets will have to be classified in one of the following four categories: 1) held for trading, 2) available for sale, 3) held to maturity, and 4) loans and receivables. Financial liabilities will have to be classified as "held for trading" or "other." Financial assets and liabilities held for trading as well as available-for-sale financial assets will be recorded on the Combined Balance Sheets at fair value. The change in fair value of those held for trading will be recognized in combined income for the period, while the change in those available for sale will be recognized in other combined comprehensive income until they are derecognized.

Held-to-maturity financial assets, loans and receivables, and financial liabilities not held for trading will be recognized at amortized cost using the effective interest rate method.

Section 3855 establishes standards for recognizing financial assets and financial liabilities that have a reliable fair value as being held for trading when they are initially recognized or once this standard is adopted. These financial instruments held for trading based on the fair value option are subject to requirements issued by the Autorité des marchés financiers.

Hedges

Derivatives and embedded derivatives will have to be recorded on the Combined Balance Sheets at fair value. Derivatives not designated in a hedging relationship will be classified in the "held-for-trading" category. Those recorded in a hedging relationship will be classified as a "fair value hedge" or "cash flow hedge." In a fair value hedge, the gains or losses resulting from a revaluation of the fair value of the derivative instrument and of the designated risk of the hedged item will be recognized in combined income regardless of the category in which

this hedged item had been classified. For a cash flow hedge, the gains and losses arising from changes in the fair value of the effective portion of the derivative will be recognized in "Other income" of combined comprehensive income until this hedged item is recognized in income. Finally, the ineffective portion will be recognized immediately in combined income.

Comprehensive income

Other comprehensive income will include unrealized gains and losses on available-for-sale financial assets and the change in the effective portion of the cash flow hedge. The Combined Financial Statements will include a Statement of Comprehensive Income, and accumulated other comprehensive income will be presented as a new equity item in the Combined Balance Sheets.

Impact of the adoption of the new requirements on financial instruments

Adjustments resulting from the revaluation of financial assets classified as available for sale and hedging instruments designated in a cash flow hedge will be recorded in the opening balance of accumulated other comprehensive income. Other transitional adjustments resulting from the adoption of sections 1530, 3855 and 3865 will be recognized in the opening balance of undistributed surplus earnings as at January 1, 2007. The impact of these accounting standards on the Combined Financial Statements is currently being reviewed to include the transitional provisions related to the changes made to Section 3865, "Hedges," and the tax consequences related to the adoption of these standards.

NOTE 3

SECURITIES

Securities include investment account and trading account securities.

INVESTMENT ACCOUNT SECURITIES

Investment account securities are held until maturity or until the market favours other types of investments.

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

Equity securities held in companies subject to significant influence are carried at equity while other equity securities are carried at cost, and preferred shares are carried at cost, net of premiums and discounts, except those held by the Life and Health Insurance segment, which are accounted for using the moving average market value method. Income from equity accounting, and the dividends received for securities recorded at cost are 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 impairments in value, are recognized immediately in "Other income – Investing and trading income." However, realized and unrealized gains and losses on equity securities of the Life and Health Insurance segment are deferred and included in income using the declining balance method at a rate of 15% per annum.

The investments of the components operating as investment companies are carried at their fair value. The realized and unrealized gains and losses on these investments are immediately charged to "Other income – Investing and trading income."

TRADING ACCOUNT SECURITIES

Trading account securities, which are acquired for resale in the short term, are carried at their fair value. Interest and dividend income from trading account securities are recorded under "Interest income – Securities." Securities sold short are recorded as liabilities and carried at their fair value. Realized or unrealized gains and losses are immediately recorded under "Other income – Investing and trading income."

NOTE 3

SECURITIES (CONTINUED)

	Maturity						2006		2005	
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Over 10 years	No specific maturity	Carrying value	Fair value	Carrying value	Fair value
Investment account										
Securities issued or guaranteed by										
Canada	$ 746	$ 959	$ 500	$ 156	$ 91	$ —	$ 2,452	$ 2,468	$ 3,143	$ 3,194
Yield	4.01 %	4.24 %	4.04 %	4.68 %	5.42 %		4.20 %		3.90 %	
The provinces or provincial corporations in Canada	1,314	2,092	2,391	1,478	3,157	—	10,432	11,212	9,732	10,582
Yield	4.47 %	4.62 %	4.53 %	5.01 %	5.66 %		4.95 %		4.70 %	
School or public corporations in Canada	141	29	9	41	146	—	366	390	425	451
Yield	4.00 %	8.14 %	5.03 %	4.99 %	5.87 %		5.21 %		5.09 %	
Government institutions abroad	14	4	—	—	42	—	60	64	42	45
Yield	5.15 %	5.79 %			5.40 %		5.37 %		5.16 %	
Other securities in Canada										
Financial institutions	2,064	929	116	78	34	—	3,221	3,224	3,574	3,579
Yield	4.13 %	4.31 %	4.60 %	4.79 %	5.50 %		4.23 %		3.53 %	
Other issuers	2,597	447	325	481	275	5	4,130	4,181	3,979	4,031
Yield	4.36 %	4.38 %	4.84 %	5.05 %	5.96 %		4.58 %		4.01 %	
Equity securities	33	47	4	35	—	576	695	705	628	652
Securities from foreign issuers										
Financial institutions	47	23	—	19	36	—	125	130	126	133
Yield	4.24 %	7.93 %		5.07 %	5.38 %		5.37 %		5.00 %	
Other issuers	84	9	14	239	2	5,255	5,603	5,639	82	85
Yield	6.77 %	6.87 %	7.65 %	4.75 %	8.58 %		5.43 % (1)		7.70 %	
Equity securities	—	1	—	1	—	1,341	1,343	1,377	305	323
Total investment account	7,040	4,540	3,359	2,528	3,783	7,177	28,427	29,390	22,036	23,075
Trading account										
Securities issued or guaranteed by										
Canada	526	503	751	343	148	—	2,271	2,271	1,620	1,620
The provinces or municipal corporations in Canada	172	308	181	299	247	—	1,207	1,207	848	848
School or public corporations in Canada	30	7	3	7	1	—	48	48	28	28
Government institutions abroad	—	—	—	—	11	—	11	11	63	63
Other securities in Canada										
Financial institutions	5	1	81	5	—	—	92	92	10	10
Other issuers	93	6	2	24	4	—	129	129	368	368
Equity securities	—	—	—	—	—	148	148	148	108	108
Total trading account	826	825	1,018	678	411	148	3,906	3,906	3,045	3,045
	$ 7,866	$ 5,365	$ 4,377	$ 3,206	$ 4,194	$ 7,325	$32,333	$33,296	$ 25,081	$ 26,120

(1) The 5.43% yield excludes investments held under VIEs for which the return does not belong to Desjardins Group.

Yields are calculated based on the carrying value of the securities at end of year adjusted to take into account any amortization of premiums and discounts.

Total securities held for investment purposes mainly include U.S. foreign currency securities in the amount of CAD$1,839M (CAD$2,045M in 2005), of which CAD$1,579M (CAD$1,843M in 2005) was denominated in U.S. dollars.

Securities of the Venture Capital segment include unrealized depreciation of $27M (depreciation of $14M in 2005).

UNREALIZED GAINS AND LOSSES ON INVESTMENT ACCOUNT SECURITIES

	2006				2005			
	Carrying value	Unrealized gross gains	Unrealized gross losses	Fair value	Carrying value	Unrealized gross gains	Unrealized gross losses	Fair value
Securities issued or guaranteed by								
Canada	$ 2,452	$ 20	$ 4	$ 2,468	$ 3,143	$ 57	$ 6	$ 3,194
The provinces or municipal corporations in Canada	10,432	784	4	11,212	9,732	855	5	10,582
School or public corporations in Canada	366	24	—	390	425	26	—	451
Government institutions abroad	60	4	—	64	42	3	—	45
Other securities in Canada								
Financial institutions	3,221	5	2	3,224	3,574	7	2	3,579
Other issuers	4,130	56	5	4,181	3,979	58	6	4,031
Equity securities	695	13	3	705	628	28	4	652
Securities from foreign issuers								
Financial institutions	125	5	—	130	126	7	—	133
Other issuers	5,603	39	3	5,639	82	6	3	85
Equity securities	1,343	34	—	1,377	305	18	—	323
	$ 28,427	$ 984	$ 21	$ 29,390	$ 22,036	$ 1,065	$ 26	$ 23,075

NOTE 4

LOANS AND CUMULATIVE PROVISION FOR CREDIT LOSSES

LOANS

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

A loan is considered impaired and the related interest is no longer calculated when: a) there is reasonable doubt as to the collectibility of a portion of the principal or the interest 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 accrued but not collected is capitalized to the loan, and no interest is recorded thereafter. Payments received subsequently are accounted for as a credit to the principal. A loan ceases to be considered impaired and interest is once again accounted for under the accrual method when the 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 its creditworthiness. Collateral normally takes the form of an asset such as cash, government securities, shares, receivables, inventory, or capital assets.

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

CUMULATIVE PROVISION FOR CREDIT LOSSES

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

The cumulative provision for credit losses is made up of specific provisions and a general provision. With respect to the loan portfolio, the credit risk is assessed regularly, and specific provisions are determined separately, on a loan by loan basis, for all loans considered impaired. The carrying value of impaired loans is measured by discounting expected future cash flows at the rate of interest inherent in the loan. The provision is equal to the difference between this valuation and the balance of the loan. Any variation in the cumulative provision for credit losses due either to the passage of time or a revision of expected payments is recorded under "Provisions for credit losses" in the Combined Statements of Income. 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 provision 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 provision is determined by using a statistical model based on changes in losses by loan category. Moreover, an additional amount is considered in order to reflect the impact of economic and other factors. The general provision does not represent future losses or serve as a substitute for the specific provisions.

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

NOTE 4

LOANS AND CUMULATIVE PROVISION FOR CREDIT LOSSES (CONTINUED)

LOANS AND IMPAIRED LOANS

	2006					2005				
	Gross loans	Gross impaired loans	Specific provisions	General provision	Net impaired loans	Gross loans	Gross impaired loans	Specific provisions	General provision	Net impaired loans
Residential mortgages	$ 52,461	$ 70	$ 11	$ —	$ 59	$ 48,505	$ 70	$ 12	$ —	$ 58
Consumer, credit card and other personal loans	15,377	74	32	—	42	14,411	69	33	—	36
Business and government	21,532	206	76	—	130	20,278	188	72	—	116
General provision	—	—	—	605	(605)	—	—	—	605	(605)
	$ 89,370	$ 350	$ 119	$ 605	$ (374)	$ 83,194	$ 327	$ 117	$ 605	$ (395)

CUMULATIVE PROVISION FOR CREDIT LOSSES

	2006	2005
Balance at beginning of year	$ 722	$ 753
Provisions for credit losses	139	96
Write-offs and recoveries	(137)	(127)
Balance at end of year	$ 724	$ 722

NOTE 5

SECURITIZATION OF MORTGAGE LOANS

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

During the securitization operations, Desjardins Group retains the right to an excess interest spread that is initially recognized at fair value, presented in the Combined Balance Sheets under "Other assets – Other" and considered a retained interest. The excess spread is amortized over the term of these transferred mortgage loans and is carried to the Combined Statements of Income under "Other income – Other."

A servicing liability is initially recorded at fair value and recognized in the Combined income over the term of the transferred loans when Desjardins Group assumes the management responsibility of the transferred loans. This servicing liability is presented in the Combined Balance Sheets under "Other liabilities – Other."

At the time of the transfer, Desjardins Group recognizes the gain or loss on disposal in the Combined Statements of Income under "Other income – Other," net of transaction expenses. The gain or loss on disposal depends on the prior carrying value of the loans sold as well as the fair value of the assets obtained and liabilities assumed. This fair value is determined based on discounted expected cash flows and considering the most likely estimates, which are based on some of Management's key assumptions, such as forward yield curves on mortgage loans, the discount rate according to the risks involved, and the prepayment rate.

The following table summarizes the impact of our new mortgage loan securitization activities had on sales for 2006 and 2005:

	2006	2005
Securitized mortgage loans	$ 1,263	$ 125
Net revenues in cash received	1,248	121
Retained interests	58	4
Servicing liability assumed	19	2
Gain on sale, net of transaction expenses	40	2
Securities created and retained as trading account securities	—	2

As at December 31, 2006, Desjardins Group recorded an amount of $55M ($4M in 2005) in the Combined Balance Sheets, which represents retained interests and an amount of $10M ($2M in 2005) for servicing liabilities assumed. In 2006, cash flows from retained interests were $7M and those from management fees paid were $4M. The impact of the amortization of servicing liabilities in the Combined Statements of Income was $3M.

The total balance of securitized mortgage loans was $1,290M ($123M in 2005).

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

	2006	2005
Discount rate	**4.32 %**	4.38 %
Prepayment rate	**5 and 15 %**	1.00 %
Weighted average life of loans	**36 months**	45 months

No credit losses are anticipated, as the transferred mortgage loans are guaranteed.

The sensitivity analysis of the valuation of the fair value of retained interests with respect to immediate unfavourable change from 10% to 20% in key assumptions does not have any significant impact for 2006 and 2005. The result of the analysis must be used with caution since changes in fair value associated with a change in assumptions cannot generally be extrapolated, since their relationship is not linear. What must be considered is that each change in one factor could contribute to changes in another factor, thereby amplifying or reducing the effect of the sensitivity.

NOTE 6

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 declining balance or straight-line method. Gains and losses on disposals are recognized in "Other income – Other" in the year in which they are realized.

Rates of amortization:

Buildings	2.5% to 20%
Computer equipment	20% to 50%
Furniture, fixtures and other	5% to 50%
Leasehold improvements	Term of the lease plus first renewal option

	2006			2005
	Cost	**Accumulated amortization**	**Net Carrying value**	Net Carrying value
Land	**$ 91**	**$ —**	**$ 91**	$ 90
Buildings	**1,190**	**477**	**713**	738
Computer equipment	**456**	**318**	**138**	107
Furniture, fixtures and other	**602**	**417**	**185**	165
Leasehold improvements	**266**	**126**	**140**	108
	$ 2,605	**$ 1,338**	**$ 1,267**	**$ 1,208**

Amortization for the year amounted to $143M ($135M in 2005 and $135M in 2004). As at December 31, 2005, the cost and the accumulated amortization were $2,515M and $1,307M, respectively.

NOTE 7

OTHER ASSETS

REAL ESTATE INVESTMENTS

Real estate investments are carried at cost, and the gains and losses on disposal as well as any write-downs needed to reflect other-than-temporary impairments in value, are recorded in the Combined Statements of Income in the year in which they occur under "Other income – Other."

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

GOODWILL AND OTHER INTANGIBLE ASSETS

Acquisitions of enterprises are recorded using the acquisition method. Therefore, goodwill is the excess of the purchase price of the enterprise 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. The impairment test consists of a comparison, by reporting unit, of the fair value of these assets and the carrying value. When the carrying value of goodwill exceeds its fair value, the excess amount is recorded during the period in which the impairment is determined in the Combined Statements of Income under "Non-interest expenses – Other." Following the annual impairment tests, no reduction in value of goodwill was recognized in income for 2006, 2005 and 2004.

NOTE 7

OTHER ASSETS (CONTINUED)

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

DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS

Long-lived assets classified as held for sale are measured at their carrying amount or at fair value less cost to sell if the latter is lower. The fair value is determined using the method of prices for similar assets.

	2006	2005
Real estate investments	$ 488	$ 416
Goodwill	181	181
Premiums receivable	672	631
Future income tax assets (Note 17)	512	458
Accrued benefit assets (Note 19)	18	113
Accounts receivable and other items	2,233	1,756
	$ 4,104	$ 3,555

The fair value of real estate investments was $570M ($483M in 2005). Income from real estate investments are presented net of operating expenses of $41M ($49M in 2005).

As at December 31, 2006 and 2005, goodwill from the General Insurance segment amounts to $111M, $7M from the Securities Brokerage, Asset Management and Venture Capital segment and $63M from the Personal and Commercial segment.

NOTE 8

DEPOSITS

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

	Payable on demand		Payable after notice		Payable on a fixed date		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
Individuals	$ 15,568	$ 15,082	$ 3,262	$ 3,130	$ 43,820	$ 41,079	$ 62,650	$ 59,291
Business and government	8,576	8,012	230	226	7,476	8,190	16,282	16,428
Deposit-taking institutions and other	144	109	—	—	9,067	7,459	9,211	7,568
	$ 24,288	$ 23,203	$ 3,492	$ 3,356	$ 60,363	$ 56,728	$ 88,143	$ 83,287

NOTE 9

ACTUARIAL AND RELATED LIABILITIES

ACTUARIAL AND RELATED LIABILITIES

In life and health insurance, actuarial and related liabilities include actuarial liabilities under life insurance and annuity contracts. Actuarial liabilities represent the amounts that, together with estimated future premiums and investment income, will provide for all the life and health insurance subsidiary's commitments under policies in force regarding estimated future benefits, policyholder dividends and related expenses. It is the responsibility of the designated actuary of the subsidiary to assess the actuarial liabilities amount to be established each year to cover future commitments. Actuarial liabilities are determined using the Canadian Asset Liability Method, which is consistent with accepted Canadian actuarial practice.

In general insurance, provisions for claims and adjustment expenses are calculated on a discounted basis, with a margin for adverse deviations. Separate estimates of loss are provided for each claim made. In addition, a provision is made for adjustment expenses, for changes in claims made and for claims incurred but not reported on the basis of past experience and in-force policies. These estimates are reviewed and updated regularly, and adjustments are included in income.

REINSURANCE

In life and health insurance, premium income, payments to policyholders, actuarial liabilities, and changes in actuarial liabilities related to contracts under reinsurance agreements are recorded net of amounts ceded to other insurers. In general insurance, the reinsurer's share of unearned premiums and of claims and adjustment expenses is recorded under "Other assets – Other." Insurance earnings are recorded net of reinsurance transactions.

NET PREMIUMS

Net premiums include insurance premiums and annuities of the life and health insurance subsidiary and the net premiums acquired from the general insurance subsidiary. Gross premiums for all types of insurance policies are recognized as income when they become due. When these premiums are recognized, actuarial liabilities are calculated to ensure that income and expenses are matched. The general insurance subsidiary's premium income is distributed equally over the term of the insurance policies on a monthly expiry basis. The portion of the premium corresponding to the time remaining at the end of the year is included in unearned premiums.

Actuarial and related liabilities are as follows:

	2006	2005
Actuarial liabilities	$ 8,635	$ 8,185
Claims and adjustment expenses	1,185	1,079
Unearned premiums	690	680
Policyholder deposits	351	314
Provisions for participating policyholder's dividends and experience refunds	274	242
	$ 11,135	**$ 10,500**

COMPOSITION OF ACTUARIAL LIABILITIES

As at December 31, actuarial liabilities matched assets were composed of the following:

	2006			
	Personal insurance	**Group insurance**	**Savings**	**Total**
Gross actuarial liabilities	$ 3,281	$ 1,866	$ 3,908	$ 9,055
Amounts transferred under reinsurance agreements	(255)	(152)	(13)	(420)
Net actuarial liabilities	**$ 3,026**	**$ 1,714**	**$ 3,895**	**$ 8,635**
Composition of assets matched to actuarial liabilities				
Bonds	$ 2,163	$ 1,300	$ 2,314	$ 5,777
Mortgage loans	293	280	1,283	1,856
Real estate property	152	—	—	152
Shares	220	44	1	265
Deposit-taking institutions and other	198	90	297	585
	$ 3,026	**$ 1,714**	**$ 3,895**	**$ 8,635**

	2005			
	Personal insurance	Group insurance	Savings	Total
Gross actuarial liabilities	$ 3,059	$ 1,724	$ 3,801	$ 8,584
Amounts transferred under reinsurance agreements	(239)	(145)	(15)	(399)
Net actuarial liabilities	**$ 2,820**	**$ 1,579**	**$ 3,786**	**$ 8,185**
Composition of assets matched to actuarial liabilities				
Bonds	$ 2,197	$ 1,051	$ 2,275	$ 5,523
Mortgage loans	192	234	1,253	1,679
Real estate property	94	—	—	94
Shares	189	40	1	230
Deposit-taking institutions and other	148	254	257	659
	$ 2,820	**$ 1,579**	**$ 3,786**	**$ 8,185**

The fair value of assets matched to actuarial liabilities was $9,493M ($8,890M in 2005). Any change in the value of the assets matched to actuarial liabilities would be offset by a somewhat similar change in these provisions and would not have a significant impact on income.

NOTE 9

ACTUARIAL AND RELATED LIABILITIES (CONTINUED)

ACTUARIAL ASSUMPTIONS AND THEIR SENSITIVITY TO CHANGE

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 most likely depending on a variety of possibilities. The designated actuary must, for each of these assumptions, establish a margin for adverse deviation in order to mitigate the random nature of predicting the risk of deteriorating underwriting experience, and in order to ensure that allowances are sufficient to honour future commitments. These margins for adverse deviation cause an increase in actuarial liabilities and reduce the amount of gross income that would otherwise be recognized at inception of the policies. With the passage of time and as the estimation risk declines, these margins are released to income. If estimates of future conditions change throughout the life of a policy, the present value of those changes is recognized in 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 life and health subsidiary's claims experience cannot serve as a unique point of reference due to low volume, the mortality assumption is also based on industry studies and tables.

In terms of annuities, the life and health subsidiary also proceeded with a study of its claims experience, which carried an adequate level of credibility upon which, according to Management, assumptions would be based. Contrary to insurance, an improvement in mortality claims is predicted in the coming years.

With respect to the morbidity assumption, which accounts for 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 claims experience studies for itself and for the industry.

Policy cancellation rates

Policyholders can terminate their policy before the expiration of their contractual coverage period by ceasing to pay their premiums. On 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. On 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.

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 lapse rates.

Investment income

The life and health insurance subsidiary manages its investments by accounting for 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 us to measure the sensitivity of the market value of assets and liabilities to changes in interest rates. This test is performed for all its business segments globally, because the matching policies set limits in this respect.

Operating expenses

Amounts are included in actuarial liabilities to provide for the costs of administering policies in force and include the cost of premium collection, adjudication and processing of claims, 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.

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 streams of this business segment and the expectations of participating policyholders.

RISK MANAGEMENT

In addition to the risks related to actuarial assumptions, the life and health insurance subsidiary is exposed to the following risks and took the following considerations into account when calculating actuarial liabilities:

Market risk

In the normal course of operations, the subsidiary is exposed to risks arising from changes in the value of its assets. It must, among other things, protect itself against risk factors such as changes in interest rates. In addition, under more or less favourable economic situations, mismatched asset and liability cash flows must be reinvested or disinvested. To manage this risk, the life and health insurance subsidiary has adopted a matching policy specifying acceptable cash flow gaps established for assets. The life and health insurance subsidiary regularly exercises strict control to ensure compliance with this policy.

Interest rate risk

The following table presents the impact on net income attributable to the shareholder of an immediate and permanent 1% change in interest rates of the forward yield curve, assuming that it was impossible for the life and health insurance subsidiary to use a strategy that would help mitigate the impact of this change.

	2006	2005
1% increase in interest rates	$ 20	$ 13
1% decrease in interest rates	(57)	(36)

When determining actuarial liabilities, consideration is given to the uncertainty related to interest rate projections on reinvested future cash flows in relation to the non-compliance of cash flows if a series of economically unfavourable scenarios were to occur.

Insurance and reinsurance risk

In the normal course of operations, the life and health insurance subsidiary is exposed to insurance risk. This risk is the risk that the initial pricing is or will become insufficient. This risk 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 has also adopted a reinsurance policy. These policies clearly define its insurance risk management framework. Strict controls are performed on an annual basis to ensure that these policies are respected.

The life and health insurance subsidiary enters into reinsurance agreements 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 underwrites 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 are subject to the same regulatory control as the subsidiary. These reinsurance agreements do not release the life and health insurance subsidiary from its obligations to policyholders.

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

	2006	2005
Premiums transferred under reinsurance agreements	$ 114	$ 108
Benefits settled by reinsurers	67	66

Credit risk

Future investment revenues are affected by the scope of credit losses. In addition to allowances for bad debt applied as reductions to the carrying value of assets, the subsidiary included a provision in the amount of $186M ($162M in 2005) in its projections of investment income to cover the risk of underperforming assets.

Liquidity risk

The life and health insurance subsidiary takes the necessary measures to avoid difficulties in meeting its obligations as they become due. A number of these obligations may be terminated at short notice, thereby increasing liquidity risk. To manage this risk, the subsidiary has adopted stringent rules governing cash flow matching of assets and liabilities, and established standards for liquidity.

The first one, called operating liquidity, covers potential cash flows over a span of one month. The second one, called strategic, is based on panic scenarios that cover three-month to one-year timeframes. The liquid assets of the life and health subsidiary must be sufficient to cover potential requests for withdrawals and redemptions.

Risk related to segregated funds

Actuarial liabilities also include an amount that is sufficient to pay the minimum segregated fund guarantees. This amount is calculated using stochastic models defined by the Canadian Institute of Actuaries. These models are based on the nature of the guarantees and on investment income, mortality and contract maturity rate assumptions. Deferred acquisition costs, that is, expenses incurred on the sale of individual segregated fund contracts, are recorded in actuarial liabilities and amortized over the same period as is applicable to surrender charges. Actuarial liabilities recognize the fact that future revenues are available to recover unamortized purchase fees.

CHANGES IN ACTUARIAL LIABILITIES

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

	2006	2005
Balance at beginning of year	$ 8,185	$ 7,721
Normal change due to the updating of actuarial assumptions	16	66
Normal change due to the passage of time	439	395
Other changes	(5)	3
Balance at end of year	$ 8,635	$ 8,185

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 immediately, 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. The methods used, according to Management, produce reasonable results given currently known data.

To reduce the risk related to extensive claims, the general insurance subsidiary has a policy of underwriting and reinsuring insurance policies, which, for the most part, limits its exposure to an indemnity between $4M and $5M per policy. The subsidiary also has a catastrophe reinsurance program in place, in which the maximum retention is $25M. These reinsurance agreements do not release the subsidiary from its obligations towards its policyholders.

The inability of reinsurers to honour their commitments could result in losses for this subsidiary. It examines the creditworthiness of the corporations 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.

NOTE 9

ACTUARIAL AND RELATED LIABILITIES (CONTINUED)

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

	2006		2005	
	Gross amount	**Ceded amount**	Gross amount	Ceded amount
Home	**$ 218**	**$ 13**	$ 219	$ 22
Automobile	**947**	**19**	836	16
Other	**20**	**—**	24	—
	$ 1,185	**$ 32**	**$ 1,079**	**$ 38**

Modifications to the provision for claims and adjustment expenses are due to the following changes:

		2006	2005
Balance at beginning of year			
Gross claims and adjustment expenses		**$ 1,079**	$ 920
Less:	Share of reinsurers	**(38)**	(25)
	Salvage and subrogation	**(60)**	(48)
Net claims and adjustment expenses		**981**	847
Plus claims earned:	Current year	**1,026**	1,033
	Previous years	**(45)**	(51)
Less claims paid:	Current year	**(583)**	(585)
	Previous years	**(298)**	(263)
Balance at end of year			
Net claims and adjustment expenses		**1,081**	981
Plus:	Share of reinsurers	**32**	38
	Salvage and subrogation	**72**	60
Gross claims and adjustment expenses		**$ 1,185**	**$ 1,079**

NOTE 10

BORROWINGS

	2006	2005
Series C sinking fund bonds with a par value of $90M, redeemable at the option of the entity, with a fixed interest rate of 9.18%, payable monthly and at maturity, which is 2013(1)	**$ 79**	$ 81
Note payable, prepaid in 2006, secured by bonds, bearing interest at a variable rate and payable monthly	**—**	198
Mortgage debt bearing interest at rates ranging from 5.14% to 11.00% (average weighted rate of 6.38% as at December 31, 2006 and 6.43% as at December 31, 2005), maturing on various dates through 2017	**83**	65
Other borrowings	**1**	1
	$ 163	**$ 345**

(1) These bonds were secured by real estate mortgages on assets that include buildings and equipment whose net book value is $295M ($287M in 2005).

The annual principal repayments on borrowings over the next five years are as follows: $4M in 2007, $5M in 2008 and 2009, and $6M in 2010 and 2011.

NOTE 11

OTHER LIABILITIES

	2006	2005
Cooperative shares and preferred shares	$ 40	$ 41
Deferred net gains realized on disposal of investments	619	591
Future income tax liabilities (Note 17)	200	220
Accrued benefit liabilities (Note 19)	629	590
Accounts payable and other liabilities	4,061	3,010
	$ 5,549	**$ 4,452**

NOTE 12

SUBORDINATED DEBENTURES

The debentures are unsecured 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.

	2006	2005
Debentures, par value of €76,224,509, bearing interest at the annual rate of 5.50%, payable annually until March 18, 2008; thereafter payable quarterly at the rate of Euribor, plus 1.40%, maturing on March 18, 2013. With the prior consent of the Autorité des marchés financiers, Desjardins Group may call the subordinated debentures on March 18, 2008 or at any time in the event of changes in the tax system applicable to it	$ 117	$ 105
Senior Series B bonds, maturing in June 2012, bearing interest at an annual rate of 5.552% for the first five years, and for the following five years, at an annual rate equal to the 90-day bankers' acceptance rate plus 1%, redeemable at the option of Desjardins Group. These bonds are secured by an underlying hypothec encumbering the subordinated notes of the member caisses. Management intends to redeem Series B bonds during the coming year	500	500
Senior Series C bonds, maturing in June 2017, bearing interest at an annual rate of 6.322% for the first ten years, and for the following five years, at an annual rate equal to the 90-day bankers' acceptance rate plus 1%, redeemable at the option of Desjardins Group. These bonds are secured by an underlying hypothec encumbering the subordinated notes of the member caisses	300	300
Senior Series D bonds, 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. These bonds are secured by an underlying hypothec encumbering the subordinated notes of the member caisses	450	450
	$ 1,367	**$ 1,355**

There are no aggregate maturities of the debentures and bonds for the next five years, assuming the earliest maturity dates under the terms of the contracts.

NOTE 13

NON-CONTROLLING INTERESTS

	2006	2005
Non-controlling interests include:		
Participating policyholders of the life and health insurance subsidiary	$ 180	$ 175
Preferred shareholders of subsidiaries	1	2
Common shareholders of subsidiaries	54	56
Consolidated mutual fund investments under the application of AcG-15 (Note 1)	5,860	—
	$ 6,095	**$ 233**

	2006	2005	2004
Earnings attributable to non-controlling interests is comprised of the following:			
Earnings attributable to participating policyholders of the life and health insurance subsidiary	$ 5	$ 8	$ 2
Earnings attributable to common shareholders of subsidiaries	13	16	16
	$ 18	**$ 24**	**$ 18**

NOTE 14

CAPITAL STOCK

AUTHORIZED

The capital stock is composed of qualifying shares, capital shares, and permanent shares.

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

A component of Desjardins Group may issue an unlimited number of capital shares. These shares can only be issued to auxiliary members of the component 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 component's liquidation, insolvency or wind-up, is subordinated to deposits and other debt of the component. The shares are redeemable, in part or in whole, upon the authorization of the Autorité des marchés financiers. They are convertible with the Board's authorization, into shares of other categories issued for this purpose.

The law authorizes the issuance of an unlimited number of permanent and dividend 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 law. Their interest rate is determined annually at the general meeting of each caisse.

Issued and paid capital stock is as follows:

	2006	2005
Qualifying shares	**$ 32**	$ 32
Capital shares	**28**	21
Permanent shares	**796**	792
	$ 856	**$ 845**

NOTE 15

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 by the issuer, at the paid-up amount plus declared and unpaid dividends, non-participating with a non-cumulative dividend.

An unlimited number of Class B preferred shares, non-voting, redeemable by 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 with a non-cumulative dividend. These shares may be issued in one or more series.

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

ISSUED AND PAID

	Number of shares	**2006**	Number of shares	2005
Class A preferred shares	**691,000**	**$ 7**	700,000	$ 7
Class B preferred shares – Series 2000	**50,000**	**1**	127,228	1
Class B preferred shares – Series 2002	**300,000**	**3**	300,000	3
Class B preferred shares – Series 2003	**700,000**	**7**	700,000	7
Class C preferred shares – Series 1996	**1,886,000**	**19**	1,813,000	18
Class C preferred shares – Series 2002	**2,951,000**	**29**	2,833,000	28
	6,578,000	**$ 66**	**6,473,228**	**$ 64**

Dividends were paid in the form of preferred shares: $1M for Class C – Series 1996 (2005: $1M) and $1M for Class C – Series 2002 (2005: $2M).

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 5 years plus 0.50% or 6.00% – Series 2000, of 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 earnings allow it and that 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 September 30, 2005 for Series 2000; will be as of July 1, 2007 for Series 2002; and as of 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.

Class C preferred shares – Series 1996 and 2002

The dividend rate will be equal to the higher of the average interest rate for the year on non-redeemable term deposits of 5 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 earnings allow it and that 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 1996, and will be redeemable as of 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 16

RESERVES

The reserves item that appears in equity is made up of the following three items:

A stabilization reserve totalling $275M ($274M in 2005), which consists of amounts allocated to this reserve by the caisses and the Fédération des caisses Desjardins du Québec out of their annual surplus earnings. The amounts assigned to the stabilization reserve essentially serve as interest payments on permanent shares when the surplus earnings of a caisse are insufficient.

A reserve for future patronage dividends totalling $141M ($5M in 2005), which consists of amounts allocated to this reserve by the caisses out of their surplus earnings. This reserve allows them to manage over time the impact of changes in annual surplus earnings on the dividend payments made to members.

A general reserve totalling $6,581M ($5,988M in 2005), which primarily consists of amounts allocated to it by the caisses, the Fédération des caisses Desjardins du Québec, Fonds de Sécurité Desjardins and Caisse centrale Desjardins. The general reserve essentially consists of a portion of the surplus earnings generated by these components since their inception. This reserve can be used only to cover a deficit and cannot be shared among the members or used for a dividend payment.

NOTE 17

INCOME TAXES ON SURPLUS EARNINGS

Income taxes on surplus earnings are accounted for using the tax liability method. Under this method, income taxes expenses on surplus earnings comprises current and future income taxes. They reflect the expected future tax effects of temporary differences between the carrying value of assets and liabilities for accounting and tax purposes. Future income tax assets or liabilities are calculated based on the tax rates expected to apply when the assets are realized and the liabilities are settled. Future income tax assets and liabilities are recognized under "Other assets – Other" and "Other liabilities – Other."

NOTE 17

INCOME TAXES ON SURPLUS EARNINGS (CONTINUED)

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

	2006	2005	2004
Combined statements of income			
Income taxes on surplus earnings	$ 398	$ 403	$ 418
Income tax recovery related to the provision for patronage dividends to members	(148)	(120)	(106)
	250	283	312
Combined statements of changes in equity			
Income taxes recovered following payment of remuneration on permanent shares	(7)	(6)	(8)
Total income taxes on surplus earnings	**$ 243**	**$ 277**	**$ 304**

Income taxes on surplus earnings include the following amounts:

	2006	2005	2004
Current	$ 317	$ 232	$ 199
Future	(74)	45	105
	$ 243	**$ 277**	**$ 304**

Income taxes on surplus earnings in the Combined Statements of Income differs from the income tax expense obtained by applying the Canadian statutory rate for the following reasons:

	2006		2005		2004	
Income taxes at the statutory rate	$ 294	32.3 %	$ 338	31.2 %	$ 349	31.2 %
Deduction for eligible small businesses	(49)	(5.4)	(45)	(4.2)	(57)	(5.1)
Tax-exempt investment income	(36)	(4.0)	(17)	(1.6)	(4)	(0.4)
Impact of new enacted tax rates	(3)	(0.1)	(15)	(1.4)	(1)	(0.1)
Other	44	4.9	22	2.1	25	2.2
	$ 250	**27.7 %**	**$ 283**	**26.1 %**	**$ 312**	**27.8 %**

Future income tax assets and liabilities are as follows:

	2006	2005
Future income tax assets		
Buildings and equipment	$ 32	$ 22
Actuarial and related liabilities	90	105
Cumulative provision for credit losses	154	164
Accrued benefit liabilities	178	167
Other	58	—
	$ 512	**$ 458**
Future income tax liabilities		
Buildings and equipment	$ 73	$ 75
Securities	13	63
Accrued benefit assets	5	34
Other	109	48
	$ 200	**$ 220**

NOTE 18

PROVISION FOR PATRONAGE DIVIDENDS TO MEMBERS

Desjardins Group recorded a provision for patronage dividends to caisse members for an amount of $483M ($408M in 2005 and $372M in 2004) before the recovery of related taxes. This provision for annual patronage dividends is determined according to a surplus earnings distribution plan for each caisse for the year, and for which each caisse board of directors recommends for approval at the general meeting of their caisse. The surplus earnings distribution plan sets out several parameters, notably the amount of the patronage dividend payment; was put in place a new program in 2006 under which members will be able to elect to receive their dividends, at a higher amount, in the form of shares. The difference between the amounts of 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 income during the current year. The base amount of the dividend distribution will depend 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 members depending on the services used. The caisses can pay out patronage dividends when the legal and regulatory requirements have been met.

NOTE 19

EMPLOYEE FUTURE BENEFIT PLANS

Desjardins Group offers its employees defined-benefit statutory pension plans as well as supplemental plans that provide pension benefits in excess of statutory limits. Benefits are calculated based on the number of years of participation in the plans and take into consideration the average salary of the employee's five most highly-paid years. Since the procedures of the plans are such that the future changes in salary levels will have an impact on the amount of future benefits, the cost of the benefits is determined using actuarial computations based on the projected benefit method prorated on years of service and using Management's best estimate assumptions concerning the expected return on plan investments, salary increases, and the retirement ages of employees.

Calculation of the expected return on plan assets is based on the value of pension fund assets measured at market-related values. The method used to calculate the market 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 of the pension fund over a five-year period.

Defined benefit costs primarily correspond to the aggregate of:
a) the actuarially computed cost of pension benefits provided in respect of the current year's service, b) imputed interest on the accrued benefit obligation, c) the actual return on plan assets, d) the actuarial gains and losses, e) plan amendments, f) curtailment gains and settlement, g) adjustments to take into consideration the long-term nature of these costs. The actuarial gains (losses) result from the difference between the long-term actual return on pension assets and the expected return, the changes made to the actuarial assumptions used to determine the accrued pension obligations and the experience gains or losses on these obligations. The excess of any net actuarial gains or any net actuarial losses on 10% of the higher of the balance of the obligation as part of accrued pension benefits or the related market value of plan assets at the beginning of the year is amortized on the average remaining estimated years of service of the employees. The cumulative excess of pension fund contributions over the amounts recorded as defined benefit costs is reported under "Other assets – Other."

In addition, Desjardins Group offers to certain active and retired executive employees additional multi-employer defined benefit pension plans. To meet its future obligations regarding these plans, an amount of $59M ($52M in 2005) was recorded under "Other liabilities – Other." The expense for the year amounted to $10M ($6M in 2005).

Desjardins Group also offers life, medical and dental insurance coverage to retiring employees and their dependents, as part of a multi-employer defined benefit pension plan. The retiree assumes a portion of the total premium based on years of service. The cost of these benefits is accrued over the years of service 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 employees of some subsidiaries benefit from various defined benefit pension plans. To estimate the cost of obligations arising from defined benefit pension plans, these subsidiaries use the projected benefit method pro rated on years of service and Management's best estimate assumptions concerning the expected return on plan investments, salary increases, retirement age and expected health care costs and an interest rate established based on market rates. Pension fund assets are marked to market.

According to the most recent actuarial valuations, on a consolidated basis, pension fund assets at $21M ($17M in 2005) were $9M less ($5M less in 2005) than the actuarial valuation of accrued pension plan benefits, which amounts to $30M ($22M in 2005). The pension expense of these plans is $4M ($3M in 2005).

On June 30, 2004, Desjardins Group prospectively adopted the amendments of Section 3461 of the Canadian Institute of Chartered Accountants Handbook entitled "Employee Future Benefits," which requires the disclosure of supplementary information.

Total cash payments

Total cash payments on future employee benefits for 2006, which comprise contributions from Desjardins Group to funded pension plans and amounts paid directly to employees, to their beneficiaries or their estate as other non-funded plans totals $167M ($161M in 2005).

NOTE 19

EMPLOYEE FUTURE BENEFIT PLANS (CONTINUED)

The following table contains information on these plans:

As at December 31

	2006		2005	
	Pension plans	**Other plans**	Pension plans	Other plans
Change in accrued benefit obligation				
Accrued benefit obligation at beginning of year	**$ 5,325**	**$ 578**	$ 4,444	$ 532
Service cost for the year	**283**	**18**	229	21
Interest cost	**291**	**31**	264	32
Benefits paid	**(162)**	**(7)**	(146)	(12)
Transfers from other plans	**10**	**—**	78	9
Transfers to other plans	**(3)**	**—**	—	—
Actuarial losses (gains)	**(35)**	**(72)**	456	(4)
Accrued benefit obligation at valuation date	**$ 5,709**	**$ 548**	**$ 5,325**	**$ 578**
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	**$ 4,445**	**$ —**	$ 3,710	$ —
Actual return on plan assets	**396**	**—**	609	—
Employers' contributions	**160**	**—**	152	—
Participants' contributions	**85**	**—**	77	—
Benefits paid	**(162)**	**—**	(146)	—
Transfers from other plans	**11**	**—**	48	—
Transfers to other plans	**(3)**	**—**	—	—
Other changes	**(6)**	**—**	(5)	—
Fair value of plan assets at valuation date	**$ 4,926**	**$ —**	**$ 4,445**	**$ —**
Funded status				
Funding deficit at year-end	**$ (783)**	**$ (548)**	$ (880)	$ (578)
Unamortized net losses (gains)	**762**	**(81)**	954	(12)
Employers' contributions after valuation date	**39**	**—**	39	—
Accrued benefit assets (liabilities) at year-end	**$ 18**	**$ (629)**	**$ 113**	**$ (590)**
Weighted average assumptions				
Discount rate of the obligation	**5.25 %**	**5.25 %**	5.25 %	5.25 %
Discount rate of the expense	**5.25**	**5.25**	5.75	5.75
Expected rate of return on plan assets	**7.25**	**—**	7.00	—
Rate of increase in future compensation	**3.50**	**3.50**	3.50	3.50

For valuation purposes, the assumed average annual rate of increase in health care cost per participant was set at 9.0% for 2006. According to the assumption chosen, this rate should gradually decline to 4.8% in 2011 and remain approximately at this level thereafter.

As at December 31, 2006, the plans held investments totalling $31M ($114M in 2005) in Desjardins' entities.

With respect to Desjardins' main pension plan, the valuation of the Plan's assets and the accrued benefit obligations were carried out on September 30, 2006. The most recent actuarial valuation for funding purposes was carried out on January 1, 2004. The actuarial valuation for funding purposes required no later than December 31, 2006 is currently in progress.

The fair value of plan assets is detailed as follows as at December 31:
(as a %)

	2006	2005
Primary asset categories		
Shares	**46.3 %**	46.1 %
Bonds	**22.9**	26.5
Real Estate	**9.7**	7.1
Other	**21.1**	20.3

ELEMENTS OF DEFINED BENEFIT COST RECOGNIZED IN THE YEAR

As at December 31

	2006		2005		2004	
	Pension plans	**Other plans**	Pension plans	Other plans	Pension plans	Other plans
Service cost for the year, net of participants' contributions	**$ 197**	**$ 18**	$ 152	$ 18	$ 145	$ 18
Interest expense	**291**	**31**	264	32	249	29
Actual return on assets	**(396)**	**—**	(609)	—	(320)	—
Actuarial losses (gains)	**(35)**	**(72)**	456	(4)	122	28
Plan amendments	**—**	**—**	—	(2)	—	—
Elements of employee future benefit costs before adjustments to recognize the long-term nature	**57**	**(23)**	263	44	196	75
Adjustments to recognize the long-term nature of employee future benefit costs:						
Difference between the expected return and the actual return of plan assets	**94**	**—**	343	—	65	—
Difference between the amount of the actuarial loss (gain) recognized for the year and the actual amount of the actuarial loss (gain) on accrued benefit obligations for the year	**96**	**73**	(426)	4	(111)	(28)
Difference between the amortization of cost for past services for the year and the effective plan amendments for the year	**3**	**(4)**	—	(3)	—	(3)
Defined benefit costs	**$ 250**	**$ 46**	**$ 180**	**$ 45**	**$ 150**	**$ 44**

NOTE 19

EMPLOYEE FUTURE BENEFIT PLANS (CONTINUED)

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

SENSITIVITY OF KEY ASSUMPTIONS IN 2006

	Change in obligation	Change in defined benefit costs
Pension plans		
Discount rate		
1% increase	$ (967)	$ (102)
1% decrease	1,276	182
Rate of future compensation increase		
1% increase	368	82
1% decrease	(316)	(70)
Rate of long-term return on plan assets		
1% increase	—	(47)
1% decrease	—	47
Other plans		
Discount rate		
1% increase	(86)	(11)
1% decrease	113	5
Rate of future compensation increase		
1% increase	6	1
1% decrease	(6)	(1)

The effect of a one percentage point increase or decrease in the assumed health care cost trend would have increased the defined benefit costs for the year by $10M or reduced it by $8M and increased the benefit obligation by $73M or reduced it by $57M, respectively.

NOTE 20

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial contracts the value of which depends on assets, interest rates, foreign exchange rates, or other financial indicators. The 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 currency, interest rate and stock index options. The other transactions are performed as part of regulated trades and mainly consist of forward contracts.

The derivative financial instruments are used for trading purposes or for asset and 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. These derivative financial instruments are recorded in the Combined Balance Sheets at fair value, and the realized or unrealized gains and losses are recorded under "Other income – Investing and trading income." The derivative financial instruments held for asset and liability management purposes are used to manage the risks related to interest rates and the foreign currency exposure of balance sheet assets and liabilities, firm commitments, and forecasted transactions. In addition, some derivative financial instruments used by the Life and Health Insurance segment are recorded in "Securities – Investment account," when they qualify as such, and are recorded on the same basis as portfolio investments.

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. In 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 "Derivative-related assets" and "Derivative-related liabilities."

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

Foreign exchange contracts include over-the-counter spot and forward exchange contracts and currency swaps. Over-the-counter forward exchange contracts are commitments to exchange, at a future specified date, a given quantity of one currency for another at a rate of exchange determined by the two parties when the contract is signed. Spot transactions are similar to over-the-counter forward exchange contracts except that delivery must be made within two business days following the contract date. Currency swaps are transactions in which two parties exchange fixed interest payments on notional principal 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 utilizes currency swaps as well as 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 specified price, on or before a specified date. The seller receives a premium from the purchaser in exchange for this right. Desjardins Group deals in options primarily to meet its clients' needs and to manage its own asset and liability exposures.

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

Equity-linked deposit contracts and equity indexes

Desjardins Group records at fair value certain deposit obligations for which the obligation varies according to the return on equities or an equity index and which entitle the investors, after a specified period of time, to receive the higher of a stated percentage of their principal investment or a variable amount calculated based on the return on equities or an equity index. Changes in fair value are recorded to the Combined Statements of Income as they occur.

Hedging relationships

When derivatives are used to manage assets and liabilities, Desjardins Group must determine, for each derivative, whether or not hedge accounting is appropriate. Due to the adoption of the CICA Handbook Accounting Guideline entitled "Hedging Relationships" (AcG-13) on January 1, 2004, derivative financial instruments could no longer qualify for hedge accounting as of that date. The transitional gain was deferred to be amortized over the remaining duration of the derivative financial instruments.

Documenting and recognizing hedging relationships

Several derivative financial instruments held for the purposes of asset and liability management qualify for hedge accounting. To qualify for hedge accounting, the hedge relationship must be recognized and documented from the moment it is implemented. 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 compensate for changes in the fair value or the cash flows attributable to the risk being hedged. Derivative financial instruments that qualify for hedge accounting are recorded in the Combined Balance Sheets at fair value, and changes in fair value are recorded in "Other assets – Other" and "Other liabilities – Other" and are recognized in the Combined Statements of Income during the same period that the gains, losses, income, and charges related to the hedge item are recorded. In particular, interest rate and currency swaps that qualify for hedge accounting are recorded so that the proceeds or charges on the derivative financial instruments are carried into income as an adjustment to the revenues orinterest expense of the hedged item. The amounts payable or receivable from the counterparties are carried to "Derivative-related assets" or "Derivative-related liabilities" in the Combined Balance Sheets. The gains and losses on currency swaps compensate for the exchange gains and losses from items hedged in corresponding currencies.

Derivative financial instruments held for purposes of asset and liability management that do not qualify for hedge accounting are recorded in the Combined Balance Sheets at fair value, and changes in fair value are recorded in the Combined Statements of Income under "Other income – Investing and trading income."

Discontinuing of hedging relationships

The designation of a derivative financial instrument as a hedge is discontinued in the following cases: the hedged item is sold or matures, the hedge is no longer effective, Desjardins Group terminates the hedging relationship, or it is no longer likely that the forecasted transaction will take place essentially at the time and in the way indicated at the inception of the hedging relationship. The changes in fair value related to the derivative financial instruments that cease to qualify for hedge accounting before maturity are carried to "Derivative-related assets" or "Derivative-related liabilities" in the Combined Balance Sheets and recognized in income for the period during which the underlying hedge operation was recognized. If a designated hedge item is sold, extinguished, or comes to maturity before the related derivative financial instrument ends, any realized and unrealized gain or loss on this derivative financial instrument is immediately recognized in the Combined Statements of Income under the heading "Other income – Investing and trading income."

NOTE 20

DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The table provided below, "Derivative Financial Instruments – Credit Risk," gives an overview of the portfolio of Desjardins' derivative financial instruments and the related credit risk.

Notional principal amount — Amount to which a rate or price is applied in order to calculate the exchange of cash flows.

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

Future credit exposure — Potential for future changes in replacement value over the remaining life of the contracts based on a formula prescribed by the Bank for International Settlements (BIS).

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

Risk-weighted balance — Risk related to the creditworthiness of the counterparty, calculated at the rates prescribed by the BIS.

DERIVATIVE FINANCIAL INSTRUMENTS – CREDIT RISK

	2006					2005		
	Notional principal amount	Replacement cost	Future credit exposure	Credit risk equivalent	Risk-weighted balance	Replacement cost	Credit risk equivalent	Risk-weighted balance
Interest rate contracts								
Swaps	$ 53,748	$ 235	$ 249	$ 484	$ 93	$ 276	$ 484	$ 96
Forward rate agreements	14,451	1	3	4	1	2	7	2
Futures contracts	8,474	—	—	—	—	4	—	—
Options purchased	201	1	1	2	—	4	5	1
Options written	201	—	—	—	—	—	—	—
	77,075	**237**	**253**	**490**	**94**	**286**	**496**	**99**
Foreign exchange contracts								
Forward contracts	5,534	77	55	131	36	49	100	22
Swaps	6,349	307	297	604	124	96	234	59
Options purchased	276	6	6	12	4	7	13	4
Options written	230	—	—	—	—	—	—	—
	12,389	**390**	**358**	**747**	**164**	**152**	**347**	**85**
Other contracts(1)								
Swaps	1,841	8	90	98	22	48	429	88
Futures contracts	53	—	—	—	—	—	—	—
Options purchased	1,985	500	154	654	211	404	540	180
Options written	2,017	—	—	—	—	—	—	—
	5,896	**508**	**244**	**752**	**233**	**452**	**969**	**268**
Total derivative financial instruments	**$ 95,360**	**1,135**	**$ 855**	**$ 1,989**	**491**	**890**	**$ 1,812**	**452**
Impact of master netting agreements(2)		862			306	670		277
Total derivative financial instruments after netting agreements		**$ 273**			**$ 185**	**$ 220**		**$ 175**

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

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

	Maturity				**2006**	2005
	Under 1 year	**1 to 3 years**	**Over 3 to 5 years**	**Over 5 years**	**Total**	Total
Interest rate contracts						
Swaps	**$ 11,596**	**$ 20,982**	**$ 17,328**	**$ 3,842**	**$ 53,748**	$ 41,698
Forward rate agreements	**13,795**	**656**	**—**	**—**	**14,451**	6,816
Futures contracts	**5,251**	**3,072**	**151**	**—**	**8,474**	7,872
Options purchased	**—**	**55**	**146**	**—**	**201**	772
Options written	**—**	**55**	**146**	**—**	**201**	2,406
	30,642	**24,820**	**17,771**	**3,842**	**77,075**	**59,564**
Foreign exchange contracts						
Forward contracts	**5,454**	**80**	**—**	**—**	**5,534**	4,948
Swaps	**591**	**2,616**	**3,005**	**137**	**6,349**	2,929
Options purchased	**184**	**92**	**—**	**—**	**276**	283
Options written	**161**	**69**	**—**	**—**	**230**	286
	6,390	**2,857**	**3,005**	**137**	**12,389**	**8,446**
Other contracts(1)						
Swaps	**1,109**	**205**	**477**	**50**	**1,841**	5,438
Futures contracts	**53**	**—**	**—**	**—**	**53**	22
Options purchased	**534**	**814**	**571**	**66**	**1,985**	1,793
Options written	**592**	**824**	**560**	**41**	**2,017**	1,791
	2,288	**1,843**	**1,608**	**157**	**5,896**	**9,044**
Total derivative financial instruments	**$ 39,320**	**$ 29,520**	**$ 22,384**	**$ 4,136**	**$ 95,360**	**$ 77,054**

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

The following table presents the derivative financial instruments according to the credit risk rating and the type of counterparty:

As at December 31

	2006		2005	
	Replacement cost	**Risk-weighted balance**	Replacement cost	Risk-weighted balance
Credit risk rating(1)				
AAA, AA	**$ 1,028**	**$ 439**	$ 550	$ 268
A	**65**	**22**	313	160
Not rated	**42**	**30**	27	24
Total	**1,135**	**491**	**890**	**452**
Impact of master netting agreements(2)	**862**	**306**	670	277
Total after master netting agreements	**$ 273**	**$ 185**	**$ 220**	**$ 175**
Type of counterparty				
Financial institutions	**$ 853**	**$ 326**	$ 826	$ 408
Other	**282**	**165**	64	44
Total	**1,135**	**491**	**890**	**452**
Impact of master netting agreements(2)	**862**	**306**	670	277
Total after master netting agreements	**$ 273**	**$ 185**	**$ 220**	**$ 175**

(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 intent to settle net or simultaneously.

NOTE 21

INTEREST RATE SENSITIVITY AND MATURITY MATCHING

The following table illustrates Desjardins' interest rate sensitivity position as at December 31:

2006

	Immediately rate-sensitive	Under 3 months	3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Non-rate-sensitive and provisions	Total
Assets								
Cash and deposits with financial institutions	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,798	$ 1,798
Securities	3,057	5,548	598	1,287	6,950	7,116	7,777	32,333
Effective interest rate		4.02 %	4.27 %	4.21 %	4.43 %	5.27 %		
Securities borrowed or purchased under reverse repurchase agreements	—	—	—	—	—	—	4,147	4,147
Loans	15,496	12,587	11,098	12,141	35,798	2,146	(620)	88,646
Effective interest rate		7.18 %	6.08 %	6.20 %	5.71 %	5.79 %		
Other assets	—	—	—	—	—	—	8,202	8,202
	$ 18,553	$ 18,135	$ 11,696	$ 13,428	$ 42,748	$ 9,262	$ 21,304	$135,126
Liabilities and equity								
Deposits	$ 12,723	$ 10,655	$ 7,458	$ 13,015	$ 23,600	$ 1,445	$ 19,247	$ 88,143
Effective interest rate		3.96 %	3.50 %	3.34 %	3.42 %	3.75 %		
Subordinated debentures and borrowings	—	4	—	—	125	1,401	—	1,530
Effective interest rate		6.50 %			5.57 %	5.43 %		
Commitments related to securities lent or sold under repurchase agreements	—	—	—	—	—	—	6,955	6,955
Commitments related to securities sold short	48	30	217	500	2,069	1,152	85	4,101
Effective interest rate		4.15 %	3.89 %	4.18 %	4.04 %	4.23 %		
Actuarial and related liabilities	—	—	—	—	—	—	11,135	11,135
Other liabilities	—	—	—	—	—	—	14,709	14,709
Equity	—	—	—	—	—	—	8,553	8,553
	$ 12,771	$ 10,689	$ 7,675	$ 13,515	$ 25,794	$ 3,998	$ 60,684	$135,126
On-balance sheet gap	$ 5,782	$ 7,446	$ 4,021	$ (87)	$ 16,954	$ 5,264	$ (39,380)	$ —
Derivative financial instruments gap according to notional principal amount	—	(15,097)	(703)	2,482	12,806	512	—	—
Total gap	$ 5,782	$ (7,651)	$ 3,318	$ 2,395	$ 29,760	$ 5,776	$ (39,380)	$ —

2005

	Immediately rate-sensitive	Under 3 months	3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Non-rate-sensitive and provisions	Total
Total assets	$ 13,612	$ 24,458	$ 9,873	$ 13,175	$ 38,761	$ 8,357	$ 9,857	$ 118,093
Total liabilities and equity	$ 10,327	$ 13,380	$ 4,871	$ 12,072	$ 26,326	$ 3,747	$ 47,370	$ 118,093
On-balance sheet gap	$ 3,285	$ 11,078	$ 5,002	$ 1,103	$ 12,435	$ 4,610	$ (37,513)	$ —
Derivative financial instruments gap according to notional principal amount	—	1,244	(867)	243	(441)	(179)	—	—
Total gap	$ 3,285	$ 12,322	$ 4,135	$ 1,346	$ 11,994	$ 4,431	$ (37,513)	$ —

The determination of the interest rate gap, which is based on the earlier of the repricing or maturity date of assets, liabilities and derivative financial instruments used to manage interest rate risk, relies on various assumptions. The effective interest rates indicated represent historical rates for instruments at fixed rates recorded at unamortized cost and current market rates for instruments at variable rates or instruments recorded at fair value. The interest rate gap may change significantly in subsequent periods based on the preferences of members and clients and the application of Desjardins' asset and liability management policy.

The main assumptions used are as follows:

NON-RATE-SENSITIVE INSTRUMENTS

Some balance sheet items, such as equity investments, non-interest-bearing deposits and non-maturity deposits with an interest rate that does not move on a specific rate basis, such as the prime rate and equity, are not sources of interest rate risk. These items are indicated in the non rate-sensitive instrument column of the table.

In addition, actuarial liabilities are presented in this column. During the normal course of business, the life and health insurance subsidiary has adopted a policy of matching assets and liabilities that clearly defines acceptable differences in order to prevent mismatched cash flows. One of the controls is to test the difference between the duration of the liabilities and the duration of assets matching them. The duration comparison measures the sensitivity of the market value of assets and liabilities to interest rates. The life and health insurance subsidiary performs tests for all its business segments globally, because the matching policies set limits in this respect.

As at December 31, 2006, the durations of assets exceeded those of liabilities by 0.1 years (the durations were equal as at December 31, 2005). 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 results of the life and health insurance subsidiary.

NOTE 22

FAIR VALUE OF FINANCIAL INSTRUMENTS

FINANCIAL INSTRUMENTS

Although fair value is used to approximate value at which these financial instruments could be traded in a transaction between willing parties, a number of these financial instruments have no trading market. As a result, their fair value is based on estimates established using discounted value and other valuation methods which are strongly influenced by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates, which reflect varying degrees of risk. Furthermore, the estimated fair values presented do not reflect the value of assets and liabilities that are not considered financial instruments, such as land, buildings, equipment and intangible assets. 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 estimates and valuation techniques for calculating fair values, the latter is not necessarily comparable among financial institutions. 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 values of the financial instruments:

Financial instruments valued at carrying value

The fair values 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 values. 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 estimated fair value of securities is disclosed in Note 3 to the Combined Financial Statements as a function of quoted market prices when available. When quoted market prices are not available, the estimated fair value is determined using the market rates for similar securities.

Loans

The fair value of loans is estimated using a discounted cash flow calculation method that uses market interest rates currently charged for similar new loans as at December 31, applied to expected maturity amounts. For impaired loans, the fair value is equal to their carrying value in accordance with the valuation techniques described in Note 4 to the Combined Financial Statements.

Deposits

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

Actuarial and related liabilities

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

Subordinated debentures and borrowings

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

NOTE 22

FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Derivative financial instruments

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

FINANCIAL INSTRUMENTS (EXCLUDING DERIVATIVE FINANCIAL INSTRUMENTS)

	2006			2005		
	Fair value	Carrying value	Difference	Fair value	Carrying value	Difference
Assets						
Cash and deposits with financial institutions	$ 1,798	$ 1,798	$ —	$ 1,278	$ 1,278	$ —
Securities	33,296	32,333	963	26,120	25,081	1,039
Securities borrowed or purchased under reverse repurchase agreements	4,147	4,147	—	2,389	2,389	—
Loans	88,318	88,646	(328)	82,128	82,472	(344)
Other financial assets	4,656	4,656	—	3,783	3,783	—
Liabilities						
Deposits	88,377	88,143	234	83,675	83,287	388
Actuarial and related liabilities	11,992	11,135	857	11,205	10,500	705
Borrowings	179	163	16	345	345	—
Subordinated debentures	1,385	1,367	18	1,396	1,355	41
Commitments related to securities lent or sold under repurchase agreements	6,955	6,955	—	5,120	5,120	—
Commitments related to securities sold short	4,101	4,101	—	2,310	2,310	—
Other financial liabilities	6,823	6,823	—	5,152	5,152	—

DERIVATIVE FINANCIAL INSTRUMENTS[1]

	2006			2005		
	Positive value	Negative value	Net fair value	Positive value	Negative value	Net fair value
Interest rate contracts						
Swaps	$ 235	$ 237	$ (2)	$ 276	$ 241	$ 35
Forward rate contracts	1	2	(1)	2	2	—
Futures contracts	—	2	(2)	4	—	4
Options purchased	1	—	1	4	—	4
Options written	—	1	(1)	—	24	(24)
Foreign exchange contracts						
Forward contracts	77	45	32	49	62	(13)
Swaps	307	177	130	96	315	(219)
Options purchased	6	—	6	7	—	7
Options written	—	6	(6)	—	7	(7)
Other contracts[2]						
Swaps	8	3	5	48	20	28
Futures contracts	—	—	—	—	—	—
Options purchased	500	—	500	404	—	404
Options written	—	500	(500)	—	404	(404)
	1,135	973	162	890	1,075	(185)
Impact of master netting agreements[3]	862	862	—	670	670	—
Total derivative financial instruments after master netting agreements	$ 273	$ 111	$ 162	$ 220	$ 405	$ (185)

(1) The balances that appear in the table include derivative financial instruments recorded under "Securities – Investment account" for an amount of $37M in 2006 ($63M in 2005).
(2) Include contracts related to indexed term savings products.
(3) Impact of offsetting credit exposure when Desjardins Group holds master netting agreements without intent to settle net or simultaneously.

NOTE 23

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. The collateral security requirements of Desjardins Group with respect to these credit instruments are generally the same as those 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 represents the contractual amounts:

	2006	2005
Guarantees and standby letters of credit	**$ 466**	$ 474
Securities lending[(1)]	**1,760**	1,419
Credit commitments		
Original term of one year or less	**28,068**	24,833
Original term of over one year	**4,594**	4,129
	$ 34,888	**$ 30,855**

(1) Secured by marketable securities, generally issued by the federal and 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 obligations to third parties. They pose the same credit risk 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 in honouring 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 only deals 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 pledges appear in the table above, whereas securities lending of $7B ($5.1B in 2005) for which cash was received as pledges were excluded from the table above because they were 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, 2006 under leases and service contracts are detailed as follows:

	Premises and equipment	**Information technology and telecommunications**
2007	**$ 109**	**$ 278**
2008	**58**	**278**
2009	**51**	**273**
2010	**40**	**273**
2011	**36**	**144**
2012 and thereafter	**217**	**238**
	$ 511	**$ 1,484**

Building lease expenses, net of rental income, included in non-interest expenses for the year ended December 31, 2006 were $62M ($58M in 2005 and $45M in 2004).

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 changes in i) an interest rate, an exchange rate, a security price or commodity price, or a price or rate index, or the occurrence or non-occurrence of a specified event, ii) a third party's failure to perform under an obligating agreement or, iii) a third party's failure to repay its debt when it becomes due and payable.

Maximum potential amount of future payments

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

	2006	2005
Guarantees and standby letters of credit	**$ 447**	$ 447
Derivative financial instruments	**837**	493
Guarantee for securities lending with indemnification	**3,860**	3,372

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 obligations to third parties. These instruments are generally collateralized in accordance with the same policy Desjardins Group has with respect to loans. The term of these products does not exceed five years.

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

Derivative financial instruments

Desjardins Group has performed 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 default on payment.

NOTE 23

COMMITMENTS, GUARANTEES AND CONTINGENCIES (CONTINUED)

The maximum amount of the guarantee comprises the notional amount of the swap. The amounts 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 as equal to or greater than BBB as at December 31, 2006. The swaps have maturities running until October 2014.

Guarantee for securities lending with indemnification

As part of its custodial services, 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, 2006, commitments related to the securities lent or sold under repurchase agreements of $7B ($5.1B in 2005) included securities lending with indemnification for which an amount of $2.4B ($2.1B in 2005) was received in cash as a guarantee. An amount of $1.4B ($1.3B in 2005) received in securities was added to this amount and is also included in the "Maximum potential amount of future payments" table.

Other indemnification commitments

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 delivery agreements, outsourcing agreements, lease agreements, compensation 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 declared financial positions, the existence of undeclared 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 appears in the contract, and future events that would trigger a payment are difficult to foresee. Therefore, Desjardins Group is not in a position to provide a reasonable estimate of the maximum amount that it could be required to pay counterparties. Historically, payments made under these commitments have been negligible.

Pledged assets

Assets pledged by Desjardins Group in the normal course of business are presented in the following table:

	2006	2005
Assets pledged to the following counterparties:		
Bank of Canada	$ 160	$ 140
Clearing systems, payment systems and depositories	176	156
Foreign central banks	—	15
Assets pledged for the following transactions:		
Transactions on derivative financial instruments	1,319	1,307
Securities borrowing	56	86
Commitments related to securities lent or sold under repurchase agreements	6,955	5,120
	$ 8,666	**$ 6,824**

CONTINGENCIES

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

NOTE 24

CONCENTRATION OF CREDIT RISK

A concentration of credit risk exists when a certain number of borrowers or counterparties that engage in similar activities are located in the same geographical region or have similar characteristics. The evolution of economic, political or other conditions may compromise their capacities to meet their contractual obligations. The majority of the securities, loans and deposits of Desjardins Group are related to the Québec market.

NOTE 25

SEGMENTED INFORMATION

Desjardins Group is a cooperative financial group. Under the authority of the Board of Directors of the Fédération des caisses Desjardins du Québec, the President of Desjardins Group manages the components operating in the Personal and Commercial segment as well as the subsidiary companies.

The Personal and Commercial segment is comprised of all activities related to financial intermediation, investment funds, and trust services. The network of subsidiary companies is comprised of all 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' components.

The activities of the Personal and Commercial segment and those of the subsidiary companies complement each other. Transactions among segments in the normal course of business are valued at the exchange value, which corresponds to the amount of consideration agreed to and accepted by the partners. The results of the main segments reflect internal financial reporting systems and are compatible with the rules used in preparing the Combined Financial Statements of Desjardins Group.

2006

	Personal and Commercial	Life and Health Insurance	General Insurance	Securities Brokerage, Asset Management and Venture Capital	Other	Combined[1]
Net interest income	$ 3,091	$ —	$ —	$ —	$ —	$ 3,081
Net premiums	—	2,438	1,376	—	—	3,688
Investing and trading income	3	703	68	48	52	878
Other income	1,402	115	—	338	94	1,751
Total income	**4,496**	**3,256**	**1,444**	**386**	**146**	**9,398**
Provisions for credit losses	(139)	—	—	—	—	(139)
Claims, benefits, annuities and changes in insurance provisions	—	(2,361)	(981)	—	—	(3,342)
Non-interest expenses	(3,303)	(692)	(284)	(366)	(198)	(4,513)
Operating surplus earnings from continuing operations	**1,054**	**203**	**179**	**20**	**(52)**	**1,404**
Income taxes on surplus earnings	(302)	(51)	(60)	(6)	21	(398)
Non-controlling interests	—	(6)	(12)	—	—	(18)
Surplus earnings before patronage dividends to members	**752**	**146**	**107**	**14**	**(31)**	**988**
Provision for patronage dividends to members, net of income taxes recovered	(335)	—	—	—	—	(335)
Surplus earnings for the year after patronage dividends	**$ 417**	**$ 146**	**$ 107**	**$ 14**	**$ (31)**	**$ 653**
Segment assets	**$ 112,130**	**$ 12,440**	**$ 2,439**	**$ 7,420**	**$ 697**	**$ 135,126**

(1) The difference between total results and the total results of the business segments, shown above, is due to intersegment transactions.

NOTE 25

SEGMENTED INFORMATION (CONTINUED)

2005

	Personal and Commercial	Life and Health Insurance	General Insurance	Securities Brokerage, Asset Management and Venture Capital	Other	Combined[(1)]
Net interest income	$ 3,048	$ —	$ —	$ —	$ —	$ 3,034
Net premiums	—	2,300	1,366	—	—	3,547
Investing and trading income	116	688	97	46	5	965
Other income	1,199	100	—	308	82	1,525
Total income	**4,363**	**3,088**	**1,463**	**354**	**87**	**9,071**
Provisions for credit losses	(107)	11	—	—	—	(96)
Claims, benefits, annuities and changes in insurance provisions	—	(2,269)	(983)	—	—	(3,252)
Non-interest expenses	(3,107)	(645)	(274)	(336)	(134)	(4,212)
Operating surplus earnings from continuing operations	**1,149**	**185**	**206**	**18**	**(47)**	**1,511**
Income taxes on surplus earnings	(311)	(28)	(67)	(4)	7	(403)
Non-controlling interests	—	(10)	(14)	—	—	(24)
Discontinued operations	—	5	—	—	—	5
Surplus earnings before patronage dividends to members	**838**	**152**	**125**	**14**	**(40)**	**1,089**
Provision for patronage dividends to members, net of income taxes recovered	(288)	—	—	—	—	(288)
Surplus earnings for the year after patronage dividends	**$ 550**	**$ 152**	**$ 125**	**$ 14**	**$ (40)**	**$ 801**
Segment assets	**$ 98,022**	**$ 11,791**	**$ 2,578**	**$ 4,977**	**$ 725**	**$ 118,093**

(1) The difference between total results and the total results of the business segments, shown above, is due to intersegment transactions.

2004

	Personal and Commercial	Life and Health Insurance	General Insurance	Securities Brokerage, Asset Management and Venture Capital	Other	Combined[(1)]
Net interest income	$ 2,903	$ —	$ —	$ —	$ —	$ 2,882
Net premiums	—	2,090	1,286	—	—	3,263
Investing and trading income	160	666	84	36	2	941
Other income	1,040	91	—	282	92	1,378
Total income	**4,103**	**2,847**	**1,370**	**318**	**94**	**8,464**
Provisions for credit losses	(103)	9	—	—	—	(94)
Claims, benefits, annuities and changes in insurance provisions	—	(2,086)	(884)	—	—	(2,970)
Non-interest expenses	(2,892)	(583)	(266)	(285)	(135)	(3,893)
Operating surplus earnings from continuing operations	**1,108**	**187**	**220**	**33**	**(41)**	**1,507**
Income taxes on surplus earnings	(289)	(58)	(77)	(6)	12	(418)
Non-controlling interests	—	(2)	(16)	—	—	(18)
Discontinued operations	—	1	—	—	—	1
Surplus earnings before patronage dividends to members	**819**	**128**	**127**	**27**	**(29)**	**1,072**
Provision for patronage dividends to members, net of income taxes recovered	(266)	—	—	—	—	(266)
Surplus earnings for the year after patronage dividends	**$ 553**	**$ 128**	**$ 127**	**$ 27**	**$ (29)**	**$ 806**
Segment assets	**$ 90,689**	**$ 10,166**	**$ 2,437**	**$ 2,510**	**$ 691**	**$ 106,493**

(1) The difference between total results and the total results of the business segments, shown above, is due to intersegment transactions.

NOTE 26

DISCONTINUED OPERATIONS

In January 2005, a subsidiary of Desjardins Group sold its Bahamas division for a cash consideration of $22M. This transaction resulted in a gain on disposal of $5M in 2005 and $1M in 2004.

NOTE 27

RELATED PARTY TRANSACTIONS

Desjardins Group carries out transactions with related entities. These transactions are recorded at the exchange value.

In 2006, the transactions with these entities resulted in income of $26M ($28M in 2005 and $30M in 2004) and expenses of $4M ($3M in 2005 and $17M in 2004), whereas the Combined Balance Sheets include assets of $1M ($2M in 2005) as well as liabilities of $72M ($41M in 2005).

NOTE 28

SUBSEQUENT EVENT

Under Desjardins' initiative to create financial synergies through real estate operations, the properties of the Fédération des caisses Desjardins du Québec and its subsidiaries will be brought together and combined into a single component of Desjardins Group, namely Desjardins Financial Security. This combining of properties, which excludes the properties of the caisses, involves 16 properties and will be carried out in three phases during the first six months of 2007. Properties for which the carrying value was $303M as at December 31, 2006 will be recorded at this value by the concerned components in accordance with the accounting requirements applicable to related party transactions. Because the transfer was concluded between Desjardins components, it will not impact the Combined Statements of Income or the Combined Balance Sheets.

PRINCIPAL FINANCIAL RESULTS OF THE CAISSES AND FEDERATIONS OF MANITOBA AND NEW BRUNSWICK

The Manitoba and New Brunswick federations, comprising 40 caisses, are auxiliary members of the Fédération des caisses Desjardins du Québec. They are governed by their own legislation, regulations and by-laws.

COMBINED BALANCE SHEETS (UNAUDITED)[1]

As at December 31
(in millions of $)

	2006	2005
Assets		
Cash and securities	$ 500	$432
Loans	2,278	2,214
Land, buildings and equipment	45	44
Other assets	35	33
Total assets	**$ 2,858**	**$ 2,723**
Liabilities and equity		
Deposits	$ 2,547	$ 2,403
Other liabilities	93	116
Equity		
Capital stock	33	32
Undistributed surplus earnings	18	17
Reserves	167	155
Total liabilities and equity	**$ 2,858**	**$ 2,723**

(1) The Combined Balance Sheets and Combined Statements of Income include data from the caisses and federations in Manitoba and New Brunswick, after eliminating the transactions and balances of the caisses and federations among themselves. Because the financial years of the caisses do not coincide, the undistributed surplus earnings do not correspond to the surplus earnings presented in income.

COMBINED STATEMENTS OF INCOME (UNAUDITED)[1]

For the years ended December 31
(in millions of $)

	2006	2005
Interest income	$ 171	$ 155
Interest expense	70	63
Net interest income	101	92
Otehr income	38	36
Total income	139	128
Provisions for credit losses	6	3
Non-interest expenses	109	100
Operating surplus earnings	24	25
Income taxes on surplus earnings	4	3
Surplus earnings before patronage dividends to members	20	22
Provision for patronage dividends to members	7	9
Tax recovery on provision for patronage dividends to members	(2)	(2)
Surplus earnings for the year after patronage dividends to members	**$ 15**	**$ 15**

(1) The Combined Balance Sheets and Combined Statements of Income include data from the caisses and federations in Manitoba and New Brunswick, after eliminating the transactions and balances of the caisses and federations among themselves. Because the financial years of the caisses do not coincide, the undistributed surplus earnings do not correspond to the surplus earnings presented in income.