

## PRESS RELEASE

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### Desjardins Group Announces Surplus Earnings Before Member Dividends of \$78 Million for 2008

*Excluding specific items related mainly to the financial crisis and ABCP, Desjardins would have posted surplus earnings before member dividends of \$1.2 billion for 2008, which is comparable to results obtained for 2007.*

#### Financial highlights

- Sustained operating income by the caisse network and all components in 2008.
- Caisses surplus earnings grew by 10.9% in 2008.
- Solid balance sheet with strong capitalization of nearly \$10 billion and a high-quality loan portfolio.
- The Tier 1 capital ratio is still one of the best in the Canadian financial industry.
- Assets grew 5.7% to \$152.3 billion.
- Dominant presence in Québec with a solid market share of residential mortgage credit, farm credit and personal savings.
- After specific items mainly associated with the financial crisis, surplus earnings before member dividends reached \$78 million at the end of fiscal 2008.

	For the years ended December 31			For the quarters ended December 31		
	2008	2007	Change	2008	2007	Change
Surplus earnings (deficit) before member dividends	\$78M	\$1,101M	(92.9%)	(\$476M)	\$273M	(274.4%)
Specific items:						
- Direct and indirect impacts of ABCP and guaranteed capital structured products	\$831M	\$198M	----	\$591M	\$91M	----
- Negative performance of investments and asset write- offs	\$341M	----	----	\$179M	----	----
- Non-recurring gains	----	(\$101M)	----	----	(\$101M)	----
Surplus earnings before member dividends excluding specific items	\$1,250M	\$1,198M	4.3%	\$294M	\$263M	11.8%
Return on equity	0.8%	12.3%	----	(19.3%)	11.8%	----
Return on equity excluding specific items	12.4%	13.4%	----	10.9%	11.2%	----

**Other financial data:**

	2008	2007	Change
<b>Assets</b>	<b>\$152.3B</b>	<b>\$144.1B</b>	<b>5.7%</b>
<b>Equity</b>	<b>\$9.9B</b>	<b>\$9.3B</b>	<b>6.4%</b>
<b>Tier 1 capital ratio</b>	<b>13.39%</b>	<b>14.17%</b>	<b>----</b>
<b>Growth in total loans</b>	<b>9.5%</b>	<b>7.6%</b>	<b>----</b>
<b>Growth in total deposits</b>	<b>5.9%</b>	<b>8.6%</b>	<b>----</b>
<b>Sponsorships, donations and scholarships</b>	<b>\$80M</b>	<b>\$72M</b>	<b>11.1%</b>
<b>Provision for member dividends</b>	<b>\$215M</b>	<b>\$592M</b>	<b>(64%)</b>

**Key accomplishments**

- Strong operating results from the caisse network and the main Group components.
- Maintained, despite the financial crisis, the high quality of the loan portfolio with a stable ratio of gross impaired loans over total gross loans.
- Remained a dominant player in Québec with a 39.3% market share in residential mortgage credit, 46.9% in farm credit and 43.9% in personal savings, as at December 31, 2008.
- Renewed Capital Desjardins' lending program for 25 months, making it possible to issue debt securities of \$2 billion.
- At the beginning of 2008, issued debt securities of nearly CA\$1.3 billion on European markets.
- In January 2009, Caisse centrale Desjardins successfully issued €500 million in medium-term notes on European markets.
- Excellent capital ratios, higher than those of the Canadian banks, and excellent credit ratings.
- Diversified Desjardins Group's funding sources, particularly through access to the same long-term loan securities as are offered to the large federally chartered banks and a sustained presence in the market for securitized mortgages guaranteed by the government.
- Desjardins Group declared one of the 50 Best Employers in Canada and one of the 20 best Canadian corporate citizens.
- Sustained improvement in the satisfaction of personal and business members.

**Results for fiscal 2008**

**Lévis, Québec, March 2, 2009** – For the year ended December 31, 2008, Desjardins Group, the largest financial cooperative group in Canada, announced combined surplus earnings before member dividends of \$78 million, as compared to \$1,101 million in 2007. Return on equity stood at 0.8%, as compared to 12.3% a year earlier. However, Desjardins Group's overall profitability for 2008 was significantly affected by specific items – the impacts of ABCP and those of the financial crisis – for a total of \$1,172 million after taxes.

Excluding these items, the year's surplus earnings before member dividends would have been \$1,250 million, a 4.3% increase over 2007.

“Desjardins Group’s overall financial results were negatively affected by specific items related to the write-down of non-bank asset-backed commercial paper (ABCP) and the sharp drop experienced in stock markets in the last quarter of 2008,” declared Monique F. Leroux, Chair of the Board, President and CEO of Desjardins Group. “I am very satisfied with the strong operating results posted by our caisses and some of our subsidiaries. It should be recalled that when the ABCP crisis began in August 2007, Desjardins itself held few of these securities, but it immediately took action to protect its members and clients. In 2007, the Group took over all ABCP held by its members in their money market investment funds as well as those managed for most of its institutional clients, public organizations and pension funds.”

### **Specific items in the fourth quarter and fiscal 2008 resulting mainly from financial market instability and ABCP**

The last months of 2008 were characterized by extreme volatility on capital markets world-wide. The deterioration of stock markets and resulting turmoil affected the performance of the global financial sector. Desjardins Group was not spared.

#### *Direct and indirect impacts of ABCP and guaranteed capital structured products*

Desjardins Group holds non-bank asset-backed commercial paper investments (ABCP), although it never issued nor promoted this type of financial product to its clients.

Given the absence of an active market for this type of financial product, as well as the requirements of Canadian accounting standards, Desjardins had to assess the fair value of its ABCP portfolio as at December 31, 2008. Consequently, in the fourth quarter of 2008 the cumulative write-down rose from 30% as at September 30, 2008 to 41% as at December 31, 2008 after taking into account accrued interest (45% before accrued interest).

In addition, under its structured guaranteed capital products program, Desjardins turned to hedge fund investments and investments in the money market instruments, including ABCP, for the management of certain savings products, also called guaranteed capital products, including Alternative Guaranteed Investment, Perspectives Plus Guaranteed Investment, Strategic Index Plus and Tactical Index Plus. These products offer both capital protection, with capital guaranteed at maturity, and enhanced returns because they track the markets.

Management of these products is governed by a risk management protocol that takes various specific parameters into account. As the unprecedented market turmoil of recent months has had a major impact on the investment portfolio, the Group has launched a disinvestment program for hedge funds pursuant to its risk management protocol.

The total direct and indirect impact of ABCP and some structured guaranteed capital products was \$1.1 billion (\$831 million after tax).

It must be emphasized that efforts to restructure ABCP undertaken by the Pan-Canadian committee right from the very beginning of the crisis led to the approval of a final restructuring plan on January 21, 2009. Among other things, this plan provides for the replacement of ABCP with new, longer-term floating-rate notes and to mitigate the risk of margin calls.

### *Negative performance of investments and asset write-offs*

Because of the financial crisis, some investment portfolios of Desjardins Group subsidiaries recorded a \$366 million fall in earnings (\$281 million after taxes) as at December 31, 2008. Among other things, Desjardins repositioned some of its Canada-wide development initiatives, in particular its offer of IT services to Canadian credit unions and the development of Desjardins Credit Union. In addition, it had to terminate its cheque imaging program in accordance with the decision by the Canadian Payments Association to end this program. These strategic decisions and lower earnings resulted in a \$434 million loss in 2008 (\$341 million after taxes).

“Even though Desjardins Group cannot escape the effects of this financial turbulence, it is holding up very well in terms of its basic activities,” declared Monique F. Leroux. “The caisses, the backbone of our cooperative Group, have once again sustained their performance in 2008 with regard to operating activities, much like our main subsidiaries. Rooted in their immediate environment, our caisses have a special relationship with their members and clients, which allows them to understand their needs and offer them support and sound advice in these difficult times. By relying on its cooperative values, Desjardins continues to be a strong and reassuring presence, as well as an engine of economic and social development, in the many communities in which it is established, in Québec and elsewhere in Canada.”

### **Operating highlights of 2008**

It bears mentioning that Desjardins Group is still one of the best capitalized financial institutions: its Tier 1 capital ratio was 13.39% as at December 31, 2008, compared to 14.17% a year earlier, exceeding its target capitalization and qualifying as one of the best in the Canadian financial industry. The total capital ratio was 12.85% versus 13.59% as at December 31, 2007.

As for income, net interest income rose to \$3,418 million for 2008, up \$173 million or 5.3% over 2007, fuelled by business volume growth. Net premiums were up \$307 million or 8.0% as a result of an increase in insurance premiums, particularly for life and health insurance, which grew \$223 million or 9.6%, combined with growth in annuity premiums of \$70 million or 28%. Other income benefited from an \$83 million rise in income from securitization activities and a \$29 million or 7.6% rise in lending fees and credit card income.

However, the decrease in the investment income of the Group's components seriously affected “Other income” due to the ABCP portfolio write-down, the extent of the hedge fund component of guaranteed capital structured products and fluctuations in the fair value of investments, including those matched to insurance contracts, for which a counterpart entry is offset by a decrease in expenses related to the insurance provisions of the life and health insurance subsidiary.

Overall, Desjardins Group's total income stood at \$8,373 million at the end of 2008, down \$1,298 million or 13.4% over 2007 as a result of specific items associated with ABCP and the financial crisis.

Nevertheless, Desjardins continues to enjoy a high-quality loan portfolio with a ratio of gross impaired loans to the gross loan portfolio of 0.40%. The provision for credit losses expense was \$243 million, up \$46 million or 23.4% over 2007.

Non-interest expense amounted to \$4,800 million for 2008, compared to \$4,702 million in 2007, an increase of \$98 million or 2.1%. It should be noted that asset write-downs of \$68 million were posted for 2008, associated with the strategic decisions described above. If these specific items are excluded, the non-interest expense would have been \$4,732 million, an increase of \$30 million or 0.6% over 2007. This modest increase is proof of the strict control exercised over operating expenses by the caisse network and all Desjardins Group components, as well as the reduction in incentive pay.

The productivity ratio is calculated as Desjardins Group's non-interest expense to total income, net of expenses related to claims and insurance benefits. Despite effective cost controls, the impact of the financial crisis on investment income, including the ABCP write-down recorded against investment income for 2008, had an impact on the productivity ratio. Had it not been for specific items arising from the financial crisis, the productivity ratio would have improved to 70.7%, as compared to 71.8% in 2007.

Lastly, Desjardins Group's aggregate assets stood at \$152.3 billion as at December 31, 2008, compared to \$144.1 billion a year earlier, an increase of \$8.2 billion or 5.7%.

"Given the negative impacts of the current crisis and the ABCP situation, Desjardins holds several trump cards," continued Monique Leroux, "including an impressive capital base, a solid balance sheet, an extremely dynamic caisse network and subsidiaries, and an excellent loan portfolio, as well as large market shares in the various areas in which it operates in Quebec. In the coming months, we will continue to expand by putting these major advantages to good use, while continuing to demonstrate responsible and careful management. This approach is dictated by the current phase of economic uncertainty, the severity of which cannot yet be predicted."

### **Provision for member dividends**

In a unanimous decision made on January 20, 2009, and in keeping with sound and prudent management principles, the Board of Desjardins Group opted for a balanced approach towards sharing caisse surplus earnings, an approach that meets both member and community expectations and the Group's capitalization needs. This exceptional and temporary measure is a responsible approach that will maintain a high level of capitalization at the caisses and at the Group, given the current economic and financial climate.

In this context, the 2008 financial statements include a provision for member dividends of \$186 million, to which is added an adjustment of \$29 million associated with 2007, bringing the total provision to \$215 million for the current year, compared to \$592 million at the end of 2007. In addition, an amount of \$80 million, up \$8 million over 2007, was returned to the community in the form of sponsorships, donations and scholarships.

In the words of Ms. Leroux, "In the course of its history, Desjardins has always placed the greatest importance on maintaining sound capitalization, which constitutes the foundation of any financial institution. Our capital base represents our best defence against economic and financial turmoil."

It should be recalled that in the last five years, Desjardins Group has returned to its member-owners more than \$2 billion in member dividends.

### **Results by business segment**

#### ***Personal and Commercial***

*This segment mainly comprises the caisse network, the Fédération des caisses Desjardins du Québec, Caisse centrale Desjardins, Fonds de sécurité Desjardins, Capital Desjardins Inc., Desjardins Trust, and the Ontario Federation and its caisses.*

Despite the increased profitability of the caisse network in 2008, the profitability of the Personal and Commercial segment as a whole was noticeably down, mainly attributable to specific items associated with ABCP and the financial crisis. Surplus earnings before member dividends totalled \$16 million in 2008 over \$794 million in 2007.

Net interest income stood at \$3,422 million, an increase of \$151 million or 4.6%, mainly attributable to growth in business volume. Other income totalled \$639 million for 2008, a decrease of \$928 million or 59.2% over the previous year. Other income benefited from the increase of \$83 million associated with securitization activities, as well as from the \$30 million or 7.8% rise in income stemming from credit card activities. However, the rise in other income was affected by the write-down of the ABCP portfolio, the impact of some guaranteed capital structured products and the drop of \$70 million or 17.2% in income stemming from brokerage, investment fund and trust services. Total income for the Personal and Commercial segment amounted to \$4,061 million for 2008, down \$777 million or 16.1% over 2007.

The ratio of gross impaired loans to total gross loans remained stable, despite the difficult situation in capital markets. Provisions for credit losses rose to \$242 million for 2008, an increase of \$45 million over 2007.

Non-interest expenses were \$3,732 million in 2008, up \$251 million or 7.2% over 2007. It should be noted that asset write-offs of \$68 million were recorded in 2008, associated with the strategic decisions described above. Salary increases of \$52 million or 2.9% stemmed from annual salary indexation and increases in fringe benefits.

Caisse centrale Desjardins incurred a net loss of \$36.6 million, versus net earnings of \$63.0 million in 2007. Had it not been for specific items arising from the financial crisis, Caisse centrale's net income would have been \$113 million, an increase of \$50 million over 2007. It should be noted that in 2008, Caisse centrale strengthened its presence in the mortgage securitization market through the Canada Mortgage Bonds Program guaranteed by the federal government. Desjardins is now a major player in the Canadian mortgage securitization market through Caisse centrale, with almost \$1.6 billion in 2008, or around \$400 million per quarter, with five-year terms. In addition, in 2008 Caisse centrale issued debt securities of nearly CA\$1.3 billion on European markets.

On the financing side, the Personal and Commercial segment recorded a loan portfolio outstanding of \$102.2 billion, net of the cumulative provision for credit losses, compared to \$94.1 billion at the end of 2007. This reflects an annual, year-over-year increase of 8.7% (or \$8.1 billion), the same rate as in 2007. Credit demand continued to be robust, particularly with respect to financing granted to individuals.

The Personal and Commercial segment's vitality in the housing market continued unabated in 2008 with regard to both housing starts and resale homes, despite signs of a slow-down in the housing market in Québec and Ontario. For example, residential loans outstanding rose by 7.4% (or \$4.1 billion) to \$58.6 billion as at December 31, 2008, for stable year-over-year growth. The Personal and Commercial segment was also very active in consumer financing, credit cards and other individual loans. Loans outstanding in these markets rose by 9.2% (or \$1.5 billion) on an annual basis, to \$17.6 billion as at December 31, 2008, compared to an increase of 5.7% (or \$868 million) a year earlier.

In the area of business and government financing, there was sustained growth in 2008. Loans outstanding in this area rose by 11.0% (or \$2.7 billion) to \$26.9 billion as at December 31, 2008, whereas they had risen by 13.8% (or \$2.9 billion) at the same date a year earlier.

With regard to business financing operations falling under Caisse centrale Desjardins, loans outstanding grew \$991 million from the beginning of 2008, to \$3.4 billion as at December 31, 2008, with commitments up by 16%. The portfolio of loans to large corporations grew by \$1.1 billion in 2008.

As for savings recruitment, deposit liabilities outstanding in the Personal and Commercial segment rose to \$102.0 billion, up by 5.9% (or \$5.7 billion) over 2007, versus growth of 9.2% (or \$8.1 billion) recorded at the end of 2007. Personal savings, which contribute the lion's share of deposits built up by the Personal and Commercial segment (70.5%), grew more vigorously in 2008, up 9.4% (or \$6.2 billion) to \$72.0 billion as at December 31, 2008, versus growth of 5.8% (or \$3.6 billion) a year earlier.

Furthermore, deposits from business and government showed an annual increase of 3.1% (or \$654 million) to \$21.5 billion, compared with a jump of 27.8% (or \$4.5 billion) recorded at the end of 2007. Securities issuances on capital markets fell by 12.1% (or \$1.2 billion) to \$8.6 billion as at December 31, 2008, versus a decline of 0.7% (or \$72 million) in 2007.

Lastly, the global stock market turmoil in 2008 did not really encourage the sale of off-balance sheet savings products like investment funds and other types of securities. Thus, the amount of outstanding investment funds and assets held in custody by the Personal and Commercial segment was down by 16.4% (or \$4.2 billion) on an annual basis to \$21.3 billion as at December 31, 2008, whereas it had risen 10.4% (or \$2.4 billion) by the end of 2007.

On a different topic, it should be noted that in January 2009, Capital Desjardins announced that it had called for early redemption of all of its Senior Series "D" bonds (par value of \$450 million), maturing in 2014 and bearing interest at an annual rate of 3.887%. The bonds will be reimbursed early, on March 17, 2009, at a price equal to their principal amount, plus undisbursed interest accrued as at that date only.

### ***Life and health insurance***

The current financial crisis is having a significant impact on profitability at Desjardins Financial Security (DFS). For the year ended December 31, 2008, the contribution of DFS to Desjardins Group's results was \$40.2 million. For this same period, DFS recorded net income of \$34.5 million. Excluding the impact of the financial crisis, the net earnings would have been \$190.6 million, versus \$234.4 million in 2007.

Return on shareholder's equity stood at 5.9% as compared to 27.5% in 2007. Again, if the impact of the financial crisis is excluded, the return would be 24.0%. The average for the last three financial years is 18.0%.

Assets under management and under administration stand at \$19.7 billion, down by 12.9% over December 31, 2007. The decrease is essentially attributable to the drop in market value of investments in the wake of the global financial crisis and the liquidity crunch. DFS's capitalization is still very sound and continues to exceed regulators' expectations.

DFS's insurance premium income continued to climb. It was up by 9.2% to \$2,671.4 million as at December 31, 2008, despite the economic upheaval. Insurance sales amounted to \$180.8 million.

### ***General insurance***

In fiscal 2008, the contribution of Desjardins General Insurance Group (DGIG) to Desjardins Group's combined results was \$35.9 million, compared to \$126.2 million in 2007.

Throughout 2008, there were two main factors affecting DGIG's profitability. First, the sharp decline in stock markets triggered a drop in investment income of \$79 million compared to 2007.

Secondly, unusual weather conditions in the first nine months of 2008 resulted in a much less favourable home insurance claims experience than in 2007.

With regard to insurance income, written premiums grew by 2% to total \$1,459.6 million. DGIG recorded growth in both personal and group insurance markets, as well as in corporate insurance. In 2008, for the first time, DGIG launched an extensive advertising campaign in Ontario under the Desjardins General Insurance banner. This enabled it to increase sales by 6% in the individual market in Canada. DGIG also continued to work in tandem with its business partners, including Desjardins caisse network and its policyholder groups; new agreements have created a potential pool of 200,000 additional policyholders.

At the end of 2008, the capitalization of DGIG subsidiaries continued to exceed both regulators' requirements and their own target range, despite the adverse effect of the decline in the market value of investments on DGIG's available capital.

### ***Securities brokerage, asset management, venture capital and other***

*The Securities Brokerage, Asset Management and Venture Capital segment primarily encompasses the operations of Desjardins Securities, Desjardins Asset Management and Desjardins Venture Capital.*

For 2008 as a whole, this segment recorded a net loss of \$29 million, versus net earnings of \$17 million for 2007. The lower profitability is mainly attributable to the deterioration of capital markets and the decline in value of certain investments in public companies.

### **2008 fourth quarter results**

In the fourth quarter, very adverse market conditions significantly affected subsidiaries' investment portfolios and other activities directly related to capital markets, including securities brokerage, venture capital and asset management activities. In this environment, fourth quarter financial results were affected by the specific items described above, which had a negative impact of \$770 million after taxes on surplus earnings.

As at the end of the fourth quarter ended December 31, 2008, Desjardins Group announced a deficit before member dividends of \$476 million, as compared to surplus earnings before member dividends of \$273 million for the same quarter in 2007. Return on equity (surplus earnings before member dividends over average equity) stood at -19.3%, as compared to 11.8% a year earlier.

If the specific items mentioned above were excluded, combined surplus earnings before member dividends would have reached \$294 million in the fourth quarter of 2008, an increase of 11.8% over the same quarter in 2007.

As for income, net interest income rose to \$869 million, up \$48 million or 5.8% over the same quarter the previous year, chiefly due to higher business volumes. At \$1,027 million, net premiums were stable over a year earlier.

However, as previously above, other income was hit by the drop in the Group's components investment income, with an amount also affecting expenses related to claims, benefits, annuities and changes in insurance provisions of the life and health insurance subsidiary. They were also affected by the ABCP portfolio write-down, as well as by the effect of certain guaranteed capital structured products linked to hedge funds, for a global amount of \$591 million after taxes. Income from brokerage, investment fund and trust services was also affected by deteriorating market conditions and fell by \$55 million or 29.1%.

Overall, Desjardins Group's income stood at \$1,729 million, down \$970 million or 35.9% from the fourth quarter of 2007, due to the impacts of ABCP and the financial crisis.

Desjardins continued to enjoy a high-quality loan portfolio, with a ratio of gross impaired loans to the gross loan portfolio of 0.40%. Provisions for credit losses rose to \$88 million in the fourth quarter of 2008, up from \$65 million a year earlier.

Non-interest expense totalled \$1,257 million at the end of the fourth quarter of 2008, almost the same as in the corresponding quarter in 2007, reflecting the tight control exercised over operating expenses by the caisse network and all Desjardins Group components.

Relying on the strength of its cooperative difference, its network of subsidiaries and its financial equilibrium, Desjardins Group seeks to become the leading financial institution in terms of meeting the needs of its members and clients and fostering business development through an accessible, effective and comprehensive service offering. Desjardins Group's mission is to contribute to the economic and social well-being of both individuals and communities. The Desjardins website is at: [www.desjardins.com](http://www.desjardins.com).

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