2011 ANNUAL REPORT

CREATING

2012 International Year of Cooperatives

Desjardins

Cooperating in building the future

CREATING EACH DAY THE DESJARDINS OF TOMORROW

In over a century and a half, the foundations of the cooperative business model have changed little. Today, cooperation is still about people coming together to meet a common need. As time passes, however, some things do change: the financial and economic environment, the type and complexity of our members' needs as well as the means and the technology available to provide our services.

Creating each day the Desjardins of tomorrow means sparing no effort to ensure we are always able to effectively meet the changing needs of our members. It means listening and encouraging dialogue. It means drawing on the expertise and dedication of our elected officers and employees.

Creating each day the Desjardins of tomorrow means proving that the cooperative model can yield results while still putting people first. It means providing people and communities with tangible support to help them grow, improve their situation and better withstand financial and economic crises. It means creating sustainable prosperity.

Creating each day the Desjardins of tomorrow means showing—both in our caisses and in the community—how the amazing power of cooperatives can help us build a better world!

A MISSION THAT STANDS THE TEST OF TIME, A VISION OF THE FUTURE AND STRONG VALUES

For more than 110 years, Desjardins has been striving to build prosperity for people by drawing on its cooperative values to meet the needs of its members and clients. This approach is reflected in our broad range of secure, accessible products and services and our contribution to the development of the communities where our members and clients live.

MISSION

To contribute to improving the economic and social well-being of people and communities within the compatible limits of its field of activity

- By continually developing an integrated cooperative network of secure and profitable financial services, owned and administered by the members, as well as a network of complementary financial organizations with competitive returns, controlled by the members
- By educating people, particularly members, officers and employees, about democracy, economics, solidarity, and individual and collective responsibility

VISION

Desjardins,
the leading cooperative financial group in Canada,
inspires trust around the world
through the commitment of its people,
its financial strength and
its contribution to sustainable prosperity.

VALUES

– MONEY AT THE SERVICE OF HUMAN DEVELOPMENT
– PERSONAL COMMITMENT
– DEMOCRATIC ACTION
– INTEGRITY AND RIGOUR IN THE COOPERATIVE ENTERPRISE
– SOLIDARITY WITH THE COMMUNITY

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VERSION FRANÇAISE

On peut obtenir la version française de ce rapport annuel sur demande.

This annual report was produced by the Communications Corporate Division of Desjardins Group (Brand Management and Sponsorships Administrative Department) and the Finance and Treasury Executive Division and Office of the CFO of Desjardins Group (Accounting, Standardization and Disclosure Division).

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THE COOPERATIVE MODEL: CREATING SUSTAINABLE PROSPERITY

To provide protection for our members and to ensure our growth and sustainability, we at Desjardins have always made it a priority to strengthen our capital base. This focus can be traced back to the philosophy of our founder, Alphonse Desjardins, who stressed the importance of each caisse having solid capitalization. With the current state of the economy, where prudence is the name of the game, the soundness of this approach has been proven time and time again. Today, thanks to our excellent capitalization, we are ranked 18th among the safest financial institutions in the world, according to the half-yearly update published by *Global Finance* magazine in March 2012—yet another source of reassurance for Desjardins members and clients. Through our extensive network, we provide a comprehensive range of services, which our employees and elected officers continually strive to improve.

HIGHLIGHTS

- 5.6 million caisse members
- 44,645 employees
- 5,366 elected officers
- $401 million given back to members and communities in 2011
- 422 caisses in Quebec and Ontario
- 888 service centres in Quebec and Ontario
- 43 business centres serving more than 400,000 businesses in Quebec and Ontario
- 2,559 ATMs in Quebec and Ontario
- 122 insurance brokerage offices in western Canada (Western Financial Group Inc.)
- 146 mutual fund brokerage offices in Ontario and the Prairies (MGI Financial Inc.)
- Present in 33 countries through *Développement international Desjardins*
- Surplus earnings after taxes and before member dividends of $1,582 million
- $190.1 billion in assets
- Tier 1 capital ratio of 17.3%

FORMATIVE PROJECTS AND PARTNERSHIPS

In 2011, Desjardins made substantial acquisitions and established important partnerships, namely with Western Financial Group Inc. and MGI Financial Inc.

Western Financial Group (Western) has the largest network of insurance brokers in western Canada. Western serves more than 550,000 clients in 103 communities through its 122 offices in Manitoba, Saskatchewan, Alberta and British Columbia. It designs and distributes property and casualty insurance products for both individuals and businesses, in addition to providing life and pet insurance products.

MGI Financial Inc. specializes in mutual fund brokerage and has more than 225 advisors in 146 offices, mostly in Ontario and across the Prairies. The company is also a distributor of group insurance and group retirement savings products and services. Through this acquisition, Desjardins Financial Security (the life and health insurance subsidiary of Desjardins Group) has greatly expanded its Canadian distribution network, which already included SFL Partner of Desjardins Financial Security, Desjardins Financial Security Independent Network and Desjardins Financial Security Investments Inc.

Desjardins Card Services also finalized agreements with Staples Canada and Citi Cards Canada to acquire the portfolio of Staples / *Bureau en Gros* store credit cards. The transaction should be completed in the first quarter of 2012.

Desjardins has also signed an agreement with Coast Capital Savings, the second largest credit union in Canada. This new agreement will allow us to continue offering them our range of cards for consumers and businesses.

In Europe, Desjardins Group and *Crédit Mutuel* (based in France) entered into a cooperative agreement. This alliance will help us identify business development opportunities and thus better support individual and business members in their new trade missions. The two groups have agreed to strengthen their business ties in order to build synergy through development initiatives. Now that *Banque Transatlantique*—a *Crédit Mutuel* subsidiary—has an office in Montreal's Windsor building, it can enhance its service offer to French nationals in Canada. In the same vein, Desjardins announced in January 2012 that it will be opening a representation office in *Crédit Mutuel*'s offices in Paris. *Crédit Mutuel* has more than 29 million clients and over 6,000 points of sale.

CREATING COMMUNITY LIFE FOR MEMBERS

In 2011, Desjardins Group devoted a total of $81.2 million to sponsorships and donations. In addition to this substantial support from the caisses and Desjardins Group, over the past decade, the caisse-funded Community Development Fund (CDF) has averaged between $25 million and $28 million every year. More than 95% of the caisses have a CDF.

We should point out that, at the caisses' annual general meetings, it is our members who elect to forgo all or a portion of their individual member dividends to contribute to the CDF, which is managed by the caisse's board of directors. This act is a true show of solidarity to support development projects within their respective communities.

Ms. Leroux with employees of Îles-de-la-Madeleine caisses at a breakfast event organized as part of her yearly regional tour.

SUBSTANTIAL SUPPORT FOR COMMUNITY SOLIDARITY

The caisses' show their solidarity toward the community in many different ways. The following paragraphs provide a few noteworthy examples.

In 2010, *Caisse Desjardins de Limoilou* invested roughly $400,000 in local projects by way of its Community Development Fund. Likewise, at its 2011 Annual General Meeting, *Caisse populaire Desjardins de Lévis* added $750,000 to the $664,000 it had already allotted to sponsorships and donations. This three-quarters-of-a-million-dollar donation has been earmarked for the cancer treatment centre at *Hôtel-Dieu de Lévis* hospital.

In the Eastern Townships, *Caisse populaire Desjardins du Granit* played an influential role in the creation of a solidarity cooperative in Saint-Romain. Thanks to the creation of this cooperative, the residents of this village now have access to a convenience store and a gas station. By purchasing $50,000 worth of shares in the new cooperative, the Caisse encouraged other local players to follow its example.

Organizations in Montreal's West Island that are members of *Caisse Desjardins des Sources–Lac-Saint-Louis* can hold their meetings at the Caisse's Cooperative Conference Room. Equipped with state-of-the-art technology, this conference room comes with all the amenities needed to run effective meetings in a pleasant environment.

Well aware of the need to stay closely attuned to the needs of its community, *Caisse Desjardins des Bois-Francs* in the Victoriaville area has set up five sector committees that meet three times a year. The committees meet to discuss the community's needs and ensure that the Caisse's initiatives follow suit.

The new partnership between *Caisse populaire Desjardins de la Vallée des lacs* and the municipality of Biencourt in the Lower St. Lawrence area is a perfect example of how we can find innovative ways to maintain our physical presence in our members' communities. The municipality owns the building where the Caisse's service centre is located and shares its office space. Community members thus continue to have access to the Caisse's services in a secure and confidential environment. Furthermore, the Caisse is now open for an additional 15 hours per week.

Desjardins stands out for the quality of the individuals who sit on our boards of directors and hold management positions in the caisses and for the quality of their management. By making good decisions, at the right time and on key issues, caisses can have a real positive influence in their communities.

CREATING PROSPERITY AT HOME AND AROUND THE WORLD

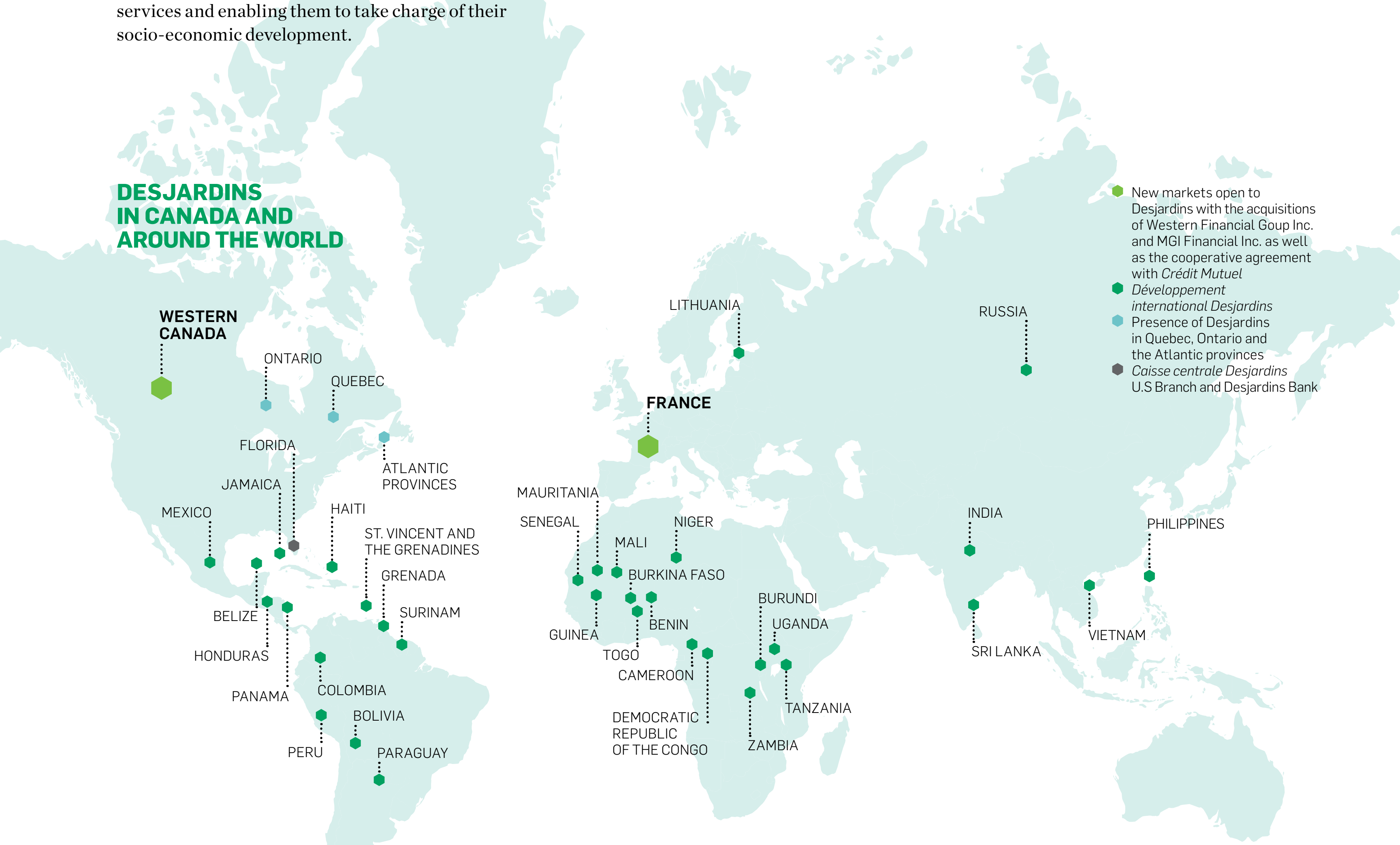
A WIDELY AVAILABLE NETWORK

Desjardins Group is by far the most accessible financial institution in Quebec, with 402 caisses, 850 service centres, 2,478 ATMs and 40 business centres serving more than 400,000 businesses. In Ontario, our network includes 20 caisses and 38 service centres, for a total of 58 service outlets, three business centres and 81 ATMs. Elsewhere in Canada, we rely on our synergy with Manitoba and New Brunswick caisses as well as other Desjardins subsidiaries to serve our members and clients. We have expanded the Desjardins distribution network in western Canada by acquiring Western Financial Group Inc., and in Ontario and the Prairies by acquiring MGI Financial Inc. Members staying or doing business in the United States can count on the services of Desjardins Bank and the *Caisse centrale Desjardins* U.S. Branch. In France, Desjardins will now be represented in Paris further to the cooperative agreement with *Crédit Mutuel*.

In developing and emerging countries, *Développement international Desjardins* (DID) has been supporting the creation and strengthening the foundations of community-based financial institutions for more than 40 years. DID supports some thirty institutions on five continents, providing nearly 8.5 million families and entrepreneurs with access to a wide range of financial services and enabling them to take charge of their socio-economic development.

Rachel Lemieux, a senior technical advisor assisting Haitian financial cooperatives, is on a long-term assignment in Haiti for *Développement international Desjardins*. She is working to help implement a program that offers credit for school fees throughout the country.

DESJARDINS IN CANADA AND AROUND THE WORLD



MESSAGE FROM THE PRESIDENT

"Few companies make such an overt commitment to the communities and citizens they serve. Our actions reflect our belief, as stated in our mission, that Desjardins has a part to play in the sustainable prosperity of society."

"In early 2012, *Global Finance* magazine ranked us fourth in North America among the World's 50 Safest Banks and 18th internationally. In the past two years, we have climbed seven spots in the global ranking."

CREATING THE FUTURE OF DESJARDINS THROUGH DEDICATION AND PERSEVERANCE

In 2011, we worked hard at creating each day the future of Desjardins Group. We continued to uphold our vision of being the leading cooperative financial group in Canada, inspiring trust around the world through the commitment of our people, our financial strength and our contribution to sustainable prosperity.

Thanks to the efforts of our 5,366 elected officers and our 44,645 employees and in spite of renewed uncertainty on capital markets, Desjardins Group posted strong results in 2011. It was a year of great achievements in which we made considerable progress with respect to the orientations set out in our 2010–2012 Strategic Plan.

COOPERATION AND INVOLVEMENT

With the launch of the Co-opme Program, 2011 was a particularly busy year with respect to our cooperation and involvement objectives. Built around four key areas of action, this program will help us reaffirm our leadership in the fields of education and cooperation.

The first key area of action involves *Fondation Desjardins* and personal commitment. In operation for more than 40 years, *Fondation Desjardins* provides more university scholarships than any other private foundation in Quebec. By gradually increasing its resources, we will be giving the foundation the means to become an even bigger supporter of youth and the next generation of leaders. We want *Fondation Desjardins* to be the leading philanthropic organization in Canada in financial, cooperative and economic education.

Education and people development within our organization is the second key area. Our actions in this regard will be spearheaded by the Desjardins Cooperative Institute and its expanded mission. Furthermore, we will be opening our doors to a greater number of college and university interns. In 2012, we plan to welcome more than 250 students.

The third component of the Co-opme Program involves products and services that promote financial responsibility. We intend to expand our offer in this area to further support good saving habits and responsible credit management. In 2011, with this in mind, we launched the Desjardins Personal Finance Index, a self-assessment tool that allows members of the public to measure their aptitude for making sound financial decisions.

The fourth and final area of action focuses on promoting and gaining recognition for the cooperative model. With the United Nations proclaiming 2012 the International Year of Cooperatives, a golden opportunity lies ahead. We will celebrate and showcase the cooperative model all year long through various special events. The International Summit of Cooperatives, scheduled for this October in Quebec City and Lévis, will be our headline event. We look forward to playing host to hundreds of cooperators from around the world this fall.

In short, the Co-opme Program reflects Desjardins Group's wholehearted commitment to education and cooperation.

Lastly, together with *Développement international Desjardins*, we launched the Desjardins Fund for Inclusive Finance. This brand new investment fund was created to support the expansion of microfinance in developing countries.

In addition to the aforementioned initiatives, we redistributed $401 million in member dividends, donations, sponsorships and contributions to the community. Few companies make such an overt commitment to the communities and citizens they serve. Our actions reflect our belief, as stated in our mission, that Desjardins has a part to play in the sustainable prosperity of society.

THE MEMBER/CLIENT EXPERIENCE

In 2011, there was large-scale mobilization on the member/client experience front. Desjardins Group's vision and long-term success are closely tied to our accomplishments in this area.

To bolster member and client satisfaction, we chose an approach that is best summed up as follows: simplified business relationships, an improved member/client experience and unparalleled service.

In order to achieve this goal, our employees must remain closely attuned to our members' and clients' needs on a daily basis. New developments in the way we distribute our products and services will also help us improve the member experience. Special consideration is given to the particular needs of every major member segment.

With our members' needs in mind, we are continuing to develop our online services by drawing on strong foundations. Over the past year, more than two million people visited the AccèsD website, our gateway to a broad range of services. Our site has also received internationally recognized certification from Human Factors International (HFI) for its usability.

For the eighth year in a row, our AccèsD client care centres have earned the prestigious COPC (Customer Operations Performance Center) certification. This accomplishment is a world first in the financial industry and particularly laudable given that the criteria for certification change from one year to the next. Another repeat winner, Disnat, our discount brokerage firm, was ranked highest in investor satisfaction among Canadian discount brokerage firms for the third consecutive year.

Our members have also shown remarkable enthusiasm for our mobile services. Initially launched in 2010, our mobile applications for smartphones had been used to carry out 38.3 million transactions as at December 31, 2011. This alone proves just how useful this new service is to our members. With the addition of new features over the past year, they now have access to more options than ever before.

GROWTH AND INNOVATION

In 2011, Desjardins Group once again showed its capacity for growth, as evidenced by the increase of close to $1.7 billion, or 14.4%, in our total income over 2010. This increase is largely due to premium growth in the life and health insurance and property and casualty insurance sectors.

Our business segments continued to experience positive organic growth. The Personal Services and Business and Institutional Services segment recorded surplus earnings of $987 million, up 5.7% over 2010, chiefly as a result of an increase in the caisse network's sales volume and our commitments with medium and large businesses.

The Wealth Management and Life and Health Insurance segment's surplus earnings were up 12.4% over last year to total $280 million. This growth is mainly attributable to an increase in net insurance premiums and an active and strict approach to financial management. In 2011, we also grew our life and health insurance and savings product sales outside Quebec.

In the Property and Casualty Insurance segment, surplus earnings reached $144 million, up 9.9% over 2010, mainly because of our initiatives targeting mass market consumers and groups, in Quebec and across Canada. In 2011, this segment reached a milestone two million policies in force.

In 2011, we invested $400 million to support our business growth. One of our key investments was the optimization of our IT infrastructures.

Furthermore, at the start of 2011, Desjardins Technology Group Inc. officially launched its operations. Pooling our IT assets and our expertise has enabled us to achieve important synergies and has given us the means to reaffirm our leadership in this field.

NEW PARTNERSHIPS FOR GROWTH

In 2011, we established several strategic partnerships that will increase our growth potential in the years ahead. We began by acquiring Western Financial Group Inc., a company that provides insurance and financial services to more than 550,000 clients in western Canada. This acquisition will enable us to step up our presence and expand our offer in the western provinces. We also acquired MGI Financial Inc., a firm specializing in mutual fund brokerage.

We also entered into a cooperative agreement with *Crédit Mutuel* in France, a major European cooperative financial group with 6,000 points of sale and more than 29 million clients. Our agreement will further the development of both our organizations and will help us better serve our respective members and clients. One of our first moves following this agreement was to open a Desjardins representation office in *Crédit Mutuel*'s offices in Paris.

PROFITABILITY AND FINANCIAL STABILITY

Significant progress was made in 2011 with respect to our ongoing projects to optimize productivity and the overall performance of our organization. We focused, among other things, on the growth of the caisse network and the business sectors by adapting to the changing needs of our members and clients. We are also working to improve our service quality and to breathe new life into cooperation at Desjardins Group.

STRONG RESULTS FOR 2011

Despite substantial investments in 2011, our surplus earnings totalled nearly $1.6 billion, up 14.1% over 2010—our best result yet. Our financial results reflect Desjardins Group's capacity for growth.

Standing at 17.3%, our Tier 1 capital ratio is also an important indicator of our financial stability. In 2011, to continue strengthening our capital base, the Federation's general meeting made important decisions regarding the optimization of the financial structure of Desjardins Group.

As a result of our financial stability, in early 2012, *Global Finance* magazine ranked us fourth in North America among the World's 50 Safest Banks and 18th internationally. In the past two years, we have climbed seven spots in the global ranking. Our members, clients, employees, business partners and the communities we serve have every reason to place their trust in Desjardins Group. We must strive to ensure that this trust never wavers.

LEADERSHIP AND MOBILIZATION

The leadership and mobilization of our employees and officers are the foundation for growth at Desjardins.

Consequently, the Desjardins Cooperative Institute revised its training for officers to provide better support. In 2011, new programs for the members of caisse boards of directors and audit committees were launched. The Desjardins Cooperative Institute also began offering Desjardins Orientation Seminars and a leadership program for managers.

What is more, the Desjardins Group Management Succession and Development Program is now open to 1,200 managers in the caisse network, business sectors and Desjardins Group support functions. This program supports professional development, facilitates workforce planning and helps us identify future leaders.

Our new Elected Officer Portal facilitates communication with elected officers and their participation in Desjardins's activities. It also serves as a new medium for training. The motivation behind the creation of this tool and the work by the officer component of the Collaboration, Participation and Connection with the Caisse Network project are one and the same: increase the influence of caisses and officers on Desjardins Group's decisions and update governance practices at Desjardins.

In 2011, the Elected Officer Advisory Board, which directs the various aspects of the previously mentioned project, accomplished a substantial amount of work. The proposals tabled to date have already resulted in decisions by the Board of Directors. The roles of the caisses, regions and groups in Desjardins's cooperative activities and our development are all the stronger for it.

DESJARDINS, A CELEBRATED EMPLOYER

In 2011, Desjardins Group was selected as one of Canada's Top 100 Employers.(1) To earn this title, we were evaluated on a number of key criteria, including work and social atmosphere; health, family and financial benefits; and training and skills development.

Deemed "exceptional", our human resources practices balancing work and family earned us recognition as one of Canada's Top Family-Friendly Employers. The *Financial Post* also named Desjardins Group one of Canada's 10 Best Companies to Work For.

ACKNOWLEDGEMENTS

2011 was a very fruitful year, both with respect to our financial results and what we achieved for our members.

I am very proud of the profound commitment and relentless hard work of our officers, managers and employees in 2011. Thanks to them, we can look to our future with confidence. I would also like to thank our members and clients for their continued trust in us.

I am especially grateful to the members of the Board of Directors and the Desjardins Group Management Committee for their dedication, leadership and unwavering support.

To Pierre Leblanc and the Honourable Clément Samson, who both left the Board in 2011, I would like to express my sincere thanks. Over the years, they made substantial contributions to the lives of their caisses and Desjardins Group. I would like to extend a warm welcome to Carole Chevalier and Sylvie Larouche who have filled their respective places on the Board.

CELEBRATING COOPERATION IN 2012

2012 is the last year in our current Strategic Plan and has started off amid a still precarious economic and financial situation. We will take on the year ahead with prudence and determination. By the end of our Strategic Plan, our combined efforts will have improved Desjardins Group's overall performance, strengthened its capacity for growth and raised the profile of the cooperative model.

Today, Desjardins is a strong collective enterprise, resolutely committed to development and growth. With the help of our officers and our employees, we will continue to grow for the benefit of our members and clients.

Throughout the International Year of Cooperatives, we will draw attention to the cooperative business model, because we believe in its value and its relevance in today's world. The International Summit of Cooperatives this October will be, without a doubt, a great moment of convergence and a rallying point for the international cooperative movement.

May the amazing power of cooperatives help us build a better world!

MONIQUE F. LEROUX, FCA, FCMA
Chair of the Board, President and CEO
Desjardins Group

(1) Ranking by Mediacorp Canada Inc.

CREATING EACH DAY THE DESJARDINS DIFFERENCE

Co-opme

Desjardins Group was first and foremost created to meet the needs of its members. One hundred and ten years later, that is still our primary vocation and raison d'être.

Our service offer has certainly evolved over the years, but our commitment to our members and clients of all income levels is still reflected in our basic desire to put our members first. This is what we like to refer to as "the service rationale." It means that, at Desjardins, our profits—or "surplus earnings" as we call them—are used to carry out our organization's economic and social mission. We believe profitability is a means and not an end in itself and that is why we are particularly concerned about educating and informing our members. In doing so, we are able to help them make sound financial decisions.

AN AMBITIOUS PROGRAM

Monique F. Leroux, Chair of the Board, President and CEO of Desjardins Group, kicked off the Co-opme Education and Cooperation Program at the Desjardins Group Annual General Meetings in spring 2011. This new educational program will spearhead the Desjardins cooperative difference over the coming years, and is in line with our vision of sustainable prosperity. By focusing on two drivers—education and cooperation—we will promote the emergence of individual and collective wealth.

At the Annual General Meetings, Desjardins made the commitment to invest 1% of surplus earnings in the Co-opme Program, which represented a total of $15 million as at December 31, 2011.

The Co-opme Program will help citizens better manage their personal finances and encourage them to save and use credit responsibly through innovative products. It will also promote skills development opportunities for youth, training activities and the cooperative movement in general.

FOUR KEY AREAS OF ACTION

1. *FONDATION DESJARDINS* AND PERSONAL COMMITMENT

Desjardins wants to give *Fondation Desjardins*, which was founded over 40 years ago, greater visibility and more power to act. To do so, we will position ourselves as the leading philanthropic organization in Canada in terms of financial, cooperative and economic education.

The scope of the foundation's activities will therefore expand considerably, especially with the addition of corporate donations, the decentralization of the scholarship granting process, and greater support for personal commitment within communities. In the 40 years since its creation, *Fondation Desjardins* has awarded approximately $13 million in scholarships, bursaries and awards to 9,600 young people, making it the private foundation that grants the most university scholarships in Quebec.

To complete this first area of action various forms of recognition will be set up to acknowledge the personal commitment of Desjardins Group officers, employees and members to their communities.

2. EDUCATION, THE FOUNDATION FOR SUSTAINABLE PROSPERITY

In 2011, in order to increase the number of youth representatives supporting the caisses, the Federation hired six more youth representatives assigned to work with schools. These new recruits joined a team of 13 youth representatives already working in the caisse network.

The Desjardins Cooperative Institute (DCI) is currently revamping its training offer for Desjardins Group officers and will also open up its activities to external clienteles. In addition to providing courses to young Desjardins officers, the DCI also set up an issue table with universities to discuss the values of the cooperative model so that it can ultimately be included in university programs.

At Desjardins Group we use our intranet portals to provide our officers and staff with interactive online training on the cooperative difference. A first training module on this topic was launched in October 2011 with a second to be released in April 2012. In the same vein, we will be offering college and university students more than 200 internships each year with a view to preparing the next generation of workers.

We haven't forgotten our members either: they will have access to a budget management tool—beginning in summer 2012—to help them manage their personal finances responsibly.

The school caisse (elementary level), which celebrated its 100th anniversary in 2007, and the student caisse (secondary level) will receive greater support thanks to the availability of new technologies. We also wish to increase the number of participating schools. A 2005 SOM survey revealed that 60% of our members believe that the school caisse enhances their sense of belonging to Desjardins.(1) This clearly reflects the impact of this important savings education approach.

Lastly, a program is currently being developed for young people age 15 to 35 to help them become savvy consumers and teach them responsible money habits. This program will be developed under the guidance of local stakeholders and Desjardins youth representatives.

3. INNOVATIVE FINANCIAL PRODUCTS THAT ENCOURAGE RESPONSIBILITY

In order to encourage our members and clients to manage their credit responsibly, we raised the monthly minimum payment due—from 3% to 5%—on VISA Desjardins credit cards.

Desjardins also committed to extensively promoting solidarity finance programs for entrepreneurs, such as Desjardins Microcredit to Businesses and *Créavenir*.

New products designed especially for young people will be launched in 2012. Products like instalment savings with bonuses will help promote financial education among our youth clientele.

In addition to the services already available to members with student loans, we will be introducing a new personal finance assistance service.

4. PROMOTING COOPERATION

On November 8, 2011, Desjardins launched the first Canadian personal finance index. It is an original and comprehensive tool which individuals can use to assess their overall ability to manage their personal finances.

In addition to the overall index, two sub-indexes were developed: the knowledge sub-index and the behaviour sub-index. Created based an online survey of over 3,000 adult Canadians, the Desjardins Personal Finance Index revealed that Canadians' overall score for 2011 stood at 70%. This index draws on the definition of financial literacy given by the Task Force on Financial Literacy, which was created by the federal government in June 2009.

The survey also showed that, if faced with an unexpected hardship, only 50% of respondents would be able to take care of their needs and pay their bills for more than three months without resorting to credit. Furthermore, almost half of young people age 18 to 24 did not give correct answers to simple questions about real returns (factoring in inflation) and the concept of compound interest. More worrisome is the fact that 70% of these young people failed to correctly answer a question about investment risk.

It is therefore no coincidence that Desjardins chose to post a 14-question online self-evaluation tool, based on the Desjardins Index, available at ***www.desjardins.com/co-opme***. The tool will help individuals assess their behaviour and aptitude for managing their personal finances. They can also find a host of advice about how to budget, save and use credit responsibly.

Two other modules from the Desjardins Personal Finance Index, which will each include the results of about a dozen questions, will be unveiled in the first half of 2012.

Cooperation Week 2011 once again served to promote the cooperative model and, this past year, we focused on two drivers of sustainable prosperity in preparation for the 2012 International Year of Cooperatives, now under way: education and cooperation. The same formula will apply for Cooperation Week 2012. The International Year of Cooperatives will be an opportunity for us at Desjardins Group to showcase our cooperative difference to our officers, employees and, of course, our millions of members.

With the Co-opme Program and its four key areas of action, we at Desjardins Group will give new meaning to our 110 years of commitment to education and cooperation. As a pioneer and prominent figure in financial education in Quebec, Desjardins aspires to become Canada's number one organization in cooperative and financial education.

(1) Survey of 955 respondents for the *Fédération des caisses Desjardins du Québec*. The margin of error is less than 4%.

CREATING A FIRST-CLASS INTERNATIONAL YEAR OF COOPERATIVES

We believe that cooperative enterprises build a better world.

In 2009, the United Nations General Assembly proclaimed 2012 the International Year of Cooperatives. This resolution was adopted to recognize the diversity of the cooperative movement around the world and to urge governments to take the necessary measures to create an environment that is propitious to the development of cooperatives.

Set to the theme "Cooperative enterprises build a better world", the International Year of Cooperatives will help governments and the cooperative sector achieve the following objectives:

- Raise citizens' awareness of cooperatives and how the cooperative business model contributes to economic and social development
- Boost growth and enhance the viability of cooperatives
- Launch initiatives that will have a long-lasting impact—beyond December 31, 2012

2012 International Year of Cooperatives

At Desjardins we will use the International Year of Cooperatives to showcase our own cooperative difference and recognize officers' and employees' contribution to Desjardins Group's growth and success. In addition to supporting the *Conseil canadien de la coopération et de la mutualité* and the *Conseil québécois de la coopération et de la mutualité* in their program of activities for 2012, Desjardins will co-host the International Summit of Cooperatives which will take place in Lévis and Quebec City from October 8 to 11.

The first International Summit of Cooperatives will bring together officers, delegates, influential figures, decision makers and managers from 90 countries, representing various spheres of the cooperative world, such as finance, agriculture and trade. The goal of the Summit is to promote the cooperative movement and assert its influential power on the international political and economic scene. The program for the Summit will focus on four key themes: (1) the role of cooperatives and mutuals in the global economy; (2) cooperatives and mutuals: a successful business model; (3) cooperatives and mutuals: a changing business model; and (4) the socio-political influence of cooperatives and mutuals.

Desjardins will also organize various events as part of the International Year of Cooperatives program:

- The "*Je coop*" campaign and special lighting at Complexe Desjardins and other buildings in Montreal (March 2012)
- Launch of the second online training module on cooperation and social responsibility (April 2012)
- Inauguration of the *Kynégraf*—a unique multimedia installation honouring cooperation—at Complexe Desjardins (May 2012)
- Launch of a new permanent exhibit at *Maison Alphonse-Desjardins* (mid-October)
- Cooperation Week (October 14 to 20, 2012)

The International Year of Cooperatives is a truly unique opportunity to showcase the business model we believe in so wholeheartedly. We must seize every opportunity to show the world what makes us different and what great potential cooperation holds for the future.

CREATING UNWAVERING COMMITMENT TO THE COMMUNITY

Community involvement is one of the fundamental principles of cooperation. At Desjardins, contributing to the economic and social well-being of people and communities is an integral part of our mission.

In fall 2011, we identified specific focus areas for our sponsorships. The key areas we have selected are education, cooperation, health and culture.

With respect to **education**, we intend to invest in particular in the following fields: financial security, asset management, research, innovation, productivity, economic development as well as skills development and college and university studies.

We will also draw special attention to **cooperation** as a model for sustainable economic development, cooperative entrepreneurship and democracy.

With regard to **health and healthy lifestyles**, we have chosen to invest in healthy workplaces, work-life balance, research and prevention. Also included in this list are sports activities as a means to promote good health.

Lastly, our sponsorship and donation efforts with respect to **culture** will centre on introducing youth to culture and preparing the next generation of artists, as well as boosting creativity.

AN EVENTFUL YEAR

In 2011, Desjardins invested more than $81.2 million in sponsorships.

As a major sponsor of cycling, both as a sport and as an eco-friendly mode of transportation, Desjardins Group supported approximately 60 cycling events during the year.

We have also been a partner of Operation Red Nose for more than 25 years.

At Desjardins, we also financially support various other causes and events. To name just a few: the *Grand défi Pierre Lavoie*, the David Suzuki Foundation, *Équiterre* and a wide array of regional festivals.

1 Luca Fortin, recipient of the Committed Student *AVENIR* award for the *Forces AVENIR* college program

2 In spring 2011, many residents in the Montérégie area were hit by unprecedented floods. A wave of solidarity ensued on June 18, 2011, as more than 300 Desjardins volunteers from all over Quebec lent a helping hand to the victims.

3 Desjardins sponsors *Vélo Québec* and approximately 60 cycling events
Photo: Gaétan Fontaine

CREATING A FOUNDATION THAT INSPIRES YOUTH

In February 2011, the Board of Directors approved the repositioning of *Fondation Desjardins*. The goal was to refocus the foundation's mission and governance to better reflect Desjardins's commitment to education. From July until the end of September, working groups set up in the network discussed the practical application of the three pillars of the "new" *Fondation Desjardins*: governance, funding for the foundation and scholarships.

MORE THAN $800,000 IN SCHOLARSHIPS AND BURSARIES

While *Fondation Desjardins* worked on reinventing itself, it pursued its regular representation activities and continued awarding scholarships. In 2011, no fewer than 322 scholarships and bursaries were given out, for a grand total of more than $800,000. In addition, 80 scholarships of $750 each were awarded to ambitious young people with a desire to expand their skill set. For more information, turn to page 41.

The role of the foundation also includes supporting and advising the caisses on their respective scholarship programs. In 2011, the caisses and *Fondation Desjardins* distributed a combined total of $2.2 million to 3,500 students.

Next year, *Fondation Desjardins* will focus on finance-, cooperation- and democracy-related fields of study, as well as on skill and knowledge development, and career opportunities at Desjardins.

Another change: the caisse network and Desjardins Group business sectors will now be stakeholders in *Fondation Desjardins*'s boards and committees.

THREE OF OUR 322 SCHOLARSHIP RECIPIENTS FOR 2011


1


2


3

1 **Geneviève Nadeau,** a doctoral student studying public policy (health and the environment) at the University of Ottawa, was the recipient of our highest distinction: a $25,000 scholarship. She is a member of *Caisse Desjardins des Versants du mont Royal*.

2 **Anastasia Kyva** was the recipient of the $3,500 *Prix Reconnaissance Jeunes dirigeants Desjardins* award for young officers. She is an officer at *Caisse populaire Desjardins Ukrainienne de Montréal*.

3 **Jean-Philippe Mac Kay,** a law student at McGill University, received a bachelor's degree scholarship of $1,250. He is a member of *Caisse d'économie solidaire Desjardins*.

Photo: Norman James Hogg

A tribute to Desjardins scholarship and bursary recipients was held at the 2011 *Rendez-vous du Savoir*, on October 6, 2011, at the *Palais des congrès* in Montreal.

CREATING THE FUTURE WITH TOMORROW'S LEADERS

The Youth Think-Tank: an important contributor to the officer component of the Collaboration, Participation and Connection with the Caisse Network project

The Youth Think-Tank was formed at the request of the *Fédération des caisses Desjardins du Québec*'s Board of Directors to support the work of the Elected Officer Advisory Board and to further reflection on certain topics under the elected officer component of the Collaboration, Participation and Connection with the Caisse Network project. The Think-Tank is made up of 35 young elected and intern officers from every region in the network and is chaired by Amélie Beauchesne, also a member of the Advisory Board.

The Youth Think-Tank has met eight times since November 2010: five times through web conferencing and three times in person. The format of these meetings proved to be very motivating for young officers. The online meetings gave the Advisory Board a concrete point of reference as it explored the various aspects of using technology for officer communications. The meetings held in person provided Youth Think-Tank members with the opportunity to build stronger ties beyond their regional boundaries and to demonstrate the democratic weight that Desjardins wishes to give youth across the network.

Youth Think-Tank members also helped the Advisory Board by setting expectations, adding observations and offering potential solutions. The main topics they discussed were the role of the officer, officer engagement, collaboration and communication tools, electronic democracy and representation. They were able to share their concerns as young people about this last topic and provide their point of view on the others.

The Youth Think-Tank's mandate is to bring a youth perspective to the Elected Officer Advisory Board's discussions. In other words, the Youth Think-Tank ensured that the views expressed by the younger generation and succession issues were considered in the Advisory Board's recommendations to Desjardins Group's Board of Directors. They accomplished their mission with brio.

OUR DEMOCRATIC STRUCTURE

Desjardins Group is a democratic organization run by its members. The members elect their representatives, and these representatives establish Desjardins Group policies and make decisions on behalf of the members.

LOCAL LEVEL

Caisse members

Caisse general meetings

Caisse boards of directors and boards of supervision

REGIONAL LEVEL

Regional General Meeting (RGM) and Group Caisse General Meeting (GCGM)
made up, respectively, of delegates from the region's caisses and delegates from the group caisses

Councils of representatives for each of the 16 regions and for the group caisses
15 representatives: 10 elected officers + five general managers

DESJARDINS GROUP LEVEL

Assembly of Representatives
The 255 members of the 17 councils of representatives + the President and CEO of Desjardins Group

Federation General Meeting and Congress of Elected Officers
Approximately 1,100 delegates, representing each caisse in proportion to its size

Board of Ethics and Professional Conduct
Six members elected by the Assembly of Representatives, one member elected by the GCGM and one member elected by the Ontario RGM

Federation Board of Directors
24 members: 19 presidents and vice-presidents of councils of representatives + four general managers + the President and CEO of Desjardins Group

ASSEMBLY OF REPRESENTATIVES

The Assembly of Representatives is made up of the members of the 17 councils of representatives. It is tasked with guiding strategic planning and participates in consultations on large-scale projects and major changes within Desjardins Group. It also issues opinions on standard internal by-laws for the caisses and can, under certain circumstances, make changes to the *Fédération des caisses Desjardins du Québec*'s by-laws. The Assembly of Representatives also elects the President and CEO of Desjardins Group.

PROGRESS REPORT ON THE DESJARDINS GROUP DEVELOPMENT PLAN

Work on the Desjardins Group Development Plan began in 2008 and continued in 2009 to establish a vision of the future and an overarching approach to Desjardins Group's development and growth. This plan is based on the following five core beliefs:

- The caisses are the driving force of Desjardins Group.
- The Federation and the subsidiaries work for the caisses and their members.
- The caisses must play an active role in the growth of Desjardins Group.
- Our human capital is our greatest asset.
- Our cooperative values must remain central to our actions.

The Development Plan gave rise to five major Desjardins-wide projects, which in turn led to key achievements. The following is a brief overview of what we have accomplished.

DESJARDINS GROUP STRATEGIC DEVELOPMENT AND GROWTH

This project was launched to ensure the development and long-term continuity of Desjardins Group against a backdrop of profound change. The project got underway in September 2008 with the creation of the Prospects Group and 10 strategic reflection task forces. These groups focused on several key growth and development drivers for Desjardins.

Consequently, roughly 70 strategic options were presented and subjected to an extensive consultation process at Desjardins Group's 20th Congress of Elected Officers in November 2009. At that time, caisse delegates committed to the following actions:

- Emphasizing greater Desjardins-wide focus and action
- Taking into account Desjardins Group's far-reaching orientations in caisse business and action plans
- Unanimously supporting a "Desjardins service approach" so that members and clients can more easily do business with all components of Desjardins Group
- Boosting development and investments to increase our market share among high-potential clienteles
- Continuing to develop the Canadian market by focusing primarily on businesses that specialize in insurance and investment products, and in card services
- Reviewing business processes to cut costs
- Increasing the capitalization of the caisses and Desjardins Group for greater financial stability

The 20th Congress provided the basis for Desjardins Group's 2010–2012 Strategic Plan and its five major orientations. Our 2011 achievements resulting from this plan are presented on pages 22 to 30.

This project has proven to be a success; since 2008, Desjardins Group's assets have increased by 25%, from \$152.5 billion to \$190.1 billion. The 2013–2016 Strategic Plan, which will be drawn up during the year, should further boost growth at Desjardins.

COLLABORATION, PARTICIPATION AND CONNECTION WITH THE CAISSE NETWORK

The objective of this project has been to make the most of the remarkable strength of the caisse network as well as of the entrepreneurial spirit of our officers, general managers and other management staff, and their knowledge of local communities to help Desjardins Group advance.

The first component of this project involved updating our methods of collaboration with caisse general managers. Now, via a monthly web conference, general managers actively participate in Desjardins Group's decisions on operational strategies and help develop measures adapted to their regions. They are also encouraged to contribute to the development of new solutions by taking part in forums and work groups.

The second component of this project focused on increasing caisse elected officers' contribution to and influence on Desjardins Group's strategic directions. An advisory board made up of 27 officers was formed to make recommendations to Desjardins Group's Board of Directors in relation to the following topics:

- Desjardins Group and caisse governance
- Officer engagement
- Collaboration and communication tools

A number of recommendations were made to the Board of Directors and implementation is already underway.

The impact of this project is already clear: officers, general managers, the Federation and its components engage in constructive dialogue and, together, their actions create a stronger, more united Desjardins Group.

REORGANIZATION OF DESJARDINS GROUP

The purpose of this project was to make Desjardins a more strategic and more productive organization that is closer to the caisses and the needs of members by providing, among others, a more integrated service offer.

To achieve this, we optimized the financial structure of Desjardins Group, which began with a review of the structure of our organization to make it leaner, simpler and more effective. This new structure is characterized by the following:

- A flatter management structure with 50% fewer senior management positions
- Tighter risk management
- Elimination of redundancies between the Federation and the subsidiaries
- Simplified subsidiary governance

OPTIMIZATION OF DESJARDINS GROUP'S PERFORMANCE

This project focused on improving the performance of our teams, operational methods and processes with a view to maintaining a level of profitability that would ensure Desjardins Group's long-term continuity.

We set up "laboratories" in the caisses to test new ways of working that could help cut operational costs and preserve the profitability of our organization. Our efforts in this area also aimed to improve the experience and satisfaction of our members and clients, to foster business development among high-potential clienteles and to significantly increase network productivity.

The following two examples clearly illustrate how we have improved our members' and clients' experience by simplifying certain processes.

In fall 2011, *Caisse Desjardins de la Région de Mégantic* began offering a new service option: a self-service centre. The centre is located in the Piopolis general store and includes ATM services seven days a week, a booth with a videoconference line where members can contact employees at the Caisse's head office during its business hours, a direct line to AccèsD telephone services seven days a week, and Internet access to AccèsD and AccèsD Affaires.

The Piopolis Self-Service Centre is the first of its kind in Quebec and is one of the many solutions being explored as our distribution network continues to evolve. Members in the area have significantly benefited from the opening of this centre. Now that the general store is open year-round, residents can get their supplies locally during the winter. In addition, the Caisse started a Community Development Fund that is funded based on the business volume generated and provided by Piopolis members, and then reinvested in the community.

Several caisses have also extended their telephone reception business hours, following a common decision to centralize their telephone services. The telephone reception service is now open from 6 a.m. to 10 p.m. for members of these caisses. Thanks to this service, members can speak with a caisse employee and solve most of their concerns right away.

We have also adopted a new local and regional performance management approach in drawing up our business plans. This approach requires the councils of representatives to take the lead in creating a joint action plan to which the region and the caisses contribute.

Similarly, improvements to IT infrastructure operations have also generated significant gains. We can now reinvest these funds in developing new technology solutions for our members and clients.

In 2011, we recorded surplus earnings before member dividends of $1,582 million, thus ensuring our continued success, as well as our ability to keep contributing to the well-being of our communities.

MOBILIZING ALL OF DESJARDINS: HUMAN CAPITAL, CULTURE AND VALUES

This project was set up to ensure that caisse officers, management staff and employees from all Desjardins components share in Desjardins Group's vision of the future. Equally important is their understanding of Desjardins's strategic directions and initiatives, and their commitment to playing an active role.

Several new communications tools have been launched to promote open communication and active listening:

- Blogs written by the President and other members of senior management
- Revamped intranet portals for officers, managers and employees
- Surveys of officers, managers and employees
- Advertising targeting employees to promote cooperative values

We have also endeavoured to promote personal, talent and career development through a number of initiatives:

- Repositioning of the Desjardins Cooperative Institute
- Programs for developing leadership skills, instilling Desjardins values and training professionals
- Management succession program, career plans, internships and mentoring

These initiatives earned Desjardins Group three highly coveted titles. In 2011, Desjardins Group was listed by Mediacorp Canada Inc. as one of Canada's Top 100 Employers. Mediacorp Canada also named us one of Canada's Top Family-Friendly Employers for 2011. In the same vein, Desjardins was selected as one of the winners of *The Financial Post*'s annual Ten Best Companies to Work For competition.

The Desjardins Group Development Plan is a tool that has helped us move forward with the development and growth of Desjardins. Our achievements through this plan—to be completed in early 2012—have been made possible by the combined efforts of Desjardins officers and employees, who work together each day to create a better future for our members, our clients and the community.

BOARD OF DIRECTORS

1 Monique F. Leroux*, Chair of the Board, President and CEO of Desjardins Group (end of term: 2016) **2 Annie P. Bélanger****, Vice-President of the Bas-Saint-Laurent and Gaspésie–Îles-de-la-Madeleine Council of Representatives and Managing Director without voting rights (end of term: 2013) **3 Serges Chamberland***/**, President of the Saguenay–Lac-Saint-Jean, Charlevoix and Côte-Nord Council of Representatives (end of term: 2014) **4 André Gagné**** (sat on the Executive Committee until March 26, 2011), President of the Québec-Est Council of Representatives (end of term: 2013) **5 Andrée Lafortune****, President of the Ouest de Montréal Council of Representatives (end of term: 2013) **6 Sylvie St-Pierre Babin**** (sat on the Executive Committee until March 26, 2011), Vice-President of the Outaouais, Abitibi-Témiscamingue and Nord du Québec Council of Representatives and Managing Director without voting rights (end of term: 2014) **7 Sylvie Larouche**** (joined the Board on January 18, 2012), President of the Québec-Ouest and Rive-Sud Council of Representatives (end of term: 2013) **8 Carole Chevalier**** (joined the Board until March 26, 2011), President of the Mauricie Council of Representatives (end of term: 2014) **9 Norman Grant****, President of the Bas-Saint-Laurent and Gaspésie–Îles-de-la-Madeleine Council of Representatives (end of term: 2013) **10 Marcel Lauzon****, President of the Laval-Laurentides Council of Representatives (end of term: 2015) **11 Denis Duguay****, President of the Richelieu-Yamaska Council of Representatives (end of term: 2014) **12 Serge Tourangeau***/** (joined the Executive Committee on January 18, 2012), President of the Group Caisses Council of Representatives (end of term: 2015) **13 Johanne Perron**, Caisse General Manager and member of the Ouest de Montréal Council of Representatives (end of term: 2015) **14 Line Lemelin****, President of the Lanaudière Council of Representatives (end of term: 2013) **15 Jacques Baril***/** (joined the Executive Committee on March 26, 2011), President of the Est de Montréal Council of Representatives (end of term: 2014) **16 Laurier Boudreault**, Caisse General Manager and member of the Québec-Ouest and Rive-Sud Council of Representatives (end of term: 2013) **17 Alain Raîche**, Caisse General Manager and member of the Lanaudière Council of Representatives (end of term: 2014) **18 Pierre Levasseur****, President of the Centre-du-Québec Council of Representatives (end of term: 2015) **19 Pierre Leblanc****, Sat on the Board of Directors as President of the Mauricie Council of Representatives until March 26, 2011 **20 Benoît Turcotte****, President of the Outaouais, Abitibi-Témiscamingue and Nord du Québec Council of Representatives (end of term: 2014) **21 Donat Boulerice****, President of the Caisses populaires de l'Ontario Council of Representatives (end of term: 2013) **22 Clément Samson***/**, Sat on the Board of Directors as President of the Québec-Ouest and Rive-Sud Council of Representatives and Board Secretary until December 15, 2011 **23 Alain Dumas***, Caisse General Manager and member of the Mauricie Council of Representatives (end of term: 2013) **24 Yvon Vinet***/** (joined the Executive Committee on March 26, 2011), President of the Rive-Sud de Montréal Council of Representatives and Board Secretary (end of term: 2015) **25 Michel Roy****, President of the Kamouraska and Chaudière-Appalaches Council of Representatives (end of term: 2014) **26 Denis Paré***/**, President of the Eastern Townships Council of Representatives and Vice-Chair of the Board (end of term: 2015)

* Member of the Executive Committee
** Unrelated director

2010–2012 STRATEGIC PLAN ORIENTATIONS

STRONG VALUES

- Money at the service of human development
- Personal commitment
- Democratic action
- Integrity and rigour in the cooperative enterprise
- Solidarity with the community

The following pages present our major achievements in 2011 under each orientation of the 2010–2012 Strategic Plan. These achievements are the result of the combined efforts of Desjardins Group as a whole, which is made up of the business sectors, Desjardins Group support functions, cooperative network support functions and the Desjardins Group Corporate Executive Division.

For information on our financial results, please refer to the Management's Discussion and Analysis starting on page 44.

CREATING EACH DAY PROJECTS DRIVEN BY COOPERATION AND INVOLVEMENT

WORKING TOGETHER TO MEET THE NEEDS OF OUR MEMBERS AND CLIENTS

In 2011, we set into motion a number of consultations designed to further develop our knowledge of what our members and clients need. These consultations draw on our values of cooperation and involvement and the role we have committed to playing in the sustainable prosperity of our members and clients. For example, at the General Managers' Forum, the Rendez-vous Meeting of Caisse Presidents and General Managers, and the Rendez-vous Meeting of Board of Supervision (Quebec) and Audit Committee (Ontario) Chairs, participants focused on studying and developing a better understanding of our members' and clients' changing needs. This in-depth understanding is vital for us to be able to provide each and every one of them with straightforward, top-quality service tailored to their financial situations.

In this same cooperative and community spirit, several regional tours were organized to discuss the evolution of the caisses and their centres. During these tours, the councils of representatives called upon the caisses in their region to define their vision of changes to the distribution network.

At the same time, we formed a think-tank of caisse presidents and general managers to develop a vision for the caisse of tomorrow and to work out operating methods and a governance system for the caisses' service centres. The think-tank was also created to help provide Desjardins Group managers and officers with a clear picture of the context in which network changes are being made. This broad perspective serves as a guide for our current—and any future—changes.

Driven by an ideal whereby innovation and performance support cooperation for the benefit of members and clients, these initiatives help officers and managers ensure that we at Desjardins stay true to our commitment to our member-owners. In line with this commitment, these efforts to develop a caisse and network vision also aim to improve our service offer to members and clients and to maintain the ties that make rich and vibrant community involvement possible.

THE COOPERATIVE DIFFERENCE: A MULTITUDE OF ACTIVITIES

Our distinctly cooperative values permeate everything we do, be it our commitment to providing high-quality services to members and clients, our products and services, or our support to the community. Accordingly, in 2011, expanding upon basic cooperative values, we published a document on the mission, vision and values of Desjardins Group. Our goal was to help create a stronger attachment to these values among our officers, managers and employees. We also developed a new diagnostic tool for our quarterly assessment of the consideration given to our cooperative nature in our business decisions.

In a similar vein, we provided online training on cooperation and social responsibility for Desjardins Group employees to promote a better understanding of the various cooperative business models and the role and place of Desjardins in the cooperative world.

In 2011, we also furthered the promotion of our various solidarity finance programs for entrepreneurs, such as Desjardins Microcredit to Businesses and *Créavenir*. These programs are designed to facilitate access to financing for self-employed workers and small businesses that do not have access to traditional credit networks.

Lastly, in summer 2011, Desjardins introduced a special program to assist flood victims in the Montérégie area. A number of exceptional measures were made available to them, including payment deferrals, assessments of potential losses and criteria for obtaining new loans.

ONGOING EFFORTS IN ENVIRONMENTAL PROTECTION

In 2011, the Desjardins Environment Fund, belonging to the Desjardins Funds line of products, celebrated its 20th anniversary. Desjardins Funds is a member of the Boreal Leadership Council and a signatory of the Boreal Forest Conservation Framework. It has also adopted the United Nations-backed Principles for Responsible Investment initiative. Our commitment to these associations dovetails with the socially responsible investment initiatives we have put in place over recent years and is an affirmation of our leadership in this field nationwide.

In automobile insurance, we introduced new Green Savings for owners of electric cars. This new discount complements our existing Green Savings for owners of fuel-efficient and hybrid vehicles. These discounts give members and clients 10% to 20% off their auto insurance premiums. We also offer eco-friendly savings in property insurance, with a 10% premium reduction for LEED-certified (Leadership in Energy and Environmental Design) buildings. Individuals who are insured with Desjardins General Insurance now also have access to their insurance documents online through AccèsD. Moreover, Desjardins General Insurance Group is a proud partner of The Climate Reality Project Canada, an organization created by former U.S. Vice-President and Nobel Laureate Al Gore.

Our concern for the environment is also evident in our alternative transportation program and our incentives to encourage employees to choose eco-friendly methods of transportation for their commute. Employees in Quebec and Ontario working for Desjardins Group's support functions and business sectors also have access to a carpooling website where they can connect with co-workers to share rides. Special parking spaces are also reserved for carpoolers. For business travel in Montreal, Quebec City, Lévis, Sherbrooke and Gatineau, employees can join car-sharing service *Communauto* for free. And in further support of our Sustainable Development Policy, we teamed up with BIXI, a public bicycle-sharing program, to support this green method of urban transportation. In spring 2011, a total of 1,250 Desjardins-branded bikes were made available to citizens at 400 stations.

EDUCATION AND COOPERATION: A WINNING COMBINATION

In 2011, we launched the Co-opme Program to broaden our contribution to education and cooperation. Turn to pages 10 and 11 to learn more about the goals of this ambitious initiative and the four key themes of the program.

An issue table was set up with university representatives to reflect on how research and learning could support the development of best practices in the caisses and at Desjardins Group. Another concern that will be addressed by the issue table is how the cooperative model could be taught and studied more extensively in certain university programs.

In 2011, Desjardins set new guidelines for its corporate sponsorships. We chose four key focus areas where we will invest our funds. The four key focus areas are education, cooperation, health and healthy lifestyles, and culture.

In 2011, a number of Desjardins Group employees were involved in international missions, including a crop insurance project in Sri Lanka in partnership with *Développement international Desjardins* (DID). This past year, with financial and professional support from Desjardins and technical support from DID, we were able to carry out seven projects with the *Le Levier* federation of Haitian cooperatives. This organization is a long-time partner of DID and a key player in rebuilding Haiti.

ENHANCING DESJARDINS'S REAL ESTATE HOLDINGS

Inaugurated in 1976, Montreal's Complexe Desjardins is one of the crowning pieces in Desjardins Group's real estate holdings. Extensive renovations were started in 2011 to revitalize this considerable asset. The renovations will enable us to breathe new life into Desjardins Group's image and cooperative impact from both inside and outside the building.

Desjardins Group also announced an investment of close to $125 million in a project to revitalize our Lévis site, home to the Desjardins Group head office. This major construction project—one of the 10 largest real estate developments in the Quebec City area—is well underway and will make the Desjardins offices a landmark in Lévis, the City of Cooperation. Desjardins Group and the caisses in the Greater Lévis area are frontline supporters of the city's new communications positioning.

PAYING TRIBUTE TO COOPERATION IN OUR COMMUNICATIONS

In 2011, several public advertising campaigns highlighted the caisses' involvement in their communities, democratic governance at Desjardins and the positive spinoffs of cooperation for communities, at both regional and national levels.

Over the course of the year, a variety of messages about cooperation and involvement targeted Desjardins Group employees. The ads were based on the official theme "We believe in the cooperative model as a key to sustainable prosperity."

CREATING EACH DAY THE MEANS TO IMPROVE OUR MEMBERS' AND CLIENTS' SATISFACTION

LAB-TESTED WAYS TO ENHANCE THE MEMBER/CLIENT EXPERIENCE

In 2011, we set up "laboratories" to test business processes with the help of the caisses, business centres and administrative centres. These labs were tasked with improving the member and client experience by better aligning our solutions with their ever-changing needs and consumer habits. Each of the labs is dedicated to improving processes, conducting experiments and identifying the best feasible solutions, which are then put forward to the caisses.

Other labs were set up to look into changes in the distribution of products and services to members and clients, with a particular interest in access to and the use of new technology. These labs focused on maintaining a strong distribution network across each of the territories we serve. The approaches that came out of these particular laboratories include some significant innovations—several of which were tested during the year and will be put into operation in 2012.

ONLINE SERVICES: QUICK AND SECURE

Because access to online services is very important to our members and clients, we have stepped up our efforts to stay at the forefront of new technologies and to adapt them to all our services. Mobile services are particularly popular, with 249,000 users making more than 38 million transactions using a mobile device over the course of 2010 and 2011. Online transactions are also increasingly popular with Desjardins members and clients: more than two million users visited the AccèsD website in 2011.

Today, with AccèsD, members have access to a wider range of features than ever before: they can make a stop payment, open a regular savings account, view their transaction history, invest in Desjardins Funds and view their investment statements, change their credit card type, create a travel notice, transfer money and find a caisse—all online. We have also launched a website that provides assistance with estate liquidations (***www.aliss.ca/en***).

With respect to property and casualty insurance, in addition to making our automobile and home insurance policies available online, we launched a special site for the business sector.

Another example of direct access to products and services is the "online advisor service" at *Caisse populaire Rideau d'Ottawa*. During regular business hours, members and clients can meet with an advisor online, from the location of their choice, using a webcam. This new option will gradually be rolled out across the caisse network and will provide more convenient access to caisse advisory services.

Caisse Desjardins des policiers et policières has also developed a unique service: travelling advisors. This new initiative makes it possible for members and clients of the Caisse to meet with an advisor at their chosen time and location. Travelling advisors are equipped with specially designed, secure technology so they can offer financing and investment products as well as provide other everyday services on the spot. This solution was successfully tested in a pilot project in 2011 and will gradually become available in all caisses.

Also worth noting is the ongoing conversion of our VISA Desjardins credit cards to the payWave contactless payment solution. This technology requires no signature or PIN entry, therefore giving members a quick and simple way to complete their purchases. The contactless payment solution is primarily intended for merchants who have high transaction volumes and whose type of business, such as supermarkets and gas stations, requires quick service.

The integration of new technologies in our service offer reaffirms the leadership role we at Desjardins intend to play in this field. We are continually exploring new technological options so that we can expand the range of tools available to do business with us, in a secure and simple way.

A TAILORED APPROACH TO EACH CLIENTELE

At Desjardins we listen closely to the specific needs of our different clienteles. We make every effort to design products and services that will suit each client group. The following paragraphs provide a few examples.

An increasing number of newcomers to Canada are choosing Desjardins as their financial institution. In an effort to provide them with reliable information on personal finances, we have stepped up our presence among cultural communities by targeting ethnic media. For example, ***Immigrer.com***, a reference site for French-speaking new immigrants, now includes a host of information on Desjardins Group.

Owing to the increasingly complex nature of financial markets and economic life, we at Desjardins are truly concerned about the financial education of our members and clients. Moreover, people are doing increasingly more research on financial issues to make sure they are well informed before making important decisions. That is why financial information and education took centre stage at various Desjardins events held this past year. Among the events we held in Quebec were financial talks presenting the state of the economy and financial markets, VIP evenings to discuss finance and investing, and sessions designed specifically for people with family businesses.

Clients of investment advisors were also invited to online and telephone conferences on capital market activities, and to check out online videos on the same topic. Self-directed investors were offered more than 300 educational seminars, available both online and in various cities throughout the country.

Our financial planners now have access to a brand new tool to help members and clients set up a personalized approach to their financial future: the Desjardins Financial Plan. This tool provides advice, strategies and recommendations that take into account personal priorities, retirement income, tax reduction and debt management. The Desjardins Financial Plan can also help map out the investments needed for a child's or grandchild's education, identify ways to best guard against risk and provide guidance on estate planning.

Again with our members and clients in mind, we created two new market-linked guaranteed investment products in 2011. The "5-in-1" Enhanced Rate Guaranteed Investment—the only one of its kind in the market—is one of these new products and met with great success. We also introduced new redemption and conversion options for all our market-linked guaranteed investments to help members and clients redeem or convert their investments in the event of unforeseen circumstances. Members also receive member dividends, paid by their caisses, based on the amount invested in market-linked guaranteed investments.

Chorus II Portfolios, available since 2011, were designed with investors with substantial holdings in mind. Chorus II Portfolios offer greater tax efficiency through the creation of corporate class funds, as well as dynamic asset management and greater flexibility with regard to income management.

Clients with a high net worth also have access to comprehensive personalized wealth management services, including online brokerage services, life and health insurance, and property and casualty insurance. We also introduced new property and casualty insurance products tailored to the needs of high net worth clients, one of which is an endorsement for high-value homes. This clientele is therefore assured comprehensive asset protection.

The business sector and entrepreneurs were also targeted in 2011. At Desjardins, we serve 400,000 businesses of all sizes, making us the largest business advisory sales force in Quebec. We assist entrepreneurs in every aspect of their day-to-day operations and business initiatives.

In addition, we rolled out the Desjardins global solution for payments for businesses with a high volume of payment transactions. Using their own accounting systems, businesses can process a multitude of payment transactions in a single operation.

For 10 years now, we have been providing financial leverage designed to promote the development and growth of Quebec businesses and cooperatives through *Capital régional et coopératif Desjardins* (CRCD). In 2011, $150 million was invested in CRCD shares in order to maintain this financial leverage with businesses.

Desjardins also supports businesses in their international endeavours. This support has been further buoyed by our partnership with ESN North America. Under this partnership, a London-based analyst has been assigned exclusively to the Canadian market to support Canadian entrepreneurs and their representatives by setting up business meetings with corporate investors in Europe. This analyst is also tasked with promoting investments in Canadian companies among corporate clients in Europe. This initiative will give Canadian businesses greater exposure and promote diversification in their body of shareholders.

We also have a team of specialists who support members and clients wishing to bow out of their business—but still ensure its continuity. These specialists put some key Desjardins values into practice: preserving small and medium Quebec-owned businesses, keeping businesses and jobs in non-urban regions and ensuring the potential growth of businesses.

Last but not least, there are a few new features for our business clients. VISA Desjardins *Business* cardholders and holders of the *Business* Freedom Solutions package now have access to legal and information security assistance services. Business insurance clients of our property and casualty insurance subsidiaries also now have access to two new services: legal assistance and professional expertise assistance.

CREATING EACH DAY NEW WAYS TO PROMOTE GROWTH AND INNOVATION

THE MANY FACETS OF GROWTH AT DESJARDINS

Desjardins is the leading financial institution in Quebec among government institutions and has made significant headway with Canadian and Ontario crown corporations. Today, we are the official settlement agent for all money orders in Canadian dollars, U.S. dollars and pounds sterling. We also played a major part in underwriting syndicates of large crown corporations in Ontario.

Desjardins Payroll and Human Resources Services is the largest payroll processing company in Quebec and the third largest in Canada. In 2011, some 2,500 new businesses chose to outsource their payroll processing to us, resulting in a 12% increase over 2010. Our human resources management solution, which includes an occupational health and safety component, is unsurpassed on the market and offers businesses a high level of flexibility and efficiency.

Overall transaction volumes in the large and medium business and institutional sectors were up 7% over 2010, to reach 175 million transactions. These figures are an excellent indicator of the importance and effectiveness of our interventions in the business sector.

The property and casualty insurance sector continued to experience strong growth, reaching our ambitious objective of two million policies in force in September 2011, a full 15 months ahead of the original deadline set for year-end 2012.

IMPROVING OUR SERVICES THROUGH INNOVATION

We founded the eXCentriQ community to generate a free flow of ideas. EXCentriQ users can develop their ideas, get opinions from co-workers and show their support for the most promising ideas. More than 1,400 employees have registered on the site and more than 500 ideas have been submitted. It's a truly interactive approach to encouraging innovation. There was no shortage of innovation at Desjardins in 2011.

A brand new team of experts was set up for our mid-market business clientele with financing needs in the $10 million to $50 million range. After less than a year, the results are compelling: we acquired 14 new clients and granted $309 million in financing.

Capital markets services are now centred in the heart of the nation's resource and energy market, Calgary. This strategic decision has generated very positive results, in particular with respect to the growth of the large business loan portfolio, equity financing transactions, and mergers and acquisitions.

On another note, in 2011, Desjardins introduced the Travel Assistance Service for the Desjardins mobile application, a first in Canada. In addition, travellers can now complete their medical questionnaires on our travel insurance website (***DesjardinsTravelInsurance.ca***) and then receive—or later access—a copy of their policy online.

The group and business insurance sector launched its Contact 360° Disability Management and Prevention service offer, which takes a comprehensive approach to workplace health promotion and disability management. It includes access to the Health is Cool 360° platform, which is designed to help plan members take better care of their health on a day-to-day basis by giving them access to information online or by phone. The platform also helps employers reduce costs associated with employee absences and health problems.

As part of the launch of this new comprehensive service, the group and business insurance sector held a number of events, called the "Contact 360° Forum", to discuss hot topics in group insurance. The sector has proven to be a Canadian leader in proactive disability management with a human touch.

PROMISING ACQUISITIONS

Desjardins Group acquired Western Financial Group Inc., which has more than 550,000 clients in western Canada. Western Financial Group has a property and casualty insurance brokerage network, a life insurance company and a pet insurance company. It also has a virtual bank. Drawing on their respective strengths, one of the first spinoffs of this acquisition was the launch of a complete line of direct auto and home insurance products—available by phone or online—under the Western Direct brand, for consumers in Calgary, Edmonton and other cities in Alberta.

Meanwhile, Desjardins Financial Security, Desjardins Group's life and health insurance subsidiary, acquired MGI Financial Inc. Through this acquisition, we welcomed more than 225 new advisors, leading to considerable growth in our individual insurance and savings distribution network. These advisors, who join our 1,650 existing network representatives, are primarily located in Ontario, Manitoba and Saskatchewan.

PARTNERSHIP AGREEMENTS

In 2011, Desjardins finalized exclusive partnership agreements to provide financial products and services—or property and casualty insurance—to the members of several large professional associations in Quebec and elsewhere in Canada. We also established a partnership with a U.S.-based cooperative to launch a new U.S.-dollar credit card for clients of Desjardins Bank in Florida. In Europe, Desjardins Group and *Crédit Mutuel* (based in France) entered into a cooperative agreement. This alliance will help us better support our individual and business members by identifying business development opportunities and assisting them in their new trade missions.

INNOVATION AS A CATALYST FOR SOCIAL RESPONSIBILITY

In 2011, we designed a comprehensive product and service offer for members and clients that ties in with our social responsibility and sustainable development goals. Products like instalment savings with bonuses will help promote good money management habits among youth. To complement our existing services for our members with student loans, we will be introducing a personal finance assistance service. We have also raised the rate used to calculate the monthly minimum payment due on VISA Desjardins credit cards from 3% to 5% to increase awareness about using credit responsibly.

Desjardins also supported the creation of a carbon credit exchange cooperative and took an active interest in clean technologies and local agriculture. At Desjardins, we are acutely aware of climate change issues, which is why we offer Green Savings discounts for our auto and home insurance clients.

CREATING EACH DAY WAYS TO REINFORCE PROFITABILITY AND FINANCIAL STABILITY

RELIABLE, EFFECTIVE TECHNOLOGY INFRASTRUCTURES

In 2009, Desjardins issued a request for proposals for its IT services. In 2011, that decision led to a twofold strategy that involved integrating 250 IT and desktop support employees into our in-house services and outsourcing other operational IT activities to two new suppliers. The latter part of the strategy presented significant challenges: the task at hand affected round-the-clock services and facilities processing more than a billion transactions per year. By the end of the 10-month project, we had set up and installed a telecommunications network, three mainframe computers and 800 intermediary servers in two new data-processing centres.

Also in 2011, Desjardins Technology Group Inc. officially launched its operations. By grouping our resources within this service corporation, we are taking concrete steps toward supporting our growth, for the ultimate benefit of our members and clients. Among the most significant advantages of creating this new company are new synergies, greater mobility and better career opportunities for our employees.

This past year, we also implemented a new data and accounting management platform for the investment sector. This platform is designed to meet the new financial disclosure requirements of IFRS (International Financial Reporting Standards) and provide integrated asset management.

FINANCIAL STABILITY AND CAPITALIZATION

Year after year, we have one of the best Tier 1 capital ratios in Canada. According to New York magazine *Global Finance*, we are ranked 18th among the World's 50 Safest Banks 2012, as per the magazine's March 2012 half-yearly update. Desjardins was ranked 20th in 2011. This makes us the fourth safest financial institution in North America. The quality of our capitalization is the clear reason behind our enviable position.

For full financial details on Desjardins Group's capitalization and financial stability, turn to the Management's Discussion and Analysis beginning on page 44.

CREATING EACH DAY A WORKPLACE THAT FOSTERS LEADERSHIP AND MOBILIZATION

WORK GROUPS ON COLLABORATION

In 2011, we once again proved that the culture of Desjardins Group is founded on the principles of dialogue and intercooperation, not to mention the participation and collaboration of officers and managers who guide its strategic decisions.

Over the past year, we created 58 work groups, with more than 300 officers and general managers from the caisses, business centres and administrative centres participating. All of their efforts centred on improving our services to members and clients and our democratic style of governance.

CONTINUING EDUCATION FOR OFFICERS

In 2011, following the officer engagement survey carried out in September 2010, we implemented an action plan. This plan focused heavily on the professional development needs revealed by the survey.

Efforts were also made to improve our support to the caisses with regard to governance. Further to these efforts, Desjardins created an action plan for the boards of supervision and a number of officers received training on the many facets of risk management. Finally, with a view to fostering an ongoing dialogue with youth, we held the first discussion forum for young Desjardins Group officers.

STANDARDIZED WORKING CONDITIONS FOR EMPLOYEES

To ensure that Desjardins Group's new structure is reflected in our human resources systems and programs, we standardized our working conditions and launched an integrated human resources and payroll management information system in 2011. The standardization of working conditions for the business sectors and Desjardins Group support functions is an important milestone in realizing the concept of the "Desjardins Employee". By adopting competitive working conditions adapted to our multi-sector reality, we have taken an important step toward promoting employee equity, mobility and development within Desjardins.

Furthermore, given the current economic situation and the stress on pension plans, we re-formed our working committee tasked with identifying ways to ensure the financial stability of the Desjardins Group Pension Plan. On another note, in 2011, we made the payments owed to eligible employees under the Quebec *Pay Equity Act*.

ACTIVITIES THAT FOSTER ENGAGEMENT

Also in 2011, as a result of the 2010 engagement survey, we took concrete steps to further develop employee engagement in the caisses and service centres. The survey gave rise to a number of actions in both the caisses and business centres, such as updating the workforce planning approach and the skills development policy.

This past year also saw the launch of a new intranet portal. Today, it links Desjardins Group's 17,000 business sector and support function employees. Likewise in 2011, we launched our corporate newsletter *D News / Journal D*, which highlights the diversity and backgrounds of our staff and officers. *Desjardins* magazine was revamped and includes new columns that focus on strategic issues, thereby making it easier to share information with officers and general managers. Senior management continued to add entries to their blogs—launched in 2010—to provide a channel for discussion with employees. Our portal currently has four active blogs.

A second Desjardins Group Business Intelligence Forum was held for employees working in the field. Because management information is essential to acquiring a comprehensive vision of the needs of our various clienteles, this forum is particularly important. This year's event provided an invaluable opportunity for networking and sharing business development experiences. Another noteworthy event was the "Desjardins and Its Suppliers" meeting where our new strategic procurement vision was presented. This vision is founded on the principles of collaborative business relationships and performance management.

MOBILIZATION IN THE MIDST OF CHANGE

In 2011, due to the major changes we made to our technology infrastructures, there was a heightened need for support, especially with the transfer of more than 250 employees from an outside company to Desjardins Group. These employees primarily work in desktop and ATM support as well as IT system operations in the caisse network and previously worked for Desjardins through one of our suppliers. We are pleased to be able to continue to rely on their expertise to ensure that our members and clients receive excellent service quality.

In a number of instances, the laboratories we set up to test business processes and changes to our distribution networks brought about significant changes for some employees. In many cases, it has been fundamentally a question of a change in culture. To support officers and managers during this process, the Desjardins Cooperative Institute offers comprehensive training on change management.

DESJARDINS COOPERATIVE INSTITUTE

The initial impacts of repositioning the Desjardins Cooperative Institute (DCI) in 2010 were felt in 2011. DCI's mission is to further the development of Desjardins employees, managers and officers through a corporate university which offers continually up-to-date courses.

In addition to developing the "Performance Dialogue: A Regional Approach" program, DCI welcomed its first cohort of participants in the following programs: "Financial Governance: The New Realities of the Audit Committee", "Creating Desjardins Group: Leadership and Performance" and the "Desjardins Orientation Seminar".

Since its initial launch, the Desjardins Group Management Succession and Development Program has been expanded to include 1,200 managers in the caisse network, business sectors and Desjardins Group support functions. The goal of this program is to gather information on the interests of Desjardins managers and promote their mobility within the organization to meet our management needs.

Ensuring that talent diversity is well represented among our staff is one of our key human resources practices. We make sure that this principle is reflected in our advertising campaigns and training programs. In 2011, we identified the key skills needed to help us reach our desired level of talent diversity.

DCI has also adopted a three-year plan that outlines its priorities based on the needs of Desjardins Group officers and managers.

THE TALENT THAT MOVES US FORWARD

The talent of Desjardins employees is central to ensuring members' and clients' total satisfaction. We have therefore continued our efforts to build up our employees' sense of belonging to Desjardins and their pride in using their many talents to serve our members and clients.

Our vision and recruitment strategies have enabled us to hire many new employees whose talents help enhance member and client satisfaction. Career mobility, career development opportunities and the depth of talent at Desjardins served as the basis for a new ad campaign as well. The theme for our campaign, as advertised in social media and on recruitment sites, was "Your talent is what moves us forward." Today, Desjardins is present on LinkedIn, Facebook and Twitter and has some 24,500 followers.

CREATING THE DESJARDINS COOPERATIVE INSTITUTE OF TOMORROW

In 2011, the Desjardins Cooperative Institute broadened its mission by becoming Desjardins Group's centre for learning and personal development and our knowledge transfer hub for topics related to cooperation and involvement. In addition, Desjardins will be opening its doors to external clienteles by welcoming an increased number of interns from colleges and universities.

The Leadership and Performance training course, held October 5 to 7, 2011

THE DESJARDINS ART COLLECTION

Desjardins Group owns a sizeable collection of artwork, demonstrating our commitment to the arts, to artists and to the conservation of cultural heritage. Today, more than 2,500 pieces are displayed in Desjardins offices in Lévis, Montreal, Ottawa, Quebec City and Toronto, and provide a touch of humanity and beauty to the workplace while raising employee awareness about the world of art. Each year, new acquisitions are made to further enrich the Desjardins Art Collection. These creations, many by distinguished artists well into their career but also by young rising artists, pay tribute to the richness of the Quebec and Canadian art scene.

In 2011, two temporary art exhibitions were held for the benefit of our employees, officers and members, and the general public. The first exhibition, *Le plaisir de voir : Œuvres de la collection du Mouvement Desjardins,* took place from September 13 to October 30, 2011, at the *Galerie d'art de la Maison des arts Desjardins* in Drummondville. The second, titled *Pas de trois*, ran from September 30 to November 4, 2011, at the *Galerie d'art de Matane*. Desjardins Group also took part in the Collective Enterprise exhibition which was organized in Montreal by the *Association des Collections d'Entreprises* and *Loto-Québec*. Other initiatives, such as the reproduction of art by young artists in our corporate advertising and the integration of artworks in various publications such as *Desjardins in 3D*—published in 2011—demonstrate our motivation to promote art and the work of talented artists.

The Desjardins Art Collection contributes in a unique way to the vitality of today's visual arts scene and to maintaining our shared artistic heritage.

Mélanie Authier
Drift, 2010
Acrylic on canvas
91 cm x 109 cm
Desjardins Art Collection
Photo: Christian Perreault

Visitors of all ages admired the works from the Desjardins Art Collection at the *Galerie d'art de Matane* in fall 2011.
Photos: Gabrielle Margineanu

CREATING EVENTS THAT FOSTER DIALOGUE AND PROMOTE INNOVATION

1 2011 Desjardins business sales force convention
More than 1,200 people were in attendance at the Québec City Convention Centre on February 1 and 2, 2011.
Photo: Pierre Joosten

2 Assembly of Representatives
An Assembly of Representatives was held on September 16 and 17 in Montreal. On the agenda: performance dialogue, the 2012 Business Plan, and four of the topics assigned to the officer component of the Collaboration, Participation and Connection with the Caisse Network project.

3 General Managers' Forum and Rendez-vous Meeting of Presidents
In 2011, for the first time ever, the General Managers' Forum and the Rendez-vous Meeting of Caisse Presidents and General Managers were held successively over two days. On October 27 and 28, survey results, studies, testimonials and discussions all focused on one objective: adapting to the changing needs of members and clients to serve them better.

4 2011 Annual General Meetings
The Annual General Meetings, held March 25 and 26 in Quebec City, were an ideal opportunity to highlight the main accomplishments of our sectors.

CREATING DESJARDINS PRIDE

The recognition lauded on Desjardins in 2011 is a source of great pride for us; it is proof that cooperation is a business model capable of combining performance and human values. Here are a few of our highlights.

DESJARDINS, ONE OF CANADA'S TOP 100 EMPLOYERS

A coveted place on this prestigious list is reserved for employers who lead their industries by offering their employees exceptional workplaces. The Canada's Top 100 Employers competition is run by Mediacorp Canada Inc.

For the 13th annual edition of this competition, winners were selected after an independent analysis of 2,750 participating companies. Employers were evaluated based on the following eight criteria: physical workplace; work and social atmosphere; health, financial, and family benefits; vacations and time off; employee communications; performance management; training and skills development; and community involvement. For more information, go to ***www.CanadasTop100.com***.

Canada's Top 100 Employers 2012

ONE OF CANADA'S TOP FAMILY-FRIENDLY EMPLOYERS

Desjardins Group has also been recognized as one of Canada's Top Family-Friendly Employers. Our practices in helping employees balance their work and family commitments were rated exceptional by Mediacorp Canada Inc., the organizer of the Canada's Top 100 Employers competition.

We earned this rating for our progressive policies, including those regarding flexible working hours and telecommuting; maternity and paternity leave top-up payments; parental leave top-up payments for adoptive parents; health benefits during maternity and parental leave; our health promotion programs and more.

CANADA'S TOP FAMILY-FRIENDLY EMPLOYERS 2012

DESJARDINS, A GREAT PLACE TO WORK

The *Financial Post* has selected Desjardins Group as one of the winners of its annual Ten Best Companies to Work For competition, thanks to our exceptional working conditions and initiatives for rapid career advancement within the organization.

Also contributing to our selection were our tuition subsidies for courses at outside institutions, our online and in-house training initiatives, our financial bonuses for the completion of certain professional accreditations, our maternity and paternity leave top-ups, our on-site daycare centre in Lévis and our discounts on self-serve bike-transit programs in Montreal and Toronto.

fp10 2012 THE FINANCIAL POST'S TEN BEST COMPANIES TO WORK FOR

ACCÈSD SERVICES SETS A NEW RECORD

For the eighth year in a row, AccèsD Services' client contact centres earned the prestigious COPC (Customer Operation Performance Center) certification. This feat is a world first among financial institutions.

More than just a formal acknowledgment, COPC certification underscores our commitment to continually improving our operations. COPC certification is one of the most rigorous measurement systems in the call centre industry worldwide and requires recipients to meet productivity, service quality and customer service criteria. All told, more than 200 factors were evaluated by COPC auditors.

The AccèsD Services team receives more than three million calls per year, and its 2.6 million users make more than 1.1 billion transactions online and by phone each year.

CERTIFIED COPC 2000

A HAT TRICK FOR DISNAT

In a study conducted by J.D. Power and Associates, Disnat ranked highest in investor satisfaction among Canadian discount brokerage firms* for the third consecutive year.

Fielded from May to June 2011, this study evaluated investors' satisfaction with the following six key factors (in order of importance): interaction; trading charges and fees; account information/statements; account offerings; information resources; and problem resolution.

Disnat earned the highest overall score, with 729 points out of a possible 1,000. The overall average satisfaction score for the other firms was 679 points. Disnat performed particularly well in two of the six key factors: account information/statements and information resources.

DESJARDINS, THE 18TH SAFEST FINANCIAL INSTITUTION IN THE WORLD

According to New York magazine *Global Finance*, Desjardins Group is ranked 18th among the World's 50 Safest Banks 2012, as per the magazine's March 2012 half-yearly update. Moving up from 20th place in 2011 and 25th place in 2010, we have been steadily climbing the world rankings. We remain the fourth safest financial institution in North America.

Going into the ranking's 20th year, *Global Finance* compared the 500 largest financial institutions in the world based on their total assets and long-term credit ratings from Moody's, Standard & Poor's and Fitch.

We at Desjardins have always been recognized for our prudent management approach and our concern for the long term. By maintaining our capital adequacy ratio well above the level recommended by regulators, we can keep offering our members and clients competitive products and services, while continuing to grow.

SAFEST BANK AWARD • 2011

GLOBAL FINANCE

TWO LÉVIS BUILDINGS CERTIFIED BOMA BESt

Desjardins buildings located at 6300 and 6500 De La Rive-Sud Boulevard in Lévis received BOMA BESt (Building Environmental Standards) environmental certification in 2011.

BOMA BESt is a Canadian environmental certification program for existing commercial buildings. BOMA BESt certification is an incentive to continue efforts to reduce waste and energy consumption, and pursue effective water management.

This initiative was also part of the action plan from the Sustainable Development and Cooperative Difference Committee in the Property and Casualty Insurance Executive Division. Work is currently underway to certify other Desjardins buildings in Lévis (95, 100 and 200 Des Commandeurs Street and 59 Bégin Street). Complexe Desjardins in Montreal was certified in 2009.

BOMA QUÉBEC

TWO OCTAS AWARDS FROM *RÉSEAU ACTION TI*

Desjardins Group was the only financial institution to receive top honours from *Réseau ACTION TI*. We won OCTAS awards in the IT project management and infrastructure categories for our technology migration project for the Property and Casualty Insurance sector. It took 60,000 person-days over a four-year period to fully migrate Desjardins General Insurance Group's systems from a MVS/DMS platform to a Windows/Oracle platform.

Desjardins also had two other projects nominated as finalists: Desjardins mobile services in the B2C general public e-commerce category and the My Look personalization service in the innovation category.

Each year, *Réseau ACTION TI* pays tribute to individuals, companies and organizations for their creativity, their drive and their exceptional contribution to the IT industry.

OCTAS

* Disnat received the highest score out of 12 discount brokerage firms in the J.D. Power and Associates 2011 Canadian Discount Brokerage Investor Satisfaction Study.℠ This study was based on 3,358 responses measuring investor satisfaction and experience. Its results are based on the experiences and perceptions of consumers surveyed in May and June 2011. Your experience may vary. Visit ***JDPower.com/ca***.

THE COOPERATIVE AND SOCIAL IMPACT OF DESJARDINS

This summary presents the highlights of the social and cooperative performance of Desjardins as a cooperative financial group whose mission is to contribute to the economic and social well-being of people and communities, according to the principles of sustainable prosperity.

Desjardins Group is part of a cooperative movement. Accordingly, the fundamental values that guide the everyday actions of our 50,000 elected officers and employees are consistent with our principles of social responsibility. These cooperative values—equity, equality, democracy and solidarity as well as individual and collective responsibility—define our everyday work and forge our commitment to building a better world just like other cooperatives around the world.

At Desjardins Group, we believe that receiving an education in cooperation and democracy is essential to the well-being of individuals and communities. That is why it was decided at our Annual General Meetings to invest 1% of our annual surplus earnings in the Co-opme Program. We therefore devoted $15 million in 2011 to supporting initiatives that promote our cooperative model and raise awareness about its stabilizing effect on the economy alongside the private and public sectors. In the following section, activities related to this initiative are identified with the "Co-opme" logo.

At Desjardins Group, we believe an inclusive society is stronger and richer. We contribute to the development of responsible finance by adopting progressive but rigorous ethical standards in line with our values. Our commitment is reflected in the efforts we make to financially educate our members and offer them socially responsible products, a field we have pioneered with our solidarity products, for example.

At Desjardins Group we believe that sustainable prosperity is contigent upon the quality of the environment. Here are some of the eco-friendly steps we have taken:

- We have adopted a Sustainable Development Policy for all our activities.
- We adhere to the principles of the United Nations Environment Programme Statement by Financial Institutions on the Environment and Sustainable Development and to socially responsible investing principles for our investment funds.
- We have partnered with organizations that are dedicated to raising public awareness and promoting citizen action such as *Équiterre*, the David Suzuki Foundation, the *Fondation québécoise en environnement*, the Climate Reality Project Canada, Earth Day and *La Tablée des Chefs*.
- We give top priority to fighting climate change in our various environmental initiatives.

At Desjardins Group, we are driven by our 5,617,390 members. Thanks to them, we are able to take a pluralistic, progressive and inclusive approach to sustainable prosperity.

REPORTING FRAMEWORK

This summary presents the performance of all Desjardins Group components for 2011. The indicators chosen are based on Global Reporting Initiative guidelines and address our stakeholders' main concerns. A more complete report on Desjardins's social responsibility activities will be available on ***Desjardins.com*** in fall 2012.

GOVERNANCE

PARTICIPATION IN DEMOCRATIC ACTIVITIES

	2011	2010	2009
Members attending caisse annual general meetings	70,496	74,239	88,951
Percentage of members attending caisse annual general meetings	1.26%	1.35%	1.56%
Caisse delegates at regional and group caisse general meetings	1,015	1,067	1,030
Caisse delegates at the Federation's general meetings	1,075	1,095	1,085
Percentage of representatives attending the Assembly of Representatives(1)	90.6%	88.7%	85.4%

(1) The Assembly of Representatives is held three times per year, bringing together members of the 17 councils of representatives in Quebec and Ontario, as well as the President and CEO of Desjardins Group (256 people).

REPRESENTATION OF WOMEN IN CAISSE GOVERNANCE IN QUEBEC AND ONTARIO(2)

	2011	2010	2009
Elected officers who are women	34.9%	34.9%	34.7%
Board of directors chairs who are women	15.2	14.7	14.6
Board of supervision chairs who are women(3)	33.6	34.0	33.5

(2) Includes young intern officers; however, they are not elected.
(3) Only caisses in Quebec have boards of supervision.

REPRESENTATION OF ELECTED OFFICERS BY AGE GROUP IN QUEBEC AND ONTARIO(4)

	2011	2010	2009
Officers age 18 to 34	11.3%	11.1%	11.0%
Officers age 35 to 49	19.2	19.8	20.7
Officers age 50 to 64	42.5	43.4	43.6
Officers age 65 and up	27.0	25.7	24.7

(4) Includes young intern officers; however, they are not elected.

INFORMATION SECURITY

	2011	2010	2009
Employees who have received information security awareness training at Desjardins	81.9%	81.5%	N/A

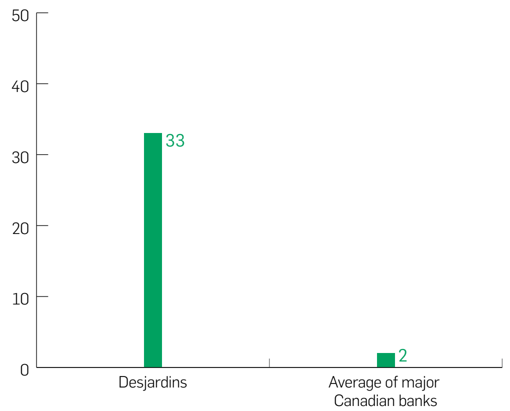
N/A: Not applicable

MEMBER RELATIONS

DESJARDINS GROUP ACCESSIBILITY IN QUEBEC AND ONTARIO

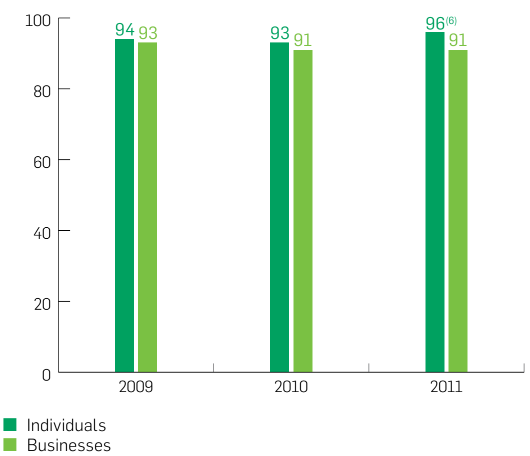
	2011	2010	2009
Caisses	422	451	481
Business centres	43	48	51
Service centres	888	924	903
ATMs	2,559	2,652	2,728

SERVICE OUTLETS IN AREAS WITH LOW POPULATION DENSITY(5)
(as a percentage)



(5) Municipalities of fewer than 2,000 people that are not part of an urban area, as defined by Statistics Canada. The average population density in these municipalities is 0.5 person per km². Data for Quebec only.

OVERALL SATISFACTION OF CAISSE NETWORK MEMBERS
(as a percentage of "very satisfied" and "somewhat satisfied" respondents)



(6) New methodology used in 2010. Results not comparable to previous years.

COOPERATIVE DIFFERENCE SATISFACTION SURVEY RESULTS

	2011	2010	2009
"Very satisfied" and "somewhat satisfied" individual members	86%	86%	83%
"Very satisfied" and "somewhat satisfied" business members	85	86	88

DESJARDINS MUTUAL ASSISTANCE FUND (DMAF) – MICROCREDIT FOR INDIVIDUALS(7)

	2011	2010	2009
Percentage of caisses participating	80%	63%	61%
Number of loans granted through DMAFs	687	705	703
Total lent through DMAFs	$ 400,530	$ 409,103	$ 433,150
Recovery rate	92%	82%	83%

(7) Data for 2011 are incomplete and subject to change as all figures were not yet available from our partners at the time of publication.

SOCIALLY RESPONSIBLE FUNDS OUTSTANDING
(in millions of dollars)

	2011	2010	2009
Desjardins Environment Fund	$ 179.6	$ 200.92	$ 149.86
SocieTerra Funds – Secure Market Portfolio	73.1	44.48	12.36
SocieTerra Funds – Balanced Portfolio	195.9	116.3	34.58
SocieTerra Funds – Growth Portfolio	139.0	101.45	45.64
SocieTerra Funds – Growth Plus Portfolio	58.1	42.61	16.67
Total monetary value	$ 645.7	$ 505.76	$ 259.11

GLOBAL EQUITY GUARANTEED INVESTMENT(8)

	2011	2010	2009
Outstanding (in millions of dollars)	$ 102.5	$ 82	$ 36
Number of certificates	19,510	16,039	6,241

(8) The Global Equity Guaranteed Investment is made up of stocks in companies that are concerned about the environment and the challenges of climate change.

INVESTING IN THE COMMUNITY

COMMUNITY DEVELOPMENT FUND (CDF)(9)
(in millions of dollars, except as noted)

	2011	2010	2009
Percentage of caisses that have a CDF	–	95.0%	93.9%
CDF balance at year-end	–	$ 92.2	$ 89.2
Amount paid into CDFs during the year	–	28.8	25.5
Amount paid out to support initiatives	–	25.8	22.8

(9) Data for 2011 will be known at the end of the first half of 2012, after all the caisses' annual general meetings, which is when caisse members decide on their contribution of surplus earnings to the CDF. This information will be published in the *Social and Cooperative Responsibility Report* to be published in fall 2012.

DEVELOPMENT CAPITAL INVESTMENTS MANAGED BY DESJARDINS VENTURE CAPITAL(10)
(in millions of dollars, except as noted)

	2011	2010	2009
Development capital investments (at cost) in Quebec	$ 621.5	$ 582.2	$ 604.2
Number of businesses, cooperatives and funds supported in Quebec	347	316	323
Investments (at cost) in cooperatives or businesses located in resource regions(11)	120.1	112.3	120.8

(10) Capital development investments come mainly from *Capital régional et coopératif Desjardins*, a publicly traded fund supported by 107,000 shareholders, which was created by Desjardins Group and is managed by Desjardins Venture Capital. Its shares are distributed by the Desjardins caisse network and, guided by the experts at Desjardins Venture Capital, the fund invests in SMEs and Quebec-owned cooperatives. Investment projects focus on different areas such as expansion and modernization, acquisitions and mergers, company buyouts and business transfers.
(11) These amounts are included in development capital investments in Quebec.

COMMUNITY INVOLVEMENT

SCHOOL CAISSE PROGRAM – YOUTH FINANCIAL EDUCATION PROGRAM

	2011	2010	2009
Percentage of caisses offering the School Caisse Program(12)	77%	77%	77%
Schools with a school caisse(12)	1,075	1,075	1,075
Total value of youth dividends paid to school caisse members (youth age 5 to 14)	$ 364,724	$ 337,904	$ 349,201

(12) Data based on a voluntary participation survey of the caisses carried out every two years. Data on the school caisses was not collected in 2011.

FONDATION DESJARDINS SCHOLARSHIPS, BURSARIES AND AWARDS[13]

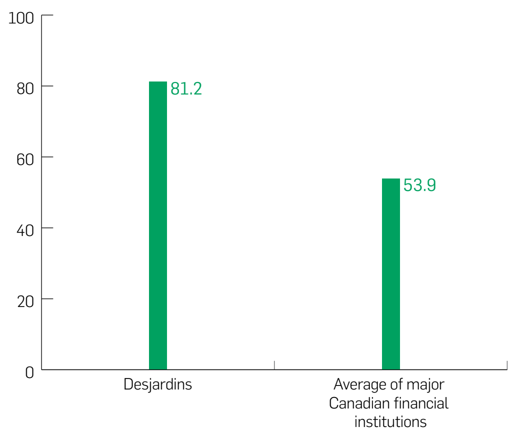
	2011	2010	2009
University scholarships and bursaries	$ 540,925	$ 539,700	$ 507,500
Scholarships and bursaries to support non-university training	109,750	69,856	92,500
Scholarships and bursaries to support cooperation	67,864	63,444	49,700
Awards recognizing volunteer work	35,000	35,000	35,000
Awards for entrepreneurship (including sustainable development)	50,000	40,000	30,000
Total number of scholarships, bursaries and awards granted	322	311	323
Total value of scholarships, bursaries and awards granted	$ 803,539	$ 748,000	$ 714,700

(13) Figures do not include scholarship and bursary programs run by the caisses, the Federation or the subsidiaries.

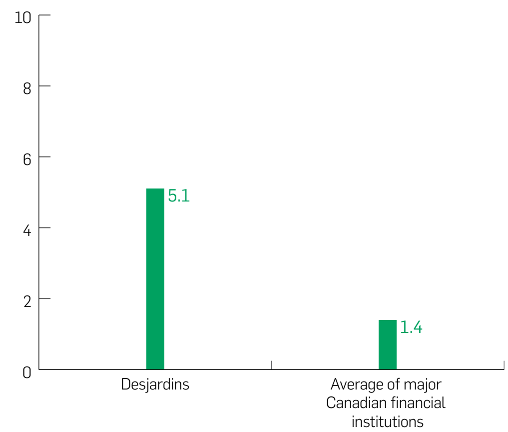
SPONSORSHIPS AND DONATIONS BY SECTOR
(in millions of dollars)

	2011	2010	2009
Arts and culture	$ 9.3	$ 8.5	$ 7.8
Economic development	20.6	19.5	17.9
Education	12.5	11.6	10.6
Humanitarian work	5.0	6.5	5.6
Health and well-being	21.7	22	19.6
Sports and recreation	11.0	10.4	10.0
Environment	1.1	1.1	0.8
Total	$ 81.2	$ 79.6	$ 72.3

AMOUNTS PAID OUT IN SPONSORSHIPS AND DONATIONS BY MAJOR CANADIAN FINANCIAL INSTITUTIONS[14]
(in millions of dollars)



PERCENTAGE OF SURPLUS EARNINGS (PROFIT) PAID OUT IN SPONSORSHIPS AND DONATIONS BY MAJOR CANADIAN FINANCIAL INSTITUTIONS
(as a percentage of net profit)



(14) Based on data available as at February 1, 2012.

ANNUAL FINANCIAL SUPPORT FOR THE COOPERATIVE MOVEMENT IN CANADA AND ABROAD[15]

	2011	2010	2009
Conseil québécois de la coopération et de la mutualité	$1,097,964	$ 745,702	$ 633,168
Cooperative federations – sponsorships/events	88,621	—	—
Conseil de la coopération de l'Ontario	31,539	23,983	23,983
Conseil canadien de la coopération et de la mutualité	82,500	110,298	15,000
International Co-operative Alliance	161,674	73,747	77,216
International Cooperative and Mutual Insurance Federation	90,725	79,661	65,000
International Cooperative and Mutual Insurance Federation/Regional Association for the Americas	43,267	41,802	40,746
International Confederation of Popular Banks	37,578	36,972	38,971
European Association of Co-operative Banks	43,165	45,602	42,449
Total	$1,677,033	$ 1,157,767	$ 936,533

(15) Includes financial contributions made by the *Fédération des caisses Desjardins du Québec*, the *Fédération des caisses populaires de l'Ontario*, Desjardins Financial Security and Desjardins General Insurance Group.

CONTRIBUTION TO THE DEVELOPMENT OF FINANCIAL COOPERATIVES IN EMERGING COUNTRIES

	2011[16]	2010	2009
Number of members or clients of *Développement international Desjardins* partner institutions	8,446,672	7,534,493	7,388,970
Volume of savings for these institutions (in millions of dollars)	$ 2,307	$ 2,027	$ 1,860
Volume of credit outstanding (in millions of dollars)	$ 2,456	$ 2,132	$ 2,022
Percentage of members or clients who are women	40.2%	38.1%	36.1%

(16) Data as at June 30, 2011. Adjustments were made to data for 2010 to reflect our partners' audited financial reports.

ENVIRONMENT

GREEN INSURANCE PRODUCTS

	2011	2010	2009
Number of hybrid vehicles insured with premium reduction	4,780	3,702	2,821
Value of premiums for hybrid vehicles	$4,451,365	$3,298,426	$2,464,627
Number of LEED-certified buildings insured with premium reduction	11	6	7
Value of premiums for LEED-certified buildings	$ 6,162	$ 2,775	$ 4,037

ECO-FRIENDLY EVENTS

	2011	2010	2009
Eco-friendly events (greenhouse gas and residual materials management)	3	6	4
Events addressing the greenhouse gas component only	7	12	10
Rates for recycling or recovery of residual materials	82%	85.2%	80.3%
Greenhouse gas emissions offset through the purchase of carbon credits (in tonnes of CO_2 equivalent)	397	622	490
Portions of food redistributed	1,078	1,465	1,013

PAPER CONSUMPTION[17]

	2011	2010	2009
Total paper use for internal and commercial activities (tonnes)	4,399	4,421	4,323
Percentage of paper from recycled sources	73%	71%	78%

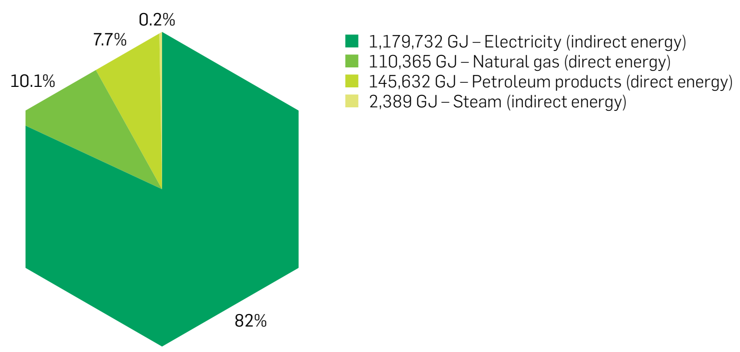
(17) Based on data from Desjardins Group's main suppliers and a voluntary participation survey of the caisses.

GREENHOUSE GAS (GHG) EMISSIONS IN TONNES OF CO_2 EQUIVALENT[18]

	2011	2010	2009
Direct emissions: car fleet, fuel	11,902	12,016	13,513
Indirect emissions: electricity, steam	2,038	2,926	2,644
Indirect emissions: rental vehicles, personal vehicles, air travel, Desjardins shuttle, rented offices (fuel) and paper[19]	21,507	22,403	21,800
Total GHG emissions	35,448	37,346	37,957
Emission intensity (tonnes/employee)	0.82	0.88	0.91
Variation in emission intensity vs. 2008	(15)%	(9)%	(7)%

(18) Data for 2009 and 2010 were restated following certain corrections and updates to emissions factors. Caisse data is based on an annual voluntary participation survey.
(19) GHG emissions associated with paper consumption are calculated using the Environmental Paper Network Paper Calculator.

ENERGY CONSUMPTION BY SOURCE
(gigajoules [GJ])



HUMAN RESOURCE MANAGEMENT

DISTRIBUTION OF EMPLOYEES[20]

	2011	2010	2009
By component			
Desjardins Group support functions and business sectors	20,206	17,556	16,803
Caisse network	24,439	25,085	25,307
By province			
Quebec	40,433	39,757	39,271
Ontario	2,521	2,684	2,657
Other provinces	1,610	139	127
Outside Canada	81	61	55
By status[21]			
Regular	89.2%	89.1%	89.2%
Temporary	10.8%	10.9%	10.8%
By job category[21]			
Senior management	1.3%	1.3%	1.4%
Management (excludes senior management)	6.3%	6.7%	6.6%
Non-management	92.4%	92.1%	92.1%
Total number of employees[22]	44,645	42,641	42,110

(20) Some previously published figures have been modified.
(21) Rounded data.
(22) Excludes employees of *Caisses centrale Desjardins* U.S. Branch.

REPRESENTATION OF EMPLOYEES AGE 30 AND UNDER

	2011	2010	2009
Management (including senior management)	2.9%	3.3%	2.5%
Non-management	20.4	20.4	20.8
Total	19.1%	19.1%	19.3%

REPRESENTATION OF WOMEN

	2011	2010	2009
Senior management	22.3%	20.7%	20.5%
Management (excludes senior management)	57.5	58.3	55.9
Non-management	76.5	77.7	78.3

HEALTH AND WELL-BEING IN THE WORKPLACE

HEALTH PROMOTION

	2011	2010	2009
Percentage of payroll invested in illness prevention and health promotion programs	0.30%	0.31%	0.33%
Desjardins participants in the 5/30 Health and Wellness Challenge	13,726	12,209	10,458
Employees who participated in the seasonal flu shot campaign	9,566	9,029	6,892

MANAGEMENT'S DISCUSSION AND ANALYSIS OF DESJARDINS GROUP

TABLE OF CONTENTS

Desjardins Group (hereinafter referred to as either "Desjardins Group" or "Desjardins") comprises the caisse network in Quebec and Ontario (the Desjardins caisse network), the *Fédération des caisses Desjardins du Québec* (the Federation) and its subsidiaries, *Caisse centrale Desjardins*, the *Fédération des caisses populaires de l'Ontario* and the *Fonds de sécurité Desjardins*.

This Management's Discussion and Analysis (MD&A), dated February 23, 2012, presents the results of the analysis of the key elements of and changes to Desjardins Group's financial position for the year ended December 31, 2011, in comparison to previous fiscal years. The MD&A should be read in conjunction with the Audited Combined Financial Statements (the Combined Financial Statements), including the Notes, as at December 31, 2011.

Additional information about Desjardins Group is available on the SEDAR website at www.sedar.com (under the *Capital Desjardins inc.* profile), where the Annual Information Forms of *Capital Desjardins inc.* and of *Caisse centrale Desjardins* (under the *Caisse centrale Desjardins* profile) can also be found. More information is also available on the Desjardins website at ***www.desjardins.com/en/a_propos/investisseurs***; however, none of the information presented on these sites is incorporated by reference into this report.

Section 1.0
Desjardins Group
This section presents a brief overview of Desjardins Group and its 2011 financial highlights, including its strategic orientations for 2010–2012. It includes a summary of its results compared to its priority financial objectives and the financial outlook for 2012. Also included is a description of the economic environment in 2011, industry trends and the economic outlook for 2012.

Section 2.0
Review of financial results
This section provides an analysis of Desjardins Group's results for the year ended December 31, 2011. It contains information on Desjardins Group's business segments, including a profile of each segment, a description of the industry, financial highlights, the segment's strategy and priorities, as well as an analysis of financial results. It also includes an analysis of fourth quarter results and quarterly trends.

Section 3.0
Review of financial position
This section provides commentary on Desjardins Group's financial position. It mainly addresses financing activities and recruitment of savings. Also included are capital management, analysis of cash flows and off-balance sheet arrangements.

Section 4.0
Risk management
This section focuses on the risk management framework and presents the various risks associated with Desjardins Group's operations.

Section 5.0
Additional information
This section presents controls and procedures, related party disclosures, material events, critical accounting policies and estimates, future accounting changes and various annual statistics.

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Desjardins Group issues its Combined Financial Statements in accordance with Canadian generally accepted accounting principles (GAAP) and the accounting requirements of Quebec's *Autorité des marchés financiers* (AMF), which do not differ from GAAP. Since January 1, 2011, in accordance with a decision of the Canadian Accounting Standards Board, publicly accountable enterprises must issue their financial statements using a new accounting framework, the International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). IFRS comprise Part I of the *Canadian Institute of Chartered Accountants (CICA) Handbook – Accounting*.

The 2011 Combined Financial Statements of Desjardins Group are its first financial statements to be prepared under IFRS. Previously, Desjardins Group applied Canadian GAAP, as carried forward in Part V of the *CICA Handbook – Accounting*. In the Combined Financial Statements, Canadian GAAP means GAAP prior to the adoption of IFRS. The Combined Financial Statements of Desjardins Group were prepared in accordance with IFRS 1, "First-Time Adoption of International Financial Reporting Standards". The comparative figures for 2010 were restated according to IFRS. For further information about the accounting policies and the reconciliation of comparative data, please refer to Note 2, "Significant accounting policies", and Note 4, "Impact of IFRS adoption", respectively, to the Combined Financial Statements. Data prior to January 1, 2010, the transition date to IFRS, are presented in accordance with Canadian GAAP.

This MD&A was prepared in accordance with the National Instruments on continuous disclosure obligations in force issued by Canadian Securities Administrators. Unless otherwise indicated, all amounts are presented in Canadian dollars ($) and are primarily taken from the Combined Financial Statements of Desjardins Group.

In order to assess its performance, Desjardins Group uses and presents both IFRS measures and various non-IFRS financial measures. Non-IFRS financial measures, other than the regulatory ratios, do not have a standardized definition and are not directly comparable to similar measures used by other companies, and may not be directly comparable to any prescribed IFRS measures. Investors may find these non-GAAP measures useful in analyzing financial performance. These measures are defined as follows:

Productivity index

The productivity index is used to measure efficiency and is equal to the ratio of non-interest expense to total income, net of claims, benefits, annuities and changes in insurance and investment contract liabilities, expressed as a percentage. The lower the ratio, the higher productivity is.

Return on equity

Return on equity, which is expressed as a percentage, is equal to surplus earnings before member dividends, excluding the non-controlling interests' share divided by average equity before non-controlling interests.

Growth in operating income

Growth in operating income is equal to the percentage change in total income, net of income from available-for-sale securities, income from securities at fair value through profit or loss and other investment income, in relation to the corresponding period of the previous year.

Gap between income growth and expense growth

The gap between income growth and expense growth is equal to the difference between the growth, expressed as a percentage, in total income, net of claims, benefits, annuities and changes in insurance and investment contract liabilities, in relation to the corresponding period of the previous year, less the growth, expressed as a percentage, in non-interest expense from the corresponding period of the previous year.

Average assets – Average loans – Average deposits – Average equity

The average balance for these items is equal to the average of the amounts at the end of the previous five quarters, calculated starting from December 31.

REGULATORY CONTEXT AND CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

REGULATORY CONTEXT

Desjardins Group's operations are governed in particular by the *Act respecting financial services cooperatives* and the *Act respecting the Mouvement Desjardins*. The AMF is the main government agency that supervises and oversees deposit-taking institutions (other than banks) that do business in Quebec, including the caisses and the Federation. Other regulations may also apply to some activities of Desjardins Group entities, for example, in the area of insurance or securities brokerage.

In addition, Desjardins Group complies with the minimum regulatory capital requirements issued by the AMF, adapted to reflect the provisions of the Basel II Accord. While Desjardins Group is not a reporting issuer under AMF *Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings*, it has chosen to apply the practices provided in the regulation to demonstrate its willingness to comply with best practices in financial governance. Desjardins Group's financial and corporate governance are discussed on pages 110 and 111 of this MD&A and pages 205 to 219 of this Annual Report.

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

Desjardins Group's public communications often include oral or written forward-looking statements. Such forward-looking statements are contained in this MD&A, and may be incorporated in other filings with Canadian regulators or in any other communications. Forward-looking statements in this MD&A include, but are not limited to, comments with respect to Desjardins Group's objectives, regarding financial performance, priorities, activities, the review of economic conditions and markets, as well as the outlook for the Canadian, U.S., European and international economies. Among the forward-looking statements are those in sections 1.2 "Monitoring of financial objectives", 1.3 "Changes in the economy and the industry", 3.0 "Review of financial position" and 5.0 "Additional information". Such statements are typically identified by words or phrases such as "believe", "expect", "anticipate", "intend", "estimate", "plan", and "may"; words and expressions of similar import, and future and conditional verbs.

By their very nature, such statements involve assumptions, uncertainties and inherent risks, both general and specific. It is therefore possible that the predictions, projections or other forward-looking statements as well as Desjardins Group's objectives and priorities may not materialize or may prove to be inaccurate because of a number of factors and that actual results differ materially. A number of factors beyond Desjardins Group's control could influence the accuracy of the forward-looking statements in this MD&A. These factors include those discussed in section 4.0 "Risk management", such as credit, liquidity, market, operational, insurance, strategic and reputation risk. Additional risk factors include legislative or regulatory developments in Quebec, Canada or globally, such as changes in fiscal and monetary policies; new liquidity reporting and regulatory guidance, or interpretations thereof; and amendments to and new interpretations of capital guidelines.

There are also factors related to changes in economic and financial conditions in Quebec, Canada or globally, including the unemployment rate, the geographic concentration of economic activity; changes in interest rates and exchange rates; trade between Quebec and the United States; the ability of third parties to comply with their obligations to Desjardins Group; consumer spending; credit demand; the effects of increased competition in a market open to globalization; competition from new entrants and established competitors; fraud, including the use of new technologies in unprecedented ways against Desjardins Group, its members or its clients; legal or regulatory procedures and lawsuits; consumer saving habits; the effect of possible international conflicts, including terrorism, or natural disasters; and new developments.

Lastly, there are also operational risk factors, including the inherent limits of risk management models; changes to technology; Internet or other technology service disruptions; the ability to design new products and services and bring them to market in a timely fashion; the ability to collect complete and accurate information on our clients and their counterparties; the ability to perform and integrate strategic acquisitions and alliances; changes to the accounting policies and methods Desjardins Group uses to present its financial position and operating results, including the uncertainties involving main accounting assumptions and estimates, as well as changes to estimates; the impact of future accounting changes; the ability to recruit and retain key officers; and management's ability to foresee and manage the risks stemming from the preceding factors.

It is important to note that the above-mentioned list of factors that could influence future results is not exhaustive. Other factors could have an adverse effect on results. Additional information on these and other factors is found in section 4.0 "Risk management". Although Desjardins Group believes that the expectations expressed in these forward-looking statements are reasonable, it can give no assurance or guarantee that these expectations will prove to be correct. Desjardins Group cautions readers against placing undue reliance on forward-looking statements when making decisions.

Any forward-looking statements contained in this report represent the views of management only as at the date hereof, and are presented to help members and analysts understand Desjardins Group's financial position as at the dates indicated or for the periods ended on such dates, as well as its strategic priorities and objectives, and these statements may not be appropriate for other purposes. Desjardins Group does not undertake to update any oral or written forward-looking statements that could be made from time to time by or on behalf of Desjardins Group, except as required under applicable securities legislation.

1.0 DESJARDINS GROUP

SECTION 1.1

PROFILE AND STRATEGIC ORIENTATIONS

WHO WE ARE

Desjardins Group is the largest cooperative financial institution in Quebec, with assets of $190.1 billion. We are also the leading cooperative financial group in Canada, bringing together 422 caisses in Quebec and Ontario, the *Fédération des caisses Desjardins du Québec* and its subsidiaries, as well as *Caisse centrale Desjardins*, the *Fédération des caisses populaires de l'Ontario* and the *Fonds de sécurité Desjardins*. A number of our subsidiaries are active across Canada. Our "Personal Services and Business and Institutional Services", "Wealth Management and Life and Health Insurance", and "Property and Casualty Insurance" business segments offer a full range of financial products and services adapted to the needs of our 5.6 million members and clients, individuals and businesses alike. As one of the largest employers in the country, Desjardins Group capitalizes on the skills of its 44,645 employees and the commitment of close to 5,400 elected officers.

The tasks of carrying out treasury operations and acting as Desjardins Group's official representative with the Bank of Canada and the Canadian banking system are assumed by *Caisse centrale Desjardins*, also a cooperative financial institution.

MISSION

To contribute to improving the economic and social well-being of people and communities within the compatible limits of its field of activity

- by continually developing an integrated cooperative network of secure and profitable financial services, owned and administered by the members, as well as a network of complementary financial organizations with competitive returns, controlled by the members
- by educating people, particularly members, officers and employees, about democracy, economics, solidarity, and individual and collective responsibility

VISION

Desjardins,
the leading cooperative financial group in Canada,
inspires trust around the world
through the commitment of its people,
its financial strength and
its contribution to sustainable prosperity.

WHAT MAKES US DIFFERENT

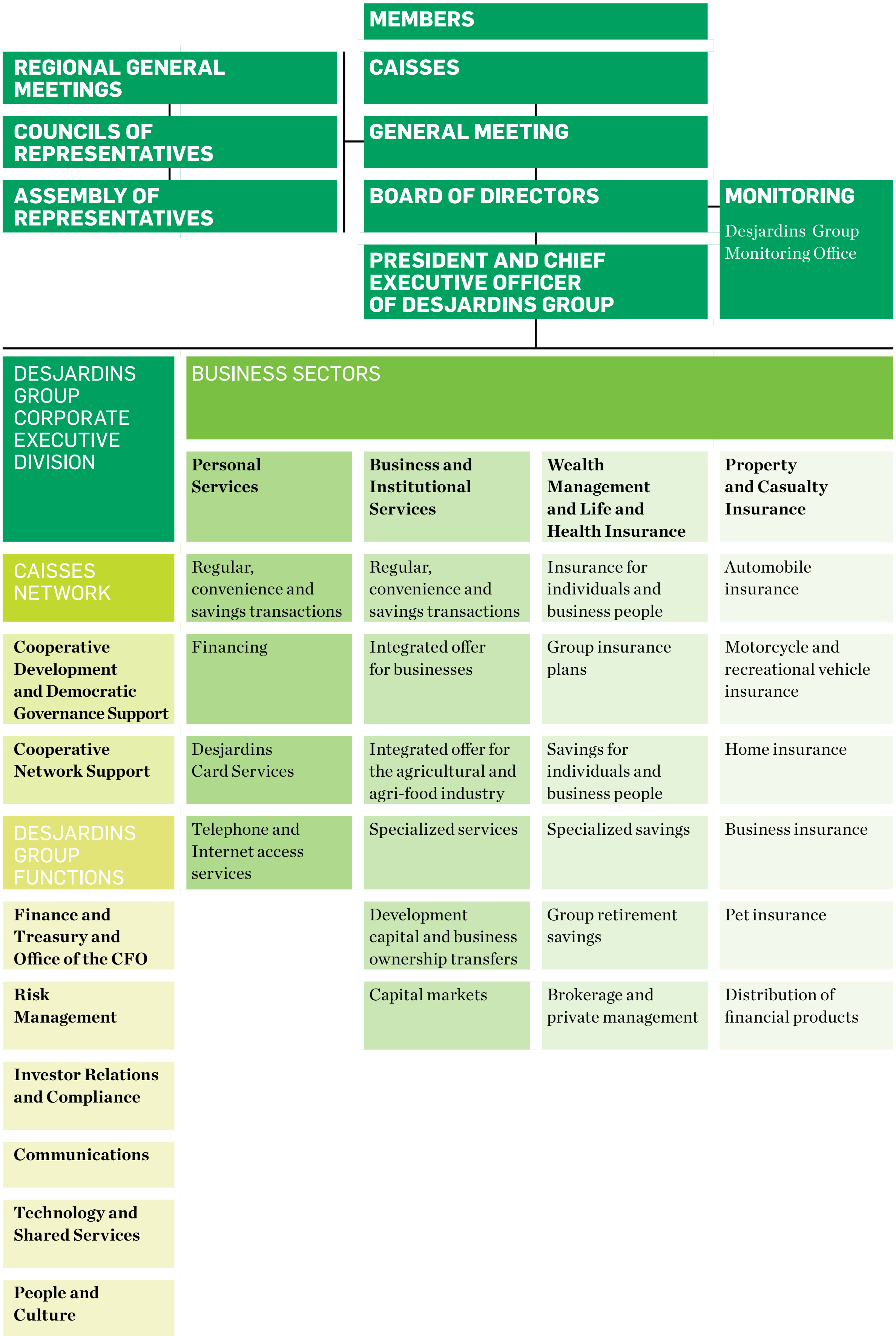
At Desjardins Group we stand out from other Canadian financial institutions because of our cooperative nature. Our mission and values reflect our cooperative nature and are championed by our officers, managers and employees. Our mission and our values are echoed in our strategic orientations and help us achieve our vision to promote sustainable prosperity within the communities we serve. Since the first caisse was founded in 1900 in Lévis, Desjardins Group has been a key player in financial education. We believe that the cooperative business model is more relevant than ever and a key to sustainable prosperity.

Thanks to convenient distribution channels and numerous intermediary networks, we at Desjardins Group are close to our members and clients and, by extension, their communities. To ensure the vitality of cooperation at the caisse level, in terms of democracy, representation, education and training, intercooperation and support for community development, Desjardins Group pays special attention to the number of caisses, including service delivery methods, in order to best meet the increasingly diverse needs of our members.

Another hallmark of Desjardins Group is the active participation of elected officers in the caisses and in the organization's decision-making structure though the regional general meetings and the councils of representatives.

STRUCTURE OF DESJARDINS GROUP

Desjardins Group's structure has been designed to take into account the needs of our members and clients, as well as those of the markets in which we operate. The caisse network in Quebec and Ontario has the support of four main business sectors, which reinforces our ability to build on our products and services.



DESJARDINS GROUP MANAGEMENT COMMITTEE

1 Monique F. Leroux, Chair of the Board, President and CEO of Desjardins Group **2 Serge Cloutier**, Executive Vice-President, Cooperative Development and Democratic Governance Support **3 Sylvie Paquette**, Senior Vice-President and General Manager, Property and Casualty Insurance **4 Marc Laplante**, Senior Executive Vice-President, Desjardins Group **5 Marie-Huguette Cormier**, Executive Vice-President, Communications **6 Normand Desautels**, Senior Vice-President and General Manager, Personal Services **7 Raymond Laurin**, Senior Vice-President, Finance and Treasury and Chief Financial Officer **8 Denis Berthiaume**, Senior Vice-President and General Manager, Wealth Management and Life and Health Insurance **9 Stéphane Achard**, Jacques Dignard, Senior Vice-President, People and Culture **10 Jacques Dignard**, Senior Vice-President, People and Culture **11 Réal Bellemare**, Executive Vice-President, Risk Management **12 Robert Ouellette**, Senior Vice-President, Technology and Shared Services **13 Louis-Daniel Gauvin**, Senior Vice-President and General Manager, *Caisse centrale Desjardins* and *Capital Desjardins inc.* **14 Daniel Dupuis**, Senior Vice-President, Cooperative Network Support

HIGHLIGHTS

- Combined surplus earnings before member dividends of $1,582 million, a 14.1% increase over 2010
- A total of $401 million returned to members and the community, including the member dividend expense, sponsorships and donations
- Tier 1 capital ratio of 17.3% as at December 31, 2011, attesting to the institution's financial stability
- Recognized around the world as a sound financial institution with some of the best credit ratings in the Canadian industry
- Ranked 18th among the World's 50 Safest Banks 2012, according to the half-yearly update by New York magazine *Global Finance* (20th in 2011)
- Desjardins Group's total assets up 6.3% to stand at $190.1 billion as at December 31, 2011
- Residential mortgage loans outstanding up $5.2 billion over the year, to total $79.7 billion
- Quality loan portfolio, with a gross impaired loans ratio of 0.41%
- A 7.6% increase in savings recruitment to total $123.4 billion
- First issuance by *Caisse centrale Desjardins* of covered bonds for an amount of US$1.0 billion
- Issuance of $500 million of medium-term deposit notes by *Caisse centrale Desjardins* and issuance of $500 million of senior notes by *Capital Desjardins inc.*
- Total income up $1,663 million or 14.4% over 2010
- Growth in operations at Western Financial Group Inc., a financial services company operating in western Canada, acquired on April 15, 2011
- Acquisition of mutual fund dealer MGI Financial Inc. on October 5, 2011
- Agreement to acquire Staples / Bureau en gros private-label credit card portfolio
- Productivity index of 71.1% compared to 72.6% in 2010

TABLE 1 – FINANCIAL RESULTS AND RATIOS

For the years ended December 31
(in millions of dollars and as a percentage)

	2011	2010	2009[1]
Results			
Net interest income	$ 3,921	$ 3,892	$ 3,522
Net premiums	4,851	4,360	4,247
Other income	4,434	3,291	2,901
Total income	13,206	11,543	10,670
Provision for credit losses	237	203	260
Claims, benefits, annuities and changes in insurance and investment contract liabilities	5,292	4,136	3,758
Non-interest expense	5,624	5,380	5,149
Income taxes on surplus earnings	471	438	412
Surplus earnings before member dividends	$ 1,582	$ 1,386	$ 1,091
Contribution to combined surplus earnings by business segment			
Personal Services and Business and Institutional Services	$ 987	$ 934	$ 633
Wealth Management and Life and Health Insurance	280	249	237
Property and Casualty Insurance	144	131	104
Other	171	72	117
	$ 1,582	$ 1,386	$ 1,091
Amount returned to members and the community			
Provision for member dividends	$ 320	$ 299	$ 311
Sponsorships and donations	81	80	72
	$ 401	$ 379	$ 383
Ratios			
Return on equity[2]	12.2%	12.2%	10.2%
Productivity index[2]	71.1	72.6	74.5

(1) In accordance with GAAP in effect prior to the adoption of IFRS.
(2) See page 45 "Basis of presentation of financial information".

TABLE 2 – FINANCIAL POSITION AND RATIOS

As at December 31
(in millions of dollars and as a percentage)

	2011	2010	2009[1]
Financial position			
Assets	$ 190,137	$ 178,931	$ 157,442
Loans	125,154	118,258	110,300
Deposits	123,403	114,663	106,161
Equity	14,027	12,156	11,726
Ratios			
Tier 1 capital ratio	17.3%	17.7%	15.8%
Total capital ratio	19.3	18.7	15.8
Gross impaired loans / gross loans ratio	0.41	0.43	0.46

(1) In accordance with GAAP in effect prior to the adoption of IFRS.

TABLE 3 – OTHER INFORMATION

For the years ended December 31

	2011	2010	2009
Number of members	5.617 million	5.723 million	5.806 million
Number of elected officers	5,366	5,877	6,258
Number of employees	44,645	42,641	42,110
Number of caisses	422	451	481
Number of service centres	888	924	903
Number of automated teller machines	2,559	2,652	2,728
Number of automated transactions	1,049,337,914	931,348,504	844,056,999
Including transactions made using a mobile device[1]	34,973,300	3,350,990	—

(1) The transaction service for mobile devices was launched in September 2010.

2012 STRATEGIC ORIENTATIONS

Desjardins Group's strategic orientations were adopted by the Board of Directors in February 2010 as part of its 2010–2012 Strategic Plan. Their purpose is to make Desjardins Group a stimulating, distinctive and successful organization that makes a unique contribution to the development of society. The strategic orientations define the main avenues for achieving this vision, to reach Desjardins Group's full business development potential and optimize its financial and cooperative strength. They lay a common foundation on which the caisse network and the business sectors can build their own orientations, strategies and priorities.

STRATEGIC ORIENTATIONS

Cooperation and involvement	• Capitalize on cooperative values and social responsibility to differentiate Desjardins • Increase its brand power
Member/client experience	• Implement a member- and client-centred approach throughout Desjardins Group
Growth and innovation	• Achieve sustained and profitable growth by emphasizing openness, innovation and agility
Profitability and financial stability	• Optimize overall productivity and performance and reinforce the financial strength of Desjardins Group
Leadership and mobilization	• Count on the leadership and the mobilization of officers and employees to support Desjardins Group's development

The strategic orientations dealing with "Cooperation and involvement", "Member/client experience" and "Leadership and mobilization" are described mainly in the Distinctive Profile section on pages 21 to 30 of this Annual Report.

COORDINATION TEAM

The senior vice-presidents and vice-presidents of Desjardins Group are responsible for applying Desjardins Group's strategic orientations. Through their participation in the Coordination Team, they are able to obtain a comprehensive view of key issues and can develop effective operational strategies and solutions that will support the caisse network.

SECTION 1.2

MONITORING OF FINANCIAL OBJECTIVES

TABLE 4 – PROGRESS REPORT ON 2011 RESULTS
For the year ended December 31
(as a percentage)

	Financial objectives for 2010–2012	Results for 2011
Growth and development		
Growth in operating income(1)	Greater than 8%	7.9%
Profitability and productivity		
Productivity index(1)	Less than 70% in 2012	71.1%
Gap between income growth and expense growth(1)	Greater than 2% in 2012	2.3
Growth in surplus earnings after income taxes	Between 5% and 10%	14.1
Return on equity(1)	Greater than 9%	12.2
Financial stability and risk management		
Tier 1 capital ratio	Greater than 15%	17.3%
Gross impaired loans/gross loans	Less than 1%	0.41

(1) See page 45 "Basis of presentation of financial information".

The financial objectives presented in Table 4 above were established during the implementation of the 2010–2012 Strategic Plan. These performance targets are based on orientations and initiatives that support and are consistent with Desjardins Group's strategic ambitions, and are aimed at achieving profitability that reflects the desired balance between cooperative and financial performance.

Desjardins Group posted a higher-than-expected financial performance in 2011, with surplus earnings after income taxes of $1,582 million, up 14.1% over 2010. What makes this performance all the more remarkable is that it was achieved while Desjardins Group was, in recent years, going about implementing various measures to bolster its financial stability and resilience in dealing with an economic environment that was far less favourable than in 2009, when the strategic planning targets were set. These measures mainly included building up a large cushion of liquidity, increasing the duration of our financing on the markets and substantially reducing risk exposure in investment portfolios during the previous two years.

Return on equity was 12.2% compared to the target of 9%.

Furthermore, in the past few years, Desjardins Group has undertaken different initiatives that have enabled it to improve its performance and its productivity while enhancing its service offer. The improvement in Desjardins Group's productivity in 2011 is reflective of the efforts being deployed by the caisse network and all Desjardins components in this regard. The caisse network, Desjardins Group's driving force, is currently engaged in a process of transformation and change that will help it improve its performance and consolidate its leadership position in its various markets in the years ahead.

FINANCIAL OUTLOOK FOR 2012

In 2012, Desjardins Group will face an uncertain economic environment in which interest rates will remain low. Between strong competition in the industry and the aforementioned low interest rates, the net interest margin will come under pressure in 2012.

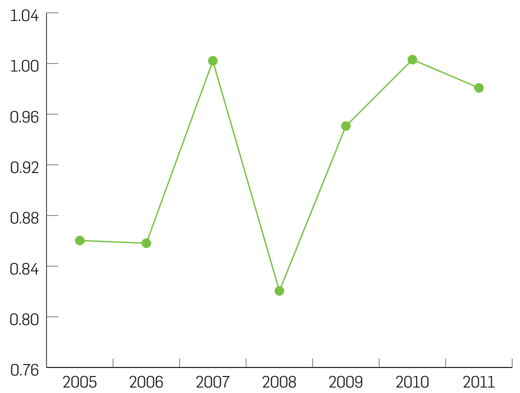
Although progress has been made in recent years, increasing productivity will remain a priority for Desjardins Group. Higher productivity will enable Desjardins to carry out its growth initiatives and attain a favourable competitive position by providing its members and clients with a superior service offer. Major investments have been made, among other things, in the program to transform information technologies and in pursuing the various strategic development initiatives.

Desjardins Group will therefore start off 2012, the last year of its 2010–2012 Strategic Plan, on a solid footing, with a level of capitalization that is higher than the Canadian banking industry average. Desjardins Group continues to be a strong and well-capitalized financial institution with a Tier 1 capital ratio in excess of 17% and excellent asset quality, with a gross impaired loans to gross loans ratio of less than 0.50%. Desjardins Group is therefore equipped to reach its strategic objectives in 2012, which will position it to accomplish its mission while promoting its cooperative values.

SECTION 1.3

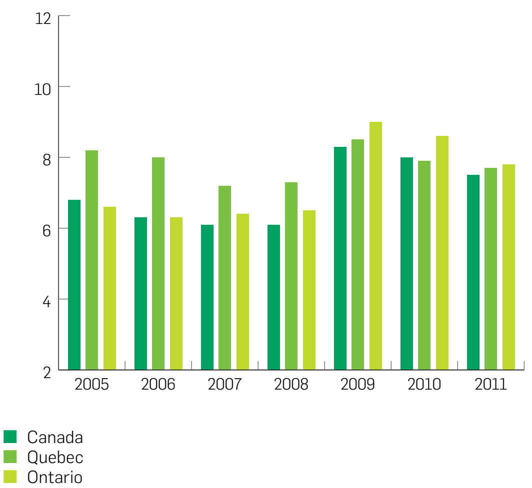
CHANGES IN THE ECONOMY AND THE INDUSTRY

CHANGES IN THE CANADIAN DOLLAR VS. THE U.S. DOLLAR
(Canadian dollars / U.S. dollars)

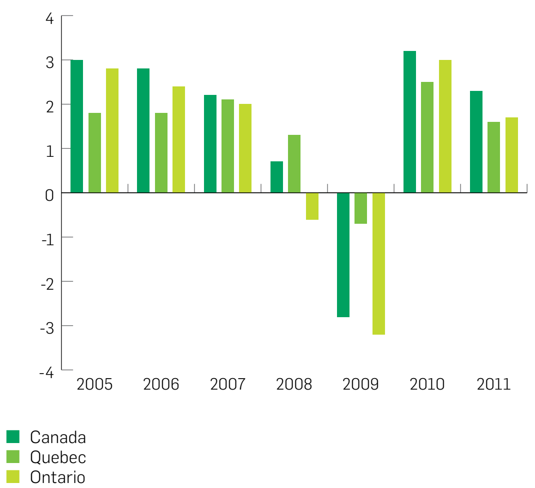


CHANGES IN THE PRIME RATE
(as a percentage)

CHANGES IN THE UNEMPLOYMENT RATE
(as a percentage)



CHANGES IN GDP
(as a percentage)



ECONOMIC ENVIRONMENT IN 2011

The last year was one of turmoil. It started off against a backdrop of crisis in northern Africa and the Middle East. Oil prices increased along with mounting tensions, reaching nearly US$115 a barrel for West Texas Intermediate (WTI) crude because of uncertainty about possible disruptions in some major oil-producing countries. The higher gas prices that resulted had an impact on global economic growth. On March 11, Japan was hit by an earthquake as well as a tsunami which damaged several nuclear reactors. In addition to plunging Japan into another recession, the downtime in export sectors disrupted the supply of many North American plants, particularly in the automobile sector.

In the United States, political uncertainty and debate about lifting the debt ceiling finally led to a downgrade in U.S. debt by Standard & Poor's in August. At the same time, the release of disappointing economic indicators triggered strong volatility on capital markets. Industrialized countries' economic growth forecasts were then revised sharply downward. As for the sovereign debt crisis in Europe, it made waves throughout 2011 and continues to be cause for concern. Despite all the efforts made during the year, investors are still skeptical about the ability of European leaders to take control of the situation. As a result, financing costs in a number of euro zone member countries have increased.

This series of events created considerable volatility on capital markets in 2011. Bond interest rates in North America hit their lowest level in more than 50 years, for several maturities. The price of gold topped US$1,900 per ounce. The Federal Reserve took several measures to revive the U.S. economy, with the result that another recession has been avoided without, however, actually renewing growth. The persisting difficulties in labour and real estate markets show this only too clearly. Canada has fared better as a result of its solid financial system and an abundance of raw materials in worldwide demand, even if the supply problems of some industries caused a decline in real GDP in the second quarter. The high-flying loonie played havoc with exports, but it encouraged business investment.

INDUSTRY DESCRIPTION AND TRENDS

The year 2011 was marked by many uncertainties in the United States and Canada. Despite these concerns, the Canadian financial industry managed to stay on course and did not experience any major changes. Accordingly, Canada has more than 800 savings and loan cooperatives, of which slightly less than half belong to Desjardins Group, as well as some 70 Canadian and foreign banks.

Insurance companies are another major industry player. In 2011, more than 300 were in operation in Canada. Although some were present in both property and casualty insurance and life and health insurance, most of them, that is, almost two-thirds, specialized in property and casualty insurance, while the remaining third operated in life and health insurance. More specifically, there are a few major players in life and health insurance, and the top three account for close to 60% of the premiums collected in this industry in Canada. Desjardins Group, through its subsidiary Desjardins Financial Security, ranked fifth in this market. The picture was somewhat different in property and casualty insurance, where there was a slightly higher number of large institutions, with the top three accounting for only close to 30% of the industry. Desjardins Group, through its subsidiary Desjardins General Insurance Group, ranked ninth in this market.

While the soundness of European financial institutions and their ability to overcome the sovereign debt crisis were being questioned, Canadian institutions did not elicit such fears. In fact, they inspired confidence to such an extent that for the fourth consecutive year, the World Economic Forum rated the Canadian banking industry as the strongest in the world. The Canadian financial system proved itself again because, despite the tense situation on capital markets and the slowdown in economic growth, its loan losses did not increase significantly in 2011. Falling stock markets were favourable to conventional financial products, which benefited traditional financial institutions.

Lastly, 2011 was dominated by a wait-and-see attitude. U.S. and Canadian central banks therefore kept their key interest rates very low. As a result of this low interest rate environment, households were able to prevent their financial condition from deteriorating although they were affected by falling stock markets. In 2012, the focus will again be on the financial health of individuals, and all eyes will be on businesses as well.

ECONOMIC OUTLOOK FOR 2012

The euro zone economy will not be able to withstand the sovereign debt crisis much longer, and this area is expected to be plunged into a recession in 2012. Consequently, global economic growth will be close to what the International Monetary Fund (IMF) describes as the indicator rate of a global recession, or 3.0%. The economic environment will therefore produce highly accommodating monetary conditions in industrialized countries. In all likelihood, the Bank of Canada will not touch its key interest rates in 2012, just like the U.S. Federal Reserve which expects in fact to maintain the current level until late 2014. U.S. and Canadian bond rates should remain weak but they could rise slightly as the year progresses. Stock markets could be affected by considerable volatility.

U.S. structural problems could continue to curb global economic growth this year. The U.S. residential real estate market will likely continue to be depressed because of the glut of houses for sale, weak demand and relatively stringent credit conditions. As for the labour market, it will probably take some time to recover south of the border, and it could be a lengthy process for the unemployment rate to drop to a level acceptable to monetary and government authorities.

Few changes are in store for the Canadian economy. Exports will probably be affected by the strong Canadian dollar and the weak global economy, in particularly south of the border. The Canadian economy should post growth of about 2%, while the largest manufacturing provinces such as Ontario and Quebec will hardly be able to match that performance. These provinces may also pay the price for public finance improvement efforts, which will affect public spending as well as household consumption because of various tax and rate hikes. Business investment should however be encouraged by low interest rates and a relatively strong Canadian dollar. In addition, the real estate sector is expected to be affected by a certain slowdown.

2.0 REVIEW OF FINANCIAL RESULTS

HIGHLIGHTS

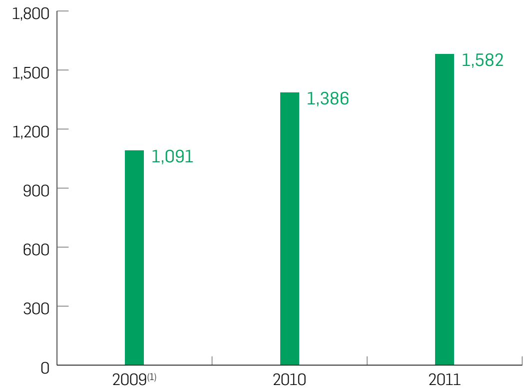
DESJARDINS GROUP RESULTS

- Combined surplus earnings before member dividends of $1,582 million, a 14.1% increase
- Total income up $1,663 million or 14.4%
- A $29 million, or 0.7%, increase in net interest income
- Net premium growth of $491 million or 11.3%
- A $1,143 million, or 34.7%, increase in other income
- Claims, benefits, annuities and changes in insurance and investment contract liabilities totalled $5,292 million as at December 31, 2011, for a 27.9% increase, compared to $4,136 million in 2010
- Non-interest expense up $244 million, or 4.5%, to $5,624 million as at December 31, 2011
- Productivity index of 71.1%, compared to 72.6% in 2010
- The Quebec leader in residential mortgages and consumer credit, including point-of-sale financing, with market shares of 38.4% and 20.7%, respectively
- AssurFinance for Individuals insurance sales up 39.0%, outperforming the market

SECTION 2.1

ANALYSIS OF 2011 RESULTS

SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS
(in millions of dollars)



(1) In accordance with GAAP in effect prior to the adoption of IFRS.

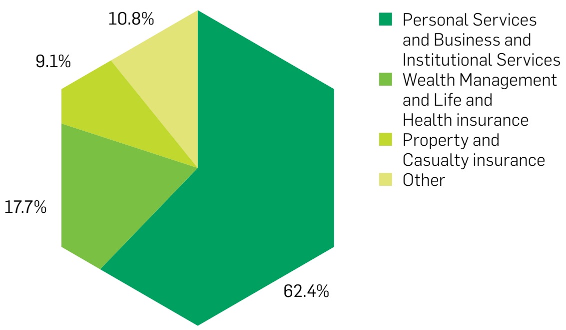
2011 SURPLUS EARNINGS

For 2011, Desjardins Group posted surplus earnings before member dividends of $1,582 million, a $196 million, or 14.1%, increase over 2010. Return on equity was 12.2%, the same as in 2010.

These results reflect the significant contribution of the Personal Services and Business and Institutional Services segment totalling $987 million or 62.4%. The Wealth Management and Life and Health Insurance segment and the Property and Casualty Insurance segment made contributions of $280 million and $144 million, respectively, representing 17.7% and 9.1%. The Other category made a contribution of $171 million or 10.8%.

In a context of prudent management of Desjardins Group and its caisse network and given, among other things, the impact of the adoption of IFRS on financial institutions' capital ratios, the member dividend expense for the year, calculated based on caisse network surplus earnings, was $320 million compared to $299 million in 2010. In addition, $81 million was distributed to communities in the form of sponsorships and donations. In all, $401 million was returned to members and their communities.

SEGMENT CONTRIBUTION TO SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS IN 2011

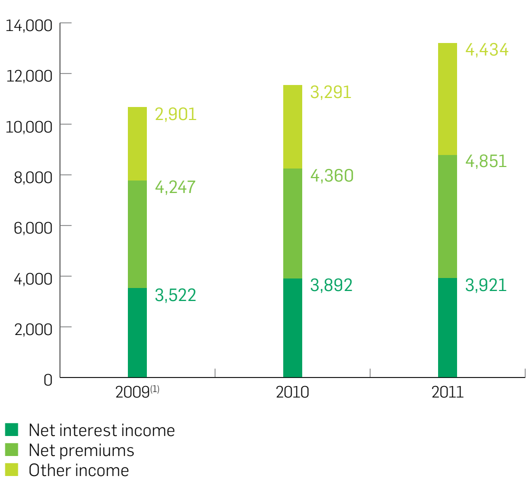


TOTAL INCOME

Total income, comprising net interest income, net premiums and other income, amounted to $13,206 million, an increase of $1,663 million, or 14.4%, over 2010. At $3,921 million, net interest income, generated mostly by the Personal Services and Business and Institutional Services segment, was relatively stable compared to 2010. Net premiums grew by 11.3% to total $4,851 million, largely due to insurance premium growth in both life and health insurance and property and casualty insurance.

Other income amounted to $4,434 million, an increase of $1,143 million, or 34.7%, mainly as a result of growth in securities at fair value through profit or loss and available-for-sale securities, as well as higher other income. The increase was largely offset, however, by higher actuarial liabilities related to the insurance companies' operations, presented under claims, benefits, annuities and changes in insurance and investment contract liabilities. Growth in other income was also due to the $106 million contribution from the consolidation of the operations of Western Financial Group Inc., acquired during the year.

TOTAL INCOME
(in millions of dollars)



(1) In accordance with GAAP in effect prior to the adoption of IFRS.

NET INTEREST INCOME

Net interest income is the difference between interest income earned on assets, such as loans and securities, and the interest expense related to liabilities, such as deposits, borrowings and subordinated bonds. It is affected by interest rate fluctuations and funding strategies, as well as by the composition of interest-bearing or non-interest-bearing financial instruments.

For analysis purposes, Table 5 shows the changes in net interest income for the main asset and liability classes, while Table 6 details how net interest income was affected by changes in the volume and interest rates of assets and liabilities.

For 2011, the Combined Financial Statements of Desjardins Group show net interest income of $3,921 million, an increase of $29 million, or 0.7%, over the previous year. Expressed as a percentage of average assets, this net margin was down 14 basis points. Thus, the change in interest rates and its effect on the credit, investment and savings products and maturities selected by members shaved 11 basis points off the average return on loans.

The $29 million, or 0.7%, increase in net interest income is explained in Table 6 by the sharp increase in average credit volume, which, at $7.2 billion, translates into growth of 6.5%.

Interest income amounted to $5,890 million as at December 31, 2011, which is an increase of $201 million, or 3.5%, over the previous year. Overall, the $8.0 billion, or 6.3%, growth in the average volume of total interest-bearing assets boosted interest income by $364 million, while the 10-basis-point decline in the average return on these assets caused interest income to decrease by $163 million.

During 2011, credit demand from individuals and businesses remained fairly strong, which favoured business growth. Desjardins Group's loans outstanding, net of the allowance for credit losses, increased by $6.9 billion, or 5.8%, since the end of 2010, to stand at $125.2 billion as at December 31, 2011. Although housing market activity was down in Quebec, Desjardins Group continued to be the province's market leader for home financing. As at December 31, 2011, mortgage loans outstanding reached a volume of $79.7 billion, up $5.2 billion, or 7.0%, compared to the $6.8 billion, or 10.1%, increase recorded in 2010. In addition, the increase in consumer financing, credit cards and other personal loans since the end of 2010 was $481 million, or 2.7%, to total $18.0 billion in outstandings as at December 31, 2011, compared to growth of $589 million, or 3.5%, observed a year earlier.

TABLE 5 – NET INTEREST INCOME ON AVERAGE ASSETS AND LIABILITIES

For the years ended December 31
(in millions of dollars and as a percentage)

	2011			2010		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate
Assets						
Interest-bearing assets						
Securities, cash and deposits with financial institutions	$ 17,161	$ 428	2.49%	$ 16,313	$ 439	2.69%
Loans	117,548	5,462	4.65	110,380	5,250	4.76
Total interest-bearing assets	134,709	5,890	4.37	126,693	5,689	4.49
Other assets	5,956	—	—	5,962	—	—
Total assets	$ 140,665	$ 5,890	4.19%	$ 132,655	$ 5,689	4.29%
Liabilities and equity						
Interest-bearing liabilities						
Deposits	$ 119,266	$ 1,818	1.52%	$ 111,021	$ 1,692	1.52%
Borrowings and subordinated bonds	2,944	151	5.13	1,920	105	5.47
Total interest-bearing liabilities	122,210	1,969	1.61	112,941	1,797	1.59
Other liabilities	7,895	—	—	10,027	—	—
Equity	10,560	—	—	9,687	—	—
Total liabilities and equity	$ 140,665	$ 1,969	1.40%	$ 132,655	$ 1,797	1.36%
Net interest income		$ 3,921			$ 3,892	
As a percentage of average assets			2.79%			2.93%

TABLE 6 – IMPACT OF CHANGES IN BALANCES AND RATES ON NET INTEREST INCOME

For the year ended December 31
(in millions of dollars and as a percentage)

	2011			Increase (decrease)	
	Change in average volume	Change in average rate	Interest	Average volume	Average volume
Assets					
Securities, cash and deposits with financial institutions	$ 848	(0.20)%	$ (11)	$ 23	$ (34)
Loans	7,168	(0.11)	212	341	(129)
Change in interest income			201	364	(163)
Liabilities					
Deposits	8,247	—	126	126	—
Borrowings and subordinated bonds	1,024	(0.34)	46	56	(10)
Change in interest expense			172	182	(10)
Change in net interest income			$ 29	$ 182	$ (153)

Desjardins Group also played a very active role with businesses and government. Its loans outstanding to this client segment grew by $1.2 billion, or 4.4%, in 2011 to total $28.0 billion, versus an increase of $518 million, or 2.0%, at the end of 2010.

Interest expense stood at $1,969 million, up $172 million, or 9.6%, over 2010. The $9.3 billion, or 8.2%, growth in average funding from deposits, borrowings and subordinated bonds pushed up interest expense by $182 million, while the 34-basis-point decrease in the average cost of borrowings and subordinated bonds reduced interest expense by $10 million.

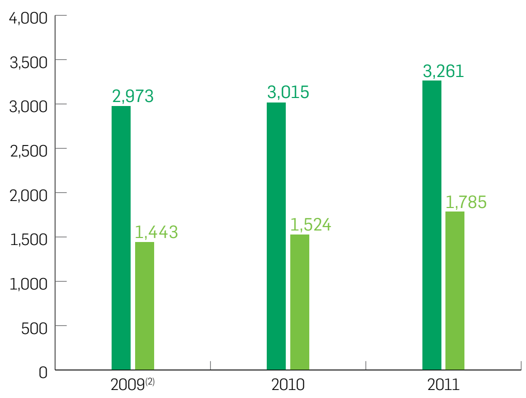
At the end of 2011, Desjardins Group's deposits outstanding increased by $8.7 billion, or 7.6%, to total $123.4 billion. The composition of the deposit portfolio did not change significantly during the year. Savings from its members and clients—individuals, businesses and governments—still make up the main source of financing to support its development. It forms a solid base that alone accounted for 90.4% of Desjardins Group's deposit liabilities at the end of 2011, much the same proportion as in 2010. These savings were up $7.6 billion, or 7.3%, to total $111.5 billion as at December 31, 2011.

To round out its main sources of financing, other types of deposits, such as deposits by deposit-taking institutions and other represented 9.6% of Desjardins Group's deposit liabilities at the end of 2011. These deposits were up $1.1 billion over the year to total $11.9 billion.

NET PREMIUMS

Net premiums, comprising premiums on life and health insurance, property and casualty insurance and annuity premiums, rose $491 million, or 11.3%, to total $4,851 million as at December 31, 2011.

NET PREMIUMS[1]
(in millions of dollars)



(1) The difference between total results and total business segment results pertains to intersegment transactions.
(2) In accordance with GAAP in effect prior to the adoption of IFRS.

WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE

The overall insurance operations of the Wealth Management and Life and Health Insurance segment posted income from net insurance and annuity premiums of $3,261 million for 2011, compared to $3,015 million for 2010, representing an 8.2% increase. Net insurance premiums were up 7.6% over 2010 to total $2,944 million. They increased by 8.0% in Quebec and 7.1% in the other provinces.

Premium volume for individual insurance was $499 million, a $32 million increase over 2010. Premium volume from the network of financial security advisors assigned to Desjardins caisses increased by 16.8% over the previous year. After remarkable sales growth from the distribution networks in recent years, premiums cashed increased by $8.7 million, or 2.9%, over 2010. Furthermore, premium volume for products marketed via direct distribution posted 8.7% growth to stand at $83 million.

Premiums for group insurance written by Desjardins Group members increased by 4.8% and premiums for insurance from other client bases were up 8.9%.

PROPERTY AND CASUALTY INSURANCE

The overall activities of the Property and Casualty Insurance segment generated net premiums of $1,785 million in 2011, compared to $1,524 million in 2010, a 17.1% increase stemming, among other things, from growth in the number of policies issued due to spinoffs from growth initiatives targeting mass market clients and groups both in Quebec and across Canada, the development of white label partnerships, the development of the business insurance segment and higher average premiums in certain other segments. Western Financial Group Inc. has contributed $71 million to net premium income since its acquisition in the second quarter of 2011.

OTHER INCOME

Other income stood at $4,434 million for fiscal 2011, up $1,143 million, or 34.7%, over 2010. The ratio of other income to total income was 33.6% for 2011, compared to 28.5% for 2010.

TABLE 7 – OTHER INCOME
For the years ended December 31
(in millions of dollars and as a percentage)

	2011	2010	2009[1]
Deposit and payment service charges	$ 512	$ 535	$ 513
Lending fees and credit card service revenues	483	451	444
Brokerage, investment fund and trust services	677	656	581
Net income from securities at fair value through profit or loss	1,706	984	666
Net income from available-for-sale securities	299	174	79
Net income from other investments	264	251	275
Other	493	240	343
Total other income	$ 4,434	$ 3,291	$ 2,901
Increase in other income[2]	34.7%	13.4%	252.1%
Other income as a percentage of total income	33.6	28.5	27.2

(1) In accordance with GAAP in effect prior to the adoption of IFRS.
(2) The exceptionally high growth in 2009 was caused by a rebound following the 2008 financial crisis.

Other income grew as a result of the increases of $722 million in net income from securities at fair value through profit or loss and $125 million in net income from available-for-sale securities. A large part of the higher net income from securities at fair value through profit or loss was generated by the operations of the life and health insurance subsidiary and was offset by the increase in actuarial liabilities recorded under claims, benefits, annuities and changes in insurance and investment contract liabilities.

Income from deposit and payment service charges decreased by $23 million, or 4.3%, as a result of lower user fees in the caisses. Income from lending fees and credit card service revenues, consisting mainly of income from payment solutions offered by Desjardins Card Services, totalled $483 million in 2011, up by 7.1%, or $32 million, over 2010, as a result of growth in business volume.

Income from brokerage, investment fund and trust services rose by $21 million, or 3.2%, over 2010, mainly because of growth in investment funds outstanding and higher fee income, chiefly due to growth in assets under management and the number of transactions.

Income under the Other category increased by $253 million, or 105.4%, over 2010, totalling $493 million. The consolidation of Western Financial Group Inc. during the year accounted for $91 million of this increase. This item included asset write-downs in 2010.

PROVISION FOR CREDIT LOSSES

Desjardins Group's loan portfolio continued to be of excellent quality. As at December 31, 2011, gross impaired loans outstanding stood at $520 million, up $8 million since December 31, 2010. The ratio of gross impaired loans, as a percentage of the total gross loans portfolio, was 0.41% as at December 31, 2011, an improvement over the ratio of 0.43% as at December 31, 2010. Desjardins Group has one of the best ratios in this regard in the Canadian banking industry.

The provision for credit losses was $237 million for 2011, up $34 million from 2010, mainly because of the increase in loans outstanding for credit card financing.

CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE AND INVESTMENT CONTRACT LIABILITIES

Claims, benefits, annuities and changes in insurance and investment contract liabilities were up $1,156 million, or 27.9%, to stand at $5,292 million as at December 31, 2011.

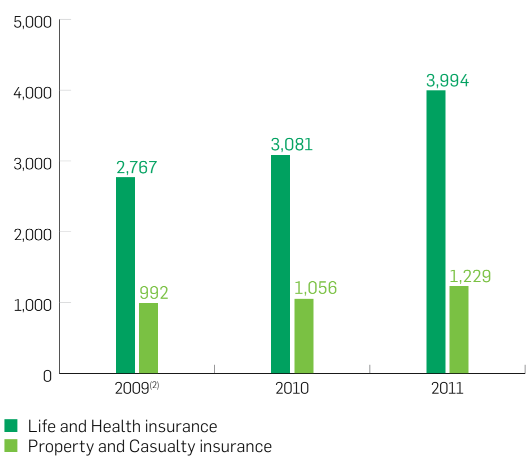
WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE

The Wealth Management and Life and Health Insurance segment had expenses of $3,994 million as a result of insurance benefits and annuities, other payments to insured persons and changes in actuarial liabilities, compared to $3,081 million in 2010, an increase of $913 million. This 29.6% rise was largely due to higher actuarial liabilities under "Insurance and investment contract liabilities", including the increase in the fair value of investments. In addition, business growth pushed up the benefit expense.

PROPERTY AND CASUALTY INSURANCE

Expenses in the Property and Casualty Insurance segment were $1,299 million, compared to $1,056 million in 2010, representing a loss ratio of 72.8% versus 69.3% in 2010. This $243 million increase was in part due to growth in the portfolio of automobile insurance policies in Ontario as well as to Hurricane Irene, which affected mainly Quebec and the Atlantic provinces in the third quarter of 2011. In addition, lower market interest rates, which increased the present value of the provisions for claims, and the boosting of provisions in business insurance related to pyrrhotite problems, largely explain the 3.5-point increase in the loss ratio compared to 2010. It was also derived from the $43 million contribution of Western Financial Group Inc.

CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE AND INVESTMENT CONTRACT LIABILITIES(1)
(in millions of dollars)

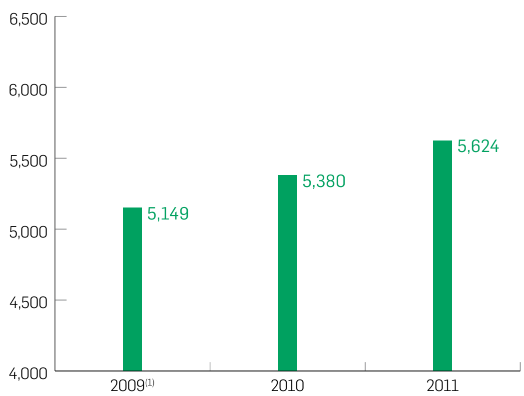


(1) The difference between total results and total business segment results pertains to intersegment transactions.
(2) In accordance with GAAP in effect prior to the adoption of IFRS.

NON-INTEREST EXPENSE

Non-interest expense totalled $5,624 million, up $244 million, or 4.5%, from $5,380 million in 2010, essentially as a result of investments to modernize information technologies, which accounted for $85 million, the consolidation of Western Financial Group Inc. which accounted for $122 million, and the increase in salaries and fringe benefits as a result of annual indexing.

NON-INTEREST EXPENSE
(in millions of dollars)



(1) In accordance with GAAP in effect prior to the adoption of IFRS.

PRODUCTIVITY INDEX

The productivity index, calculated as the ratio of non-interest expense to total income, net of expenses related to claims, benefits, annuities and changes in insurance and investment contract liabilities, was 71.1% in 2011, compared to 72.6% in 2010.

SALARIES AND FRINGE BENEFITS

Expenses incurred for salaries and fringe benefits rose $184 million, or 7.1%, to $2,785 million in 2011. This increase was mainly attributable to business growth, annual indexing and the integration of the operations of Western Financial Group Inc., which accounted for $60 million in salaries. This expense item represented 49.5% of Desjardins Group's total non-interest expense, compared to 48.3% in 2010. For 2011, salaries amounted to $2,324 million, up 6.9% over $2,173 million in 2010.

The ratio of fringe benefits to total base compensation was relatively stable, going from 19.7% in 2010 to 19.8% in 2011.

OTHER EXPENSES

For 2011, expenses related to premises, equipment and furniture (including depreciation) stood at $517 million, compared to $425 million in 2010, for an increase of $92 million, or 21.6%, mainly due to the purchase of computer equipment. Service agreement and outsourcing fees were down $93 million, or 25.6%, from 2010, to stand at $270 million in 2011. This decrease was the result, in part, of the synergies achieved since the creation of Desjardins Technology Group Inc. Communications expenses, which include the cost of telephony, advertising, courier services and stationery, rose $4 million, or 1.6%, from the previous year to $262 million in 2011.

The other expense categories stood at $1,790 million, for an increase of $57 million, or 3.3%, compared to 2010, including a $34 million increase attributable to the addition of the operations of Western Financial Group Inc. in 2011.

TABLE 8 – NON-INTEREST EXPENSE
For the years ended December 31
(in millions of dollars and as a percentage)

	2011	2010	2009(1)
Salaries and fringe benefits			
Salaries	$ 2,324	$ 2,173	$ 2,113
Fringe benefits	461	428	310
	2,785	2,601	2,423
Premises, equipment and furniture, including depreciation	517	425	415
Service agreements and outsourcing	270	363	371
Communications	262	258	237
Other	1,790	1,733	1,703
Total non-interest expense	$ 5,624	$ 5,380	$ 5,149
Productivity index – Desjardins Group(2)	71.1%	72.6%	74.5%

(1) In accordance with GAAP in effect prior to the adoption of IFRS.
(2) See page 45 "Basis of presentation of financial information".

INCOME TAXES AND INDIRECT TAXES

Desjardins Group is a cooperative financial group and each of its entities that operate as a financial services cooperative—namely the caisses, *Caisse centrale Desjardins*, the *Fédération des caisses Desjardins du Québec* and the *Fédération des caisses populaires de l'Ontario*—is considered a private and independent company. This distinguishes Desjardins Group from most other financial institutions, which are large public corporations. Each caisse is therefore subject to the tax regulations applicable to private companies. Legislators have adapted these regulations to enable the caisses to accumulate a sufficient general reserve to serve as a capital base for the protection of members' deposits. When the general reserve reaches the level specified in the legislation, the caisse is subject to the same tax rates as large corporations.

Desjardins entities that are not financial services cooperatives are subject to the tax regulations that apply to large corporations.

Income taxes on surplus earnings include income taxes on the operations of Desjardins Group's various entities.

Indirect taxes consist of income taxes and taxes on capital, property and business taxes, taxes on payroll and fringe benefits, the goods and services tax and sales taxes. Indirect taxes are included in non-interest expense.

For fiscal 2011, the entities of Desjardins Group paid $751 million in indirect taxes.

COMPARISON OF 2010 AND 2009

The following analysis presents a comparison between the results for the years ended December 31, 2010, and 2009.

Data for 2010 were established using IFRS as the basis of accounting, while 2009 data are in compliance with Canadian GAAP. The transition did not have a significant impact on financial results. For additional information, see Note 4, "Impact of IFRS adoption", to the Combined Financial Statements, pages 147 to 155.

Using IFRS as the basis of accounting, surplus earnings before member dividends for 2010 were $1,386 million, for an increase of $295 million, or 27.0%, over 2009. Return on equity amounted to 12.2%, compared to 10.2% at the end of fiscal 2009.

These results reflect the major contribution of $934 million, or 67.4%, made by the Personal Services and Business and Institutional Services segment. The Wealth Management and Life and Health Insurance segment and the Property and Casualty Insurance segment made contributions of $249 million, or 18.0%, and $131 million, or 9.5%, respectively. The impact of the Other category was $72 million, or 5.1%.

Total income was $11,543 million, an increase of $873 million, or 8.2%, over the previous year. Net interest income was $3,892 million, up $370 million, or 10.5%, over 2009, primarily as a result of the caisses' efforts in the mortgage and business loan markets. Other income amounted to $3,291 million, for growth of $390 million, or 13.4%. This growth was the result, among other things, of the increase in net income from securities at fair value through profit or loss and net income from available-for-sale securities, as well as a rise in income from brokerage, investment fund and trust services.

Desjardins Group's loan portfolio continued to be of excellent quality. The provision for credit losses was $203 million for 2010, down $57 million from 2009.

Expenses related to claims, benefits, annuities and changes in insurance and investment contract liabilities were up $378 million, or 10.1%, to $4,136 million. This rise was largely due to higher actuarial liabilities because of the increase in the fair value of the investments backing them and the higher loss ratio in automobile insurance in the Ontario market.

Non-interest expense totalled $5,380 million compared to $5,149 million in 2009, an increase of $231 million, or 4.5%, chiefly because of growth in salaries and fringe benefits as a result, among other things, of the annual indexing of salaries and pension plan expenses.

SECTION 2.2

ANALYSIS OF BUSINESS SEGMENT RESULTS

Desjardins Group's financial reporting is based on accounting by operations structured according to the needs of members and clients, as well as the markets in which Desjardins Group operates, thereby reflecting its internal management method. The financial results of Desjardins Group are therefore divided into the following three business segments: Personal Services and Business and Institutional Services, Wealth Management and Life and Health Insurance, and Property and Casualty Insurance. This section presents the profile, activities, industry, 2011 financial highlights, 2012 strategy and priorities, and an analysis of results for each segment. Finally, the Other category is also added to these three segments.

During the second quarter of 2011, Desjardins Group discontinued allocating the results of the support functions of the Federation to the business segments. The Federation's support functions are now presented in the Other category. This new basis of presentation allows Desjardins Group to provide disclosures that are more representative of the operating results of each business segment. Segmented information for 2010 presented for comparison purposes has been restated to conform to this new basis of presentation.

Intersegment transactions are carried out in the normal course of business and are measured at the exchange amount, which corresponds to the amount of consideration established and agreed to by each of the legal entities and business units.

SECTION 2.2.1

PERSONAL SERVICES AND BUSINESS AND INSTITUTIONAL SERVICES

PERSONAL SERVICES

PROFILE

The Personal Services offer to members and clients includes products, services, and advice for regular and convenience transactions, variable and term savings, financing, as well as payment and credit cards via the caisse network.

It also makes its products and services available through complementary distribution networks and mortgage representatives, by phone, online, via applications for mobile devices, as well as at ATMs.

ACTIVITIES

Regular, convenience and savings activities include transactions carried out at the caisse counter, requests for information and various specialty services (drafts, safety deposit boxes, etc.). They also include variable savings (chequing accounts, regular savings, etc.) and term savings.

Financing activities include the following:

- **Residential mortgage loans**: for the purchase of new or existing homes and for renovations
- **Consumer loans**: such as loans for the purchase of durable goods, advances to credit cardholders, personal lines of credit and student loans

The activities of **Desjardins Card Services** include card payment services for individuals and businesses, merchant payment services, financing solutions (Accord D) and, since November 2011, point-of-sale financing for automobiles and durable goods. Previously, transactions related to these activities were the responsibility of the Quebec and Ontario caisses.

Through **AccèsD Services**, Desjardins Group offers and develops easily accessible products and services by using channels that enable people to perform most of their financial transactions at any time, from anywhere in the world, by phone, online or using applications for mobile devices.

INDUSTRY

The Canadian banking services industry is highly concentrated and saturated, leading to solid competition in the strategies deployed by the different players.

In 2011, the card and payment solutions industry was marked by changes not only in the business environment for payment networks, but also in the regulatory framework in Quebec and across Canada (code of conduct, *Consumer Protection Act*, etc.). Some of these changes also affected the financing industry.

2011 FINANCIAL HIGHLIGHTS

- Desjardins is Quebec's leader in residential mortgages and consumer loans, including point-of-sale financing, with market shares of 38.4% and 20.7% respectively.
- Quebec's pioneer and leader in online services, *Desjardins.com* is the most visited financial website in Quebec and one of the most visited in Canada. In December 2011, Desjardins had more than 2.1 million individual members using AccèsD Internet.
- Desjardins is the number one credit and debit card issuer in Quebec, with more than 4.8 million credit cardholders and 5.6 million debit cardholders across Canada.
- Desjardins recorded an increase of over $4.6 billion in residential mortgages, translating into 0.1% growth in Quebec market share; 38.4% of the increase can be attributed to caisse and mortgage representative development activities.
- On-balance sheet savings grew by $3.8 billion, translating into a 0.1% increase in Quebec market share, to total 43.0%.

2012 STRATEGY AND PRIORITIES

The Personal Services sector intends to strengthen its leading position in financing and transactional services, and achieve profitable growth in its market shares in Quebec and elsewhere in Canada. To achieve these priorities, it will rely mainly on quality, innovation and profitability in its range of products and services with respect to financing, savings, regular transactions, and convenience and card services, as well as its high level of accessibility.

To carry out this strategy, the sector will maintain its focus on the following priorities:

- Develop new markets and new client groups
- Make it simpler and easier for members and clients to do business with Desjardins and have access to all its services according to their expectations and needs, using the various channels available
- Optimize physical and virtual distribution
- Enhance sales and administrative processes to improve the quality of the member/client experience and enhance operational efficiency
- Maintain its leadership position in traditional savings, mortgages and consumer loans
- Increase its financial literacy activities, particularly with respect to the responsible use of credit

BUSINESS AND INSTITUTIONAL SERVICES

PROFILE

The Business and Institutional Services offer to Desjardins members and clients includes a comprehensive, integrated line of products and services designed to meet the needs of businesses of all sizes, as well as institutions, through the caisses in Quebec and Ontario, their business centres and the major accounts team. The offer includes regular and convenience transactions, securities investments, financing, specialized services, capital markets, development capital, business ownership transfers and advisory services.

It also makes its products and services available through complementary distribution networks, by phone, online, and through applications for mobile devices, as well as at ATMs. Sales teams are present across Quebec and in certain major Canadian cities.

ACTIVITIES

In addition to **regular, convenience, savings and loan** activities, this sector supports businesses of all sizes through every stage of their growth in the Quebec, Canadian and international markets.

Activities targeting **medium-sized businesses** include Desjardins products and services in the commercial and industrial sectors, commercial real estate, the public sector, franchises and business ownership transfers.

This sector also provides a full range of products and services to meet the specific needs of businesses operating in the **agricultural and agri-food industry**.

Specialized services for businesses include asset custody and trust services, payroll and human resources solutions, international services, banking services and the Immigrant Investor Program.

Activities designed to access **capital markets** meet the financing needs of large Quebec-based corporations, cooperatives and Canadian businesses operating in industries such as mining, metal and energy, and provide advisory services on business mergers and acquisitions, as well as intermediation and execution activities on the stock and bond markets. These services are provided by seasoned sales and trading teams who are supported by a research team that is renowned in the market for its excellence.

The segment's **development capital and business ownership transfer** activities allow it to invest, directly or through funds, in Quebec cooperatives and SMEs with promising projects by guiding them through every stage of their growth.

INDUSTRY

The Business and Institutional Services sector operates in a constantly changing and competitive economic environment. Activity on the Canadian debt and equity market is dynamic and the vitality of the Canadian economy attracts foreign investors. Certain risks and concerns related in particular to the international situation have influenced the economic environment.

The public sector is marked by a low risk-return trade-off which can provide a sound diversification of risks and a significant source of deposits. Desjardins Group holds a significant market share in all institutional sub-sectors.

The banks' renewed interest in the business sector was confirmed in 2011. While Desjardins recorded significant gains in market share for business financing in 2009, the banks lost ground. However, 2010 was marked by their return, which was then confirmed in 2011.

The asset custody industry is concentrated among five major players in Quebec. Payroll and human resources services face keen competition, particularly with regard to pricing. Desjardins Group still maintains top ranking in this market in Quebec.

2012 STRATEGY AND PRIORITIES

The Business and Institutional Services sector aims to contribute to the sustainable economic growth of the businesses and communities it serves. Its strategy is based on establishing relationships of trust with members, clients and partners, and on a philosophy founded on sustainable development. The strategy is supported by strong foundations in the regions and a long-standing commitment to the socio-economic environment.

In line with this strategy, the priorities for 2012 are as follows:

- Post the strongest mid-market growth in the industry and intensify development of the large business segment, while applying sound and prudent risk management practices
- Maintain strong leadership in financing for the small business segment and the agricultural and agri-food industry
- Build sustainable, considerate and distinctive business relationships with business members and clients

2011 FINANCIAL HIGHLIGHTS

- Net interest income was $58 million higher in 2011 than 2010.
- *Caisse centrale Desjardins*'s commitments rose 23.9% to total $8.3 billion as at December 31, 2011.
- Overall transaction volumes in the large and mid-sized business and institutional segments were up 7% over 2010, to reach 175 million transactions.
- At year-end 2011, assets under management at Desjardins Venture Capital Inc. amounted to $1,315 million, for a year-over-year increase from $1,092 million. Through its funds under management, Desjardins Venture Capital Inc. supports the growth of 347 businesses, cooperatives and funds in every region of Quebec.

ANALYSIS OF SEGMENT FINANCIAL RESULTS

TABLE 9 – PERSONAL SERVICES AND BUSINESS AND INSTITUTIONAL SERVICES – SEGMENT RESULTS
For the years ended December 31
(in millions of dollars)

	2011	2010	2009(1)
Net interest income	$ 3,715	$ 3,679	$ 3,183
Other income	1,739	1,553	1,777
Total income	5,454	5,232	4,960
Provision for credit losses	236	204	259
Non-interest expense	3,884	3,779	3,830
Income taxes on surplus earnings	347	315	238
Surplus earnings before member dividends	$ 987	$ 934	$ 633
Provision for member dividends, net of tax recovery	$ 230	$ 218	$ 213
Non-controlling interests' share	1	2	1
Surplus earnings for the period after member dividends – Group's share	$ 756	$ 714	$ 419

(1) In accordance with GAAP in effect prior to the adoption of IFRS.

COMPARISON OF 2011 AND 2010

The Personal Services and Business and Institutional Services segment recorded $987 million in surplus earnings before member dividends at the end of 2011, up 5.7%, or $53 million, over 2010.

Total income for the segment was up $222 million, or 4.2%, to total $5,454 million. These results included $36 million, or 1.0%, growth in net interest income, generated in part by an increase in mortgage loan and credit card outstandings. In addition, credit commitments were up $1.4 billion for the large business segment, which attests to the results of our development strategies. The $237 million rise in average volume in the mid-market segment and the increase in client deposits on the banking services side also contributed to the increase in net interest income. Other income was up $186 million, or 12.0%, on account of higher sales in the caisse network of Desjardins products designed by the subsidiaries, growth in investment income and higher consumer spending, which had a positive effect on credit card activities. Income generated by the mergers and acquisitions team, which completed 13 mandates in 2011, was also up.

The provision for credit losses rose by $32 million, or 15.7%, over 2010, chiefly as a result of the increase in loans outstanding related to credit card financing and the reversal of certain provisions in 2010 attributable to favourable economic conditions and the recovery of certain loans. This increase was partially offset, however, by a decrease in the provision in the caisse network in 2011.

Non-interest expense was up $105 million, or 2.8%, over 2010, chiefly because of an increase in investments in information technology, Canada-wide development and the Co-opme Program, as well as higher expenses in the BONUSDOLLARS Rewards Program. The caisse network's efforts made it possible to absorb the increase related to inflation by maintaining expenses at the same level as in 2010.

SECTION 2.2.2
WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE

PROFILE

The Wealth Management and Life and Health Insurance segment offers a wide range of products and services tailored to the changing asset management and financial security needs of individuals, groups and businesses, either as caisse network members or clients of complementary distribution channels. This service offer meets consumers' needs in terms of life and health insurance, group insurance, savings, brokerage, securities and real estate investment products and advisory services throughout Quebec and Ontario, and in major cities across Canada, including Vancouver, Calgary, Winnipeg, Toronto, Ottawa, Montreal, Quebec City, Halifax and St. John's.

Its products and services can also be purchased from financial planners in the caisse network, and by phone, online and via applications for mobile devices.

ACTIVITIES

Insurance activities **for individuals and business people offer** these clients insurance products that protect their quality of life, their health, their families and their loved ones, and also help them face life's unforeseen events.

Group insurance plan activities meet the needs of businesses and organizations of all sizes with solutions that are tailored to their specifications by group plan implementation and administration experts.

Savings activities **for individuals and business people** feature a comprehensive range of financial security products to help clients with projects such as preparing for retirement, planning trips and financing their children's education.

Specialized savings activities include specialized savings and investment products, such as mutual funds and other investment solutions as well as market-linked guaranteed investments to meet the needs of caisse members and clients of various complementary networks.

Group retirement savings activities are geared to the needs of business members and other clients in the area of employee retirement savings plans.

Brokerage and private management activities offer members and clients full-service and online brokerage, private management and management of investment companies of large business families with complex needs.

INDUSTRY

In 2010, the Canadian life and health insurance industry recorded $80.3 billion in premium income, derived from a wide range of products supporting the financial security of over 26 million insured persons in Canada; the equivalent of $3.6 trillion in life insurance across the entire country. Benefits paid totalled $64.1 billion. The top three Canadian life and health insurers alone accounted for 60.0% of the market. In Canada, Desjardins Financial Security Life Assurance Company ranks fifth in the industry.

The major banks distribute a full range of wealth management products through their exclusive distribution network. They also have extensive platforms that they continue to develop. Bank distribution channels can be expected to evolve over the next ten years, with branches and electronic services focusing more on advice. Branches still have an important role to play as advisory service providers and will remain the primary channel for sales. Mobile banking services are a growing channel for transactions and will eventually overtake online services, ATMs and phone services in popularity.

Life and health insurers are increasingly moving toward partnering with major financial institutions for their infrastructure, while reserving the right to choose the financial products. Banks are now offering their life and health insurance online and also partnering with insurers to provide advisors with an expanded range of products and services. E-commerce continues to gain ground. Clients are savvier and more active online.

2012 STRATEGY AND PRIORITIES

The Wealth Management and Life and Health Insurance segment wants to be recognized as one of the top wealth managers and a national player in the life and health insurance industry, by offering Desjardins members and clients an integrated service offer adapted to their changing needs.

In line with this strategy, the priorities for 2012 are as follows:

- Develop a strong and distinctive wealth management brand image and offer an exceptional client experience to high net worth members and their families
- Increase Desjardins Group's market shares in specialized savings products and services
- Maintain leadership in life and health insurance and continue to stand out on the Canadian market
- Continue implementation of the accelerated growth plan for group and individual savings
- Target national growth in group and business insurance, especially with medium-sized and large businesses

2011 FINANCIAL HIGHLIGHTS

- Travel insurance sales on the Internet grew by 30.0%.
- AssurFinance for Individuals insurance sales increased by 39.0%, a growth rate that outperformed the market.
- The group and business insurance segment passed the $2.0 billion mark in premiums administered.
- Group retirement savings sales increased by 26.7%. Results for the offer distributed by this segment in the caisse network and at Desjardins business centres were up 273.2% over 2010.
- Desjardins's market shares in Quebec for on-balance sheet savings (43.0% market share at year-end 2011) and off-balance sheet savings (14.7% market share at year-end 2011) continued to grow.
- Chorus II Portfolios recorded substantial sales since their launch by Desjardins Funds (outstandings of $258 million at year-end 2011).
- Securities sales in the Desjardins caisse network reached $1.3 billion.
- The national distribution network for individual savings was expanded following the acquisition of mutual fund broker MGI Financial Inc.
- Implementation continued on the accelerated growth plan for life and health insurance, with a return on equity of 21.2%. Growth continued outside Quebec: savings assets outside Quebec ($4.9 billion) now exceed savings assets inside Quebec ($4.8 billion). Almost half of premiums for group and business insurance are generated outside Quebec.

ANALYSIS OF SEGMENT FINANCIAL RESULTS

TABLE 10 – WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE – SEGMENT RESULTS

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

	2011	2010	2009(1)
Net interest income	$ 4	$ 3	$ 3
Net premiums	3,261	3,015	2,973
Other income	2,637	1,839	1,450
Total income	5,902	4,857	4,426
Provision for credit losses	—	(1)	1
Claims, benefits, annuities and changes in insurance and investment contract liabilities	3,994	3,081	2,767
Non-interest expense	1,560	1,456	1,352
Income taxes on surplus earnings	68	72	69
Surplus earnings before member dividends	$ 280	$ 249	$ 237
Provision for member dividends, net of tax recovery	$ 7	$ 6	$ —
Non-controlling interests' share	16	(4)	2
Surplus earnings for the period after member dividends – Group's share	$ 257	$ 247	$ 235

(1) In accordance with GAAP in effect prior to the adoption of IFRS.

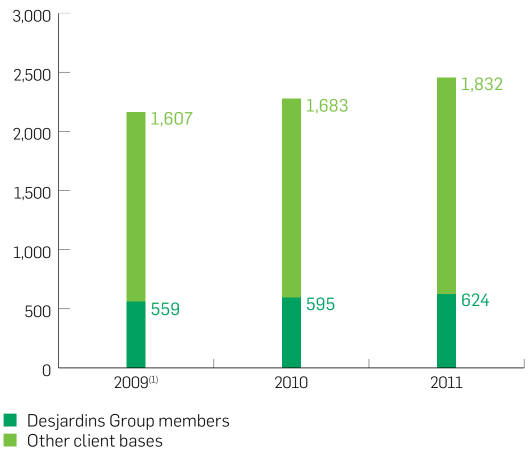
TABLE 11 – EXPENSES ATTRIBUTABLE TO POLICYHOLDERS

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

	2011	2010	2009(1)
Insurance and annuity benefits	$ 2,378	$ 2,214	$ 2,175
Changes in actuarial liabilities	1,495	754	467
Interests of policyholders, refunds and other	121	113	125
Total	$ 3,994	$ 3,081	$ 2,767

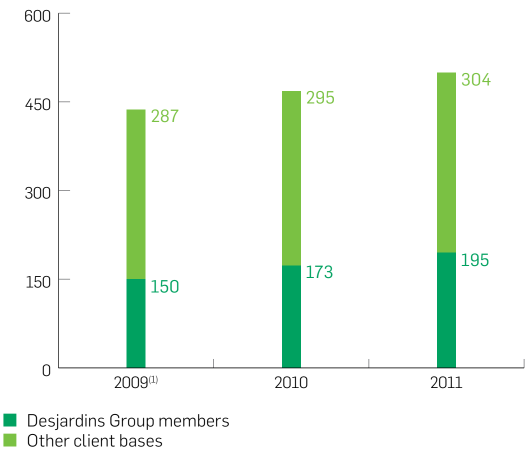
(1) In accordance with GAAP in effect prior to the adoption of IFRS.

GROUP INSURANCE PREMIUMS
BY DISTRIBUTION NETWORK
(in millions of dollars)



(1) In accordance with GAAP in effect prior to the adoption of IFRS.

PERSONAL INSURANCE PREMIUMS
BY DISTRIBUTION NETWORK
(in millions of dollars)



(1) In accordance with GAAP in effect prior to the adoption of IFRS.

COMPARISON OF 2011 AND 2010

For 2011, surplus earnings before member dividends for the segment were $280 million, an increase of $31 million, or 12.4%, over 2010. Active financial management, involving business growth and strict control of expenses, as well as investment management activities and optimized matching, helped the segment to achieve these excellent results, in spite of a challenging environment on account of low interest rates and weak capital markets.

The segment's total income was $5,902 million, for an increase of $1,045 million, or 21.5%, due mainly to the $715 million growth in investment income from life and health insurance operations, partially offset by an increase in the insurance contract liabilities included in expenses related to claims, benefits, annuities and changes in insurance and investment contract liabilities. It was also attributable to a $209 million rise in net insurance premiums and $37 million in net annuity premiums. Individual and group insurance premiums were up for both members and other client bases. Lastly, the growth in average assets under management for the distribution of various products also contributed to the increase in other income.

Expenses related to claims, benefits, annuities and changes in insurance and investment contract liabilities stood at $3,994 million, an increase of $913 million, or 29.6%, over the same period in 2010 as a result of a $741 million increase in actuarial liabilities included in insurance and investment contract liabilities, including the upward fluctuation in the fair value of investments and a $164 million increase in benefits and annuities, mainly due to business growth.

Non-interest expense was up $104 million, or 7.1%, to total $1,560 million for 2011, essentially as a result of the growth in commissions on sales of savings products and the remuneration paid to the caisse network, as well as the increase in salaries and fringe benefits due to business growth and annual indexing.

SECTION 2.2.3

PROPERTY AND CASUALTY INSURANCE

PROFILE

The Property and Casualty (P&C) Insurance segment includes the operations of Desjardins General Insurance Group Inc. as well as Western Financial Group Inc. since its acquisition by Desjardins Group on April 15, 2011. Desjardins General Insurance Group Inc. offers a line of home and automobile insurance products directly to the general public and to members of partner groups across Canada, as well as insurance products to businesses in the Quebec market. Western Financial Group Inc. operates an extensive distribution network of financial services and insurance products that provides services for more than 550,000 clients in western Canada. Western Financial Group Inc. also distributes its own life insurance products, pet insurance and certain banking products.

Desjardins General Insurance Group's products are distributed through P&C insurance agents in the caisse network, client care centres and business centres, online and, for certain products, through applications on mobile devices. Western Financial Group Inc. distributes its life insurance and banking products through its own distribution network and other broker networks, and it distributes its pet insurance products through a large number of points of sale, including veterinary clinics and its call centres.

Desjardins General Insurance Group Inc., which has more than two million policies in force, markets its products to the Canada-wide individual market under the Desjardins General Insurance Group Inc. banner, and to the group market—including members of professional associations, employers and unions—under The Personal banner.

Companies that manufacture P&C insurance products are also active on the white label market, notably with a well-established Canadian financial institution, as well as with Western Financial Group Inc., for which a direct insurance offer was launched in certain target urban markets under the Western Direct brand.

ACTIVITIES

Automobile insurance operations, including motorcycle and recreational vehicle insurance, are tailored to clients' specific needs and the value of their vehicle. In provinces without a public plan, insurance also includes the necessary coverage to obtain financial compensation for bodily injury.

Property insurance operations offer insurance coverage for primary and secondary residences in order to protect the physical assets of members and clients. By combining all-risk insurance and optional coverage, clients can enjoy comprehensive protection tailored to their needs.

Business insurance operations meet the insurance requirements for commercial vehicles, commercial property and public liability for small and medium-sized businesses in Quebec operating in the following sectors: service firms, retailers and wholesalers, garages, self-employed workers, general or specialized contractors, restaurants, and condominium and apartment buildings.

Pet insurance operations cover the health-care needs of domestic dogs and cats. Western Financial Group Inc. has the necessary licences to write this insurance in all provinces and territories of Canada.

Financial product distribution operations comprise a network of independent brokers representing some 125 points of sale in British Columbia, Alberta, Saskatchewan and Manitoba. The network offers a wide variety of P&C insurance products including automobile, property, farm, business and liability insurance, other specialized products and life insurance and banking products.

Other operations of Western Financial Group Inc. include certain life insurance products and banking solutions.

INDUSTRY

The Canadian P&C insurance industry offers insurance coverage for vehicles, personal and commercial property, public liability and other general lines. In 2010, the total amount of direct premiums written was $41.2 billion, of which 62.7% was individual insurance and 37.3% was business insurance. For Canada as a whole, brokers have a market share of 67.9%, while direct writers have 21.1% of the market and exclusive agents, 11.0%. In Quebec, direct writers have gained significant market shares since their arrival and now hold 43.0% of the market, compared to 55.9% for brokers and the remainder for exclusive agents.

In 2010, the top 10 insurers in Canada represented 59.0% of the market, up 3 percentage points since 2006, while the top five insurers represented 37.0% of the market, compared to 36.0% in 2006.

The Canadian P&C insurance market is mature and cyclical, with annual growth of 3.7% since 2006 and an average return of 11.8% over the past five years. Growth in the industry is influenced by the level of premiums, which varies in particular according to changes in the value of insured property and the loss experience in the different lines. The industry's financial performance is dependent on the profitability of insurance operations, i.e. the level of insurance premiums less claims experience and operating expenses, as well as the investment portfolio return.

In Ontario, the hard market cycle continued and created attractive growth opportunities for insurers. The Ontario market again posted a high automobile insurance loss ratio in 2011, but the positive effects of the Ontario reforms began to be felt, with the stabilizing of rate hikes and settlement costs. The reforms introduced in September 2010 were aimed at addressing rising claims costs while improving the settlement process to better meet clients' needs. Fraud remained an important issue, especially in the Greater Toronto Area, and insurers and governments joined forces to find long-term solutions.

In 2011, a major transaction took place between two insurers in the industry, which should contribute to accelerating the consolidation of the Canadian P&C market. The largest insurers are reinforcing their position, which means that their influence will increase within the industry, applying additional pressure by increasing competition.

2012 STRATEGY AND PRIORITIES

The segment will carry on with its profitable growth plan aimed at reinforcing its dominant position in Quebec and positioning Desjardins as a leading insurer in Ontario, in addition to stimulating its development in western Canada. For Quebec, the segment intends to achieve above-market growth by fully leveraging its membership in Desjardins Group and building on its culture of growth, while preserving sound profitability. In Ontario, the segment will capitalize on growth opportunities related to the present hard cycle. In western Canada, it will focus its expansion plan on acquisitions in the brokerage network as well as on initiatives carried out in collaboration with Western Financial Group Inc., which is well known in its market.

The segment also relies on a model and strategy aligned with the market dynamic, as well as on its competencies in risk assessment and claims management. It also intends to continue adjusting to changing distribution channels based on market imperatives, while making use of all the strengths of its direct model.

The priorities for 2012 are as follows:

DESJARDINS GENERAL INSURANCE GROUP

- Continue to grow through acquisitions and strategic partnerships in order to break into the top three insurers in the Canadian individual market
- Increase its access to the market by fine-tuning its business model while drawing on its strengths as a direct insurer
- Improve client satisfaction by simplifying, enhancing and differentiating itself in client experience

WESTERN FINANCIAL GROUP INC.

- Continue its strong expansion through acquisitions and organic growth in order to become an important player in the consolidation of the P&C insurance industry and remain the largest network of brokers in western Canada.
- Implement joint development initiatives with Desjardins components in order to accomplish the following:
  - Step up the pace of growth in Western Financial Group's distribution network and expand the product and service line offered to clients
  - Boost Desjardins's presence in western Canada

2011 FINANCIAL HIGHLIGHTS

- The segment's total income was $2,048 million in 2011, a 25.5% increase over 2010.
- Desjardins General Insurance Group Inc. experienced significant growth in the number of policies issued as a result of growth initiatives that helped it to exceed the 2 million mark for in-force policies.
- Western Financial Group Inc. contributed $71 million to net premium income since its acquisition on April 15, 2011.
- A number of promising initiatives were introduced at Western Financial Group Inc., including the following:
  - Launch of Western Direct in certain urban markets, including Calgary and Edmonton, in order to provide direct home and automobile insurance, by phone or online
  - Continuation of the external growth strategy, with numerous acquisitions of portfolios from brokers associated with The Network
  - Redeployment of Bank West's loan portfolio in certain high-potential niches with attractive margins
- The segment's loss ratio was slightly higher, at 72.8% in 2011, compared to 69.3% in 2010, in particular because of the automobile loss ratio in Ontario, which remained high.

ANALYSIS OF SEGMENT FINANCIAL RESULTS

TABLE 12 – PROPERTY AND CASUALTY INSURANCE – SEGMENT RESULTS

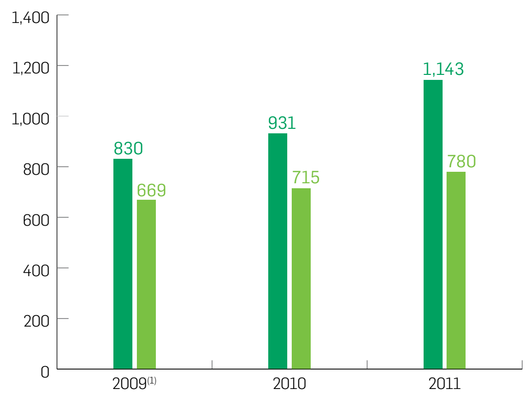
For the years ended December 31
(in millions of dollars)

	2011	2010	2009[1]
Net interest income	$ 11	$ –	$ –
Net premiums	1,785	1,524	1,443
Other income	252	108	66
Total income	2,048	1,632	1,509
Provision for credit losses	1	–	–
Claims, benefits, annuities and changes in insurance and investment contract liabilities	1,299	1,056	992
Non-interest expense	550	389	370
Income taxes on surplus earnings	54	56	43
Surplus earnings before member dividends	$ 144	$ 131	$ 104
Non-controlling interests' share	$ 17	$ 13	$ 10
Surplus earnings for the period after member dividends – Group's share	$ 127	$ 118	$ 94

(1) In accordance with GAAP in effect prior to the adoption of IFRS.

GROSS PREMIUMS WRITTEN

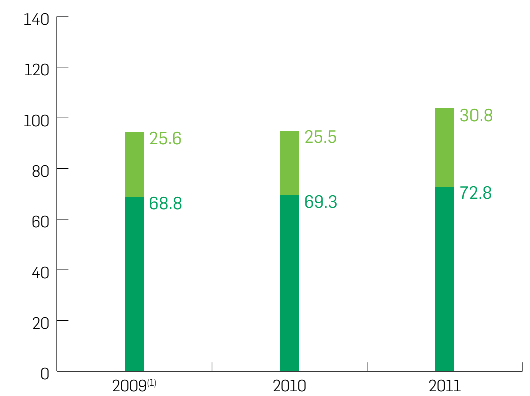
(in millions of dollars)



(1) In accordance with GAAP in effect prior to the adoption of IFRS.

COMBINED RATIO

(as a percentage of net premiums earned)



(1) In accordance with GAAP in effect prior to the adoption of IFRS.

COMPARISON OF 2011 AND 2010

For 2011, the segment's surplus earnings before member dividends amounted to $144 million, an increase of $13 million, or 9.9%, over 2010. It was derived mainly from the $16 million contribution of Western Financial Group Inc. to surplus earnings since it was acquired on April 15, 2011.

The segment's total income was $2,048 million in 2011, up $416 million, or 25.5%, over 2010. This solid performance was due to growth of $261 million in income from net premiums because of the increase in the number of policies issued following growth initiatives targeting mass-market clienteles and groups, both in Quebec and across Canada, the development of white label partnerships, the development of business insurance and the increase in the average premium in certain segments of activity, particularly automobile insurance in Ontario. Western Financial Group Inc. contributed $71 million to net premium income since its acquisition at the beginning of second quarter 2011. Other income, for its part, was up $144 million as a result, in particular, of the $106 million contribution of Western Financial Group Inc. and the disposal of investments.

Expenses related to claims, benefits, annuities and changes in insurance and investment contract liabilities were up $243 million, or 23.0%, over 2010. The change can be attributed, among other things, to growth in the portfolio of automobile insurance policies in Ontario, for which the loss ratio, particularly for bodily injury, is higher than for other segments of activity.

In addition, lower interest rates meant an increase in the present value of the provisions for claims. The loss ratio (claims expenses divided by net premiums) was 72.8% in 2011, an increase of 3.5 points over 2010. This change is due to a number of factors, including Hurricane Irene, which struck southern Quebec and the Atlantic provinces, the increase of provisions in business insurance related to pyrrhotite problems as well as the increase in the property insurance loss ratio, which was exceptionally low in 2010. Finally, a $43 million increase was due to the addition of the operations of Western Financial Group Inc.

Non-interest expense was up by $161 million, or 41.4%, mainly as a result of the consolidation of Western Financial Group Inc., which accounted for $122 million of the amount.

SECTION 2.2.4
OTHER CATEGORY

The Other category includes financial information that is not specific to a business segment. It primarily includes treasury activities related to *Caisse centrale Desjardins*'s operations and the financial intermediation between surplus and liquidity needs of the caisses. This category also includes the support functions of the Federation, the operations of *Capital Desjardins inc.* and *Fonds de sécurité Desjardins*, and the operating results related to asset-backed term notes (ABTN) held by Desjardins Group. Since January 1, 2011, it has also included a new entity, Desjardins Technology Group Inc., which covers all of Desjardins Group's IT operations. In addition to various consolidation adjustments, the category includes intersegment balance eliminations. The comparative data have been consequently restated.

Desjardins Group considers that an item-by-item comparative analysis of this category is not appropriate given the integration of various consolidation adjustments and intersegment balance eliminations. Consequently, Desjardins Group presents an analysis of these operations based on its contribution to surplus earnings before member dividends.

CONTRIBUTION TO SURPLUS EARNINGS

Surplus earnings before member dividends totalled $171 million in 2011, compared to $72 million in 2010.

2011

Surplus earnings before member dividends of $171 million were mainly the result of treasury activities, the favourable net impact of changes in the fair value of derivatives used in hedging operations and the increase in the fair value of ABTN portfolios and related items. Investment income from *Fonds de sécurité Desjardins* also contributed to these surplus earnings in 2011. Desjardins Group also invested in modernizing information technologies, in line with its annual financial plan.

2010

Surplus earnings before member dividends of $72 million were notably due to treasury activities, the positive change in the fair value of ABTN portfolios and related items, as well as the surplus earnings generated by investments in *Fonds de sécurité Desjardins*. Significant investments were made in 2010 in order to optimize Desjardins Group, help improve its performance and consolidate its leadership position in its various markets.

SECTION 2.3

ANALYSIS OF FOURTH QUARTER RESULTS

TABLE 13 – QUARTERLY RESULTS FOR THE PREVIOUS EIGHT QUARTERS
(unaudited, in millions of dollars and as a percentage)

	2011				2010			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net interest income	$ 1,007	$ 968	$ 979	$ 967	$ 982	$ 999	$ 967	$ 944
Net premiums	1,221	1,233	1,238	1,159	1,181	1,079	1,053	1,047
Other income	1,284	1,525	1,014	611	471	1,135	889	796
Total income	3,512	3,726	3,231	2,737	2,634	3,213	2,909	2,787
Provision for credit losses	54	56	83	44	42	60	40	61
Claims, benefits, annuities and changes in insurance and investment contract liabilities	1,444	1,750	1,277	821	907	1,310	1,034	885
Non-interest expense	1,478	1,325	1,415	1,406	1,473	1,270	1,312	1,325
Income taxes on surplus earnings	109	150	103	109	41	141	111	145
Surplus earnings before member dividends	427	445	353	357	171	432	412	371
Provision for member dividends, net of tax recovery	90	43	50	47	65	49	51	53
Surplus earnings for the period after member dividends	$ 337	$ 402	$ 303	$ 310	$ 106	$ 383	$ 361	$ 318
Total assets	$ 190,137	$ 189,683	$ 188,024	$ 184,383	$ 178,931	$ 181,487	$ 178,486	$ 170,321
Return on equity	11.9%	13.5%	11.5%	12.0%	5.6%	14.6%	14.9%	14.2%
Tier 1 capital ratio	17.3	17.0	17.2	17.6	17.7	17.8	16.8	16.0
Total capital ratio	19.3	18.3	18.6	19.1	18.7	18.1	17.3	16.0

FOURTH QUARTER RESULTS

At the end of the fourth quarter of 2011, Desjardins Group recorded surplus earnings before member dividends of $427 million, compared to $171 million in the corresponding quarter in 2010, for an increase of 149.7%. These surplus earnings included the non-controlling interests' share, which amounted to $22 million for the fourth quarter of 2011, and $3 million for the fourth quarter of 2010.

The caisse network, Desjardins Card Services and the insurance subsidiaries continued to record solid growth in business volumes, allowing Desjardins to pursue its development in various market segments. The growth in surplus earnings was also due to income from treasury activities and investment income.

Return on equity for the quarter was 11.9%, compared to 5.6% in the fourth quarter of 2010. The Tier 1 capital ratio was 17.3%, compared to 17.7% as at December 31, 2010.

TOTAL INCOME

Total income for the fourth quarter of 2011 was $3,512 million, an increase of $878 million, or 33.3%, over the corresponding quarter in 2010. Business growth, supported in particular by the signing of new contracts and the increase in the number of policies, both in life and health and in property and casualty insurance, generated a 3.4% increase in net premiums, which amounted to $1,221 million. A 5.8% increase in outstanding loans during the year resulted in a 2.5% rise in net interest income during the fourth quarter, for a total of $1,007 million.

Other income totalled $1,284 million, up $813 million, or 172.6%, over the corresponding quarter in 2010, mainly as a result of higher investment income from life and health insurance operations, which was offset by an increase in the provisions included in expenses related to claims, benefits, annuities and changes in insurance and investment contract liabilities. The increase was also due to higher investment income in the Personal Services and Business and Institutional Services segment and other income of $38 million from Western Financial Group Inc.

CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE AND INVESTMENT CONTRACT LIABILITIES

Expenses related to claims, benefits, annuities and changes in insurance and investment contract liabilities totalled $1,444 million, for an increase of $537 million, or 59.2%, over the same period in 2010, particularly because of higher insurance contract liabilities due to business growth and the increase in fair value of the investments backing these liabilities.

NON-INTEREST EXPENSE

Non-interest expense remained stable compared to 2010, totalling $1,478 million during the fourth quarter of 2011. The productivity index, calculated as the ratio of non-interest expense to total income, net of expenses related to claims, benefits, annuities and changes in insurance and investment contract liabilities, was 71.5% at the end of the fourth quarter, compared to 85.3% a year earlier.

SEGMENT RESULTS

PERSONAL SERVICES AND BUSINESS AND INSTITUTIONAL SERVICES

The Personal Services and Business and Institutional Services segment recorded $290 million in surplus earnings before member dividends for the fourth quarter of 2011, up $55 million, or 23.4%, from the same period in 2010.

Total income for the segment was up $132 million, or 10.4%, to total $1,405 million. Net interest income was down $12 million, or 1.2%. Other income rose $144 million, or 46.3%. The caisse network contributed to this increase, mainly through growth in investment income. It should be mentioned that in 2010, other income included the write-off of the investment in Desjardins Credit Union Inc.

The provision for credit losses increased by $11 million, or 25.6%, over the same period in 2010. The difference was largely on account of growth in loans outstanding for credit card financing and the reversal of certain provisions in 2010 because of favourable economic conditions, and the recovery of certain loans. The increase was partially offset, however, by a decrease in this provision for the caisse network.

Non-interest expense was up $37 million, or 4.0%, over the same period in 2010, reflecting the increase in salaries and fringe benefits as a result of business growth and annual indexing.

WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE

For the fourth quarter of 2011, surplus earnings before member dividends in the Wealth Management and Life and Health Insurance segment were $105 million, up $61 million, or 138.6%, over the same period in 2010. Active financial management, involving business growth and strict control of expenses, as well as investment management activities and optimized matching, helped the segment to achieve these excellent results, in spite of a challenging environment on account of low interest rates and weak capital markets.

Total income for the segment was $1,646 million, an increase of $602 million, or 57.7%, over the same quarter in 2010, chiefly because of a $632 million increase in other income, largely attributable to the $606 million growth in investment income from life and health insurance operations. This growth was derived from adjustments to the fair value of bonds and derivative financial instruments. This increase was, however, offset by higher insurance contract liabilities. In addition, income from net insurance premiums was up $50 million, largely from the group segment. However, annuity premiums were down $81 million from fourth quarter 2010.

Conversely, expenses related to claims, benefits, annuities and changes in insurance and investment contract liabilities increased by $515 million. A $498 million increase in the changes in insurance and investment contract liabilities, including the upward fluctuation in the fair value of investments, accounted for the difference.

Non-interest expense was up $10 million, or 2.5%, mainly because of growth in commissions on savings product sales, the remuneration paid to the caisse network and the increase in salaries and fringe benefits as a result of business growth and annual indexing.

PROPERTY AND CASUALTY INSURANCE

For fourth quarter 2011, surplus earnings before member dividends from the Property and Casualty Insurance segment totalled $42 million, an increase of $28 million over the same period in 2010. The increase in surplus earnings was due to higher premium income, a more favourable loss ratio in fourth quarter 2011 and an increase in investment income compared to the same quarter in 2010.

Total income for the segment was $547 million in 2011, a $115 million, or 26.6%, increase over the same period in 2010. This performance can be traced to the $74 million growth in net premium income, chiefly because of the larger number of policies issued as a result of the spinoffs from the growth initiatives targeting mass market clienteles and groups, both in Quebec and across Canada, the development of white label partnerships, the development of the business insurance segment, and the increase in the average premium in certain segments of activity, particularly automobile insurance in Ontario. Western Financial Group Inc. contributed $26 million to net premium income during fourth quarter 2011. Other income rose $37 million, mainly due to the contribution of Western Financial Group Inc.

Expenses related to claims, benefits, annuities and changes in insurance and investment contract liabilities were up $22 million over the same period in 2010. This increase was the result, among others, of growth in the portfolio of automobile insurance policies in Ontario and the boosting of provisions in business insurance related to pyrrhotite problems. Moreover, lower interest rates on the market increased the present value of provisions for claims. Despite this, the loss ratio (claims expenses divided by net premiums) was 66.7% in the last quarter of 2011, down 6.8 points from 2010. The change can be attributed particularly to the favourable loss ratio in property insurance in 2011 compared to 2010. Finally, a $16 million increase was attributable to the addition of the operations of Western Financial Group Inc.

The $55 million increase in non-interest expense essentially resulted from the consolidation of Western Financial Group Inc., which totalled $49 million, and the increase in operating expenses related to the segment's business growth.

OTHER CATEGORY

CONTRIBUTION TO SURPLUS EARNINGS

The deficit before member dividends for the fourth quarter of 2011 totalled $10 million, versus $122 million for the same period in 2010.

FOURTH QUARTER 2011

The $10 million deficit before member dividends was mainly due to investments to modernize information technologies and the unfavourable net impact related to changes in the fair value of derivatives used in hedging operations, offset by treasury activities.

FOURTH QUARTER 2010

The $122 million deficit before member dividends was mainly due to the write-off of certain assets, the adjustment of the pension expense and the unfavourable net impact of changes in the fair value of derivatives used in hedging operations, offset by treasury activities.

QUARTERLY TRENDS

Quarterly income, expenses and surplus earnings before member dividends fluctuate based on certain trends, including, among other things, seasonal variations and changes in the general economic picture and market conditions. Table 13 presents the results for the past eight quarters.

Low market interest rates in recent quarters exerted pressure on net interest income, causing it to stagnate even though loans outstanding increased throughout the year. Since the fourth quarter of 2010, Desjardins Group has posted strong growth in its investment income from life and health insurance operations, an increase that was largely offset, however, by an increase in insurance and investment contract liabilities.

Net premiums grew steadily from first quarter 2010 until second quarter 2011, and then stabilized during the second half of 2011.

The provision for credit losses remained stable, in spite of an increase in outstanding loans, which have been growing since the first quarter of 2010, indicative of good asset quality.

Expenses related to claims, benefits, annuities and changes in insurance and investment contract liabilities experienced quarterly fluctuations as a result of changes in the fair value of investments related to life and health insurance operations, indicative of the market's volatility. The deterioration of the loss ratio in the wake of Hurricane Irene in the third quarter of 2011 combined with automobile insurance outside Quebec also explained this increase.

In step with business growth, non-interest expense has been on the rise since the beginning of 2010. The summer periods were characterized by a decrease in salary expense because of less intense capital market activity.

Since the second quarter of 2011, the results of Western Financial Group Inc. have been integrated with those of Desjardins Group.

3.0 REVIEW OF FINANCIAL POSITION

HIGHLIGHTS

- Desjardins Group's financial strength reflected in the excellent credit ratings of *Caisse centrale Desjardins* and *Capital Desjardins inc.*
- Tier 1 capital ratio of 17.3% as at December 31, 2011, attesting to the institution's financial stability
- Quality loan portfolio, with a gross impaired loans ratio of 0.41%
- Desjardins Group's total assets up 6.3% to stand at $190.1 billion as at December 31, 2011
- Residential mortgage loans outstanding up $5.2 billion over the year, to total $79.7 billion
- A 7.6% increase in savings recruitment to total $123.4 billion
- First issuance by *Caisse centrale Desjardins* of covered bonds for an amount of US$1.0 billion
- Issuance of $500 million of medium-term deposit notes by *Caisse centrale Desjardins* and issuance of $500 million of senior notes by *Capital Desjardins inc.*
- Assets administered by Desjardins Group up $6.2 billion over the year to total $283.3 billion
- Robust growth in operations at Western Financial Group Inc., a financial services company operating in western Canada, acquired on April 15, 2011
- Acquisition of mutual fund dealer MGI Financial Inc. on October 5, 2011
- Agreement to acquire Staples / *Bureau en gros* private-label credit card portfolio

SECTION 3.1
REVIEW OF FINANCIAL POSITION

TABLE 14 – COMBINED FINANCIAL POSITION
As at December 31
(in millions of dollars and as a percentage)

	2011		2010		2009[1]	
Assets						
Cash and deposits with financial institutions	$ 1,356	0.7%	$ 1,621	0.9%	$ 1,086	0.7%
Securities	41,205	21.7	37,420	20.9	31,431	20.0
Securities borrowed or purchased under reverse repurchase agreements	4,959	2.6	7,034	3.9	5,055	3.2
Loans	125,154	65.8	118,258	66.1	110,300	70.0
Segregated fund assets	5,427	2.9	4,774	2.7	—	—
Other assets	12,036	6.3	9,824	5.5	9,570	6.1
Total assets	$ 190,137	100.0%	$ 178,931	100.0%	$ 157,442	100.0%
Liabilities and equity						
Deposits	$ 123,403	64.9%	$ 114,663	64.1%	$ 106,161	67.4%
Other liabilities	49,357	25.9	49,307	27.5	38,261	24.3
Subordinated bonds	3,350	1.8	2,805	1.6	1,294	0.8
Equity	14,027	7.4	12,156	6.8	11,726	7.5
Total liabilities and equity	$ 190,137	100.0%	$ 178,931	100.0%	$ 157,442	100.0%

(1) In accordance with GAAP in effect prior to the adoption of IFRS.

TOTAL ASSETS

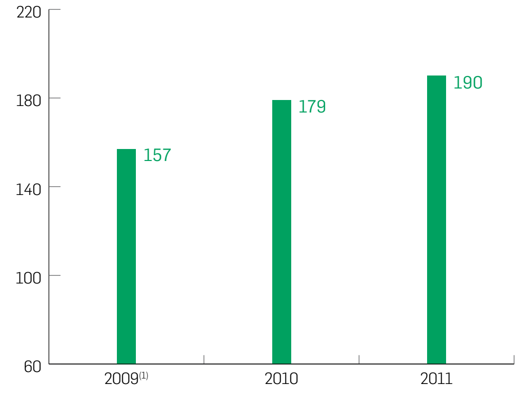
As at December 31, 2011, Desjardins Group's total assets stood at $190.1 billion, up $11.2 billion, or 6.3%, from a year earlier, compared to an increase of $21.5 billion, or 13.6%, at the end of 2010. Although not as strong as in 2010, Desjardins Group's expansion continued in 2011, primarily due to an increase in its securities outstanding, loan portfolio and other assets, in spite of deteriorating economic conditions in Canada. Desjardins Group benefited from strong domestic demand in Quebec and Ontario, which offset the external sector difficulties of these provinces, and thus was able to minimize the overall impact of the economy on the Combined Statement of Financial Position.

Desjardins Group's significant involvement in financing economic activity, notably in Quebec, allowed it to provide support to a large number of its members and clients in many of their investment projects in 2011. Despite slightly less favourable conditions in the housing sector, where the demand for mortgages fell somewhat, Desjardins posted very favourable results. It therefore maintained its leadership position in this highly coveted market.

In addition, Desjardins Group also stood out in personal and business savings in 2011. It obtained solid results in deposit recruitment, which is its primary source of financing to fuel its expansion. However, given the depressed stock markets and their significant volatility as of the second half of the year, investors' enthusiasm for higher risk products such as investment funds and other securities dwindled. This in turn affected Desjardins Group's trust and wealth management operations, albeit very modestly, because its market shares in this sector grew in 2011.

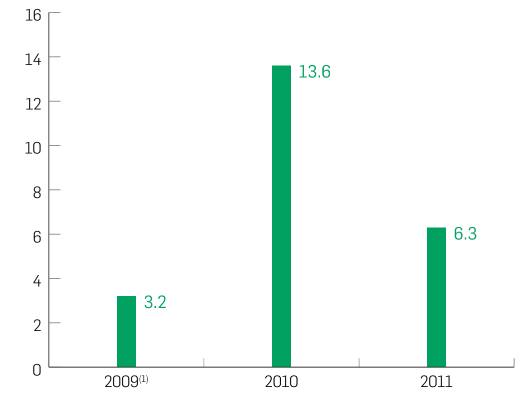
In 2011, Desjardins Group increased its market shares in most of the areas in which it was active. The high quality of its products and services obviously contributed to these gains, realized in fiercely competitive sectors where it already had a strong lead, namely in Quebec.

TOTAL ASSETS
(in billions of dollars)



(1) In accordance with GAAP in effect prior to the adoption of IFRS.

ASSET GROWTH
(as a percentage)



(1) In accordance with GAAP in effect prior to the adoption of IFRS.

LOANS

TABLE 15 – LOANS BY BORROWER CATEGORY
As at December 31
(in millions of dollars and as a percentage)

	2011		2010		2009[1]	
Residential mortgages	$ 79,686	63.4%	$ 74,466	62.7%	$ 67,667	61.0%
Consumer, credit card and other personal loans	17,985	14.3	17,504	14.7	16,915	15.3
Business	25,998	20.7	24,776	20.9	24,776	22.4
Government	1,950	1.6	2,001	1.7	1,483	1.3
	125,619	100.0%	118,747	100.0%	110,841	100.0%
Allowance for credit losses	(465)		(489)		(541)	
Total loans by borrower category	$ 125,154		$ 118,258		$ 110,300	
Loans guaranteed by governments and other public and parapublic institutions included above[2]	$ 36,362		$ 31,423		$ 28,224	
Loans guaranteed by governments and other public and parapublic institutions as a percentage of total gross loans	28.9%		26.5%		25.5%	
Loans to individuals as a percentage of total gross loans	77.7		77.4		76.3	

(1) In accordance with GAAP in effect prior to the adoption of IFRS.
(2) 2010 and 2009 data restated to reflect the presentation adopted in 2011.

FINANCING ACTIVITIES

Desjardins Group is a leading player in financing economic activity in Quebec, as well as in certain regions of Ontario and other Canadian provinces. Its determination to participate in the economic and social development of every community in which it is present and its highly competitive credit offer for its members and individual and business clients, are responsible for the significant growth in this area in 2011 despite the Canada-wide economic slowdown.

As at December 31, 2011, the portfolio of outstanding loans, net of the allowance for credit losses, was up $6.9 billion, or 5.8%, for the year, to total $125.2 billion, compared to an increase of $8.0 billion, or 7.2%, in 2010. This slower growth is not surprising considering the uncertain economic environment. The economies of Canada, Quebec and Ontario did not escape the deterioration of the global economy, even though their real GDP growth was not as hard hit as that of many industrialized countries.

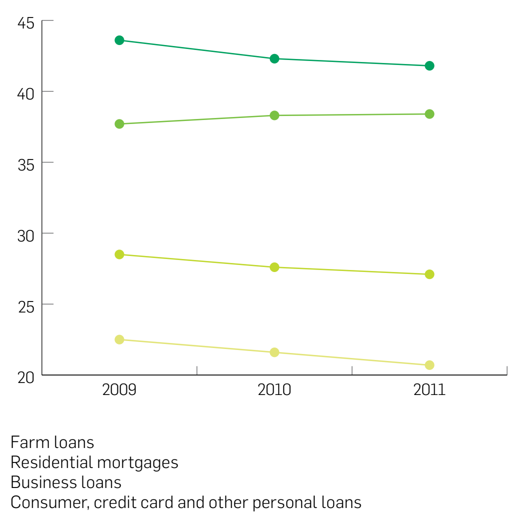
As shown in Table 15, the loans granted by Desjardins Group to individuals, comprising residential mortgages, consumer loans, credit card advances and other personal loans, form the largest category. As at December 31, 2011, these loans accounted for 77.7% of the entire loan portfolio, up slightly from the end of 2010. More specifically, loans outstanding to individuals, which totalled $97.7 billion at the end of fiscal 2011, were up $5.7 billion, or 6.2%, for the year, compared to an increase of $7.4 billion, or 8.7%, in 2010. This slower growth was mainly attributable to the decline in residential construction and home resales in Quebec. The winding-down of the housing market had a negative effect on household spending, including durable goods purchases.

Moreover, Desjardins Group was also very active in business and government financing. Its loans outstanding in this sector, which stood at $27.9 billion as at December 31, 2011, were up $1.2 billion, or 4.4%, for the year, compared with an increase of $518 million, or 2.0%, in 2010. Despite the deterioration in economic conditions, business investments remained relatively high, thus sustaining the demand for borrowing in 2011.

The management of risk, and especially credit risk, is a constant concern for Desjardins Group, as it is for all large financial institutions worldwide. Its financing activities are regulated by highly rigorous management practices, which are described in detail in section 4.1, "Risk management", on pages 94 to 100.

The following pages provide a brief analysis of Desjardins Group's results by main borrower category.

QUEBEC MARKET SHARE
FINANCING ACTIVITIES
(as a percentage)



RESIDENTIAL MORTGAGE LOANS

In 2011, the housing market lost steam in Quebec while it experienced a rebound in Ontario. For instance, housing starts in Quebec totalled 41,836 units, compared to 43,527 units in 2010, for a drop of 3.9%. There was a steep decline in single-family homes, semi-detached houses and townhouses, as well as in the rental housing sector, while condominiums recorded another year of sustained growth. As for Ontario, it was unique in recording a surge in its housing activity. The number of new units in Ontario was therefore 65,240, versus 57,104 units in 2010, for an increase of 14.2%. Rental units and condominiums accounted for this increased vigour because single-family homes, semi-detached houses and townhouses, on the contrary, recorded significant decreases.

The home resale sector in Quebec also diverged slightly from the path followed in Ontario. The Multiple Listing Service (MLS) recorded 77,258 transactions in Quebec in 2011, compared to 80,029 sales in 2010, for an annualized decrease of 3.5%. In Ontario, the MLS reported that 200,334 homes changed hands in 2011, or 2.4% more than in 2010, a year in which 195,591 transactions had been recorded. In addition, despite a decline in activity in Quebec, the market remained relatively buoyant, thereby pushing up home values. For instance, in 2011, the average selling price in Quebec moved up 5.1%, while in Ontario, it surged by 7.9%.

The slower pace in the housing sector resulted, among other things, in a less dramatic increase in potential business volume for the sector, especially in Quebec. Like other lending institutions, Desjardins Group was unable to escape the downturn in the industry. For instance, its portfolio of residential mortgages outstanding, including the Versatile Line of Credit, totalled $79.7 billion as at December 31, 2011, up $5.2 billion, or 7.0%, for the year, as opposed to a hike of $6.8 billion, or 10.0%, in 2010.

However, Desjardins Group was nevertheless able to take advantage of the opportunities that presented themselves under these slightly less favourable conditions, thanks mainly to the reputation that it has built over the years in this market with its members and clients. In addition, the quality and variety of its mortgage products have made it a leading provider in this industry. Desjardins Group's expertise, combined with its vast distribution network, has therefore allowed many members and clients to buy a home in 2011.

Furthermore, as a result of the high quality of its residential mortgage loan portfolio, Desjardins Group continued its mortgage securitization program in 2011. However, since its Combined Financial Statements are now presented in accordance with IFRS, its securitized loans are no longer derecognized on its statement of financial position. Also note that for the first time, it issued covered bonds for US$1.0 billion. Additional information is presented in Note 14, "Covered bonds", to the Combined Financial Statements.

Lastly, it should be noted that Desjardins Group is still the leading mortgage lender in Quebec. As at December 31, 2011, its market share was estimated at 38.4%.

CONSUMER, CREDIT CARD AND OTHER PERSONAL LOANS

Job creation in Quebec and Ontario slowed in 2011, compared to 2010; however, even if the number of new jobs created was more modest, unemployment improved slightly in both provinces. The confidence of Quebec and Ontario consumers was shaken during the first half of the year by the significant hike in oil prices, and then in the second half by the stock market downturn. Given the gloomy economic and financial conditions, households therefore moderated their spending somewhat, in particular their purchase of durable goods (automobiles, furniture, electronics and appliances).

Despite less favourable conditions, Desjardins Group managed to do well in the personal loans market in 2011. Its consumer, credit card and other personal loans portfolio (excluding the Versatile Line of Credit), which totalled $18.0 billion as at December 31, 2011, was up $481 million, or 2.7%, for the year, compared to an increase of $589 million, or 3.5%, in 2010. Note that this credit category is affected by the tendency of its members and clients to focus more on mortgage lines of credit like the Versatile Line of Credit to finance their durable goods purchases, and by the fact that automobile leasing continued to grow in popularity in 2011. As a result, the volume of new automobile loans has also declined.

Lastly, Desjardins Group's market shares in Quebec and Ontario did not fare too badly considering the less favourable business development conditions. In Quebec, its market share was estimated at 20.7% as at December 31, 2011, while in Ontario, it was 1.4%.

LOANS TO BUSINESSES

Consumer spending was an engine of economic growth in Quebec and Ontario; however, the steady growth of business investment also played a significant role in 2011. Business investment surged after a considerable recovery in 2010. The lag recorded in 2008 and 2009 has virtually been eliminated. This growth was fuelled by the enhanced profitability of businesses over the past two years as well as by very low financing costs, among other things. For instance, preliminary data concerning capital expenditures and purchases of machinery and equipment show relatively high annual increases of 10.2% and 14.4%, respectively, in both provinces.

Desjardins Group has an extensive distribution network to meet the needs of its members and clients in business financing, including the caisses and their business centres, as well as *Caisse centrale Desjardins*. Through its range of products and services, Desjardins Group can effectively meet the needs of the vast majority of entrepreneurs, regardless of the size of their business operations or their industry. Moreover, as a result of the highly competitive expansion strategy Desjardins Group has developed over the years, it has indisputably become a major player in this market, particularly in Quebec and in several regions in Ontario.

As at December 31, 2011, Desjardins Group's business loan portfolio outstanding, which comprises commercial and industrial credit and farm loans, totalled $26.0 billion, up $1.2 billion, or 4.9%, from the previous year, while it had remained stable in 2010. The growth experienced in this industry over many years has enabled Desjardins Group to maintain its market shares in Quebec, which stood at 27.1% at the end of 2011.

It should be noted that this development was carried out in compliance with Desjardins's sound credit risk management practices, which are among the most stringent in the Canadian industry.

In addition, over the decades, Desjardins Group has become deeply rooted in the farming community that spans all the regions of Quebec, while in Ontario it is firmly entrenched in French-speaking communities. The farm sector has experienced major changes in recent years, which have, among other things, increased competition between the various lending institutions. Nevertheless, owing to its reputation and the quality of its products and services, Desjardins Group has managed to remain the leader in this highly competitive market, especially in Quebec.

Desjardins Group's farm loans outstanding, which totalled $5.4 billion as at December 31, 2011, were up $183 million, or 3.5%, compared to a decline of $125 million, or 2.3%, in 2010. The 24.6% increase in the value of milk quota sales transactions in Quebec, and the 31.2% increase in Ontario somewhat sustained demand for borrowing in this area. In addition, the upsurge in Desjardins Group's financing in the horticulture sector mitigated the substantial decline in its activities in the beef and hog industry. At the end of 2011, Desjardins Group had an enviable market share of 41.8% in the farm sector in Quebec.

LOANS TO GOVERNMENT

As at December 31, 2011, Desjardins Group's loan portfolio outstanding to government, notably municipalities, stood at $2.0 billion, down $51 million, or 2.5%, from 2010, when year-end growth of $518 million, or 34.9%, had been recorded. It should be noted that due to the nature of government financing needs, including at the municipal level, Desjardins Group's credit outstandings for financing in this area are largely in the form of lines of credit that fluctuate significantly.

CREDIT QUALITY

The quality of Desjardins Group's credit portfolio is excellent. Its gross impaired loans outstanding totalled $520 million as at December 31, 2011, up slightly from $512 million at year-end 2010. The gross impaired loans ratio, as a percentage of the total gross loan portfolio, stood at 0.41% as at December 31, 2011, an improvement compared to the ratio of 0.43% at the same date a year earlier. Moreover, loans guaranteed by government and other public or parapublic institutions represented 28.9% of Desjardins Group's total gross loan portfolio.

Additional information about the quality of Desjardins Group's credit portfolio is presented in section 4.1, "Risk management", on pages 99 and 100.

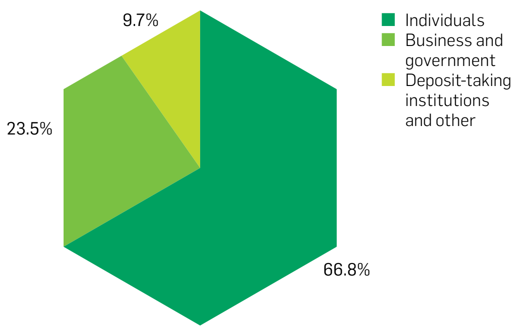
DEPOSITS

TABLE 16 – DEPOSITS
As at December 31
(in millions of dollars and as a percentage)

	2011					2010		2009[1]	
	Payable on demand	Payable upon notice	Payable on a fixed date	Total	Total	Total	Total	Total	Total
Individuals	$ 27,785	$ 3,851	$ 50,850	$ 82,486	66.8%	$ 78,747	68.7%	$ 75,420	71.0%
Business and government	13,627	326	15,056	29,009	23.5	25,144	21.9	21,876	20.6
Deposit-taking institutions and other	81	—	11,827	11,908	9.7	10,772	9.4	8,865	8.4
Total deposits	$ 41,493	$ 4,177	$ 77,733	$ 123,403	100.0%	$ 114,663	100.0%	$ 106,161	100.0%

(1) In accordance with GAAP in effect prior to the adoption of IFRS.

COMPOSITION OF THE DEPOSIT PORTFOLIO
As at December 31, 2011



SAVINGS RECRUITMENT ACTIVITIES

As at December 31, 2011, Desjardins Group's deposit liabilities totalled $123.4 billion, up $8.7 billion, or 7.6%, for the year, compared to an increase of $8.5 billion, or 8.0%, in 2010. This was the result of sustained growth, mainly because of deposit recruitment from individuals, businesses and government.

Deposits in the deposit-taking institutions and other category grew by $1.1 billion, or 10.5%, for the year, to $11.9 billion by the end of 2011, as opposed to an increase of $1.9 billion, or 21.5%, recorded in 2010. This deposit category, which refers in particular to securities issuances on capital markets, represented only 9.7% of all Desjardins Group's deposit liabilities at the same date, versus 9.4% one year earlier.

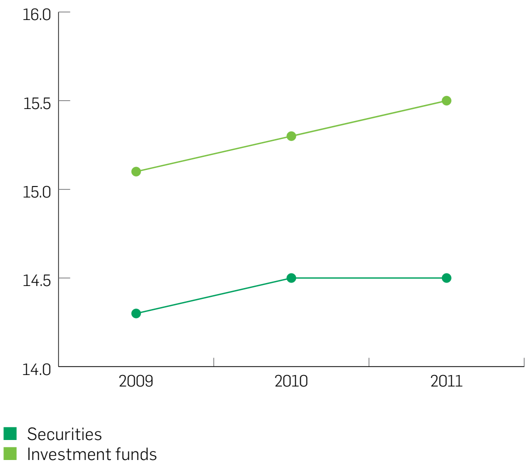
Securities issuances, which are carried out in order to capitalize, in particular, on various business opportunities available on the markets, are Desjardins Group's third main source of funding. They also contribute to business development by providing support for Desjardins Group's expansion. However, in 2011, rapid growth in deposits from members and clients—individuals, businesses and governments—somewhat reduced the need to resort to floating large issues of securities in the market.

The composition of Desjardins Group's deposit portfolio remained virtually the same in 2011. Savings entrusted to it by its members and clients—individuals, businesses and governments—still made up its main source of funding to ensure the growth of its operations. It formed a solid base that alone accounted for 90.3% of its deposit liabilities as at December 31, 2011, versus 90.6% at the end of 2010. Deposits by individuals, which stood at $82.5 billion at the end of 2011, were up $3.7 billion, or 4.7%, for the year, compared to an increase of $3.3 billion, or 4.4%, recorded a year earlier.

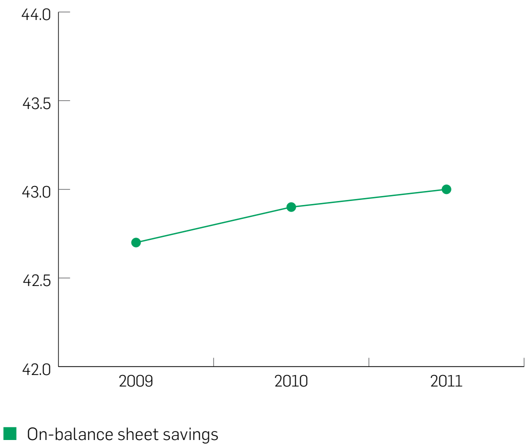
Desjardins Group's deposit liabilities therefore largely consist of savings from individuals, but the contribution of business and government deposits is far from negligible. Their deposits jumped by $3.9 billion, or 15.4%, for the year, to total $29.0 billion as at December 31, 2011, compared to an increase of $3.3 billion, or 14.9%, posted in 2010. They accounted for 23.5% of Desjardins Group's deposit liabilities at the end of 2011, versus 21.9% a year earlier.

Additional information about sources of financing and on Desjardins Group's liquidity risk management policy can be found on page 104 and page 102, respectively.

QUEBEC MARKET SHARE
PERSONAL SAVINGS RECRUITMENT ACTIVITIES
SECURITIES AND INVESTMENT FUNDS
(as a percentage)



QUEBEC MARKET SHARE
PERSONAL SAVINGS RECRUITMENT ACTIVITIES
ON-BALANCE SHEET SAVINGS
(as a percentage)



PERSONAL SAVINGS

Of the sources of financing available to Desjardins Group to support its growth, deposits from individuals have always played a predominant role and have always been the preferred source. This category accounted for 66.8% of Desjardins Group's deposit liabilities as at December 31, 2011, slightly down from year end 2010, when it was 68.7%. The special focus on these deposits by Desjardins Group and its main competitors is due to their more stable nature as a result of their broad diversification. Such deposits come from a large number of savers with heterogeneous profiles (age, sex, income and place of residence). This market is therefore highly competitive. In addition, personal savings is generally less costly than other types of funding, which makes it a much sought-after source among all financial institutions for development purposes.

As at December 31, 2011, Desjardins Group's volume of personal savings totalled $82.5 billion, up $3.7 billion, or 4.7%, for the year, compared to an increase of $3.3 billion, or 4.4%, recorded in 2010. Desjardins Group's personal savings recruitment was therefore up slightly, which is significant given the historically low interest rates. Moreover, it should be noted that because of hesitation on the main stock markets around the world, off-balance sheet savings products, such as investment funds and other securities, have lost their appeal for many investors.

Of the three broad categories of deposits offered by Desjardins Group, savings payable on a fixed date is the largest component of its personal savings portfolio. For instance, at the end of the fourth quarter of 2011, this type of deposit represented 61.6% of personal savings, compared to 62.5% at the end of 2010. In fact this deposit was up $1.6 billion, or 3.3%, for the year, to total $50.8 billion as at December 31, 2011, versus an increase of $689 million, or 1.4%, at the end of 2010. As for savings payable on demand and upon notice, which accounted for 38.4% of the deposits entrusted to Desjardins Group by its individual members and clients over the years, it grew by $2.1 billion, or 7.2%, for the year, to total $31.6 billion.

Despite increasingly fierce competition in the area of deposit recruitment, Desjardins Group is still leading the way in Quebec, with a market share estimated at 43.0% as at December 31, 2011.

OFF-BALANCE SHEET PERSONAL SAVINGS

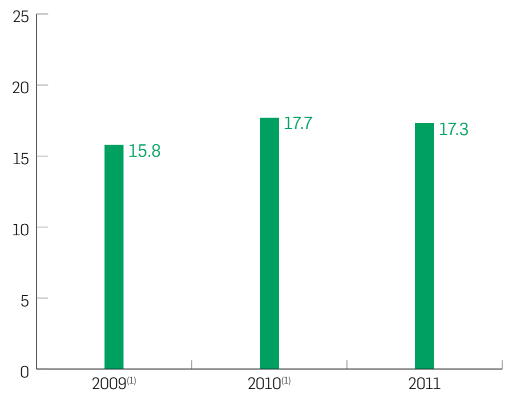
Stock markets took a beating worldwide in 2011 because of the climate of uncertainty surrounding the debt crisis in certain European countries, the political wrangling related to the lifting of the U.S. debt ceiling and the release of troubling economic statistics, especially in the United States. In Canada, the S&P/TSX index was down 11.1% as at December 31, 2011, from its closing level at the end of 2010.

These conditions are obviously less conducive to the sale of off-balance sheet savings products, such as investment funds and other securities. These products are therefore less appealing to investors because of the uncertain financial and economic environment. In addition, their value was down sharply because of falling stock market indexes. Desjardins Group was not spared from this bearish trend. However, its investment funds and other securities outstanding grew by $160 million, or 0.3%, for the year, to total $48.6 billion as at December 31, 2011, compared to a surge of $6.1 billion, or 14.4%, recorded at year-end 2010.

SECTION 3.2

CAPITAL MANAGEMENT

TIER 1 CAPITAL RATIO
(as a percentage)



(1) The 2010 and 2009 data were calculated using financial data prepared in accordance with Canadian GAAP.

Capital management is crucial to Desjardins Group's financial management, taking into account its regulatory obligations, the economic and financial environment, its risk profile, its cooperative difference and its cooperative objectives.

Desjardins Group advocates prudent management of its capital. The objective is to maintain higher regulatory capital ratios than those of the Canadian banking industry and regulatory requirements. As at December 31, 2011, Tier 1 capital and total capital ratios of Desjardins Group stood at 17.3% and 19.3%, respectively, while these ratios were respectively 17.7% and 18.7% as at December 31, 2010. Desjardins Group's prudent management is further reflected in the excellent credit ratings granted by the various rating agencies.

The 2008–2009 global financial crisis prompted the industry to place more emphasis on capitalization. Now more than ever, rating agencies and the market favour the best-capitalized institutions. These factors support a general increase in the level and quality of capital issued by financial institutions. It was against this backdrop that Desjardins Group maintained its minimum target for Tier 1 capital at 15% over the 2011–2013 horizon.

DESJARDINS GROUP'S INTEGRATED CAPITAL MANAGEMENT FRAMEWORK

Capital management aims to ensure that the capital structure and level of Desjardins Group and its components are adequate in terms of rating agencies' expectations, the risks taken by the organization, regulators' requirements, profitability targets and growth objectives. In addition, capital management must optimize the allocation of capital and the internal capital flow mechanisms, and support growth, development and asset risk management at Desjardins Group.

Broadly speaking, the integrated capital management framework includes the policies and processes required to set targets for Desjardins Group's capitalization and to assign targets to its components, to establish strategies to ensure that targets are met, to make it possible to quickly raise capital, to ensure that the components' performance is appropriately measured, and to optimize internal capital flow and use mechanisms.

Desjardins Group has set up a stress-testing procedure. Its aim is to establish and measure the effect of various integrated scenarios, i.e. to simulate various economic scenarios for all of its components and assess the financial and regulatory repercussions. This procedure makes it possible to determine if the necessary capital, as established in the capitalization plan, is adequate in view of the risks to which Desjardins is exposed.

POLICIES

Desjardins Group's capital management is the responsibility of the Federation's Board of Directors. To support them with this task, they have mandated the Finance and Risk Management Committee and the Asset/Liability Committee to ensure that Desjardins Group has a sufficient and reliable capital base. The Finance and Treasury Executive Division and Office of the CFO is responsible for preparing, on an annual basis and with the assistance of Desjardins Group's components, a capitalization plan that sets and updates capital objectives and targets for all components.

The current strategic situation and the forecast for the duration of the Strategic Plan show that Desjardins Group has an excellent capital base overall and, therefore, ample latitude to pursue growth objectives.

BASEL II

Desjardins Group's regulatory capital ratios are calculated according to the AMF's guideline on adequacy of capital base applicable to financial services cooperatives. Since fiscal 2009, this regulatory framework has been largely based on the revised framework for international convergence of capital measurement and capital standards (Basel II) issued by the Bank for International Settlements. In this regard, the AMF allowed Desjardins Group to use the Internal Ratings-Based Approach, subject to conditions, for credit risk related to retail loan portfolios (individuals). Other credit exposures and market risk are assessed according to a Standardized Approach, while operational risk is calculated based on the Basic Indicator Approach.

Since the implementation of Basel II, Desjardins Group has applied the deferred treatment prescribed by the AMF, under which equity related to investments in its insurance subsidiaries made before January 1, 2007, is fully deducted from Tier 2 capital, until fiscal 2012. Effective 2012, this equity will be deducted in equal shares of 50% from Tier 1 capital and Tier 2 capital. If the end of the application of this deferred treatment had been applied on December 31, 2011, there would have been an unfavourable impact of 137 basis points on the Tier 1 capital ratio, but the total capital ratio would have remained the same.

Until the new Basel III requirements are implemented in 2013, regulators have revised certain regulations, in particular concerning market risk and the weighting of some securitization categories (Basel 2.5). The increase in risk-weighted assets as a result of these changes should be entirely offset by the lower adjustment for the resulting threshold so that the impact on Desjardins Group's capital ratios should be nil.

BASEL III

On December 16, 2010, and January 13, 2011, the Bank for International Settlements issued new requirements (Basel III) for the global regulation of capital standards. In fact, since 2009, various consultative proposals have been submitted to the banking industry as a whole to build a financial system that is more secure and resilient in periods of stress. The new rules, which will be implemented progressively over the next few years, increase capital requirements (minimum thresholds to be met), as well as risk management requirements. The new framework, combined with global liquidity standards, forms an essential element of the global financial reform program. Following the publication of the new Basel III standards, national regulators will integrate these requirements into their guidelines in 2012. For Desjardins Group, which is already well capitalized in relation to its peers, the impact will be limited.

The key points of the new regulatory capital standards set out in Basel lll are as follows:

1. Improvement in the quality of financial institutions' capital:
   - New definition of components of capital categories
   - A greater focus on best Tier 1 capital component to absorb losses (Common Equity Tier 1)
2. Increase in minimum capital requirements:
   - Common Equity Tier 1 capital ratio of 4.5%
   - Tier 1 capital ratio of 6.0%
   - Addition of a capital conservation buffer of 2.5% applied to Common Equity Tier 1 capital in order to cope with periods of stress, so that in normal conditions, the minimum requirement for Common Equity Tier 1 capital will be 7.0%
   - Addition of a minimum leverage ratio to prevent the build-up of excessive leverage (a requirement to which Desjardins Group is already subject by its regulatory authority)
3. Reduction of systemic risk:
   - Strong incentive to have a countercyclical capital buffer, calibrated in a range of 0% to 2.5%, in order to prevent risk from spreading throughout the entire financial system (a requirement left to the discretion of national regulators)
4. Addition of supplementary criteria for capitalization instruments to ensure their capacity to absorb losses in cases of insolvency
5. Implementation of a reasonable timetable in order to allow financial institutions to adjust to the new regime:
   - New requirements to be phased in between 2013 and 2019

It is expected that the new criteria will be incorporated into the AMF's guideline on adequacy of capital base and that any capital instrument issued after September 12, 2010, will have to comply with the new qualification criteria in order to be eligible as regulatory capital under the new standards. Desjardins Group intends to comply with all the new rules incorporated into the guideline. Consequently, instruments issued prior to September 12, 2010, that may not comply with the new criteria will need to be excluded from the capital base pursuant to the transitional rules.

Global minimum liquidity requirements have also been added to the new capital standards: a "liquidity coverage ratio" to allow financial institutions to deal with potential liquidity disruptions, and a "net stable funding ratio" to address mismatches between assets and funding sources.

CAPITAL MANAGEMENT ACTIVITIES

On December 15, 2011, *Capital Desjardins inc.* issued Series J subordinated bonds, maturing December 2026, for a consideration of $500 million. These subordinated bonds qualify as Tier 2 capital for regulatory purposes.

Desjardins Group continued its efforts to issue capital shares through the Federation. This new capital instrument will be recognized as Common Equity Tier 1 under Basel III. This issuance, which is scheduled to take place in 2012, will substantially raise the capital ratios.

ANALYSIS OF RESULTS

Desjardins Group is one of the best capitalized financial institutions in Canada: its Tier 1 and total capital ratios, measured under the Basel II regulatory framework, stood at 17.3% and 19.3%, respectively, as at December 31, 2011 (17.7% and 18.7%, respectively, as at December 31, 2010). Desjardins Group therefore still has excellent capitalization, with a Tier 1 capital ratio above its 15% objective. The high level of Tier 1 capital accordingly demonstrates the financial strength of Desjardins Group, even in a challenging economic environment.

Tier 1 capital ratio as at December 31, 2011, at 17.3%, was down 0.4% from its level a year earlier. The reduction was due mainly to the negative impact related to the adoption of IFRS and the acquisition of Western Financial Group Inc. Excluding these two items, the ratio would instead have risen 1.1% because of surplus earnings for the year, net of the increase in risk assets. The total capital ratio was up 0.6%, chiefly because of the issuance of $0.5 billion in subordinated bonds during the year.

As at January 1, 2011, the date of conversion to IFRS, Desjardins Group elected to use the transitional provisions permitted by the AMF. This election is irrevocable and makes it possible to mitigate the impacts of the new accounting standards through a quarterly adjustment of eligible undistributed surplus earnings over a two-year period ending December 31, 2012. Accordingly, for purposes of calculating Tier 1 capital ratio, Desjardins Group has amortized, since January 1, 2011, the eligible portion of the IFRS impact of $1.2 billion on a straight-line basis, for a quarterly amortization of $145 million, and will do so until December 31, 2012. Taking this transitional measure into account, the impact of IFRS on Tier 1 and total capital ratios as at December 31, 2011, is a decline of 104 basis points and 78 basis points, respectively, in these ratios. Had it not been for the transitional provisions, the negative effect would have been 185 basis points and 136 basis points, respectively.

During the second quarter of 2011, Desjardins Group acquired Western Financial Group Inc. Had it not been for this acquisition, Tier 1 and total capital ratios as at December 31, 2011, would have been 45 basis points and 40 basis points higher, respectively.

MINIMUM RATIOS

The minimum total capital ratio recommended to institutions for compliance with the Bank for International Settlements' regulatory requirements, and in order to be considered sufficiently capitalized, is 8%. In addition, the Tier 1 capital ratio must represent at least half of the total capital ratio. With the coming into force of the Basel II regulatory framework, the AMF revised its minimum total capital ratio to 11.5%. Desjardins Group maintained its financial objective for the Tier 1 capital ratio at a minimum of 15% (the same level as the target for the total capital ratio), thus taking into account the prevailing global economic context and the framework of the AMF's guideline on adequacy of capital base.

At 17.3% and 19.3%, respectively, Desjardins Group's Tier 1 and total capital ratios exceed not only the minimum regulatory requirement but also Desjardins Group's own financial objective.

TABLE 17 – REGULATORY CAPITAL
As at December 31
(in millions of dollars and as a percentage)

	2011[1]	2010[1]
Tier 1 capital		
Eligible capital shares	$ 2,186	$ 2,137
Reserves	9,032	9,198
Undistributed surplus earnings	1,236	1,102
Deferral attributable to the adoption of IFRS	578	—
Non-controlling interests	60	50
Goodwill	(336)	(109)
Other deductions[2]	(423)	(345)
Total Tier 1 capital	12,333	12,033
Tier 2 capital		
Subordinated bonds	3,363	2,818
Eligible collective allowance	256	230
Other eligible securities	110	71
Non-controlling interests	68	—
Unrealized cumulative gains on available-for-sale securities (net of income taxes)	—	2
Other deductions[2]	(2,379)	(2,448)
Total Tier 2 capital	1,418	673
Total regulatory capital	$ 13,751	$ 12,706
Capital ratios		
Tier 1 capital	17.3%	17.7,%
Total capital	19.3	18.7

(1) As required by the AMF, the 2011 data are calculated using financial data prepared in accordance with IFRS. The 2010 data were calculated using financial data prepared in accordance with Canadian GAAP.
(2) Mainly include the provision deficit related to the Internal Ratings-Based Approach ($346 million [$305 million as at December 31, 2010]), securitization exposures ($117 million [$97 million as at December 31, 2010]) and investments in components deconsolidated for regulatory capital purposes (primarily Desjardins Financial Security Life Assurance Company and Desjardins General Insurance Group ($2,254 million [$2,306 million as at December 31, 2010]), net of the unamortized balance of $163 million representing the impact of IFRS adoption on these investments) as well as in affiliated companies ($80 million [$80 million as at December 31, 2010]).

In addition to minimum Tier 1 and total capital ratios, the AMF requires that Desjardins Group maintain a regulatory assets-to-capital ratio that does not exceed 20 times its capital. This measure allows overall capital adequacy to be determined against the entity's total assets, including certain off-balance sheet items. With an assets-to-capital ratio of 12.0 times its capital as at December 31, 2011, Desjardins Group is well below the limit set by the AMF.

COMPLIANCE WITH REQUIREMENTS

With regard to regulatory capital, the capital composition and adequacy of Desjardins Group as a whole are evaluated according to the AMF's guideline on adequacy of capital base. The AMF requires that a minimum amount of capital be maintained on a combined basis by all components and, in particular, the caisses, the Federation (non consolidated), *Caisse centrale Desjardins*, *Fonds de sécurité Desjardins*, *Capital Desjardins inc.*, Western Financial Group Inc., Desjardins Securities Inc. and Desjardins Trust Inc.

This capital takes into consideration investments made in other components of Desjardins Group. Some of Desjardins Group's components are subject to separate requirements with respect to regulatory capital, liquidities and financing, which are set by organizations that regulate banking and securities activites. Their requirements may be subject to amendments to the regulations and differ by activity. The liquidity of Desjardins Group's main components is assessed on an ongoing basis, given the regulatory restrictions imposed by local administrations, as well as operational, tax, economic and other constraints on the movement of funds between components. In this way, Desjardins Group is able to manage and minimize the liquidities it maintains. It monitors and manages liquidity and capital requirements in these entities in order to ensure an efficient use of capital and continuous compliance, by each of these entities, with regional regulations. Additional details concerning the AMF guideline and the regulatory framework governing the capitalization of each Desjardins entity are presented in Note 32, "Capital management", to the Combined Financial Statements.

Desjardins Group and all its entities subject to minimum regulatory capital requirements were in compliance with these requirements as at December 31, 2011, as they were in 2010.

TABLE 18 – RISK-WEIGHTED ASSETS
As at December 31
(unaudited, in millions of dollars and as a percentage)

	Internal Ratings-Based Approach		Standardized Approach		Total 2011[1]			Total 2010[1]
	Exposure[2]	Risk-weighted assets	Exposure[2]	Risk-weighted assets	Exposure[2]	Risk-weighted assets	Average risk-weighting rate	Risk-weighted assets
Sovereign borrowers	$ —	$ —	$ 15,913	$ —	$ 15,913	$ —	—%	$ —
Financial institutions	—	—	8,170	1,630	8,170	1,630	20	1,682
Businesses	—	—	37,986	27,632	37,986	27,632	73	24,998
Mortgages	49,595	4,748	255	42	49,850	4,790	10	4,513
Qualifying revolving retail exposure	28,432	8,596	—	—	28,432	8,596	30	7,345
Other retail exposures	33,478	3,971	3,864	2,499	37,342	6,470	17	5,643
Securitization	—	—	1,413	636	1,413	636	45	651
Equities	—	—	41	41	41	41	100	75
Trading portfolio	—	—	2,427	572	2,427	572	24	445
Other assets[3]	—	—	—	—	11,775	3,508	30	3,869
Scaling factor[4]	—	1,039	—	—	—	1,039	—	897
Total credit risk	111,505	18,354	70,069	33,052	193,349	54,914	—	50,118
Market risk	—	—	—	1,791	—	1,791	—	1,937
Operational risk[5]	—	—	—	—	—	11,281	—	10,271
Transitional adjustment for floor[6]	—	—	—	—	—	3,339	—	5,523
Total risk-weighted assets	$ 111,505	$ 18,354	$ 70,069	$ 34,843	$ 193,349	$ 71,325	—%	$ 67,849

(1) As required by the AMF, the 2011 data are calculated using financial data prepared in accordance with IFRS. The 2010 data were calculated using financial data prepared in accordance with Canadian GAAP.
(2) Net exposure, after credit risk mitigation (net of individual allowances under the Standardized Approach but not under the Internal Ratings-Based Approach, in accordance with the AMF guideline).
(3) The other assets are measured using a method other than the Standardized Approach or the Internal Ratings-Based Approach.
(4) The scaling factor is a 6% calibration of risk-weighted assets assessed using the Internal Ratings-Based Approach for credit exposures in accordance with Section 1.3 of the AMF guideline.
(5) The Basic Indicator Approach was used to assess operational risk.
(6) As prescribed in Section 1.6 of the AMF guideline.

SECTION 3.3

ANALYSIS OF CASH FLOWS

Because of the nature of Desjardins Group's operations, most of the items on the Combined Statements of Income and the Combined Statements of Financial Position are liquid assets. Normal operations therefore cause considerable fluctuations in liquidity and influence numerous items, such as loans, deposits and securities. The main changes in cash flows are explained in the following paragraphs.

During the year ended December 31, 2011, cash and cash equivalents stood at $1,356 million, compared to $1,621 million as at December 30, 2010, for a decrease of $265 million, compared with an increase of $518 million for the corresponding period in 2010.

For the year ended December 31, 2011, cash flows from operating activities were $2,231 million, primarily because of an increase of $9,406 million in deposits and net changes of $1,959 million and $2,075 million, respectively, in insurance and investment contract liabilities and in securities borrowed or purchased under reverse repurchase agreements, offset by the cash flows used as a result of an increase of $7,592 million in loans, $2,203 million in commitments related to securities sold short, and $2,108 million in commitments related to securities lent or sold under repurchase agreements, and a $298 million payment of member dividends. For the corresponding period in 2010, cash flows from operating activities totalled $2,445 million owing to an increase of $8,499 million in deposits and net changes of $1,066 million and $2,506 million, respectively, in insurance and investment contract liabilities and in commitments related to securities sold short, offset by cash flows used as a result of an increase of $8,137 million in loans, of $2,207 million in securities at fair value through profit or loss, and of $1,979 million in securities borrowed or purchased under reverse repurchase agreements, and a $276 million payment of member dividends.

Cash flows from financing activities totalled $569 million as at December 31, 2011, because of the $479 million sale of subordinated bonds on the market and the $81 million net change in capital stock. As at December 31, 2010, cash flows from financing activities were $1,978 million because of the $1,554 million sale of subordinated bonds and the $521 million net change in capital stock.

Net cash flows of $219 million were required to acquire control of Western Financial Group Inc., consisting of a $285 million payment for 94.1% of the common shares outstanding and a $12 million payment to take up 70,363 Series 3 and 49,244 Series 4 preferred shares, offset by the $78 million in cash and cash equivalents acquired. The sale of Desjardins Group's interest in Desjardins Credit Union Inc. had a negative net effect on cash of $51 million, namely the $10 million in proceeds from the disposal offset by the $61 million in cash and cash equivalents sold.

Cash flows used in other investing activities were $2,795 million during the year ended December 31, 2011, because of the purchase of $28,954 million of available-for-sale securities, offset by $26,381 million in proceeds from the sale and maturity of available-for-sale securities. For the corresponding period in 2010, cash flows used in investing activities amounted to $3,905 million because of the $28,251 million purchase of available-for-sale securities, offset by $24,490 million in proceeds from the sale and maturity of available-for-sale securities.

SECTION 3.4

OFF-BALANCE SHEET ARRANGEMENTS

TABLE 19 – ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT
As at December 31
(in millions of dollars)

	2011	2010	2009(1)
Assets under administration			
Individual and institutional trust and custodial services	$ 248,068	$ 246,955	$ 208,305
Investment funds(2)	35,265	30,154	30,645
Total assets under administration	$ 283,333	$ 277,109	$ 238,950
Assets under management			
Institutions and individuals	$ 7,177	$ 6,251	$ 5,720
Investment funds(2)	30,800	29,934	29,820
Total assets under management	$ 37,977	$ 36,185	$ 35,540

(1) In accordance with GAAP in effect prior to the adoption of IFRS.
(2) Including Desjardins Funds and Northwest & Ethical Investments.

TABLE 20 – CREDIT INSTRUMENTS BY MATURITIES
As at December 31
(in millions of dollars)

				2011	2010	2009(1)
	Less than 1 year	1 to 5 years	Over 5 years	Total	Total	Total
Guarantees and standby letters of credit	$ 488	$ 245	$ —	$ 733	$ 750	$ 591
Securities lending	1,512	—	—	1,512	1,407	1,084
Credit commitments	50,260	4,226	1,218	55,704	50,756	52,231
Total credit instruments	$ 52,260	$ 4,471	$ 1,218	$ 57,949	$ 52,913	$ 53,906

(1) In accordance with GAAP in effect prior to the adoption of IFRS.

In the normal course of operations, Desjardins Group enters into different arrangements, including assets under administration and under management on behalf of its members and clients, credit instruments, derivative financial instruments, contractual commitments, financial assets received as collateral and special purpose entities, including securitization.

ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

As at December 31, 2011, Desjardins Group had assets totalling $283.3 billion under administration and under management for its members and clients, representing an increase of $6.2 billion, or 2.2%, over volume of $277.1 billion at the end of 2010. In addition, financial assets placed with Desjardins Group as asset manager amounted to $38.0 billion as at that date, for an increase of $1.8 billion, or 5.0%, over December 31, 2010.

Desjardins Group is indisputably one of Canada's leading trustees and wealth managers. It was able to limit the effects of a climate that was unfavourable to business growth in 2011 as a result of considerable volatility in global stock markets, which had a negative impact on stock market activity in Canada. For instance, at the close of trading on the Toronto Stock Exchange on December 31, 2011, the S&P/TSX index was down 11.1% over the year, compared to a 14.4% increase in 2010. The assets placed with it by Desjardins Group members and clients in the form of off-balance sheet savings products, such as investment funds and other securities, account for part of its assets under administration and under management. Off-balance sheet savings products outstanding totalled $48.6 billion as at December 31, 2011, an increase of $160 million, or 0.3%, during the year, compared to growth of $6.1 billion, or 14.4%, at the end of 2010.

Assets under administration and under management are composed chiefly of financial assets in the form of investment funds, securities held in custody, and accrued pension fund assets. As a result, they do not belong to Desjardins Group, but to its members and clients and therefore are not reflected in the Combined Statements of Financial Position.

CREDIT INSTRUMENTS AND DERIVATIVE FINANCIAL INSTRUMENTS

The risks associated with credit instruments and derivative financial instruments are managed according to the same strict rules as those applied to items on the Combined Statements of Financial Position. In management's opinion, these off-balance sheet items result in no unusual risk.

Calculation of the risk-weighted balance for these off-balance sheet items, as shown in Table 18 on page 87, is in compliance with the AMF's guideline on adequacy of capital base.

Note 2, "Significant accounting policies", section p), "Derivative financial instruments and hedging activities", to the Combined Financial Statements of Desjardins Group explains the accounting policy used to account for derivative financial instruments, which are all recognized at fair value. Furthermore, Note 18, "Derivative financial instruments and hedging activities", and Note 28, "Commitments, guarantees and contingent liabilities", provide detailed information on derivative financial instruments and commitments, respectively.

CREDIT INSTRUMENTS

In order to meet its members' and clients' financing needs, Desjardins Group makes credit instruments available to them. Credit instruments include guarantees and standby letters of credit, securities lending and credit commitments representing authorized amounts that have not been used by members and clients.

These instruments expose Desjardins Group to credit and liquidity risks. Management of these risks is described respectively on pages 94 to 100, and on pages 102 to 106 of this MD&A. Table 20 presents the contractual amounts of the credit instruments by remaining terms. Since several of these credit instruments will mature or will be terminated without any cash outflow, the contractual amounts of these commitments do not represent future liquidity needs.

DERIVATIVE FINANCIAL INSTRUMENTS

Desjardins Group uses derivative financial instruments primarily for asset and liability management purposes. Derivative financial instruments are contracts whose value is namely based on an underlying asset, such as interest rates or exchange rates. The vast majority of derivative financial instruments are negotiated by mutual agreement between Desjardins Group and the counterparty and include forward exchange contracts, cross-currency interest rate swaps, interest rate swaps, currency swaps, credit default swaps, total return swaps, forward rate agreements, and currency, interest rate and stock index options. The other transactions are carried out as part of regulated trades and mainly consist of futures.

Desjardins Group recognizes all its stand-alone derivative financial instruments in the Combined Statements of Financial Position in accordance with IFRS on financial instruments issued by the IASB and carried forward in the *CICA Handbook*. Under IFRS, derivative financial instruments are recognized in the Combined Statements of Financial Position at fair value, including derivatives designated as hedging items. According to IAS 39, "Financial Instruments: Recognition and Measurement", derivative financial instruments may be designated as part of a fair value, cash flow, or net investment hedging relationship. Among other things, this standard deals with the eligibility conditions for hedge accounting as well as the recognition of hedging relationships. Desjardins Group mainly designates its derivative financial instruments as part of a fair value or cash flow hedging relationship. Note 18, "Derivative financial instruments and hedging activities", to the Combined Financial Statements provides details on the accounting policies relating to derivative financial instruments and the effect of these standards on the Combined Statements of Income for the year.

These derivative financial instruments result primarily in credit and market risk exposure for Desjardins Group. Management of these risks is described on pages 94 to 102 of this MD&A.

The credit risk associated with derivative financial instruments refers to the risk that a counterparty will fail to honour its contractual obligations toward Desjardins Group at a time when the fair value of the instrument is positive for Desjardins. The credit risk associated with derivative financial instruments normally corresponds to a small fraction of the notional amount. The replacement cost and the credit risk equivalent are two measurements used to measure this risk. The replacement cost refers to the current replacement cost of all contracts having a positive fair value. The credit risk equivalent is equal to the sum of this replacement cost and the future credit exposure. The future credit exposure is an estimate of the possible increase in the replacement cost over the remaining term of the contracts, calculated according to a formula established by the AMF.

Desjardins Group limits the credit risk associated with derivative financial instruments by doing business with counterparties that have a high credit rating. One of the tables in Note 18, "Derivative financial instruments and hedging activities", to the Combined Financial Statements presents derivative financial instruments by credit risk rating and type of counterparty. Based on replacement cost, the table shows that substantially all the counterparties have credit ratings ranging from AAA to A. Desjardins Group also limits credit risk with certain counterparties by entering into master netting agreements which allow, in the event that a counterparty becomes insolvent, for the net settlement of all positions with this counterparty. Credit support annexes (CSA) are also used. Under these CSAs, Desjardins has the right to demand that the counterparty pay or provide security for the current market value of the positions once this value exceeds a certain threshold.

The market risk associated with derivative financial instruments refers to the risk of changes in the fair value of these instruments resulting from fluctuations in the parameters affecting this value, notably interest and exchange rates. One of the tables in Note 18, "Derivative financial instruments and hedging activities", to the Combined Financial Statements presents the maturities of the total notional amounts of the derivative financial instruments.

As a general rule, the market risk associated with derivative financial instruments with short-term maturities is less than the risk associated with derivative financial instruments with longer maturities. As at December 31, 2011, based on notional amounts, 29.6% of derivative financial instruments had maturities of less than one year.

Taking into account master netting agreements, the risk-weighted balance for all Desjardins Group's derivative financial instruments as at December 31, 2011, amounted to $311 million, compared to $221 million in 2010. As at December 31, 2011, the amount of collateral that Desjardins Group would have to provide in the event of a downgrade was marginal because the replacement cost was positive for the majority of the contracts.

CONTRACTUAL COMMITMENTS

Desjardins Group has contractual commitments to make future payments on borrowings, subordinated bonds and leases. Borrowings and subordinated bonds are presented in Desjardins Group's Combined Statements of Financial Position, but leases are not. Note 16, "Other liabilities – Other", Note 17, "Subordinated bonds", and Note 28, "Commitments, guarantees and contingent liabilities", to the Combined Financial Statements contain information on these contractual commitments.

Desjardins Group has undertaken to provide a margin funding facility (MFF) with respect to holdings in asset-backed term notes (ABTN). Desjardins Group's share in this credit commitment, totalling $1,193 million under the December 24, 2008 restructuring plan, ranks equal with other MFF participants and expires in July 2017 or earlier if all credit default swap transactions have already been settled.

FINANCIAL ASSETS RECEIVED AS COLLATERAL

Desjardins Group receives financial assets as collateral as a result of transactions involving securities borrowed or purchased under reverse repurchase agreements. Such transactions are carried out under normal conditions for these types of transactions. Note 28, "Commitments, guarantees and contingent liabilities", to Desjardins Group's Combined Financial Statements provides additional information about financial assets received as collateral.

SPECIAL PURPOSE ENTITIES

In the normal course of operations, Desjardins Group enters into various financial transactions with special purpose entities (SPEs). The entities are usually created for a single and distinct purpose, and they often have a limited life. They are used to legally isolate the financial assets they hold from the transferring organization, which can be Desjardins Group or one of its clients. SPEs are not operating entities and generally have no employees. Under IFRS, the recognition of SPEs in the Consolidated Statements of Financial Position depends on their characteristics.

The implementation of the Asset-Backed Commercial Paper (ABCP) Restructuring Plan under the Montreal Accord was completed on January 21, 2009. This restructuring plan led, among other things, to the replacement of ABCP by long-term floating rate ABTNs having a maturity similar to that of the underlying assets. Details concerning significant exposure to special purpose entities are provided in Table 21.

During 2010, Desjardins Group entered into several different types of transactions to minimize the risk associated with the ABTN portfolio, the margin funding facility related to the ABTN portfolio and other restructured securities. The implementation of credit index hedges, the acquisition of a direct protection on a significant portion of the MAV 1 portfolio and the disposal of various restructured portfolios significantly reduced the risk related to these portfolios. Desjardins Group maintained all the hedges implemented in 2010 for its ABTN exposure.

TABLE 21 – SIGNIFICANT EXPOSURE TO OTHER SPECIAL PURPOSE ENTITIES
As at December 31
(in millions of dollars)

	2011		2010	
	Desjardins Group's exposure	Total assets of SPEs(1)	Desjardins Group's exposure	Total assets of SPEs(1)
Non-consolidated SPEs				
Trusts for Canadian non-bank asset-backed term notes (ABTN)(2)	$ 2,561	$ 16,185	$ 2,540	$ 16,360
Private investment funds related to guaranteed-capital products and other activities(3)	84	233	225	621
Consolidated SPEs				
Private hedge funds related to guaranteed-capital products and other activities(3)	59	59	18	47
Desjardins Credit Union Inc.(4)	—	—	11	1,381

(1) The total assets of the SPEs disclosed correspond to the most recent data available to Desjardins Group. For investment funds and hedge funds related to guaranteed-capital structured products, the amount presented corresponds to the entity's net assets.
(2) See Note 07, "Securities", to the Combined Financial Statements. The amount in the column "Desjardins Group's exposure" comprises the margin funding facility of $1,193 million ($1,193 million as at December 31, 2010) and the fair value of the new notes of $1,368 million ($1,347 million as at December 31, 2010).
(3) For presentation purposes, cross-investments between investment funds and hedge funds have not been eliminated.
(4) See Note 19, "Significant acquisitions and disposals", to the Combined Financial Statements.

SECURITIZATION

Desjardins Group also participates in the *National Housing Act* Mortgage-Backed Securities Program. Transactions under the Program involve the use of off-balance sheet arrangements with SPEs. The SPE used by Desjardins Group is Canada Housing Trust, set up by Canada Mortgage and Housing Corporation (CMHC) under the Canada Mortgage Bonds (CMB) Program. Note 9, "Securitization and other transferred financial assets", to the Combined Financial Statements provides, among other things, the amount of residential mortgage loans transferred by Desjardins Group.

In this type of transaction, Desjardins Group bundles CMHC-guaranteed residential mortgages into mortgage-backed securities, transfers them to the SPE in return for monetary consideration, and then the SPE finances these purchases by issuing CMB to investors. The terms of the CMB Program require that swap agreements be made between Canada Housing Trust and Desjardins Group in order to receive the total cash flows related to the mortgages underlying the mortgage-backed securities on a monthly basis and for Desjardins Group to pay quarterly interest to Canada Housing Trust on the CMB series, as well as the principal at maturity. However, Desjardins Group retains substantially all the risks and rewards related to the securities transferred under these transactions. Consequently, the loans continue to be recognized in the Combined Statements of Financial Position in accordance with IFRS.

Since there was no restatement in the Combined Statements of Financial Position as at January 1, 2010, as permitted by IFRS and the regulators, transactions prior to this date continued to be accounted for as sales. At the time of sale of the assets, Desjardins Group retained certain interests regarding excess interest margins, which constituted retained interests, and assumed responsibility for servicing the transferred mortgages. No loss is expected on the mortgage loans because they are guaranteed by CMHC. Desjardins Group periodically reviews the value of the retained interests and recognizes any other-than-temporary decline in value in the Combined Statements of Income if there is any objective evidence of impairment, if applicable. As at December 31, 2011, the aggregate outstanding of the original assets transferred and derecognized was $1.8 billion, compared to $2.9 billion at the end of 2010. The assets corresponding to the retained interests that Desjardins Group continues to recognize with regard to these transactions and the servicing liabilities amounted to $28 million and $4 million, respectively, compared to $70 million and $11 million as at December 31, 2010.

4.0 RISK MANAGEMENT

SECTION 4.1
RISK MANAGEMENT

The shaded boxes in this section contain information about credit, market and liquidity risks in accordance with IFRS 7, "Financial Instruments: Disclosures". They also contain an analysis of how Desjardins Group assesses its risk as well as a description of its risk management objectives, policies and methods. IFRS 7 provides that risk disclosures may be included in the Management's Discussion and Analysis (MD&A). Consequently, the shaded boxes are an integral part of the Combined Financial Statements, as explained in Note 30, "Financial instrument risk management", to the Combined Financial Statements.

Desjardins Group is exposed to different types of risk in its normal course of operations, including credit risk, liquidity risk, market risk, operational risk, insurance risk, strategic risk and reputation risk. Strict and effective management of these risks is a priority for Desjardins Group, its purpose being to support its major orientations, particularly regarding financial stability, compliance with Basel requirements and sustained and profitable growth.

INTEGRATED RISK MANAGEMENT FRAMEWORK

Desjardins Group's objective in risk management is to optimize the risk-return trade-off, within set limits, by applying integrated risk management and control strategies, policies and procedures to all its activities. It also aims to provide a prudent and appropriate management framework that complies with accepted accountability and independence principles.

In this regard, Desjardins Group has an integrated risk management framework. The purpose of the framework is to provide the organization with reasonable assurance with respect to the understanding and management of the full spectrum of major risks to which Desjardins Group is exposed.

As integral parts of the integrated risk management framework, risk appetite and tolerance determine the risk type and level that Desjardins is prepared to assume to achieve its business and strategic objectives. They provide a basis for integrated risk management by promoting a better understanding of risk and its impact on the risk profile.

The term appetite signifies a series of orientations that guide risk behaviour at Desjardins Group. In combination with indicators, risks influence financial and strategic decision-making. Risk appetite therefore has various levels and serves as a voluntary benchmark for defining the objectives and accountability of the components and business sectors. Risk indicators are monitored on a regular basis to ensure that Desjardins Group's risk profile matches the degree of risk appetite and tolerance desired by senior management and the Board of Directors in view of Desjardins Group's mission, vision and values. The Board of Directors is responsible for approving the risk appetite and tolerance framework that must reflect Desjardins Group's financial and strategic objectives.

Desjardins Group's integrated risk management framework also includes the overall operational infrastructure and the risk management governance structure, which are supported by its risk management culture. This culture promotes exchanges between Desjardins Group's risk management function and its business sectors and regulated entities.

Such a dialogue improves risk transparency and promotes an understanding of risks in terms of Desjardins Group's operations for their optimal management. Furthermore, to help strengthen its culture on an ongoing basis and to enhance its risk management capabilities, risk management training sessions are held regularly. Desjardins Group intends, with regard to such training sessions, to continue to update the knowledge of the members of participating bodies, through a professional development plan.

RISK MANAGEMENT GUIDELINES

The integrated risk management framework is based on risk management guidelines that provide, in particular, for the following:

- The accountability of Desjardins Group's business sectors with regard to the risks inherent to their operations
- Application at every level of the organization in order to obtain a comprehensive vision of risk exposure
- The existence of a process to determine the appropriate capital level based on the risks assumed
- Taking risk management into account when formulating strategic plans, business strategies and the resulting decisions
- Thorough risk assessment when launching new products or introducing projects with a strong financial impact

RISK MANAGEMENT GOVERNANCE

The integrated risk management framework is based on a solid risk governance structure reflecting Desjardins Group's organizational reality.

The *Fédération des caisses Desjardins du Québec*'s Board of Directors is responsible for guiding, planning, coordinating and monitoring all Desjardins Group's operations, and in such capacity, it participates actively in the oversight of the major risks to which Desjardins Group is exposed. The Board of Directors is in particular responsible for adopting the overall orientations and strategies proposed by senior management as well as risk management policies aimed at ensuring sound and prudent management of operations. To discharge its specific risk management responsibilities, the Board is supported by the Risk Management Commission, the Audit and Inspection Commission and the Board of Ethics and Professional Conduct. Further information about these bodies is found on pages 206 to 219 of the Corporate Governance section of this Annual Report.

The Desjardins Group Management Committee must make recommendations to the Board of Directors concerning risk management policies and strategies and ensure that they are implemented effectively and efficiently. Two committees support the Management Committee in discharging its risk management responsibilities: the Integrated Risk Management Committee and the Finance and Risk Management Committee, made up of the heads of Desjardins Group's strategic functions and Desjardins experts.

Two independent functional units complete Desjardins Group's risk management governance infrastructure. The Risk Management Corporate Division is a strategic function charged primarily with being a partner in Desjardins Group's growth by identifying, measuring and managing risks while ensuring the longevity of Desjardins. It is up to the Desjardins Group risk management function to recommend and establish risk management policies and to set up the appropriate infrastructure, processes and practices targeting all major Desjardins-wide risks. The risk management function also works to assess, quantify, monitor and disclose all major risks. The Desjardins Group Monitoring Office is an independent and objective assurance and advisory body that assists Desjardins Group officers in carrying out their governance duties and oversees and advises management with respect to its responsibility to manage in a sound and prudent manner. In so doing, it contributes to improving Desjardins Group's overall performance and maintaining members', the public's and regulatory bodies' confidence in Desjardins Group. The Desjardins Group Monitoring Office includes the internal audit services of Desjardins Group components as well as audit and inspection services for the caisse network. The Desjardins Group Monitoring Office provides independent assurance of the effectiveness of risk management processes.

RISK MEASUREMENT AND DISCLOSURE

RISK MEASUREMENT

Desjardins Group's ability to measure and assess risks is a key component of its integrated risk management framework. Desjardins Group uses quantitative as well as qualitative techniques to determine its risk exposure. Desjardins Group ensures that an appropriate selection of measurement tools and mitigation techniques are designed and maintained in order to support business development.

Measurement tools include in particular the use of models and stress testing. The development, approval and review of the performance of models are subject to procedures and processes. In addition, a validation process for models is in place. All these procedures help to mitigate the risks associated with the models.

Risk quantification is practised both in the current economic context as well as in hypothetical situations simulating crises applied across the entire organization. Desjardins-wide sensitivity tests and crisis scenarios are used as additional risk analysis tools to measure the potential impact of exceptional but plausible events on profitability and capital levels. Institution-wide crisis scenarios are developed according to the anticipated economic outlook under distress conditions. The results of these analyses help detect potential vulnerabilities to risk factors for various operations.

RISK DISCLOSURE

Risk disclosure enables decision-making bodies to monitor risk developments and fulfil their responsibilities with regard to risks.

Risk reports containing the key indicators for all major risks are prepared periodically for the Integrated Risk Management Committee, the Desjardins Group Management Committee, the Desjardins Group Operations Coordination Committee, the Risk Management Commission, the Audit and Inspection Commission, and the Board of Directors. These reports provide key indicators about each risk. Information about capital, particularly capital adequacy in relation to Desjardins Group's risk profile, rounds out these reports. Constantly being updated, these reports include the latest risk management developments so that decision-making bodies receive timely information on major risks that is both practical and forward-looking.

BASEL II CAPITAL ACCORD

Basel II is an international capital adequacy tool designed to align regulatory capital requirements more closely with risk exposure and to further the continuous development of the risk assessment capabilities of financial institutions.

The Basel II framework essentially rests on three pillars: the first pillar sets out the requirements for risk-weighted regulatory capital; the second pillar deals with the supervisory review process; and the third pillar stipulates financial disclosure requirements.

In compliance with the guideline on standards governing the adequacy of capital base, which was adapted to reflect the provisions of Basel II, Desjardins Group uses the Internal Ratings-Based Approach, subject to conditions, for credit risk related to retail loan portfolios (individuals). Credit and market risk exposures are currently assessed using the Standardized Approach, while operational risk is calculated using the Basic Indicator Approach. This last approach is also used to calculate Desjardins Group's capital ratios, which are still the highest among the best-capitalized financial institutions in Canada.

Again this year, numerous efforts were made throughout Desjardins Group to support the implementation of sound risk management practices and to align regulatory capital requirements more closely with risk exposure. Desjardins Group continues to build on the progress over the past few years in obtaining tools and systems conforming to recognized standards for core risk areas.

Additional information about capital management is presented in section 3.2, "Capital management", on pages 83 to 87.

CREDIT RISK

Credit risk is the risk of losses resulting from a borrower's or counterparty's failure to honour its contractual obligations, whether or not such obligations appear on the Combined Statements of Financial Position.

Desjardins Group is exposed to credit risk first through its direct personal, business and government loans, which represented 65.8% of assets on the Combined Statements of Financial Position as at December 31, 2011, compared to 66.1% a year earlier. It is also exposed through its various other commitments, including letters of credit, foreign exchange lines and transactions involving derivative financial instruments and securities.

CREDIT RISK MANAGEMENT

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

To provide assistance in this area, Desjardins Group has set up centralized structures and procedures to ensure that its risk management framework permits effective management in a sound and prudent manner.

Desjardins Group has set up a Risk Management Corporate Division, which includes four credit risk management divisions. Responsibility for the main client segments, namely large corporations and capital markets, small and medium-sized businesses, and retail loans, is divided up among three of these units. With the help of specialized teams and specific procedures, each unit is structured to cover the specific characteristics of the products or client base whose credit risk is under its responsibility. These units are in turn supported by a division responsible for the main aspects of strategy, governance and risk measurement.

CREDIT RISK FRAMEWORK

A set of policies and standards govern all aspects of credit risk management at Desjardins Group. This framework defines the responsibilities and powers of the parties involved, the limits imposed by risk tolerance, the rules governing the assignment and administration of files, and the disclosure rules for Desjardins Group's exposure to credit risks.

Approval and credit risk management units assume responsibility for credit granting and management and for providing a framework specific to their products and operations. These units establish their own policies and practices based on their products and clients while complying with the general policies that govern all credit activities.

Together, these frameworks, policies and practices set the course of action for risk management and control.

CREDIT GRANTING

The caisses, Desjardins business centres and other business centres in contact with the client base are primarily responsible for approving files. Some approval limits are set, and loans for an amount above these limits are approved by the Risk Management Corporate Division.

Professionals are grouped together according to client type in the three previously mentioned divisions. Their qualifications, their approval level and the depth of the analysis required depend on the product, as well as the complexity and scope of the transaction risk.

RETAIL LOANS

The retail portfolios consist of residential mortgages, personal loans, credit card loans to individuals and small business loans. To assess the risk of credit activities involving individuals and smaller businesses, credit scoring systems that must be based on proven statistics are used.

These systems were developed using a history of behaviour among borrowers with a profile or characteristics similar to those of the applicant and the products used, including the type of collateral offered, to determine the transaction risk.

Such systems are used for initial approval as well as subsequently when behavioural ratings, calculated using member-borrowers' transaction data, are used to assess portfolio risk on an ongoing basis. A monthly update is obtained for our existing borrowers' risk level for proactive management of a portfolio's credit risk.

The performance of these systems is continually assessed and adjustments are made regularly with a view to determining transaction and borrower risk as accurately as possible.

Risk parameters are set for each exposure category analyzed and make it possible to determine probabilities of default, loss given default and gross exposures at default for groups with similar characteristics.

The units responsible for the development process see to the implementation of adequate controls to ensure the stability and performance of rating systems and internal models. These, in turn, are validated by a unit independent from the development process to ensure that they are conceptually sound and properly take into account all major risks. This validation is performed when the model is initially set up and subsequently on an annual basis, as well as when major changes are made to it. A validation policy determines the events requiring validation by an independent unit, the approved rating systems and internal models, and the scope and nature of the validation work.

BUSINESS LOANS

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

For the main commercial portfolios, the scoring system used has 19 ratings, broken down into 12 levels, with each one representing a probability of default.

Table 22 provides a comparison of internal ratings and ratings assigned by external agencies.

TABLE 22 – RATINGS DEPENDING ON RISK LEVEL

Rating	Description	Moody's	S&P
1 and 1.5	Exceptional	N/A	N/A
2 and 2.5	Excellent	Aaa to A3	AAA to A-
3 and 3.5	Superior	Baa1 to Baa2	BBB+ to BBB
4 and 4.5	Very good	Baa3 to Ba1	BBB- to BB+
5 and 5.5	Good	Ba2 to Ba3	BB to BB-
6 and 6.5	Adequate	B1 to B2	B+ to B
7 and 7.5	Fair	B3 to Caa1	B- to CCC+
8 and 9	Poor	Caa2 to C	CCC to C-
10 to 12	Default	D	D

The characteristics of each borrower are analyzed using models based on internal and external historical data, taking into account the specific features of the borrower's economic sector and the performance of comparable businesses. These analyses are performed using systems that can make quantitative comparisons, and are supplemented by the professional judgment of the personnel involved with the file.

The use of internal ratings and estimates has been expanded to other risk management and governance activities such as establishing analysis requirements and file authorization levels, the different types of follow-up and the disclosure of portfolio risk quality.

FILE MONITORING AND MANAGEMENT OF HIGHER RISKS

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

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

COUNTERPARTY AND ISSUER RISK

A large proportion of the securities in all the securities portfolios held by Desjardins are issued or guaranteed by public or parapublic entities. The portfolios are concentrated with Canadian issuers and counterparties with a credit rating of at least A-.

As part of its investment activities, Desjardins Group uses four External Credit Assessment Institutions (ECAIs) to determine credit ratings for calculating capital requirements according to the Standardized Approach. All ECAIs meet the eligibility criteria of Basel II and are authorized by the AMF and the Office of the Superintendent of Financial Institutions.

The Risk Management Corporate Division sets the maximum exposure for each counterparty and issuer based on quantitative and qualitative criteria. The amounts are then allocated to the various components based on their investment needs.

EXPOSURE TO SOVEREIGN BORROWERS

Desjardins Group is not directly exposed to the sovereign debt of the European countries most affected by the recent financial upheaval, namely Greece, Portugal, Italy, Ireland and Spain. Its exposure to U.S. and European financial institutions is marginal.

MITIGATING CREDIT RISK

In its lending operations, Desjardins Group obtains collateral if deemed necessary for a member's or client's borrowing facility following an assessment of their creditworthiness. Collateral normally takes the form of assets such as capital assets, receivables, inventory, cash, government securities or equities. For some portfolios, programs offered by organizations such as Canada Mortgage and Housing Corporation and *La Financière agricole du Québec* are used in addition to customary collateral. Loans guaranteed by governments and other public and parapublic organizations represented 28.9% of total gross loans as at December 31, 2011, compared to 26.5% a year earlier, as shown in Table 15 on page 78.

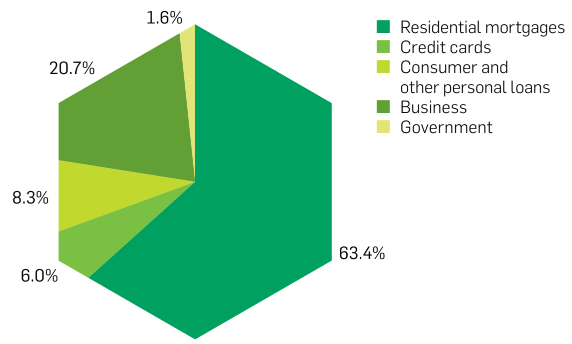
Policies and procedures, adapted to each product, contain the requirements for appraising collateral, its legal validation and follow-up.

Where required, Desjardins Group uses mechanisms to share risk with other financial institutions, such as loan syndication.

Lending in Quebec makes up 93.5% of total loans, with 6.2% in the rest of Canada and 0.3% in the United States.

The large number of borrowers, for the most part individuals, but also small and medium-sized businesses from most sectors of the economy, plays a role in the sound diversification of the financing portfolio.

LOAN DISTRIBUTION
BY BORROWER CATEGORY
As at December 31, 2011



The above chart presents the distribution of loans by borrower category. Over half of the portfolio consists of residential mortgages, for which, statistically, the loss experience is lower. Additional information on changes in the loan portfolio can be found on pages 78 to 80 of section 3.1, "Review of financial position".

In its derivative financial instrument transactions and securities lending transactions, which include repurchase and reverse repurchase agreements, and securities borrowing and lending, Desjardins Group uses various techniques to reduce its counterparty credit risk.

Most derivative financial instrument transactions are over the counter and are governed by master agreements called International Swaps and Derivatives Association agreements (ISDA agreements), which define the terms and conditions for the transactions. These agreements are legal contracts binding the counterparties. Most of Desjardins Group's agreements provide for netting to determine the net exposure in the event of default. In addition, a Credit Support Annex can be added to the master agreement in order to request the counterparties to pay or secure the current market value of the positions when such value exceeds a certain threshold.

Securities lending transactions are regulated by participation agreements from the Investment Industry Regulatory Organization of Canada. Desjardins Group also uses netting agreements with its counterparties to mitigate credit risk and requires a percentage of collateralization (a pledge) on these transactions.

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

Desjardins Group also enters into hedges through credit derivatives. With these derivative financial instruments (credit default swaps and total return swaps), Desjardins Group can transfer credit risk to a counterparty or hedge against different types of risks.

MAXIMUM CREDIT RISK EXPOSURE

Table 23 presents the maximum credit risk for financial instruments other than those recognized in the Combined Statements of Financial Position and for which the maximum risk is equal to the carrying amount, without any collateral held or other credit enhancements.

Additional information about credit risk is presented in Note 18, "Derivative financial instruments and hedging activities", and Note 28, "Commitments, guarantees and contingent liabilities", to the Combined Financial Statements.

TABLE 23 – MAXIMUM CREDIT RISK EXPOSURE
As at December 31
(in millions of dollars)

	2011	2010
Recognized in the Combined Statements of Financial Position		
Deposits with financial institutions	$ 173	$ 381
Securities		
Debt securities held for trading	9,448	10,217
Debt securities designated at their fair value through profit or loss	12,385	10,574
Available-for-sale debt securities	17,485	14,913
Off-balance sheet		
Guarantees and standby letters of credit	733	750
Credit commitments(1)	55,704	50,756

(1) Includes the funding facility related to the restructuring plan of the Montreal Accord. Additional information is provided in Note 07, "Securities", to the Combined Financial Statements.

ADDITIONAL CREDIT RISK INFORMATION

Probability of default (PD) is the likelihood of a borrower defaulting on its obligations within a one-year time horizon, while loss given default (LGD) is the magnitude of loss that may be incurred in the event a borrower defaults. Exposure at default (EAD) is the amount likely to be engaged in the event of default.

The following tables present additional credit risk information. Used and unused exposures are made up of the core credit risks while off-balance sheet exposures include credit equivalent amounts for comparable transactions, over-the-counter derivatives, other off-balance sheet exposures and any trading portfolios.

TABLE 24 – RISK EXPOSURE BY ASSET CLASS (EXPOSURE AT DEFAULT [EAD])

As at December 31, 2011
(in millions of dollars)

	Exposure categories(1)				
	Used exposure	Unused exposure	Off-balance sheet exposure(2)	Total	Net exposure(3)
Standardized Approach					
Sovereign borrowers	$ 15,288	$ 475	$ 270	$ 16,033	$ 15,913
Financial institutions	6,676	1,823	3,630	12,129	8,170
Businesses	34,913	3,068	1,467	39,448	37,986
Mortgages	255	—	—	255	255
Other retail exposures	4,077	794	33	4,904	3,864
Securitization	1,413	—	—	1,413	1,413
Equities	41	—	—	41	41
Trading portfolio	—	—	14,027	14,027	2,427
Internal Ratings-Based Approach					
Mortgages	43,096	6,499	—	49,595	49,595
Revolving retail exposures	9,228	19,196	8	28,432	28,432
Other retail exposures	26,935	6,542	1	33,478	33,478
Total	$ 141,922	$ 38,397	$ 19,436	$ 199,755	$ 181,574

(1) The definition of exposure categories related to regulatory capital requirements differs from the accounting classification.
(2) Including repo-style transactions, over-the-counter derivatives and other off-balance sheet exposures.
(3) After credit risk mitigation (CRM) techniques including the use of collateral, guarantees and credit derivatives.

TABLE 25 – EXPOSURES BY ASSET CLASS(1) AND BY RISK TRANCHE (STANDARDIZED APPROACH)(2)

As at December 31, 2011
(in millions of dollars)

	Risk tranches							
	0%	20%	35%	50%	75%	100%	Other	Total
Sovereign borrowers	$ 16,033	$ —	$ —	$ —	$ —	$ —	$ —	$ 16,033
Financial institutions	—	12,129	—	—	—	—	—	12,129
Businesses	—	1,502	—	64	—	37,556	411	39,533
Mortgages	—	—	246	—	—	9	—	255
Other retail exposures	—	—	—	—	4,857	29	41	4,927
Securitization	—	39	—	1,257	—	—	117	1,413
Equities	—	—	—	—	—	41	—	41
Trading portfolio	1,634	10,755	—	110	—	1,528	—	14,027
Total	$ 17,667	$ 24,425	$ 246	$ 1,431	$ 4,857	$ 39,163	$ 569	$ 88,358

(1) The definition of exposure categories related to regulatory capital requirements differs from the accounting classification.
(2) Exposures before individual allowances for credit losses and before CRM.

TABLE 26 – EXPOSURE BY ASSET CLASS(1) AND CONTRACTUAL TERM TO MATURITY

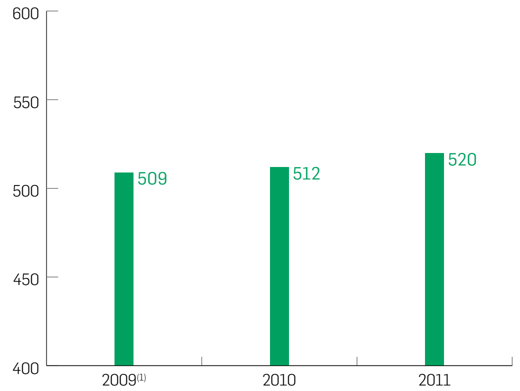
As at December 31, 2011
(in millions of dollars)

	Less than 1 year	From 1 to 5 years	More than 5 years	Total
Internal Ratings-Based Approach				
Mortgages	$ 18,581	$ 30,874	$ 140	$ 49,595
Revolving retail exposures	28,432	—	—	28,432
Other retail exposures	9,765	20,513	3,200	33,478
Total	$ 56,778	$ 51,387	$ 3,340	$ 111,505

(1) The definition of exposure categories related to regulatory capital requirements differs from the accounting classification.

QUALITY OF LOAN PORTFOLIO

GROSS IMPAIRED LOANS
As at December 31, 2011
(in millions of dollars)



(1) In accordance with GAAP in effect prior to the adoption of IFRS.

Desjardins Group's loan portfolio continues to be of excellent quality. As at December 31, 2011, gross impaired loans outstanding were $520 million, up $8 million from December 31, 2010. The gross impaired loans ratio, as a percentage of the total gross loan portfolio, was 0.41% at year-end 2011, showing an improvement over the ratio of 0.43% as at December 31, 2010. Desjardins Group's ratio in this regard is still one of the best in the Canadian banking industry.

Individual allowances for credit losses, which totalled $159 million as at December 31, 2011 and 2010, made it possible to obtain a total coverage ratio of 30.6% of the gross impaired loans portfolio as at December 31, 2011, while this ratio was 31.1% at year-end 2010.

The collective allowance stood at $306 million as at December 31, 2011, versus $330 million as at year-end 2010. An allowance related to off-balance sheet exposures of $92 million as at December 31, 2011, compared to $74 million as at the same date the prior year, was recognized under "Other liabilities – Other" in the Combined Statements of Financial Position. The collective allowance reflects management's best estimate of allowances for credit losses regarding loans not yet individually identified as impaired.

The volume of gross impaired loans remained relatively stable, increasing from $512 million as at December 31, 2010, to $520 million at year-end 2011. All portfolios demonstrated this stability. These results confirm that the organization's entire portfolio is performing well.

The methods for measuring individual and collective allowances, as well as the method for determining an impaired loan, are described in section 5.4, "Critical accounting policies and estimates – Impairment of financial assets", on page 112 of this MD&A.

Tables 27 and 28 present impaired loans by borrower category as well as the individual coverage ratio for these loans.

TABLE 27 – IMPAIRED LOANS BY BORROWER CATEGORY
As at December 31
(in millions of dollars and as a percentage)

	2011					2010	2009(1)
	Gross Loans	Gross Impaired Loans		Individual allowances for credit losses	Net impaired loans	Net impaired loans	Net impaired loans
Residential mortgages	$ 79,686	$ 132	0.17%	$ 12	$ 120	$ 128	$ 124
Consumer, credit card and other personal loans	17,985	90	0.50	38	52	49	50
Business and government	27,948	298	1.07	109	189	176	192
Total	$ 125,619	$ 520		$ 159	$ 361	$ 353	$ 366
As a percentage of gross loans			0.41%		0.29%	0.30%	0.33%

(1) In accordance with GAAP in effect prior to the adoption of IFRS.

TABLE 28 – SPECIFIC COVERAGE RATIO(1)
As at December 31
(as a percentage)

	2011	2010	2009(2)
Residential mortgages	9.1%	8.6%	9.5%
Consumer, credit card and other personal loans	42.2	42.4	39.8
Business and government	36.6	38.7	33.6
Coverage ratio of impaired loans	30.6	31.1	28.1

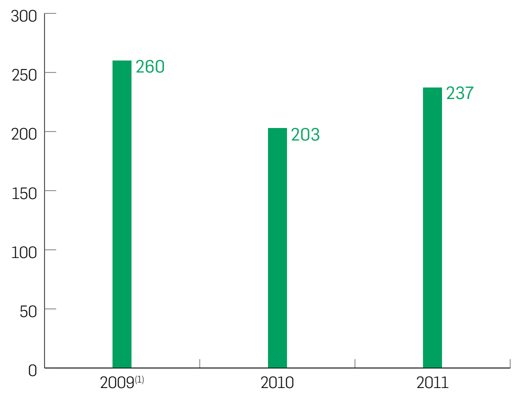
(1) The specific coverage ratio is equal to total individual allowances divided by total gross impaired loans.
(2) In accordance with GAAP in effect prior to the adoption of IFRS.

PROVISION FOR CREDIT LOSSES

The provision for credit losses totalled $237 million for 2011, up $34 million from the corresponding period in 2010. This provision comprises the allowance for credit losses of $219 million and the provision for off-balance sheet commitments of $18 million for 2011, compared to $200 million and $3 million for 2010. The allowance for credit losses represented 0.19% of average gross loans, versus 0.18% in 2010, primarily as a result of the increase in loans outstanding for credit card financing.

PROVISION FOR CREDIT LOSSES

As at December 31, 2011
(in millions of dollars)



(1) In accordance with GAAP in effect prior to the adoption of IFRS.

OUTLOOK FOR 2012

Given the forecasted low interest rates, Desjardins Group should, generally speaking, maintain the quality of its aggregate portfolio in 2012, even if economic growth expectations are moderate and the Canadian dollar remains strong.

The quality of the consumer loan portfolio should hold steady. Given the absence of any significant hike in interest rates, any deterioration in the financial health of most households should be avoided despite the relative weakness of the labour market. Since uncertainties continue to persist in this area, however, households' financial capacity will be the focus of special attention.

As for residential mortgage financing activities, there should not be any major changes in this area given the stabilization of the real estate market.

As for the business portfolio, the risk of deterioration still persists for a few business segments, but the economic climate in 2012 should not lead to any significant decline.

MARKET RISK

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

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

INTEREST RATE RISK MANAGEMENT

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

Sound and prudent management is applied to achieve the objective of optimizing net interest income while minimizing the negative incidence of interest rate movements. The established policies describe the principles, limits and procedures that apply to interest rate risk management. Simulations are used to measure the effect of different variables on changes in net interest income and the economic value of equity.

Assumptions used in the simulations are based on an analysis of historical data and on the effects of different interest rate conditions on changes in the data. These assumptions concern changes in assets and liabilities, including modelling for non-maturity deposits, member behaviour and pricing. Desjardins Group's asset and liability management committee (the "Asset/Liability Committee") is responsible for analyzing and approving the global matching strategy on a monthly basis while respecting the parameters defined in interest rate risk management policies.

Table 29 presents the potential pre-tax impact on the non-trading portfolio of a sudden and sustained 100-basis-point increase or decrease in interest rates on the economic value of equity. The amounts presented do not include the financial assets of the life and health insurance subsidiaries that back insurance and investment contract liabilities.

Some items in the Combined Statements of Financial Position are considered non rate-sensitive instruments, including investments in equities, non-performing loans, non-interest-bearing deposits, non-maturity deposits with an interest rate not indexed according to a specific rate such as the prime rate, and equity. As dictated in its policies, Desjardins Group's management practices are based on prudent assumptions with respect to the maturity profile used in its models to determine their interest rate sensitivity.

TABLE 29 – INTEREST RATE SENSITIVITY (BEFORE INCOME TAXES)
As at December 31
(in millions of dollars)

	2011		2010	
	Net interest income(1)	Economic value of equity(2)	Net interest income(1)	Economic value of equity(2)
Impact of a 100-basis-point increase in interest rates	$ 56	$ 118	$ 58	$ (24)
Impact of a 100-basis-point decrease in interest rates	(87)	(71)	(74)	24

(1) Represents interest rate sensitivity of net interest income over the next 12 months.
(2) Represents the present value of assets, liabilities and off-balance sheet instruments.

TABLE 30 – VAR BY RISK CATEGORY (TRADING PORTFOLIO)
(in millions of dollars)

	2011				2010			
	As at December 31	For the year ended December 31			As at December 31	For the year ended December 31		
		Average	High	Low		Average	High	Low
Equities	$ 0.4	$ 0.4	$ 1.1	$ 0.2	$ 0.5	$ 0.4	$ 1.1	$ 0.1
Foreign exchange	0.1	0.1	0.6	—	0.1	0.1	0.4	—
Interest rates	3.5	4.0	6.7	2.2	4.0	5.2	7.6	3.6
Diversification effect(1)	(0.3)	(0.5)	s.o.(2)	s.o.(2)	(0.6)	(0.5)	s.o.(2)	s.o.(2)
Aggregate VaR	$ 3.7	$ 4.0	$ 6.6	$ 2.2	$ 4.0	$ 5.2	$ 7.4	$ 3.6

(1) Risk reduction related to diversification, namely the difference between the sum of the VaR for the various market risks and the aggregate VaR.
(2) Not applicable: The highs and lows of the various market risk categories can refer to different dates.

The difference in the impact on the economic value of equity between 2011 and 2010 is mainly attributable to two changes made to one of the life and health insurance subsidiaries, namely the use of a new calculation model for guarantees on segregated fund products and the impact of a 1% change in interest rates exceeding the limits set by actuarial liabilities.

Interest rate sensitivity is based on the earlier of the repricing or maturity date of the assets, liabilities and derivative financial instruments used to manage interest rate risk. The situation presented reflects the position on that date only and can change significantly in subsequent years depending on the preferences of members and clients, and the application of policies on interest rate risk management.

FOREIGN EXCHANGE RISK

Foreign exchange risk arises when the actual or expected value of assets denominated in a foreign currency is higher or lower than that of liabilities denominated in the same currency. Some components have adopted specific policies to manage foreign exchange risk. Desjardins Group is exposed to foreign exchange risk because some of its investments are denominated in U.S. dollars. It manages part of this risk by using forward exchange contracts; however, Desjardins Group's exposure to this risk is limited because the majority of its transactions are conducted in Canadian dollars.

MANAGEMENT OF MARKET RISK RELATED TO TRADING ACTIVITIES – VALUE AT RISK

The management of market risk is handled on a daily basis and outlined in a specific policy.

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

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

Table 30 presents the aggregate VaR of the trading activities by risk category as well as the diversification effect, which represents the difference between aggregate VaR and the sum of VaR for different risk categories. Equity, interest rate and foreign exchange risks are the three risk categories to which Desjardins Group is exposed. The definition of a trading portfolio meets the criteria defined in the Basel Capital Accord.

As at December 31, 2011, the aggregate VaR was $3.7 million, the interest rate VaR being the largest component. This aggregate VaR was lower than its annual average of $4.0 million. Risk mitigation related to diversification amounted to $0.3 million as at December 31, 2011.

BACK TESTING

To validate the VaR model used, back testing is conducted daily by comparing the VaR with the profits or losses (P&L) of Desjardins Group's portfolios.

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

The following chart presents changes in VaR for trading activities as well as income and losses related to these activities. During the last quarter of 2011, the hypothetical P&L was not exceeded.

STRESS TESTING

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

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

LIQUIDITY RISK

Liquidity risk refers to Desjardins Group's capacity to raise the necessary funds (by increasing liabilities or converting assets) to meet a financial obligation, whether or not it appears on the Combined Statements of Financial Position.

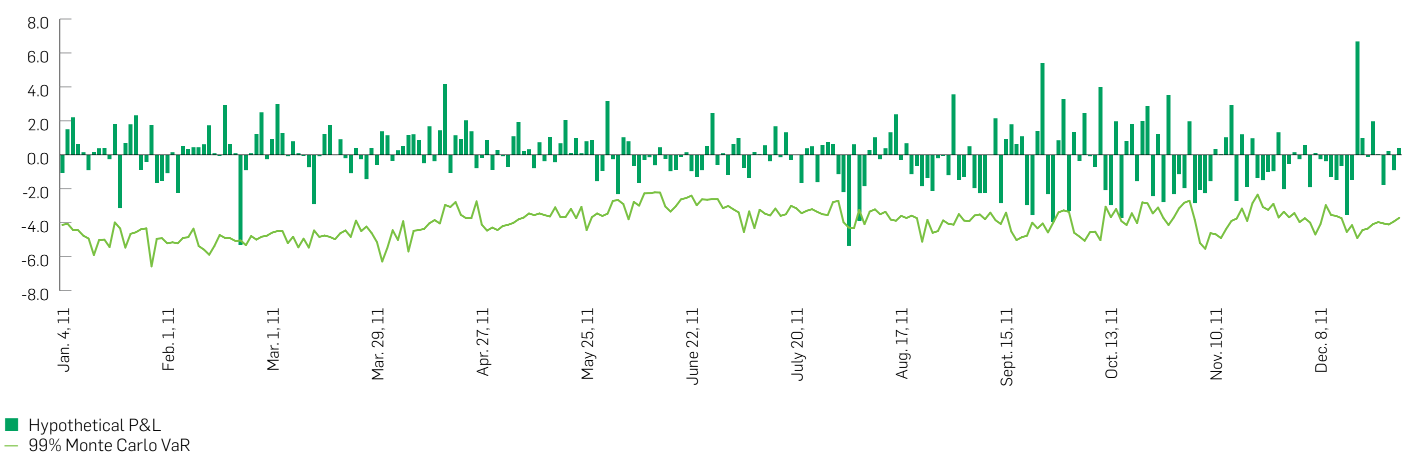
LIQUIDITY RISK MANAGEMENT

Desjardins Group manages liquidity risk in order to ensure that it has access, on a timely basis and in a profitable manner, to the funds needed to meet its financial obligations as they become due, in both routine and crisis situations. Managing this risk involves maintaining a sufficient level of liquid securities, ensuring stable and diversified sources of funding, monitoring indicators and adopting a contingency plan to implement in the event of a liquidity crisis.

Liquidity risk management is a key component of the overall risk management strategy. Desjardins Group and its components have established policies describing the principles, limits, risk appetite and tolerance thresholds as well as the procedures that apply to liquidity risk management.

Policies and standards are reviewed on a regular basis to ensure that they are appropriate for the operating environment and prevailing market conditions. They are also updated according to regulatory requirements and sound liquidity risk management practices.

VaR COMPARED TO HYPOTHETICAL P&L FROM TRADING ACTIVITIES
(in millions of dollars)



LIQUIDITY RESERVES

The minimum liquidity reserves that must be maintained by the caisse network, the Federation and *Caisse centrale Desjardins* are prescribed in policies and standards specific to each entity. Daily management of securities and the reserve level to be maintained is centralized at Desjardins Group Treasury and is subject to risk management monitoring under the supervision of the Desjardins Group Finance and Risk Management Committee. Eligible securities must meet high security and negotiability standards. Securities held in these funds are largely Canadian government securities.

The aggregate liquidity reserves held in these funds provide manoeuvring room for Desjardins Group and are monitored daily. In addition to complying with specific policies and standards, the levels maintained must provide assurance of their adequacy in the event of a possible severe liquidity crisis directly affecting Desjardins Group, such as if its credit rating were downgraded by rating agencies. A Desjardins-wide crisis scenario program has been implemented for this purpose. This program incorporates the concepts put forward by the Bank for International Settlements (BIS) under the Basel III "International Framework for Liquidity Risk Measurement, Standards and Monitoring". The scenarios make it possible to measure the extent of potential cash outflows in a crisis situation, to implement liquidity ratios and levels to be maintained throughout Desjardins Group and to assess the potential marginal cost of such events, depending on the type, severity and level of the crisis.

SOURCES OF FUNDING

Desjardins Group's Treasury ensures stable and diversified sources of institutional funding by type, source and maturity. It uses a wide range of financial products and borrowing programs on various markets for its financing needs.

A securitization program for CMHC-insured mortgages is also in place. Desjardins Group is furthermore eligible for the Bank of Canada's various intervention programs and the loan facilities for Emergency Lending Assistance advances.

LIQUIDITY RISK INDICATORS

The purpose of monitoring liquidity indicators daily is to quickly identify a lack of liquidity, whether potential or real, within Desjardins Group and on capital markets. For each liquidity indicator defined, warning levels are established and subject to an escalation process. If one or more indicators trigger a warning, the Desjardins Group Finance and Risk Management Committee is immediately alerted. This committee also acts as a crisis committee should the contingency plan be triggered.

The indicators are divided into two categories: indicators specific to Desjardins Group and capital market indicators. The first category includes indicators controlling the level of Desjardins Group's room for manoeuvre, member behaviour, credit spreads facing *Caisse centrale Desjardins*, and the effectiveness of institutional funding sources. Market indicators focus primarily on credit spreads observed for financial institutions and provincial versus federal bonds.

CONTINGENCY PLAN

Desjardins Group has developed a liquidity contingency plan that includes setting up an internal crisis committee vested with special decision-making powers to deal with crisis situations. This plan also lists the sources of liquidity available in exceptional situations. In addition, it lays down the decision-making and information process based on the severity level of a possible crisis.

The scope of a liquidity crisis depends on its possible duration, the amount of cash outflows, the efficiency of sources of funding as well as its potential to threaten the solvency of Desjardins Group. The crisis levels affecting Desjardins Group Treasury's normal operations are as follows:

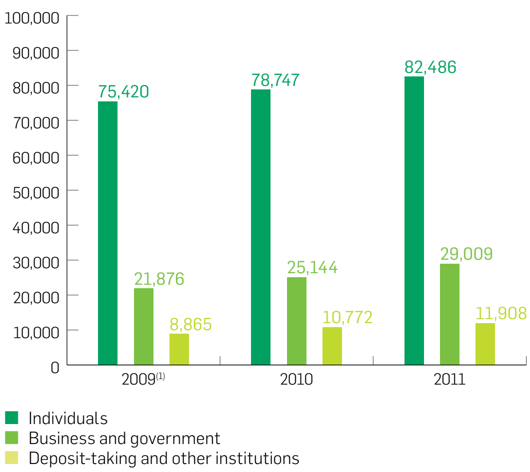
1. Pre-crisis or temporary decline in liquidity reserves
2. Major decline in liquidity reserves for an extended period of time but solvency not affected
3. Liquidity seriously compromised but solvency not affected
4. Liquidity seriously compromised and solvency threatened
5. Illiquidity and imminent or declared insolvency

The aim of the plan is to allow a quick and efficient intervention in order to minimize disruptions caused by sudden changes in member and client behaviour and potential disruptions in markets or economic conditions.

SOURCES OF FINANCING

Core funding, which includes capital, long-term liabilities and a diversified deposit portfolio, is the foundation upon which Desjardins Group's liquidity position depends. As at December 31, 2011, Desjardins Group's deposit liabilities totalled $123.4 billion, up $8.7 billion, or 7.6%, compared to growth of $8.5 billion, or 8.0%, in 2010. Deposits from individuals, business and government make up the main source of reliable funding, and are Desjardins Group's preferred category of funds. This solid base alone accounted for 90.3% of deposit liabilities as at December 31, 2011, which was comparable to the ratio for year-end 2010. Deposits from individuals, business and government totalled $111.5 billion as at December 31, 2011, for an annual increase of $7.6 billion, or 7.3%, compared to an increase of $6.6 billion, or 6.8% in 2010.

DEPOSITS BY CATEGORY
(in millions of dollars)



(1) In accordance with GAAP in effect prior to the adoption of IFRS.

Furthermore, in order to maintain stable and diversified funding, Desjardins Group diversifies its sources of financing from institutional capital markets. It therefore regularly resorts to the Canadian money market, as well as the U.S. and European money markets when conditions are favourable. It also occasionally makes public and private issuances of term notes on Canadian, U.S. and European markets.

Desjardins Group's pooling of treasury activities in recent years has proven that synergy builds stronger leadership which in turn fosters greater prosperity. Despite the precarious economic situation, *Caisse centrale Desjardins* managed to maintain sufficient liquidities to meet all Desjardins Group's needs through its rigorous treasury policy, solid institutional funding and the contribution made by the caisse network. The strict nature of *Caisse centrale Desjardins*'s treasury policy also allowed it to strengthen its foundations and confidently weather a period of global financial stabilization.

In line with its strategy of increasing the duration of its institutional funding and as part of its mission as Desjardins Group's treasurer, *Caisse centrale Desjardins* issued debt securities on various markets in fiscal 2011. In February, it issued medium-term deposit notes in the amount of $500 million on the Canadian market. In March, *Caisse centrale Desjardins* also issued covered bonds of US$1.0 billion. This issuance, the first of its kind for Desjardins Group, was very well received by investors. Desjardins Group's presence on these markets also helped expand its pool of institutional investors. In fact, several new major industry players have become interested in these offerings.

Caisse centrale Desjardins continued to be present in the federally guaranteed mortgage loan securitization market under the Canada Mortgage Bond (CMB) Program. *Caisse centrale Desjardins* has in fact been active in this area and its participation in new issues amounted to approximately $1.5 billion in 2011. The program's main objective is to obtain a source of long-term financing at the lowest price on the market.

It should also be noted that in December 2011, *Capital Desjardins inc.* issued $500 million of senior notes, due in 15 years and redeemable as of 2021. Increasing the average duration of institutional funding is an attractive strategy, through which Desjardins Group can maintain its objectives even during periods of economic and financial instability.

These issuances as a whole made it possible to adequately meet the liquidity needs of the Desjardins network, to better diversify Desjardins Group's sources of financing and to further extend their average term.

Desjardins Group's Treasury is also present on capital markets through its borrowing programs. Below is a summary of these programs:

On the Canadian market:

Caisse centrale Desjardins:

- A medium-term deposit note program of up to $5.0 billion

Capital Desjardins inc.:

- A $3.0 billion program of senior notes and preferred shares

On the international market:

Caisse centrale Desjardins:

- A European short-term deposit note program of €1.0 billion
- A U.S. short-term deposit note program of US$3.0 billion
- A global multi-currency medium-term deposit note program of €7.0 billion
- A U.S. medium-term covered bond program of €5.0 billion

Capital Desjardins inc.:

- A U.S. senior bond program of US$3.0 billion

CREDIT RATINGS

Desjardins Group's financial strength is reflected in the excellent credit ratings of *Caisse centrale Desjardins* and *Capital Desjardins inc.*

RATING AGENCIES

Caisse centrale Desjardins, a non-venture reporting issuer, and *Capital Desjardins inc.*, a venture issuer, boast excellent credit ratings from rating agencies. In fact, their ratings are among the best of the major banking institutions in Canada.

The reports of the rating agencies deal primarily with Desjardins Group on a combined basis, since the credit ratings of *Caisse centrale Desjardins* and *Capital Desjardins inc.* are backed by the financial strength of Desjardins Group.

Rating agencies maintained Desjardins Group's credit ratings throughout the past year, once again recognizing its very strong capitalization, the stability of its operating surplus earnings, its leading role in the local market and the quality of its assets. These credit ratings were maintained at a time when capital markets were experiencing significant volatility. It should be noted that on April 7, 2011, Moody's upgraded the outlook on *Caisse centrale Desjardins*'s rating from negative to stable. The agency attributed this change to the actions taken by Desjardins Group to implement better integrated risk management of new financial instruments and structures.

The high credit ratings reflect the financial strength of Desjardins Group and its network of caisses, and ensure its credibility and recognition among institutional investors. The borrowing programs set up by *Caisse centrale Desjardins* provide access to diversified capital by client, market, maturity, currency and region.

TABLE 31 – CREDIT RATINGS OF SECURITIES ISSUED

	DBRS	Standard & Poor's	Moody's	Fitch
Caisse centrale Desjardins				
Short term	R-1 (high)	A-1+	P-1	F1+
Medium and long term, senior	AA	AA-	Aa1	AA-
Capital Desjardins inc.				
Medium and long term, senior	AA (low)	A+	Aa2	A+

CONTRACTUAL OBLIGATIONS

Contractual obligations are commitments with respect to minimum future payments and impact Desjardins Group's liquidity needs. Such contractual obligations are recognized in the Combined Statements of Financial Position or are off-balance sheet.

Table 32 presents financial liabilities as well as other obligations by remaining contractual maturities. The amounts presented include principal and interest, if any.

TABLE 32 – CONTRACTUAL OBLIGATIONS BY TERM TO MATURITY

As at December 31
(in millions of dollars)

	2011				
	Payable on demand	Less than 1 year	1 to 5 years	Over 5 years	Total
Liabilities					
Deposits	$ 42,734	$ 39,622	$ 44,210	$ 780	$ 127,346
Acceptances	—	676	—	—	676
Commitments related to securities sold short	5,119	168	57	2	5,346
Commitments related to securities lent or sold under repurchase agreements	3	8,497	—	—	8,500
Subordinated bonds	—	187	777	3,836	4,800
Other financial liabilities	2,201	3,695	80	3	5,979
Guarantees and standby letters of credit	381	107	245	—	733
Loan commitments	20,325	29,936	4,226	1,217	55,704
Derivative financial instruments with net settlement	—	330	437	23	790
Derivative financial instruments with gross settlement(1)					
Cash flows to be paid on liabilities	—	7,842	1,544	—	9,386
Cash flows to be paid on assets	—	2,011	1,690	7	3,708

	2010				
	Payable on demand	Less than 1 year	1 to 5 years	Over 5 years	Total
Liabilities					
Deposits	$ 40,658	$ 35,487	$ 41,789	$ 652	$ 118,586
Acceptances	—	672	—	—	672
Commitments related to securities sold short	7,241	146	117	40	7,544
Commitments related to securities lent or sold under repurchase agreements	14	10,595	—	—	10,609
Subordinated bonds	—	166	661	3,213	4,040
Other financial liabilities	2,363	2,278	66	216	4,923
Guarantees and standby letters of credit	368	257	125	—	750
Loan commitments	18,929	27,981	2,617	1,229	50,756
Derivative financial instruments with net settlement	—	337	547	59	943
Derivative financial instruments with gross settlement(1)					
Cash flows to be paid on liabilities	—	5,222	4,367	—	9,589
Cash flows to be paid on assets	—	3,328	212	7	3,547

(1) The "Derivative financial instruments with gross settlement" category includes cash flows to be paid on both derivative financial instruments recorded as liabilities and derivative financial instruments recorded as assets. Contractual cash outflows for derivative financial instruments with gross settlement are accompanied by related cash inflows that are not included in this table.

OPERATIONAL RISK

Operational risk is defined as the risk of inadequacy or failure attributable to processes, people, internal systems or external events and resulting in losses, failure to achieve objectives or a negative impact on reputation.

OPERATIONAL RISK MANAGEMENT

Operational risk is inherent to all business activity, whether performed in-house or outsourced. Losses mainly arise from fraud, damage to tangible assets, illegal acts, lawsuits, systems failure, or problems in transaction processing or process management.

The overriding objective of Desjardins Group is to keep operational risk at an acceptable level while ensuring organizational efficiency and quality service for its members and clients.

GOVERNANCE

The Operational Risk function is responsible for developing policies, guidelines and programs for managing operational risk. This team is also responsible for monitoring the progress made in the implementation, ongoing use, development and updating of operational risk management principles and practices.

A policy formalizes the operational risk management framework, the practices and guidelines, as well as the related roles and responsibilities. This management framework is based on decentralized management where all managers assume responsibility for the management of operational risks throughout Desjardins Group.

RISK MEASUREMENT

Through these practices, Desjardins Group seeks to acquire an overview of the risk profile and exposure to operational risk in order to improve, if necessary, the control management and the control environment.

RISK ASSESSMENT

A program has been implemented to ensure that key activities undergo an operational risk assessment. A unit's own assessment of risks and controls helps identify and measure significant operational risks as well as the existing mitigation measures and how effective they are in managing such risks. In addition, risks and controls are assessed for all major projects, allowing the managers in charge to make informed decisions about the measures required for sound operational risk management.

COLLECTING LOSS DATA

Desjardins Group has a database that is used to collect information on the nature, frequency and seriousness of its operational losses. The information compiled over more than 12 years includes the amount of the losses, the amounts recovered, relevant dates and risk causes.

OPERATIONAL RISK INDICATORS

Desjardins Group has established operational risk indicators in order to be able to measure and monitor changes in its major operational risks.

MANAGING OUTSOURCING RISK

A program has been set up to manage Desjardins Group's outsourcing. Major outsourcing agreements have been identified and are monitored to ensure that they are being properly managed.

INSURANCE RISK

Insurance risk arises from the uncertainty that events may turn out differently from the assumptions used when designing, pricing or measuring actuarial reserves for insurance products, and that their profitability may be affected.

The risk associated with designing and pricing products is the risk that the initial pricing is or will become insufficient. The risk of incorrectly estimating actuarial reserves is due to the possibility of selecting an inadequate model for estimating the loss ratio or calculating the reserves. Loss ratio means the estimated benefits that will be required to be paid, contractual clause management and risk selection.

INSURANCE RISK MANAGEMENT

Product design and pricing risk arises from potential errors in projections concerning the many factors used to set premiums, including future returns on investments, underwriting experience in terms of claims experience, mortality and morbidity, and administrative expenses. Strict pricing standards and policies are adopted, and the insurance components perform spot checks to compare the projections with actual results. Some product pricing may be adjusted depending on the accuracy of predictions.

Desjardins Group limits potential losses through reinsurance treaties. Such treaties do not, however, release the insurance components from their obligations toward clients in the event that reinsurers experience financial difficulties. Consequently, the components are also exposed to a credit risk related to the reinsurers. To minimize this risk, the components sign reinsurance treaties with stable, financially solid and, in most cases, duly accredited companies.

The insurance subsidiaries comply with the standards for sound management practices established by the regulatory bodies that govern them and are subject to dynamic capital adequacy testing. Various pessimistic scenarios were tested during the year to measure their effect on the capitalization ratio; the capital proved adequate in each case.

STRATEGIC RISK

Strategic risk refers to a possible loss attributable to an inability to adapt to a changing environment because of failure to act, an inappropriate choice of strategies or the inability to effectively implement strategies.

It is first up to senior management and the Board of Directors to address, define and monitor developments in Desjardins Group's strategic orientations according to the consultation processes specific to Desjardins. Desjardins Group, with its front line of officers and senior management, systematically and regularly follows up on unfolding events that could compromise the achievement of strategic objectives and initiatives.

REPUTATION RISK

Reputation risk is the risk of being perceived negatively by stakeholders, whether or not justifiably, because of practices, actions or lack of action, which could have an unfavourable impact on Desjardins Group's income and equity, and the trust that it inspires.

For a leading financial organization such as Desjardins Group, reputation is of critical importance and cannot be managed separately from other risks. Consequently, managing reputation risk in all its spheres of activity is a constant concern for Desjardins Group.

Desjardins Group has defined guidelines, a management framework, and roles and responsibilities with regard to reputation risk. It also uses various means to ensure sound reputation risk management. All officers and employees are required to perform their duties in accordance with these practices and Desjardins Group's permanent values.

OVERVIEW OF OTHER RISKS

ENVIRONMENTAL RISK

An analysis of environmental risk is incorporated into the risk assessment for business loans. This analysis concerns the risk associated with the past, present and future operation of a company. It is customary to obtain an environmental compliance audit. In some cases, a Phase I Environmental Site Assessment is required to obtain a loan. For farm credit, special attention is paid to assessing the risk level with regard to environmental legislation in general and the *Agricultural Operations Regulation*.

LEGAL AND REGULATORY ENVIRONMENT RISK

Legal and regulatory environment risk represents the consequences of not complying with the laws, regulations, standards and practices governing Desjardins Group's operations.

The financial services industry is one of the most strictly regulated sectors. In fact, in recent years, regulations governing the finance sector have evolved significantly in reaction to numerous socio-economic phenomena such as the development of new, increasingly complex financial products, the continuing volatility in the securities industry, market crises, financial scandals, money laundering and terrorist activity, to mention but a few. In addition to federal (Canada and the U.S.) and provincial government requirements, there are also regulations from organizations such as the *Autorité des marchés financiers in Quebec*, the Mutual Fund Dealers Association of Canada, the Investment Industry Regulatory Organization of Canada and the Office of the Superintendent of Financial Institutions.

Legal and regulatory environment risk entails effectively preventing and handling possible disputes and claims which may lead to financial penalties, out-of-court settlements or unfavourable legal or administrative decisions. These in turn could negatively affect the conduct of regular operations and lead to further costs associated with legal proceedings that could also have an adverse impact on Desjardins Group's financial position and corporate image.

Desjardins manages the risk related to the legal and regulatory environment by promoting a strong culture of compliance and by setting up a compliance management framework in order to identify risks of non-compliance, to assess the potential consequences of such risks and to implement practices to manage them effectively. In addition, since March 2011, the Chief Compliance Officer of Desjardins Group has supervised all Desjardins Group teams conducting compliance activities so as to obtain reasonable assurance that Desjardins Group's operations comply with the applicable legislation.

The compliance function is responsible for developing, updating and maintaining the compliance management framework. The compliance framework is based on a number of principles, including the identification and updating of regulatory obligations and the identification and monitoring of the functional units affected by them. In order to do this work, regulatory developments and their impact on operations are monitored on an ongoing basis. The compliance function provides support in an advisory capacity to managers in charge of business sectors so that they can effectively manage their risks. It also conducts periodic inspections of operations and provides further support through training programs. Lastly, it issues a formal report to Desjardins Group's senior management and decision-making bodies.

SECTION 4.2

ADDITIONAL INFORMATION CONCERNING EXPOSURE TO CERTAIN RISKS

The tables below provide more details about more complex financial instruments that have a higher risk.

TABLE 33 – ASSET-BACKED SECURITIES
As at December 31
(in millions of dollars)

	2011		2010	
	Notional amounts	Fair value	Notional amounts	Fair value
Commercial mortgage-backed securities(1)	$ 249	$ 260	$ 287	$ 296
Financial asset-backed securities(2)	71	59	91	77

(1) These securities are presented in the Combined Statements of Financial Position under "Securities at fair value through profit or loss".
(2) None of the securities held are directly backed by subprime residential mortgage loans. These securities are presented in the Combined Statements of Financial Position under "Securities at fair value through profit or loss" and "Available-for-sale securities".

TABLE 34 – DERIVATIVE FINANCIAL INSTRUMENTS
As at December 31
(in millions of dollars)

	2011			2010		
	Notional amounts	Positive value	Negative value	Notional amounts	Positive value	Negative value
Credit default swaps(1)	$ 601	$ —	$ 8	$ 77	$ —	$ 6
Total return swaps(2)	8	—	—	51	1	7

(1) Desjardins Group's commitment and the nature of the underlying assets are provided under "Credit default swaps" in Note 28, "Commitments, guarantees and contingent liabilities", to the Combined Financial Statements of Desjardins Group. Credit default swaps are presented in the Combined Statements of Financial Position as derivative financial instruments.
(2) These amounts do not include any amounts realized as part of securitization activities. Total return swaps are presented in the Combined Statements of Financial Position as derivative financial instruments.

TABLE 35 – LEVERAGED FINANCE LOANS AND SUBPRIME LOANS
As at December 31
(in millions of dollars)

	2011	2010
Leveraged finance loans(1)	$ 90	$ 79
Alt-A mortgages(2)	43	49
Subprime residential mortgage loans(3)	1	1

(1) Leveraged finance loans are defined as loans to large corporations and finance companies whose credit rating is between BB+ and D, and whose level of indebtedness is very high compared to other companies in the same industry.
(2) These loans are defined as loans to borrowers with non-standard income documentation. Alt-A mortgages are recorded on the Combined Statements of Financial Position under "Loans – Residential mortgages" and are valued at amortized cost.
(3) Subprime residential loans are defined as loans to borrowers with a high credit risk profile. Only one of these loans is currently in default. Subprime residential mortgages are recorded on the Combined Statements of Financial Position under "Loans – Residential mortgages" and are valued at amortized cost.

5.0 ADDITIONAL INFORMATION

SECTION 5.1

CONTROLS AND PROCEDURES

Desjardins Group is not a reporting issuer, on a combined basis, under *Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings* of the *Autorité des marchés financiers* (AMF). However, management, in conjunction with the President and Chief Executive Officer, and the Senior Vice-President, Finance and Treasury and Chief Financial Officer of Desjardins Group, concerned with continuously improving its financial governance rules and practices, considers it important to maintain a structured internal control environment. This environment will allow it to meet the expectations of the market and of its members and clients, while at the same time acting in accordance with these structures, the environment and its governance process.

Thus, in accordance with the timetable set by management, work continued throughout 2011 in order to gradually implement financial governance rules and practices that are comparable to those prescribed by the Canadian Securities Administrators (CSA). This work made it possible for Desjardins Group to provide certification as at December 31, 2011, on the design and effectiveness of its disclosure controls and procedures and, for the first time, the design and effectiveness of its internal control over financial reporting.

DISCLOSURE CONTROLS AND PROCEDURES

In accordance with the CSA guidance in National Instrument 52-109, the President and Chief Executive Officer as well as the Senior Vice-President, Finance and Treasury and Chief Financial Officer, Desjardins Group, designed or ordered the design of disclosure controls and procedures which are supported in particular by a process for periodic certification of financial disclosures in annual and interim filings. All information collected as part of the financial governance process is reviewed on a quarterly and annual basis by the members of the Desjardins Group Disclosure Committee and of the Audit and Inspection Commission, who play a lead role in the oversight and assessment of the adequacy of disclosure controls and procedures.

As at December 31, 2011, in accordance with the recognized control framework of the Committee of Sponsoring Organizations (COSO) of the Treadway Commission, Desjardins Group's management assessed the design and effectiveness of its disclosure controls and procedures.

An assessment of the design and effectiveness of disclosure controls and procedures was therefore carried out by the management of Desjardins Group, under the supervision of the President and Chief Executive Officer, and the Senior Vice-President, Finance and Treasury and Chief Financial Officer of Desjardins Group. Based on the results of this assessment, the President and Chief Executive Officer, and the Senior Vice-President, Finance and Treasury and Chief Financial Officer of Desjardins Group concluded that the disclosure controls and procedures are adequately designed and effective, and do not contain any material weakness, thereby ensuring that information required to be disclosed in reports filed or submitted under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms and providing investors with complete and reliable information.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Desjardins Group ordered the design and maintained an adequate internal control over the financial reporting process to be designed and maintained. Such internal control is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of combined financial statements for external purposes in accordance with IFRS.

As in the case of the assessment of disclosure controls and procedures, the design and effectiveness of internal control over financial reporting were assessed in accordance with the COSO control framework.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements, whether due to error or fraud. Moreover, management's assessment of the controls provides only reasonable, and not absolute, assurance that all the problems related to control which could give rise to material misstatements have been detected.

An assessment of the design and effectiveness of internal control over financial reporting was therefore carried out by the management of Desjardins Group under the supervision of the President and Chief Executive Officer, and the Senior Vice-President, Finance and Treasury and Chief Financial Officer of Desjardins Group. Based on the results of this assessment, the President and Chief Executive Officer, and the Senior Vice-President, Finance and Treasury and Chief Financial Officer of Desjardins Group, concluded that as at December 31, 2011, internal control over financing reporting was adequately designed and effective, and did not contain any material weakness.

Moreover, as at December 31, 2011, three Desjardins Group components, namely *Caisse centrale Desjardins* and Western Financial Group Inc. as non-venture reporting issuers, and *Capital Desjardins inc.* as a venture issuer, complied with the requirements under Regulation 52-109.

Under the supervision of the certifying officers, the management of each of these three issuers therefore assessed the design and effectiveness of disclosure controls and procedures and of internal control over financial reporting. These assessments provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

This assessment was carried out in accordance with the recognized COSO control framework and made it possible to conclude that their disclosure controls and procedures and their internal control over financial reporting are adequately designed and are effective.

Other aspects of governance are examined in more detail on pages 205 to 219 of this Annual Report.

SECTION 5.2
RELATED PARTY DISCLOSURES

In the normal course of operations, Desjardins Group provides financial services to its associates, joint ventures and other related parties, and enters into other agreements with them for operating services under normal market conditions.

Desjardins Group provides its financial products and services to its directors, its management personnel and its employees as well as to persons related to them under normal market conditions.

Desjardins Group has set up a process to obtain assurance that all transactions with its key management personnel and the persons who are related to them have been carried out in arm's-length transactions and in compliance with the legislative framework for its various components.

Transactions with associates, joint ventures and other related parties, and compensation of Desjardins Group's officers as well as non-routine transactions with management personnel and the persons related to them are presented in more detail in Note 34, "Related party disclosures", to the Combined Financial Statements.

SECTION 5.3
MATERIAL EVENTS

CHAIR OF THE BOARD, PRESIDENT AND CHIEF EXECUTIVE OFFICER OF DESJARDINS GROUP

On January 31, 2012, Desjardins Group announced that Monique F. Leroux had been re-elected as Chair of the Board, President and Chief Executive Officer of Desjardins Group for a second mandate of four years.

ACQUISITIONS

On April 15, 2011, Desjardins Group, through Desjardins Financial Corporation Inc., a wholly owned subsidiary of the Federation, acquired control of Western Financial Group Inc., a financial services company operating in western Canada, by acquiring 94.1% of its outstanding common shares for a total of $285 million. On the same date, Desjardins Group also took possession of 70,363 and 49,244 Series 3 and Series 4 preferred shares, respectively, for payments totalling $12 million. This acquisition enables Desjardins Group to accelerate its development in western Canada.

On July 7, 2011, the shareholders of Western Financial Group Inc. approved its merger with a wholly owned subsidiary of Desjardins Financial Corporation Inc. As part of this merger, the issued and outstanding common shares of Western Financial Group Inc., other than those held by Desjardins Group, were converted into redeemable preferred shares that were immediately redeemed. Further to these transactions, Desjardins Group became the owner of 100% of the outstanding common shares of the merged company.

On October 5, 2011, Desjardins Financial Security Life Assurance Company, a subsidiary of Desjardins Group, acquired control of MGI Financial Inc., a mutual fund dealer in western Canada, by purchasing all its outstanding common shares for a total of $27.5 million. This acquisition enables Desjardins Group to continue to develop its Canada-wide distribution network.

TMX GROUP INC.

In 2011, Maple Group Acquisition Corporation (Maple), an entity in which Desjardins Group participates as an investor in conjunction with 12 other Canadian financial institutions and pension funds, filed an offer to acquire all of TMX Group Inc. (TMX Group). Under the proposed transaction, Desjardins Group's equity commitment was for a maximum of $96.7 million, representing 4.6% of total investor equity. On October 30, 2011, Maple and TMX Group jointly announced that they had entered into a support agreement with respect to Maple's offer, which was supposed to expire on January 31, 2012 but was extended until March 30, 2012. This offer is subject to obtaining the necessary approvals from regulatory authorities, including the Canadian Securities Administrators and the Competition Bureau.

SECTION 5.4

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

A description of the accounting policies used by Desjardins Group is essential to understanding the Combined Financial Statements as at December 31, 2011. The significant accounting policies are described in Note 2, "Significant accounting policies", to the Combined Financial Statements. Some of these policies are of particular importance in presenting Desjardins Group's financial position and operating results since they require management to make assumptions and estimates that may involve uncertainties and since any change to these assumptions and estimates could have a significant impact on the Combined Financial Statements of Desjardins Group. The following paragraphs summarize these accounting policies.

FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The fair value of financial instruments, especially securities, obtained from quoted prices on active markets includes little subjectivity in the determination of fair value.

If there are no quoted prices on active markets, the fair value is determined using models based on observable market data or models that are not based on observable market data. When no quoted prices are available, the fair value is estimated using present value or other valuation methods, which are influenced by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates, which reflect varying degrees of risk, including liquidity risk, credit risk, and those related to interest rates, exchange rates and price and rate volatility. Given the role that judgment plays in applying many of the acceptable estimation and valuation techniques for calculating fair values, fair values are not identical. Fair value reflects market conditions on a given date and for this reason cannot be representative of future fair values. It also cannot be considered as being realizable in the event of immediate settlement of these instruments.

LOANS

Changes in interest rates and in the creditworthiness of borrowers are the main causes of changes in the fair value of loans held by Desjardins Group, which result in a favourable or unfavourable difference compared to their carrying amount. The fair value of loans is estimated by discounting expected cash flows using market interest rates charged for similar new loans at the reporting date. The fair value of impaired loans is assumed to be equal to their carrying amount.

DEPOSITS

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

SUBORDINATED BONDS

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

FINANCIAL INSTRUMENTS WHOSE FAIR VALUE EQUALS CARRYING AMOUNT

The carrying amount of certain financial instruments that mature within the next 12 months is a reasonable approximation of their fair value. These financial instruments include the following items: "Cash and deposits with financial institutions", "Securities borrowed or purchased under reverse repurchase agreements", "Clients' liability under acceptances", "Amounts receivable from clients, brokers and financial institutions", "Other assets – Other", "Acceptances", "Commitments related to securities lent or sold under repurchase agreements", "Amounts payable to clients, brokers and financial institutions" and "Other liabilities – Other".

The fair value of financial instruments is presented in Note 6, "Fair value of financial instruments", to the Combined Financial Statements.

IMPAIRMENT OF FINANCIAL ASSETS

ALLOWANCE FOR CREDIT LOSSES

Measuring the allowance for credit losses is very important for Desjardins Group given the size of its loan portfolio. Certain factors may influence management's judgment, and any material change to estimates or parameters could result in a change in the currently recognized amount for the allowance for credit losses. The allowance for credit losses reflects management's best estimate of potential credit losses.

The impairment of a loan or a group of loans is determined by discounting future expected cash flows at the interest rate inherent to the financial asset. The allowance is equal to the difference between this value and the carrying amount. To determine the estimated recoverable amount of a loan, Desjardins Group discounts the estimated future cash flows at the effective interest rate inherent to the loan. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, the estimated recoverable amount is determined using either the fair value of any security underlying the loan, net of expected costs of realization, or the observable market price for the loan. The security may vary depending on the type of loan.

The allowance resulting from this impairment is established using two components: individual allowances and collective allowance.

For individual allowances, Desjardins Group first reviews its loan portfolios on a loan-by-loan basis to assess credit risk and determine if there is any objective evidence of impairment for which a loss should be recognized in the Combined Statements of Income. Loan portfolios for which an individual allowance has not been established are then included in groups of assets having similar credit risk characteristics and are subject to a collective allowance.

The method used by Desjardins Group to determine the collective allowance takes into account the risk parameters of the various loan portfolios, in particular through the integration of sophisticated credit risk models. These collective allowance models take into account certain factors such as the probability of default (loss frequency), loss given default (extent of losses) and gross exposures at default. These parameters, which are based on historical losses, are determined according to the category and risk rating of each loan. The measurement of the collective allowance also depends on management's interpretation of credit quality current trends with respect to business segments, the impact of changes to its credit policies and economic conditions.

Additional information on accounting for loans and the allowance for credit losses is presented in Note 8, "Loans and allowance for credit losses", to the Combined Financial Statements.

AVAILABLE-FOR-SALE SECURITIES

Securities classified in the Available for sale category are monitored on a regular basis to determine whether there is any objective evidence that they are impaired. In measuring the decline in value, Desjardins Group takes into account many facts specific to each investment and all the factors that could indicate impairment. Factors considered include, but are not limited to, a significant or prolonged decline in fair value, significant financial difficulties of the issuer, a breach of contract, the increasing probability that the issuer will enter restructuring or bankruptcy proceedings and the disappearance of an active market for the financial asset concerned. Management also uses its judgment to determine when to recognize an impairment loss.

Debt securities classified in the Available for sale category are individually assessed by Desjardins Group to determine whether there is any objective evidence of impairment. For equity securities classified in the Available for sale category, the objective evidence would also include a "significant" or "prolonged" decline in the fair value below cost. In general, the terms "significant" and "prolonged" respectively mean a decline of 20% or more and a period of more than 12 months.

Additional information on the accounting of available-for-sale securities and fair value measurement is presented in Note 5, "Carrying amount of financial instruments", Note 6, "Fair value of financial instruments", and Note 7, "Securities", to the Combined Financial Statements.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Desjardins Group assesses at the reporting date whether there is an indication that an asset may be impaired. An impairment loss is recognized when the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of its fair value less costs to sell and its value in use, which corresponds to the present value of the recoverable future cash flows. Any impairment loss recognized in the Combined Statements of Income represents the excess of the carrying amount of the asset over the recoverable amount. Impairment losses on that asset may be subsequently reversed and are recognized in the Combined Statements of Income in the year in which they occur.

Estimating the recoverable amount of a non-financial asset to determine if it is impaired also requires that management make estimates and assumptions, and any change in these estimates and assumptions could impact the determination of the recoverable amount of non-financial assets and, therefore, the outcome of the impairment test.

GOODWILL

Goodwill is tested for impairment once a year and when events or changes in circumstances indicate that the carrying amount may not be recoverable.

The goodwill impairment test is performed based on the recoverable amount of each cash-generating unit (CGU) (or each group of CGUs) to which goodwill is allocated.

The recoverable amount represents the higher of the fair value less costs to sell and the value in use. Fair value represents the best estimate of the amount obtainable from the sale, less costs to sell, in an arm's-length transaction between knowledgeable and willing parties. The value in use is calculated using the most appropriate method, generally by discounting estimated future cash flows.

When the recoverable amount is less than the carrying amount, an impairment loss is recognized in the Combined Statements of Income for the year and is first recorded as a reduction of the goodwill allocated to the CGU (or group of CGUs) and then as a reduction of the other identifiable assets of the CGU (or group of CGUs) pro rata on the basis of their carrying amount in the unit. Nevertheless, the allocation of the impairment loss to the assets of the CGU (or group of CGUs) must not result in their carrying amount being lower than the highest of the following amounts: the fair value of the assets less costs to sell, their value in use, or zero. Goodwill impairment losses cannot be reversed.

INSURANCE CONTRACT LIABILITIES

LIFE AND HEALTH INSURANCE CONTRACT LIABILITIES

The calculation of the insurance contract liabilities of the life and health insurance subsidiaries' requires that assumptions be made with respect to the timing of many elements such as death, disability, investment income, inflation, policy cancellations, expenses, income taxes, premiums, commissions and participating policyholders' dividends as well as the amounts they represent. To predict underwriting experience, the life and health subsidiaries use the most probable assumptions. Some of these assumptions refer to events that are likely to occur in the distant future and they will eventually need to be changed.

PROPERTY AND CASUALTY INSURANCE CONTRACT LIABILITIES

The calculation of the provisions for claims and adjustment expenses related to the property and casualty insurance subsidiaries' insurance policies takes into consideration assumptions based on characteristics of the business lines, settlement history and other relevant factors. The estimating methods used to make this calculation are based on most probable assumptions, taking into account currently known data, which are regularly reviewed and updated.

The provisions for claims and adjustment expenses include individual loss estimates for each claim reported. In addition, a provision is established for adjustment expenses, changes in reported claims and incurred but not reported claims, based on previous experience and portfolio contracts. These estimates are regularly reviewed and updated, and any resulting adjustment is recognized in the Combined Statement of Income for the year in which the revision occurs. The provision for claims and adjustment expenses is reported on a discounted basis using the underlying asset rate, with a margin for adverse deviations.

Note 15, "Insurance and investment contract liabilities", to the Combined Financial Statements provides information on accounting for the various insurance contract liabilities, the main assumptions used and the impact on results of changes to assumptions.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

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

Derivative financial instruments, including embedded derivatives which are required to be recognized separately, are recognized at fair value in the Combined Statements of Financial Position.

Desjardins Group uses derivative financial instruments for trading purposes or for asset/liability management purposes. Derivative financial instruments held for trading purposes are used to meet the needs of members and clients, and to allow Desjardins Group to generate income on its own trading activities. Derivative financial instruments held for asset/liability management purposes are used to manage current and expected risks related to market risk. These instruments enable Desjardins Group to transfer, manage or reduce the interest rate and foreign currency exposures of assets and liabilities recorded in the Combined Statements of Financial Position, as well as firm commitments and forecasted transactions.

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

Additional information about derivative financial instruments and hedging activities is presented in Note 18, "Derivative financial instruments and hedging activities", to the Combined Financial Statements.

INCOME TAXES ON SURPLUS EARNINGS

The calculation of income taxes on surplus earnings is based on the expected tax treatment of the transactions recorded in the Combined Statements of Income, Combined Statements of Comprehensive Income and Combined Statements of Changes in Equity. To determine the current and deferred portions of income taxes on surplus earnings, assumptions must be made concerning the dates on which deferred income tax assets and liabilities will be reversed. If Desjardins Group's interpretation differs from that of the taxation authorities or if the reversal dates do not match the forecasted dates, the provision for income taxes on surplus earnings may increase or decrease in subsequent years.

Note 26, "Income taxes on surplus earnings", to the Combined Financial Statements provides additional information on income taxes on surplus earnings.

PROVISION FOR MEMBER DIVIDENDS

The board of directors of each caisse recommends for approval the surplus earnings distribution plan at the caisses's annual general meeting, which is held in the first six-month period following the reporting date. The amount of member dividends to be paid is part of this plan. The amount of the provision is estimated based on, among other things, the surplus earnings recorded for the quarter by the caisses and surplus earnings expected for the remainder of the year, taking into consideration the financial framework for the allocation of surplus earnings in relation with the Desjardins Group Capitalization Plan, which sets capitalization targets. The difference between the amount of member dividends actually paid, in cash or in shares, following the general meetings held by the caisses, and the estimated amount of the provision is charged to combined profit or loss for the period in which the payments are made.

The allocation basis of member dividends depends on the interest recorded on loans and deposits, the average outstanding amount of Desjardins funds, guaranteed market-linked investments, Accord D loans obtained by the member through the caisse, and the various service charges collected from the member depending on the services used. The surplus earnings distribution plan takes into account a program under which members may elect to receive their dividends in the form of shares; these dividends are then increased compared to those paid in cash. The caisses can pay out member dividends when legal and regulatory requirements have been met.

EMPLOYEE BENEFITS

Desjardins Group offers the majority of its employees pension plans and supplemental pension plans, which provide pension benefits in excess of statutory limits. Defined benefit pension plans are plans for which Desjardins Group has formally committed to a level of benefits and therefore assumes actuarial and, when the plans are funded, investment risks. Benefits are calculated on the basis of the number of years of membership in the pension plans and take into consideration the average salary of the employee's five most highly paid years. Since the terms of the plans are such that future changes in salary levels will have an impact on the amount of future benefits, the cost of the benefits and the fair value of the defined benefit plan obligation are generally actuarially determined using the projected unit credit method. These calculations are made based on management's best estimate assumptions primarily concerning the expected rate of return of the plans' investments and the plan obligation discount rate, and also, but to a lesser extent, salary increases, the retirement age of employees, the mortality rate and the rate of increase in pension benefits. A complete actuarial valuation is performed each year by a qualified actuary.

Actuarial gains (losses) result from the difference between the actual return on pension plan assets and the expected return for funded plans, the changes made to the actuarial assumptions used to determine the defined benefit plan obligation and the experience gains or losses on this obligation. Any net actuarial gain or loss exceeding 10% of the greater of the value of the defined benefit plan obligation and the fair value of plan assets at the end of the previous year is amortized over the expected average remaining working lives of the employees participating in the plan.

The defined benefit plan asset or liability corresponds to the present value of the plan obligation of these plans less the unrecognized past service cost and unamortized actuarial losses, plus unamortized actuarial gains and the fair value of pension plan assets. The value of any asset is limited to the total of actuarial losses, the unrecognized past service cost and the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the pension plans.

Note 27, "Defined benefit plans", to the Combined Financial Statements provides further information on the accounting of defined benefit plans as well as about the sensitivity of the key assumptions.

SECTION 5.5 FUTURE ACCOUNTING CHANGES

Desjardins Group's Combined Financial Statements as at December 31, 2011, and the main financial measures have been prepared in accordance with IFRS. The IASB has issued new accounting standards that will be applicable in the coming years. Regulatory authorities have also stated that early adoption of these standards will not be permitted. Future accounting changes under IFRS are the following:

IFRS 7, "FINANCIAL INSTRUMENTS: DISCLOSURES"

In October 2010 and December 2011, the IASB issued amendments to IFRS 7, "Financial Instruments: Disclosures". IFRS 7 is a presentation standard whose objective is to provide disclosures to enable users to better understand and evaluate the significance of financial instruments with respect to the entity's financial position and performance. Since the amendments to this standard specifically concern disclosures, they have no impact on either Desjardins Group's results or its financial position.

TRANSFERS OF FINANCIAL ASSETS

The amendments expand the disclosure requirements for transfers of financial assets that result in derecognition. They provide greater transparency around risk exposures relating to transfers of financial assets that are not derecognized in their entirety or are derecognized in their entirety, but with which the entity continues to have some continuing involvement, as well as about the effect of those risks on the entity's financial position. Desjardins Group will have to apply these amendments prospectively for the year beginning January 1, 2012.

OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

The amendments improve the disclosure requirements with respect to the offsetting of financial assets and liabilities. The objective of these amendments is to help users of financial statements better evaluate the impact of netting agreements on the financial position of an entity and understand how an entity manages the credit risk associated with such agreements. Desjardins Group will have to apply these amendments retrospectively for the year beginning January 1, 2013.

IFRS 9, "FINANCIAL INSTRUMENTS"

The IASB issued in November 2009 and amended in October 2010 the first phase of a project that will replace International Accounting Standard (IAS) 39, "Financial Instruments: Recognition and Measurement" (IAS 39). This standard defines a new way to classify and measure financial assets and financial liabilities. Financial assets will be classified in three categories (amortized cost, fair value through profit or loss and fair value through equity) based on the entity's business model to manage its financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities will be classified in the same categories as those defined in IAS 39, but measurement of financial liabilities under the fair value option has been modified. Impairment of financial asset methodology and hedging activities will be covered in future phases that will complete IFRS 9. Desjardins Group is currently assessing the impact of the adoption of IFRS 9. Since the impact of the adoption depends on the financial instruments held by Desjardins Group on the date of adoption, it is not yet quantifiable. The application of all phases of the standard is expected for the years beginning on or after January 1, 2015, on a prospective basis. Upon adoption, additional disclosures will have to be provided on the transition from IAS 39 to IFRS 9 to help users of financial statements understand the impact of the first-time adoption of IFRS 9 on the classification and measurement of financial instruments.

IFRS 10, "CONSOLIDATED FINANCIAL STATEMENTS"

In May 2011, the IASB issued IFRS 10, "Consolidated Financial Statements", which defines the principle of control and establishes that control serves as the basis to determine which entities are included in the scope of consolidation. This new standard replaces the requirements on consolidated financial statements included in IAS 27, "Consolidated and Separate Financial Statements", and SIC 12, "Consolidation – Special Purpose Entities". Desjardins Group is currently assessing the impact of the adoption of this new standard, which applies retrospectively to annual periods beginning on or after January 1, 2013.

IFRS 11, "JOINT ARRANGEMENTS"

In May 2011, the IASB issued IFRS 11, "Joint Arrangements", which supersedes IAS 31, "Interests in Joint Ventures", and SIC 13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". This standard establishes principles for accounting for the two types of joint arrangements, namely joint operations and joint ventures, and eliminates the possibility of recognizing joint ventures using the proportionate consolidation method. The adoption of this new standard will have no impact on Desjardins Group since interests in joint ventures are already recognized using the equity method. The new standard applies retrospectively to annual periods beginning on or after January 1, 2013.

IFRS 12, "DISCLOSURE OF INTERESTS IN OTHER ENTITIES"

In May 2011, the IASB issued IFRS 12, "Disclosure of Interests in Other Entities", which expands disclosure requirements for interests held by an entity in subsidiaries, joint arrangements, associates, and unconsolidated structured entities. Some of the disclosures were already required by the current standards, while others are new, such as disclosures about significant judgments and assumptions the entity has made in determining the nature of its interests in another entity as well as the nature of, and risks associated with, its interests in other entities. Desjardins Group is currently assessing the impact of the adoption of this new standard, which applies retrospectively to annual periods beginning on or after January 1, 2013.

IFRS 13, "FAIR VALUE MEASUREMENT"

In May 2011, the IASB issued IFRS 13, "Fair Value Measurement", which defines fair value, sets out a single framework for measuring the fair value of all transactions and balances for which IFRS require or permit fair value measurement and prescribes disclosures for fair value measurements. This standard aims at improving the consistency between the fair value definitions appearing in the various existing standards. In addition, it carries forward disclosure requirements concerning the fair value of financial instruments and expands the scope to all items measured at fair value. Desjardins Group is currently assessing the impact of the adoption of this new standard, which applies prospectively to annual periods beginning on or after January 1, 2013.

IAS 1, "PRESENTATION OF FINANCIAL STATEMENTS"

In June 2011, the IASB issued amendments to IAS 1, "Presentation of Financial Statements", which improve the presentation of items of other comprehensive income. The amendments require the presentation by nature of items of other comprehensive income by distinguishing those that will not be reclassified to the statement of income in a subsequent period from those that will. Desjardins Group is currently assessing the impact of the adoption of this new standard. The effective date of this standard is July 1, 2012; Desjardins Group will therefore apply these amendments retrospectively to the year beginning January 1, 2013.

IAS 19, "EMPLOYEE BENEFITS"

In June 2011, the IASB issued an amended version of IAS 19, "Employee Benefits", which requires that the funding status of a defined benefit plan be entirely reflected in the statement of financial position. This change therefore eliminates the option to defer the recognition of actuarial gains and losses, known as the "corridor approach". All actuarial gains and losses will now be recognized in other comprehensive income. The presentation and recognition of changes in the defined benefit plan obligation and plan assets will be modified, and disclosures about the characteristics of defined benefit plans and the risks to which an entity is exposed through its participation in such plans will be enhanced. Desjardins Group is currently assessing the impact of the adoption of this new standard. It will have to apply the amended version of IAS 19 retrospectively to the year beginning January 1, 2013.

IAS 32, "FINANCIAL INSTRUMENTS: PRESENTATION"

In December 2011, the IASB issued amendments to IAS 32, "Financial Instruments: Presentation", to clarify the criteria for offsetting a financial asset and a financial liability. Desjardins Group will have to apply these amendments retrospectively to the year beginning January 1, 2014.

SECTION 5.6

FIVE-YEAR STATISTICAL REVIEW

TABLE 36 – COMBINED STATEMENTS OF FINANCIAL POSITION
As at December 31
(in millions of dollars)

	2011	2010	2009[1]	2008[1]	2007[1]
ASSETS					
Cash and deposits with financial institutions	$ 1,356	$ 1,621	$ 1,086	$ 1,489	$ 1,499
Securities					
Securities at fair value through profit or loss	22,479	21,490	19,349	17,746	21,127
Available-for-sale securities	18,726	15,930	12,064	11,338	10,315
Securities held to maturity	—	—	18	19	—
	41,205	37,420	31,431	29,103	31,442
Securities borrowed or purchased under reverse repurchase agreements	4,959	7,034	5,055	6,130	7,593
Loans					
Residential mortgages	79,686	74,466	67,667	63,220	57,566
Consumer, credit card and other personal loans	17,985	17,504	16,915	15,982	15,535
Business and government	27,948	26,777	26,259	26,086	23,064
	125,619	118,747	110,841	105,288	96,165
Allowance for credit losses	(465)	(489)	(541)	(532)	(762)
	125,154	118,258	110,300	104,756	95,403
Segregated fund contract assets	5,427	4,774	—	—	—
Other assets					
Clients' liability under acceptances	676	672	751	428	893
Derivative financial instruments	3,059	2,006	2,647	4,588	1,195
Amounts receivable from clients, brokers and financial institutions	1,274	771	453	659	—
Investment property	597	616	—	—	—
Property, plant and equipment	1,218	1,187	1,008	1,025	969
Deferred tax assets	856	871	—	—	—
Other	4,356	3,701	4,711	4,354	5,065
	12,036	9,824	9,570	11,054	8,122
TOTAL ASSETS	$ 190,137	$ 178,931	$ 157,442	$ 152,532	$ 144,059
LIABILITIES AND EQUITY					
Liabilities					
Deposits					
Individuals	$ 82,486	$ 78,747	$ 75,420	$ 71,958	$ 66,319
Business and government	29,009	25,144	21,876	21,512	20,784
Deposit-taking institutions and other	11,908	10,772	8,865	7,966	8,663
	123,403	114,663	106,161	101,436	95,766
Other liabilities					
Acceptances	676	672	751	428	893
Commitments related to securities sold short	5,341	7,544	5,038	4,112	6,875
Commitments related to securities lent or sold under repurchase agreements	8,500	10,608	10,080	11,905	9,455
Derivative financial instruments	1,593	1,774	1,852	2,773	1,321
Amounts payable to clients, brokers and financial institutions	3,762	2,612	2,355	2,798	—
Insurance and investment contract liabilities	17,008	14,942	13,453	12,874	12,831
Segregated fund contract liabilities	5,427	4,774	—	—	—
Defined benefit plan liabilities	2,102	2,125	782	694	703
Deferred tax liabilities	431	258	—	—	—
Other	4,517	3,998	3,950	3,919	5,091
	49,357	49,307	38,261	39,503	37,169
Subordinated bonds	3,350	2,805	1,294	748	858
Total liabilities	176,110	166,775	145,716	141,687	133,793
Equity					
Capital stock	2,210	2,129	1,608	915	863
Share capital	78	70	71	69	67
Undistributed surplus earnings (deficit)	1,261	996	805	(96)	795
Accumulated other comprehensive income	1,044	617	489	685	50
Reserves	9,032	8,015	8,373	8,456	7,476
Equity – Group's share	13,625	11,827	11,346	10,029	9,251
Non-controlling interests	402	329	380	816	1,015
Total equity	14,027	12,156	11,726	10,845	10,266
TOTAL LIABILITIES AND EQUITY	$ 190,137	$ 178,931	$ 157,442	$ 152,532	$ 144,059

(1) In accordance with GAAP in effect prior to the adoption of IFRS.

TABLE 37 – COMBINED STATEMENTS OF INCOME
For the years ended December 31
(in millions of dollars)

	2011	2010	2009[1]	2008[1]	2007[1]
Interest income					
Loans	$ 5,462	$ 5,250	$ 5,068	$ 5,573	$ 5,438
Securities	428	439	438	474	447
	5,890	5,689	5,506	6,047	5,885
Interest expense					
Deposits	1,818	1,692	1,920	2,590	2,578
Subordinated bonds and other	151	105	64	39	62
	1,969	1,797	1,984	2,629	2,640
Net interest income	3,921	3,892	3,522	3,418	3,245
Net premiums	4,851	4,360	4,247	4,131	3,824
Other income					
Deposit and payment service charges	512	535	513	497	484
Lending fees and credit card service revenues	483	451	444	410	381
Brokerage, investment fund and trust services	677	656	581	617	738
Net income (loss) on securities at fair value through profit or loss	1,706	984	666	(1,001)	262
Net income (loss) on available-for-sale securities	299	174	79	(405)	141
Net other investment income	264	251	275	239	179
Other	493	240	343	467	417
	4,434	3,291	2,901	824	2,602
Total income	13,206	11,543	10,670	8,373	9,671
Provision for credit losses	237	203	260	223	197
Claims, benefits, annuities and changes in insurance and investment contract liabilities	5,292	4,136	3,758	3,144	3,171
Non-interest expense					
Salaries and fringe benefits	2,785	2,601	2,423	2,250	2,338
Premises, equipment and furniture, including depreciation	517	425	415	393	381
Service agreements and outsourcing	270	363	371	322	308
Communications	262	258	237	252	357
Restructuring expenses	—	—	101	—	—
Other	1,790	1,733	1,602	1,588	1,439
	5,624	5,380	5,149	4,805	4,823
Operating surplus earnings	2,053	1,824	1,503	201	1,480
Income taxes on surplus earnings	471	438	412	113	358
Surplus earnings before member dividends	1,582	1,386	1,091	88	1,122
Provision for member dividends	320	299	311	215	592
Tax recovery on provision for member dividends	(90)	(81)	(98)	(62)	(174)
Net surplus earnings (deficit) for the year after member dividends	$ 1,352	$ 1,168	$ 878	$ (65)	$ 704
of which					
Group's share	$ 1,314	$ 1,153	$ 861	$ (64)	$ 683
Non-controlling interests' share	38	15	17	(1)	21

(1) In accordance with GAAP in effect prior to the adoption of IFRS.

TABLE 38 – SELECTED FINANCIAL MEASURES
As at December 31
(in millions of dollars and as a percentage)

	2011	2010	2009[1]	2008[1]	2007[1]
Tier 1 capital ratio	17.3%	17.7%	15.8%	13.6%	14.2%
Total capital ratio	19.3	18.7	15.8	13.0	13.6
Return on equity	12.2	12.2	10.2	0.90	12.3
Productivity index	71.1	72.6	74.5	91.9	74.2
Gross impaired loans as a percentage of gross loans	0.41	0.43	0.46	0.40	0.41
Average assets	$ 186,232	$ 174,132	$ 158,689	$ 149,722	$ 139,957
Average net loans	121,279	114,323	107,229	99,764	91,832
Average deposits	119,424	111,020	104 584	99,288	92,042

(1) In accordance with GAAP in effect prior to the adoption of IFRS.

DESJARDINS GROUP COMBINED FINANCIAL STATEMENTS

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ANNUAL REPORT BY THE AUDIT AND INSPECTION COMMISSION

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

The AIC reviews Desjardins Group's interim and annual financial statements, related press releases, the annual Management's Discussion and Analysis and the annual information form.

The AIC ensures that management has designed and implemented an effective internal control system with respect to the organization's business processes, financial reporting, asset protection, fraud detection and regulatory compliance. It also ensures that management has set up systems to manage the main risks that may influence the financial results of the caisse network and Desjardins Group. The AIC reviews the information resulting from this financial governance process on a quarterly basis.

Also examined are files that document the caisse network's growth, including the financial position of the caisses, particular situations detected in the caisses, any follow-up completed, credit losses and how certain accounting policies and practices, such as the management method for the collective allowance, are applied. The AIC ensures that the action plan for caisse network audits and inspections conducted by the Desjardins Group Monitoring Office is carried out. It also reviews comment letters, inspection reports with adjustments and any follow-up performed. At the end of the fiscal year, the AIC reviews the Monitoring Office's annual report, which presents the results of the year's oversight activities for the caisse network as well as the highlights of the fiscal year.

The independent auditor is under the authority of the AIC. To fulfil its responsibilities regarding the independent auditor, the AIC ensures and preserves the independent auditor's independence by authorizing all services unrelated to auditing, by recommending auditor appointments and renewals, by setting and recommending auditor compensation and by conducting annual auditor reviews. In addition, the AIC supervises the work of the independent auditor and examines its audit proposal, its mandate, its annual strategy, its reports, its letter to management and management's comments. Desjardins Group has a policy that governs the awarding of contracts for related services. This policy addresses the following issues: (a) services that can or cannot be provided by the independent auditor, (b) governance procedures that must be followed before mandates may be awarded, and (c) responsibilities of the key players involved. Accordingly, the AIC receives a quarterly report on the contracts awarded to the independent auditor by each of the Desjardins Group entities.

The AIC ensures the independence of internal audit, for which the Desjardins Group Monitoring Office is responsible. It analyzes the annual internal audit strategy as well as the internal audit team's responsibilities, performance, objectivity and staffing. The AIC reviews the internal audit team's summary reports and, if necessary, takes the appropriate follow-up action. When doing so, the AIC meets with the head of internal audit at Desjardins Group to discuss any major issues submitted to management. With respect to relations with the *Autorité des marchés financiers* (AMF), the AIC reviews and follows up on the inspection reports issued by this organization, as well as the financial reports that are submitted each quarter to the AMF.

The AIC meets privately with the independent auditor, the Chief Financial Officer of Desjardins Group, the Chief Monitoring Officer of Desjardins Group and AMF representatives. It reports to the Board of Directors on a quarterly basis and, if necessary, makes recommendations. Lastly, to comply with sound corporate governance practices, the AIC annually reviews the degree of efficiency and effectiveness with which it has performed the tasks set out in its charter.

The AIC is made up of five independent directors. None of the AIC members receives compensation, either directly or indirectly, for services other than those rendered as a member of the Board of Directors of the Federation or other Desjardins Group entity, including committees.

All members of the AIC possess the knowledge required to read and interpret the financial statements of a financial institution, according to the criteria established in the AIC's charter. With significant changes to requirements in terms of accounting and financial disclosure underway, the members of the AIC participated in a number of training activities during the year. These activities focused in particular on the new International Financial Reporting Standards (IFRS) which took effect in January 2011 and on the impact of changes to the normative and regulatory frameworks to which corporate governance is subject.

The AIC held 15 meetings and its members attended three training sessions and a seminar in fiscal 2011. During the year, Pierre Leblanc left the AIC and was replaced by André Gagné, CGA. As at December 31, the members of the Audit and Inspection Commission were Andrée Lafortune, FCA, Annie P. Bélanger, Donat Boulerice, André Gagné, CGA, and Pierre Levasseur.

ANDRÉE LAFORTUNE, FCA
Chair

COMBINED FINANCIAL STATEMENTS OF DESJARDINS GROUP

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

The Combined Financial Statements were prepared in accordance with International Financial Reporting Standards and in accordance with the accounting requirements of the *Autorité des marchés financiers*, as applicable. The Combined Financial Statements necessarily contain amounts established by management based on estimates which it deems fair and reasonable. These estimates include, among other things, valuations of the insurance and investment contract liabilities performed by the actuaries of the insurance segments. All financial information in the Annual Report is consistent with the audited Combined Financial Statements.

As the management of the *Fédération des caisses Desjardins du Québec* is responsible for the reliability of Desjardins Group's Combined Financial Statements and related information and the accounting systems from which they are derived, management maintains controls over transactions and related accounting practices. The controls in place notably include an organizational structure that ensures effective segregation of duties, a code of ethics, standards in personnel hiring and training, policies and procedures manuals, 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 the Desjardins Group Monitoring Office with full and unrestricted access to the Audit and Inspection Commission. Management also implemented a financial governance structure based on best market practices to ensure the effectiveness of the disclosure controls and procedures over the financial information presented in the annual and interim filings of Desjardins Group.

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

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

The Combined Financial Statements were audited by the independent auditor appointed by the Board of Directors, PricewaterhouseCoopers LLP, whose report follows. The independent auditor may meet with the members of the Audit and Inspection Commission at any time to discuss its audit and any questions related thereto, notably the integrity of the financial information provided and the quality of internal control systems

MONIQUE F. LEROUX, FCA, FCMA
President and Chief Executive Officer
Desjardins Group

RAYMOND LAURIN, FCA
Senior Vice-President, Finance and Treasury
and Chief Financial Officer
Desjardins Group

Lévis, February 23, 2012

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying combined financial statements of Desjardins Group, which comprise the combined statements of financial position as at December 31, 2011 and 2010 and as at January 1, 2010, and the combined statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and 2010 and the related notes including a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE COMBINED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of combined financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the combined financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the combined financial statements present fairly, in all material respects, the financial position of Desjardins Group as at December 31, 2011 and 2010 and as at January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards (IFRS).

PRICEWATERHOUSECOOPERS LLP[1]

(1) Chartered accountant auditor permit No. 14043

Montreal, Quebec, February 23, 2012

COMBINED STATEMENTS OF FINANCIAL POSITION

(in millions of Canadian dollars)

		December 31 2011	December 31 2010 (Note 4)	January 1 2010 (Note 4)
ASSETS				
Cash and deposits with financial institutions		$ 1,356	$ 1,621	$ 1,103
Securities	Notes 7 and 9			
Securities at fair value through profit or loss		22,479	21,490	19,283
Available-for-sale securities		18,726	15,930	12,112
		41,205	37,420	31,395
Securities borrowed or purchased under reverse repurchase agreements		4,959	7,034	5,055
Loans	Notes 8 and 9			
Residential mortgages		79,686	74,466	67,668
Consumer, credit card and other personal loans		17,985	17,504	16,915
Business and government		27,948	26,777	26,259
		125,619	118,747	110,842
Allowance for credit losses	Note 8	(465)	(489)	(518)
		125,154	118,258	110,324
Segregated fund assets	Note 10	5,427	4,774	3,484
Other assets				
Clients' liability under acceptances		676	672	751
Derivative financial instruments	Note 18	3,059	2,006	2,647
Amounts receivable from clients, brokers and financial institutions		1,274	771	453
Investment property	Note 11	597	616	627
Property, plant and equipment	Note 11	1,218	1,187	1,214
Deferred tax assets	Note 26	856	871	894
Other	Note 12	4,356	3,701	3,489
		12,036	9,824	10,075
TOTAL ASSETS		$ 190,137	$ 178,931	$ 161,436
LIABILITIES AND EQUITY				
Liabilities				
Deposits	Note 13			
Individuals		$ 82,486	$ 78,747	$ 75,404
Business and government		29,009	25,144	21,895
Deposit-taking institutions and other		11,908	10,772	8,865
		123,403	114,663	106,164
Other liabilities				
Acceptances		676	672	751
Commitments related to securities sold short		5,341	7,544	5,038
Commitments related to securities lent or sold under repurchase agreements		8,500	10,608	10,080
Derivative financial instruments	Note 18	1,593	1,774	1,852
Amounts payable to clients, brokers and financial institutions		3,762	2,612	2,355
Insurance and investment contract liabilities	Note 15	17,008	14,942	13,876
Segregated fund liabilities	Note 10	5,427	4,774	3,484
Defined benefit plan liabilities	Note 27	2,102	2,125	2,163
Deferred tax liabilities	Note 26	431	258	245
Other	Note 16	4,517	3,998	3,603
		49,357	49,307	43,447
Subordinated bonds	Note 17	3,350	2,805	1,294
Total liabilities		176,110	166,775	150,905
Equity				
Capital stock	Note 20	2,210	2,129	1,608
Share capital	Note 21	78	70	71
Undistributed surplus earnings		1,261	996	653
Accumulated other comprehensive income	Note 22	1,044	617	598
Reserves		9,032	8,015	7,265
Equity – Group's share		13,625	11,827	10,195
Non-controlling interests	Note 23	402	329	336
Total equity		14,027	12,156	10,531
TOTAL LIABILITIES AND EQUITY		$ 190,137	$ 178,931	$ 161,436

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

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

MONIQUE F. LEROUX, FCA, FCMA
Chair of the Board

DENIS PARÉ, LL.L., D.D.N.
Vice-Chair of the Board

COMBINED STATEMENTS OF INCOME

For the years ended December 31
(in millions of Canadian dollars)

		2011	2010 (Note 4)
Interest income			
Loans		$ 5,462	$ 5,250
Securities		428	439
		5,890	5,689
Interest expense			
Deposits		1,818	1,692
Subordinated bonds and other		151	105
		1,969	1,797
Net interest income		3,921	3,892
Net premiums	Note 15	4,851	4,360
Other income			
Deposit and payment service charges		512	535
Lending fees and credit card service revenues		483	451
Brokerage, investment fund and trust services		677	656
Net income on securities at fair value through profit or loss	Note 24	1,706	984
Net income on available-for-sale securities		299	174
Net other investment income		264	251
Other	Note 25	493	240
		4,434	3,291
Total income		13,206	11,543
Provision for credit losses	Note 8	237	203
Claims, benefits, annuities and changes in insurance and investment contract liabilities	Note 15	5,292	4,136
Non-interest expense			
Salaries and fringe benefits		2,785	2,601
Premises, equipment and furniture, including depreciation		517	425
Service agreements and outsourcing		270	363
Communications		262	258
Other	Note 25	1,790	1,733
		5,624	5,380
Operating surplus earnings		2,053	1,824
Income taxes on surplus earnings	Note 26	471	438
Surplus earnings before member dividends(1)		1,582	1,386
Provision for member dividends		320	299
Tax recovery on provision for member dividends	Note 26	(90)	(81)
Net surplus earnings for the year after member dividends		$ 1,352	$ 1,168
of which:			
Group's share		$ 1,314	$ 1,153
Non-controlling interests' share	Note 23	38	15

(1) The Group's share of "Surplus earnings before member dividends" is presented in Note 33, "Segmented information".

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

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31
(in millions of Canadian dollars)

		2011	2010
			(Note 4)
Net surplus earnings for the year after member dividends			
Other comprehensive income, net of income taxes	Note 26	$ 1,352	$ 1,168
Net unrealized gains on available-for-sale securities		245	132
Reclassification to Combined Statements of Income of gains on available-for-sale securities		(138)	(44)
		107	88
Net gains on derivative financial instruments designated as cash flow hedges		424	21
Reclassification to Combined Statements of Income of gains on derivative financial instruments designated as cash flow hedges	Note 18	(105)	(79)
		319	(58)
Other		—	(1)
Total other comprehensive income		426	29
Comprehensive income for the year		$ 1,778	$ 1,197
of which:			
Group's share		$ 1,742	$ 1,172
Non-controlling interests' share		36	25

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

COMBINED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31
(in millions of Canadian dollars)

		Capital				Reserves						
		Capital stock	Share capital	Undistributed surplus earnings	Accumulated other comprehensive income (Note 22)	Stabilization reserve	Reserve for future member dividends	General reserve	Total reserves	Equity – Group's share	Non-controlling interests (Note 23)	Total equity
Balance at January 1, 2010	Note 4	$ 1,608	$ 71	$ 653	$ 598	$ 282	$ 431	$ 6,552	$ 7,265	$ 10,195	$ 336	$ 10,531
Net surplus earnings for the year after member dividends		—	—	1,153	—	—	—	—	—	1,153	15	1,168
Other comprehensive income for the year		—	—	—	19	—	—	—	—	19	10	29
Total comprehensive income for the year		—	—	1,153	19	—	—	—	—	1,172	25	1,197
Net change in capital stock	Note 20	521	—	—	—	—	—	—	—	521	—	521
Issuance of share capital	Note 21	—	—	—	—	—	—	—	—	—	14	14
Redemption of share capital	Note 21	—	(1)	—	—	—	—	—	—	(1)	—	(1)
Remuneration on permanent shares		—	—	(82)	—	—	—	—	—	(82)	—	(82)
Income tax recovery on remuneration on permanent shares		—	—	23	—	—	—	—	—	23	—	23
Dividends on preferred shares		—	—	—	—	—	—	—	—	—	(8)	(8)
Transfer from (to)		—	—	(750)	—	137	15	598	750	—	—	—
Other		—	—	(1)	—	—	—	—	—	(1)	(38)	(39)
Balance at December 31, 2010	Note 4	$ 2,129	$ 70	$ 996	$ 617	$ 419	$ 446	$ 7,150	$ 8,015	$ 11,827	$ 329	$ 12,156
Net surplus earnings for the year after member dividends		$ —	$ —	$ 1,314	$ —	$ —	$ —	$ —	$ —	$ 1,314	$ 38	$ 1,352
Other comprehensive income for the year		—	—	—	428	—	—	—	—	428	(2)	426
Total comprehensive income for the year		—	—	1,314	428	—	—	—	—	1,742	36	1,778
Net change in capital stock	Note 20	81	—	—	—	—	—	—	—	81	—	81
Issuance of share capital	Note 21	—	62	—	—	—	—	—	—	62	14	76
Redemption of share capital	Note 21	—	(54)	—	—	—	—	—	—	(54)	—	(54)
Remuneration on permanent shares		—	—	(91)	—	—	—	—	—	(91)	—	(91)
Income tax recovery on remuneration on permanent shares		—	—	25	—	—	—	—	—	25	—	25
Dividends on preferred shares		—	—	(2)	—	—	—	—	—	(2)	(8)	(10)
Transfer from (to)		—	—	(1,017)	—	241	15	761	1,017	—	—	—
Impact of acquisition and disposal	Note 19	—	—	—	(1)	—	—	—	—	(1)	73	72
Other		—	—	36	—	—	—	—	—	36	(42)	(6)
Balance at December 31, 2011		$ 2,210	$ 78	$ 1,261	$ 1,044	$ 660	$ 461	$ 7,911	$ 9,032	$ 13,625	$ 402	$ 14,027

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

COMBINED STATEMENTS OF CASH FLOWS

For the years ended December 31
(in millions of Canadian dollars)

	2011	2010
		(Note 4)
Cash flows from (used in) operating activities		
Operating surplus earnings	$ 2,053	$ 1,824
Adjustments for:		
Depreciation of property, plant and equipment and investment property	171	190
Net change in insurance and investment contract liabilities	1,959	1,066
Provision for credit losses	237	203
Net realized losses of available-for-sale securities	(168)	(59)
Other	67	41
Change in operating assets and liabilities		
Securities at fair value through profit and loss	(918)	(2,207)
Securities borrowed or purchased under reverse repurchase agreements	2,075	(1,979)
Loans	(7,592)	(8,137)
Derivative financial instruments, net amount	(874)	504
Deposits	9,406	8,499
Commitments related to securities sold short	(2,203)	2,506
Commitments related to securities lent or sold under repurchase agreements	(2,108)	528
Other	705	69
Income tax paid on surplus earnings	(281)	(327)
Payments of member dividends	(298)	(276)
	2,231	2,445
Cash flows from (used in) financing activities		
Sale of subordinated bonds	479	1,554
Sale (purchase) of debt securities and subordinated bonds to (from) third parties on the market	63	(43)
Net change in capital stock	81	521
Remuneration on permanent shares, net of income tax recovery	(66)	(59)
Issuance of preferred shares – Group's share	62	–
Issuance of preferred shares – Non-controlling interests' share	14	14
Redemption of preferred shares	(54)	(1)
Dividends on preferred shares – Group's share	(2)	–
Dividends on preferred shares – Non-controlling interests' share	(8)	(8)
	569	1,978
Cash flows from (used in) investing activities		
Purchase of available-for-sale securities	(28,954)	(28,251)
Proceeds from disposals of available-for-sale securities	24,479	23,263
Proceeds from maturities of available-for-sale securities	1,902	1,227
Business acquisition, net of cash and cash equivalents acquired	(256)	–
Proceeds from the disposal of an interest, net of cash and cash equivalents sold	(51)	–
Acquisitions of property, plant and equipment and investment property	(267)	(186)
Proceeds from the disposal of property, plant and equipment and investment property	82	42
	(3,065)	(3,905)
Net increase (decrease) in cash and cash equivalents	(265)	518
Cash and cash equivalents at beginning of year	1,621	1,103
Cash and cash equivalents at end of year	$ 1,356	$ 1,621
Supplemental information on cash flows from (used in) operating activities		
Interest paid	$ 1,891	$ 1,727
Interest and dividends received	5,881	5,644

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

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

NOTE 1
INFORMATION ON DESJARDINS GROUP

NATURE OF OPERATIONS

Desjardins Group is made up of 422 Desjardins caisses in Quebec and Ontario, the *Fédération des caisses Desjardins du Québec* (Federation) and its subsidiaries, the *Fédération des caisses populaires de l'Ontario* and the *Fonds de sécurité Desjardins*. A number of the subsidiaries are active across Canada. The various business segments in which Desjardins Group operates are described in Note 33, "Segmented information". The address of the head office is 100 Des Commandeurs Street, Lévis, Quebec, Canada.

BASIS OF PRESENTATION OF THE COMBINED FINANCIAL STATEMENTS

As an integrated financial services group, Desjardins Group is a complete economic entity. The Combined Financial Statements of Desjardins Group have been prepared to present the financial position, the financial performance and the cash flows of this economic entity. As a group, the Desjardins caisses own 100% of the capital stock of the Federation, whose mission is to determine the strategic directions and coordinate the operations of Desjardins Group. The role of the Federation is also to protect the interests of Desjardins Group members and to promote the development of the Group.

As Desjardins caisses and the Federation are financial services cooperatives, these Combined Financial Statements differ from the consolidated financial statements of a group with a traditional organizational structure. Consequently, the financial statements of Desjardins Group are a combination of the accounts of the Desjardins caisses, the caisses populaires of Ontario, the Federation and its subsidiaries, the *Fédération des caisses populaires de l'Ontario* and the *Fonds de sécurité Desjardins*. The capital stock of Desjardins Group represents the aggregate of the capital stock issued by these entities to Desjardins members and third parties.

NOTE 2
SIGNIFICANT ACCOUNTING POLICIES

A) GENERAL INFORMATION

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Pursuant to *An Act respecting financial services cooperatives* (the Act), these Combined Financial Statements have been prepared by Desjardins Group's management in accordance with Canadian generally accepted accounting principles (GAAP) and the accounting requirements of the *Autorité des marchés financiers* in Quebec (AMF), which do not differ from GAAP.

Effective January 1, 2011, in accordance with the decision of the Canadian Accounting Standards Board, publicly accountable enterprises must prepare their financial statements under a new accounting framework, the International Financial Reporting Standards (IFRS), which constitute Part I of the *Canadian Institute of Chartered Accountants (CICA) Handbook – Accounting*.

These financial statements are the first Combined Financial Statements of Desjardins Group prepared under IFRS. Previously, Desjardins Group applied Canadian GAAP, which have been carried forward in Part V of the *CICA Handbook – Accounting*. In these Combined Financial Statements, the term "Canadian GAAP" refers to GAAP before the changeover to IFRS.

IFRS were applied retrospectively, with the exception of certain optional exemptions and mandatory exceptions under IFRS 1, "First-time Adoption of International Financial Reporting Standards". The effects of this change of accounting framework on Desjardins Group's combined and financial position, and the methods used to calculate them, are presented in Note 4, "Impact of IFRS adoption". The 2010 comparative figures presented in these Combined Financial Statements have been restated to take into account these new standards.

NOTE 2
SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

STATEMENT OF COMPLIANCE

The Combined Financial Statements of Desjardins Group have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board (IASB), and more specifically in accordance with IFRS 1, as they are the first combined financial statements of Desjardins Group. These Combined Financial Statements for the year ended December 31, 2011, were approved by the Board of Directors of Desjardins Group, which is the Board of Directors of the Federation, on February 23, 2012.

The significant measurement and presentation rules applied to prepare these Combined Financial Statements are described below.

SCOPE OF THE GROUP

The scope of these Combined Financial Statements of Desjardins Group consists of the operations of Desjardins caisses in Quebec and Ontario, the Federation and its subsidiaries, the *Fédération des caisses populaires de l'Ontario* and the *Fonds de sécurité Desjardins*. The main subsidiaries of the Federation are as follows: *Caisse centrale Desjardins*, which acts as Desjardins Group's treasurer and financial agent on the Canadian and international markets; *Capital Desjardins inc.*, which issues securities on capital markets and invests the proceeds therefrom in securities issued by the Desjardins caisses; Desjardins Trust Inc., which is active in asset custody and trust services; Desjardins Securities Inc., which offers securities brokerage products and services; Desjardins Technology Group Inc., which is responsible for the development and the maintenance of Desjardins Group's technology systems and applications; and Desjardins Financial Corporation Inc. This last subsidiary encompasses the operations of Desjardins Asset Management Inc., which is a group of investment experts that manages the assets from the insurance subsidiaries and other managed items entrusted to it by other subsidiaries of Desjardins Group; Desjardins General Insurance Group Inc., which offers property and casualty insurance products; Desjardins Financial Security Life Assurance Company, which offers life and health insurance products and financial services; and Western Financial Group Inc., a financial services company operating in western Canada.

The financial statements of all Group entities have been prepared for the same reference period using similar accounting policies. All intercompany balances, income and expenses as well as gains and losses on internal transactions have been eliminated.

Non-controlling interests represent the share in profit or loss and net assets that is not held by Desjardins Group. They are presented separately in the Combined Statements of Income, the Combined Statements of Comprehensive Income and in equity in the Combined Statements of Financial Position.

Desjardins Group's investments in associates are accounted for using the equity method, whereby the value of securities held is replaced by Desjardins Group's share of the equity and profit or loss of the investee. Desjardins Group's investments in associates include the goodwill (net of any impairment) determined upon acquisition. An associate is an entity over which Desjardins Group has significant influence. These investments are presented under "Other assets – Other" in the Combined Statements of Financial Position.

Desjardins Group's interests in joint ventures are also accounted for using the equity method. A joint venture is an entity whose economic activity is undertaken under the joint control of the joint venturers pursuant to a contractual arrangement.

Desjardins Group includes in its Combined Financial Statements the operations of the distinct legal structures specifically created to manage a transaction or a group of similar transactions (special purpose entities), even if it has no equity interest in these entities, provided that it exercises, in substance, control based on the following criteria:

- The activities of the entity are being conducted exclusively on behalf of Desjardins Group, so that Desjardins Group obtains benefits for the entity's operations.
- Desjardins Group has the decision-making and management powers needed to obtain the majority of the benefits of the ongoing activities of the entity. These powers are characterized, in particular, by the ability to dissolve the entity, to modify its statutes or to formally veto any modification thereto.
- Desjardins Group has the ability to obtain the majority of the benefits of the entity and therefore may be exposed to risks incident to the activities of the entity. These benefits may take the form of rights to receive some or all of the profit or loss of the entity, measured on an annual basis, plus a share of its net assets, as well as to sell one or more assets or to receive the majority of the residual assets in the event of liquidation.
- Desjardins Group retains the majority of the risks taken by the entity in order to obtain benefits from its activities; this would be the case if Desjardins Group remains exposed to the initial losses on the asset portfolio held by the entity.

SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of combined financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that are described in the following significant accounting policies with respect to fair value measurement of financial instruments, allowance for credit losses, objective evidence of impairment of available-for-sale securities, insurance and investment contract liabilities, goodwill, provision for member dividends, impairment of non-financial assets, income taxes on surplus earnings and employee benefits.

NOTE 2

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B) FINANCIAL ASSETS AND LIABILITIES

Financial assets mainly consist of securities, loans and derivative financial instruments, whereas financial liabilities mainly include deposits and derivative financial instruments.

Financial assets and liabilities are recognized on the date Desjardins Group becomes a party to their contractual provisions, namely the date of acquisition or issuance of the financial instrument.

CLASSIFICATION AND MEASUREMENT

Financial assets and liabilities are classified based on their characteristics and the intention of management upon their acquisition.

The classification of financial assets can be summarized as follows:

			Recognition	
Categories		Classes	Initial	Subsequent
Financial assets	At fair value through profit or loss (i)	Held for trading (ii)	Fair value	Fair value
		Designated as at fair value through profit or loss (iii)	Fair value	Fair value
	Loans and receivables (iv)		Fair value	Amortized cost
	Available for sale (v)		Fair value	Fair value
	Held to maturity (vi)		Fair value	Amortized cost

(i) Financial assets classified in the “At fair value through profit or loss” category include financial assets “Held for trading” and financial assets “Designated as at fair value through profit or loss”. Therefore,

- Changes in fair value of financial assets classified in this category are recorded in profit or loss under “Net income on securities at fair value through profit or loss”.
- Interest and dividend income from the financial assets classified in the “At fair value through profit or loss” category of the Personal Services and Business and Institutional Services and Other segments are recognized under “Interest income – Securities” and, for the other segments, such income is mainly recognized under “Net income on securities at fair value through profit or loss” using the effective interest method.

(ii) Financial assets classified as “Held for trading” include the following:

- Securities acquired for resale purposes in the near term and securities that are part of a portfolio of securities that are managed together and for which there is evidence of an actual pattern of short-term profit-taking
- Derivative financial instruments

Derivative financial instruments designated as fair value or cash flow hedging items cannot be classified in this category. Section P), “Derivative financial instruments and hedging activities”, specifies the nature of the recognition of derivative financial instruments designated as part of a hedging relationship.

(iii) Financial assets classified as “Designated as at fair value through profit or loss” are essentially securities designated as such by management upon initial recognition, on an instrument-by-instrument basis. Management may designate a financial instrument as at fair value through profit or loss upon initial recognition when one of the following conditions is met:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency.
- The assets are part of a group of financial assets or financial assets and liabilities that is managed and whose performance is evaluated on a fair value basis.
- The financial instrument contains one or more embedded derivatives that significantly modify the cash flows and that would otherwise be separated from their host contract.

Desjardins Group’s financial assets classified in this category comprise certain investments made in connection with derivative instruments that are not designated as part of a hedging relationship, thereby significantly reducing an accounting mismatch. For securities designated in this category to eliminate or significantly reduce a recognition inconsistency and that back the actuarial liabilities for life and health insurance and the provisions for claims for property and casualty insurance, see Note 15, “Insurance and investment contract liabilities” for more information.

(iv) Securities classified in the “Loans and receivables” category are non-derivative financial assets with fixed or determinable income that are not quoted in an active market and that are not held for sale upon their acquisition or their granting. Securities in this category include “Cash and deposits with financial institutions”, “Loans”, “Securities borrowed or purchased under reverse repurchase agreements”, “Clients’ liability under acceptances” and “Amounts receivable from clients, brokers and financial institutions” and other assets.

Outstanding securities classified in the “Loans and receivables” category are initially recognized at fair value in the Combined Statements of Financial Position and, at subsequent reporting dates, they are measured at amortized cost using the effective interest method. Income recognized on securities classified in the “Loans and receivables” category is presented under “Interest income – Loans” in the Combined Statements of Income when it is recognized by the Personal Services and Business and Institutional Services and Other segments. Income for the other segments is recognized under “Other income – Other” in the Combined Statements of Income.

NOTE 2

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Securities classified in the “Available-for-sale securities” category are non-derivative financial assets that are initially designated as available for sale or that are not classified in the “At fair value through profit or loss”, “Held to maturity” or “Loans and receivables” categories. Available-for-sale securities can be sold further to or in view of fluctuations in interest rates, exchange rates, prices of equity instruments or changes in financing sources or terms, or to meet the liquidity needs of Desjardins Group.

Gains and losses resulting from changes in fair value, except for impairment losses and foreign exchange gains and losses, are recognized in the Combined Statements of Comprehensive Income under “Net unrealized gains on available-for-sale securities” until the financial asset is derecognized. Premiums and discounts on the purchase of available-for-sale securities are amortized over the life of the security using the effective interest method and recognized in combined profit or loss.

(vi) Securities classified in the “Held to maturity” category are non-derivative financial assets with fixed or determinable payments and fixed maturity that management has the intention and ability to hold to maturity. These securities are recognized at amortized cost using the effective interest method. Desjardins Group held no instruments in this category at the reporting dates.

The classification of financial liabilities can be summarized as follows:

<table>
<tr><th colspan="2" rowspan="2">Categories</th><th rowspan="2">Classes</th><th colspan="2">Recognition</th></tr>
<tr><th>Initial</th><th>Subsequent</th></tr>
<tr><td rowspan="3">Financial liabilities</td><td rowspan="2">At fair value through profit or loss (i)</td><td>Held for trading (ii)</td><td>Fair value</td><td>Fair value</td></tr>
<tr><td>Designated as at fair value through profit or loss (iii)</td><td>Fair value</td><td>Fair value</td></tr>
<tr><td colspan="2">At amortized cost (iv)</td><td>Fair value</td><td>Amortized cost</td></tr>
</table>

(i) Financial liabilities classified in the “At fair value through profit or loss” category include financial liabilities “Held for trading” and financial liabilities “Designated as at fair value through profit or loss”. Therefore,

- Changes in fair value of financial liabilities classified in this category are recorded in profit or loss under “Net income on securities at fair value through profit or loss”.
- Interest expense related to financial liabilities classified in the “At fair value through profit or loss” category is recognized under “Net income on securities at fair value through profit or loss” using the effective interest method.

(ii) Financial liabilities classified as “Held for trading” are debt securities issued with the intention to repurchase them in the near term and securities that are part of a portfolio of securities that are managed together and for which there is evidence of an actual pattern of short-term profit-taking, such as “Commitments related to securities sold short”. Derivative financial instruments are also classified as “Held for trading”. Derivative financial instruments designated as fair value or cash flow hedging items cannot be classified in this category. Section P), “Derivative financial instruments and hedging activities”, specifies the nature of the recognition of derivative financial instruments designated as part of a hedging relationship.

(iii) Financial liabilities classified as “Designated as at fair value through profit or loss” have been designated as such by management upon initial recognition, on an instrument-by-instrument basis. Management may designate a financial instrument as at fair value through profit or loss upon initial recognition when one of the following conditions is met:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency.
- The liabilities are part of a group of financial liabilities or financial assets and liabilities that is managed and whose performance is evaluated on a fair value basis.
- The financial instrument contains one or more embedded derivatives that significantly modify the cash flows and that would otherwise be separated from their host contract.

Desjardins Group held no instruments in this category at the reporting dates.

(iv) Financial liabilities that are not classified in the “At fair value through profit or loss” category are classified in the “At amortized cost” category. Financial liabilities measured at amortized cost include “Deposits”, “Acceptances”, “Commitments related to securities lent or sold under repurchase agreements”, “Amounts payable to clients, brokers and financial institutions”, “Subordinated bonds” and other liabilities.

Financial liabilities classified in the “At amortized cost” category are initially recognized at fair value in the Combined Statements of Financial Position and, at subsequent reporting dates, they are measured at amortized cost using the effective interest method. Interest expense on securities classified in the “At amortized cost” category is recognized in profit or loss under “Interest expense” for the Personal Services and Business and Institutional Services and Other segments. Income for the other segments is mainly recognized under “Net income on securities at fair value through profit or loss” in the Combined Statements of Income.

NOTE 2
SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The fair value of financial instruments, especially securities, obtained from quoted prices on active markets includes little subjectivity in the determination of fair value.

If there are no quoted prices on active markets, the fair value is determined using models based on observable market data or models that are not based on observable market data. When no quoted prices are available, the fair value is estimated using present value or other valuation methods, which are influenced by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates, which reflect varying degrees of risk, including liquidity risk, credit risk, and risks related to interest rates, exchange rates, and price and rate volatility. Given the role that judgment plays in applying many of the acceptable estimation and valuation techniques for calculating fair values, they are not identical. Estimated fair value reflects market conditions on a given date and for this reason cannot be representative of future fair values. It also cannot be considered as being realizable in the event of immediate settlement of these instruments.

LOANS

Changes in interest rates and in the creditworthiness of borrowers are the main causes of changes in the fair value of loans held by Desjardins Group, which result in a favourable or unfavourable difference compared to their carrying amount. The fair value of loans is estimated by discounting expected cash flows using market interest rates charged for similar new loans at the reporting date. The fair value of impaired loans is assumed to be equal to their carrying amount.

DEPOSITS

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

SUBORDINATED BONDS

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

DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments is determined using pricing models that incorporate the current market prices and the contractual prices of the underlying instruments, the time value of money, yield curves and volatility factors. The fair value of derivative financial instruments is presented without taking into account the impact of legally binding master netting agreements. Note 18, “Derivative financial instruments and hedging activities”, specifies the nature of derivative financial instruments held by Desjardins Group.

FINANCIAL INSTRUMENTS WHOSE FAIR VALUE EQUALS CARRYING AMOUNT

The carrying amount of financial instruments that mature within the next 12 months is a reasonable approximation of their fair value. These financial instruments include the following items: “Cash and deposits with financial institutions”, “Clients’ liability under acceptances”, “Amounts receivable from clients, brokers and financial institutions”, “Other assets – Other”, “Acceptances”, “Amounts payable to clients, brokers and financial institutions” and “Other liabilities – Other”.

TRANSACTION COSTS

Transaction costs for financial instruments are capitalized and then amortized over the life of the instrument using the effective interest method, except if such instruments are classified or designated as part of the “At fair value through profit or loss” category, in which case these costs are expensed as incurred.

OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

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

NOTE 2

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire or when the contractual rights to the cash flows from the financial asset and substantially all risks and rewards of ownership of the asset are transferred to a third party.

When the cash flows from a financial asset have been transferred but Desjardins Group has retained substantially all the risks and rewards of ownership of the financial asset, it recognizes a separate asset and a separate liability presented in the Combined Statements of Financial Position under "Other assets – Other" and "Other liabilities – Other", respectively, representing the rights and obligations created or retained in the asset transfer. If control of the financial asset is retained, Desjardins Group continues to recognize the asset in the Combined Statements of Financial Position to the extent of its continuing involvement in said asset.

When a financial asset is derecognized in full, a gain or a loss is recognized in the Combined Statements of Income for an amount equal to the difference between the carrying amount of the asset and the value of the consideration received.

A financial liability is derecognized when the related obligation is discharged, cancelled or expires.

C) CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS

"Cash and deposits with financial institutions" includes cash and cash equivalents. Cash equivalents consist of deposits with the Bank of Canada, deposits with financial institutions—including net amounts receivable related to cheques and other items in the clearing process—as well as the net amount of cheques and other items in transit. These financial instruments mature in the short term, are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. They are classified as "Loans and receivables".

D) SECURITIES

Securities are instruments classified based on their characteristics and management's intention in the various categories presented in section B), "Financial assets and liabilities", above.

SECURITIES BORROWED OR PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS

Securities borrowed for a securities or cash consideration or purchased under reverse repurchase agreements are not recognized in the Combined Statements of Financial Position, as substantially all the risks and rewards of ownership of these securities have not been transferred.

When the consideration paid for the borrowed securities is cash, the cash pledged as collateral is derecognized from "Cash and deposits with financial institutions" in the Combined Statements of Financial Position, and an asset representing the right to receive the securities is recognized under "Securities borrowed or purchased under reverse repurchase agreements".

Reverse repurchase agreements are accounted for as collateralized lending transactions. The consideration paid for the securities acquired, including accrued interest, is recognized under "Securities borrowed or purchased under reverse repurchase agreements".

When the consideration paid for the borrowed securities is securities, the securities pledged as collateral are not derecognized, as substantially all the risks and rewards of ownership of these securities have not been transferred.

The fair value of securities borrowed for a securities or cash consideration or purchased under reverse repurchase agreements is presented in the notes as financial assets held as collateral. In addition, when the securities received can subsequently be resold or repledged as collateral, the fair value of securities borrowed or purchased under reverse repurchase agreements is presented in Note 28, "Commitments, guarantees and contingent liabilities", as financial assets held as collateral that can be sold or repledged.

SECURITIES LENT OR SOLD UNDER REPURCHASE AGREEMENTS

Securities lending transactions or securities sold under repurchase agreements (to be repurchased at a subsequent date) do not result in the derecognition of securities in the Combined Statements of Financial Position, as substantially all the risks and rewards of ownership of these securities have not been transferred.

When the consideration received for the securities lent is cash, the cash received as collateral is recognized under "Cash and deposits with financial institutions" in the Combined Statements of Financial Position, and a liability representing the obligation to return the securities is recognized under "Commitments related to securities lent or sold under repurchase agreements".

Repurchase agreements are accounted for as collateralized borrowing transactions. The consideration received for the securities sold, including accrued interest, is therefore recognized under "Cash and deposits with financial institutions" in the Combined Statements of Financial Position, and a liability representing the obligation to return the securities is recognized under "Commitments related to securities sold under repurchase agreements". The difference between the price received and the repurchase price is recognized as interest expense.

When the consideration received for the securities lent is securities, the securities held as collateral are not recognized, as substantially all the risks and rewards of ownership of these securities have not been transferred.

The carrying amount of securities lent or sold under repurchase agreements is presented in Note 28, "Commitments, guarantees and contingent liabilities", as financial assets pledged as collateral. When the consideration received for the securities lent is securities and these securities can be pledged as collateral or sold, the fair value of the securities received is presented in Note 28, "Commitments, guarantees and contingent liabilities", as financial assets held as collateral.

NOTE 2

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SECURITIES SOLD SHORT

Securities sold short as part of trading activities, which represent Desjardins Group's obligation to deliver securities that it did not possess at the time of sale, are recognized as liabilities at their fair value. Realized and unrealized gains and losses on these securities are recognized in the Combined Statements of Income under "Net income on securities at fair value through profit or loss". Securities sold short are classified in the "Securities at fair value through profit or loss – held for trading" category.

E) LOANS

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

The fees collected and the direct costs related to the origination, restructuring and renegotiation of loans are treated as being integral to the yield of the loan, unless the terms and conditions were changed in such a way that the transaction is treated as the granting of a new loan, in which case fees and direct costs are recorded in profit or loss for the year. Collateral is obtained if deemed necessary, based on an assessment of the borrower's creditworthiness. Collateral normally takes the form of assets such as cash, government securities, shares, receivables, inventory or capital assets.

F) IMPAIRMENT OF FINANCIAL ASSETS

At the reporting date, Desjardins Group assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

ALLOWANCE FOR CREDIT LOSSES

Evidence of depreciation results from a loss event that occurred after the loan was granted but before the reporting date and that has an impact on the estimated future cash flows of loans.

The impairment of a loan or a group of loans is determined by discounting future expected cash flows at the interest rate inherent to the financial asset. The allowance is equal to the difference between this value and the carrying amount. This allowance is presented in deduction of assets under "Allowance for credit losses". To determine the estimated recoverable amount of a loan, Desjardins Group discounts the estimated future cash flows at the effective interest rate inherent to the loan. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, the estimated recoverable amount is determined using either the fair value of any security underlying the loan, net of expected costs of realization, or the observable market price for the loan. The security may vary depending on the type of loan.

The allowance resulting from this impairment is established using two components: individual allowances and collective allowance.

INDIVIDUAL ALLOWANCES

Desjardins Group first reviews its loan portfolios on a loan-by-loan basis to assess credit risk and determine if there is any objective evidence of impairment for which a loss should be recognized in the Combined Statements of Income. Loan portfolios for which an individual allowance has not been established are then included in groups of assets having similar credit risk characteristics and are subject to a collective allowance.

There is objective evidence of impairment when one of the following conditions is met:

- There is reason to believe that a portion of the principal or interest cannot be collected.
- 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.
- The interest or principal is more than 180 days in arrears.

When a loan is impaired, the interest previously accrued but not collected is capitalized to the loan. Payments received subsequently are recorded as a deduction of the principal. A loan ceases to be considered impaired when principal and interest payments are up to date and there is no doubt as to the collection of the loan or when it is restructured, in which case it is treated as a new loan, and there is no doubt as to the collection of principal and interest.

Assets foreclosed to settle impaired loans and held for sale are recognized on the date of the foreclosure at their fair value less costs to sell. Any difference between the carrying amount and the fair value recorded for the acquired assets is recognized under "Provision for credit losses".

A loan classified as "Loans and receivables" is written off when all attempts at restructuring or collection have been made and the likelihood of future recovery is remote. When a loan is written off completely, any subsequent payments are recorded under "Provision 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 180-day period.

Changes in the individual allowance for credit losses due to the passage of time are recognized under "Interest income – Loans", while those that are due to a revision of expected receipts are recognized under "Provision for credit losses" in the Combined Statements of Income.

NOTE 2

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

COLLECTIVE ALLOWANCE

Loan portfolios for which an individual allowance has not been established are included in groups of financial assets having similar credit characteristics and are subject to a collective allowance.

The method used by Desjardins Group to determine the collective allowance takes into account the risk parameters of the various loan portfolios, in particular through the integration of sophisticated credit risk models. These collective allowance impairment models take into account certain factors such as probabilities of default (loss frequency), loss given default (extent of losses) and gross exposures at default. These parameters, which are based on historical losses, are determined according to the category and the risk rating of each loan. The measurement of the collective allowance also depends on management's assessment of current credit quality trends with respect to business segments, the impact of changes to its credit policies and economic conditions. The collective allowance on the loans of the life and health insurance subsidiaries is, however, included in the policy reserves, under "Insurance and investment contract liabilities".

The allowance related to off-balance sheet exposures, such as letters of guarantee and certain unrecognized credit commitments, is recognized under "Other liabilities – Other" in the Combined Statements of Financial Position and under "Provision for credit losses" in the Combined Statements of Income.

AVAILABLE-FOR-SALE SECURITIES

Securities classified in the "Available for sale" category are monitored on a regular basis to determine whether there is any objective evidence that they are impaired. In evaluating the decline in value, Desjardins Group takes into account many facts specific to each investment and all the factors that could indicate that there has been an impairment. Factors considered include, but are not limited to, a significant or prolonged decline in the fair value, significant financial difficulties of the issuer, a breach of contract, the increasing probability that the issuer will enter bankruptcy or a restructuring and the disappearance of an active market for that financial asset. Management also uses judgment to determine when to recognize an impairment loss.

Debt securities classified in the "Available for sale" category are individually assessed by Desjardins Group to determine whether there is any objective evidence of impairment. However, the impairment loss represents the cumulative loss measured as the difference between amortized cost and current fair value, less any impairment loss previously recognized. Future interest income is calculated on the reduced carrying amount using the same interest rate as the one used to discount future cash flows in order to measure the impairment loss. When, during a subsequent period, the fair value of a debt security increases and that increase can be objectively related to an event occurring after the impairment loss had been recognized in profit or loss, the impairment loss is reversed through profit or loss.

For equity securities classified in the "Available for sale" category, the objective evidence would also include a "significant" or "prolonged" decline in the fair value below cost. In general, the terms "significant" and "prolonged" respectively mean a decline of 20% or more and a period of more than 12 months. When evidence of impairment exists, the cumulative loss (measured as the difference between acquisition cost and current fair value, less any impairment loss previously recognized) is transferred out of other comprehensive income, in the Combined Statements of Comprehensive Income, and recognized in the Combined Statements of Income. Impairment losses on equity securities are not reversed through profit or loss, and increases in fair value occurring subsequent to impairment are recorded directly in other comprehensive income, in the Combined Statements of Comprehensive Income. Any impairment loss on securities previously impaired is directly recognized in profit or loss.

G) SECURITIZATION

As part of its liquidity and capital management strategy, Desjardins Group participates in the *National Housing Act* Mortgage-Backed Securities Program Under this program, Desjardins Group bundles residential mortgage loans guaranteed by Canada Mortgage and Housing Corporation (CMHC) into mortgage-backed securities (NHA MBSs) and transfers them to the Canada Housing Trust. However, as part of these transactions, Desjardins Group retains substantially all the risks and rewards related to these securities, in particular prepayment and reinvestment risks. Consequently, the loans continue to be recognized in the Combined Statements of Financial Position. Furthermore, Desjardins Group recognizes a liability equal to the consideration received from CMHC related to the sale of NHA MBSs that do not meet the derecognition criteria. This liability is presented under "Deposits – Business and government" in the Combined Statements of Financial Position. Income related to securitization transactions is recognized under "Other income – Other", "Interest income – Securities" and "Interest income – Loans".

NOTE 2
SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H) PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of land, buildings, computer equipment, furniture, fixtures and other as well as leasehold improvements. These assets are recognized at cost less any accumulated depreciation and any accumulated impairment losses, and are depreciated over their expected useful life using the straight-line method.

The depreciable amount of an item of property, plant and equipment is determined after deducting its residual value less costs to sell. The useful life of property, plant and equipment is generally equal to its expected useful life.

The depreciation expense for property, plant and equipment is recognized under "Non-interest expense – Premises, equipment and furniture, including depreciation" in the Combined Statements of Income.

INVESTMENT PROPERTY

Investment properties are buildings or land held to earn rentals or for capital appreciation.

Investment properties are recognized at cost less accumulated depreciation, and are depreciated over their useful life using the straight-line method. Transfers to or from the "Investment property" category are made only when there is a change in use. Upon a transfer from the "Investment property" category to the "Buildings" category of property, plant and equipment, the cost remains the same and continues to be the carrying amount. If a building held and occupied by Desjardins Group becomes an investment property, it is recorded using the accounting policies applicable to investment properties.

The depreciation expense for investment properties is recognized under "Net other investment income" in the Combined Statements of Income.

DEPRECIATION

Property, plant and equipment and investment property are depreciated using the following depreciation periods:

	Depreciation periods
Land	Non-depreciable
Buildings / Investment property	5 to 80 years
Computer equipment	3 to 10 years
Furniture, fixtures and other	3 to 10 years
Leasehold improvements	Expected term of the lease

When an item of property, plant and equipment is made up of several significant parts having different useful lives or providing economic benefits according to different patterns, each part is recognized separately and is depreciated over its own depreciation period.

DERECOGNITION

Property, plant and equipment and investment property are derecognized upon disposal or when they are permanently withdrawn from use and no future economic benefits are expected. Gains or losses on the disposal or sale of buildings are recognized in the Combined Statements of Income under "Net other investment income" in the year in which they are realized.

IMPAIRMENT

Property, plant and equipment and investment properties are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Assessing whether such events or circumstances exist is subject to management's judgment.

I) GOODWILL AND INTANGIBLE ASSETS

GOODWILL

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets acquired and liabilities assumed in a business combination accounted for using the acquisition method.

Each item of goodwill is allocated to one or more cash-generating units (CGU or group of CGUs) that are expected to benefit from the combination. The group of CGUs must not be larger than a business segment. A CGU is the smallest identifiable group of assets that generates cash inflows that are independent from the cash inflows from other groups of assets. Subsequent to initial measurement, goodwill is measured at cost less any impairment loss.

NOTE 2
SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INTANGIBLE ASSETS

Intangible assets include acquired and internally generated intangible assets and are initially recognized at cost. The cost of an intangible asset acquired as part of a business combination corresponds to its fair value at the date of acquisition. Subsequent to initial recognition, intangible assets are measured at cost less any accumulated amortization and any impairment losses. Expenditures related to internally generated intangible assets, except for development costs, are recognized in profit or loss as incurred.

Desjardins Group assesses whether the useful life of an intangible asset is finite or indefinite. Intangible assets with finite useful lives include mainly software and are amortized using the straight-method over their estimated useful lives, which do not exceed seven years.

Gains or losses resulting from the derecognition of an intangible asset are determined as the difference between the net proceeds of disposal and the net carrying amount of the asset. They are recognized under "Non-interest expense – Other" in the Combined Statements of Income upon derecognition of the asset.

J) IMPAIRMENT OF NON-FINANCIAL ASSETS

Desjardins Group assesses at the reporting date whether there is an indication that an asset may be impaired. An impairment loss is recognized when the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of its fair value less costs to sell and its value in use, which corresponds to the present value of the recoverable future cash flows. Any impairment loss recognized in the Combined Statements of Income represents the excess of the carrying amount of the asset over the recoverable amount. Impairment losses on that asset may be subsequently reversed and are recognized in the Combined Statements of Income in the year in which they occur.

Estimating the recoverable amount of a non-financial asset to determine if it is impaired requires also that management make estimates and assumptions, and any change in these estimates and assumptions could impact the determination of the recoverable amount of non-financial assets and, therefore, the outcome of the impairment test.

GOODWILL

Goodwill is tested for impairment once a year and when events or changes in circumstances indicate that the carrying amount may not be recoverable.

The goodwill impairment test is performed based on the recoverable amount of each CGU (or each group of CGUs) to which goodwill is allocated.

The recoverable amount represents the higher of the fair value less costs to sell and the value in use. Fair value represents the best estimate of the amount obtainable from the sale, less costs to sell, in an arm's-length transaction between knowledgeable and willing parties. The value in use is calculated using the most appropriate method, generally by discounting estimated future cash flows.

When the recoverable amount is less than the carrying amount, an impairment loss is recognized in the Combined Statement of Income for the year and is first recorded as a reduction of the goodwill allocated to the CGU (or group of CGUs) and then as a reduction of the other identifiable assets of the CGU (or group of CGUs) pro rata on the basis of their carrying amount in the unit. Nevertheless, the allocation of the impairment loss to the assets of the CGU or group of CGUs must not result in their carrying amount being lower than the highest of following amounts: the fair value of the assets less costs to sell, their value in use and zero.

Goodwill impairment losses cannot be reversed.

K) ACCEPTANCES AND CLIENTS' LIABILITY UNDER ACCEPTANCES

The potential liability of Desjardins Group under acceptances is recognized as a liability in the Combined Statements of Financial Position. Recourse against the client, in the event of a call on any of these commitments, is recorded as an equivalent offsetting asset. These financial instruments are classified in the "Loans and receivables" category.

L) CLASSIFICATION OF INSURANCE AND INVESTMENT CONTRACTS

Insurance contracts are contracts under which a significant insurance risk is transferred upon the contract's issuance. An insurance risk is transferred when the insurance subsidiaries agree to compensate the policyholder if an uncertain future event specified in the contract adversely affects the policyholder. All contracts that do not meet the definition of an insurance contract under IFRS are classified as investment contracts or service contracts, where appropriate. Investment contracts are contracts that comprise a financial risk but no significant insurance risk. Contracts that transfer a significant insurance risk issued by the insurance subsidiaries have been classified as insurance contracts, in accordance with IFRS 4, "Insurance Contracts". Otherwise, contracts issued by insurance subsidiaries have been classified either as investment contracts in accordance with International Accounting Standard (IAS) 39, "Financial Instruments: Recognition and Measurement", or as service contracts in accordance with IAS 18, "Revenue".

Once a contract has been classified as an insurance contract, it continues to be an insurance contract over its remaining life, even if the insurance risk decreases significantly during that period. However, an investment contract may be reclassified as an insurance contract after its issuance if the insurance risk becomes significant.

NOTE 2

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M) INSURANCE AND INVESTMENT CONTRACT LIABILITIES

Insurance and investment contract liabilities include the contract liabilities of the life and health insurance subsidiaries and the property and casualty insurance subsidiaries.

LIFE AND HEALTH INSURANCE CONTRACT LIABILITIES

Life and health insurance contract liabilities consist of actuarial provisions, provisions for benefits, policyholder dividends and experience refunds, and policyholder deposits.

The calculation of the insurance contract liabilities of the life and health insurance subsidiaries requires that assumptions be made with respect to the timing of many factors such as death, disability, investment income, inflation, policy cancellations, expenses, income taxes, premiums, commissions and participating policyholders' dividends as well as the amounts they represent. To predict underwriting experience, the life and health subsidiaries use best estimate assumptions. Some of these assumptions refer to events that are likely to occur in the distant future and they should eventually be changed.

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

Under CALM, the determination of actuarial liabilities is based on an explicit projection of cash flows using current best estimate assumptions for each cash flow component and each significant contingency. Investment returns are based on projected investment income using the current asset portfolios and projected reinvestment strategies. Each non-economic assumption is adjusted by a margin for adverse deviation. With respect to investment returns, the provision for adverse deviation is established by using yield scenarios. These scenarios are determined using a deterministic model that includes testing prescribed by Canadian actuarial standards. The provision for minimum guarantees on segregated fund products is established using stochastic modelling. The period used for the projection of cash flows is the policy lifetime for most insurance contracts. For certain types of contracts, a shorter projection period may be used. This period is, however, limited to the term of the liability over which the life and health insurance subsidiaries are exposed to significant risk without the ability to adjust policy premiums or charges.

PROPERTY AND CASUALTY INSURANCE CONTRACT LIABILITIES

Property and casualty insurance contract liabilities consist of unearned premiums and provisions for claims and adjustment expenses.

Unearned premiums represent the portion of premiums remaining to be earned at the reporting date. The property and casualty subsidiaries are exposed to pricing risk to the extent that unearned premiums could be insufficient to cover future costs related to policies. Future claim costs, related costs, investment income and expected income related to unearned premiums are regularly assessed.

The calculation of the provisions for claims and adjustment expenses related to the property and casualty insurance subsidiaries' insurance policies takes into consideration assumptions based on characteristics of the business lines, settlement history and other relevant factors. The estimating methods used to make this calculation are based on best estimate assumptions, taking into account currently known data, which are regularly reviewed and updated. Additional information on the main actuarial assumptions and their sensitivity to changes is presented in Note 15, "Insurance and investment contract liabilities".

The provisions for claims and adjustment expenses include individual loss estimates for each claim reported. In addition, a provision is established for adjustment expenses, changes related to reported claims and incurred but unreported claims, based on previous experience and portfolio contracts. These estimates are regularly reviewed and updated, and any resulting adjustment is recognized in the Combined Statement of Income for the year in which the revision occurs. The provision for claims and adjustment expenses is reported on a discounted basis using the underlying asset rate, with a margin for adverse deviations.

INVESTMENT CONTRACT LIABILITIES

Investment contract liabilities are recognized at amortized cost using the effective interest method. Amounts received from clients are initially recognized in the Combined Statements of Financial Position as liabilities under "Insurance and investment contract liabilities". Subsequently, new amounts received from clients and withdrawals are directly recorded as adjustments to "Insurance and investment contract liabilities", in the Combined Statements of Financial Position.

DISCRETIONARY PARTICIPATION FEATURES

Certain insurance contracts of the life and health insurance subsidiaries contain a discretionary participation feature that allows the policyholder to participate in the profitability related to the concerned contracts. These contracts give the contractual right to receive additional benefits as supplement to guaranteed benefits. The life and health subsidiaries elected not to recognize separately the participating portion of these contracts. The cumulative amount of surplus earnings attributable to these contracts is presented under "Non-controlling interests" in the Combined Statements of Financial Position.

NOTE 2

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REINSURANCE

The life and health insurance subsidiaries enter into reinsurance treaties for contracts with coverage in excess of certain maximum amounts that vary based on the nature of the activities. In addition, they purchase additional reinsurance protection with respect to large-scale catastrophic events.

To reduce the risk related to extensive claims, the property and casualty insurance subsidiaries enter into reinsurance treaties with many reinsurers to limit their exposure to a maximum amount per claim or per catastrophe.

These reinsurance treaties do not release the insurance subsidiaries from their obligations towards their policyholders.

Premium income from insurance contracts and expenses related to claims, benefits and changes in insurance contract liabilities associated with contracts under reinsurance treaties are presented net of amounts ceded to reinsurers in the Combined Statements of Income. In addition, the share of reinsurers in the insurance contract liabilities is presented as an asset in the Combined Statements of Financial Position under “Other assets – Other”.

The resulting reinsurance asset is tested annually for impairment. If there is objective evidence that a reinsurance asset is impaired, following an event that occurred after initial recognition, the insurance subsidiaries reduce the carrying amount of that asset to its recoverable amount, and recognize the resulting loss in the Combined Statements of Income under “Claims, benefits, annuities and changes in insurance and investment contract liabilities”.

N) SEGREGATED FUNDS

Certain insurance contracts allow policyholders to invest in segregated funds held by one of the life and health insurance subsidiaries for their benefit. All risks and rewards of ownership of these investments accrue to the policyholders, even though these investments are held by the life and health insurance subsidiary. Accordingly, the assets and liabilities of segregated funds are presented on a separate line in the Combined Statements of Financial Position. Segregated fund assets are measured and recognized at fair value at the reporting date, which is determined using the methods described earlier in section B) “Financial assets and liabilities”. In addition, if a segregated fund controls a mutual fund in which it has invested, such mutual fund is consolidated in the segregated fund assets. A liability corresponding to the sum of the interests of contract holders in the segregated fund assets and the consolidated share of non-controlling mutual fund holders is also recognized separately.

O) SUBORDINATED BONDS

Subordinated bonds are bonds subordinated in right of payment to claims of depositors and certain other creditors. Subordinated bonds are classified in the “Financial liabilities at amortized cost” category.

P) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial contracts whose value depends on assets, interest rates, foreign exchange rates and other financial indexes. The vast majority of derivative financial instruments are negotiated by mutual agreement between Desjardins Group and the counterparty and include forward exchange contracts, cross-currency interest rate swaps, interest rate swaps, currency swaps, credit default swaps, total return swaps, forward rate agreements, and currency, interest rate and stock index options. Other transactions are carried out as part of regulated trades and mainly consist of futures. The types of contracts used are defined in Note 18, “Derivative financial instruments and hedging activities”.

Derivative financial instruments, including embedded derivatives which are required to be recognized separately, are recognized at fair value in the Combined Statements of Financial Position.

Embedded derivative financial instruments are separated from their host contract and accounted for as derivatives if (a) the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host contract; (b) the embedded derivative has the same terms as a separate instrument; (c) the hybrid instrument or contract is not measured at fair value with changes in fair value recognized in combined profit or loss. Embedded derivatives that are required to be recognized separately are measured at fair value, and changes in their fair value are recognized under “Net income (loss) on securities at fair value through profit or loss” in the Combined Statements of Income.

Desjardins Group uses derivative financial instruments for trading purposes or for asset-liability management purposes.

Derivative financial instruments held for trading purposes are used to meet the needs of members and clients and to allow Desjardins Group to generate income on its own trading activities. These derivative financial instruments are recognized at fair value in the Combined Statements of Financial Position, and changes in their fair value are recognized under “Net income on securities at fair value through profit or loss” in the Combined Statements of Income.

Derivative financial instruments held for asset-liability management purposes are used to manage current and expected risks related to market risk. These instruments enable Desjardins Group to transfer, manage or reduce the interest rate and foreign currency exposures of assets and liabilities recorded on the Combined Statements of Financial Position, as well as firm commitments and forecasted transactions.

NOTE 2

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

HEDGING ACTIVITIES

Desjardins Group mainly designates its derivative financial instruments as part of a fair value or cash flow hedging relationship.

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

Desjardins Group may also use derivative financial instruments as an economic hedge for certain transactions in situations where the hedging relationship does not qualify for hedge accounting or where it elects not to apply hedge accounting. In such circumstances, derivative financial instruments are classified as "Held for trading", and realized and unrealized gains and losses are recognized in the Combined Statements of Income under "Net income on securities at fair value through profit or loss".

The designation of a derivative financial instrument as a hedging item is discontinued in the following cases: the hedged item is sold or matures, the derivative financial instrument is repurchased or matures, the hedge is no longer effective, or Desjardins Group terminates the designation of the hedge or no longer expects that the forecasted transaction will occur.

Hedging instruments that meet the strict hedge accounting conditions are recognized as follows:

FAIR VALUE HEDGES

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

In a fair value hedge transaction, changes in the fair value of the hedging derivative financial instrument are recognized under "Net income on securities at fair value through profit or loss" in the Combined Statements of Income, as well as changes in fair value of the hedged asset or liability attributable to the hedged risk. The gain or loss attributable to the hedged risk is applied to the carrying amount of the hedged item. When the changes in fair value of the hedging derivative financial instrument and the hedged item do not entirely offset each other, the resulting amount, which represents the ineffective portion of the relationship, is recognized in "Net income on securities at fair value through profit or loss" in the Combined Statements of Income.

When a fair value hedging relationship is discontinued, hedge accounting is discontinued prospectively. The hedged item is no longer adjusted to reflect the fair value impact of the designated risk. Adjustments previously recorded in the hedged item are amortized using the effective interest method and are recognized in net interest income, in the Combined Statements of Income, following the underlying instrument, over the remaining life of the hedged item, unless the hedged item ceases to exist, in which case the adjustments for the impact of the designated risk are immediately recognized under "Net income on securities at fair value through profit or loss" in the Combined Statements of Income.

CASH FLOW HEDGES

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

In a cash flow hedge transaction, gains and losses resulting from changes in the fair value of the effective portion of the derivative financial instrument are recognized in other comprehensive income under "Net gains on derivative financial instruments designated as cash flow hedges" until the hedged item is recognized in the Combined Statements of Income, at which time such changes are recognized under net interest income in the Combined Statements of Income, following the underlying instrument. The ineffective portion of cash flow hedge transactions is immediately recognized in the Combined Statements of Income under "Net income on securities at fair value through profit or loss".

When a cash flow hedging relationship no longer qualifies for hedge accounting, Desjardins Group discontinues hedge accounting prospectively. Gains or losses recognized in other comprehensive income are amortized to net interest income, in the Combined Statements of Income, following the underlying instrument, over the expected remaining life of the hedging relationship that was discontinued. If a designated hedged item is sold or matures before the related derivative financial instrument ceases to exist, all gains or losses are immediately recognized in profit or loss under "Net income on securities at fair value through profit or loss".

NOTE 2

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q) FINANCIAL GUARANTEES

A guarantee is a contract or an indemnification agreement that contingently requires Desjardins Group entities to make payments to the guaranteed party following a loss resulting from the default by a specified third party to make a payment upon maturity in accordance with the original or modified provisions of the borrowing instrument.

Financial guarantees are initially recognized in the Combined Financial Statements at the fair value at the date the guarantee is issued. After initial recognition, the guarantee is measured at the higher of the following amounts:

(i) The amount initially recorded less, when appropriate, cumulative amortization of costs recognized in profit or loss

(ii) The best estimate of the expenditure required to settle the financial obligation resulting from the guarantee

The obligations related to guarantees issued by Desjardins Group are presented under "Other liabilities – Derivative financial instruments". The carrying amount of guarantees does not reflect the maximum potential amount of future payments under guarantees. Therefore, Desjardins Group continues to consider these guarantees as off-balance sheet credit instruments.

R) RESERVES

Reserves included in equity are mainly from the caisses. They are based on the balance of the reserves as at December 31 of the prior year and the surplus earnings distribution plans for such year, which must be approved by the general meeting of each caisse within the first six months of the year following the reporting date.

The stabilization reserve consists of amounts appropriated by the caisses and the Federation. Amounts appropriated to the stabilization reserve are essentially used for the payment of interest on permanent shares when the surplus earnings of a caisse are not sufficient.

The reserve for future member dividends is made up of amounts appropriated by the caisses. This reserve allows them to manage, over time, the impact of changes in annual surplus earnings on the payment of member dividends.

The general reserve is essentially made up of amounts appropriated by the caisses, the Federation, the *Fonds de sécurité Desjardins* and *Caisse centrale Desjardins*. This reserve can be used to eliminate a deficit only and cannot be divided amongst members nor used to pay member dividends.

S) REVENUE RECOGNITION

Revenues are recognized to the extent that it is probable that the economic benefits will flow to Desjardins Group and that they can be measured reliably. In addition to the items mentioned in section B), "Financial assets and liabilities", the specific recognition criteria that follow must also be met before revenues can be recognized.

NET INTEREST INCOME

Interest income and expense are mainly earned or incurred by the Personal Services and Business and Institutional Services and Other segments and are recognized using the effective interest method for all financial instruments measured at amortized cost, for interest-bearing financial assets classified in the "Available for sale" category and for financial instruments classified in the "At fair value through profit or loss" category.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts future cash payments or receipts through the expected life of the financial instrument or, when appropriate, over a shorter period to obtain the net carrying amount of the financial asset and the financial liability.

When calculating the effective interest rate, Desjardins Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes transaction costs and income between parties to the contract as well as premiums or discounts. Transaction costs and income that form an integral part of the effective rate of the contract, such as file setup fees and finders' fees, are assimilated to supplemental interest.

PREMIUMS

Gross premiums on insurance contracts of the life and health insurance subsidiaries are recognized as revenues when they become due. As soon as these premiums are recognized, an actuarial provision is established and recognized in liabilities under "Insurance and investment contract liabilities". Premiums are presented, net of premiums ceded under reinsurance treaties, under "Net premiums" in the Combined Statements of Income.

Gross premiums on insurance contracts of the property and casualty insurance subsidiaries are recognized as revenues proportionately over the life of the insurance contracts. Premiums are presented, net of premiums ceded under reinsurance treaties, under "Net premiums" in the Combined Statements of Income. The portion of the premiums remaining to be earned at the reporting date is presented in liabilities under "Insurance and investment contract liabilities", in the Combined Statements of Financial Position.

NOTE 2
SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SERVICE CHARGES, COMMISSIONS, BROKERAGE FEES AND OTHER

Desjardins Group earns revenues from service charges, commissions and brokerage fees as a result of the broad range of services and products it provides its members and clients.

Service charges, commissions and brokerage fees are recognized once the service has been provided or the product has been delivered. Income from service charges is recognized under "Deposit and payment service charges" and "Brokerage, investment fund and trust services" in the Combined Statements of Income.

Loan syndication fees are recognized as revenues when the syndication agreement is signed unless the yield on the loan retained by Desjardins Group is less than the yield of other comparable lending institutions that participate in the financing. In such instances, an appropriate portion of the fees is deferred using the effective interest method.

Commissions and costs arising from the negotiation, or the participation thereto, of a transaction on behalf of a third party—such as the arrangement of share or other securities acquisitions or business purchases or sales—are recognized at the outcome of the underlying transactions.

Fee income is recorded under "Lending fees and credit card service revenues" in the Combined Statements of Income.

Portfolio management fees and fees for other services are recognized based on the applicable service contracts, pro rata over the period during which the service is provided. Portfolio management income is recognized under "Other income – Other" in the Combined Statements of Income.

Asset management fees related to investment funds are recognized pro rata over the period during which the service is provided. The same principles are applied to wealth management, financial planning and custodial services that are provided on an ongoing basis over a long period of time. Asset management income is recorded under "Other income – Other" in the Combined Statements of Income.

T) ASSETS UNDER MANAGEMENT AND UNDER ADMINISTRATION

Assets under management and under administration are held by and for the benefit of clients. These assets under management and under administration are therefore excluded from the Combined Statements of Financial Position of Desjardins Group. Income from these management services is recognized under "Other income – Other" in the Combined Statements of Income when the service is provided.

U) FOREIGN CURRENCY TRANSLATION

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the reporting date. Non-monetary assets and liabilities measured at historical cost are translated at the exchange rate prevailing at the transaction date, while those that are measured at fair value are translated at the exchange rate prevailing at the date fair value was determined. Income and expenses are translated at the average exchange rate for the year. Realized and unrealized gains and losses resulting from the translation are recognized in the Combined Statements of Income under "Other income – Other". However, unrealized gains and losses on non-monetary financial instruments classified as "Available-for-sale", and gains and losses on derivatives designated as cash flow hedges are presented in other comprehensive income in the Combined Statements of Comprehensive Income.

V) LEASES

In a finance lease, the lessor transfers to the lessee substantially all the risks and rewards inherent to the asset. This type of lease is analyzed as financing granted to the lessee to purchase the asset. On the other hand, in an operating lease, the lessor retains substantially all the risks and rewards inherent to the leased asset. Desjardins Group mainly entered into operating leases. The recognition of operating leases depends on the position of Desjardins Group, namely as a lessor or as a lessee.

LESSOR

Initial indirect costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset, which is recognized as property, plant and equipment by the lessor and depreciated on a straight-line basis over the lease period. The asset is amortized without consideration to residual value, and all lease payments are recognized in profit or loss on a straight-line basis over the lease period. The lease payments are recognized under "Net other investment income".

LESSEE

The asset is not recognized as an asset by the lessee. Lease payments made under operating leases are recognized on a straight-line basis over the lease period under "Premises, equipment and furniture, including depreciation", in the Combined Statements of Income.

NOTE 2

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

W) INCOME TAXES ON SURPLUS EARNINGS

The calculation of income taxes on surplus earnings is based on the expected tax treatment of the transactions recorded in the Combined Statements of Income, Combined Statements of Comprehensive Income and Combined Statements of Changes in Equity. To determine the current and deferred portions of income taxes on surplus earnings, assumptions must be made concerning the dates on which deferred income tax assets and liabilities will be reversed. If Desjardins Group's interpretation differs from that of taxation authorities or if the reversal dates do not correspond with the forecasted dates, the provision for income taxes on surplus earnings may increase or decrease in subsequent years.

CURRENT INCOME TAXES

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be paid to or recovered from the taxation authorities. Tax rates and tax laws applied to determine these amounts are those that have been enacted or substantively enacted at the reporting date.

DEFERRED INCOME TAXES

Deferred taxes are recognized, using the liability method, for all temporary differences existing at the reporting date between the tax basis of assets and liabilities and their carrying amount in the Combined Statements of Financial Position.

Deferred tax liabilities are recognized for all taxable temporary differences, except in the following cases:

(i) When the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction, affects neither accounting profit nor taxable profit (or tax loss)

(ii) For taxable temporary differences associated with investments in subsidiaries, when the date at which the temporary difference reverses can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future

Deferred tax assets are recognized for all deductible temporary differences, tax loss carryforwards and unused tax credits, to the extent that it is probable that a taxable profit will be available against which these deductible temporary differences, tax loss carryforwards and unused tax credits can be utilized, except in the following cases:

(i) When the deferred tax asset associated with the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction, affects neither accounting profit nor taxable profit (or tax loss)

(ii) For deductible temporary differences associated with investments in subsidiaries, associates and joint ventures; deferred tax assets are recognized only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and that a taxable profit will be available against which the temporary difference can be utilized

The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it becomes probable that a future taxable profit will be available to recover them.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current and deferred taxes related to items recognized directly in equity are recognized in equity and not in profit or loss.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets against current tax liabilities, and if these deferred taxes relate to the same taxable entity and the same taxation authority.

X) PROVISION FOR MEMBER DIVIDENDS

The board of directors of each caisse recommends for approval the surplus earnings distribution plan at the annual general meeting of members, which is held in the first six-month period following the reporting date. The amount of member dividends to be paid is part of this plan. The amount of the provision is estimated based on, among other things, the surplus earnings recorded for the quarter by the caisses and surplus earnings expected for the remainder of the year, taking into consideration the financial framework for the appropriation of surplus earnings in relation to the Desjardins Group Capitalization Plan, which sets capitalization targets. The difference between the amount of member dividends actually paid, in cash or in shares, following the general meetings held by the caisses, and the estimated amount of the provision is charged to combined profit or loss for the year in which the payments are made.

The allocation basis of member dividends depends on the interest recorded on loans and deposits, the average outstanding amount of Desjardins investment funds, guaranteed market-linked investments, Accord D loans obtained by the member through the caisse, and the various service charges collected from the member depending on the services used. The surplus earnings distribution plan takes into account a program under which members may elect to receive their dividends in the form of shares; these dividends are then increased compared to those paid in cash. Whether paid in shares or cash, member dividends are recognized under "Provision for member dividends" in the Combined Statements of Income. The caisses can pay out member dividends when legal and regulatory requirements have been met. The provision for member dividends is mainly allocated to the Personal Services and Business and Institutional Services segment.

NOTE 2
SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Y) EMPLOYEE BENEFITS

SHORT-TERM BENEFITS

Short-term benefits are benefits payable within twelve months after the reporting date, other than termination benefits, such as salaries and commissions, social security contributions and certain bonuses. An expense is recorded for these short-term benefits in the period during which the services giving right to them were rendered.

POST-EMPLOYMENT BENEFITS

PENSION PLANS

Desjardins Group offers pension plans to the majority of its employees as well as supplemental pension plans, which provide pension benefits in excess of statutory limits. Most of the pension plans represent defined benefit group pension plans of which the risks are shared by Desjardins Group's participating entities. In addition, the main pension plan is funded by contributions from both employees and employers, which are determined based on the financial position and the funding policy of the plan.

Defined benefit pension plans are plans for which Desjardins Group has formally committed to a level of benefits and therefore assumes actuarial and, when the plans are funded, investment risks. Benefits are calculated on the basis of the number of years of membership in the pension plans and take into consideration the average salary of the employee's five most highly paid years. Since the terms of the plans are such that future changes in salary levels will have an impact on the amount of future benefits, the cost of the benefits and the fair value of the defined benefit plan obligation are generally actuarially determined using the projected unit credit method. These calculations are made based on management's best estimate assumptions concerning the expected rate of return of the plans' investments and the plan obligation discount rate, and also, but to a lesser extent, salary increases, the retirement age of employees, the mortality rate and the rate of increase in pension benefits. A complete actuarial valuation is performed each year by a qualified actuary.

Actuarial gains (losses) result from the difference between the actual return on plan assets and the expected return for funded plans, the changes made to the actuarial assumptions used to determine the defined benefit plan obligation and the experience gains or losses on this obligation. Any actuarial gain or loss exceeding 10% of the greater of the value of the defined benefit plan obligation and the fair value of plan assets at the end of the previous year is amortized over the expected average remaining working lives of plan members.

Past service cost is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, vested past service cost is recognized in profit or loss immediately.

The defined benefit asset or liability corresponds to the present value of the plan obligation less the unrecognized past service cost, the fair value of pension plan assets and unamortized actuarial losses, plus unamortized actuarial gains. The value of any asset is limited to the total of actuarial losses, the unrecognized past service cost and the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the pension plans.

The defined benefit pension plan liability is recognized under "Defined benefit plan liabilities" in the Combined Statements of Financial Position.

OTHER PLANS

Desjardins Group also offers medical, dental and life insurance coverage to retiring employees and their dependants through unfunded defined benefit plans. The main plan is a defined benefit group pension plan of which the risks are shared by Desjardins Group's participating entities. The terms of these plans are such that future changes in salary levels or health costs will have an impact on the amount of future benefits. The cost of these benefits is accrued over the service life of employees according to accounting policies similar to those used for defined benefit pension plans.

Liabilities related to these post-employment benefit plans are recognized under "Defined benefit plan liabilities" in the Combined Statements of Financial Position.

NOTE 3

FUTURE ACCOUNTING CHANGES

Accounting standards that have been issued but are not yet effective are listed below. Regulatory authorities have also stated that early adoption of these standards will not be permitted.

IFRS 7, "FINANCIAL INSTRUMENTS: DISCLOSURES"

In October 2010 and December 2011, the IASB issued amendments to IFRS 7, "Financial Instruments: Disclosures". IFRS 7 is a presentation standard whose objective is to enable users to better understand and evaluate the significance of financial instruments for the entity's financial position and performance. Since the amendments to this standard specifically concern disclosures, they have no impact on Desjardins Group's results and financial position.

TRANSFERS OF FINANCIAL ASSETS

The amendments expand the disclosure requirements for transfers of financial assets that result in derecognition. They provide greater transparency about risk exposures relating to transfers of financial assets that are not derecognized in their entirety or are derecognized in their entirety, but with which the entity continues to have some continuing involvement, as well as about the effect of those risks on the entity's financial position. Desjardins Group will have to apply these amendments prospectively for the year beginning January 1, 2012.

OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

The amendments improve the disclosure requirements with respect to the offsetting of financial assets and liabilities. The objective of these amendments is to help users of financial statements better evaluate the impact of netting agreements on the financial position of an entity and understand how an entity manages the credit risk associated with such agreements. Desjardins Group will have to apply these amendments retrospectively for the year beginning January 1, 2013.

IFRS 9, "FINANCIAL INSTRUMENTS"

The IASB issued in November 2009 and amended in October 2010 the first phase of a project that will replace IAS 39, "Financial Instruments: Recognition and Measurement". This standard defines a new way of classifying and measuring financial assets and liabilities. Financial assets will be classified in three categories (amortized cost, fair value through profit or loss and fair value through equity) based on the entity's business model for managing its financial assets and the contractual cash flow characteristics of the financial assets.

Financial liabilities will be classified in the same categories as those defined in IAS 39, but measurement of financial liabilities under the fair value option has been modified.

The impairment of financial asset methodology and hedging activities will be covered in future phases that will complete IFRS 9.

Desjardins Group is currently assessing the impact of the adoption of IFRS 9. Since the impact of the adoption depends on the financial instruments held by Desjardins Group on the date of adoption, it is not yet quantifiable. The application of all phases of the standard is expected for the years beginning on or after January 1, 2015, on a prospective basis. Upon application, additional disclosures will have to be provided on the transition from IAS 39 to IFRS 9 to help users of financial statements understand the impact of the first-time adoption of IFRS 9 on the classification and measurement of financial instruments.

IFRS 10, "CONSOLIDATED FINANCIAL STATEMENTS"

In May 2011, the IASB issued IFRS 10, "Consolidated Financial Statements", which defines the principle of control and establishes that control serves as the basis to determine which entities are included in the scope of consolidation. This new standard replaces the requirements on consolidated financial statements included in IAS 27, "Consolidated and Separate Financial Statements", and SIC 12, "Consolidation – Special Purpose Entities".

Desjardins Group is currently assessing the impact of the adoption of this new standard, which applies retrospectively to annual periods beginning on or after January 1, 2013.

IFRS 11, "JOINT ARRANGEMENTS"

In May 2011, the IASB issued IFRS 11, "Joint Arrangements", which supersedes IAS 31, "Interests in Joint Ventures", and SIC 13, "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". This standard establishes the principles for accounting for two types of joint arrangements, namely joint operations and joint ventures, and eliminates the possibility of recognizing joint ventures using the proportionate consolidation method.

The adoption of this new standard will have no impact on Desjardins Group since interests in joint ventures are already recognized using the equity method. The new standard applies retrospectively to annual periods beginning on or after January 1, 2013.

NOTE 3

FUTURE ACCOUNTING CHANGES (CONTINUED)

IFRS 12, "DISCLOSURE OF INTERESTS IN OTHER ENTITIES"

In May 2011, the IASB issued IFRS 12, "Disclosure of Interests in Other Entities", which expands disclosure requirements for interests held by an entity in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Some of the disclosures were already required by the current standards, while others are new, such as disclosures about significant judgments and assumptions the entity has made in determining the nature of its interests in another entity as well as the nature of, and risks associated with, its interests in other entities.

Desjardins Group is currently assessing the impact of the adoption of this new standard, which applies retrospectively to annual periods beginning on or after January 1, 2013.

IFRS 13, "FAIR VALUE MEASUREMENT"

In May 2011, the IASB issued IFRS 13, "Fair Value Measurement", which defines fair value, sets out a single framework for measuring the fair value of all transactions and balances for which IFRS requires or permits fair value measurement and prescribes disclosures for fair value measurements. This standard aims at improving the consistency between the fair value definitions appearing in various existing standards. In addition, it carries forward disclosure requirements concerning the fair value of financial instruments and expands the scope to all items measured at fair value.

Desjardins Group is currently assessing the impact of the adoption of this new standard, which applies prospectively to annual periods beginning on or after January 1, 2013.

IAS 1, "PRESENTATION OF FINANCIAL STATEMENTS"

In June 2011, the IASB issued amendments to IAS 1, "Presentation of Financial Statements", which improve the presentation of items of other comprehensive income. The amendments require the presentation by nature of items of other comprehensive income by distinguishing those that will not be reclassified to the statement of income in a subsequent period from those that will.

Desjardins Group is currently assessing the impact of the adoption of this new standard. The effective date of this standard is July 1, 2012. Desjardins Group will therefore retrospectively apply these amendments to the year beginning January 1, 2013.

IAS 19, "EMPLOYEE BENEFITS"

In June 2011, the IASB issued an amended version of IAS 19, "Employee Benefits", which requires that the funding status of a defined benefit plan be entirely reflected in the statement of financial position. This change therefore eliminates the option to defer the recognition of actuarial gains and losses, known as the "corridor approach". All actuarial gains and losses will now be recognized immediately in other comprehensive income. The presentation and recognition of changes in the defined benefit plan obligation and plan assets will be modified, and disclosures about the characteristics of defined benefit plans and the risks to which an entity is exposed through its participation in such plans will be enhanced.

Desjardins Group is currently assessing the impact of the adoption of this new standard. It will have to retrospectively apply the amended version of IAS 19 to the year beginning January 1, 2013.

IAS 32, "FINANCIAL INSTRUMENTS: PRESENTATION"

In December 2011, the IASB issued amendments to IAS 32, "Financial Instruments: Presentation", to clarify the criteria for offsetting a financial asset and a financial liability.

Desjardins Group will have to apply these amendments retrospectively to the year beginning January 1, 2014.

NOTE 4

IMPACT OF IFRS ADOPTION

Since January 1, 2011, the Combined Financial Statements of Desjardins Group have been prepared in accordance with IFRS, as stated in Note 2, "Significant accounting policies". Previously, Desjardins Group issued financial statements prepared in accordance with Canadian GAAP, which have been carried forward in Part V of the *CICA Handbook – Accounting*.

When preparing its financial statements, Desjardins Group prepared a Combined Statement of Financial Position as at January 1, 2010, its date of transition to IFRS. Note 4, "Impact of IFRS adoption", presents the primary adjustments made by Desjardins Group to restate its Combined Statements of Financial Position under Canadian GAAP as at January 1, 2010, and December 31, 2010, and its Combined Statement of Income and Combined Statement of Comprehensive Income for the year ended December 31, 2010.

IFRS were applied retrospectively, with the exception of certain optional exemptions and exceptions under IFRS 1. The effects of this change of accounting framework and the methods used to calculate them are presented on the following pages.

NOTE 4
IMPACT OF IFRS ADOPTION (CONTINUED)

IFRS IMPACT ON THE COMBINED STATEMENTS OF FINANCIAL POSITION
As at January 1, 2010

Combined Balance Sheet *Items according to Canadian GAAP*	Balance according to Canadian GAAP	Reclassifications Non-controlling interests (a)	Income taxes on surplus earnings (b)	Property, plant and equipment and investment property (c)	Insurance contracts (d)	Segregated funds (e)
ASSETS						
Cash and deposits with financial institutions	$ 1,086	$ —	$ —	$ —	$ —	$ —
Securities						
Securities held for trading	19,349	—	—	—	—	—
Available-for-sale securities	12,064	—	—	—	—	—
Securities held to maturity	18	—	—	—	—	—
	31,431	—	—	—	—	—
Securities borrowed or purchased under reverse repurchase agreements	5,055	—	—	—	—	—
Loans						
Residential mortgages	67,667	—	—	—	—	—
Consumer, credit card and other personal loans	16,915	—	—	—	—	—
Business and government	26,259	—	—	—	—	—
	110,841	—	—	—	—	—
Allowance for credit losses	(541)	—	—	—	—	—
	110,300	—	—	—	—	—
	—	—	—	—	—	3,484
Other assets						
Clients' liability under acceptances	751	—	—	—	—	—
Derivative financial instruments	2,647	—	—	—	—	—
Amounts receivable from clients, brokers and financial institutions	453	—	—	—	—	—
	—	—	—	673	—	—
Land, buildings and equipment	1,008	—	—	299	—	—
	—	—	599	—	—	—
Other	4,711	—	(599)	(972)	413	—
	9,570	—	—	—	413	—
TOTAL ASSETS	$ 157,442	$ —	$ —	$ —	$ 413	$ 3,484
LIABILITIES AND EQUITY						
Liabilities						
Deposits						
Individuals	$ 75,420	$ —	$ —	$ —	$ —	$ —
Business and government	21,876	—	—	—	—	—
Deposit-taking institutions and other	8,865	—	—	—	—	—
	106,161	—	—	—	—	—
Other liabilities						
Acceptances	751	—	—	—	—	—
Commitments related to securities sold short	5,038	—	—	—	—	—
Commitments related to securities lent or sold under repurchase agreements	10,080	—	—	—	—	—
Derivative financial instruments	1,852	—	—	—	—	—
Amounts payable to clients, brokers and financial institutions	2,355	—	—	—	—	—
Actuarial and related liabilities	13,453	—	—	—	413	—
	—	—	—	—	—	3,484
Accrued benefit liabilities	782	—	—	—	—	—
	—	—	303	—	—	—
Other	3,950	—	(303)	—	—	—
	38,261	—	—	—	413	3,484
Subordinated bonds	1,294	—	—	—	—	—
	145,716	—	—	—	413	3,484
Non-controlling interests	380	(380)	—	—	—	—
Equity						
Capital stock	1,608	—	—	—	—	—
Share capital	71	—	—	—	—	—
Undistributed surplus earnings	805	—	—	—	—	—
Accumulated other comprehensive income	489	—	—	—	—	—
Reserves	8,373	—	—	—	—	—
	11,346	—	—	—	—	—
	—	380	—	—	—	—
Total equity	11,346	380	—	—	—	—
TOTAL LIABILITIES AND EQUITY	$ 157,442	$ —	$ —	$ —	$ 413	$ 3,484

Restatements						
Employee benefits (f)	Property, plant and equipment and investment property (g)	Equity (h)	Financial instruments (i)	Other reclassifications and restatements	Balance according to IFRS	Combined Statement of Financial Position *Items according to IFRS*
						ASSETS
$ —	$ —	$ —	$ —	$ 17	$ 1,103	**Cash and deposits with financial institutions**
						Securities
—	—	—	(1)	(65)	19,283	Securities at fair value through profit or loss
—	—	—	15	33	12,112	Available-for-sale securities
—	—	—	—	(18)	—	Securities held to maturity
—	—	—	14	(50)	31,395	
—	—	—	—	—	5,055	**Securities borrowed or purchased under reverse repurchase agreements**
						Loans
—	—	—	1	—	67,668	Residential mortgages
—	—	—	—	—	16,915	Consumer, credit card and other personal loans
—	—	—	—	—	26,259	Business and government
—	—	—	1	—	110,842	
—	—	—	—	23	(518)	Allowance for credit losses
—	—	—	1	23	110,324	
—	—	—	—	—	3,484	**Segregated fund assets**
						Other assets
—	—	—	—	—	751	Clients' liability under acceptances
—	—	—	—	—	2,647	Derivative financial instruments
—	—	—	—	—	453	Amounts receivable from clients, brokers and financial institutions
—	(46)	—	—	—	627	Investment property
—	(67)	—	—	(26)	1,214	Property, plant and equipment
303	(2)	—	(6)	—	894	Deferred tax assets
(90)	—	—	—	26	3,489	Other
213	(115)	—	(6)	—	10,075	
$ 213	$ (115)	$ —	$ 9	$ (10)	$ 161,436	**TOTAL ASSETS**
						LIABILITIES AND EQUITY
						Liabilities
						Deposits
$ —	$ —	$ —	$ (16)	$ —	$ 75,404	Individuals
—	—	—	—	19	21,895	Business and government
—	—	—	—	—	8,865	Deposit-taking institutions and other
—	—	—	(16)	19	106,164	
						Other liabilities
—	—	—	—	—	751	Acceptances
—	—	—	—	—	5,038	Commitments related to securities sold short
—	—	—	—	—	10,080	Commitments related to securities lent or sold under repurchase agreements
—	—	—	—	—	1,852	Derivative financial instruments
—	—	—	—	—	2,355	Amounts payable to clients, brokers and financial institutions
—	12	—	—	(2)	13,876	Insurance and investment contract liabilities
—	—	—	—	—	3,484	Segregated fund liabilities
1,381	—	—	—	—	2,163	Defined benefit plan liabilities
(64)	4	—	2	—	245	Deferred tax liabilities
—	(41)	—	—	(3)	3,603	Other
1,317	(25)	—	2	(5)	43,447	
—	—	—	—	—	1,294	**Subordinated bonds**
1,317	(25)	—	(14)	14	150,905	**Total liabilities**
—	—	—	—	—	—	
						Equity
—	—	—	—	—	1,608	Capital stock
—	—	—	—	—	71	Share capital
(1,078)	(71)	1,076	(84)	5	653	Undistributed surplus earnings
—	—	—	107	2	598	Accumulated other comprehensive income
—	—	(1,076)	—	(32)	7,265	Reserves
(1,078)	(71)	—	23	(25)	10,195	**Equity – Group's share**
(26)	(19)	—	—	1	336	**Non-controlling interests**
(1,104)	(90)	—	23	(24)	10,531	**Total equity**
$ 213	$ (115)	$ —	$ 9	$ (10)	$ 161,436	**TOTAL LIABILITIES AND EQUITY**

NOTE 4

IMPACT OF IFRS ADOPTION (CONTINUED)

IFRS IMPACT ON THE COMBINED STATEMENTS OF FINANCIAL POSITION
As at December 31, 2010

Combined Balance Sheet *Items according to Canadian GAAP*	Balance according to Canadian GAAP	Reclassifications Non-controlling interests (a)	Income taxes on surplus earnings (b)	Property, plant and equipment and investment property (c)	Insurance contracts (d)	Segregated funds (e)
ASSETS						
Cash and deposits with financial institutions	$ 1,610	$ —	$ —	$ —	$ —	$ —
Securities						
Securities held for trading	21,698	—	—	—	—	—
Available-for-sale securities	15,890	—	—	—	—	—
Securities held to maturity	17	—	—	—	—	—
	37,605	—	—	—	—	—
Securities borrowed or purchased under reverse repurchase agreements	7,034	—	—	—	—	—
Loans						
Residential mortgages	72,839	—	—	—	—	—
Consumer, credit card and other personal loans	17,504	—	—	—	—	—
Business and government	26,777	—	—	—	—	—
	117,120	—	—	—	—	—
Allowance for credit losses	(509)	—	—	—	—	—
	116,611	—	—	—	—	—
	—	—	—	—	—	4,774
Other assets						
Clients' liability under acceptances	672	—	—	—	—	—
Derivative financial instruments	2,010	—	—	—	—	—
Amounts receivable from clients, brokers and financial institutions	771	—	—	—	—	—
	—	—	—	714	—	—
Land, buildings and equipment	988	—	—	299	—	—
	—	—	586	—	—	—
Other	4,974	—	(586)	(1,013)	497	—
	9,415	—	—	—	497	—
TOTAL ASSETS	$ 172,275	$ —	$ —	$ —	$ 497	$ 4,774
LIABILITIES AND EQUITY						
Liabilities						
Deposits						
Individuals	$ 78,751	$ —	$ —	$ —	$ —	$ —
Business and government	23,421	—	—	—	—	—
Deposit-taking institutions and other	10,772	—	—	—	—	—
	112,944	—	—	—	—	—
Other liabilities						
Acceptances	672	—	—	—	—	—
Commitments related to securities sold short	7,544	—	—	—	—	—
Commitments related to securities lent or sold under repurchase agreements	10,819	—	—	—	—	—
Derivative financial instruments	1,774	—	—	—	—	—
Amounts payable to clients, brokers and financial institutions	2,612	—	—	—	—	—
Actuarial and related liabilities	14,457	—	—	—	497	—
	—	—	—	—	—	4,774
Accrued benefit liabilities	799	—	—	—	—	—
	—	—	332	—	—	—
Other	4,409	—	(332)	—	—	—
	43,086	—	—	—	497	4,774
Subordinated bonds	2,805	—	—	—	—	—
	158,835	—	—	—	497	4,774
Non-controlling interests	377	(377)	—	—	—	—
Equity						
Capital stock	2,129	—	—	—	—	—
Share capital	70	—	—	—	—	—
Undistributed surplus earnings	1,104	—	—	—	—	—
Accumulated other comprehensive income	528	—	—	—	—	—
Reserves	9,232	—	—	—	—	—
	13,063	—	—	—	—	—
	—	377	—	—	—	—
Total equity	13,063	377	—	—	—	—
TOTAL LIABILITIES AND EQUITY	$ 172,275	$ —	$ —	$ —	$ 497	$ 4,774

Restatements						
Employee benefits (f)	Property, plant and equipment and investment property (g)	Equity (h)	Financial instruments (i)	Other reclassifications and restatements	Balance according to IFRS	Combined Statement of Financial Position *Items according to IFRS*
						ASSETS
$ —	$ —	$ —	$ —	$ 11	$ 1,621	**Cash and deposits with financial institutions**
						Securities
—	—	—	(140)	(68)	21,490	Securities at fair value through profit or loss
—	—	—	3	37	15,930	Available-for-sale securities
—	—	—	—	(17)	—	Securities held to maturity
—	—	—	(137)	(48)	37,420	
—	—	—	—	—	7,034	**Securities borrowed or purchased under reverse repurchase agreements**
						Loans
—	—	—	1,627	—	74,466	Residential mortgages
—	—	—	—	—	17,504	Consumer, credit card and other personal loans
—	—	—	—	—	26,777	Business and government
—	—	—	1,627	—	118,747	
—	—	—	—	20	(489)	Allowance for credit losses
—	—	—	1,627	20	118,258	
—	—	—	—	—	4,774	**Segregated fund assets**
						Other assets
—	—	—	—	—	672	Clients' liability under acceptances
—	—	—	(4)	—	2,006	Derivative financial instruments
—	—	—	—	—	771	Amounts receivable from clients, brokers and financial institutions
—	(98)	—	—	—	616	Investment property
—	(73)	—	—	(27)	1,187	Property, plant and equipment
288	—	—	(1)	(2)	871	Deferred tax assets
(134)	—	—	(67)	30	3,701	Other
154	(171)	—	(72)	1	9,824	
$ 154	$ (171)	$ —	$ 1,418	$ (16)	$ 178,931	**TOTAL ASSETS**
						LIABILITIES AND EQUITY
						Liabilities
						Deposits
$ —	$ —	$ —	$ (4)	$ —	$ 78,747	Individuals
—	—	—	1,707	16	25,144	Business and government
—	—	—	—	—	10,772	Deposit-taking institutions and other
—	—	—	1,703	16	114,663	
						Other liabilities
—	—	—	—	—	672	Acceptances
—	—	—	—	—	7,544	Commitments related to securities sold short
—	—	—	(211)	—	10,608	Commitments related to securities lent or sold under repurchase agreements
—	—	—	—	—	1,774	Derivative financial instruments
—	—	—	—	—	2,612	Amounts payable to clients, brokers and financial institutions
—	(10)	—	—	(2)	14,942	Insurance and investment contract liabilities
—	—	—	—	—	4,774	Segregated fund liabilities
1,326	—	—	—	—	2,125	Defined benefit plan liabilities
(79)	3	—	—	2	258	Deferred tax liabilities
—	(39)	—	(31)	(9)	3,998	Other
1,247	(46)	—	(242)	(9)	49,307	
—	—	—	—	—	2,805	**Subordinated bonds**
1,247	(46)	—	1,461	7	166,775	**Total liabilities**
—	—	—	—	—	—	
						Equity
—	—	—	—	—	2,129	Capital stock
—	—	—	—	—	70	Share capital
(1,067)	(102)	1,184	(130)	7	996	Undistributed surplus earnings
—	—	—	87	2	617	Accumulated other comprehensive income
—	—	(1,184)	—	(33)	8,015	Reserves
(1,067)	(102)	—	(43)	(24)	11,827	**Equity – Group's share**
(26)	(23)	—	—	1	329	**Non-controlling interests**
(1,093)	(125)	—	(43)	(23)	12,156	**Total equity**
$ 154	$ (171)	$ —	$ 1,418	$ (16)	$ 178,931	**TOTAL LIABILITIES AND EQUITY**

NOTE 4

IMPACT OF IFRS ADOPTION (CONTINUED)

IFRS IMPACT ON THE COMBINED STATEMENTS OF COMPREHENSIVE INCOME

		For the year ended December 31, 2010
Comprehensive income – Canadian GAAP		$ 1,258
Increase (decrease) in net surplus earnings for the year after member dividends related to the following items:		
Employee benefits	(f)	11
Property, plant and equipment and investment property	(g)	(35)
Financial instruments	(i)	(46)
Non-controlling interests	(a)	18
Other		1
		(51)
Increase (decrease) in other comprehensive income related to the following items:		
Financial instruments	(i)	(20)
Non-controlling interests	(a)	12
Other		(2)
		(10)
Comprehensive income for the year – IFRS		$ 1,197

NATURE OF PRIMARY RECLASSIFICATIONS

The changes made to the presentation of certain accounts had no impact on total equity, but resulted in the reclassification of items from one account to another. As at January 1, 2010, and December 31, 2010, the nature of the primary reclassifications in the Combined Statements of Financial Position as a result of the IFRS changeover and the related amounts were as follows:

(A) NON-CONTROLLING INTERESTS

According to IFRS, non-controlling interests are equity items, while according to Canadian GAAP they should be classified between liabilities and equity. As a result, non-controlling interests in the amount of $380 million as at January 1, 2010, and $377 million as at December 31, 2010, were reclassified as a separate equity item. The amount of “Non-controlling interests” reclassified to the Combined Statement of Comprehensive Income was $30 million for the year ended December 31, 2010.

(B) INCOME TAXES ON SURPLUS EARNINGS

According to IAS 1, “Presentation of Financial Statements”, deferred income taxes must be presented on a separate line of the Combined Statements of Financial Position.

As a result, deferred income taxes totalling $599 million as at January 1, 2010, and $586 million as at December 31, 2010, were reclassified from “Other assets – Other” to “Deferred tax assets” and deferred income taxes totalling $303 million as at January 1, 2010, and $332 million as at December 31, 2010, were reclassified from “Other liabilities – Other” to “Deferred tax liabilities”.

(C) PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

According to Canadian GAAP, investment properties were presented under “Other assets – Other”. According to IFRS, Desjardins Group must present investment properties separately from operational properties in accordance with their specific use.

As a result, all of Desjardins Group’s investment properties were reclassified from “Other assets – Other” to “Investment property” and “Property, plant and equipment” in amounts of $673 million and $299 million, respectively, as at January 1, 2010, and $714 million and $299 million, respectively, as at December 31, 2010.

(D) INSURANCE CONTRACTS

According to Canadian GAAP, amounts related to the reinsurance activities of the life and health insurance subsidiary held as at January 1, 2010, should be presented on a net basis. According to IFRS, all amounts related to reinsurance activities need to be presented on a gross basis.

As a result, reinsurance assets were no longer netted and reclassified in the Combined Statements of Financial Position in “Other assets – Other” in an amount of $488 million as at January 1, 2010, and $574 million as at December 31, 2010. The counterpart was an equivalent increase in “Insurance and investment contract liabilities”.

In addition, according to Canadian GAAP, recoverable amounts resulting from salvage and subrogation for the property and casualty insurance subsidiary held as at January 1, 2010, were presented as assets. According to IFRS, it was determined more appropriate to present these amounts as a reduction of insurance contract liabilities.

Consequently, amounts recoverable resulting from salvage and subrogation reduced “Insurance and investment contract liabilities” by $75 million as at January 1, 2010, and $77 million as at December 31, 2010, and “Other assets – Other” were reduced by an equivalent amount.

NOTE 4

IMPACT OF IFRS ADOPTION (CONTINUED)

(E) SEGREGATED FUNDS

According to Canadian GAAP, the assets and liabilities of the segregated funds of the life and health insurance subsidiary held as at January 1, 2010, were not included in Desjardins Group's financial statements since they were excluded from the assets and liabilities of this life and health insurance subsidiary's general fund and had to be presented separately in accordance with the provisions of Section 4211 of the *CICA Handbook*, "Life Insurance Enterprises – Specific Items". According to IFRS, the assets and liabilities of the segregated funds of the life and health insurance subsidiary are included in the subsidiary's total assets and total liabilities, which are included in Desjardins Group's Combined Financial Statements.

As a result, "Segregated fund assets" are presented on a specific line in assets in an amount of $3,484 million as at January 1, 2010, and $4,774 million as at December 31, 2010. The corresponding liability was recognized as "Segregated fund liabilities" in the Combined Statements of Financial Position.

NATURE OF PRIMARY RESTATEMENTS

As at January 1, 2010, and December 31, 2010, the nature of the primary restatements in the Combined Statements of Financial Position, the Combined Statements of Income and the Combined Statements of Comprehensive Income as a result of the IFRS changeover and the related amounts were as follows:

(F) EMPLOYEE BENEFITS

Primary changes from Canadian GAAP – According to Canadian GAAP, the cost and the obligation of defined benefit pension plans were determined in light of the fair value of pension plan assets. These assets were recognized using the market-related value method, under which changes in the fair value of plan assets can be spread over a five-year period. According to IFRS, plan assets and the expected return on plan assets are measured using fair value on the reporting date.

In addition, according to Canadian GAAP, the accrued benefit obligation and the fair value of plan assets were measured as at September 30, three months before the reporting date. According to IFRS, the defined benefit plan obligation and plan assets are measured on the reporting date.

First-time adoption option – According to the provisions of IFRS 1, Desjardins Group elected to use the optional exemption that allows an IFRS first-time adopter to depart from the retrospective application principle of IAS 19, "Employee Benefits", and the optional exemption related to the presentation in Note 27, "Defined benefit plans", of historical data summaries for periods prior to 2010.

As a result, on the date of transition, Desjardins Group charged all unamortized cumulative net actuarial gains and losses to "Undistributed surplus earnings". Therefore, "Defined benefit plan liabilities" and "Deferred tax assets" were respectively increased by $1,381 million and $303 million as at January 1, 2010, and $1,326 million and $288 million as at December 31, 2010, while "Other assets – Other" and "Deferred tax liabilities" were respectively decreased by $90 million and $64 million as at January 1, 2010, and $134 million and $79 million as at December 31, 2010. A $26 million reduction was also allocated to "Non-controlling interests" as at January 1, 2010, and as at December 31, 2010. The net effect of this first-time adoption election was a reduction in "Undistributed surplus earnings" of $1,078 million as at January 1, 2010, and $1,067 million as at December 31, 2010.

"Net surplus earnings for the year after member dividends" were increased by $11 million for the year ended December 31, 2010.

(G) PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

Primary changes from Canadian GAAP – According to Canadian GAAP, property, plant and equipment were recorded at amortized cost, except for the buildings held by the life and health insurance subsidiary held as at January 1, 2010, which were recorded as investment properties and recognized using the market-related value method, in accordance with the provisions of Section 4211 of the *CICA Handbook*, "Life Insurance Enterprises – Specific Items". However, according to IFRS an election can be made to measure property, plant and equipment and investment properties at amortized cost or at their fair value on the reporting date. Desjardins Group has elected to recognize, after the date of transition, all these assets at their amortized cost.

First-time adoption option – According to IFRS 1, an election can be made to measure property, plant and equipment and investment properties at their fair values on the transition date, which would be the deemed cost according to IFRS, or to restate the historical cost under Canadian GAAP according to the guidance provided in IAS 16, "Property, Plant and Equipment", or IAS 40, "Investment Property", and to use this new value as deemed cost. This election may be made on a building-by-building basis. Desjardins Group has decided, for the purposes of IFRS, to adopt restated historical cost as deemed cost on the date of transition for most of its property, plant and equipment and investment properties.

Due to the above elections and following the reclassifications described in point (c), Desjardins Group reduced the carrying amount of its property, plant and equipment and its investment property by $67 million and $46 million, respectively, as at January 1, 2010, and $73 million and $98 million as at December 31, 2010. It reversed all gains resulting from the sale of investment properties that had previously been deferred and amortized using the market-related value method, in accordance with the provisions of Section 4211 of the *CICA Handbook*, "Life Insurance Enterprises – Specific Items", in an amount of $41 million as at January 1, 2010, and $39 million as at December 31, 2010.

This revaluation increased "Insurance and investment contract liabilities" and "Deferred tax liabilities" by $12 million and $4 million, respectively, as at January 1, 2010, and reduced "Insurance and investment contract liabilities" by $10 million and increased "Deferred tax liabilities" by $3 million as at December 31, 2010. In addition, the revaluation reduced "Deferred tax assets" and "Non-controlling interests" by $2 million and $19 million, respectively, as at January 1, 2010, and by nil and $23 million as at December 31, 2010. The net effect of this first-time adoption election was a reduction in "Undistributed surplus earnings" of $71 million as at January 1, 2010, and $102 million as at December 31, 2010.

"Net surplus earnings for the year after member dividends" were reduced by $35 million for the year ended December 31, 2010.

NOTE 4
IMPACT OF IFRS ADOPTION (CONTINUED)

(H) EQUITY

According to the *Act respecting financial services cooperatives*, the Federation and the caisses must distribute their undistributed surplus earnings in full during general meetings. However, undistributed surplus earnings have been affected by several significant adjustments resulting from the adoption of IFRS and will have to be compensated for using the reserves.

As a result, a transfer from "Reserves" to "Undistributed surplus earnings" of $1,076 million as at January 1, 2010, and $1,184 million as at December 31, 2010, was recorded to compensate for the impact of first-time IFRS adoption on undistributed surplus earnings.

(I) FINANCIAL INSTRUMENTS

SECURITIZATION OF MORTGAGE LOANS

Primary changes from Canadian GAAP – Desjardins Group transfers mortgage loans to the Canada Housing Trust. Even though, according to Canadian GAAP, these securitization transactions were recognized as transfers of receivables, they do not meet IFRS derecognition criteria. According to Canadian GAAP, the derecognition criteria for a financial asset were based on control or, more specifically, on the surrender of control. According to IFRS, an assessment must be made of a set of criteria based mainly on the transfer of risks and rewards as well as control of the financial asset.

First-time adoption option – According to IFRS 1, which was amended in December 2010, at the date of transition to IFRS an entity must apply the transitional provisions in IAS 39, "Financial Instruments – Recognition and Measurement", which provide for prospective treatment of its provisions to financial asset transfer transactions occurring on or after the date of transition. This standard applies to years beginning on or after July 1, 2011, and early adoption is allowed. Following approval from the AMF and the Deposit Insurance Corporation of Ontario, Desjardins Group elected for early adoption of this amendment and has applied it when preparing its Combined Statement of Financial Position since January 1, 2010.

As a result, no restatement was recognized in the Combined Statement of Financial Position as at January 1, 2010. However, all transfers of loans carried out after January 1, 2010, and for which the IFRS derecognition criteria are not met must be maintained in assets with a corresponding debt to the acquirer. Any difference between the amount of the asset maintained and the liability recognized was recognized in profit or loss.

However, the Combined Statement of Financial Position as at December 31, 2010, was restated. Consequently, "Securities at fair value through profit or loss" were reduced by $139 million as at December 31, 2010, while "Loans – Residential mortgages" and "Deposits" were increased by $1,623 million and $1,705 million, respectively, as at December 31, 2010. "Derivative financial instruments", "Other assets – Other" and "Commitments related to securities lent or sold under repurchase agreements" were reduced by $4 million, $67 million and $211 million, respectively, as at December 31, 2010, while "Other liabilities – Other" were reduced by $31 million as at December 31, 2010.

Consequently, net surplus earnings for the year after member dividends were reduced by $49 million for the year ended December 31, 2010.

HEDGING RELATIONSHIPS

Primary changes from Canadian GAAP – In accordance with Canadian GAAP and in certain circumstances, Desjardins Group has used the change in variable cash flow method and the shortcut method to measure the effectiveness of certain hedging relationships. IFRS does not permit the use of either of these methods. In order to comply with the new requirements, Desjardins Group has developed substitute methods that may nevertheless increase the volatility of results in the Combined Statements of Income. However, certain hedging relationships were already using methods that are acceptable under IFRS; they have not been modified and did not require any adjustments on the transition date.

The cumulative impact of using new methods to test the effectiveness of Desjardins Group's hedging relationships has been recognized by increasing "Undistributed surplus earnings" in an amount of $12 million as at January 1, 2010, and $2 million as at December 31, 2010. On the other hand, "Deferred tax assets" and "Deposits" have respectively been reduced by $3 million and $16 million as at January 1, 2010, and nil and $2 million as at December 31, 2010, while "Loans – Residential mortgages" and "Deferred tax liabilities" have respectively been increased by $1 million and $3 million as at January 1, 2010, and $4 million and $2 million as at December 31, 2010. "Accumulated other comprehensive income" did not change as at January 1, 2010, and increased by $3 million as at December 31, 2010.

"Net surplus earnings for the year after member dividends" were increased by $10 million for the year ended December 31, 2010.

NOTE 4
IMPACT OF IFRS ADOPTION (CONTINUED)

IMPAIRMENT OF FINANCIAL ASSETS – AVAILABLE-FOR-SALE SECURITIES

Primary changes from Canadian GAAP – Under Canadian GAAP, an impairment should be recognized on securities classified in the "Available for sale" category when there is objective evidence of impairment and when that impairment is considered to be other than temporary. According to IFRS provisions, an impairment of these securities should be recognized as soon as there is objective evidence of the impairment.

Unrealized losses on these investments were reversed from "Accumulated other comprehensive income" and recognized in "Undistributed surplus earnings", which were reduced by $95 million as at January 1, 2010, and $82 million as at December 31, 2010.

"Net surplus earnings for the year after member dividends" were increased by $13 million for the year ended December 31, 2010.

MEASUREMENT OF EQUITY SECURITIES NOT TRADED ON AN ACTIVE MARKET

Primary changes from Canadian GAAP – According to Canadian GAAP, when equity securities lack quoted prices on an active market, they should be measured at cost, unless they are classified as held for trading. According to IFRS, if the fair value of these securities can be reliably measured, they should be recognized at their fair value.

As a result, as at January 1, 2010, Desjardins Group revalued its investments in equity securities for which the fair value can be reliably measured. "Available-for-sale securities" were therefore increased by $15 million as at January 1, 2010, and $3 million as at December 31, 2010, while "Securities at fair value through profit or loss" and "Deferred tax assets" were respectively reduced by $1 million and $3 million as at January 1, 2010, and $1 million and $1 million as at December 31, 2010.

These adjustments reduced "Undistributed surplus earnings" by $1 million as at January 1, 2010, and December 31, 2010. "Accumulated other comprehensive income" was increased by $12 million as at January 1, 2010, and $2 million as at December 31, 2010.

OTHER FIRST-TIME ADOPTION OPTION

BUSINESS COMBINATIONS

IFRS 1 provides for an optional exemption with respect to business combinations. Desjardins Group elected to use this exemption and chose to prospectively apply IFRS 3, "Business Combinations", only to business combinations that occurred on or after January 1, 2010, the date of transition to IFRS. As a result, business combinations that occurred before the transition date were not restated.

ADJUSTMENTS TO THE COMBINED STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2010

The Combined Statements of Cash Flows have the same objectives and are based on similar principles under IFRS and under Canadian GAAP. As a result, following the IFRS adoption, no significant adjustment had to be made to the presentation of the statement of cash flows for the year ended December, 31, 2010, except for the following: cash flows from net changes in "Securities borrowed or purchased under reverse repurchase agreements", "Loans", "Deposits", "Commitments related to securities sold short" and "Commitments related to securities lent or sold under repurchase agreements" are classified in operating activities in accordance with IAS 7, "Statement of Cash Flows", whereas previously they were classified in financing or investing activities.

NOTE 5

CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

CLASSIFICATION AND CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

The following table presents the carrying amount of all financial assets and liabilities according to their classification in the categories defined in the financial instrument standards, as well as those designated in hedging relationships.

	December 31, 2011						
	At fair value through profit or loss						
	Held for trading	Designated as at fair value through profit or loss	Available for sale	Loans and receivables, and financial liabilities at amortized cost(2)	Derivatives designated as cash flow hedging items	Derivatives designated as fair value hedging items	Total
Financial assets							
Cash and deposits with financial institutions(1)	$ —	$ —	$ —	$ 1,356	$ —	$ —	$ 1,356
Securities							
Securities at fair value through profit or loss	9,494	12,985	—	—	—	—	22,479
Available-for-sale securities	—	—	18,726	—	—	—	18,726
Securities borrowed or purchased under reverse repurchase agreements	—	—	—	4,959	—	—	4,959
Loans	—	—	—	125,154	—	—	125,154
Other financial assets							
Clients' liability under acceptances	—	—	—	676	—	—	676
Derivative financial instruments	1,456	—	—	—	692	911	3,059
Amounts receivable from clients, brokers and financial institutions	—	—	—	1,274	—	—	1,274
Other	—	—	18	1,801	—	—	1,819
Total financial assets	$ 10,950	$ 12,985	$ 18,744	$ 135,220	$ 692	$ 911	$ 179,502
Financial liabilities							
Deposits	$ —	$ —	$ —	$ 123,403	$ —	$ —	$ 123,403
Other financial liabilities					—	—	
Acceptances	—	—	—	676	—	—	676
Commitments related to securities sold short	5,341	—	—	—	—	—	5,341
Commitments related to securities lent or sold under repurchase agreements	—	—	—	8,500	—	—	8,500
Derivative financial instruments	1,162	—	—	—	137	294	1,593
Amounts payable to clients, brokers and financial institutions	—	—	—	3,762	—	—	3,762
Other	—	—	—	3,164	—	—	3,164
Subordinated bonds	—	—	—	3,350	—	—	3,350
Total financial liabilities	$ 6,503	$ —	$ —	$ 142,855	$ 137	$ 294	$ 149,789

(1) The financial assets presented in this line item have been reclassified from the "Held for trading" category to the "Loans and receivables" category. This reclassification had no financial impact since the fair value and the carrying amount of these financial assets are equal.
(2) For more information, see Note 8, "Loans and allowance for credit losses".

NOTE 5

CARRYING AMOUNT OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table presents the carrying amount of all financial assets and liabilities according to their classification in the categories defined in the financial instrument standards, as well as those designated in hedging relationships.

	December 31, 2010						
	At fair value through profit or loss						
	Held for trading	Designated as at fair value through profit or loss	Available for sale	Loans and receivables, and financial liabilities at amortized cost[2]	Derivatives designated as cash flow hedging items	Derivatives designated as fair value hedging items	Total
Financial assets							
Cash and deposits with financial institutions[1]	$ —	$ —	$ —	$ 1,621	$ —	$ —	$ 1,621
Securities							
Securities at fair value through profit or loss	10,328	11,162	—	—	—	—	21,490
Available-for-sale securities	—	—	15,930	—	—	—	15,930
Securities borrowed or purchased under reverse repurchase agreements	—	—	—	7,034	—	—	7,034
Loans	—	—	—	118,258	—	—	118,258
Other financial assets							
Clients' liability under acceptances	—	—	—	672	—	—	672
Derivative financial instruments	1,268	—	—	—	383	355	2,006
Amounts receivable from clients, brokers and financial institutions	—	—	—	771	—	—	771
Other	—	—	20	1,775	—	—	1,795
Total financial assets	$ 11,596	$ 11,162	$ 15,950	$ 130,131	$ 383	$ 355	$ 169,577
Financial liabilities							
Deposits	$ —	$ —	$ —	$ 114,663	$ —	$ —	$ 114,663
Other financial liabilities							
Acceptances	—	—	—	672	—	—	672
Commitments related to securities sold short	7,544	—	—	—	—	—	7,544
Commitments related to securities lent or sold under repurchase agreements	—	—	—	10,608	—	—	10,608
Derivative financial instruments	1,169	—	—	—	189	416	1,774
Amounts payable to clients, brokers and financial institutions	—	—	—	2,612	—	—	2,612
Other	—	—	—	2,894	—	—	2,894
Subordinated bonds	—	—	—	2,805	—	—	2,805
Total financial liabilities	$ 8,713	$ —	$ —	$ 134,254	$ 189	$ 416	$ 143,572

(1) The financial assets presented in this line item have been reclassified from the "Held for trading" category to the "Loans and receivables" category. This reclassification had no financial impact since the fair value and the carrying amount of these financial assets are equal.
(2) For more information, see Note 8, "Loans and allowance for credit losses".

NOTE 5
CARRYING AMOUNT OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table presents the carrying amount of all financial assets and liabilities according to their classification in the categories defined in the financial instrument standards, as well as those designated in hedging relationships.

	January 1, 2010						
	At fair value through profit or loss						
	Held for trading	Designated as at fair value through profit or loss	Available for sale	Loans and receivables, and financial liabilities at amortized cost[(2)]	Derivatives designated as cash flow hedging items	Derivatives designated as fair value hedging items	Total
Financial assets							
Cash and deposits with financial institutions[(1)]	$ —	$ —	$ —	$ 1,103	$ —	$ —	$ 1,103
Securities							
Securities at fair value through profit or loss	8,658	10,625	—	—	—	—	19,283
Available-for-sale securities	—	—	12,112	—	—	—	12,112
Securities borrowed or purchased under reverse repurchase agreements	—	—	—	5,055	—	—	5,055
Loans	—	—	—	110,324	—	—	110,324
Other financial assets							
Clients' liability under acceptances	—	—	—	751	—	—	751
Derivative financial instruments	1,532	—	—	—	612	503	2,647
Amounts receivable from clients, brokers and financial institutions	—	—	—	453	—	—	453
Other	—	—	18	1,678	—	—	1,696
Total financial assets	$ 10,190	$ 10,625	$ 12,130	$ 119,364	$ 612	$ 503	$ 153,424
Financial liabilities							
Deposits	$ —	$ —	$ —	$ 106,164	$ —	$ —	$ 106,164
Other financial liabilities							
Acceptances	—	—	—	751	—	—	751
Commitments related to securities sold short	5,038	—	—	—	—	—	5,038
Commitments related to securities lent or sold under repurchase agreements	—	—	—	10,080	—	—	10,080
Derivative financial instruments	1,589	—	—	—	164	99	1,852
Amounts payable to clients, brokers and financial institutions	—	—	—	2,355	—	—	2,355
Other	—	—	—	2,785	—	—	2,785
Subordinated bonds	—	—	—	1,294	—	—	1,294
Total financial liabilities	$ 6,627	$ —	$ —	$ 123,429	$ 164	$ 99	$ 130,319

(1) The financial assets presented in this line item have been reclassified from the "Held for trading" category to the "Loans and receivables" category. This reclassification had no financial impact since the fair value and the carrying amount of these financial assets are equal.
(2) For more information, see Note 8, "Loans and allowance for credit losses".

NOTE 6
FAIR VALUE OF FINANCIAL INSTRUMENTS

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table compares the fair value of financial instruments with their carrying amount.

	December 31, 2011			December 31, 2010		
	Fair value	Carrying amount	Favourable (unfavourable) difference	Fair value	Carrying amount	Favourable (unfavourable) difference
Financial assets						
Cash and deposits with financial institutions	$ 1,356	$ 1,356	$ —	$ 1,621	$ 1,621	$ —
Securities						
Securities at fair value through profit or loss	22,479	22,479	—	21,490	21,490	—
Available-for-sale securities	18,726	18,726	—	15,930	15,930	—
Securities borrowed or purchased under reverse repurchase agreements	4,998	4,959	39	7,132	7,034	98
Loans	126,327	125,154	1,173	120,221	118,258	1,963
Other financial assets						
Clients' liability under acceptances	676	676	—	672	672	—
Derivative financial instruments	3,059	3,059	—	2,006	2,006	—
Amounts receivable from clients, brokers and financial institutions	1,274	1,274	—	771	771	—
Other	1,819	1,819	—	1,812	1,795	17
Financial liabilities						
Deposits	123,619	123,403	(216)	115,829	114,663	(1,166)
Other financial liabilities						
Acceptances	676	676	—	672	672	—
Commitments related to securities sold short	5,341	5,341	—	7,544	7,544	—
Commitments related to securities lent or sold under repurchase agreements	8,562	8,500	(62)	10,744	10,608	(136)
Derivative financial instruments	1,593	1,593	—	1,774	1,774	—
Amounts payable to clients, brokers and financial institutions	3,762	3,762	—	2,612	2,612	—
Other	3,160	3,164	4	2,890	2,894	4
Subordinated bonds	3,545	3,350	(195)	2,956	2,805	(151)

NOTE 6

FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

LEVELS OF FAIR VALUE HIERARCHY

The measurement of financial instruments recognized at fair value is determined using the following three levels of the fair value hierarchy:

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

The following tables present the breakdown of fair value measurements of financial instruments recognized at fair value on the Combined Statements of Financial Position.

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Financial assets				
Securities				
Securities at fair value through profit or loss	$ 16,178	$ 4,186	$ 2,115	$ 22,479
Available-for-sale securities	14,550	4,111	65	18,726
Other financial assets				
Derivative financial instruments	2	2,897	160	3,059
Other	18	—	—	18
Total financial assets	$ 30,748	$ 11,194	$ 2,340	$ 44,282
Financial liabilities				
Other financial liabilities				
Commitments related to securities sold short	$ 5,249	$ 92	$ —	$ 5,341
Derivative financial instruments	7	1,586	—	1,593
Total financial liabilities	$ 5,256	$ 1,678	$ —	$ 6,934

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
Financial assets				
Securities				
Securities at fair value through profit or loss	$ 15,325	$ 4,214	$ 1,951	$ 21,490
Available-for-sale securities	11,919	4,000	11	15,930
Other financial assets				
Derivative financial instruments(1)	3	1,842	161	2,006
Other	20	—	—	20
Total financial assets	$ 27,267	$ 10,056	$ 2,123	$ 39,446
Financial liabilities				
Other financial liabilities				
Commitments related to securities sold short	$ 7,464	$ 80	$ —	$ 7,544
Derivative financial instruments(1)	3	1,755	16	1,774
Total financial liabilities	$ 7,467	$ 1,835	$ 16	$ 9,318

(1) The breakdown between Level 2 and Level 3 has been changed to reflect improvements in the interpretation of certain financial instrument measurements.

During the year ended December 31, 2011, government bonds of $625 million were transferred from Level 2 to Level 1 to more adequately reflect the valuation methodology for these securities.

NOTE 6

FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

CHANGES IN FAIR VALUE OF FINANCIAL INSTRUMENTS CLASSIFIED IN LEVEL 3

The following tables present the reconciliation from the beginning balance to the ending balance for Level 3 of the hierarchy, namely financial instruments whose fair value is determined using valuation techniques not based on observable market data.

	December 31, 2011							
	Beginning balance	Realized gains (losses) recognized in net profit or loss(1)	Unrealized gains (losses) recognized in net profit or loss(2)	Unrealized gains (losses) recognized in other compre-hensive income(3)	Transfers of instruments into Level 3	Purchases/ Issuances	Sales/ Settlements	Ending balance
Financial assets								
Securities								
Securities at fair value through profit or loss	$ 1,951	$ (6)	$ 94	$ —	$ —	$ 200	$ (124)	$ 2,115
Available-for-sale securities(1)	11	1	—	4	—	50	(1)	65
Other financial assets								
Derivative financial instruments	161	—	(1)	—	—	—	—	160
Total financial assets	$ 2,123	$ (5)	$ 93	$ 4	$ —	$ 250	$ (125)	$ 2,340
Financial liabilities								
Other financial liabilities								
Derivative financial instruments	$ 16	$ —	$ —	$ —	$ —	$ —	$ (16)	$ —
Total financial liabilities	$ 16	$ —	$ —	$ —	$ —	$ —	$ (16)	$ —

	December 31, 2010							
	Beginning balance	Realized gains (losses) recognized in net profit or loss(1)	Unrealized gains (losses) recognized in net profit or loss(2)	Unrealized gains (losses) recognized in other compre-hensive income(3)	Transfers of instruments into Level 3	Purchases/ Issuances	Sales/ Settlements	Ending balance
Financial assets								
Securities								
Securities at fair value through profit or loss	$ 1,884	$ (21)	$ 175	$ —	$ —	$ 124	$ (211)	$ 1,951
Available-for-sale securities(1)	273	1	—	3	—	200	(466)	11
Other financial assets								
Derivative financial instruments	—	—	(80)	—	—	241	—	161
Total financial assets	$ 2,157	$ (20)	$ 95	$ 3	$ —	$ 565	$ (677)	$ 2,123
Financial liabilities								
Other financial liabilities								
Derivative financial instruments	$ 12	$ 4	$ (2)	$ —	$ 6	$ —	$ (4)	$ 16
Total financial liabilities	$ 12	$ 4	$ (2)	$ —	$ 6	$ —	$ (4)	$ 16

(1) Realized gains or losses on financial assets held for trading and designated as at fair value through profit or loss are presented under "Net income on securities at fair value through profit or loss". Realized gains or losses on available-for-sale financial assets are recognized under "Net income from available-for-sale securities".
(2) Unrealized gains or losses on financial assets held for trading and designated as at fair value through profit or loss are presented under "Net income on securities at fair value through profit or loss".
(3) Unrealized gains or losses on available-for-sale financial assets are recognized under "Unrealized income on available-for-sale securities" in the Combined Statements of Comprehensive Income.

SENSITIVITY OF LEVEL 3 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Desjardins Group performs sensitivity analyses for the fair value measurements of financial instruments classified in Level 3. Changing unobservable inputs to one or more reasonably possible alternative assumptions does not significantly change the fair value of financial instruments classified in Level 3, except for asset-backed term notes (ABTN), for which a sensitivity analysis is provided in the "Securities – Asset-backed term notes" section of Note 7, "Securities", and for the hedging positions on credit indexes implemented for the ABTN portfolio. The fair value of the total return swap, which is classified in Level 3, is measured using a valuation model that takes into account the credit spreads of credit default swaps as well as assumptions on recovery rates and probabilities of default for each of the transactions underlying the financial instrument. Had the credit spreads of the credit default swaps on the components of this hedging position increased or decreased by 10% from their current level, the fair value of this derivative would have increased or decreased by $24 million as at December 31, 2011.

NOTE 7
SECURITIES

MATURITIES OF SECURITIES

The following table presents an analysis of the maturities of Desjardins Group's securities.

	December 31, 2011						
	Maturities						
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Over 10 years	No specific maturity	Total
Securities at fair value through profit or loss							
Securities held for trading							
Securities issued or guaranteed by							
Canada	$ 728	$ 1,761	$ 915	$ 935	$ 575	$ —	$ 4,914
Provinces and municipal corporations in Canada	437	928	363	502	1,512	—	3,742
Other public administrations	40	5	2	52	79	—	178
Other securities in Canada							
Financial institutions	171	92	24	6	38	—	331
Other issuers	11	12	24	17	68	—	132
Shares	—	—	—	—	—	18	18
Securities from foreign issuers	11	—	—	5	122	41	179
Total securities held for trading	1,398	2,798	1,328	1,517	2,394	59	9,494
Securities designated as at fair value through profit or loss							
Securities issued or guaranteed by							
Canada	235	741	19	4	15	—	1,014
Provinces and municipal corporations in Canada	612	530	520	791	4,869	—	7,322
Other public administrations	1	1	—	—	149	—	151
Other securities in Canada							
Financial institutions	140	80	280	157	112	—	769
Other issuers(1)	27	201	280	529	2,031	—	3,068
Shares	32	93	3	—	—	273	401
Securities from foreign issuers	14	—	—	9	37	200	260
Total securities designated as at fair value through profit or loss	1,061	1,646	1,102	1,490	7,213	473	12,985
Total securities at fair value through profit or loss	2,459	4,444	2,430	3,007	9,607	532	22,479
Available-for-sale securities							
Securities issued or guaranteed by							
Canada	433	3,834	2,469	276	5	—	7,017
Provinces and municipal corporations in Canada	559	2,166	1,400	1,789	608	—	6,522
Other public administrations	39	—	1	4	32	—	76
Other securities in Canada							
Financial institutions	1,218	1,053	1,079	279	12	—	3,641
Other issuers	10	27	86	46	60	3	232
Shares	—	—	3	—	9	537	549
Securities from foreign issuers	—	—	—	—	—	689	689
Total available-for-sale securities	2,259	7,080	5,038	2,394	726	1,229	18,726
Total securities	$ 4,718	$ 11,524	$ 7,468	$ 5,401	$ 10,333	$ 1,761	$ 41,205

(1) Includes ABTN with a fair value of $1,368 million as at December 31, 2011.

NOTE 7
SECURITIES (CONTINUED)

The following table presents an analysis of the maturities of Desjardins Group's securities.

	December 31, 2010						
	Maturities						
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Over 10 years	No specific maturity	Total
Securities at fair value through profit or loss							
Securities held for trading							
Securities issued or guaranteed by							
Canada	$ 818	$ 2,234	$ 1,055	$ 901	$ 1,250	$ —	$ 6,258
Provinces and municipal corporations in Canada	617	335	477	831	945	—	3,205
Other public administrations	14	5	2	—	51	—	72
Other securities in Canada							
Financial institutions	183	116	10	45	26	—	380
Other issuers	57	16	9	14	18	17	131
Shares	—	—	—	—	—	36	36
Securities from foreign issuers	66	—	—	18	39	123	246
Total securities held for trading	1,755	2,706	1,553	1,809	2,329	176	10,328
Securities designated as at fair value through profit or loss							
Securities issued or guaranteed by							
Canada	188	346	873	3	14	—	1,424
Provinces and municipal corporations in Canada	562	659	410	699	3,469	—	5,799
Other public administrations	—	1	—	—	146	—	147
Other securities in Canada							
Financial institutions	128	130	35	106	65	—	464
Other issuers(1)	57	125	288	417	1,738	—	2,625
Shares	—	23	51	50	4	342	470
Securities from foreign issuers	—	22	—	35	58	118	233
Total securities designated as at fair value through profit or loss	935	1,306	1,657	1,310	5,494	460	11,162
Total securities at fair value through profit or loss	2,690	4,012	3,210	3,119	7,823	636	21,490
Available-for-sale securities							
Securities issued or guaranteed by							
Canada	415	3,426	2,410	194	—	—	6,445
Provinces and municipal corporations in Canada	837	883	1,715	1,948	478	—	5,861
Other public administrations	33	3	—	2	9	—	47
Other securities in Canada							
Financial institutions	830	904	543	105	29	1	2,412
Other issuers	29	22	46	50	—	2	149
Shares	—	1	—	—	—	597	598
Securities from foreign issuers	—	—	—	—	—	418	418
Total available-for-sale securities	2,144	5,239	4,714	2,299	516	1,018	15,930
Total securities	$ 4,834	$ 9,251	$ 7,924	$ 5,418	$ 8,339	$ 1,654	$ 37,420

(1) Includes ABTN with a fair value of $1,347 million as at December 31, 2010.

NOTE 7

SECURITIES (CONTINUED)

UNREALIZED GAINS AND LOSSES ON AVAILABLE-FOR-SALE SECURITIES

The following tables present unrealized gains and losses on available-for-sale securities.

	December 31, 2011			
	Amortized cost	Unrealized gross gains	Unrealized gross losses	Carrying amount
Securities issued or guaranteed by				
Canada	$ 6,905	$ 113	$ 1	$ 7,017
Provinces and municipal corporations in Canada	6,217	306	1	6,522
Other public administrations	75	1	—	76
Other securities in Canada				
Financial institutions	3,581	62	2	3,641
Other issuers	222	10	—	232
Shares	488	70	9	549
Securities from foreign issuers	682	33	26	689
	$ 18,170	$ 595	$ 39	$ 18,726

	December 31, 2010			
	Amortized cost	Unrealized gross gains	Unrealized gross losses	Carrying amount
Securities issued or guaranteed by				
Canada	$ 6,405	$ 54	$ 14	$ 6,445
Provinces and municipal corporations in Canada	5,753	122	14	5,861
Other public administrations	47	—	—	47
Other securities in Canada				
Financial institutions	2,373	41	2	2,412
Other issuers	148	1	—	149
Shares	567	48	17	598
Securities from foreign issuers	404	20	6	418
	$ 15,697	$ 286	$ 53	$ 15,930

	January 1, 2010			
	Amortized cost	Unrealized gross gains	Unrealized gross losses	Carrying amount
Securities issued or guaranteed by				
Canada	$ 3,829	$ 49	$ 9	$ 3,869
Provinces and municipal corporations in Canada	4,407	76	14	4,469
Other public administrations	89	—	—	89
Other securities in Canada				
Financial institutions	2,511	60	1	2,570
Other issuers	306	—	19	287
Shares	489	24	27	486
Securities from foreign issuers	343	28	29	342
	$ 11,974	$ 237	$ 99	$ 12,112

IMPAIRMENT LOSSES RECOGNIZED

During the year ended December 31, 2011, Desjardins Group concluded that there was objective evidence of impairment. An impairment loss of $30 million ($2 million for the year ended December 31, 2010) on available-for-sale securities was recognized under "Net income on available-for-sale securities" in the Combined Statements of Income.

NOTE 7
SECURITIES (CONTINUED)

SECURITIES – ASSET-BACKED TERM NOTES

In August 2007, Desjardins Group held investments on the Canadian non-bank asset-backed commercial paper (ABCP) market, although it never issued this type of financial product. It should be noted that, to safeguard its members and clients, Desjardins Group repurchased in September 2007 and, to a lesser extent in 2008, ABCP assets in the money market mutual funds it manages and in the securities lending operations of Desjardins Trust clients for which it had not originally assumed the risk.

Upon the restructuring of ABCP into asset-backed term notes (ABTN), on January 21, 2009, Desjardins Group derecognized, in its Combined Statement of Financial Position, the carrying amount of its ABCP holdings and recognized the ABTN at fair value. These ABTN were classified in the "Designated as at fair value through profit or loss" category.

As part of this restructuring, Desjardins Group participated, for an amount of $1,193 million, in the margin funding facility (MFF) intended to cover any potential collateral calls from the counterparties to Master Asset Vehicle (MAV) 1's credit default swaps. Desjardins Group's share of this credit commitment ranks equal to that of the other participants in the MFF and matures in July 2017 or earlier if all transactions on such credit default swaps have been settled. Up to December 31, 2011, no amount had been drawn on the MFF. Desjardins Group purchased a $400 million protection for its commitments under the MFF from one of the participants in MAV 1 in exchange for an annual commitment fee of 1.2%, which is the same rate as the rate that applies to the third-party institutions that have contributed to the equivalent MFF of MAV 2. This protection will automatically end upon the maturity of MAV 1's MFF. Since this restructuring, deferred income related to the MFF has been recognized under "Other liabilities – Other". As at December 31, 2011, this deferred income amounted to $50 million ($59 million as at December 31, 2010).

The MAV 1 trust is considered a special purpose entity as it was created for a specific purpose: to aggregate the structured notes arising from ABCP held by Canadian investors. This vehicle has assets of approximately $16,185 million as at December 31, 2011, has no equity, and is composed mainly of synthetic asset transactions for which investors are committed to contributing to the MFF. Desjardins Group does not consolidate MAV 1 since, in substance, according to the requirements of SIC 12, the relationship between the special purpose entity and Desjardins Group indicates that the MAV 1 is not controlled by Desjardins Group. Furthermore, as at December 31, 2011, Desjardins Group has a credit commitment (MFF) of $1,193 million ($1,193 million in 2010) and MAV 1 notes having a fair value of $1,322 million ($1,288 million in 2010), the total of which represents the maximum risk of loss for Desjardins Group.

During 2010, Desjardins Group entered into several transactions of various nature to minimize the risk associated with the ABTN portfolio, the MFF related to the ABTN portfolio and other restructured securities. These hedges have maturities that are similar to those of the ABTN portfolio and Desjardins Group's management intends to keep them in place until maturity.

Desjardins Group holds ABTN the face value of which is allocated among the various following vehicles:

	December 31, 2011	December 31, 2010
	Face value	Face value
MAV 1		
Class A-1	$ 898	$ 902
Class A-2	820	820
Class B	140	140
Class C	57	57
	1,915	1,919
MAV 1		
Class IA – Ineligible (subprime) assets	22	36
Class IA – Ineligible (other) assets	18	18
MAV 3		
Class IA – Ineligible (subprime) assets	38	42
Class TA – Traditional assets	44	65
Total ineligible and traditional assets	122	161
Total MAV 1 and MAV 3	$ 2,037	$ 2,080

As at December 31, 2011, the fair value of ABTN was $1,296 million for MAV 1 A-1, A-2, B and C notes and $72 million for ineligible and traditional assets ($1,263 million for MAV 1 A-1, A-2, B and C notes and $84 million for ineligible and traditional assets in 2010).

NOTE 7
SECURITIES (CONTINUED)

ABTN VALUATION METHODOLOGY

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

Since the fourth quarter of 2011, Desjardins Group has decided to harmonize its valuation model for MAV 1 A-1, A-2, B and C notes with the model used for its economic hedge in order to produce more relevant and reliable information based on new information. The fair value of ABTN taking the form of MAV 1 A-1, A-2, B and C notes, i.e. synthetic assets and hybrid assets, is based on a financial model that reflects uncertainties regarding return, credit spreads, the nature and credit risk of underlying assets, the amount and timing of cash inflows, as well as the maturity dates and the liquidity restrictions of the new notes. Until the third quarter of 2011, the valuation model used estimated the fair value of these notes by discounting expected cash flows.

The new model adjusts downwards the aggregate par value of the notes based on the mark-to-market value of the credit default swaps underlying the notes, the quality of collateral and MAV 1's lack of liquidity as well as, but to a lesser extent, adjustments for other risks inherent in the nature of these notes. Furthermore, the assumptions used for the various adjustments take into account credit spreads, maturities, expected recovery rates in the event of default and market and liquidity risk for all the notes. It should be noted that the assumptions used are based as much as possible on observable market data such as credit spreads and benchmark indexes for similar assets. They also reflect, if necessary, any specific features of the restructuring, and partially rely on other assumptions not supported by observable market prices or rates for similar assets.

As at December 31, 2011, the fair value of tracking notes backed by traditional and ineligible assets was determined using a valuation model that considers the value determined by the MAV administrator, as well as certain inherent risks that are not reflected in the valuation performed by such administrator, as it was in 2010.

IMPACT ON INCOME

A gain of $50 million related to ABTN was recognized in Desjardins Group's Combined Statements of Income for the year ended December 31, 2011 (gain of $173 million for the year ended December 31, 2010). In addition, the phased recognition of income related to the MFF during fiscal 2011 amounted to $9 million ($9 million for the year ended December 31, 2010).

The above estimated fair values may not be indicative of the ultimate net realizable value or the future fair value. While management is of the opinion that its valuation technique is the most appropriate in the circumstances, the carrying amount remains sensitive to credit risk spreads. The sensitivity of the estimated fair value of the MAV 1 A-1, A-2, B and C note portfolio and Tier 1 capital to changes in the key assumptions is as follows:

	December 31, 2011		
	Fair value of MAV 1 A-1, A-2, B and C notes	Tier 1 capital	
Increase of 10% in credit spreads	$ (49)	$ (33)	(0.27)%
Decrease of 10% in credit spreads	49	34	0.27%

As previously mentioned, Desjardins Group entered into transactions with a view to reducing, in particular, the risk of the ABTN portfolio. The above sensitivity analysis excludes the impact of these transactions. Accordingly, if these transactions were taken into account, the impact would be considerably reduced.

Some uncertainties remain regarding the value of underlying assets, the amount and timing of cash flows, the development of a secondary market for the traditional and ineligible asset-backed tracking notes and the liquidity of such market, which could further change the value of Desjardins Group's investment in these notes.

Desjardins Group holds or has access to the necessary funds to meet all its financial, operating and regulatory obligations, and it does not expect that any liquidity risks related to the ABTN would have a material adverse impact on its financial soundness, its credit ratings or its capital ratios.

NOTE 8

LOANS AND ALLOWANCE FOR CREDIT LOSSES

LOANS, IMPAIRED LOANS AND ALLOWANCES

The following tables present the credit quality of loans.

	December 31, 2011					
	Gross loans neither impaired nor past due	Gross loans past due but not impaired	Gross impaired loans	Individual allowances	Collective allowance	Net loans
Residential mortgages	$ 79,288	$ 266	$ 132	$ 12	$ 47	$ 79,627
Consumer, credit card and other personal loans	15,688	2,207	90	38	102	17,845
Business and government	27,171	479	298	109	157	27,682
	$ 122,147	$ 2,952	$ 520	$ 159	$ 306	$ 125,154

	December 31, 2010					
	Gross loans neither impaired nor past due	Gross loans past due but not impaired	Gross impaired loans	Individual allowances	Collective allowance	Net loans
Residential mortgages	$ 74,054	$ 272	$ 140	$ 12	$ 58	$ 74,396
Consumer, credit card and other personal loans	15,507	1,912	85	36	101	17,367
Business and government	25,854	636	287	111	171	26,495
	$ 115,415	$ 2,820	$ 512	$ 159	$ 330	$ 118,258

GROSS LOANS PAST DUE BUT NOT IMPAIRED

A loan is considered past due when the borrower has failed to make a payment when contractually due. The following tables present the aging of gross loans that are past due but not impaired.

	December 31, 2011				
	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	$ 215	$ 22	$ 9	$ 20	$ 266
Consumer, credit card and other personal loans	1,778	233	80	116	2,207
Business and government	285	46	12	136	479
	$ 2,278	$ 301	$ 101	$ 272	$ 2,952

	December 31, 2010				
	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	$ 223	$ 21	$ 10	$ 18	$ 272
Consumer, credit card and other personal loans	1,503	223	82	104	1,912
Business and government	300	90	36	210	636
	$ 2,026	$ 334	$ 128	$ 332	$ 2,820

NOTE 8

LOANS AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

ALLOWANCE FOR CREDIT LOSSES

The following table presents the reconciliation of the allowance for credit losses for the years ended December 31.

	2011	2010	2011	2010	2011	2010	2011	2010
	Residential mortgages		Consumer, credit card and other personal loans		Business and government		Total	
Balance at beginning of year	$ 71	$ 74	$ 182	$ 181	$ 310	$ 334	$ 563	$ 589
Provision for credit losses	7	9	198	182	32	12	237	203
Write-offs and recoveries	(11)	(12)	(193)	(181)	(39)	(36)	(243)	(229)
Balance at end of year	$ 67	$ 71	$ 187	$ 182	$ 303	$ 310	$ 557	$ 563
Composed of:								
Allowance for credit losses	$ 59	$ 70	$ 140	$ 137	$ 266	$ 282	$ 465	$ 489
Allowance for off-balance sheet credit commitments(1)	8	1	47	45	37	28	92	74

(1) The allowance for off-balance sheet credit commitments is presented under "Other liabilities – Other".

NOTE 9

SECURITIZATION AND OTHER TRANSFERRED FINANCIAL ASSETS

The following table presents the carrying amount of financial assets transferred by Desjardins Group but not derecognized and the related liabilities recognized in the Combined Statements of Financial Position.

	December 31, 2011		December 31, 2010	
	Assets	Liabilities	Assets	Liabilities
Financial assets transferred through securitization transactions	$ 3,482	$ 3,467	$ 1,511	$ 1,500
Securities sold under repurchase agreements	7,376	7,393	9,843	9,758
Securities lent:				
Against cash	3	3	6	6
Against securities	445	—	426	—

In addition, certain securitization transactions completed before January 1, 2010, were subject to derecognition. The total outstanding amount of these initial transferred assets amounted to $1,781 million as at December 31, 2011 ($2,949 million as at December 31, 2010). Assets representing retained interests that Desjardins Group continues to recognize with respect to these transactions and assumed servicing liabilities amounted to $28 million and $4 million, respectively, as at December 31, 2011 ($70 million and $11 million as at December 31, 2010).

NOTE 10

SEGREGATED FUNDS

SEGREGATED FUND ASSETS

The following table presents segregated fund assets by category.

	December 31, 2011	December 31, 2010	January 1, 2010
Investments			
Bonds	$ 212	$ 183	$ 176
Mortgage loans	7	10	15
Shares and mutual fund units	5,003	4,434	3,093
Money market securities	151	164	182
Derivative financial instruments	1	1	1
Other assets	90	64	120
Liabilities	(84)	(62)	(85)
Total segregated fund contract assets	$ 5,380	$ 4,794	$ 3,502
Consolidated share of non-controlling mutual fund holders	$ 65	$ —	$ —
Assets held for the insurer	(18)	(20)	(18)
Segregated fund assets	$ 5,427	$ 4,774	$ 3,484

NOTE 10
SEGREGATED FUNDS (CONTINUED)

FAIR VALUE OF FINANCIAL INSTRUMENTS

Segregated fund assets include financial instruments recognized at fair value. For each financial instrument category, Desjardins Group classified the fair value measurements using a three-level hierarchy that reflects the significance of the inputs used in making the measurements. A description of the three hierarchy levels and guidance on inputs used in fair value measurements are presented in Note 6, "Fair value of financial instruments".

The following tables present the financial instruments included in segregated fund assets and measured at fair value.

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Investments				
Bonds	$ 109	$ 103	$ —	$ 212
Mortgage loans	—	7	—	7
Shares and mutual fund units	3,054	1,949	—	5,003
Money market securities	73	78	—	151
Derivative financial instruments	1	—	—	1
Total financial instruments measured at fair value	$ 3,237	$ 2,137	$ —	$ 5,374

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
Investments				
Bonds	$ 92	$ 91	$ —	$ 183
Mortgage loans	—	10	—	10
Shares and mutual fund units	2,587	1,847	—	4,434
Money market securities	72	92	—	164
Derivative financial instruments	1	—	—	1
Total financial instruments measured at fair value	$ 2,752	$ 2,040	$ —	$ 4,792

	January 1, 2010			
	Level 1	Level 2	Level 3	Total
Investments				
Bonds	$ 114	$ 62	$ —	$ 176
Mortgage loans	—	15	—	15
Shares and mutual fund units	1,621	1,467	5	3,093
Money market securities	91	91	—	182
Derivative financial instruments	1	—	—	1
Total financial instruments measured at fair value	$ 1,827	$ 1,635	$ 5	$ 3,467

No transfers were made between fair value measurement hierarchy levels during the years ended December 31, 2011 and 2010.

CHANGES IN FAIR VALUE OF FINANCIAL INSTRUMENTS CLASSIFIED IN LEVEL 3

The following table presents the reconciliation from the beginning balance to the ending balance for Level 3 of the hierarchy, namely financial instruments whose fair value is determined using valuation techniques not based on observable market data.

	2011	2010
Fair value at January 1	$ —	$ 5
Total changes in fair value	—	(2)
Transfers from Level 3	—	(3)
Fair value at December 31	$ —	$ —

SECURITIES LENDING AND FINANCIAL ASSETS HELD AS COLLATERAL

The segregated funds lend securities as part of their investment activities. As part of these securities lending transactions, the financial assets transferred to a third party remain on the Combined Statements of Financial Position because these transactions fail to meet derecognition criteria. The carrying amount of the financial assets transferred through such transactions was $150 million as at December 31, 2011 ($138 million as at December 31, 2010, and $127 million as at January 1, 2010). Securities lending transactions for which cash was received as collateral are recognized as commitments for a total amount of $49 million as at December 31, 2011 ($33 million as at December 31, 2010, and $52 million as at January 1, 2010) and are presented as liabilities.

The fair value of financial assets held as collateral with respect to securities lending and reverse repurchase transactions was $153 million as at December 31, 2011 ($140 million as at December 31, 2010, and $129 million as at January 1, 2010).

FINANCIAL INSTRUMENT RISKS

Desjardins Group is not exposed to the risks related to financial instruments included in the assets held for segregated fund contract holders since such holders assume the risks and obtain the benefits arising from these financial instruments.

NOTE 10

SEGREGATED FUNDS (CONTINUED)

SEGREGATED FUND LIABILITIES

The following table presents the changes in segregated fund liabilities.

	December 31, 2011	December 31, 2010
Balance at beginning of year – Segregated fund contract liabilities	$ 4,794	$ 3,502
Additions		
Amounts received from contract holders	1,291	1,292
Net investment income	—	461
	1,291	1,753
Deductions		
Withdrawals and redemptions	559	390
Net realized and unrealized losses on investments	55	—
Management fees	91	71
	705	461
Balance at end of year – Segregated fund contract liabilities	$ 5,380	$ 4,794
Consolidated share of non-controlling mutual fund holders	$ 65	$ —
Liabilities to the insurer	(18)	(20)
Segregated fund liabilities	$ 5,427	$ 4,774

NOTE 11

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

The following tables present the changes in property, plant and equipment and investment property.

	Property, plant and equipment						Investment property		
	Land	Buildings	Computer equipment	Furniture, fixtures and other	Leasehold improvements	Total	Land	Buildings	Total
Cost									
As at January 1, 2010	$ 115	$ 1,170	$ 426	$ 600	$ 334	$ 2,645	$ 90	$ 696	$ 786
Additions	1	39	42	52	33	167	—	19	19
Disposals	(1)	(25)	(27)	(46)	(1)	(100)	(3)	(2)	(5)
Other	—	—	—	—	(7)	(7)	—	—	—
As at December 31, 2010	$ 115	$ 1,184	$ 441	$ 606	$ 359	$ 2,705	$ 87	$ 713	$ 800
Additions	$ 7	$ 70	$ 30	$ 87	$ 33	$ 227	$ 6	$ 34	$ 40
Business combination	1	1	4	4	6	16	—	—	—
Disposals	(2)	(10)	(46)	(42)	(23)	(123)	(7)	(22)	(29)
Other	(3)	(41)	(41)	(12)	(9)	(106)	(2)	(59)	(61)
As at December 31, 2011	$ 118	$ 1,204	$ 388	$ 643	$ 366	$ 2,719	$ 84	$ 666	$ 750

	Property, plant and equipment						Investment property		
	Land	Buildings	Computer equipment	Furniture, fixtures and other	Leasehold improvements	Total	Land	Buildings	Total
Accumulated depreciation									
As at January 1, 2010	$ —	$ 497	$ 326	$ 440	$ 168	$ 1,431	$ 5	$ 154	$ 159
Depreciation	—	40	55	36	26	157	—	33	33
Disposals	—	(14)	(26)	(24)	(1)	(65)	—	(5)	(5)
Other	—	(2)	—	2	(5)	(5)	—	(3)	(3)
As at December 31, 2010	$ —	$ 521	$ 355	$ 454	$ 188	$ 1,518	$ 5	$ 179	$ 184
Depreciation	$ —	$ 39	$ 42	$ 39	$ 28	$ 148	$ —	$ 23	$ 23
Disposals	—	(6)	(37)	(33)	(21)	(97)	—	(19)	(19)
Other	—	(19)	(41)	1	(9)	(68)	—	(35)	(35)
As at December 31, 2011	$ —	$ 535	$ 319	$ 461	$ 186	$ 1,501	$ 5	$ 148	$ 153

	Property, plant and equipment						Investment property		
	Land	Buildings	Computer equipment	Furniture, fixtures and other	Leasehold improvements	Total	Land	Buildings	Total
Net carrying amount									
As at December 31, 2011	$ 118	$ 669	$ 69	$ 182	$ 180	$ 1,218	$ 79	$ 518	$ 597
As at December 31, 2010	$ 115	$ 663	$ 86	$ 152	$ 171	$ 1,187	$ 82	$ 534	$ 616
As at January 1, 2010	$ 115	$ 673	$ 100	$ 160	$ 166	$ 1,214	$ 85	$ 542	$ 627

NOTE 11

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY (CONTINUED)

As at December 31, 2011, an amount of $41 million ($19 million as at December 31, 2010) included in the buildings balance represented costs related to buildings under construction. In addition, Desjardins Group had commitments amounting to $35 million ($15 million as at December 31, 2010) related to the acquisition of these buildings.

Information about assets pledged as collateral is disclosed in Note 28, “Commitments, guarantees and contingent liabilities”.

As at December 31, 2011, the fair value of investment property was $1,102 million ($1,005 million as at December 31, 2010). The fair value of investment property was determined by independent real estate appraisers holding a recognized and relevant professional qualification and who used a range of appraisal techniques, including net operating income capitalization and cash flow discounting. The appraisal techniques, which are based on market inputs, involved estimating capitalization rates and future net operating income, in the case of the net operating income capitalization method, and estimating discount rates and future cash flows for investment property, in the case of the cash flow discounting method.

For the year ended December 31, 2011, rental income from investment property amounted to $142 million ($135 million in 2010). Amounts recognized in profit or loss for operating expenses related to investment property that generated rental income during the year totalled $83 million ($97 million in 2010), while no amount has been recognized for those that did not generate rental income. These amounts are presented under “Net other investment income” in the Combined Statements of Income.

NOTE 12

OTHER ASSETS – OTHER

The following table presents the breakdown of “Other assets – Other”.

	December 31, 2011	December 31, 2010	January 1, 2010
Premiums receivable	$ 914	$ 820	$ 730
Reinsurance assets	797	600	524
Interest receivable	522	513	468
Goodwill	348	109	109
Prepaid expenses	347	392	372
Intangible assets	335	150	141
Accounts receivable	284	434	466
Investments in companies recognized using the equity method	128	95	132
Taxes receivable	30	41	37
Other	651	547	510
	$ 4,356	$ 3,701	$ 3,489

NOTE 13

DEPOSITS

Deposits consist of deposits payable on demand, deposits payable upon notice and deposits payable on a fixed date. Deposits payable on demand are interest-bearing or non-interest-bearing deposits, usually accounts with chequing privileges, for which Desjardins Group does not have the right to require notice prior to withdrawal. Deposits payable upon notice are interest-bearing deposits, usually savings accounts, for which Desjardins Group has the legal right to require notice prior to withdrawal. Deposits payable on a fixed date are interest-bearing deposits, usually deposits payable on a fixed date, guaranteed investment certificates or other similar instruments, with a term that generally varies from one day to 10 years and which mature on a predetermined date.

The following tables present the breakdown of deposits.

	December 31, 2011			
	Payable on demand	Payable upon notice	Payable on a fixed date	Total
Individuals	$ 27,785	$ 3,851	$ 50,850	$ 82,486
Business and government	13,627	326	15,056	29,009
Deposit-taking institutions and other	81	—	11,827	11,908
	$ 41,493	$ 4,177	$ 77,733	$ 123,403

	December 31, 2010			
	Payable on demand	Payable upon notice	Payable on a fixed date	Total
Individuals	$ 25,741	$ 3,782	$ 49,224	$ 78,747
Business and government	12,935	318	11,891	25,144
Deposit-taking institutions and other	79	—	10,693	10,772
	$ 38,755	$ 4,100	$ 71,808	$ 114,663

NOTE 14
COVERED BONDS

During 2011, Desjardins Group issued covered bonds amounting to US$1,000 million. CCDQ Covered Bond Guarantor Limited Partnership, a special purpose entity, has been created to guarantee principal and interest payments due to the holders of these securities. The operations of this entity are included in Desjardins Group's Combined Financial Statements since, in substance, according to the requirements of SIC 12, the relationship between this entity and Desjardins Group indicates that the special purpose entity is controlled by Desjardins Group. During 2011, Desjardins Group sold CMHC-insured residential mortgage loans to this entity and granted to this entity a loan to facilitate the acquisition of these assets. Under the terms and conditions of the issuance agreements, Desjardins Group has limited access to the loans that are legally owned by this special purpose entity. These loans, totalling $1,278 million as at December 31, 2011, are presented under "Loans – Residential mortgages" in the Combined Statements of Financial Position, and the covered bonds, amounting to $1,017 million as at December 31, 2011, are presented under "Deposits – Business and government".

NOTE 15
INSURANCE AND INVESTMENT CONTRACT LIABILITIES

COMPOSITION OF INSURANCE AND INVESTMENT CONTRACT LIABILITIES

	December 31, 2011	December 31, 2010	January 1, 2010
Insurance contract liabilities			
Actuarial liabilities	$ 13,610	$ 11,843	$ 11,007
Provisions for claims and adjustment expenses	1,623	1,447	1,322
Unearned premiums	905	812	734
Policyholder deposits	490	449	434
Provisions for benefits, policyholder dividends and experience refunds	331	339	325
	16,959	14,890	13,822
Investment contract liabilities	49	52	54
	$ 17,008	$ 14,942	$ 13,876

ACTUARIAL LIABILITIES

COMPOSITION

Actuarial liabilities and assets backing actuarial liabilities comprise the following amounts:

	December 31, 2011	December 31, 2010	January 1, 2010
Gross actuarial liabilities			
Non-participating policies	$ 11,287	$ 9,807	$ 9,157
Participating policies	2,323	2,036	1,850
	13,610	11,843	11,007
Amounts ceded to reinsurers	754	562	478
Net actuarial liabilities	$ 12,856	$ 11,281	$ 10,529

	December 31, 2011	December 31, 2010	January 1, 2010
Composition of assets backing net actuarial liabilities			
Bonds	$ 8,223	$ 6,607	$ 6,058
Mortgage and business loans	2,666	2,970	3,042
Investment property	489	283	277
Shares	597	561	387
Other	881	860	765
	$ 12,856	$ 11,281	$ 10,529

The fair value of assets backing net actuarial liabilities was $13,607 million as at December 31, 2011 ($11,674 million as at December 31, 2010, and $10,833 million as at January 1, 2010).

NOTE 15

INSURANCE AND INVESTMENT CONTRACT LIABILITIES (CONTINUED)

ACTUARIAL ASSUMPTIONS

The computation of actuarial liabilities is based on estimates and assumptions. 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 to be the best estimates for various contingencies. The appointed actuary must, for each of these assumptions, establish a margin for adverse deviation in order to mitigate the random event, allow for the risk of deteriorating underwriting experience and ensure that provisions are adequate to meet future commitments. The extent of the margins for adverse deviation is prescribed by the Standards of Practice of the Canadian Institute of Actuaries (CIA). The actuary establishes the appropriate margins based on the characteristics of the risks associated with the products. These margins vary for each assumption and type of product. The margins for adverse deviation increase actuarial liabilities and reduce the profit or loss that would otherwise be recognized at inception of the policies. With the passage of time and as estimation risks decline, these margins are reversed and recognized in profit or loss.

The risks associated with the accuracy of the actuarial assumptions used to compute actuarial liabilities arise from the non-materialization of expected assumptions. The actuary periodically performs studies on the underwriting experience related to each assumption and modifies the assumptions, if appropriate, to take into account the current and future expected situation. Any impact resulting from these modifications is immediately recognized in profit or loss.

MORTALITY

The life and health insurance subsidiaries determine their mortality assumptions for individual life insurance based on the results of the annual studies of their recent underwriting experience. When these results cannot serve as the only source of reference due to their insufficient credibility, the mortality assumption is also based on industry studies. Mortality assumptions vary based on gender, risk category and type of contract. The calculation of actuarial liabilities related to individual life insurance does not consider a potential decline in mortality rates.

For annuities, the life and health insurance subsidiaries also perform an annual study of their underwriting experience having a level of credibility sufficient to be the main basis for the determination of assumptions. Contrary to life insurance, a future mortality improvement assumption is taken into account in accordance with CIA standards.

MORBIDITY

For morbidity assumptions, which relate to the occurrence of accidents and illness, the life and health insurance subsidiaries use industry-developed morbidity tables modified based on current data provided by their studies of their underwriting experience and those for the industry. These assumptions are mainly used for disability, critical illness and long-term care insurance products.

CONTRACT CANCELLATION RATES

The life and health insurance subsidiaries carry out an annual study of their underwriting experience with respect to individual insurance contract cancellation, as policyholders can cancel their policy before the expiration of their contractual coverage period by discontinuing premium payment without using the non-forfeiture options, if any. The contract cancellation rate assumptions are based on the life and health insurance subsidiaries' recent underwriting experience. These assumptions are adjusted on the basis of the industry's underwriting experience when those for the life and health insurance subsidiaries are not sufficiently credible. For certain types of insurance products, such as term-to-100 life insurance products and universal life insurance products with level mortality costs, lower than projected cancellation rates could have a negative impact on the life and health insurance subsidiaries' underwriting experience. Cancellation rate assumptions may vary depending on the product type, the contract's term, the age at issuance and the premium payment method.

INVESTMENT RETURN

Investment return is based on projected investment income using the current portfolios of assets backing the actuarial liabilities and projected reinvestment strategies. The life and health insurance subsidiaries manage the investments backing their actuarial liabilities by taking into account the characteristics of the commitments of each of their business segments and through clearly defined mechanisms set out in their matching policy. The Canadian Asset Liability Method (CALM) is the standard set by the CIA to ensure the compliance of assets that are backing the actuarial liabilities. By closely matching the cash flows related to the assets with those related to the actuarial liabilities, the life and health insurance subsidiaries mitigate their sensitivity to future changes in interest rate levels. According to CALM, changes in the fair value of the assets backing the actuarial liabilities are essentially offset by corresponding changes in the value of actuarial liabilities.

Under CALM, the cash flows from these assets are matched with the cash flows that will arise from future asset acquisitions or sales to determine the expected rates of return on these assets for the coming years. The projected reinvestment strategies are determined based on the characteristics of the commitments of each segment, and reinvestment returns are based on current and expected market rates for fixed-rate investments and on expected rates for floating-rate investments. In addition, the asset cash flow projections include assumptions for investment management fees and credit risk.

Investment return assumptions take into account expected future credit losses on fixed-income investments. In that regard, in addition to the provisions for non-performing investments recognized through a write-down of the carrying amount of the assets, a provision amounting to $543 million ($469 million in 2010) has been included in actuarial liabilities as a protection against the risk of insufficient return on assets.

NOTE 15

INSURANCE AND INVESTMENT CONTRACT LIABILITIES (CONTINUED)

OPERATING EXPENSES AND TAXES

The operating expense assumptions reflect the projected costs for managing and processing contracts in force, including indirect overhead expenses. The life and health insurance subsidiaries perform an annual study of operating expenses by major line of products, and these expenses are projected using the expected rate of inflation and the expected development of blocks of business, when relevant.

Taxes reflect the assumptions with respect to future premium taxes and taxes other than income taxes. For income taxes, actuarial liabilities are adjusted only when there are temporary differences or to take into account the non-deductible or non-taxable items in cash flows from the liabilities and the assets related to insurance contracts.

PARTICIPATING POLICYHOLDERS' DIVIDENDS

Actuarial liabilities include estimated amounts of future participating policyholders' dividends. These estimated amounts are determined based on the expected future results of this block of business and the reasonable expectations of participating policyholders. Changes in the best estimate assumptions for participating insurance would result in corresponding changes in policyholders' dividends and an immaterial net change in actuarial liabilities related to participating policies.

SENSITIVITY OF ACTUARIAL LIABILITIES TO CHANGES IN ASSUMPTIONS

The following table shows, for the years ended December 31, the impact on "Net surplus earnings for the year after member dividends" of the sensitivity of actuarial liabilities to changes in underlying non-economic assumptions.

	2011	2010
2% negative change in future mortality rates		
Products for which a rate increase increases actuarial liabilities	$ (26)	$ (20)
Products for which a rate decrease increases actuarial liabilities	(21)	(13)
5% increase in future morbidity rates	(42)	(42)
10% negative change in future contract cancellation rates	(85)	(71)
5% increase in future operating expenses	(28)	(24)

CHANGE IN NET ACTUARIAL LIABILITIES

The change in net actuarial liabilities during the years ended December 31 was due to business activities and to changes in actuarial estimates, as follows:

	2011	2010
Balance at beginning of year	$ 11,281	$ 10,529
Change due to:		
Business combination	61	—
Passage of time	1,174	371
New business	374	381
Changes in actuarial assumptions	(36)	2
	1,573	754
Other changes	2	(2)
Balance at end of year	$ 12,856	$ 11,281
Composed of:		
Gross actuarial liabilities	$ 13,610	$ 11,843
Amounts ceded to reinsurers	(754)	(562)

NOTE 15

INSURANCE AND INVESTMENT CONTRACT LIABILITIES (CONTINUED)

CHANGES IN ACTUARIAL ASSUMPTIONS

The economic and non-economic assumptions taken into account in the computation of actuarial liabilities are periodically updated to reflect the actual or projected underwriting experience associated with each of them. The following table presents the impact of changes made to assumptions on "Net surplus earnings for the year after member dividends" for the years ended December 31.

	2011	2010
Changed assumptions		
Mortality	$ (18)	$ 9
Morbidity	15	(1)
Contract cancellation rates	(72)	(8)
Investment return	47	(3)
Operating expenses	(11)	—
Methods and other	65	2
	$ 26	$ (1)

The increase in actuarial liabilities related to contract cancellation rates is primarily attributable to the change in the calculation method for segregated fund products and the update of the forecasts for these products and for individual insurance products.

Actuarial liabilities decreased with respect to investment returns as a result of the update of investment expenses and indexation rates for certain products, especially disability annuities.

The decrease in actuarial liabilities related to methods and other is mainly attributable to changes in valuation systems for segregated fund and individual insurance products.

RISK MANAGEMENT

In addition to the risks related to actuarial assumptions, the life and health insurance subsidiaries are exposed to the following risks inherent to insurance activities.

INSURANCE RISK

In the course of their operations, the life and health insurance subsidiaries are exposed to insurance risk, which comprises two components: product development and pricing risk and underwriting and commitment risk.

Product development and pricing risk is the risk that the initial pricing is or will become insufficient. It is related to the possibility that the forecasts for certain factors, such as future investment return, mortality, morbidity and administrative expenses, taken into account in pricing prove to be inaccurate. The life and health insurance subsidiaries apply stringent standards and policies with respect to product development and pricing and regularly carry out analyses to compare forecasts with actual results and to revise pricing assumptions if needed. In addition, certain products allow for price adjustments depending on whether assumptions materialize or not.

Underwriting and commitment risk is the risk arising from the selection of risks, the provisioning and settlement of insurance claims, the reduction, retention or ceding of risks and contractual clause management. The life and health insurance subsidiaries manage this risk by setting appropriate risk selection criteria and policies, setting up actuarial liabilities in accordance with the actuarial standards prescribed by the CIA, constantly monitoring the development of loss experience and limiting their losses through reinsurance treaties.

REINSURANCE RISK

The life and health insurance subsidiaries enter into reinsurance treaties for contracts with coverage in excess of certain maximum amounts that vary based on the nature of the activities. In addition, they purchase additional reinsurance protection with respect to large-scale catastrophic events.

In order to reduce reinsurance risk, the life and health insurance subsidiaries deal with many different reinsurers, the vast majority of which are duly registered, that meet credit standards and are subject to the same regulatory authorities as the subsidiaries. These reinsurance treaties do not release the life and health insurance subsidiaries from their obligations towards their policyholders.

For the years ended December 31, the impact of reinsurance reduced the Combined Statements of Income items presented in the table below by the following amounts:

	2011	2010
Premiums	$ 169	$ 169
Claims, benefits, annuities and changes in insurance and investment contract liabilities	249	203

NOTE 15
INSURANCE AND INVESTMENT CONTRACT LIABILITIES (CONTINUED)

SEGREGATED FUND RISK

Actuarial liabilities also include amounts sufficient to pay the minimum segregated fund guarantees, which are calculated using stochastic models defined by the CIA. These models are based on the nature of the guarantees and on assumptions related to investment return, mortality and contract forfeiture rates. Deferred acquisition costs, being the expenses incurred on the sale of individual segregated fund contracts, are recognized in actuarial liabilities and amortized over the same period as the applicable surrender fees. Actuarial liabilities take into account the fact that future income will be available to recover unamortized acquisition costs.

To reduce the potential negative impact that may arise from the segregated fund contract guarantee risk, the life and health insurance subsidiary selling segregated fund contracts implemented, in 2010, a hedging program aimed at offsetting the impact of unfavourable stock market movements on the future cost of guarantees. In addition, in 2011, a second hedging program aimed at offsetting the impact of unfavourable interest rate movements on these future costs was implemented. These programs cover all the contracts and funds offered to clients by the relevant life and health insurance subsidiary.

INTEREST RATE RISK

To protect themselves against losses resulting from changes in interest rates, the life and health insurance subsidiaries developed an asset-liability matching policy, mentioned above in this note, and ensure compliance therewith through periodic tests.

This policy clearly defines acceptable risks. The assets of each segment are managed based on the liabilities of that segment and are invested in securities that meet the requirements of the related products.

One of the tests included in the matching policy addresses the difference between the duration of liabilities and the duration of the related assets. Comparing durations makes it possible to measure the sensitivity of the market value of assets and liabilities to changes in interest rates. The life and health subsidiaries perform this test for all their business segments globally, because the matching policy sets limits in this respect.

As at December 31, 2011, the durations of assets and liabilities differed by 0.1 year (0.7 year in 2010).

The risks associated with the non-matching of the duration of the portfolio of investments, the non-matching of cash flows, the potential early redemption of assets and the asset acquisition pattern are periodically quantified and revised.

LIQUIDITY RISK

Liquidity risk management is covered by the previously mentioned matching policy and the life and health insurance subsidiaries' own liquidity policy. The latter ensures that the life and health insurance subsidiaries proactively manage balance sheet items on an aggregate basis by establishing limits. In addition, the asset managers of these subsidiaries ensure that an adequate proportion of assets is held in readily marketable securities.

Short-term liquidity management aims at ensuring that the funds needed to meet financial obligations as they become due are sufficient. Strategic liquidity management aims to maintain a balance between sources and uses of funds in a permanent context, taking into account the economic, operational and business factors that may have an impact on that balance.

The following tables present the contractual maturities for actuarial liabilities. The projections in these tables are greater that the actuarial liabilities balance since they represent expected outflows excluding, among others, the impact of discounting. These cash flows are presented net of expected periodic premium flows from contract holders and net of reinsurance. In addition, amounts shown in these tables represent estimated cash flows that may differ from actual cash flows.

	December 31, 2011	December 31, 2010
Under 1 year	$ 1,101	$ 962
1 to 5 years	3,024	3,256
Over 5 years	20,719	18,430
Total	$ 24,844	$ 22,648

NOTE 15

INSURANCE AND INVESTMENT CONTRACT LIABILITIES (CONTINUED)

PROVISIONS FOR CLAIMS AND ADJUSTMENT EXPENSES

METHODOLOGY AND ASSUMPTIONS

The provisions for claims and adjustment expenses are estimated using appropriate actuarial techniques for loss prospective valuation in accordance to actuarial standards effective in Canada. The property and casualty insurance subsidiaries use actuarial techniques such as the incurred loss development, frequency and severity, and Bornhuetter-Ferguson methods to determine the best estimate of the provision for claims and adjustment expenses. These methods are used to estimate the ultimate claims by projecting claims amounts by line of business and accident year, based on the amount, number and average cost of past incurred claims for the incurred loss development and frequency-severity methods, and the expected claims amount for past incurred claims for the Bornhuetter-Ferguson method.

The main assumption underlying these methods is that past claims development can be used to project what future claims development will be (or that past claims development will be similar to future claims development). An additional qualitative judgment is made to assess the extent by which past trends may not apply in the future and make the necessary adjustments to ensure that the provisions for claims and adjustment expenses are adequate and represent the best estimates of future payments on outstanding claims, including claims incurred but not reported that can be expected, based on data and information currently known. The assumptions used to develop this estimate are selected by risk category and geographic area. In addition, the estimates take into consideration many quantitative and qualitative factors, including the average settlement cost per claim and the average number of claims, claims severity and frequency trends, and other factors such as inflation, changes in market factors, for instance public behaviour towards claims and economic conditions, as well as internal factors, such as the mix of the insurance contract portfolio, the terms and conditions of such contracts and claims management procedures. Judgment is also used to assess the extent by which external factors, such as legal decisions and government laws, may affect this estimate.

The initial estimate of the provisions for claims and adjustment expenses is a non-discounted amount. This estimate is then discounted to take into account the time value of money. The discount rate used is based on the interest rate for the assets backing the provisions for claims and adjustment expenses. This rate may vary based on changes in interest rates and credit spreads.

Since claims estimates are subject to measurement uncertainty and may change significantly in the short term, the property and casualty insurance subsidiaries include margins for adverse deviation in the assumptions with respect to claims development, expected reinsurance recoveries and future investment income from the asset portfolio backing the provisions for claims and adjustment expenses. These margins for adverse deviation are determined in accordance with accepted actuarial standards to ensure that the amount of the provisions for claims and adjustment expenses is sufficient to settle future benefits. The selected margins for adverse deviation are within the range recommended by the CIA.

CHANGE IN PROVISIONS FOR CLAIMS AND ADJUSTMENT EXPENSES

The following table shows the change in the provisions for claims and adjustment expenses for the years ended December 31.

	2011			2010		
	Gross amount	Ceded amount	Net amount	Gross amount	Ceded amount	Net amount
Balance at beginning of year	$ 1,447	$ 25	$ 1,422	$ 1,322	$ 35	$ 1,287
Claims incurred during the year	1,272	—	1,272	1,102	1	1,101
Development of claims incurred in prior years	(10)	6	(16)	(50)	(5)	(45)
Claims paid during the year	(1,088)	(1)	(1,087)	(927)	(6)	(921)
Business combination	2	—	2	—	—	—
Balance at end of year	$ 1,623	$ 30	$ 1,593	$ 1,447	$ 25	$ 1,422

Changes in assumptions had no material impact on the Combined Financial Statements as at December 31, 2011 and 2010.

ASSUMPTION SENSITIVITY ANALYSIS

The provisions for claims and adjustment expenses are sensitive to certain key assumptions. It was not possible to quantify the sensitivity of certain qualitative variables, such as legislative changes or the uncertainty surrounding the estimation process. The following analysis addresses reasonably plausible changes in certain key assumptions with all other assumptions remaining constant, and it presents the impact of such changes on "Net surplus earnings for the year after member dividends". The correlation of assumptions would have a material impact on the determination of ultimate claims, but to demonstrate the impact attributable to changes in assumptions, changes must be applied to individual assumptions.

		2011	2010
	Changes in actuarial assumptions	Impact on "Net surplus earnings for the year after member dividends"	
Average claims settlement cost	+ 5%	$ (79)	$ (68)
Average number of claims incurred but not reported	+ 5	(7)	(18)

NOTE 15

INSURANCE AND INVESTMENT CONTRACT LIABILITIES (CONTINUED)

CLAIMS AND ADJUSTMENT EXPENSES DEVELOPMENT

The following table shows claims and adjustment expenses development on a net basis. It presents the estimated ultimate claims amount, including claims reported and claims incurred but not reported, for each accident year and at each reporting date, with cumulative payments made to date.

	2005 and before	2006	2007	2008	2009	2010	2011	Total
Estimated ultimate claims amount								
At the end of the accident year	$ —	$ 1,026	$ 1,012	$ 1,141	$ 1,076	$ 1,101	$ 1,274	$ —
One year later	—	1,014	984	1,096	1,063	1,103	—	—
Two years later	—	988	952	1,097	1,077	—	—	—
Three years later	—	967	949	1,097	—	—	—	—
Four years later	—	957	944	—	—	—	—	—
Five years later	—	954	—	—	—	—	—	—
Cumulative payments to date	—	884	837	948	858	798	690	—
Net provisions for claims and adjustment expenses	159	70	107	149	219	305	584	1,593
Reinsurers' share in provisions for claims and adjustment expenses	21	—	2	3	3	1	—	30
Gross provisions for claims and adjustment expenses	$ 180	$ 70	$ 109	$ 152	$ 222	$ 306	$ 584	$ 1,623

RISK MANAGEMENT

In addition to the risks related to actuarial assumptions, the property and casualty insurance subsidiaries are exposed to the following risks inherent to insurance activities.

INSURANCE RISK

The property and casualty insurance subsidiaries mainly issue automobile, home, commercial property and other insurance contracts to individuals and small and medium businesses. In the normal course of their operations, the property and casualty insurance subsidiaries are exposed to insurance risk, which includes several components: insurance product development and pricing risk, underwriting and claims settlement risk, provisioning risk, catastrophe risk and reinsurance risk.

Insurance product development and pricing risk is the risk of financial losses related to insurance transactions, when commitments that may arise from a particular line of products exceed those anticipated or exceed the price that is expected to be set for such products.

Underwriting and claims settlement risk is the risk arising from the selection of risks, claims settlement and contractual clause management.

To manage these two risks, the property and casualty insurance subsidiaries adopted rigorous practices and procedures with respect to product development and pricing as well as underwriting and commitment management, which take into account several factors that are regularly revised and adapted based on changes in industry market conditions. In addition, the property and casualty insurance subsidiaries reduce their exposure to claim settlement risk by performing regular detailed reviews of claims management procedures and frequent investigations of potentially fraudulent claims.

Provisioning risk is the risk that the provisions for claims and adjustment expenses recorded may not be sufficient to cover the risks inherent to issued insurance policies. Provisions are established to cover the property and casualty insurance subsidiaries' estimated obligations for the payment of all claims and adjustment expenses with respect to premiums received or receivable on issued insurance policies. There is a risk that the amounts provisioned differ significantly from the actual amount for which ultimate claims are settled. The property and casualty insurance subsidiaries' practice is to establish their provisions for claims and adjustment expenses using accepted actuarial methods that take into account a multitude of factors and trend analyses that are periodically updated.

Catastrophe risk is the risk of loss arising from too many claims resulting from a single catastrophe. To limit the potential consequences of catastrophes, the property and casualty insurance subsidiaries use reinsurance, under which amounts are recovered when claims exceed $30 million for a single catastrophe.

NOTE 15

INSURANCE AND INVESTMENT CONTRACT LIABILITIES (CONTINUED)

Reinsurance risk is the risk of financial losses caused by the insufficiency of the reinsurance guarantees or the default of the reinsurer. The property and casualty insurance subsidiaries that use reinsurance manage this risk by underwriting an adequate reinsurance coverage taking into account regulatory requirements, which is reassessed every year based on their changing needs, as well as by promoting practices and procedures that enable them to limit this risk to an acceptable level. In that respect, the property and casualty insurance subsidiaries obtain from their reinsurance advisors all the data required to monitor the soundness of the reinsurers' financial position. In addition, each reinsurer the subsidiaries deal with must have a minimum rating of "A-" and meet other predetermined criteria.

The property and casualty insurance subsidiaries apply a policy of underwriting and reinsuring insurance contracts, which, for the most part, limit their exposure to $5 million per policy.

The impact of reinsurance reduced the Combined Statements of Income items presented in the table below by the following amounts:

	2011	2010
Premiums	$ 28	$ 28
Claims, benefits, annuities and changes in insurance and investment contract liabilities	6	(5)

INTEREST RATE RISK

Interest rate risk is managed using an interest rate risk management strategy for the provisions for claims and adjustment expenses. This strategy complies with the requirements of the Office of the Superintendent of Financial Institution's (OSFI) Guideline D-10, "Accounting for Financial Instruments Designated as Fair Value Option". It minimizes the impact of changes in interest rates on surplus earnings and the financial position. Consequently, the property and casualty insurance subsidiaries have designated as at fair value through profit or loss a portion of the debt securities that back the provisions for claims and adjustment expenses. This designation is intended to reduce the volatility resulting from changes in the fair value of claims liabilities attributable to changes in discount rates. To comply with OSFI guidelines, the property and casualty insurance subsidiaries mainly ensure that the weighted average duration of debt securities designated as at fair value through profit or loss approximates the weighted average duration of the provisions for claims and adjustment expenses. The rate used to discount the provisions for claims and adjustment expenses is calculated based on the return of the investments that back them. In addition, this risk is mitigated by rigorously managing cash and diversifying securities maturities.

LIQUIDITY RISK

To manage their cash requirements, the property and casualty insurance subsidiaries keep a portion of their investments in short-term securities.

The following table presents the contractual maturities for the provisions for claims and adjustment expenses.

	December 31, 2011	December 31, 2010
Under 1 year	$ 467	$ 485
1 to 5 years	712	616
Over 5 years	317	272
Total	$ 1,496	$ 1,373

NOTE 16

OTHER LIABILITIES – OTHER

The following table presents the breakdown of "Other liabilities – Other".

	December 31, 2011	December 31, 2010	January 1, 2010
Accounts payable	$ 1,446	$ 1,278	$ 1,424
Interest payable	1,032	954	884
Provisions for risks and expenses	287	276	149
Deferred income related to loyalty programs	174	153	132
Taxes payable	119	145	122
Borrowings from financial institutions	37	39	43
Cooperative shares and preferred shares	24	25	28
Other	1,398	1,128	821
	$ 4,517	$ 3,998	$ 3,603

NOTE 17

SUBORDINATED BONDS

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

Senior subordinated bonds comprise the following items:

	December 31, 2011	December 31, 2010
Senior Series C bonds (par value of $300 million), issued on May 9, 2002, 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	$ 290	$ 287
Senior Series E bonds (par value of $500 million), issued on March 30, 2009, maturing in April 2019, bearing interest at an annual rate of 5.756% for the first five years, and for the following five years, at an annual rate equal to the 90-day bankers' acceptance rate plus 4.97%, redeemable at the option of Desjardins Group	490	482
Senior Series F bonds (par value of $500 million), issued on June 1, 2009, maturing in June 2021, bearing interest at an annual rate of 5.541% for the first seven years, and for the following five years, at an annual rate equal to the 90-day bankers' acceptance rate plus 3.88%, redeemable at the option of Desjardins Group	498	482
Senior Series G bonds (par value of $900 million), issued on May 5, 2010, maturing in May 2020, bearing interest at an annual rate of 5.187%, redeemable at the option of Desjardins Group starting in 2015	896	872
Senior Series H bonds (par value of $700 million), issued on November 23, 2010, maturing in November 2020, bearing interest at an annual rate of 3.797% for the first five years, and for the following five years, at an annual rate equal to the 90-day bankers' acceptance rate plus 1.32%, redeemable at the option of Desjardins Group starting in 2015	697	682
Senior Series J bonds (par value of $500 million), issued on December 15, 2011, maturing in December 2026, bearing interest at an annual rate of 4.954% for the first ten years, and for the following five years, at an annual rate equal to the 90-day bankers' acceptance rate plus 2.67%, redeemable at the option of Desjardins Group starting in 2021	479	—
	$ 3,350	$ 2,805

NOTE 18
DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The derivative financial instruments of Desjardins Group include the following types of contracts:

INTEREST RATE CONTRACTS

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

FOREIGN EXCHANGE CONTRACTS

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

OPTIONS

Options are contractual agreements under which the seller grants the purchaser the right but not the obligation to buy (call option) or sell (put option) a specified amount of a financial instrument at a predetermined price, on or before a specified date. The seller receives a premium from the purchaser in exchange for this right. Desjardins Group enters into various options, such as interest rate, currency, stock index and commodity options, primarily to meet the needs of its members and clients and to manage its own asset-liability exposures.

CREDIT DEFAULT SWAPS

Credit default swaps are transactions in which one of the parties agrees to pay interest to the other party who, in turn, undertakes to make a payment should a predetermined credit incident occur. Desjardins Group uses credit default swaps to manage the credit risk associated with its assets and liabilities.

OTHER FINANCIAL DERIVATIVE CONTRACTS

The other financial derivative contracts used by Desjardins Group are related to financial index transactions and include mainly total return swaps. Total return swaps are transactions in which one party agrees to pay to or to receive from the other party the rate of return on an underlying asset, group of assets or index in exchange for remuneration specified in the contract.

NOTE 18

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (CONTINUED)

MATURITIES OF DERIVATIVE FINANCIAL INSTRUMENTS

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

	December 31, 2011				
	Maturities				
	Under 1 year	1 to 3 years	3 to 5 years	Over 5 years	Notional amount
Interest rate contracts					
Over-the-counter contracts					
Interest rate swaps	$ 20,403	$ 35,821	$ 26,128	$ 5,798	$ 88,150
Forward rate agreements	2,241	896	—	—	3,137
Options purchased	100	50	—	—	150
Options written	100	50	—	—	150
Exchange-traded contracts					
Futures	1,536	133	—	—	1,669
Options purchased	34	—	—	—	34
Options written	41	—	—	—	41
	24,455	36,950	26,128	5,798	93,331
Foreign exchange contracts					
Over-the-counter contracts					
Forward contracts	7,015	212	—	—	7,227
Currency swaps	2,146	1,191	1,526	11	4,874
Options purchased	250	6	—	—	256
Options written	252	6	—	—	258
Exchange-traded contracts					
Forward contracts	25	—	—	—	25
	9,688	1,415	1,526	11	12,640
Other contracts[(1)]					
Over-the-counter contracts					
Swaps	297	970	836	1,127	3,230
Options purchased	901	2,949	3,226	276	7,352
Options written	903	2,944	3,206	276	7,329
Exchange-traded contracts					
Futures	602	—	—	—	602
	2,703	6,863	7,268	1,679	18,513
Total derivative financial instruments	$ 36,846	$ 45,228	$ 34,922	$ 7,488	$ 124,484

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

NOTE 18

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (CONTINUED)

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

	December 31, 2010				
	Maturities				
	Under 1 year	1 to 3 years	3 to 5 years	Over 5 years	Notional amount
Interest rate contracts					
Over-the-counter contracts					
Interest rate swaps	$ 18,215	$ 32,527	$ 22,629	$ 5,569	$ 78,940
Forward rate agreements	9,838	2,015	—	—	11,853
Options purchased	100	150	—	—	250
Options written	650	150	—	—	800
Exchange-traded contracts					
Futures	6,161	359	—	—	6,520
	34,964	35,201	22,629	5,569	98,363
Foreign exchange contracts					
Over-the-counter contracts					
Forward contracts	4,309	102	—	—	4,411
Currency swaps	2,206	2,534	1,373	10	6,123
Options purchased	191	2	—	—	193
Options written	166	2	—	—	168
	6,872	2,640	1,373	10	10,895
Other contracts(1)					
Over-the-counter contracts					
Swaps	416	1,913	522	1,377	4,228
Options purchased	862	2,368	2,700	295	6,225
Options written	837	2,318	2,650	286	6,091
Exchange-traded contracts					
Futures	233	—	—	—	233
	2,348	6,599	5,872	1,958	16,777
Total derivative financial instruments	$ 44,184	$ 44,440	$ 29,874	$ 7,537	$ 126,035

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

NOTE 18

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (CONTINUED)

The following table presents the fair value of derivative financial instruments recognized in the Combined Statements of Financial Position.

	December 31, 2011			December 31, 2010			January 1, 2010		
	Notional amount	Assets	Liabilities	Notional amount(2)	Assets	Liabilities	Notional amount	Assets	Liabilities
Designated as hedging items									
Fair value hedges									
Interest rate contracts									
Swaps	$ 23,658	$ 819	$ 91	$ 17,201	$ 348	$ 67	$ 8,715	$ 230	$ 75
	23,658	819	91	17,201	348	67	8,715	230	75
Foreign exchange contracts									
Forward contracts	223	4	—	264	3	—	208	5	—
Currency swaps	4,013	89	203	5,094	4	349	4,412	268	24
	4,236	93	203	5,358	7	349	4,620	273	24
Total – Fair value hedges	27,894	912	294	22,559	355	416	13,335	503	99
Cash flow hedges									
Interest rate contracts									
Swaps	24,100	692	25	19,776	383	95	19,896	609	164
	24,100	692	25	19,776	383	95	19,896	609	164
Foreign exchange contracts									
Currency swaps	660	—	112	666	—	94	752	3	—
	660	—	112	666	—	94	752	3	—
Total – Cash flow hedges	24,760	692	137	20,442	383	189	20,648	612	164
Total – Designated as hedging items	52,654	1,604	431	43,001	738	605	33,983	1,115	263
Trading purposes									
Interest rate contracts									
Swaps	40,392	724	476	41,963	514	387	61,542	1,018	863
Forward rate agreements	3,137	4	3	11,853	3	2	17,106	5	6
Futures	1,669	2	—	6,520	4	5	17,917	4	12
Options purchased	184	1	—	250	—	—	248	—	—
Options written	191	—	—	800	—	—	248	—	—
Foreign exchange contracts									
Forward contracts	7,029	30	71	4,147	31	70	6,290	57	77
Currency swaps	201	6	1	363	12	16	712	36	10
Options purchased	256	6	—	193	4	—	272	9	—
Options written	258	—	8	168	—	5	311	—	11
	53,317	773	559	66,257	568	485	104,646	1,129	979
Other contracts									
Swaps	3,230	190	106	4,228	174	158	3,922	18	223
Futures	602	—	6	233	3	3	158	—	2
Options purchased	7,352	492	—	6,225	523	—	4,778	385	—
Options written	7,329	—	491	6,091	—	523	4,670	—	385
	18,513	682	603	16,777	700	684	13,528	403	610
Total – Trading purposes	71,830	1,455	1,162	83,034	1,268	1,169	118,174	1,532	1,589
Total derivative financial instruments before impact of master netting agreements	$ 124,484	$ 3,059	$ 1,593	$ 126,035	$ 2,006	$ 1,774	$ 152,157	$ 2,647	$ 1,852
Less impact of master netting agreements(1)	$ —	$ 772	$ 772	$ —	$ 823	$ 823	$ —	$ 2,391	$ 2,391
Total derivative financial instruments after impact of master netting agreements	$ 124,484	$ 2,287	$ 821	$ 126,035	$ 1,183	$ 951	$ 152,157	$ 256	$ (539)

(1) Impact of offsetting credit exposure when Desjardins Group holds master netting agreements without the intent of settling on a net basis or simultaneously.
(2) Certain notional amounts were modified to reflect Desjardins Group's maximum exposure with respect to certain derivative financial instruments. The information as at December 31, 2010, was accordingly modified.

NOTE 18
DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (CONTINUED)

HEDGING ACTIVITIES

The following tables present the expected dates of occurrence of hedged cash flows and the expected maturity dates on which these cash flows will be recognized in the Combined Statements of Income.

	December 31, 2011						
	Maturities						
	Under 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Cash inflows (assets)	$ 410	$ 439	$ 399	$ 353	$ 185	$ 36	$ 1,822
Cash outflows (liabilities)	152	110	718	10	1	—	991
Net cash flows	$ 258	$ 329	$ (319)	$ 343	$ 184	$ 36	$ 831

	December 31, 2010						
	Maturities						
	Under 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Cash inflows (assets)	$ 407	$ 545	$ 497	$ 396	$ 179	$ 44	$ 2,068
Cash outflows (liabilities)	94	77	66	711	1	1	950
Net cash flows	$ 313	$ 468	$ 431	$ (315)	$ 178	$ 43	$ 1,118

COMBINED STATEMENTS OF INCOME

	December 31, 2011						
	Maturities						
	Under 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Interest income	$ 418	$ 438	$ 397	$ 348	$ 171	$ 33	$ 1,805
Interest expense	153	104	23	9	1	—	290
Net impact on surplus earnings	$ 265	$ 334	$ 374	$ 339	$ 170	$ 33	$ 1,515

	December 31, 2010						
	Maturities						
	Under 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Interest income	$ 421	$ 545	$ 493	$ 388	$ 163	$ 42	$ 2,052
Interest expense	94	75	66	8	1	1	245
Net impact on surplus earnings	$ 327	$ 470	$ 427	$ 380	$ 162	$ 41	$ 1,807

The following table presents the reclassification to the Combined Statement of Income for the year of net gains related to derivative financial instruments designated as cash flow hedges for the years ended December 31.

	2011	2010
Interest income	$ 142	$ 109
Interest expense	4	4
	138	105
Income taxes on surplus earnings	33	26
Net surplus earnings for the year after member dividends	$ 105	$ 79

The following table presents the gross amounts related to the ineffectiveness of fair value hedges and cash flow hedges that are recognized under “Net income on securities at fair value through profit or loss” in the Combined Statements of Income for the years ended December 31.

	2011	2010
(Losses) gains on the hedged item	$ (595)	$ 552
Gains (losses) on the derivative instrument	600	(559)
Fair value hedge ineffectiveness	5	(7)
Cash flow hedge ineffectiveness	25	13

NOTE 18

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (CONTINUED)

DERIVATIVE FINANCIAL INSTRUMENTS – CREDIT RISK

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

The following table gives an overview of the derivative financial instruments portfolio of Desjardins Group and the related credit risk, before and after the impact of master netting agreements.

	December 31, 2011				December 31, 2010			
	Notional amount	Replacement cost	Credit risk equivalent	Risk-weighted balance	Notional amount	Replacement cost	Credit risk equivalent	Risk-weighted balance
Interest rate contracts								
Swaps	$ 88,150	$ 2,235	$ 2,621	$ 539	$ 78,940	$ 1,245	$ 1,598	$ 327
Forward rate agreements	3,137	4	8	2	11,853	3	13	4
Futures	1,669	2	—	—	6,520	4	4	—
Options purchased	184	1	1	—	250	—	1	—
Options written	191	—	—	—	800	—	—	—
	93,331	2,242	2,630	541	98,363	1,252	1,616	331
Foreign exchange contracts								
Forward contracts	7,252	34	113	32	4,411	34	81	23
Currency swaps	4,874	95	253	51	6,123	16	233	50
Options purchased	256	6	9	4	193	4	6	2
Options written	258	—	—	—	168	—	—	—
	12,640	135	375	87	10,895	54	320	75
Other contracts								
Swaps	3,230	190	549	81	4,228	174	548	46
Futures	602	—	—	—	233	3	3	—
Options purchased	7,352	492	1,087	217	6,225	523	1,021	204
Options written	7,329	—	—	—	6,091	—	—	—
	18,513	682	1,636	298	16,777	700	1,572	250
Total derivative financial instruments before impact of master netting agreements	$ 124,484	$ 3,059	$ 4,641	$ 926	$ 126,035	$ 2,006	$ 3,508	$ 656
Less impact of master netting agreements(1)	$ —	$ 772	$ —	$ 615	$ —	$ 823	$ —	$ 435
Total derivative financial instruments after impact of master netting agreements	$ 124,484	$ 2,287	$ 4,641	$ 311	$ 126,035	$ 1,183	$ 3,508	$ 221

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

NOTE 18

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (CONTINUED)

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

	December 31, 2011		December 31, 2010	
	Replacement cost	Risk-weighted balance	Replacement cost	Risk-weighted balance
Credit risk rating[1]				
AAA, AA+, AA, AA-	$ 1,455	$ 410	$ 938	$ 322
A+, A, A-	1,517	466	1,003	296
BBB, B, BB-, BBB-	30	18	10	8
Not rated	57	32	55	30
Total	3,059	926	2,006	656
Less impact of master netting agreements[2]	772	615	823	435
Total after master netting agreements	$ 2,287	$ 311	$ 1,183	$ 221
Type of counterparty				
Financial institutions	$ 2,964	$ 891	$ 1,931	$ 627
Other	95	35	75	29
Total	3,059	926	2,006	656
Less impact of master netting agreements[2]	772	615	823	435
Total after master netting agreements	$ 2,287	$ 311	$ 1,183	$ 221

(1) Credit risk ratings are established by recognized credit agencies. Non-rated counterparties are mainly members or clients of Desjardins Group.
(2) Impact of offsetting credit exposure when Desjardins Group holds master netting agreements without the intent of settling on a net basis or simultaneously.

NOTE 19

SIGNIFICANT ACQUISITIONS AND DISPOSALS

ACQUISITION

On April 15, 2011, Desjardins Group, through Desjardins Financial Corporation Inc., a wholly owned subsidiary of the Federation, acquired the control of Western Financial Group Inc. (Western), a financial services company operating in western Canada, by acquiring 94.1 % of its outstanding common shares for a total amount of $285 million. On the same date, Desjardins Group also took up 70,363 and 49,244 Series 3 and Series 4 preferred shares, respectively, for payments totalling $12 million. This acquisition enables Desjardins Group to speed up its development in western Canada.

On July 7, 2011, the shareholders of Western approved the merger of Western with a wholly owned subsidiary of Desjardins Financial Corporation Inc. As part of this merger, Western's issued and outstanding common shares, other than those held by Desjardins Group, were converted into redeemable preferred shares that were immediately redeemed. Further to these transactions, Desjardins Group became the owner of all the outstanding common shares of the merged company.

In the documents related to the takeover bid of Western filed by Desjardins Group, Desjardins indicated that it intended to subsequently acquire all of the common shares that it did not take up as part of the takeover. The acquisition of Western has therefore been recognized as if all the common shares had been acquired as of April 15, 2011. On the date of acquisition, a payable balance of $18 million, corresponding to the redemption amount of the shares, was recorded in that respect under "Other liabilities – Other" in the Combined Statement of Financial Position.

As at the acquisition date, the fair value of the identifiable assets acquired and liabilities assumed is as follows:

Net identifiable assets acquired	
Cash and deposits with financial institutions	$ 78
Securities	119
Loans	339
Other assets	263
Deposits	(299)
Other liabilities	(328)
	172
Goodwill resulting from the acquisition	216
Less:	
Non-controlling interests	73
Total consideration	315
Less:	
Cash and cash equivalents acquired	78
Balance payable to non-controlling common shareholders	18
Net cash used for the acquisition	$ 219

NOTE 19

SIGNIFICANT ACQUISITIONS AND DISPOSALS (CONTINUED)

The gross contractual amount receivable on loans acquired is $340 million, of which an amount of $5 million is not expected to be collected.

Goodwill is attributable to the significant synergies expected to result from the acquisition of Western by Desjardins Group. No portion of the goodwill recognized is tax-deductible.

Non-controlling interests, which consist of the preferred shares of Western not held by Desjardins Group, are measured at fair value, which was established based on Desjardins Group's direct and indirect bids for each of the outstanding series.

Since the acquisition, Western's contribution to Desjardins Group's income and net surplus earnings amounted to $188 million and $16 million, respectively. If the acquisition had occurred at the beginning of the year, Desjardins Group's "Total income" and "Net surplus earnings for the year after member dividends" would have amounted to $13,281 million and $1,351 million, respectively.

Costs of $5 million directly attributable to the acquisition of Western were recognized under "Non-interest expense – Other" in the Combined Statement of Income for the year ended December 31, 2011.

DISPOSAL

On June 1, 2011, Desjardins Group sold its interest in Desjardins Credit Union Inc. (DCU) for an amount of $10 million.

A loss of $3 million related to the disposal of DCU has been recognized under "Other income – Other" in the Combined Statement of Income for the year ended December 31, 2011.

The sale of DCU had the following impact on Desjardins Group's assets and liabilities:

	Carrying amount on the date of disposal
Net assets sold	
Cash and deposits with financial institutions	$ 61
Securities	133
Loans	802
Other assets	8
Deposits	(965)
Other liabilities	(26)
	13
Proceeds from disposal	
Cash	10
Less: Costs directly attributable to the disposal	(1)
Net proceeds from disposal	9
Loss on disposal before the reclassification of unrealized gains on available-for-sale securities	4
Reclassification of unrealized gains on available-for-sale securities	1
Loss on disposal	$ 3

DCU's assets were presented with the data for the Personal Services and Business and Institutional Services segment.

NOTE 20
CAPITAL STOCK

AUTHORIZED

Capital stock comprises qualifying shares, permanent shares and surplus shares.

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

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

The Federation may issue an unlimited number of Class F capital shares with a par value of $10. Class F shares may be issued to members of Desjardins caisses in Quebec, including their auxiliary members. Class F shares are redeemable, with the authorization of the AMF, at the option of the Board of Directors or by private agreement. The repayment of principal and interest is subject to compliance with certain conditions.

ISSUED AND PAID SHARES

	December 31, 2011	December 31, 2010
Qualifying shares	$ 37	$ 37
Permanent shares	2,063	2,008
Surplus shares	110	84
	$ 2,210	$ 2,129

NOTE 21
SHARE CAPITAL

AUTHORIZED

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

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

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

SPECIFIC CHARACTERISTICS OF ISSUED AND PAID CLASS B AND C PREFERRED SHARES

CLASS B PREFERRED SHARES – SERIES 2000, 2002 AND 2003

The dividend rate will be equal to the highest of the average interest rate for the year on non-redeemable term deposits of five years plus 0.50%, or 6.00%, for Series 2000; plus 1.00%, or 5.25%, for Series 2002; and plus 1.00%, or 4.00%, for Series 2003, i.e. the minimum rate. Should the issuer be unable to pay the dividend in full, a partial dividend may be declared. The dividend may be declared every time the issuer's surplus earnings allow it and when all regulatory requirements in terms of funding and cash have been met. The issuer may redeem, upon the holder's request and the holder's board of directors' approval, up to a maximum of 10% of the issued and outstanding shares during the prior year. These shares have been redeemable at the option of the issuer since September 30, 2005, for Series 2000; since July 1, 2007, for Series 2002; and since March 1, 2008, for Series 2003. Redemption of shares can be made only if the issuer does not or will not violate section 84 of the Ontario *Credit Union and Caisses Populaires Act, 1994*, regarding capital adequacy.

NOTE 21

SHARE CAPITAL (CONTINUED)

CLASS C PREFERRED SHARES – SERIES 1996 AND 2002

The dividend rate will be equal to the highest of the following rates: the average interest rate for the year on non-redeemable term deposits of five years plus 0.50%, or 5.75% for Series 1996, and 5.25% for Series 2002, i.e. the minimum rate. Should the issuer be unable to pay the dividend in full, a partial dividend may be declared. The dividend may be declared every time the issuer's surplus earnings allow it and when all regulatory requirements in terms of funding and cash have been met. The issuer may redeem, upon the holder's request and the holder's 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 since May 1, 2008, for Series 2002. Redemption of shares can be made only if the issuer does not or will not violate section 84 of the Ontario *Credit Union and Caisses Populaires Act, 1994*, regarding capital adequacy.

CLASS C PREFERRED SHARES – SERIES 2010

The dividend rate will be equal to the highest of the average interest rate for the year on non-redeemable term deposits of five years plus 0.5%, or 4.25%, i.e. the minimum rate. Should the issuer be unable to pay the dividend in full, a partial dividend may be declared. The dividend may be declared every time the issuer's surplus earnings allow it and when all regulatory requirements in terms of funding and cash have been met. The issuer may redeem, upon the holder's request and the holder's board of directors' approval, up to a maximum of 10% of the issued and outstanding shares of the previous year. They are redeemable at the option of the issuer starting on January 1, 2015. Redemption of shares can be made only if the issuer does not or would not violate section 84 of the Ontario *Credit Union and Caisses Populaires Act, 1994*, regarding capital adequacy.

ISSUED AND PAID SHARES

	Number of shares	2011	Number of shares	2010
Class A preferred shares	684,900	$ 7	468,600	$ 5
Class B preferred shares – Series 2000	50,000	1	50,000	1
Class B preferred shares – Series 2002	380,200	4	365,300	4
Class B preferred shares – Series 2003	655,200	6	648,000	6
Class C preferred shares – Series 1996	—	—	2,144,400	21
Class C preferred shares – Series 2002	—	—	3,342,400	33
Class C preferred shares – Series 2010	6,000,000	60	—	—
		$ 78		$ 70

During 2011, the issuer redeemed the 2,144,400 Class C preferred shares – Series 1996 for an amount of $21 million and the 3,342,400 Class C preferred shares – Series 2002 for an amount of $33 million. It also issued 6,000,000 Class C preferred shares – Series 2010 for an amount of $60 million as well as 216,300 Class A preferred shares, 14,900 Class B preferred shares – Series 2002 and 7,200 Class B preferred shares – Series 2003 for a total amount of $2 million. There was no redemption or issuance of shares in 2010.

During the year ended December 31, 2011, after-tax dividends were paid as follows: $1 million for Class C – Series 1996 (nil in 2010) and $1 million for Class C – Series 2002 (nil in 2010).

NOTE 22

ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	December 31, 2011		December 31, 2010		January 1, 2010	
	Group's share	Non-controlling interests' share	Group's share	Non-controlling interests' share	Group's share	Non-controlling interests' share
Net unrealized gains on available-for-sale securities	$ 381	$ 29	$ 273	$ 31	$ 196	$ 21
Net gains on derivative financial instruments designated as cash flow hedges	663	—	344	—	402	—
Accumulated other comprehensive income	$ 1,044	$ 29	$ 617	$ 31	$ 598	$ 21

NOTE 23

NON-CONTROLLING INTERESTS

Non-controlling interests comprise the following:

	December 31, 2011	December 31, 2010	January 1, 2010
Equity of participating policies of a life and health insurance subsidiary	$ 181	$ 165	$ 163
Common shares of subsidiaries	91	78	64
Preferred shares of subsidiaries	68	—	—
Capital shares of a subsidiary	62	52	42
Units of mutual funds combined in accordance with SIC 12	—	34	67
	$ 402	$ 329	$ 336

For the years ended December 31, "Net surplus earnings for the year after member dividends" attributable to non-controlling interests were as follows:

	2011	2010
Participating policyholders of a life and health insurance subsidiary	$ 15	$ (5)
Common shareholders of subsidiaries and holders of capital shares	18	20
Preferred shareholders of subsidiaries	5	—
	$ 38	$ 15

NOTE 24

NET INCOME ON SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

FINANCIAL INSTRUMENTS HELD FOR TRADING

The following table presents the impact of income from financial instruments held for trading on the Combined Statements of Income for the years ended December 31.

	2011	2010
Income		
Net interest income	$ 12	$ 21
Net income on securities at fair value through profit or loss	289	19
	$ 301	$ 40

FINANCIAL INSTRUMENTS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

The following table presents the impact of income from financial instruments designated as at fair value through profit or loss on the Combined Statements of Income for the years ended December 31.

	2011	2010
Income		
Net interest income	$ 47	$ 48
Net income on securities at fair value through profit or loss	1,417	965
	$ 1,464	$ 1,013

NOTE 25
OTHER INCOME – OTHER AND NON-INTEREST EXPENSE – OTHER

For the years ended December 31, "Other income – Other" appearing in the Combined Statements of Income consisted of the following:

	2011	2010
Foreign exchange income	$ 72	$ 79
Management fees	173	148
Insurance broker commission income	86	–
Other	162	13
	$ 493	$ 240

For the years ended December 31, "Non-interest expense – Other" appearing in the Combined Statements of Income consisted of the following:

	2011	2010
Business and capital taxes	$ 173	$ 169
Expenses related to brokerage activities	371	319
Professional fees	491	359
Other employee expenses	161	149
Expenses related to deposits, services and other	71	84
Sponsorships and donations	81	80
Amortization of intangible assets	68	41
Other	374	532
	$ 1,790	$ 1,733

NOTE 26
INCOME TAXES ON SURPLUS EARNINGS

INCOME TAXES ON SURPLUS EARNINGS FOR THE YEAR

The income tax expense (recovery) on surplus earnings recognized in the Combined Statements of Income for the years ended December 31 is detailed as follows:

	2011	2010
Current income taxes		
Current income tax expense on surplus earnings	$ 432	$ 407
Adjustments for current tax of prior years	(8)	1
Tax recovery on provision for member dividends	(90)	(81)
	334	327
Deferred income taxes		
Origination and reversal of temporary differences	60	35
Changes in tax rates or imposition of new taxes	(13)	(5)
	47	30
Income taxes on surplus earnings	$ 381	$ 357

Income taxes on surplus earnings presented in the Combined Statements of Income for the years ended December 31 are detailed as follows:

	2011	2010
Income taxes on surplus earnings	$ 471	$ 438
Tax recovery on provision for member dividends	(90)	(81)
Income taxes on surplus earnings	$ 381	$ 357

TAX RATE RECONCILIATION

The income tax expense (recovery) on surplus earnings recognized in the Combined Statements of Income for the years ended December 31 differs from the income tax expense (recovery) determined using the Canadian statutory rate for the following reasons:

	2011	2010
Income taxes at the combined statutory rate of 28.60% (29.23% in 2010)	$ 496	$ 445
Eligible small business deduction and additional credit for credit unions	(30)	(51)
Non-taxable investment income and other items	(56)	(56)
Impact of new tax rates	(13)	(5)
Non-deductible expenses	15	23
Adjustments for current tax of prior years	(8)	1
Other	(23)	–
	$ 381	$ 357

The statutory rate reduction is mainly due to the fact that the general federal tax rate was 16.50% in 2011 compared to 18% in 2010.

NOTE 26

INCOME TAXES ON SURPLUS EARNINGS (CONTINUED)

INCOME TAX EXPENSE ON OTHER COMPREHENSIVE INCOME

The income tax expense (recovery) related to each component of other comprehensive income for the year is presented in the following table for the years ended December 31.

	2011	2010
Net unrealized gains on available-for-sale securities	$ 90	$ 39
Reclassification to the Combined Statements of Income of gains on available-for-sale securities	(48)	(15)
Net gains on derivative financial instruments designated as cash flow hedges	140	6
Reclassification to the Combined Statements of Income of gains on derivative financial instruments designated as cash flow hedges	(33)	(26)
Total income tax expense	$ 149	$ 4
Composition of income tax expense		
Current income taxes	$ 24	$ 21
Deferred income taxes	125	(17)
	$ 149	$ 4

INCOME TAX EXPENSE ON ITEMS OF THE COMBINED STATEMENTS OF CHANGES IN EQUITY

Current income taxes recognized in the Combined Statements of Changes in Equity for the years ended December 31 are detailed as follows:

	2011	2010
Recovery of current income taxes related to remuneration on permanent shares	$ (25)	$ (23)

DEFERRED INCOME TAXES

The sources of deferred income taxes are as follows:

	Combined Statements of Financial Position			Combined Statements of Income	
	December 31, 2011	December 31, 2010	January 1, 2010	2011	2010
Deferred tax assets					
Insurance and investment contract liabilities	$ 98	$ 179	$ 263	$ 80	$ 84
Allowance for credit losses	74	96	93	7	(1)
Defined benefit liability	530	528	535	(1)	8
Tax losses	115	127	225	8	57
	817	930	1,116	94	148
Deferred tax liabilities					
Property, plant and equipment and investment property	103	102	94	(22)	10
Securities and other financial instruments	275	176	262	(21)	(100)
Other	14	39	111	(4)	(28)
	392	317	467	(47)	(118)
Net deferred income tax assets	$ 425	$ 613	$ 649	$ 47	$ 30

Deferred tax assets and liabilities are presented as follows in the Combined Statements of Financial Position:

	December 31, 2011	December 31, 2010	January 1, 2010
Deferred tax assets(1)	$ 856	$ 871	$ 894
Deferred tax liabilities(1)	431	258	245
	$ 425	$ 613	$ 649

(1) Deferred income taxes will reverse mainly in the long term.

The amount of deductible temporary differences, tax losses and tax credits for which no deferred tax assets have been recognized in the Combined Statements of Financial Position was $3 million ($5 million as at December 31, 2010). These amounts do not expire.

NOTE 27
DEFINED BENEFIT PLANS

CHANGE IN DEFINED BENEFIT PLAN LIABILITIES

Defined benefit plan liabilities are as follows:

	December 31, 2011				December 31, 2010			
	Group pension plans	Other group plan(1)	Other(2)	Total	Group pension plans	Other group plan(1)	Other(2)	Total
Change in defined benefit plan obligation								
Defined benefit plan obligation at beginning of year	$ 7,814	$ 556	$ 158	$ 8,528	$ 6,434	$ 512	$ 131	$ 7,077
Current service cost	215	15	6	236	162	13	5	180
Interest cost	423	30	8	461	398	31	8	437
Participants' contributions	158	—	—	158	144	—	1	145
Benefits paid	(260)	(19)	(6)	(285)	(226)	(17)	(7)	(250)
Actuarial losses (gains)	(20)	22	7	9	906	18	22	946
Other changes	4	—	(11)	(7)	(4)	(1)	(2)	(7)
Defined benefit plan obligation at end of year	$ 8,334	$ 604	$ 162	$ 9,100	$ 7,814	$ 556	$ 158	$ 8,528
Change in fair value of plan assets								
Fair value of plan assets at beginning of year	$ 5,652	$ —	$ 40	$ 5,692	$ 4,944	$ —	$ 32	$ 4,976
Expected return on plan assets	416	—	2	418	365	—	2	367
Actuarial (losses) gains	(366)	—	(4)	(370)	170	—	1	171
Employers' contributions	274	—	5	279	251	—	5	256
Participants' contributions	158	—	—	158	144	—	1	145
Benefits paid	(259)	—	(1)	(260)	(225)	—	(1)	(226)
Other changes	4	—	(9)	(5)	3	—	—	3
Fair value of plan assets at end of year	$ 5,879	$ —	$ 33	$ 5,912	$ 5,652	$ —	$ 40	$ 5,692
Funding status at end of year	$ (2,455)	$ (604)	$ (129)	$ (3,188)	$ (2,162)	$ (556)	$ (118)	$ (2,836)
Unamortized actuarial losses	1,078	41	19	1,138	735	18	19	772
Unrecognized past service costs	1	(56)	3	(52)	1	(63)	1	(61)
Defined benefit plan liabilities	$ (1,376)	$ (619)	$ (107)	$ (2,102)	$ (1,426)	$ (601)	$ (98)	$ (2,125)
Funding status								
Funded plans								
Defined benefit plan liabilities	$ 8,281	$ —	$ 50	$ 8,331	$ 7,766	$ —	$ 55	$ 7,821
Fair value of plan assets	5,879	—	33	5,912	5,652	—	40	5,692
	$ (2,402)	$ —	$ (17)	$ (2,419)	$ (2,114)	$ —	$ (15)	$ (2,129)
Unfunded plans								
Defined benefit plan liabilities	$ 53	$ 604	$ 112	$ 769	$ 48	$ 556	$ 103	$ 707
	$ (53)	$ (604)	$ (112)	$ (769)	$ (48)	$ (556)	$ (103)	$ (707)

(1) Medical, dental and life insurance plan.
(2) Pension plans and medical, dental and life insurance plans not representing group plans.

As at January 1, 2010, the liabilities with respect to group pension plans, the other group plan and the other plans amounted to $1,484 million, $581 million and $98 million, respectively, which corresponds to the plan obligation less the fair value of plan assets, if any, as at January 1, 2010.

PRINCIPAL ACTUARIAL ASSUMPTIONS

The principal actuarial assumptions used to measure the defined benefit plan obligation and the defined benefit plan cost are as follows:

	December 31, 2011		December 31, 2010		January 1, 2010	
	Group pension plans	Other group plan(2)	Group pension plans	Other group plan(2)	Group pension plans	Other group plan(2)
Discount rate for the obligation	5.00%	5.00%	5.25%	5.25%	6.00%	6.00%
Expected rate of salary increases	3.00	3.00	3.00	3.00	3.50	3.50
Discount rate for the cost	5.25	5.25	6.00	6.00	—	—
Expected rate of return on plan assets(1)	7.25	—	7.25	—	7.25	—
Estimated annual growth rate for covered health-care cost	—	5.73	—	7.18	—	9.12
Expected average remaining working life of employees	12.38 years	10.77 years	12.19 years	10.64 years	12.26 years	10.12 years

(1) Expected rates of return on plan assets are based on market prices, including broker projections, at the reporting date and applicable to the period over which the obligation must be settled.
(2) Medical, dental and life insurance plan.

NOTE 27

DEFINED BENEFIT PLANS (CONTINUED)

SENSITIVITY OF KEY ASSUMPTIONS IN 2011

Because of the long-term nature of employee benefits, there are significant uncertainties related to the recognition of balances surrounding the assumptions used. The following table shows the impact of a one percentage point change in key assumptions on the defined benefit plan obligation and the defined benefit plan cost recognized.

	December 31, 2011	
	Change in defined benefit plan obligation	Change in defined benefit plan cost recognized
Group pension plans		
Discount rate		
1% increase	$ (1,262)	$ (68)
1% decrease	1,670	87
Expected rate of salary increases		
1% increase	445	57
1% decrease	(363)	(46)
Long-term rate of return on plan assets		
1% increase	—	(57)
1% decrease	—	57
Other group plan		
Discount rate		
1% increase	(86)	(2)
1% decrease	111	3
Rate of increase in future compensation		
1% increase	9	1
1% decrease	(8)	(1)
Health-care costs		
1% increase	64	6
1% decrease	(51)	(4)

ALLOCATION OF PENSION PLAN ASSETS

The fair value of the group pension plan assets is detailed as follows, as a percentage:

	December 31, 2011	December 31, 2010	January 1, 2010
Major asset categories			
Shares	40.1%	41.8%	43.1%
Bonds	29.9	30.7	29.9
Real property	12.7	11.7	12.2
Other	17.3	15.8	14.8

As at December 31, 2011, the plan held eligible investments in money market securities and segregated funds issued by Desjardins Group entities having a total fair value of $136 million ($237 million as at December 31, 2010, and $224 million as at January 1, 2010).

DEFINED BENEFIT PLAN COST RECOGNIZED

The amounts recognized in profit or loss under "Salaries and fringe benefits" for the years ended December 31 are as follows:

	2011			2010		
	Group pension plans	Other group plan[(1)]	Other[(2)]	Group pension plans	Other group plan[(1)]	Other[(2)]
Current service cost	$ 215	$ 10	$ 6	$ 162	$ 8	$ 5
Interest cost	423	30	8	398	31	8
Expected return on plan assets	(416)	—	(2)	(365)	—	(2)
Net actuarial gains recognized during the year	2	—	8	—	—	—
Past service cost	—	(7)	1	—	(7)	—
Other	(1)	—	—	(1)	—	(2)
	$ 223	$ 33	$ 21	$ 194	$ 32	$ 9

(1) Medical, dental and life insurance plan.
(2) Pension plans and medical, dental and life insurance plans not representing group plans.

For the year ended December 31, 2011, the actual return on plan assets was $49 million ($538 million in 2010).

EXPECTED CONTRIBUTIONS FOR 2012

Desjardins Group expects to contribute $331 million to its defined benefit pension plans in the next year.

NOTE 28
COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

COMMITMENTS

COMMITMENTS RELATED TO FINANCIAL INSTRUMENTS WITH CONTRACTUAL AMOUNTS REPRESENTING A CREDIT RISK

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

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

	December 31, 2011	December 31, 2010
Commitments made		
Guarantees and standby letters of credit	$ 733	$ 750
Securities lending(1)	1,512	1,407
Credit commitments		
Original term of one year or less	50,260	46,909
Original term of over one year	5,444	3,847

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

GUARANTEES AND STANDBY LETTERS OF CREDIT

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

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

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 commission under the terms of a pre-arranged contract.

In securities lending transactions, the loans must at all times be secured by the borrower (secured by marketable securities generally issued by the federal and provincial governments). There is a risk of loss if the borrower defaults on its commitments and the value of the collateral is not adequate to cover the amount of the loan. The credit risk related to these transactions is considered to be minimal since Desjardins Group deals only with reputable stock brokerage firms and financial institutions. Furthermore, the borrower pledges securities of a value that is at least equivalent to the amount of the loan adjusted on a daily basis. The securities lending transactions for which securities were received as collateral are included in the table above whereas the securities lending transactions of $8,500 million as at December 31, 2011, ($10,608 million in 2010) for which cash was received as collateral are excluded from the table above because they are recorded in the Combined Statements of Financial Position 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.

Additional information on these commitments is provided under "Securities – Asset-backed commercial paper" in Note 7, "Securities".

GUARANTEES

MAXIMUM POTENTIAL AMOUNT OF FUTURE PAYMENTS

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

	December 31, 2011	December 31, 2010
Guarantees and standby letters of credit	$ 733	$ 750
Credit default swaps	854	716
Guarantee for securities lending with indemnification	2,862	2,488
	$ 4,449	$ 3,954

NOTE 28

COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES (CONTINUED)

CREDIT DEFAULT SWAPS

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

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

The underlying assets for the swaps are credit derivatives within high-quality securitization structures. The swaps mature on various dates through 2016.

GUARANTEE FOR SECURITIES LENDING WITH INDEMNIFICATION

As part of its custodial activities, Desjardins Group entered into securities lending agreements with members and clients under which Desjardins Group obtains guarantees in order to protect itself against any potential losses. The guarantee for securities lending with indemnification represents the contractual amount of members' and clients' securities for which Desjardins Group is the custodian. As at December 31, 2011, commitments related to securities lent or sold under repurchase agreements of $8,500 million ($10,608 million in 2010) included securities lending with indemnification for which a cash amount of $1,895 million ($1,545 million in 2010) was received as a guarantee. An additional amount of $967 million ($943 million in 2010) received as securities was included in the "Maximum potential amount of future payments" table.

OTHER INDEMNIFICATION AGREEMENTS

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

FINANCIAL ASSETS PLEDGED AS COLLATERAL

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

	December 31, 2011	December 31, 2010
Financial assets pledged as collateral to the following counterparties:		
Bank of Canada	$ 137	$ 132
Clearing systems, payment systems and depositories(1)	7,817	7,481
Financial assets pledged as collateral for the following transactions:		
Transactions on derivative financial instruments	73	169
Securities borrowing	159	339
Commitments related to securities lent or sold under repurchase agreements	7,385	9,849
Covered bonds	1,157	—
Other	—	16
	$ 16,728	$ 17,986

(1) In the normal course of its operations, Desjardins Group must pledge collateral to the Bank of Canada for the use of the Large Value Transfer System. In 2010, the Bank of Canada allowed Desjardins Group to pledge as collateral assets other than securities. Therefore, Desjardins Group used credit card receivables having a carrying amount of $7,530 million as at December 31, 2011 ($7,301 million in 2010).

FINANCIAL ASSETS HELD AS COLLATERAL

As at December 31, 2011, the fair value of the financial assets held as collateral, which Desjardins Group is permitted to sell or repledge in the absence of default, totalled $5,610 million ($7,308 million as at December 31, 2010). The fair value of financial assets accepted as collateral which have been sold or repledged amounted to $252 million ($130 million as at December 31, 2010).

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

As at December 31, 2011, Desjardins Group had not entered into any securities-lending transactions in exchange for securities for which such securities had been repledged or relent.

NOTE 28

COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES (CONTINUED)

CONTINGENT LIABILITIES

Desjardins Group was identified in a class action suit to reimburse foreign currency exchange fees charged to consumers holding VISA Desjardins cards. The Superior Court of Québec allowed the class action by ruling that foreign currency exchange fees are credit fees under the *Consumer Protection Act* and required Desjardins Group to reimburse such fees under terms and conditions that will be set in the future by the Court. A notice of appeal has been filed with the Appeal Court to bring out the determining mistakes of law and of facts that affected, in Desjardins Group's opinion, this judgment. The appeal was heard by the Court of Appeal of Québec in September 2011, and the Court deferred its decision.

Desjardins Group is party to various business litigation matters and lawsuits arising in the course of normal business activities and relating, among other things, to loan portfolios, investment portfolios, supplier agreements, insurance operations and insurance product distribution. Many of these lawsuits are in connection with measures taken by entities to collect impaired loans and to exercise their rights with respect to assets given as collateral for a loan. In management's opinion, the fair value of the contingent liabilities resulting from these lawsuits is not material and would not have a significant impact on the financial position of Desjardins Group.

NOTE 29

LEASES

LEASES – AS LESSEE

OPERATING LEASE

The minimum future commitments under leases for premises and equipment for the years ended December 31 are presented in the following table:

	2011	2010
Under 1 year	$ 87	$ 76
1 to 5 years	265	253
Over 5 years	191	192
	543	521
Total future minimum sublease payments to be received	$ (1)	$ (7)

Lease payments recognized as an expense for the years ended December 31 are as follows:

	2011	2010
Minimum payments	$ 84	$ 69
Sublease income	(7)	—
	$ 77	$ 69

LEASES – AS LESSOR

OPERATING LEASE

For the years ended December 31, future minimum lease payments to be received under non-cancellable leases for premises and equipment are as follows:

	2011	2010
Under 1 year	$ 96	$ 70
1 to 5 years	221	156
Over 5 years	169	110
Total future minimum payments	$ 486	$ 336

Total contingent rents recognized as income for the year ended December 31, 2011, were $2 million ($1 million in 2010).

NOTE 30

FINANCIAL INSTRUMENT RISK MANAGEMENT

Desjardins Group is exposed to different types of financial instrument risks in the normal course of operations, including credit risk, market risk and liquidity risk. The manner in which Desjardins Group assesses its risks as well as the objectives, policies and methods it uses to manage them are presented in Section 4.1, "Risk Management", of the Management's Discussion and Analysis. The shaded boxes containing text and tables presented in that section are an integral part of these Combined Financial Statements.

NOTE 31

INTEREST RATE SENSITIVITY AND MATURITY MATCHING

The following table presents the exposure to interest rate risks. Financial instruments are presented based on their maturity date or repricing date, whichever is the earlier.

	December 31, 2011							
	Floating rate	Under 3 months	3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Non-interest-sensitive and provisions	Total
Assets								
Cash and deposits with financial institutions	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,356	$ 1,356
Securities	952	3,841	994	2,523	17,034	13,984	1,877	41,205
Effective interest rate		*1.50%*	*1.69%*	*2.19%*	*2.29%*	*4.34%*		
Securities borrowed or purchased under reverse repurchase agreements	—	738	—	—	—	—	4,221	4,959
Effective interest rate		*1.00%*						
Loans	44,700	13,374	10,520	17,083	36,528	2,680	269	125,154
Effective interest rate		*3.73%*	*4.48%*	*4.34%*	*4.86%*	*5.48%*		
Segregated fund assets and other(1)	—	(1,558)	—	10	1,643	—	17,368	17,463
	45,652	16,395	11,514	19,616	55,205	16,664	25,091	190,137
Liabilities and equity								
Deposits	13,452	13,857	6,198	15,727	42,668	2,147	29,354	123,403
Effective interest rate		*1.27%*	*2.19%*	*2.10%*	*2.69%*	*3.60%*		
Commitments related to securities sold short	112	241	57	35	1,849	3,040	7	5,341
Effective interest rate		*2.50%*	*2.90%*	*2.11%*	*3.04%*	*3.40%*		
Commitments related to securities lent or sold under repurchase agreements	—	1,937	—	—	—	—	6,563	8,500
Effective interest rate		*0.99%*						
Insurance and investment contract liabilities	—	—	—	—	—	—	17,008	17,008
Other liabilities(1)	—	712	2	8	(371)	2	18,557	18,910
Subordinated bonds	—	—	—	—	—	3,350	—	3,350
Effective interest rate						*5.10%*		
Equity	—	—	—	—	—	—	13,625	13,625
	13,564	16,747	6,257	15,770	44,146	8,539	85,114	190,137
Sensitivity gap – Combined Statement of Financial Position items	32,088	(352)	5,257	3,846	11,059	8,125	(60,023)	—
Sensitivity gap – Derivative financial instruments, based on notional amounts	228	(23,347)	(1,604)	(2,436)	23,837	3,322	—	—
Total interest rate sensitivity gap	$ 32,316	$ (23,699)	$ 3,653	$ 1,410	$ 34,896	$ 11,447	$ (60,023)	$ —

	December 31, 2010							
	Floating rate	Under 3 months	3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Non-interest-sensitive and provisions	Total
Total assets	$ 39,925	$ 19,573	$ 9,146	$ 15,987	$ 54,926	$ 15,252	$ 24,122	$ 178,931
Total liabilities and equity	15,614	15,269	5,868	15,147	44,155	7,385	75,493	178,931
Sensitivity gap – Combined Statement of Financial Position items	24,311	4,304	3,278	840	10,771	7,867	(51,371)	—
Sensitivity gap – Derivative financial instruments, based on notional amounts	83	(18,870)	(673)	(1,907)	18,957	2,410	—	—
Total interest rate sensitivity gap	$ 24,394	$ (14,566)	$ 2,605	$ (1,067)	$ 29,728	$ 10,277	$ (51,371)	$ —

(1) Segregated fund assets and liabilities are not exposed to interest rate risk. For more information, see Note 10, "Segregated funds".

NOTE 32
CAPITAL MANAGEMENT

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

With respect to regulatory capital, the capital adequacy and composition of Desjardins Group as a whole are evaluated against the guideline on adequacy of capital base standards issued by the AMF. The AMF requires that a minimum capital be maintained on a combined basis by all the components, mainly the caisses, the Federation (non-consolidated), *Caisse centrale Desjardins*, *Fonds de sécurité Desjardins*, *Capital Desjardins inc.*, Western Financial Group Inc., Desjardins Securities Inc. and Desjardins Trust Inc. This capital takes into consideration investments made in other Desjardins Group components.

Capital management is the responsibility of Desjardins Group's Board of Directors. To support them with this task, they have mandated the Finance and Risk Management Committee and the Asset/Liability Committee to ensure that Desjardins Group has a sufficient and reliable capital base. Therefore, the Finance and Treasury Executive Division and Office of the CFO of Desjardins Group prepares every year, with the help of Desjardins Group's components, a capitalization plan that, combined with the integrated capital management framework, sets and updates capital objectives and targets for all of the components.

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

The regulatory capital of Desjardins Group, which constitutes capital, differs from the equity disclosed on the Combined Statements of Financial Position. It comprises two classes: Tier 1 and Tier 2 capital.

Tier 1 capital includes more permanent capital items than Tier 2 capital. It consists of eligible capital stock, reserves, undistributed surplus earnings and non-controlling interests. Goodwill is deducted from that total. Tier 2 capital consists of subordinated bonds, eligible preferred and qualifying shares and the eligible portion of the collective allowance for credit losses. As prescribed by current AMF guidelines, investments in insurance companies and affiliated companies as well as unrated securitization exposures are not combined for purposes of computing risk assets but are deducted from Tier 2 capital up to the amount of Tier 2 capital. Any excess is deducted from Tier 1 capital.

In terms of developing the Integrated Capital Management Framework, the financial goal for Desjardins Group's Tier 1 capital ratio was maintained at a minimum of 15% (the same level as for the total capital ratio), taking into account the global economic context, new regulatory requirements announced by the BIS with respect to Basel III (in effect as of January 1, 2013) and the implementation of IFRS as a new accounting framework. In that respect, as at January 1, 2011—the date of conversion to IFRS—Desjardins Group elected to use the transitional provisions of the Notice issued by the AMF. This election is irrevocable and helps mitigate the impact of the new standards through a quarterly adjustment of Desjardins Group's undistributed surplus earnings over a two-year period ending December 31, 2012. Accordingly, for purposes of calculating the Tier 1 capital ratio, Desjardins Group has amortized, since January 1, 2011, the eligible portion of the IFRS impact of $1,157 million on a straight-line basis and will do so until December 31, 2012.

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

NOTE 32

CAPITAL MANAGEMENT (CONTINUED)

The following table presents the composition of Desjardins Group's regulatory capital.

(in millions of dollars)

	December 31, 2011[1]	December 31, 2010[1]
Tier 1 capital		
Eligible capital stock	$ 2,186	$ 2,137
Reserves	9,032	9,198
Undistributed surplus earnings	1,236	1,102
Deferral attributable to IFRS adoption	578	—
Non-controlling interests	60	50
Goodwill	(336)	(109)
Other deductions[2]	(423)	(345)
Total Tier 1 capital	12,333	12,033
Tier 2 capital		
Subordinated bonds	3,363	2,818
Eligible collective allowance	256	230
Other eligible securities	110	71
Non-controlling interests	68	—
Unrealized cumulative gains on available-for-sale securities (net of taxes)	—	2
Other deductions[2]	(2,379)	(2,448)
Total Tier 2 capital	1,418	673
Total regulatory capital	$ 13,751	$ 12,706

(1) As required by the AMF, the 2011 data are calculated using financial data prepared in accordance with IFRS. The 2010 data were calculated from financial data prepared in accordance with Canadian GAAP.
(2) Includes mainly the provision deficit related to the Internal Ratings-Based Approach, unrated securitization exposures and investments in unconsolidated subsidiaries for regulatory capital purposes (mainly Desjardins Financial Security, Life Assurance Company and Desjardins General Insurance Group Inc., net of the unamortized balance of the impact of IFRS adoption on these investments) and in associates.

Desjardins Group's regulatory capital amounted to $13,571 million at the reporting date, up $1,045 million from December 31, 2010. This increase is mainly explained by the surplus earnings for the year of $1,317 million and the issuance of subordinated bonds of $500 million, offset by the unamortized impact of IFRS adoption of $534 million and the deduction of goodwill of $227 million resulting from the acquisition of Western Financial Group Inc.

The capital adequacy of Quebec caisses and *Caisse centrale Desjardins* is governed by standards established by the Federation. The standards draw on those of the AMF and address capital base adequacy, items comprising capital base and proportions between those items.

Desjardins Financial Security is also governed by the AMF under its provincial charter. It must also respect the standards set by the regulatory authorities of the other provinces and territories in which it does business. In Quebec, insurance companies must comply with the capital adequacy requirements of the AMF in order to support their solvency.

Desjardins General Insurance Group Inc. is subject to the following regulatory requirements: to support their solvency, property and casualty insurance subsidiaries in Quebec must comply with the capital adequacy requirements issued by the AMF through the Minimum Capital Test (MCT), while subsidiaries outside Quebec must comply with the MCT requirements issued by OSFI.

The life and health insurance subsidiary of WesternFinancial Group Inc. is governed by OSFI under its federal charter and must comply with the Minimum Continuing Capital and Surplus Requirements. The property and casualty insurance subsidiary of Western Financial Group Inc. is also governed by OSFI and must comply with the MCT requirements. The banking subsidiary of Western Financial Group Inc. is subject to OSFI's Guideline A-1 on capital adequacy requirements.

The capital adequacy of the *Fédération des caisses populaires de l'Ontario* and associated caisses is governed by a regulation and guidelines issued by the Financial Services Commission of Ontario and the Deposit Insurance Corporation of Ontario. Overall, although they present certain differences, these guidelines are similar to those issued by the AMF. Desjardins Trust Inc., which is of federal jurisdiction, is governed by OSFI under a regulatory system which is, for all practical purposes, identical to the guidelines issued by the AMF.

Finally, Desjardins Securities Inc. is regulated by the Investment Industry Regulatory Organization of Canada (IIROC). This subsidiary must have at all times a risk-adjusted capital of more than 0, as calculated in accordance with the IIROC by-laws.

Desjardins Group, as well as all its components subject to regulatory requirements with respect to minimum capital, are in compliance with those as at December 31, 2011, as they were in 2010.

NOTE 33
SEGMENTED INFORMATION

Desjardins Group is made up of the following business segments and the Other category: Personal Services and Business and Institutional Services; Wealth Management and Life and Health Insurance; and Property and Casualty Insurance. These business segments have been structured according to the needs of members and clients as well as the markets in which Desjardins Group operates. Financial information related to activities that are not specific to a business segment is presented under the Other category.

The Personal Services and Business and Institutional Services business segment offers Desjardins Group's members and clients a broad range of regular financial products and services mainly distributed through the caisse network. It also makes its products available through complementary networks and *Caisse centrale Desjardins*.

The Wealth Management and Life and Health Insurance business segment offers to members and clients a range of advisory services and products adapted to the evolving asset management and financial security needs of individuals. These products are distributed through the caisse network and complementary networks.

The Property and Casualty Insurance business segment provides a range of automobile and home insurance products to Desjardins Group's members and clients, both individuals and businesses. In addition to being offered through the caisse network, these products are distributed by many client care centres, through the Internet and, in some instances, by smartphone. In addition, the Property and Casualty Insurance business segment has included the operations of Western Financial Group Inc. since April 15, 2011, the date of its acquisition.

The Other category includes financial information that is not specific to a business segment and intersegment balance eliminations. It primarily includes treasury activities related to *Caisse centrale Desjardins*'s operations and to the management of the caisses' liquidities. This category also includes the results of the support functions provided by the Federation to Desjardins Group as a whole, the operating results related to ABTN securities held by Desjardins Group and the activities of *Capital Desjardins inc.*

Since 2011, Desjardins Group has presented the results of its administrative operations in the Other category. Administrative operation expenses are charged to the various business segments through billing or management fees. This new basis of presentation allows Desjardins Group to provide disclosures that are more representative of the operating results of each business segment. Segmented information for the corresponding year has been restated to conform to this new basis of presentation.

Intersegment transactions are recognized at the exchange amount, which represents the amount agreed to by the various legal entities and business units. The terms and conditions of these transactions are comparable to those offered on financial markets. The results of the main segments reflect data collected by internal financial reporting systems and are consistent with the policies used in preparing the Combined Financial Statements of Desjardins Group.

RESULTS BY BUSINESS SEGMENT

The following tables provide a summary of Desjardins Group's financial results by business segment for the years ended December 31.

	2011				
	Personal Services and Business and Institutional Services	Wealth Management and Life and Health Insurance	Property and Casualty Insurance	Other	Combined
Net interest income	$ 3,715	$ 4	$ 11	$ 191	$ 3,921
Net premiums	—	3,261	1,785	(195)	4,851
Other income[1]	1,739	2,637	252	(194)	4,434
Total income	5,454	5,902	2,048	(198)	13,206
Provision for credit losses	236	—	1	—	237
Claims, benefits, annuities and changes in insurance and investment contract liabilities	—	3,994	1,299	(1)	5,292
Non-interest expense	3,884	1,560	550	(370)	5,624
Operating surplus earnings	1,334	348	198	173	2,053
Income taxes on surplus earnings	347	68	54	2	471
Surplus earnings before member dividends[2]	987	280	144	171	1,582
Provision for member dividends, net of income tax recovery	230	7	—	(7)	230
Net surplus earnings for the year after member dividends	$ 757	$ 273	$ 144	$ 178	$ 1,352
of which:					
Group's share	$ 756	$ 257	$ 127	$ 174	$ 1,314
Non-controlling interests' share	1	16	17	4	38

(1) Includes "Deposit and payment service charges", "Lending fees and credit card service revenues", "Brokerage, investment fund and trust services", "Net income on securities at fair value through profit or loss", "Net income on available-for-sale securities", "Net other investment income" and "Other income – Other".
(2) As at December 31, 2011, the Group's share of "Surplus earnings before member dividends" was $986 million for the Personal Services and Business and Institutional Services segment, $264 million for the Wealth Management and Life and Health Insurance segment, $127 million for the Property and Casualty Insurance segment and $167 million for the Other category.

NOTE 33

SEGMENTED INFORMATION (CONTINUED)

	2010				
	Personal Services and Business and Institutional Services	Wealth Management and Life and Health Insurance	Property and Casualty Insurance	Other	Combined
Net interest income	$ 3,679	$ 3	$ —	$ 210	$ 3,892
Net premiums	—	3,015	1,524	(179)	4,360
Other income(1)	1,553	1,839	108	(209)	3,291
Total income	5,232	4,857	1,632	(178)	11,543
Provision for credit losses	204	(1)	—	—	203
Claims, benefits, annuities and changes in insurance and investment contract liabilities	—	3,081	1,056	(1)	4,136
Non-interest expense	3,779	1,456	389	(244)	5,380
Operating surplus earnings	1,249	321	187	67	1,824
Income taxes on surplus earnings	315	72	56	(5)	438
Surplus earnings before member dividends(2)	934	249	131	72	1,386
Provision for member dividends, net of income tax recovery	218	6	—	(6)	218
Net surplus earnings for the year after member dividends	$ 716	$ 243	$ 131	$ 78	$ 1,168
of which:					
Group's share	$ 714	$ 247	$ 118	$ 74	$ 1,153
Non-controlling interests' share	2	(4)	13	4	15

(1) Includes "Deposit and payment service charges", "Lending fees and credit card service revenues", "Brokerage, investment fund and trust services", "Net income on securities at fair value through profit or loss", "Net income on available-for-sale securities", "Net other investment income" and "Other income – Other".
(2) As at December 31, 2010, the Group's share of "Surplus earnings before member dividends" was $932 million for the Personal Services and Business and Institutional Services segment, $253 million for the Wealth Management and Life and Health Insurance segment, $118 million for the Property and Casualty insurance segment and $68 million for the Other category.

SEGMENT ASSETS

	Personal Services and Business and Institutional Services	Wealth Management and Life and Health Insurance	Property and Casualty Insurance	Other	Combined
December 31, 2011	$ 152,369	$ 26,358	$ 4,908	$ 6,502	$ 190,137
December 31, 2010	$ 147,594	$ 23,280	$ 3,432	$ 4,625	$ 178,931
January 1, 2010	$ 135,459	$ 19,814	$ 3,094	$ 3,069	$ 161,436

NOTE 34

RELATED PARTY DISCLOSURES

TRANSACTIONS WITH DESJARDINS GROUP'S RELATED PARTIES

The Combined Financial Statements reflect certain transactions carried out with associates, joint ventures and other related parties. All these transactions were entered into under normal market terms and conditions and were initially recognized at fair value. Since the transactions carried out and balances outstanding at the reporting date between the various companies included in the scope of the Group of Desjardins Group are entirely eliminated in the Combined Financial Statements, only the portion that is not eliminated in consolidation is presented in the following table.

The main related party transactions include fund management and custody fees and rents paid with respect to real estate. They also include management income from pension plans and interest expense paid on bonds to the Desjardins Group Pension Plan. The main assets with related parties include investments in funds and amounts receivable, while the main liabilities include amounts payable.

These transactions and balances as at the reporting dates are as follows:

	2011			2010		
	Associates	Other related parties(1)	Total	Associates	Other related parties(1)	Total
Combined Statements of Income						
Brokerage, investment fund and trust services	$ 1	$ 240	$ 241	$ 2	$ 222	$ 224
Other	4	57	61	7	50	57
Combined Statements of Financial Position						
Securities borrowed or purchased under reverse repurchase agreements	$ —	$ 2	$ 2	$ —	$ 43	$ 43
Loans	30	—	30	41	—	41
Other assets	4	23	27	4	30	34
Deposits(2)	—	338	338	3	243	246
Other liabilities	1	13	14	2	24	26

(1) Other related parties include the benefit plans for Desjardins Group employees (see Note 27, "Defined benefit plans"), Desjardins Funds, *Fonds Gestion Placements Desjardins*, *Fondation Desjardins*, *Développement international Desjardins* and *Capital régional et coopératif Desjardins*. Desjardins Group's funded pension plans are administered by a pension committee who represents the employers and employees of Desjardins Group.
(2) For 2011, deposits were bearing interest at rates ranging from 1.00% to 3.75%. An amount of $14 million was payable on demand, an amount of $286 million was payable in January 2012, and the balance was payable at various dates until 2017. For 2010, deposits amounting to $103 million were bearing interest at rates ranging from 1.00% to 1.05% and were payable on a fixed date in January 2011, an amount of $127 million was bearing interest at a floating rate and was payable on demand and the balance was bearing interest at rates ranging from 0.9% and 7.14% and was payable at various dates until 2015.

NOTE 34
RELATED PARTY DISCLOSURES (CONTINUED)

KEY MANAGEMENT PERSONNEL REMUNERATION

Key management personnel of Desjardins Group comprise the members of the Board of Directors and the members of the Desjardins Group Management Committee of Desjardins Group. These persons have the authority and responsibility for planning, directing and controlling the activities of Desjardins Group. In the normal course of operations, Desjardins Group carries out financial transactions with its management personnel. In addition to the compensation paid to Desjardins Group's key management personnel, the main financial transactions also include routine financial intermediation transactions as well as wealth management, life and health insurance and property and casualty insurance transactions with the various Group entities. These transactions were entered into under terms and conditions equivalent to those of arm's length transactions and were initially recognized at fair value.

For the years ended December 31, the compensation of Desjardins Group's key management personnel was as follows:

	2011	2010
Short-term benefits	$ 15	$ 11
Post-employment benefits	4	2
Other long-term benefits	6	4
	$ 25	$ 17

VALUE-ADDED COOPERATIVE GOVERNANCE

Desjardins Group, the leading cooperative financial group in Canada and the sixth largest in the world, has a cooperative corporate governance structure that fosters dynamic participatory democracy. Desjardins Group conforms to industry best practices and regulators' requirements, making the adaptations necessary to uphold the cooperative model. The quality of Desjardins Group's governance stems from the continued contribution of thousands of elected officers who are all committed to ensuring the long-term continuity of Desjardins Group and to contributing to the sustainable prosperity of communities.

Desjardins's mission, democratic processes and high standards in social responsibility set it apart from the banks. These characteristics are reflected in Desjardins's initiatives to improve the economic, social and environmental well-being of people and communities.

The year 2011 saw the adoption of an extensive program designed to help Desjardins members, clients, employees and elected officers as well as the general public become better educated about cooperation, democracy and the economy. Turning talk into action, Desjardins chose to allot 1% of its annual surplus earnings to running this program; in 2011, this represented an investment of $15 million. Further information about this program can be found in The Cooperative and Social Impact of Desjardins Group section on pages 38 to 43.

Also of particular interest was the work of a special advisory board (composed of elected officers independent of and formed by the Board of Directors) to carry out several studies on governance-related issues at Desjardins. Extensive consultations on the committee's work were held within the organization. The committee's enquiries focused chiefly on updating the roles and responsibilities of caisse and *Fédération des caisses Desjardins du Québec* (Federation) structures, skills development for elected officers, member representation in the democratic structure, the framework applicable to Desjardins Group's President and Board of Directors, and tools for collaborating, communicating and liaising within Desjardins Group, among others. The recommendations made by this committee will be gradually implemented through 2012 and 2013.

HIGHLIGHTS

In addition to the foregoing, Desjardins Group structures dealt with the following governance-related activities in 2011:

- Update of the 2010–2012 Strategic Plan and start of preparations for the 2013–2016 Strategic Plan
- Adoption of Desjardins Group's 2011–2013 Financial Plan, which also includes two crisis scenarios and meets regulatory requirements, in line with the Strategic Plan and key performance indicators such as growth in surplus earnings, return on equity, capitalization and productivity
- Deliberation on organizational values, creation of a summary document tying together Desjardins's mission, vision, values and performance model, and launch of online training on cooperation and social responsibility for Desjardins Group employees and elected officers
- Adoption of new strategic directions for the Desjardins Cooperative Institute which will be responsible for providing training paths that will increase the knowledge and skills of elected officers, and launch of a key financial governance training program for officers in 2011
- Continuation of the Desjardins Group Management Succession and Development Program and inclusion of caisse network general managers in the program
- Training on information technology governance and continuation of the IT Systems Optimization Program
- Clarification of the roles of Federation and caisse decision-making bodies with respect to performance management

- Adoption and review of several Desjardins Group policies as part of a sound and prudent management approach and to meet regulators' requirements, including the following new policies:
    - Financial education policy to provide a framework for Desjardins's financial literacy efforts
    - External and internal communications policy
    - Risk tolerance and appetite policy
- Adoption of new Desjardins governance practices for compliance management
- Continued development of a Desjardins-wide comprehensive crisis scenario based on new risk appetite and risk tolerance levels
- Update of Desjardins Group Internal Audit Charter to meet new professional standards requirements

Other initiatives undertaken by Desjardins Group to optimize its governance are explained in the following pages.

GOVERNANCE PROGRAM

The purpose of Desjardins Group's corporate governance practices is to enable it to carry out its mission, which is to contribute to improving the economic and social well-being of people and communities.

The *Fédération des caisses Desjardins du Québec* (Federation) oversees the development and application of a Desjardins-wide governance program that takes into account its cooperative model, the complexity of its activities and the guidelines set by the *Autorité des marchés financiers* in Quebec. This program also covers the activities of *Caisse centrale Desjardins*, the subsidiaries and the caisses. As certain subsidiaries are subject to specific rules, the program draws predominantly on rules established by the Canadian Securities Administrators as well as on industry best practices.

APPLICATION OF CORPORATE GOVERNANCE GUIDELINES

MANDATE OF THE BOARD OF DIRECTORS

1. ADMINISTRATION OF THE FEDERATION

The Board of Directors assumes explicit responsibility for the sound and prudent administration of the Federation. It ensures that the tools and structures required for it to play its full part within the organization are in place. It regularly reviews its operations with a view to continual process improvement and safeguards the assets of Desjardins Group, its approximately 5.6 million members.

The Board fulfils a dual role since its responsibilities apply both to the Federation as a business and to Desjardins Group as a cooperative financial group. The Federation is the organization that guides, plans, coordinates, monitors and supervises all Desjardins Group operations. Its organizational structure, grouped according to business sectors and support functions, strengthens its ability to deliver on that role by bringing the Federation and the subsidiaries closer to the caisses and their members. The structure primarily aims to optimize overall performance, simplify the organization and improve financial and risk management.

In accordance with the *Act respecting financial services cooperatives*, the Board exercises all the powers of the Federation, except for those which it occasionally delegates to its commissions and committees. The Board's responsibilities include the following:

A. CULTURE OF INTEGRITY

The Board of Directors is responsible for preserving the cooperative nature of Desjardins, which is defined by the cooperative principles and values established by the International Co-operative Alliance, and for promoting its own values: money at the service of human development, democratic action, personal commitment, integrity and rigour, and solidarity with the community. The Board is also responsible for enforcing Desjardins Group's rules of professional conduct among management, employees and elected officers and for raising their awareness about the organization's values.

The Federation has a Board of Ethics and Professional Conduct that, like the Board of Directors, reports to the Federation's general meeting. A similar relationship exists in the Desjardins caisses, where the body responsible for ethics and professional conduct is called the "Board of Supervision" in Quebec and the "Audit Committee" in Ontario. The Board of Ethics and Professional Conduct is responsible for updating the *Desjardins Group Code of Ethics and Professional Conduct* (the Code) and, as needed, issuing advice with regard to ethical or professional conduct and cooperation. There is a support structure in place to enable the Board of Ethics and Professional Conduct to carry out awareness and training activities, in addition to providing advisory services. These are some of the practical measures taken by Desjardins Group to promote its values and to ensure compliance with the Code, which imposes penalties for violations. Desjardins also has a confidential mechanism for reporting violations of the Code and other regulatory frameworks.

The Code, available publicly on ***Desjardins.com***, and on the Federation's intranet portals, requires all individuals who are active within Desjardins to demonstrate ethical conduct that reflects the principles of honesty, transparency, social responsibility and altruism.

B. STRATEGIC AND FINANCIAL PLANNING PROCESS

The Board of Directors has an ongoing strategic and financial planning process for Desjardins Group that includes a financial plan, crisis scenarios, a funding plan and a capitalization plan. The Board is supported by the Desjardins Group Management Committee, which helps the Board ensure that the strategic directions and plans of the caisses and the business sectors are factored into those plans and that business development strategies are consistent throughout the organization, all while being mindful of the risk involved and taking into account Desjardins's specific values. The main points of this strategic plan are shared with elected officers, managers and employees to ensure a common understanding. Periodic reporting enables the Board of Directors to monitor the implementation and progress of the plan.

The year 2012 is a key phase in the 2010–2012 Strategic Plan as well as the starting point for the 2013–2016 Strategic Plan. The caisses and the Federation's democratic bodies contributed to continuing the shift that began last year. The cooperative network's business plan (known as PARC)[1] is developed based on the Strategic Plan and the Financial Plan. Responsibility for implementing these plans rests with the Desjardins Group Management Committee. The Board of Directors' role in this respect is one of follow-up, supervision and control. It also ensures that the information necessary to correct any discrepancies is obtained.

The boards of directors of *Caisse centrale Desjardins*, Desjardins Financial Security, Desjardins General Insurance Group, Desjardins Securities and Desjardins Trust each adopt a three-year strategic and financial plan that is updated each year.

C. IDENTIFICATION AND MANAGEMENT OF MAIN RISKS

The Board is responsible for identifying the main risks for the Federation and Desjardins Group, setting the risk tolerance thresholds and ensuring that management sets up the required systems for the comprehensive management of these risks. The Federation is supported in these efforts by Desjardins Group's Risk Management Corporate Division. The Federation's Board of Directors, backed by the Risk Management Commission, works in concert with the Audit and Inspection Commission, which is responsible for risks related to the financial disclosure process. The same applies to *Caisse centrale Desjardins* and Desjardins Trust. The Desjardins Group Management Committee also supports the Board of Directors in carrying out this responsibility; each year the Board receives a report on the overall risk situation for Desjardins as a whole. The Risk Management Commission holds closed-door meetings without the presence of management. The Board also has the support of the Finance and Risk Management Committee, which mainly comprises governance, risk management and compliance managers. A detailed presentation of the management principles applied throughout Desjardins Group can be found in the Risk Management section on page 92.

D. SUCCESSION PLANNING

The Board of Directors oversees the development of the succession planning program and is supported in this task by the Human Resources Commission (HRC) and Desjardins Group's People and Culture Executive Division. The HRC oversees the program and reports to the Board of Directors, making recommendations if need be. The program is a means to monitor and provide efficient access to the individuals designated as potential candidates for management positions. Moreover, in 2011, the Desjardins Group Management Committee reviewed the pool of potential candidates to ensure there were potential successors for committee members and for critical positions and also reviewed development plans.

One of the hallmarks of the Desjardins cooperative difference is that the Chair of the Board and Chief Executive Officer is chosen by a 255-person electoral college made up of representatives from Quebec and Ontario[2] caisses and the current President and Chief Executive Officer of Desjardins Group. Although it does not appoint the incumbent, the Board of Directors makes sure the succession is properly planned, in particular by determining the main parameters for the mandate of the President of Desjardins Group, who serves a four-year term. The electoral process is governed by a Federation by-law and the *Desjardins Group Code of Ethics and Professional Conduct*, and is overseen by an election committee made up of elected officers, independent from the Board of Directors, whose overall responsibility is to establish the rules of the electoral process and the rules of conduct to which the electoral college, candidates, employees and elected officers must adhere.

E. INTEGRITY OF INTERNAL CONTROL AND MANAGEMENT REPORTING SYSTEMS

The Board of Directors, seconded by its Audit and Inspection Commission, ensures the implementation of effective accounting, administrative and management control systems to safeguard the integrity of its operations and obtain the required reporting information from management. The Board is supported in this responsibility by the Chief Monitoring Officer of Desjardins Group, whose annual work plan is approved by the Audit and Inspection Commission. A rigorous financial governance process is applied throughout Desjardins Group to properly support the Senior Vice-President, Finance and Treasury and Chief Financial Officer of Desjardins Group who, together with Desjardins Group's President and Chief Executive Officer, is responsible for certifying the Combined Financial Statements of Desjardins Group.

(1) PARC is a one-year business plan that consolidates the business plans of the 422 caisses and the Federation and includes the subsidiaries' contribution to the service offer for caisse member-owners. The process for establishing the plan is reviewed periodically to meet caisse expectations.
(2) The members of the councils of representatives.

In 2011, we continued to work on an important project started in 2009 to further develop financial governance so that Desjardins Group's certifying officers could certify, as at December 31, 2011, the design and operating effectiveness of disclosure controls and procedures and, for the first time, certify our internal controls over financial reporting in line with Canadian Securities Administrators' National Instrument 52-109. Further progress was made toward updating and rolling out an effective caisse network internal controls system designed to meet the particular needs of the caisse network. This system should also provide decision-making bodies with a reasonable assurance that the network is achieving its business objectives, while ensuring compliance with regulatory authorities' requirements.

The Board also ensures that the Desjardins Group Management Committee provides the Board and its commissions and committees with information that is reliable, timely and adapted to the particular needs of its directors so that they can take advantage of business opportunities and measure the risks involved. Board members are invited to assess the quality of the documents that support the decision-making process.

To effectively monitor key performance indicators, management has access to management information; this benefits the Board as it allows directors to quickly obtain strategic information pertinent to the decision-making process. Improvements are made to management information systems on an ongoing basis.

Board members receive financial and operating reports at least quarterly to enable them to assess Desjardins Group's situation and the status of the Federation's projects. The Board ensures that appropriate policies and procedures are in place to facilitate the production and presentation of this information.

To effectively carry out its duties, the Federation's Board meets regularly, according to a predetermined schedule. Board members receive the meeting agenda in advance, along with any relevant documentation, to ensure productive discussions and to facilitate the decision-making process. The Board constantly seeks to increase its efficiency and focus its efforts on strategic files, especially by delegating more operational tasks to the Desjardins Group Management Committee. In 2011, the Board concentrated its work into a reduced number of meetings.

Directors have electronic access to meeting-related documentation and management frameworks for Desjardins's operations. Directors also have access to an intranet portal purpose-built for them.

F. STRATEGIC COMMUNICATIONS DIRECTIONS

The Board of Directors adopts communications policy and strategic communications directions for Desjardins Group that are aligned with the Communications Master Plan and which specify the actions to be taken and the results to be measured. The Federation also draws up internal and external communications plans in order to better manage its relations with the caisses and their members; the business sectors and their clients; its employees; socio-economic, community and non-governmental organizations; opinion makers; the public; the media; rating agencies; and the government.

The Federation oversees financial reporting and the disclosure of major changes that can affect Desjardins Group's financial position. The Federation uses various channels to communicate effectively with its many stakeholders.

These channels include the Communications Corporate Division, the Ombudsman, the Cooperative Support Division and Secretariat General's ethics and professional conduct support team, the complaint handling process in the caisses (Your Satisfaction Is My Priority) and, within Desjardins Group, the annual general meetings, the release of Desjardins Group's quarterly financial results, Desjardins publications (including its annual reports; its social and cooperative responsibility reports; the *Desjardins, Desjardins and Me, Espace D, Entreprises* and *Partenaires* magazines; and employee newsletters), a toll-free telephone number, an intranet portal, a portal designed especially for caisse officers, a website (which includes a "Member Relations" section), the Federation Member Services Committee and the procedure for reporting actions that violate the *Desjardins Group Code of Ethics and Professional Conduct* and other regulatory frameworks.

In addition, the Federation handles relations with international rating and scoring agencies and coordinates Desjardins Group's relationship with each level of government, in compliance with lobbying legislation.

2. COMPOSITION OF THE BOARD OF DIRECTORS

The Federation's Board of Directors consists of 22 directors, the majority of whom are unrelated parties.

The vice-presidents of the Outaouais, Abitibi-Témiscamingue and Nord du Québec Council of Representatives and the Bas-Saint-Laurent and Gaspésie–Îles-de-la-Madeleine Council of Representatives also serve on the Board as managing directors.

3. APPLYING THE DEFINITION OF UNRELATED PARTY

The Board of Directors includes five related officers: the Chair of the Board and Chief Executive Officer of Desjardins Group and four caisse general managers. The first is a related party because he or she is a member of Federation management, and the other four are related parties because they are employees of cooperatives belonging to Desjardins Group: the caisses. In addition, the directors have no business or personal relationships with members of the Desjardins Group Management Committee, or interests which, in the opinion of the Board, could significantly interfere with their ability to act in the best interests of the Federation or Desjardins Group, or interests of any other nature which, again in the opinion of the Board, could reasonably be perceived as harmful.

For guidance in these matters, the Board refers to the provisions of the *Desjardins Group Code of Ethics and Professional Conduct*, which governs the actions of its directors, and to the declarations of interests filed annually by the directors. None of the directors sit on another board of directors for any other major company. Generally speaking, they hold one or two directorships with non-profit organizations.

The list of directors can be found on page 20.

4. NOMINATION PROCESS

Taking into account the cooperative structure of Desjardins Group and the principle of delegation which prevails within Desjardins, the Federation's Board of Directors is composed of persons elected by the delegates of the Federation's member caisses who, at regional or group caisse meetings, directly elect 17 of the 22 directors on the Board of Directors. These individuals chair the councils of representatives.(3)

Thus, it is the caisse delegates who must choose, from among those interested, the candidates most capable of taking on two roles: director of the Federation and Desjardins Group as a whole, and regional or group caisse representative. Before nominations are accepted, candidates are reminded of the responsibilities and requirements of the position of president of a council of representatives. Because they are, at the same time, caisse officers, members of their councils of representatives and, finally, members of the Federation's Board of Directors, the Board benefits from having directors with comprehensive knowledge of Desjardins Group's activities and yet who remain independent of management. This in-depth knowledge of the organization's activities is one of the significant advantages of Desjardins Group's cooperative structure.

The presidents of the councils of representatives are also responsible for ensuring that the strategic directions, as defined by the Board, are well understood by the caisses; for ensuring that the tools for collaboration, participation and connection with the caisse network are effective; and for communicating to the Board the concerns of the caisses they represent. At Desjardins Group, Board members are driven by and essentially responsible for making decisions that are in the best interests of members and other Desjardins stakeholders.

The four positions filled by caisse general managers are determined at an election held at an Assembly of Representatives of the Federation. The final position is reserved for the Chair of the Board and Chief Executive Officer of Desjardins Group. The presence of four caisse general managers ensures that the orientations adopted by the Board and their implementation are adapted to the realities of the caisses.

The selection methods for members of the Federation's Board of Directors as well as its President and Chief Executive Officer are thus designed so that each position is subject to a separate electoral process and a separate electoral college. This approach reinforces the independence of Board members from management.

Moreover, the rules governing the composition of the Board foster a certain stability and continuity with respect to the corporate governance of Desjardins Group, given that its members have three-year renewable terms and that each year one third of Board members are outgoing. The directors therefore have enough time to deepen their understanding of issues and to actively participate in Board activities. The natural renewal of officers on the Board of Directors therefore occurs at a pace that allows the Board to maintain its overall performance.

The composition of the Board is balanced by the presence of representatives from all regions of Quebec, from the group caisses and from Ontario caisses populaires, as well as by their particular skills and professional experience (chartered accountants, lawyers, notaries, managers, professional mediators, management professors in universities, caisse network managers, school teachers, entrepreneurs, caisse general managers, etc.).

The terms, conditions and processes pertaining to the responsibilities of a Federation director and president of a council of representatives are all listed in a guide available to caisse officers. The guide is designed to support individuals interested in applying for these positions and to provide guidance for those called upon to elect Federation officers.

(3) The councils of representatives are democratic bodies within the Federation whose role in each of the regions and for the group caisses is to ensure collaboration between the region's caisses and the Federation; influence decisions that affect major orientations and projects by actively participating in consultations; contribute to identifying regional issues and business development opportunities; follow up on member satisfaction and Desjardins Group's reputation in the region; as well as provide an institutional presence in the region. The councils of representatives lead cooperative life through their representatives' interaction with the caisses. They also ensure that concerns expressed by the caisses in the region or the group caisse network are considered by the Federation.

5. ASSESSING THE EFFECTIVENESS OF STRUCTURES

The Board of Directors and its commissions and committees evaluate their performance each year by using quantifiable objectives set by the Board at the beginning of the year. Areas for improvement and points to be monitored are identified during this evaluation and written into an action plan recommended to the Board by the Corporate Governance Commission, which oversees the plan. The Board also receives a mid-year progress report. The evaluation program for all Federation structures also calls for individual self-assessments, followed by a meeting between each director and the Chair of the Board. Engagement and skills development also addressed in the process. The Chair of the Board is responsible for the evaluation process, and the Corporate Governance Commission oversees it.

The Board also ensures that its major decisions reflect all the specific aspects of the Desjardins cooperative difference. In this respect, the Board is supported by the Cooperation and Network Liaison Commission.

6. ORIENTATION AND TRAINING PROGRAM FOR NEW DIRECTORS

The Federation provides its directors with orientation sessions and ongoing training, and develops sessions tailored to their specific needs.

All new directors attend an orientation session that involves meeting with certain members of management and receiving a reference manual containing all the information they need to carry out their duties. This manual is also available to all Federation officers on a special intranet site (the Elected Officer Portal). Every director receives a document reminding him or her of the expectations and duties that come with the position. Orientation sessions are also held to ensure effective and efficient integration of new members of Board commissions and committees.

As needed and upon request, meetings with specialists from the Federation, *Caisse centrale Desjardins* and Desjardins Trust are also organized to help directors increase their general and specialized knowledge of the organization and of its main strategic projects.

The training program for Board members falls under the activities of the Desjardins Cooperative Institute, which is a training institute created for the managers and elected officers of Desjardins Group.

7. SIZE OF THE BOARD

The composition of the Board of Directors is designed to ensure the proper representation of the caisses in the 17 regions in the province of Quebec plus part of Ontario, as well as the group caisses. Given the size of the Board, the directors are committed to taking a disciplined and effective management approach to Board meetings.

In 2011, the Board undertook several activities to optimize the mandates of the commissions and committees and related processes to lighten both their workload and the workload of the Board. The Board also revised the rules applicable to the composition of commissions and committees and to the appointment of subsidiary, commission and committee chairs.

Furthermore, the Chair of the Board and Chief Executive Officer holds periodic, informal meetings with the directors, which serves to increase the efficiency of formal meetings. The results of the performance evaluation of the Board of Directors reveal, from year to year, the importance of these meetings. After each Board of Directors, committee or commission meeting, a closed-door session is held without the members of Federation management, except for the Chair of the Board and Chief Executive Officer as long as he or she does not have to withdraw for independence reasons.

8. REMUNERATION POLICY FOR DIRECTORS

The Board annually reviews its policy on the remuneration of its directors, members of the Board of Ethics and Professional Conduct and members of the councils of representatives. The Board receives recommendations from the Corporate Governance Commission, which follows market trends in this domain very closely.

The policy's remuneration schedule falls below industry trends; however, it appropriately reflects Desjardins Group's culture, as well as the duties fulfilled for the Federation, *Caisse centrale Desjardins* and Desjardins Trust, and the requirements and risks inherent to those duties. In 2011, the members of the Board of Directors upheld the remuneration schedule effective since January 1, 2008. It is also important to note that the President and Chief Executive Officer's compensation is subject to the recommendations of a specific Board committee, all of whose members are unrelated directors. The President and Chief Executive Officer does not personally receive any amount for duties undertaken as director of any of the aforementioned subsidiaries.

REMUNERATION SCHEDULE FOR BOARD MEMBERS OF THE FEDERATION, *CAISSE CENTRALE DESJARDINS*, DESJARDINS VENTURE CAPITAL AND DESJARDINS TRUST, AS WELL AS MEMBERS OF THE BOARD OF ETHICS AND PROFESSIONAL CONDUCT OF THE FEDERATION AND *CAISSE CENTRALE DESJARDINS*

	Federation	Desjardins Venture Capital	Caisse centrale Desjardins	Desjardins Trust	Subsidiaries
Chair of a board of directors(4)	Nil, because it is assumed by the President and CEO of Desjardins Group	$20,000 paid to the Federation because it is assumed by the President and CEO of Desjardins Group	$20,000 paid to the Federation because it is assumed by the President and CEO of Desjardins Group	$20,000 paid to the Federation because it is assumed by the President and CEO of Desjardins Group	$10,000
Annual retainer for the chair of a commission or committee(5)	$6,500	$6,500	$6,500	$6,500	$6,500
Annual retainer for a member of a board of directors(6, 7)	$7,500	$7,500	$7,500	$7,500	$10,000
Annual retainer for a member of a board of directors commission or committee(8)	$2,000	$2,000	$2,000	$2,000	$2,000
Attendance allowance for board of directors meetings(9)	$1,000 (maximum per day)	$1,000 (maximum per day)	$1,000 (maximum per day)	$1,000 (maximum per day)	$1,000 (maximum per day)
Attendance allowance for commission or committee meetings(9)	$500 (per half-day)	$500 (per half-day)	$500 (per half-day)	$500 (per half-day)	$500 (per half-day)
Conference calls	$200	$200	$200	$200	$200
Attendance allowance for members of the Board of Ethics and Professional Conduct or Ethics Committee	$1,500 for the chair $750 for members	$500 (per half-day)	$1,500 for the chair $750 for members	$1,500 for the chair $750 for members	$500 (per half-day)
Remuneration for the president of a council of representatives(6)	$15,000	N/A	N/A	N/A	N/A
Attendance allowance for members of the councils of representatives	$300 per meeting	N/A	N/A	N/A	N/A

N/A: Not applicable

(4) The position of Chair of the Board of each subsidiary is held by a member of the Federation's Board of Directors.
(5) For commissions and committees that hold fewer than four meetings in a year, the attendance allowance is doubled and replaces the annual retainer.
(6) Federation Board members receive $30,000 each as an annual retainer to serve as director of the Federation, *Caisse centrale Desjardins*, Desjardins Venture Capital and Desjardins Trust. This amount is divided equally among these four components. The two managing directors receive $23,250 as a retainer with an additional $7,500 for their roles as vice-presidents of their respective councils of representatives.
(7) For the four general managers who are members of boards of directors, the policy stipulates that the board of directors of their caisse is responsible for deciding if they keep all of their remuneration.
(8) The annual retainer is paid regardless of the number of commissions or committees these members sit on at the Federation, *Caisse centrale Desjardins*, Desjardins Venture Capital or Desjardins Trust. Therefore, only one retainer is paid for roles assumed for the Federation, *Caisse centrale Desjardins*, Desjardins Venture Capital and Desjardins Trust. For members of commissions or committees who are not members of the Board of Directors, the retainer is $5,000.
(9) Regardless of the number of Board, commission or committee meetings a member attends on the same day, the maximum daily retainer is $1,000. Every effort is made to concentrate meetings into a single day to keep costs down as much as possible. The Federation's Board of Directors can invite any caisse elected officer to sit on any committee it forms. The Board of Directors determines the applicable remuneration based on the nature of the responsibilities entrusted to them and the established remuneration schedule.

REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS

Disclosure of the remuneration paid to each Board member for the duties they assume as directors of the Federation, Desjardins Venture Capital (DVC), *Caisse centrale Desjardins* (CCD) and Desjardins Trust, or for their role as the chair of the board of a subsidiary.

Name	Received from the Federation, DVC, CCD and Desjardins Trust		Other fees[10]		2011 total
	Attendance allowance	Annual retainer	Attendance allowance	Annual retainer	
BARIL, Jacques	$ 44,300	$ 65,625			$ 109,925
BÉLANGER, Annie P.	$ 53,900	$ 37,750	$ 11,650		$ 103,300
BOUDREAULT, Laurier	$ 39,500	$ 32,000			$ 71,500
BOULERICE, Donat	$ 47,000	$ 52,000			$ 99,000
CHAMBERLAND, Serges	$ 48,800	$ 73,500			$ 122,300
CHEVALIER, Carole[11]	$ 24,400	$ 35,250	$ 5,600		$ 65,250
DUGUAY, Denis	$ 37,700	$ 47,000	$ 700		$ 85,400
DUMAS, Alain	$ 46,000	$ 32,000			$ 78,000
GAGNÉ, André (Chair of the Board, DAM)[12]	$ 47,500	$ 54,500	$ 13,950	$ 21,375	$ 137,325
GRANT, Norman	$ 47,100	$ 60,500			$ 107,600
LAFORTUNE, Andrée, FCA	$ 51,000	$ 84,500			$ 135,500
LAUZON, Marcel (Chair of the Board, DID)[12]	$ 39,000	$ 47,000	$ 7,700	$ 28,500	$ 122,200
LEBLANC, Pierre, FCA[13]	$ 15,600	$ 16,000			$ 31,600
LEMELIN, Line	$ 35,200	$ 52,250			$ 87,450
LEROUX, Monique F., FCA, FCMA[14]	—	—			—
LEVASSEUR, Pierre	$ 49,900	$ 52,000			$ 101,900
PARÉ, Denis	$ 59,100	$ 59,000			$ 118,100
PERRON, Johanne	$ 32,700	$ 32,000			$ 64,700
RAÎCHE, Alain	$ 36,500	$ 32,000			$ 68,500
ROY, Michel	$ 38,600	$ 53,500			$ 92,100
SAMSON, Clément (Chair of the Board, DGIG)[12, 15]	$ 38,500	$ 53,500	$ 20,200	$ 30,500	$ 142,700
ST-PIERRE BABIN, Sylvie (Chair of the Board, DFS)[12]	$ 36,000	$ 36,313	$ 11,800	$ 28,500	$ 112,613
TOURANGEAU, Serge (Chair of the Board, Desj. Sec.)[12]	$ 32,400	$ 47,000	$ 10,000	$ 35,000	$ 124,400
TURCOTTE, Benoît	$ 40,900	$ 55,313	$ 4,200		$ 100,413
VINET, Yvon	$ 42,400	$ 47,000			$ 89,400
Total	$ 984,000	$1,157,500	$ 85,800	$ 143,875	$2,371,175[16]

(10) Amounts received for chairing the board of a subsidiary or acting as a representative on the *Conseil québécois de la coopération et de la mutualité*, or as a participant on the Elected Officer Advisory Board or for contributions to the Elected Officer Portal.
(11) Term began in April 2011.
(12) Desjardins Asset Management (DAM), *Développement international Desjardins* (DID), Desjardins General Insurance Group (DGIG), Desjardins Financial Security (DFS), Desjardins Securities (Desj. Sec.).
(13) Term ended in March 2011.
(14) The Desjardins Group President does not receive any remuneration for the position of Chair of the Board of Directors of the Federation. The remuneration paid to the Desjardins Group President in relation to CCD, DVC and Desjardins Trust is paid in full to the Federation.
(15) Term ended December 15, 2011.
(16) 63% of this amount is for duties performed for the Federation alone.

REMUNERATION OF MEMBERS OF THE FEDERATION'S BOARD OF ETHICS AND PROFESSIONAL CONDUCT

Name	Attendance allowance
Bourgeois, Isabelle	$ 9,500
Cardinal, Marcel	$ 9,700
Douvry, Josyane[17]	$ 1,600
Lee-Gosselin, Hélène	$ 22,400
Perreault, Lise B.	$ 10,500
Pichette, Ronald	$ 10,500
Plourde, Gabriel[18]	$ 10,000
Sarrazin, Claire	$ 11,500
Yelle, Michel	$ 10,700

(17) Term ended at the end of March 2011.
(18) Term began in April 2011.

In accordance with the *Act respecting financial services cooperatives*, the total budget for the payment of attendance allowances to members of the Board of Directors, the councils of representatives and the Board of Ethics and Professional Conduct is authorized by the Federation's general meeting. The total remuneration budget (annual retainers plus attendance allowances) is reported to the general meeting. The general meeting receives a report on changes to the remuneration budget from one year to the next. The overall budget allowance increased from $2,497,682 in 2009 to $2,675,884 in 2010 and remained unchanged for 2011.

9. COMPOSITION OF COMMISSIONS AND COMMITTEES

The Board creates a number of committees and commissions and defines their mandates in order to support and streamline its strategic direction, planning, supervisory and control activities. These commissions and committees are made up entirely or almost entirely of unrelated parties. The composition and mandate of these commissions and committees are reviewed annually.

10. RESPONSIBILITY FOR CORPORATE GOVERNANCE

The Board gives the Corporate Governance Commission (CGC) the responsibility of applying and updating the governance program in light of industry trends. The CGC reports on its observations and makes recommendations to the Board of Directors. The CGC holds closed-door meetings without the presence of management. The Corporate Governance Commission does not play a part in the selection of members of the Federation's Board of Directors; it is, however, in charge of the selection process for the directors of Desjardins Group subsidiaries.

11. DEFINING THE AUTHORITY OF THE DESJARDINS GROUP MANAGEMENT COMMITTEE

The responsibilities of the Chair of the Board and Chief Executive Officer of Desjardins Group are set out in the Federation's Internal By-laws. In addition, the Board has set out in writing a clear division of responsibilities between the Board of Directors and the Desjardins Group Management Committee. The Collaboration, Participation and Connection with the Caisse Network project worked on this framework in 2011. Certain changes should help achieve more efficient governance practices, the benefits of which should be felt in 2012.

The annual objectives of the Chair of the Board and Chief Executive Officer of Desjardins Group are recommended to the Board of Directors by the Committee on the Aggregate Remuneration of the President and Chief Executive Officer of Desjardins Group (CAR). The objectives of Management Committee members are set by the President and Chief Executive Officer through performance reviews held with each member of the Management Committee and taking their incentive plan into account.

The Board of Directors has guidelines for setting objectives to ensure the sound management and equitable application of incentive plans for all Desjardins components. The degree to which these objectives are achieved is measured through an annual review process. The CAR supervises the performance review of the Chair of the Board and Chief Executive Officer of Desjardins Group, with each director participating anonymously using a grid prepared in advance by the CAR and without the presence of management.

12. THE BOARD'S INDEPENDENCE FROM THE DESJARDINS GROUP MANAGEMENT COMMITTEE

The Board has created a variety of structures and procedures to ensure its independence from Desjardins Group management:

1. There is only one member of Desjardins Group management who is also an officer elected by representatives of members: the Chair of the Board and Chief Executive Officer of Desjardins Group.
2. The position of Vice-Chair of the Board of Directors was created by the general meeting. The Vice-Chair presides over the Board's meetings when the issues being discussed require the withdrawal of the Chair of the Board and Chief Executive Officer. The Internal By-laws specify that the Vice-Chair of the Board replaces the Chair of the Board when the latter cannot act.
3. Periodic informal meetings are held among the directors. The Chair of the Board and Chief Executive Officer updates the members of Desjardins Group management, who are not present at these meetings. Both unrelated and related directors are, however, present at these meetings, given that the discussions pertain to matters that do not bear any risk of conflict of interest for the related directors.
4. Closed-door sessions without the presence of management (except for the Chair of the Board and Chief Executive Officer) are held at the end of each meeting of the Board of Directors and of the Executive Committee. The same is true for Board commissions.
5. The chairs of the Audit and Inspection Commission and the Risk Management Commission are unrelated directors.
6. The Corporate Governance Commission (of which only one member is a related party) assumes responsibility for the following:
    a. Managing relations between the Board and the Desjardins Group Management Committee
    b. Ensuring that the Board fulfils its duties; however, the responsibility of drawing up and overseeing meeting agendas for the Board of Directors and its committees is assigned to the Chair of the Board and Chief Executive Officer
7. Only unrelated directors serve on the Committee on the Aggregate Remuneration of the President and Chief Executive Officer of Desjardins Group.
8. The members of the Human Resources Commission and the Committee on the Aggregate Remuneration of the President and Chief Executive Officer of Desjardins Group are seconded, when needed, by an external consultant when dealing with issues involving the aggregate remuneration of senior management.

The Federation also has a Board of Ethics and Professional Conduct, the members of which are elected by the general meeting. Its members are all independent from management and the Board of Directors.

POSITION AGAINST SEPARATING THE FUNCTIONS OF CHAIR OF THE BOARD FROM THOSE OF CHIEF EXECUTIVE OFFICER

The functions of Chair of the Board and Chief Executive Officer of Desjardins Group have not been separated. This decision was made by the Federation's general meeting and has been integrated into the Federation's Internal By-laws. In 2011, the Collaboration, Participation and Connection with the Caisse Network project addressed this issue as well as other matters related to corporate governance at Desjardins Group. The advisory board responsible for this work will submit its recommendations in 2012.

The main reasons behind the current position are as follows:

- Unlike other companies, where the Chief Executive Officer is appointed by the Board of Directors, Desjardins elects this officer through an electoral college of 255 Federation-member representatives and the current or outgoing President and Chief Executive Officer. The CEO's primary responsibility is to protect the interests of the 5.6 million members of Desjardins. The CEO's interests are therefore aligned with those of the members.
- The Chair of the Board and Chief Executive Officer of Desjardins Group has no influence over the choice of directors because the Chair of the Board and CEO cannot recommend candidates and because each director is elected at either a regional or group caisse general meeting where the Chair of the Board and CEO has no voting rights or at an Assembly of Representatives where he or she has only one vote out of 256. The same applies to the selection of the members of the Board of Ethics and Professional Conduct.
- The Board of Directors created the Committee on the Aggregate Remuneration of the President and Chief Executive Officer of Desjardins Group, which is chaired by the Vice-Chair of the Board of Directors and made up entirely of unrelated directors, to eliminate any conflict of interest with respect to remuneration.
- Owing to the complex nature of the management of Desjardins Group's activities and to the expectations of regulators and the general public, the Chair of the Board must possess in-depth knowledge of the activities, business and projects of both the Federation and Desjardins Group in order to effectively act as a uniting force and a leader among elected officers, the management teams of Desjardins components and caisse members.
- Desjardins Group's structure is designed to release the Chair of the Board and CEO of Desjardins from everyday operational concerns for the Federation and Desjardins Group. This enables him or her to focus more on the promotion of cooperation within Desjardins and out in the community; on the organization's growth and key strategic files; on governance and on the engagement of Desjardins Group's elected officers and employees.

In further support of the intentions expressed above, the Desjardins Group subsidiaries fall under the responsibility of individuals holding the position of senior vice-president and general manager of a business sector. The coordination of the Desjardins Group and Federation support functions falls under the responsibility of the Senior Executive Vice-President of Desjardins Group.

13. AUDIT AND INSPECTION COMMISSION

The Audit and Inspection Commission (AIC), established under the *Act respecting financial services cooperatives*, acts as an audit committee for the Federation's caisse inspection activities. The AIC is composed entirely of unrelated directors; two of the members, including the Chair, have accounting expertise.

The roles and responsibilities of the AIC have been defined in such a way so as to give its members a very clear understanding of their oversight duties. The AIC has all the power and information it needs to fulfil its mandate. It reviews all financial information, supervises the required reporting and plays a lead role in overseeing financial disclosure controls and assessing their appropriateness. It can communicate directly with the persons responsible for internal audit at Desjardins Group, the Desjardins Group Monitoring Office(19) and external auditors in order to discuss and review certain issues, should the need arise. The AIC holds closed-door sessions without the presence of management.

The AIC ensures the independence of the internal audit sector of Desjardins Group and adopts its annual action plan.

14. HIRING OUTSIDE ADVISORS

A director may hire the services of an external advisor at the Federation's expense; however, to ensure that such services are appropriate, a request must be submitted to the Corporate Governance Commission.

(19) The Desjardins Group Monitoring Office provides independent opinions on the caisses' management and financial statements. Consequently, through inspections and audits, it monitors the risks associated with network activities and determines whether these risks are managed according to sound and prudent management practices in compliance with legislation, standards and the rules of conduct in force; moreover, it audits the caisses' financial statements and based on recognized audit standards and issues an opinion on these statements.

MANDATES AND COMPOSITION OF THE FEDERATION'S COMMISSIONS, COMMITTEES AND BOARD OF ETHICS AND PROFESSIONAL CONDUCT

As at December 31, 2011
Legend: * unrelated party
** managing director

EXECUTIVE COMMITTEE (EC)

(COMPOSED OF SEVEN DIRECTORS)

This committee has the same functions and powers as the Board of Directors, with the exception of those which the Board may reserve for itself or assign to another committee or commission. The EC held 10 meetings and 16 conference calls in 2011.

MEMBERS

Monique F. Leroux, FCA, FCMA, Chair of the Board
Denis Paré*, Vice-Chair of the Board
Clément Samson*, Secretary of the Board(i)
Jacques Baril*(ii)
Serges Chamberland*
Alain Dumas
Yvon Vinet*(ii)

(i) Term ended December 15, 2011.
(ii) Term began in April 2011.
André Gagné* and Sylvie St-Pierre Babin* were members until March 2011.

COOPERATION AND NETWORK LIAISON COMMISSION (CNLC)

(COMPOSED OF FIVE DIRECTORS)

This commission assists the Board of Directors with issues related to the vitality of the cooperative culture at Desjardins Group and the quality of the relationship between the Federation's democratic bodies and the caisse network. The commission ensures the effective and efficient implementation of mechanisms for collaboration, participation and connection with the network. It submits recommendations to the Board of Directors as needed. The CNLC held three meetings and five conference calls in 2011.

MEMBERS

Michel Roy*, Chair
Laurier Boudreault(i)
Denis Duguay*
Denis Paré*(i)
Sylvie St-Pierre Babin*/**(i)

(i) Term began in early April 2011.
Annie P. Bélanger, Line Lemelin and Yvon Vinet were members until the end of March 2011.

AUDIT AND INSPECTION COMMISSION (AIC)

(COMPOSED OF FIVE DIRECTORS)

This commission oversees the activities of the Desjardins Group Monitoring Office, supports the Board of Directors in its monitoring and control responsibilities for the Federation and Desjardins Group, and examines in detail all elements related to the disclosure of financial information. The AIC held 22 days of meetings and one conference call in 2011.

MEMBERS

Andrée Lafortune*, FCA, Chair
Annie P. Bélanger*
Donat Boulerice*
André Gagné*(i)
Pierre Levasseur*

(i) Term began in early April 2011.
Pierre Leblanc, FCA, was a member until the end of March 2011.

RISK MANAGEMENT COMMISSION (RMC)

(COMPOSED OF SIX DIRECTORS)

This commission assists the Board of Directors in identifying and tracking major risks to the Federation and Desjardins Group. The RMC held six meetings and eight conference calls in 2011.

MEMBERS

Serges Chamberland*, Chair
Norman Grant*/**
Marcel Lauzon*
Line Lemelin*
Michel Roy*
Serge Tourangeau*

Andrée Lafortune*, FCA, and Alain Raîche sit on the RMC as observers.

HUMAN RESOURCES COMMISSION (HRC)

(COMPOSED OF FIVE DIRECTORS)

This commission periodically reviews the positioning of Desjardins Group's total compensation system in order to enable Desjardins to remain competitive. It ensures that the compensation practices in effect at Desjardins comply with Desjardins Group's policies and guiding principles. The mandate of this commission excludes the examination of issues involving the terms of employment for the Chair of the Board and Chief Executive Officer. The HRC held eight meetings and two conference calls in 2011.

MEMBERS

Monique F. Leroux, FCA, FCMA, Chair of the Board
Denis Paré*, Vice-Chair of the Board
Carole Chevalier*
Marcel Lauzon*
Yvon Vinet*

André Gagné was a member until the end of March 2011.

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

(COMPOSED OF FOUR DIRECTORS)

This committee, all of whose members are unrelated parties, is mandated to make recommendations to the Board regarding the remuneration and working conditions, as well as the annual objectives, of the President and Chief Executive Officer. The CAR held four meetings and one conference call in 2011.

MEMBERS

Denis Paré*, Vice-Chair of the Board
Carole Chevalier*
Marcel Lauzon*
Yvon Vinet*

André Gagné was a member until the end of March 2011.

CORPORATE GOVERNANCE COMMISSION (CGC)

(COMPOSED OF FIVE DIRECTORS)

This commission supports the Board of Directors in applying and updating the corporate governance program. The CGC also oversees the process for recommending candidates for seats on the boards of directors of Desjardins Group subsidiaries. In addition, it is responsible for supervising the performance review program for members of the Board of Directors and its commissions and committees as well as for implementing the Sustainable Development Policy and the Voting Rights Policy. The CGC held seven meetings and two conference calls in 2011.

MEMBERS

Monique F. Leroux, FCA, FCMA, Chair of the Board
Denis Duguay*
André Gagné*
Clément Samson*, Secretary of the Board(i)
Yvon Vinet*

(i) Term ended December 15, 2011.
Sylvie St-Pierre Babin was a member until the end of March 2011.

INVESTMENT COMMISSION

(COMPOSED OF FIVE DIRECTORS AND ONE EXTERNAL MEMBER)

This commission is mandated to support the Board of Directors in establishing and monitoring the investment policies of Desjardins Funds and in overseeing the selection of securities advisors and sub-advisors. It also examines fund performance and discretionary management and ensures that investment fund transactions are compliant. An in-depth review of its mandate was conducted in 2011 and the resulting changes will take effect in 2012. The Investment Commission held four meetings and one conference call in 2011.

MEMBERS

Benoît Turcotte*, Chair
Jacques Baril*
Laurier Boudreault
Alain Dumas
Normand Grégoire*
Johanne Perron

DESJARDINS GROUP RETIREMENT COMMITTEE (DGRC)

(COMPOSED OF EMPLOYER, MEMBER AND RETIREE REPRESENTATIVES, PLUS ONE EXTERNAL MEMBER)

By virtue of the powers vested in it by the *Supplemental Pension Plans Act* and by the Desjardins Group Pension Plan (DGPP) Regulation, the DGRC is in charge of properly administering the DGPP, managing the pension fund and paying members and their survivors the promised benefits. The members representing employees, employers and retirees share the role of pension fund trustees. The DGRC held four meetings in 2011.

The Federation represents all Desjardins employers with respect to the Desjardins Group Pension Plan. The Federation's Board of Directors has decision-making power in certain areas, including the DGPP Regulation, the nature and terms of benefit payments to members and retirees, contribution rates and the use of any surplus. Through its Board of Directors, the Federation stands surety for the obligations (payment of employee pensions) resulting from the participation of all Desjardins Group employers in the DGPP.

Employer representatives are appointed by the Federation's Board of Directors. Members' and retirees' representatives are elected democratically by the group that they represent.

MEMBERS OF THE BOARD OF DIRECTORS REPRESENTING THE EMPLOYER

Denis Paré*, Chair
Jacques Baril*, Vice-Chair
Norman Grant*, Secretary
Serges Chamberland*
Line Lemelin*(i)
Benoît Turcotte*

(i) Term began in early April 2011.
Pierre Leblanc, FCA, was a member until the end of March 2011.

REPRESENTING THE MEMBERS

Guy Cormier
Vincent Coulombe
Mario Lévesque
Sylvain Rouleau

EXTERNAL REPRESENTATIVE

Reynald N. Harpin*

REPRESENTING RETIREES AND MEMBERS ENTITLED TO A DEFERRED PENSION

Michel-Pierre Bergeron

OBSERVER REPRESENTING ACTIVE MEMBERS

Simon Garneau

OBSERVER REPRESENTING INACTIVE MEMBERS

Normand Deschênes

DGRC INVESTMENT COMMITTEE

Under the responsibility of the DGRC, which establishes the investment policy, the Investment Committee's mandate is to ensure that the policy is applied as well as to coordinate the activities of the fund managers to whom management mandates are entrusted. The DGRC Investment Committee held four meetings and five conference calls in 2011.

MEMBERS

Jacques Baril*, Chair
Serges Chamberland*, Secretary
Guy Cormier, observer
Reynald N. Harpin*
Line Lemelin*(i)
Denis Paré*
Benoît Turcotte*

(i) Term began in early April 2011.
Pierre Leblanc, FCA, was a member until the end of March 2011.

DGRC AUDIT, PROFESSIONAL PRACTICES AND COMPLIANCE COMMITTEE

This committee is responsible for overseeing the financial reporting process, rules governing professional conduct and ethics, the Complaint Handling Policy, regulatory compliance management and corporate governance. This committee held five meetings in 2011.

MEMBERS

Norman Grant*/**, Chair
Sylvain Rouleau, Secretary
Vincent Coulombe

BOARD OF ETHICS AND PROFESSIONAL CONDUCT

(COMPOSED OF EIGHT ELECTED OFFICERS)

Pursuant to the *Act respecting financial services cooperatives*, the Federation has a Board of Ethics and Professional Conduct that is independent of the Board of Directors. The eight members of the Board of Ethics and Professional Conduct are elected officers at Desjardins. The Board of Ethics and Professional Conduct is supported by a team that reports to the Cooperative Support Division and Secretariat General. In 2011, the Board of Ethics and Professional Conduct held six regular meetings, five conference calls and one and a half days of training on ethical deliberation. During the year, the members of this Board attended a conference by the Board of Directors, a meeting of all bodies in charge of ethics and professional conduct at Desjardins Group and a conference organized by the Quebec Organizational Ethics Network.

One of the main responsibilities of the Board of Ethics and Professional Conduct is to ensure the independence and objectivity of the Federation's inspection and audit services with respect to the caisses (Desjardins Group Monitoring Office, see note at the bottom of page 214) and make recommendations to the Chair of the Board and Chief Executive Officer of Desjardins Group regarding the appointment of the person responsible for managing these services.

In addition to the responsibilities mentioned above, the role of the Board of Ethics and Professional Conduct includes adopting the rules of conduct applicable to the officers of Desjardins Group and the subsidiaries and to the employees of the Federation and the caisses; presenting said rules for approval to the Board of Directors and ensuring the caisses and the Federation comply with them; supporting the caisses and the Federation in applying the rules of conduct; issuing advice, observations and recommendations with respect to ethical and professional conduct issues (especially in cases of misconduct); notifying the Board of Directors of violations to the rules of ethics and professional conduct and, if the Federation violates the provisions of the *Act respecting financial services cooperatives* or the regulations governing restricted party transactions and conflicts of interest, ensuring that complaints regarding the Federation originating from the caisses or other members of the Federation (*Caisse centrale Desjardins*, holding companies or subsidiaries) are addressed. The Desjardins Group Board of Ethics and Professional Conduct holds closed-door meetings without the presence of management. In 2011, the Board reviewed one of the sections of the *Desjardins Group Code of Ethics and Professional Conduct* common to all Desjardins Group components. It also started work toward creating a shared code for all Desjardins Group components.

MEMBERS

Hélène Lee-Gosselin*, Chair
Claire Sarrazin*, Secretary
Isabelle Bourgeois*
Marcel Cardinal*
Lise B. Perreault*
Ronald Pichette*
Gabriel Plourde*(i)
Michel Yelle*

(i) Term began in early April 2011.
Josyanne Douvry was a member until the end of March 2011.

RECORD OF ATTENDANCE FOR THE MEMBERS OF THE FEDERATION'S BOARD OF DIRECTORS

Name[20]	BoD meetings	BoD conf. calls	EC	CNLC	AIC	RMC	HRC	CAR	CGC	IC	DGRC	DGRCIC	DGRC APPCC	CORE
Baril, Jacques	23/23	6/6	15/15							5/5	4/4	9/10		13/13
Bélanger, Annie P.	23/23	4/6		2/2	22/23									10/10
Boudreault, Laurier	23/23	6/6		5/6						5/5				10/10
Boulerice, Donat	23/23	4/6			23/23									10/10
Chamberland, Serges	23/23	6/6	26/26			14/14					4/4	9/10		10/10
Chevalier, Carole	17/17	3/3					6/6	2/2						8/9
Duguay, Denis	23/23	5/6		8/8					4/4					11/12
Dumas, Alain	23/23	6/6	26/26							5/5				7/9
Gagné, André	23/23	5/6	11/11		13/14		4/4	3/3	9/9					9/10
Grant, Norman	23/23	5/6				13/14					4/4		5/5	10/10
Lafortune, Andrée, FCA	21/23	6/6			23/23	13/14								12/12
Lauzon, Marcel	23/23	6/6				13/14	10/10	5/5						9/9
Leblanc, Pierre, FCA	6/6	3/3			6/6						0/1	1/1		8/9
Lemelin, Line	21/23	5/6		2/2		13/14					3/4	6/6		12/12
Leroux, Monique F., FCA, FCMA	23/23	5/6	25/26				9/10		9/9					
Levasseur, Pierre	22/23	4/6			22/23									11/11
Paré, Denis	23/23	6/6	26/26	3/6			10/10	5/5			4/4	8/10		10/10
Perron, Johanne	23/23	3/6								2/2				10/12
Raîche, Alain	23/23	5/6				13/14								11/12
Roy, Michel	23/23	6/6		8/8		13/14								7/8
Samson, Clément	22/23	5/5	24/26						7/8					9/10
St-Pierre Babin, Sylvie	23/23	6/6	11/11	5/6					5/5					11/11
Tourangeau, Serge	23/23	5/6				13/14								10/10
Turcotte, Benoît	23/23	6/6								4/5	3/4	9/10		13/13
Vinet, Yvon	23/23	6/6	15/15	2/2			10/10	5/5	9/9					10/10

(20) Board of Directors (BoD), Executive Committee (EC), Cooperation and Network Liaison Commission (CNLC), Audit and Inspection Commission (AIC), Risk Management Commission (RMC), Human Resources Commission (HRC), Committee on the Aggregate Remuneration of the President and Chief Executive Officer of Desjardins Group (CAR), Corporate Governance Commission (CGC), Investment Commission (IC), Desjardins Group Retirement Committee (DGRC), Desjardins Group Retirement Committee Investment Committee (DGRCIC), Desjardins Group Retirement Committee Audit, Professional Practices and Compliance Committee (DGRC APPCC), Council of Representatives (CORE).

Note
For the BoD, there were 23 days of meetings and six conference calls. The policy allows for a payment of $1,000 per day of meetings and $200 per conference call. Regardless of the number of Board, commission or committee meetings a person attends on the same day, the maximum daily attendance allowance is $1,000. Every effort is made to concentrate meetings into a single day to keep costs down as much as possible. The Federation's Board of Directors can invite any elected caisse officer to sit on any committee it forms. The Board of Directors determines the applicable remuneration based on the nature of the responsibilities entrusted to them and the established remuneration schedule.

For the AIC, there were 23 attendance allowance payments. The AIC oversees the activities of the Federation, Desjardins Venture Capital, *Caisse centrale Desjardins*, *Capital Desjardins* and Desjardins Trust. It also gives advisory opinions to the boards of the various investment funds.

RECORD OF ATTENDANCE FOR THE MEMBERS OF THE FEDERATION'S BOARD OF ETHICS AND PROFESSIONAL CONDUCT

Name	Number of meetings
Bourgeois, Isabelle	13/15
Cardinal, Marcel	14/15
Douvry, Josyane[21]	4/4
Lee-Gosselin, Hélène	16/16[23]
Perreault, Lise B.	14/15
Pichette, Ronald	14/15
Plourde, Gabriel[22]	11/11
Sarrazin, Claire	15/15
Yelle, Michel	15/15

(21) Term ended at the end of March 2011.
(22) Term began in early April 2011.
(23) Including a meeting with the Elected Officer Advisory Board.

Director absences were due to professional or personal reasons, for which justification was provided at all times. In addition, when they are absent, the presidents of councils of representatives may be replaced by the vice-president of their council of representatives who acts as managing director, thus ensuring the region's uninterrupted representation.

MEMBERS OF THE COUNCILS OF REPRESENTATIVES

Considering that 255 people are involved, the Board of Directors has decided to simply publish the attendance rate for the meetings of the 17 councils of representatives.

2011	Attendance rate (as a percentage)	Number of meetings
Bas-Saint-Laurent and Gaspésie–Îles-de-la-Madeleine	95	10
Kamouraska and Chaudière-Appalaches	85	8
Québec-Est	83	10
Québec-Ouest and Rive-Sud	80	10
Saguenay–Lac-Saint-Jean, Charlevoix and Côte-Nord	93	10
Centre-du-Québec	89	11
Mauricie	79	9
Eastern Townships	87	10
Richelieu-Yamaska	88	12
Lanaudière	78	12
Rive-Sud de Montréal	91	10
Laval–Laurentides	87	9
Ouest de Montréal	85	12
Est de Montréal	84	13
Outaouais–	85	11
Abitibi-Témiscamingue and Nord du Québec	87	13
Group Caisses	89	10
Ontario	94	10

ASSEMBLY OF REPRESENTATIVES

	Number of representatives present	Attendance rate (as a percentage)
March 25, 2011	249/256	97.3
June 18, 2011	225/256	87.9
September 17, 2011	222/256	86.7

DESJARDINS GROUP MANAGEMENT COMMITTEE

(COMPOSED OF 14 MEMBERS OF MANAGEMENT)

This committee supports the Chair of the Board and Chief Executive Officer of Desjardins Group and the Board of Directors in their responsibility to provide a management structure for Desjardins Group. To achieve this, it helps the Board incorporate the strategic directions of the cooperative network and the subsidiaries, and implement business development strategies. The Management Committee held 26 meetings, one conference call and one videoconference in 2011.

MEMBERS

Monique F. Leroux, FCA, FCMA, Chief Executive Officer of Desjardins Group and Chair of the Committee

Stéphane Achard, Senior Vice-President and General Manager, Business and Institutional Services, Desjardins Group

Réal Bellemare, Executive Vice-President, Risk Management, Desjardins Group

Denis Berthiaume, Senior Vice-President and General Manager, Wealth Management and Life and Health Insurance, Desjardins Group

Serge Cloutier, Executive Vice-President, Cooperative Development and Democratic Governance Support, Desjardins Group

Marie-Huguette Cormier, Executive Vice-President, Communications, Desjardins Group

Normand Desautels, Senior Vice-President and General Manager, Personal Services, Desjardins Group

Jacques Dignard, Senior Vice-President, People and Culture, Desjardins Group

Daniel Dupuis, Senior Vice-President, Cooperative Network Support, Desjardins Group

Louis-Daniel Gauvin, Senior Vice-President and General Manager, *Caisse centrale Desjardins* and *Capital Desjardins inc.*

Marc Laplante, Senior Executive Vice-President, Desjardins Group

Raymond Laurin, FCA, Senior Vice-President, Finance and Treasury and Chief Financial Officer, Desjardins Group

Robert Ouellette, Senior Vice-President, Technology and Shared Services, Desjardins Group

Sylvie Paquette, Senior Vice-President and General Manager, Property and Casualty Insurance, Desjardins Group

This committee created the following Desjardins-wide coordinating committees: the Desjardins Group Coordination Committee; the Operational Governance and Follow-Up Committee; the Finance and Risk Management Committee; the Desjardins Group Image Committee; the Network Liaison Committee; the Desjardins Group Development Planning and Follow-Up Committee.

EXECUTIVE COMPENSATION

Certain Desjardins Group components, namely *Caisse centrale Desjardins* and *Capital Desjardins inc.*, must fulfill a number of obligations regarding the disclosure of executive compensation. By complying with these legal requirements, which may vary from one entity to another, the nature and scope of the information provided may differ. As required by *Regulation 51-102 respecting Continuous Disclosure Obligations*, the compensation of *Caisse centrale Desjardins* and *Capital Desjardins inc.* executives is presented in their respective Annual Information Forms and are incorporated by reference in this annual report. The Annual Information Forms are available on the SEDAR website at ***www.sedar.com*** (under *Caisse centrale Desjardins* and *Capital Desjardins inc.* respectively).

GLOSSARY OF FINANCIAL TERMS

ACCEPTANCE

Short-term debt security traded on the money market, guaranteed by a financial institution for a borrower in exchange for a stamping fee.

ALLOWANCE FOR CREDIT LOSSES

Amount deemed sufficient by management to cover the anticipated credit losses on the loan portfolio. The allowance for credit losses is increased by individual and collective provisions and decreased by write-offs, net of recoveries.

ALT-A MORTGAGE LOAN

Loan to a borrower with non-standard income documentation.

ANNUITY PREMIUM

Amount invested by the policyowner in order to receive annuity payments, immediately or after an accumulation period.

APPOINTED ACTUARY

Actuary appointed by an insurance company's board of directors, in accordance with the federal and provincial laws governing insurance.

ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

Assets administered or managed by a financial institution that are beneficially owned by members and clients and are therefore not recognized on the financial institution's combined statement of financial position. The services provided in respect of assets under administration are administrative in nature, such as custodial services, collection of investment income and settlement of buy and sell transactions, while the services provided with respect to assets under management include selecting investments and offering investment advice. These assets may also be administered by the financial institution. Assets under administration and management exclude the impact of securitization.

AUTORITÉ DES MARCHÉS FINANCIERS (AMF)

Organization whose mission is to administer all laws governing the supervision of the financial industry in Quebec, particularly in the areas of insurance, deposit-taking institutions and financial product and service distribution, as well as securities.

BASIS POINT

Unit of measure equal to one one-hundredth of a per cent.

BENEFICIARY

Person, other than the policyowner, designated to receive benefits under an insurance or annuity contract.

BENEFIT

Amount paid by an insurer under a life, disability income or health insurance policy. The benefit is paid to the policyowner, the insured person or the beneficiary, as the case may be. In a pension plan, this term refers to the vested rights of a plan member under the plan.

BOND

Certificate evidencing a debt under which the issuer promises to pay the holder a specified amount of interest for a specified period of time, and to repay the borrowing at maturity. Generally, assets are pledged as security for the borrowing, except in the case of government or corporate bonds, aside from debentures. This term is often used to describe any debt security.

COLLECTIVE ALLOWANCE

Loan portfolios for which an individual allowance has not been established are included in groups of financial assets having similar credit characteristics and are subject to a collective allowance.

COMBINED RATIO

In property and casualty insurance, total claims and operating expenses expressed as a percentage of net premiums earned.

COMMERCIAL MORTGAGE-BACKED SECURITY

Security created through the securitization of commercial mortgage loans.

CREDIT INSTRUMENT

Credit facility offered to members and clients in the form of loans and other financing vehicles reported on the Combined Statements of Financial Position, or in the form of off-balance sheet products such as guarantees, letters of credit and securities lending.

DEFINED BENEFIT PENSION PLAN

Pension plan that guarantees each participant a defined level of retirement income, often based on a formula set by the plan in terms of the participant's salary and number of years of service.

DERIVATIVE FINANCIAL INSTRUMENT

Financial contract whose value fluctuates based on an underlying asset without having to hold or deliver such underlying asset. Derivative financial instruments are used to transfer, modify or reduce current or expected risks, including risks related to interest and exchange rates and other financial indexes.

DESJARDINS GROUP COMPONENT

Cooperative or subsidiary that is part of Desjardins Group.

EFFECTIVE INTEREST RATE

Rate determined by discounting total future cash flows, including fees paid or received, premiums and discounts, and transaction costs.

FAIR VALUE MEASUREMENT

Measurement whose objective is to determine the approximate value at which financial instruments could be traded in a regular transaction between willing parties.

FINANCIAL ASSET-BACKED SECURITY

Security created through the securitization of a pool of financial assets.

FORWARD EXCHANGE CONTRACT

Commitment to buy or sell a fixed amount of foreign currency on a specified future date and at a specified exchange rate.

GROSS PREMIUMS WRITTEN

In property and casualty insurance, premiums stipulated in insurance contracts entered into during the year.

GUARANTEES AND STANDBY LETTERS OF CREDIT

Essentially, irrevocable commitments by a financial institution to make payments in the event that a member or client cannot meet its financial obligations to third parties.

HEDGING

Transaction carried out to reduce or offset Desjardins Group's exposure to one or several financial risks. The transaction involves taking a position exposed to effects that are equivalent, but of opposite direction, to the effects of market fluctuations on an existing or forecasted position.

HEDGING RELATIONSHIP

A relationship established by management between a hedged item and a hedging item that satisfies all the conditions stated in the relevant accounting standard issued by the CICA. A hedging item (generally a derivative instrument) is used to offset an identified risk associated with interest rates, foreign currencies and other financial indexes to which a hedged item (generally an asset or liability recognized on the Combined Statements of Financial Position) exposes Desjardins Group.

IMPAIRED LOAN

Loans, except credit card balances, that are considered impaired when one of the following conditions is met: in management's opinion, there is reasonable doubt that the principal or the interest will be collected on the scheduled dates; the interest or principal payment is contractually 90 days or more past due, unless the loan is fully secured; or the interest or principal is more than 180 days in arrears.

INDIVIDUAL ALLOWANCE

Desjardins Group first reviews its loan portfolios on a loan-by-loan basis to assess credit risk and determine if there is any objective evidence of impairment for which a loss should be recognized in the Combined Statements of Income. Loan portfolios for which an individual allowance has not been established are then included in groups of assets having similar credit risk characteristics and are subject to a collective allowance.

INSURANCE AND INVESTMENT CONTRACT LIABILITIES

Provision representing the amount of the insurance companies' commitments towards all insured persons and beneficiaries, established to guarantee the payment of benefits.

INSURANCE PREMIUM

Payment that the policyowner is required to make to maintain the insurance contract in force. This payment represents the cost of the insurance policy and can sometimes include a savings component. The premium is directly proportional to the amount of risk underwritten by the insurer.

INSURED PERSON

Person whose life or health is insured under an insurance policy. See also "Participant".

INVESTMENT SECURITY

Security held with the intention of holding it to maturity or until the market offers more attractive investment opportunities.

LEVERAGED FINANCE LOAN

Loan to large corporations and finance companies whose credit rating is between BB+ and D and whose level of debt is very high compared to other companies in the same industry.

LOSS RATIO

In property and casualty insurance, total claims expressed as a percentage of net premiums earned. Net premiums earned represent premiums earned for a given period, net of reinsurance premiums.

MATCHING

Process of adjusting asset, liability and off-balance sheet item maturities in order to minimize risks related to interest rates, currency, and other financial indexes. Matching is used in asset-liability management.

MEMBER DIVIDEND

Allocation of surplus earnings to members on the basis of their volume of business with their caisse.

MORBIDITY RATE

Probability that a person of a given age will suffer from an illness or a disability. The health insurance premium that a person belonging to a particular age group pays is based on this group's morbidity rate.

MORTALITY RATE

Rate of death in a particular group of persons. The life insurance premium that a person belonging to a particular age group pays is based on this group's mortality rate.

MORTGAGE-BACKED SECURITY

Security created through the securitization of residential mortgage loans under the *National Housing Act*.

MUTUAL FUND

Fund made up of amounts pooled together by investors for purposes of a collective investment. A third party manages the fund and must, on request, redeem the units at their net asset value (or at their redemption value).

NET INTEREST INCOME

Difference between what a financial institution receives on assets such as loans and securities and what it pays out on liabilities such as deposits and subordinated bonds.

NET PREMIUMS EARNED

In property and casualty insurance, premiums earned for a given period, net of reinsurance premiums.

NOTIONAL AMOUNT

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

OPTION

Contractual agreement that grants the right (and not the obligation) to sell (put option) or to buy (call option) a specified amount of a financial instrument at a predetermined price (the exercise or strike price) on or before a specified date.

PARTICIPANT

Person who participates in a group insurance plan through his or her employer, an association or a group.

PENSION PLAN

Contract under which the participant receives retirement benefits under certain terms starting at a given age. A pension plan is funded through contributions made by either the employer alone, or by the employer and the participant.

PERMANENT SHARE

Equity security offered to caisse members.

POLICY

Written document that evidences the existence of an insurance or annuity contract and that sets out the terms and conditions thereof.

PROVISION FOR CREDIT LOSSES

Amount used to cover losses on other off-balance sheet financial assets and financial assets recognized in the Combined Statements of Financial Position, in addition to the provision for loan losses. Individual allowances are established to reduce the carrying amount of some assets (especially impaired loans) to an estimated realizable value. The collective allowance is established for expected losses on total unimpaired loans, chiefly in a business segment, when loan losses cannot yet be estimated on an individual basis.

REINSURANCE TREATY

Agreement whereby one insurer assumes all or part of a risk undertaken by another insurer. Despite the agreement, the original insurer remains fully liable to policyholders for the insurance obligations.

RISK-WEIGHTED ASSETS

Assets adjusted based on a prescribed risk-weighting factor to reflect the level of risk associated with items presented in the Combined Statements of Financial Position. Some assets are not weighted, but rather deducted from capital. The calculation method is defined in *Autorité des marches financiers* guidelines. For more details, see the "Capital management" section of the Management's Discussion and Analysis.

SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Securities held on a short-term basis for arbitrage purposes.

SECURITIZATION

Process by which financial assets, such as mortgage loans, are converted into asset-backed securities, which are then transferred to a trust.

SEGREGATED FUND

Type of fund offered by insurance companies through variable capital contracts that provides purchasers with a number of guarantees, such as principal repayment upon death. Segregated funds feature various investment objectives and securities categories.

SPECIAL PURPOSE ENTITY

Entity whose equity at risk is not sufficient to finance its activities without additional subordinated financial support or whose holders of equity investment at risk lack any characteristics of a controlling financial interest.

SUBORDINATED BOND

Unsecured bond subordinated in right of payment in the event of liquidation to the claims of depositors and certain other creditors.

SUBPRIME RESIDENTIAL MORTGAGE LOAN

Loan to a borrower with a high credit risk profile.

SUBSIDIARY

Company controlled by the Federation.

SWAP

Derivative financial instrument under which two parties agree to exchange interest rates or currencies for a specified period according to predetermined rules.

UNDERWRITING EXPERIENCE

In life and health insurance, the difference between the actual results and the actuarial assumptions used to determine the premium or the actuarial liabilities, as applicable.

THE 2012 INTERNATIONAL SUMMIT OF COOPERATIVES

From October 8 to 11, 2012, to mark the UN-designated International Year of Cooperatives, decision-makers and influential figures from the global cooperative and mutualist community will meet in Quebec City and Lévis for the International Summit of Cooperatives.

Held under the theme "The Amazing Power of Cooperatives," the Summit will provide an avenue for participants to explore ways that cooperatives and mutuals around the world can further their development and performance.

COOPERATIVES: MAJOR ECONOMIC PLAYERS

The global cooperative movement

- Generates a turnover of US$1.1 trillion worldwide (according to sales recorded by the 300 largest cooperatives in the world in 2008)
- Has approximately 800 million members
- Employs more than 100 million people—20% more than all multinationals combined
- Represents the livelihood of half of the world's population
- Is an economic power comparable to the world's 10th largest economy

The cooperative model offers a tangible solution to the economic, social and environmental challenges of our time. Without turning its back on its roots, the cooperative movement needs to move beyond its birthplace in rural towns and villages to assert itself as a model of international importance. In doing so, cooperation may well prove to be the business model with the highest growth in the years ahead.

THE HOSTS

DESJARDINS GROUP (WWW.DESJARDINS.COM)

Desjardins Group is the leading cooperative financial group in Canada, with more than C$190.1 billion in assets. We offer a full range of financial products and services to our 5.6 million members. We are supported by the skills of 44,645 employees and the commitment of 5,366 elected officers.

INTERNATIONAL CO-OPERATIVE ALLIANCE (WWW.ICA.COOP)

The International Co-operative Alliance (ICA) is an independent, non-governmental organization which unites, represents and serves cooperatives worldwide. Founded in London in 1895, the ICA has 265 member organizations in all sectors of activity, in 96 different countries.

SAINT MARY'S UNIVERSITY (WWW.SMU.CA)

Saint Mary's University is the oldest university in Canada and home to the Sobey School of Business, internationally renowned for its Master of Management – Co-operatives and Credit Unions program. The Sobey School of Business also houses the Centre of Excellence in Accounting and Reporting for Co-operatives.

QUEBEC INTERNATIONAL 2012 SUMMIT OF COOPERATIVES

THE KEY THEMES

1. THE ROLE OF COOPERATIVES AND MUTUALS IN THE GLOBAL ECONOMY
   Where do cooperatives and mutuals stand on the global economic stage today? What should their role be?

2. COOPERATIVES AND MUTUALS: A SUCCESSFUL BUSINESS MODEL
   How can cooperatives and mutuals maintain their productivity and profitability while staying true to their cooperative values? What growth levers are available to help them further their development?

3. COOPERATIVES AND MUTUALS: A CHANGING BUSINESS MODEL
   How can cooperatives and mutuals encourage members to use their services and participate in association activities, despite members' interest in competing products and services? How can they remain agile and innovative in constantly changing markets?

4. THE SOCIO-POLITICAL INFLUENCE OF COOPERATIVES AND MUTUALS
   How can cooperatives and mutuals increase public awareness and exert their due influence on socio-political decision-making? How can participatory governance influence other types of businesses and be a shared model of leadership?

CO-OPME: A FUTURE INSPIRED BY THE PAST

Not long after he founded *Caisse populaire de Lévis* on December 6, 1900, Alphonse Desjardins introduced the penny-saving concept that gave rise to the first school caisses seven years later.

The fact is, educating people about saving and managing their money responsibly has always been an important concern at Desjardins.

In keeping with the spirit of our founder, the new Co-opme Education and Cooperation Program launched this past spring will spearhead the Desjardins cooperative difference. This program aims to support our vision of sustainable prosperity.

Built around four key areas of action, the Co-opme Program provides resources and education for a growing number of citizens who are struggling to understand major financial events and economic issues.

Through the Co-opme Program, Desjardins intends to become the Canadian leader in financial and cooperative education.