2009
ANNUAL
REPORT

# Coming together to serve the caisses and businesses

markets service capital profitability stability treasury tegies confidence

Desjardins
Caisse centrale

# Caisse centrale Desjardins

## 2009 Annual Report

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# Mission of Caisse centrale Desjardins

**Caisse centrale Desjardins (CCD) is a cooperative financial institution, owned by the Desjardins caisse network. It acts as treasurer for Desjardins Group and is its official representative to the Bank of Canada and to the Canadian banking system. Also, as the caisse network's supplier of funds, it uses the world's capital markets to raise funds to maintain the liquidity levels required for Desjardins Group's smooth operation.**

CCD provides banking and financial services to Desjardins entities, to institutional organizations, and to medium-sized and large businesses. It also provides international services to the network's members. CCD's activities generate spinoffs for all of Desjardins Group.

CCD operates in the U.S. through the Caisse centrale Desjardins U.S. Branch and its subsidiary, Desjardins Bank, which has three points of service in Florida. Thanks to its U.S. presence, CCD can provide Desjardins caisse and business centre members with products and services to help them carry out their U.S. operations.

# Areas of Activity

## Acting as Desjardins Group's treasurer:

- Financial settlement and clearing of items transiting through the caisse network across Canada and internationally
- Supply of funds from Canadian and international capital markets in order to meet Desjardins Group's liquidity requirements
- Securitization operations as a source of funds for Desjardins Group
- Management of the required liquidity fund for caisses
- Derivative financial instruments and other treasury products
- Management of matching activities
- Treasury management for Desjardins Credit Union

## Acting as a service provider to businesses and institutions:

### Financing

CCD has a team of specialists who complement the service offer of Desjardins for large and medium-sized businesses by offering customized financing, including the following:

- Operating loans
- Bridge loans
- Term loans
- A line of derivative financial instruments
- Financing through financial instruments

CCD relies on the expertise it has developed in certain key industrial and service sectors, namely:

- Agri-food
- Communications and media
- Distribution
- Forest products
- Energy resources
- Transportation

Furthermore, CCD holds a preponderant share in the financing of **public and parapublic corporations** and of provincial and federal governments. It also supports the caisse network in the following public sectors:

- Health
- Education
- Municipalities

In addition to term loans and derivative financial instruments, it offers credit margin financing through the *Desjardins Acceptances* program.

CCD also operates the following entities in Florida to support companies in their U.S. activities by offering them, among other services, U.S.-based financing:

- Desjardins Bank (a retail bank), which offers a variety of products and services other than financing, such as:
  - Online financial services
  - Business accounts
  - Business solutions for Canadian and American businesses
- Caisse centrale Desjardins U.S. Branch (a trans-border commercial financing entity)

### Banking services

CCD also offers a complete line of financial and treasury services:

- Account collection service
- Lockbox cash service
- Commercial lockboxes
- Consolidated deposits
- Funds consolidation
- Zero balance accounts
- Cheque reconciliation
- Business transaction accounts
- Bill payment
- Government remittances
- Direct deposit and withdrawal
- AccèsD Affaires (Internet services)
- Funds transfers
- EDI information and payments
- BAI information
- Accelerated funds transfers
- Derivative financial instruments

### International services

CCD experts in international services offer businesses a complete range of services:

- Foreign currency accounts
- U.S. banking services
- National and international funds transfers and direct deposits
- Import and export documentary credit
- Factoring
- Lines of credit and term loans in U.S. dollars
- Foreign exchange forward contracts and other derivative financial instruments
- Inter-currency transfers
- Priority foreign exchange services and direct access to traders
- Desjardins Global Cash Management System and other cash management products

# 2009 Achievements

**Record results**
CCD's business plan, combined with the relevance of the strategies it has adopted, delivered not only an appropriate response to the entire Group's capital needs but also resulted in very satisfactory profitability, despite precarious market conditions. In 2009, CCD ended up achieving record results, reporting $127.4 million in net income.

**Debt issues on the European and Canadian markets**
In 2009, CCD floated a debt issue on the European markets and two issues of medium-term deposits on the Canadian market. Despite the difficult economic environment, the three issues were very well received.

In addition, CCD's specialists actively participated in two of Capital Desjardins's issues of subordinated debt made on the Canadian market in the first six months of 2009.

Taken together, these issues totalled almost $3 billion.

**Significant improvement in treasury income**
Because our experts made excellent assessments of the economic environment and were able to anticipate shifts in the markets, treasury income improved significantly over 2008 and jumped 68% from 2007. This success was due to liquid asset management and balance sheet matching as well as securitization activities.

**Quality of loan portfolio maintained**
Through the strength of its risk management policy and close file monitoring, CCD was able to maintain the excellent quality of its portfolio of loans to corporations, medium-sized businesses and institutions throughout the year. Its teams intensified efforts to support clients and help them meet the challenges posed by the economic conditions and take advantage of the recovery as soon as it began.

**Significant growth in the business sector**
Despite a particularly difficult economic climate, authorized credit grew 2% for the year. The profit margin on the portfolio of business and institutional loans continued to grow and several new banking services agreements were signed in 2009.

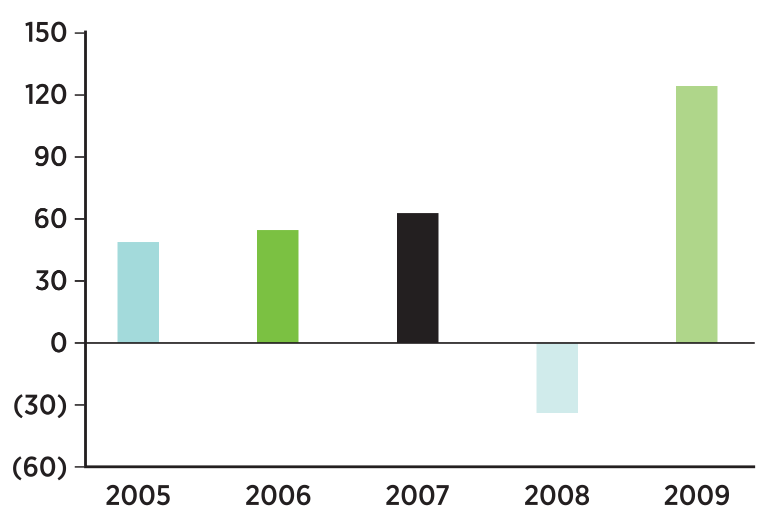
**Enhanced service offering abroad**
Committed to providing better service to clients conducting business abroad, CCD conducted a review of all the conditions of its factoring product. It will also be able to better support business members attacking new markets through its new offer of forward exchange contracts online, available through AccèsD Affaires in early 2010.

Furthermore, the Caisse centrale Desjardins U.S. Branch continued to serve clients conducting business in the U.S. Despite a global economy in turmoil, credit authorized through the U.S. branch grew 11% in 2009.

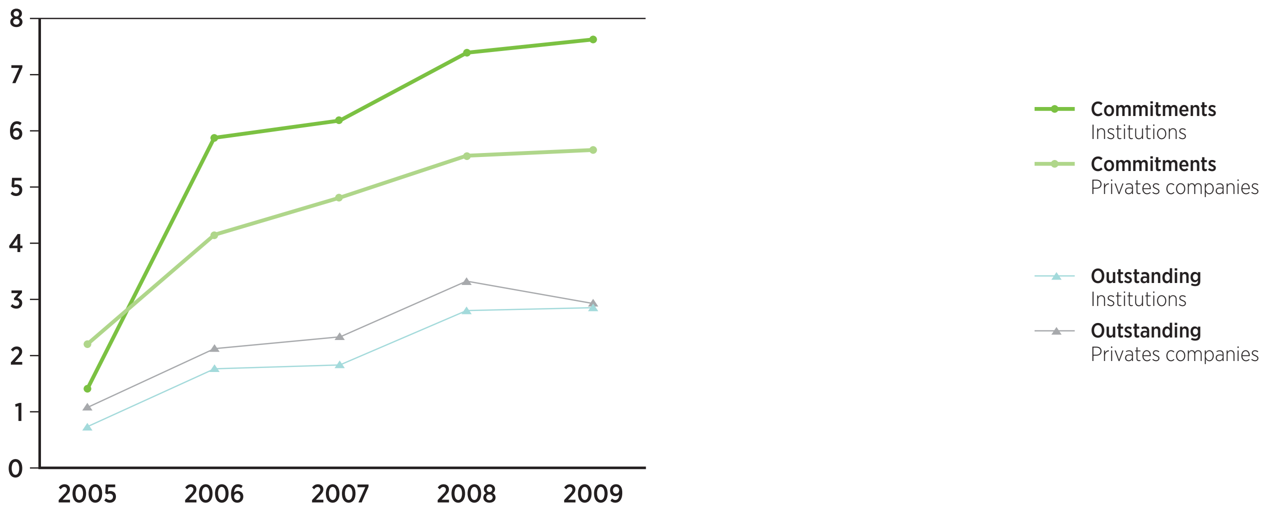
**Continued strict risk management**
In accordance with its strict risk management policies, in 2009, CCD continued to implement more sophisticated assessment systems and more accurate risk measurement tools. These new assessment models provide a more precise reading of various types of risk exposures and make it possible to base decision making on situation-specific risk scales.

**Promising synergies**
In response to decisions made in May 2009 as part of the "Cooperate to shape our destiny" development plan, CCD has begun linking its various business segments with those of other components of Desjardins Group. These closer links will optimize overall Group performance and accelerate development, in particular by building closer ties between business sectors and the caisse network, by ensuring better cohesion among diverse entities and by further strengthening financial governance and risk management. The great flexibility of the new structure will allow the Group to develop effective responses to all client needs throughout the Group and generate promising synergies.

**Net Income over Five Years**
(in millions of $)



## Loans to Businesses and Institutions – Outstandings and Commitments over Five Years
(in billions of $)




## Financial Position

| As at December 31<br>(in millions of dollars and as a percentage) | **2009** | 2008 | 2007 |
|---|---|---|---|
| Total assets | **$ 22 597** | $ 25 335 | $ 20 431 |
| Average assets | **22 146** | 23 238 | 16 991 |
| Securities | **5 100** | 4 572 | 3 722 |
| Loans | | | |
| Caisse network | **1 219** | 1 924 | 2 559 |
| Others | **11 861** | 12 857 | 11 129 |
| Total loans | **13 080** | 14 781 | 13 688 |
| Deposits and subordinated debenture | **14 836** | 16 310 | 16 148 |
| Members' equity | **1 328** | 1 262 | 998 |
| Off-balance sheet credit instruments and derivated financial instrument | **182 641** | 164 712 | 122 313 |
| Total capital ratio | **16.5%** | 14.3% | 13.2% |

## Results of Operations

| For the years ended December 31<br>(in millions of dollars) | **2009** | 2008 | 2007 |
|---|---|---|---|
| Gross income | **$ 314** | $ 89 | $ 208 |
| Privision for credit losses | **13** | 21 | 16 |
| Net income (net loss) | **127** | (37) | 63 |
| Total contribution to network | **159** | 36 | 112 |

## Credit Ratings

| | Short term | Medium and long term |
|---|---|---|
| Standard and Poor's | **A-1+** | **AA-** |
| Moody's | **P-1** | **Aa1** |
| DBRS | **R-1H** | **AA** |

Credit ratings are intended to provide investors with an independent assessment of the credit quality of an issue of securities. The AA and Aa rating category is the second highest rating assigned by DBRS, S&P and Moody's to long-term debt securities. Moreover, the "high" and "low" designations on ratings by DBRS, the plus or minus sign in the case of S&P, and the numerical modifiers 1, 2 and 3 used by Moody's indicate relative quality within their respective rating categories. Each rating agency has several rating categories for long-term debt securities. Prospective purchasers of debt securities should consult the rating agency in question concerning how the ratings stated above are to be interpreted as well as their repercussions.

The above ratings must not be construed as a recommendation to buy, sell or hold debt securities, and they may be subject to revision or withdrawal at any time by the rating agencies.

Coming together to serve the caisses and businesses

profitability stability confidence

# Management's Message

**On the heels of 2008, a year marked by a financial crisis that sent a severe shock through the world's economy, Caisse centrale Desjardins (CCD) ended fiscal 2009 with excellent results. What makes this performance even more significant is that it was achieved in an environment of continued market volatility. CCD counts many achievements in 2009, and its contribution to the Desjardins Group Development Plan opens the way for synergies that should prove highly beneficial to the entire Desjardins network and to all its members.**

### A record year

Through a good reading of market changes, CCD was able to attain a level of profitability that exceeded forecasts. Its business strategies were effective, maintaining portfolio quality and operational profitability at enviable levels. CCD posted $127.4 million in net income in 2009, compared to a $36.6 million net loss in 2008, a year that was occasionally affected by large asset write-downs as a result of the financial crisis. Furthermore, these record results are for all intents and purposes more than twice the results posted for 2007.

These results are testimony to determination and efforts made in all our areas of activity to compensate for the impact of the crisis and consolidate all operations. Furthermore, these sustained efforts allowed CCD to maintain excellent ratings from the rating agencies.

### Treasurer to Desjardins Group

Through the rigour of its treasury policy, solid institutional funding and the contribution from the caisse network, CCD succeeded in maintaining the liquidity required to meet the entire Group's needs despite a precarious economic environment. The effectiveness of CCD's strategies also allowed it to strengthen its foundations and confidently address a period of global financial stabilization.

As treasurer to Desjardins Group, CCD is active both nationally and internationally. Under this mission and in line with its strategy of increasing the duration of its institutional funding, CCD launched, in 2009, an issue of debt securities on the European markets and two issues of medium-term deposits on the Canadian market. Despite being issued in a difficult economic environment and without assistance from the federal debt guarantee program, the three issues were well received, once more confirming the strength of Desjardins Group's balance sheet and its excellent reputation in international markets.

Monique F. Leroux

Bruno Morin

**A high-quality loan portfolio**

Despite the precarious economic conditions throughout 2008 and into the first few months of 2009, CCD managed to maintain the quality of its portfolio of loans to large and medium-sized businesses and institutions. CCD teams intensified their efforts to help clients navigate through the challenges faced in the economy and capitalize on the first signs of recovery as they emerged. At the same time, CCD continued to apply its strict risk management policy and closely monitor developments in each file. Important new relationships with several companies should drive significant growth in Desjardins Group's financing activities in 2010.

**Working together to shape our destiny**

A simplified organizational structure was implemented in response to the Desjardins Group Development Plan, adopted in May 2009. The structure will optimize performance of the entire Group and accelerate development, in particular by building links between the business sectors and the caisse network. Also, it will enhance cohesion among the Group's various entities. Furthermore, financial governance and risk management will be more closely aligned. It was in this spirit that CCD's various segments were linked with those of other Group components in 2009. These closer ties will create more cohesive operations throughout the entire network.

Given an environment characterized by profound sociodemographic changes and globalization, as a financial entity, Desjardins Group is obliged to adjust its structure and methods in order to achieve continued success in an increasingly competitive environment and to satisfy the changing and complex needs of its members. CCD retains its fundamental mission, but its teams and the teams of the other Desjardins components are now working even more closely together, with the Group's interests at the centre of their action. This consolidation of expertise fosters synergies among the main business segments and gives Desjardins caisses, members and clients access to a more cohesive and complete service offering. Through its agility, the new structure will allow the Group to provide effective responses to all its clients' needs.

In the wake of this re-organization, we would like to give a warm welcome to the new members of CCD's management committee. The members of this committee are listed in the General Information section at the end of the annual report.

**Top-flight teams**

Our specialists and others throughout the caisse network and subsidiaries invested additional time and effort in the second half of 2009 to develop all these new synergies and ensure that the entire Group will now be able to benefit from their expertise. We would like to extend our sincere appreciation for their rigorous approach as they added this new challenge to their regular responsibilities. Once again their skills and motivation have allowed us to surpass objectives and attain new heights in terms of results, all in a context that presented considerable challenges. We are very grateful.

We would also like to thank the members of our board for their unfaltering support over the years and their informed and sound advice. Finally, we would like to thank all our clients, who are our raison d'être, and to whom we want to continue offering the most competitive financial products and services.

**Monique F. Leroux, FCA, FCMA**
**Chair of the Board and CEO**
**Caisse centrale Desjardins**
**Chair of the Board, President and CEO**
**Desjardins Group**

**Bruno Morin**
**General Manager**
**Caisse centrale**
**Desjardins**

# Treasurer of Desjardins Group

**True to its mission as treasurer of Desjardins Group, throughout 2009, CCD successfully implemented its strategy to increase the duration of its institutional funding. This strategy, whose effectiveness has been demonstrated over the last few years, allows CCD to provide the entire Group with the funds needed for operations and development and navigate through more difficult periods, such as 2008. Combined with a particularly strict risk management policy, this strategy also attenuated the impact of a difficult economic environment and generated satisfactory income levels, despite extremely weak interest rates. Gross revenues from the Group's Treasury sector grew $147 million over the previous year, whose results were affected by losses due to the global financial crisis. This increase came mainly from balance sheet matching and liquidity management activities as well as trading activities.**

**Building on the growth in this segment's results over the last several years, income for 2009 represents a 68% jump from the figure for 2007.**

### An encouraging yet fragile recovery

Begun in the final convulsions of a global crisis stretching back to 2007, 2009 saw confidence build slowly but steadily among consumers and in real estate and stock markets. Even if the recovery is still tenuous and suggests caution, many indicators have been pointing toward economic recovery for several months. Sources of financing are becoming accessible again, and short-term financing gaps are returning to levels last seen in 2007, before the crisis.

In this environment, CCD turned again to its various national and international funding programs to secure capital for Desjardins Group. At the beginning of 2009, CCD issued $800 million of debt securities on European markets. In September and December 2009, it also launched two issues of medium-term deposits, for $500 million each, on the Canadian market. It is worth mentioning that even though Desjardins Group is eligible for the federal debt guarantee program, CCD has never needed such assistance. It is nevertheless satisfying to note that entry to this program has placed Desjardins on the same footing as Canada's major financial institutions, and the Group benefits from the same tools and prerogatives as any other large Canadian financial institution.

CCD's participation in the mortgage securitization program totalled $500 million in 2009. A part of CCD's policy to increase the duration of its institutional funding, this participation gives us access to a source of long-term financing at the lowest cost available in the market. The mortgages in this securitization program are insured by the Canada Mortgage and Housing Corporation and guaranteed by the Canada Housing Trust program. The recent financial crisis has demonstrated the need for this securitization program in our funding diversification strategy.

### New risk assessment tools

In 2009, CCD developed new tools that can better assess the risk of interest rate changes and more effectively anticipate changes to the balance sheet. Our excellent results are also due to the quality of assessments made by CCD's experts, who were able to accurately analyze the economic environment and anticipate shifts in the markets.

**Encouraging outlook**
Even if the after-effects of the crisis are still apparent in most industries, many indicators lead to a confident outlook for 2010. We have every reason to believe that the easing of monetary policies will maintain very short-term financing costs at reasonable levels for most of the year.

Moreover, we are convinced that combining our resources with those of the network and other Group components will result in the development of an ever wider range of instruments for funding the Group at the best possible cost. The re-organization announced in May as part of the Desjardins Group Development Plan has allowed teams at CCD to better coordinate their activities with those of the network and other Desjardins components. The result will be optimized performance across the Group as a whole as well as faster development, in particular as business sectors work more closely with the caisse network, cohesion between entities improves, and financial governance and risk management are increasingly strengthened.

**Risk management**
Like Desjardins Group as a whole, several years ago, CCD developed a policy for strict risk management. Under this policy, 2009 saw the implementation of more sophisticated assessment systems, more accurate risk measurement tools and even stricter assessment and monitoring methods.

Following the serious crisis that undermined economic activity in 2007 and 2008, we reconsidered basic aspects of our risk policy with the goal of making it even more effective. This analysis led us to abandon certain products that appeared less appropriate and deploy new tools that will give more precise, faster and more frequent readings of risks as they evolve. Our new models give us a more detailed and accurate snapshot of various types of risk exposure, such that we can base decisions on a scale of risks that is tailored to each individual situation. Given the scale of the crisis in the United States, we have been particularly cautious in our assessments of risks south of the border. This has helped maintain the quality of CCD's U.S. portfolio.

# Serving Businesses and Institutions

**In 2009, CCD continued to take a cautious approach to business development in the medium-sized and large business sector and the institutional sector. Dictated by the precarious condition of the global economy, this approach allowed us to maintain the excellent quality of our loan portfolio as we built stronger relationships with business clients. The gross margin on our loan portfolio to businesses and institutions continued to grow in fiscal 2009.**

**Significant headway was made in banking services, attenuating the negative impact of lower interest rates on our gross margin on balances maintained. The improvement was mainly the result of new service agreements we developed with several of our clients in the public and private sectors.**

**An essential partner in business and institutional services**
Financing services for medium-sized and large businesses and institutions in the public sector are an important part of CCD's business strategy. CCD's products and services for businesses and institutions are an indispensible complement to the service offering provided by the network and other Desjardins Group components, and make CCD an essential partner in business and institutional services.

In order to effectively respond to the changing needs of businesses, CCD splits its business clients into two distinct segments.

CCD's Large Business segment shares its expertise with companies and institutions with revenues of $250 million or more and financing needs exceeding $50 million. Through the considerable expertise of its specialists and in close collaboration with other Group entities, the Large Business segment is able to provide business solutions that directly support clients' growth and development.

The Medium-sized Business segment serves businesses with revenues of less than $250 million and financing needs of $10 million to $50 million. CCD's services to medium-sized businesses are provided through Desjardins Business Centres and the Mid-Market Business Centre with considerable input from Desjardins Group's specialists in the regions.

Working with the caisse network and business centres, CCD also plays a leading role in the health, education and municipal institutional sectors, serving Québec's and Canada's governmental departments and agencies, as well as the public and parapublic sectors of certain other provinces.

In an environment characterized by economic downturn and tighter credit conditions, authorized loans nevertheless grew 2% in 2009 on the entire business and institutional portfolio.

## An effective strategy

CCD's corporate business development strategy consists of three components, all of which generate spinoffs for all of Desjardins Group:

- The first involves expanding CCD's role as agent or co-agent with banking syndicates so as to raise the Group's profile and improve profitability.
- The second component seeks to concentrate the Group's activities in the six industrial sectors in which it has built expertise and a critical mass: agri-food, communications and media, distribution, forest products, energy resources and transportation.
- The third component calls for stepping up the Group's development outside Québec and backing the geographic expansion of its business clients.

## A high-quality loan portfolio

An effective strategic approach has allowed us to maintain the quality of our portfolio of loans to large and medium-sized businesses despite the sharp downturn in the economy in 2008 and the initial months of 2009. By applying our risk management policy, we approved only the most solid applications for financing and we closely monitor each file. The high quality of our portfolio is evidence of successful cooperation between Group components, our teams and our business clients.

The decrease in our loans outstanding is essentially due to two external factors: the economic downtown caused by the 2007-2008 crisis and the attractiveness of the public debt market. Businesses were hesitant to invest in new projects and, in light of economic conditions, many decided to postpone certain capital expenditures. On the other hand, many companies and institutional organizations took advantage of the improved public debt market as a replacement for bank financing.

Our traditional banking service activities continued to grow, posting higher revenues than 2008. This was true of most services, including direct deposits, electronic payment services, funds transfers and other current banking services. The only decrease was recorded in foreign exchange services, which was inevitable given a strong Canadian dollar that was often almost at par with the U.S. dollar, a situation unfavourable to exports.

## An essential partner to the caisse network

One of the significant events of 2009 was undoubtedly bringing together business experts, teams and products and services. CCD's specialized business finance teams, which will continue to diligently apply their business and institution service policy in effect for the last three years, will also be working more closely with the other Group components in accordance with the principles set out in the Desjardins Group Development Plan. This will lead to greater operational efficiency and a better response to all the needs of large businesses, particularly those listed on the stock markets. This will only strengthen CCD's and Desjardins Group's commitment to actively encourage the development of Québec businesses, both here and abroad.

Closer ties between teams will generate new synergies and will allow us to develop more strategic and better-integrated business relationships with our clients, giving them access to a larger team of specialists and all the products and services specifically designed for them.

## Outlook

With the economy on the road to recovery, we are convinced that the significant progress made in 2009 in the large and medium-sized business and institutional market, in cooperation with Desjardins Business Centres and the other Group components, will drive significant growth in CCD's financing activities throughout 2010.

We are convinced that more and more large and medium-sized businesses will want to take advantage of the synergies and exceptional cohesion generated by Desjardins Group's new unified approach, and will want to make Desjardins their primary financial institution.

# Presence in Markets Outside Québec

**In keeping with its strategic orientations, CCD continued to exercise leadership in 2009 in all the activities of Desjardins Group and its clients around the world.**

With a U.S. platform consisting of the Caisse centrale Desjardins U.S. Branch and a retail subsidiary, Desjardins Bank, CCD can effectively meet the needs of its various client groups conducting business or staying in Florida or elsewhere in the U.S.

For its part, the Desjardins International Service Centre acts as the Group's representative to foreign banks. It maintains a worldwide network of correspondents and sets up cooperation agreements with financial institutions around the world. It gives Desjardins members access to the international financial services they need for their development. These services include foreign exchange contracts, direct access to dealers, import and export letters of credit, factoring, inter-currency transfers, U.S. lockboxes, foreign currency accounts, money orders and drafts, and a global cash management system. In short, it includes everything Desjardins Group needs to be a major player on the world stage and to support members and clients who conduct or plan to conduct business abroad.

### Supporting the caisses and business centres

Our International Business Development managers diligently support the caisses and business centres and allow them to share the risks associated with international operations. Working out of several centres across Québec, the managers and their teams of experts support the entire caisse network, providing advice in matters involving international services and sales. In 2009, our experts received many calls from clients asking for advice related to problems in the global economy and from exporters affected by the strength of the Canadian dollar against the U.S. dollar.

Direct access to dealers, which we have provided to medium-sized businesses since 2001, is an exclusive Desjardins service that is greatly appreciated by the clients and members of Desjardins Business Centres.

In 2009, CCD conducted a review of all the conditions attached to its factoring product in order to make the service offering even more competitive. CCD will now be able to provide better support to business clients active in international markets.

Our service offer for the network and business clients will be upgraded in the first few months of 2010, and business members will be able to enter into foreign exchange forward contracts online through AccèsD Affaires.

### Further west

Our Toronto and Calgary teams support Desjardins Group's expanding business activities outside Québec as well as the growth of businesses conducting business with Desjardins. In 2009, their efforts built relationships with credit unions and businesses in Western Canada as part of efforts to enhance the geographic and industrial diversification of the loan portfolio.

### Caisse centrale Desjardins U.S. Branch

Our American branch continued to serve clients conducting business in the U.S. Authorized credit grew 11% in 2009, despite the turmoil in the global economy.

### Desjardins Bank

Desjardins Bank offers various financial services, including ATMs where members can carry out transactions in French. Its service offer is continually being upgraded in order to better serve Desjardins members staying or conducting business in Florida. Desjardins Bank's three branches are in Hallandale Beach, Pompano Beach and Lauderhill. In 1992, Desjardins Group became the first Québec institution to set up operations in Florida.

The sheer scale of the impact of the global financial crisis on the U.S. economy and tightening economic conditions affected the performance of our U.S. subsidiary. However, it should be mentioned that the losses that were incurred were mainly due to performance in the portfolio of loans acquired from American banks. Overall, with the impacts of the crisis behind us, we can be optimistic about the year ahead.

### Outlook

The recovery now seems to be well underway around the world. Caution is nevertheless called for; we will continue to pay close attention to changes in the economy as they unfold.

We continue to work at expanding our presence in markets, both across Canada and internationally. We will continue supporting business expansions outside Québec by providing financing and by offering a wider range of financial products and services, as well as advice and international services, in close cooperation with the caisse network and Desjardins Business Centres.

By pooling CCD resources with those of the Group's other components and by drawing on our experience and ability to adapt, we are convinced that we will be able to rise to challenges as they emerge and make the most of the resulting business opportunities.

# The Cooperative Difference

**CCD is a cooperative owned by its members, the caisses and the auxiliary federations. As such, CCD fully embraces Desjardins Group's cooperative difference and underlying values, as evidenced by its orientations and business practices. Throughout fiscal 2009, CCD stood out for the actions it took to support and promote cooperative development.**

### Greater synergy with the Group

True to its commitment to cooperate to shape our destiny, more than ever before CCD is cooperating with the other entities of Desjardins Group to create new synergies that will benefit both Desjardins and its members. The result is an enhanced operational efficiency that is entirely in the cooperative spirit advocated by Desjardins Group. Among other things, CCD participates in certain major Desjardins sponsorships and fully embraces its philosophy and policies.

### Relationship with the cooperative sector

Alone or in partnership with the caisse network, CCD plays a very active role in the cooperative sector through its financing activities, with over $1 billion in commitments to Canadian cooperatives in the agricultural, forestry, financial and other sectors.

### Social responsibility

In a spirit of sustainable development and responsible corporate behavior, CCD exercises leadership by intensifying its efforts to reduce its ecological footprint. Close on the heels of paperless meetings held by various committees, 2009 saw new initiatives such as CCD's participation in Earth Day activities, more systematic use of recycled paper and tangible acts to reduce energy consumption.

CCD encourages its employees to support causes they believe in. It authorizes telecommuting to reduce greenhouse gas emissions from vehicles, encourages the redistribution of food surpluses to charities such as La Tablée des chefs, and recovers portable phones. These are all ways to *change the world, one step at a time.*

### Community commitment

CCD actively supports the social, cultural and economic development of the community in which it operates.

CCD helps fund many organizations and philanthropic causes, mostly in the areas of community health and services as well as education, but it also supports sports and recreation, arts and culture, and humanitarian causes.

Organizations that received funding in 2009 include Fondation Cornélius Brotherton, Fondation du Centre des femmes de Montréal, Fondation IntégrACTION du Québec, Fondation du Cégep de Matane, the Quebec Cystic Fibrosis Foundation, the National Circus School Foundation and the Association des Centres jeunesse de Montréal.

In 2009, CCD received almost 250 requests for funding from across the province. Its financial commitment totalled nearly $350,000, of which close to half was given to organizations promoting youth development, such as Fondation Desjardins. CCD also supports various causes in which its employees are involved, including the team of Desjardins walkers that participated in the Weekend to End Breast Cancer.

Finally, CCD supports organizations with an economic vocation, such as chambers of commerce and business associations, by sponsoring specific activities.

# Three-Year History

**As at December 31, 2009, CCD's consolidated assets stood at $22.6 billion, compared to $20.4 billion at the end of 2007. This growth is explained in part by an increase in securities. One of the purposes of liquidity reserves is to meet regulatory requirements, and our liquidity ratio has risen over the last three years, from 20% in 2007 to 23% in 2009.**

This growth is mainly due to a desire to meet development needs in the various business lines, but it is also part of CCD's strategy to maintain a secure supply of funds. The strategy targets diversification in terms of the sources and duration of funding, making it possible to maintain a competitive market position. Furthermore, the asset growth has come from derivative financial instruments, which is explained by greater volumes and more interest rate volatility.

Outstanding business loans grew by more than $400 million in the last three years. Despite this increase, they fell $584 million from 2008 to 2009. It should be noted that the lending level in 2008 was the highest in the last three years. Since the beginning of 2009, a prudent approach has been taken in lending in response to the financial and economic environment, with priority given to providing support to the existing client base. Moreover, CCD considers it crucially important to maintain its role as bank syndicate agent and co-agent and continue to pursue business opportunities in new markets.

Loans to Desjardins Group members and affiliates fell $1.4 billion from 2007 to 2009 to $7.5 billion. This change is explained by large repayments made under the deposit fund matching strategy of the Fédération des caisses Desjardins du Québec.

In partnership with the network of caisses and business centres, loans made to public and parapublic sectors grew from $1.7 billion in 2007 to $2 billion at the end of 2009 for a total increase of $300 million.

Derivative financial instruments stood at $1.2 billion as at December 31, 2007, compared to $2.8 billion at the end of 2009. The value of derivatives grew as a result of the rise of the American dollar and the euro against the Canadian dollar. In addition, the combination of volatile interest rates and economic instability raised the value of derivative instruments.

Toward the end of 2008, it was practically impossible to obtain a medium-term loan, and this placed tremendous pressure on short-term loans. Exceptional measures by the Bank of Canada to inject funds into the money market allowed CCD to be able to continue funding operations at reasonable cost in the midst of a financial crisis. Furthermore, CCD continued to avail itself of the Canada Mortgage and Housing Corporation's mortgage securitization program as an additional source of funding, bringing the amount of loans securitized since 2007 to nearly $3.7 billion.

At the outset of 2009, CCD launched a medium-term note totalling 500 million euros ($800 million) on European markets. Furthermore, two $500 million notes issues were launched on the Canadian market: one in September 2009 and another in December 2009. A faster economic recovery in Canada than in Europe resulted in lower financing costs in the local market, explaining part of why CCD used the Canadian market. In 2008, despite the effect of the crisis on markets, CCD was able to launch two issues totalling $1.3 billion on European markets.

CCD issued no share capital in 2009, in contrast to the two previous years. CCD issued a total of $400 million in share capital to the caisses in 2007 and 2008, broken down as follows: $100 million in September 2007 and two additional issues in 2008, consisting of $200 million in March and $100 million in September. In addition to demonstrating the soundness of the caisses, these share capital issues provided CCD with additional leeway during the financial crisis.

The economic instability in 2008 led to new strategic directions taken at the start of 2009. Despite a year marked by very difficult economic conditions, the strategies adopted proved beneficial, allowing CCD to attain record net income of $127.4 million. Net income more than doubled compared to 2007. This excellent performance is seen mainly in the net interest income, which has risen over $106 million in the last three years. The growth in the net interest income was due in part to market conditions, which favoured wider spreads, as well as CCD's strategy of focusing on files with wider spreads. On the other hand, a lower-than-usual cost of financing due to the exceptional measures deployed by the Bank of Canada also had the effect of widening the net interest spread. Income from trading activities performed very well, mainly as a result of strategies that took advantage of market fluctuations.

Remuneration to the network reached a record level of $159.4 million in 2009 compared to $112.3 million in 2007. This represents close to 42% growth.

# Annual Report of the Board of Ethics and Professional Conduct

**In 2009, the CCD Board of Ethics and Professional Conduct ("the Board") met seven times, including two teleconferences.**

### Awareness

With a view to increasing employee awareness of Desjardins Group values, the members of the Board adopted an action plan for 2009. The purpose of this plan is to continue the initiatives started in 2008 to identify actions having the greatest impact and to innovate by implementing new actions.

To begin with, the employee survey conducted in cooperation with the Guy Bernier Chair in Cooperative Business had a very high rate of response. Subsequently, a report with proposed recommendations was presented to the members of the Board and the General Manager. The members of the Board noted that most of the recommendations were already covered in the action plan and many had already been implemented.

The Board members created two posters aimed at raising CCD employee awareness of ethics and professional conduct. The theme of the first poster was the procedure for reporting violations, and the second one reminded people of the importance of values, ethics and professional conduct. These posters were prominently displayed wherever people gather in CCD offices.

In addition to bulletins raising employee awareness of ethics and professional conduct, questions dealing with ethics and professional conduct were published on the CCD Intranet twice a month.

Lastly, CCD Board members adapted the training tool called *Measure Your Ethics Quotient* developed by the FCDQ for CCD. This training tool was put online in the fourth quarter.

### Statutory obligations

With regard to statutory activities, the Board produced and presented its Annual Report of Activities for 2008 to both the Annual General Meeting and the Board of Directors. In addition, members filed a semiannual Report of Activities with the CCD Board of Directors. The report was also filed with the AMF. Lastly, the complaint handling policy adopted in 2008 was implemented, along with applicable quarterly reports.

Moreover, the Board verified that all CCD officers and employees authorized to grant credit had duly declared their interest or participation in any business, including all persons related to them, pursuant to the obligations set out in the rules of ethics and professional conduct.

Furthermore, the Board made sure that CCD had created and always keeps current its Directory. This Directory is a tool designed to identify enterprises where officers have declared an interest or are in a potential conflict of interest situation, so as to better monitor compliance with the rules of ethics and professional conduct.

The Board also ascertained that the List of related parties had been updated. This list is a reference tool used for transactions with related parties. Governed by the Code, these transactions must be dealt with at arm's length; i.e. according to market terms.

Lastly, the CCD Directory and List of related parties were made available on CCD's Intranet. This means of communication makes these documents available to all employees at all times.

The Board also ensured compliance with the disclosure obligations laid out in CCD's rules of ethics and professional conduct, which are based on legislation, the Code and institutional policies governing credit granted to interested persons, related persons and relatives.

On a quarterly basis, the Board received and reviewed credit granted by CCD to the above persons and then made a report to the Board of Directors. The Board noted no departures from the rules of ethics and professional conduct applicable to these transactions.

The Board also checked that all CCD employees and officers had signed their annual declaration in which they acknowledge having read and understood the Code and undertake to comply with its values, principles and rules. In addition, the Board ensured that all new CCD employees had signed their "Employee Undertaking" and thus adhere to CCD rules of ethics and professional conduct. This was confirmed by a certificate issued by Human Resources management.

**Denis Rousseau**
**Chair**
**Board of Ethics and Professional Conduct**
**Caisse centrale Desjardins**

# Caisse centrale Desjardins Financial Review

## Table of contents

# Management's Discussion and Analysis

**This Management's Discussion and Analysis ("MD&A") compares the financial condition and results of operations of Caisse centrale Desjardins ("Caisse centrale") as at and for the years ended December 31, 2009 and 2008, prepared in accordance with Canadian generally accepted accounting principles. This MD&A is dated February 25, 2010, and unless otherwise indicated, all stated figures are in Canadian dollars. It also discusses forecasts and risk management. To assist the reader, we have added a glossary of financial terms at the end of the Annual Report. Additional information on Caisse centrale is also available on the SEDAR website at www.sedar.com and on Desjardins Group's website at www.Desjardins.com.**

## Caution concerning forward-looking statements

This report may contain forward-looking statements concerning Caisse centrale's activities, objectives and strategies. These forward-looking statements are typically identified by such words as "believe", "expect" and "may", words and expressions of similar import, and verbs conjugated in the future and conditional tenses. By their very nature, such statements involve assumptions, uncertainties and risks, both general and specific; it is therefore possible that the forecasts made may not materialize because of a number of factors. Various significant factors could influence the accuracy of the forward-looking statements mentioned in this report, notably legislative or regulatory developments, changes in the economic environment, including the impact of the currently volatile capital markets resulting in a liquidity shortage on various markets, fluctuations in interest rates and exchange rates, monetary and tax policies, consumer spending, the demand for credit, individual savings patterns, the unemployment rate, trade between Quebec and the United States, technological changes, the effects of increased competition in a market open to globalization, the ability to design new products and services and bring them to market in a timely fashion, the capacity to gather complete and accurate information from our clients and their counterparties, legal or regulatory procedures, the ability to form and integrate acquisitions and strategic alliances, the effect of possible international conflicts, including terrorism, or natural disasters, changes in accounting standards, policies, estimates and assumptions, including changes in accounting estimates affecting provisions or allowances, the capacity to recruit and retain key managers, and management's ability to foresee and manage the risks stemming from the preceding factors.

Risk factors also come into play and are discussed in the "Risk Management Review" of this Annual Report. Caisse centrale has implemented strategies to manage these risks. These and other factors should therefore be considered carefully and readers should not place undue reliance on the forward-looking statements. The above-mentioned list of factors that could influence future results is not exhaustive. Caisse centrale does not undertake to update any forward-looking statements, whether verbal or written, that could be made from time to time by or on behalf of Caisse centrale.

# Risk factors that may affect future results

**As indicated in the caution concerning forward-looking statements, the risks and uncertainties inevitably associated with any such statements are both general and specific, and may cause the actual results of Caisse centrale to differ from those in forward-looking statements. Some of these factors are presented below.**

### General economic and business conditions in regions where Caisse centrale conducts business

General economic and business conditions in the regions in which Caisse centrale operates may significantly affect its revenues. These conditions include short and long-term interest rates, inflation, money market and capital market fluctuations, foreign exchange rates, volatility in capital markets, including tighter liquidity conditions in certain markets, the strength of the economy and the volume of business conducted by Caisse centrale in a given region.

### Foreign exchange rates

Exchange rate fluctuations in the Canadian dollar, the U.S. dollar and other foreign currencies may affect Caisse centrale's financial condition and its future earnings. Fluctuations in the Canadian dollar may also adversely impact the earnings of Caisse centrale's business clients in Canada.

### Monetary policy

The monetary policies of the Bank of Canada and the Federal Reserve Board in the United States, as well as other interventions in capital markets, have an impact on the revenues of Caisse centrale. The general level of interest rates may affect the profitability of Caisse centrale. Fluctuations in interest rates affect the spread between interest paid on deposits and interest earned on loans, which could change Caisse centrale's net interest income. Caisse centrale has no control over changes in monetary policies or capital market conditions and it therefore cannot forecast or anticipate them systematically.

### Competition

The degree of competition in markets in which Caisse centrale operates affects its performance. Customer retention depends on many factors such as product and service pricing, customer service delivery and changes to the products and services offered.

### Changes in standards, laws and regulations

Changes made to standards, laws and regulations, including changes affecting their interpretation or implementation, could have an impact on Caisse centrale by restricting its product or service offering or by enhancing the ability of competitors to compete with its products or services.

### Completeness and accuracy of information concerning customers and counterparties

Caisse centrale relies on the completeness and accuracy of the information concerning its customers and counterparties. When deciding to authorize credit or other transactions with customers or counterparties, Caisse centrale may use information provided by them, including financial statements and other financial information. It may also rely on representations made by customers and counterparties regarding the completeness and accuracy of such information, and on auditors' reports regarding the financial statements. The financial condition and revenues of Caisse centrale could be adversely affected if it relied on financial statements that do not comply with generally accepted accounting principles, are misleading or do not present fairly, in all material respects, the financial condition and the results of the operations of customers and counterparties.

### New products and services to retain or increase market share

The ability of Caisse centrale to retain or increase its market share depends partly on its skill in adapting its products and services to changing standards in the financial services industry. Financial services companies are subject to increasing pressure regarding the pricing of their products and services. This factor may reduce net interest income or revenues from fee-based products and services. Moreover, the adoption of new technology can result in major expenses for Caisse centrale, as it is required to modify or adapt its products and services.

### Ability to recruit and retain key officers

Caisse centrale's future performance depends partly on its ability to recruit and retain key officers. In addition, intense rivalry to attract the best people pervades the financial services industry. Caisse centrale cannot however be sure that it will be able to continue to recruit and retain key officers, even though this is one of the objectives of its resources management policies and practices.

### Business infrastructure

Third parties provide some of the essential components of Caisse centrale's business infrastructure, such as Internet connections and network access. Interruptions in network access services or other communication services, as well as in the data provided by such third parties could adversely affect the ability of Caisse centrale to offer products and services to customers and to otherwise conduct its business.

## Other factors

Other risk factors such as operational, credit, market and liquidity risks, to name a few, are presented in the “Risk Management Review” section.

Caisse centrale cautions the reader that factors other than the foregoing could affect future results. When investors and other stakeholders rely on forward-looking statements to make decisions with respect to Caisse centrale, they should carefully consider these factors as well as other uncertainties, potential events, and industry factors or items specific to Caisse centrale, which could adversely impact its future results.

# Non-GAAP measures

**Caisse centrale uses both generally accepted accounting principles ("GAAP") and non-GAAP measures to assess and comment on its financial performance.**

The Canadian Securities Administrators require that issuers caution readers that non-GAAP measures do not have standardized meanings prescribed by GAAP and are unlikely to be comparable to similar measures presented by other companies. In its MD&A, Caisse centrale's management reports amounts adjusted for certain special items. Amounts and measurements presented on that basis are considered useful because they can better reflect operating results. For fiscal 2008, Caisse centrale recognized specific items related to the crisis on financial markets. In fact, it recognized an impairment of its financial asset-backed securities and of investments in the Canadian non-bank asset-backed commercial paper ("ABCP") market in consolidated income under "Net losses on available-for-sale securities". In addition, Caisse centrale recognized a loss on hedge fund investments related to Desjardins Group guaranteed-capital savings programs and on credit default swaps in consolidated income under "Trading activities". Since these expenses resulted from the financial crisis which marked 2008 and in general are not regularly incurred, they were excluded from some analyses in order to better evaluate the results.

# Financial governance

**Caisse centrale must comply with certain requirements of the Canadian Securities Administrators' ("CSA") rules regarding continuous disclosure obligations, the oversight of external auditors, certification of financial reporting and audit committees.**

As a reporting issuer, Caisse centrale was required to certify, as at December 31, 2009, the design and effectiveness of its disclosure controls and procedures and its internal control over financial reporting.

### Disclosure controls and procedures

In compliance with CSA directives in Multilateral Instrument 52-109, the Chair of the Board and Chief Executive Officer and the Chief Financial Officer of Caisse centrale designed, or caused to be designed, financial disclosure controls and procedures which are supported in particular by the process for periodic certification of financial disclosures made in annual and interim filings. All information collected as part of the financial governance process is reviewed on a quarterly or annual basis by the members of the Disclosure Committee of Caisse centrale and of the Audit Commission of Caisse centrale. The Audit Commission plays a lead role in the oversight and assessment of the appropriateness of financial disclosure controls and procedures.

As at December 31, 2009, in accordance with the control framework recognized by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission, Caisse centrale's management assessed the design and effectiveness of the financial disclosure controls and procedures of Caisse centrale.

On the basis of the assessments made, the Chair of the Board and Chief Executive Officer and the Chief Financial Officer of Caisse centrale have certified that the financial disclosure controls and procedures provide assurance that information required to be disclosed in reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms, thus providing investors with complete and reliable information.

### Internal control over financial reporting

Caisse centrale's management is responsible for designing and maintaining an adequate internal control process for financial reporting. Such internal control is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

As in the case of the assessment of disclosure controls and procedures, the design and effectiveness of internal control over financial reporting were assessed on the basis of the COSO control framework.

Given the inherent limitations involved, it is possible that internal control over financing reporting may not prevent or detect all misstatements caused by 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 misstatement have been detected.

In view of the work performed, the Chair of the Board and Chief Executive Officer, and the Chief Financial Officer of Caisse centrale can conclude that as at December 31, 2009, internal control over financial reporting is effective and does not contain any material weakness.

### Change in internal control over financial reporting

Lastly, Caisse centrale confirms that, since September 30, 2009, internal control over financial reporting has not been subject to any change that materially affected, or was reasonably likely to materially affect, its internal control over financial reporting.

# Analysis of consolidated financial statements and critical accounting policies

**This section contains the analysis of the financial results of Caisse centrale, which focuses on the Consolidated Statements of Income and the Consolidated Balance Sheets in the consolidated financial statements.**

Note 2 to the Consolidated Financial Statements presents a summary of the significant accounting policies used in preparing the consolidated financial statements of Caisse centrale. Some of the accounting policies are considered critical because they are key to understanding the financial condition and results of operations of Caisse centrale; they require management to make difficult, subjective and complex estimates and assumptions since they concern essentially uncertain issues. Any change in these estimates and assumptions could have a material impact on the consolidated financial statements of Caisse centrale. Critical accounting policies concern the allowance for credit losses, the fair value of financial instruments, securitization and income taxes.

### Allowance for credit losses

The allowance for credit losses is an estimate of probable credit losses related to financial instruments, whether or not presented on the Consolidated Balance Sheets of Caisse centrale, including loans, off-balance sheet commitments and acceptances. This allowance includes a general allowance for credit losses and specific allowances. A number of factors affect the estimates for the allowance for credit losses, including risk assessment, default probability, loss in the event of default, valuation of security, economic conditions and borrowers' specific situations. Any change in the estimates can lead to modifications of the allowance for credit losses. Note 6 to the Consolidated Financial Statements provides more details on the allowance for credit losses.

### Fair value of financial instruments

All financial assets and liabilities, including derivative financial instruments, are initially recognized at fair value in the Consolidated Balance Sheets. In subsequent periods, they are measured at fair value, except for items classified as loans and receivables, and financial liabilities other than for trading. A more complete description of financial instrument recognition is found in Note 2 to the Consolidated Financial Statements.

Fair value represents the estimated amounts at which these instruments could actually be exchanged in a current transaction between willing parties. Published price quotations in an active market are the best evidence of fair value and, if they are available, Caisse centrale uses them to measure financial instruments. The fair value of a financial asset traded on an active market generally reflects the bid price, and the fair value of a financial liability traded on an active market, the asking price. If there is no active market for a financial instrument, fair value is estimated by using the prices of similar securities or various valuation techniques such as the discounted cash flow method and option pricing models.

If the fair value is determined on the basis of valuation models, Caisse centrale must use assumptions concerning the amount and timing of future estimated cash flows and the discount rates used. These assumptions are based primarily on observable external market factors such as yield curves, volatility factors and credit risk. The methods to determine fair value and the assumptions used in the valuation models can affect fair value and the resulting gains and losses. Other information on the methods used by Caisse centrale to determine fair value is provided in Notes 2 and 4 to the Consolidated Financial Statements.

Available-for-sale securities are measured from time to time to determine if there is any objective evidence that they have been impaired. The use of judgment and estimates is required to determine if there is an other-than-temporary decline in value. Management reviews the value of available-for-sale assets on a regular basis to determine if the fair value of some of them has been impaired. This review includes an analysis of the specific facts of each investment and an assessment of expected future returns.

As part of this exercise, management assesses a series of factors that could indicate a loss in value that is other than temporary. Such factors include the financial conditions and near-term prospects of the issuer, and the length of time that the security has been in an unrealized loss position.

Any change in the judgments made to identify securities for which there has been a loss in value that is other than a temporary decline and to estimate their realizable value could impact on the amount of losses recorded in the consolidated financial statements.

In addition, since January 1, 2009, impairment losses recognized in income with regard to a debt security classified as being available for sale must be reversed in income if, in a subsequent period, the fair value of the security increases and the increase can be objectively related to an event occurring after the impairment was recognized.

## Securitization

Caisse centrale participates in the National Housing Act ("NHA") Mortgage-Backed Securities Program. Under this program, Caisse centrale converts mortgage loans acquired from Desjardins Group into NHA mortgage-backed securities ("NHA-MBSs"). These securities are then sold to Canada Housing Trust.

These transactions are recorded as sales because Caisse centrale surrenders control over the assets sold and receives consideration other than beneficial interests in these assets. As a result, the NHA-MBSs transferred are derecognized.

Determining the initial gain depends on the measurement of certain retained interests. Since market prices are not all available, this measurement is based on estimates and assumptions using the present value of estimated future cash flows. The key assumptions used to estimate this value are the prepayment rate, the discount rate and the weighted average life of the mortgage loans. Since all the mortgage loans are guaranteed, our assumptions do not include any provision for credit losses. Any change in these estimates and assumptions could affect the amount of gains recorded. An analysis of the sensitivity of the fair value of retained interests to immediate 10% and 20% adverse changes in key assumptions is presented in Note 7 to the Consolidated Financial Statements. Furthermore, since the value of retained interests has to be remeasured periodically, the methods of establishing fair value and the assumptions used could have an impact on the amounts recorded.

Further information on these transactions can be found in Note 7 to the Consolidated Financial Statements as well as in the section of this MD&A on "Off-balance sheet arrangements".

## Income taxes

The income tax provision is established on the basis of the expected tax treatment of transactions recorded in the Consolidated Statements of Income or the Consolidated Statements of Members' Equity. In order to determine the current and future portions of the income tax provision, analysis and assumptions are established concerning the tax laws and the dates on which future tax assets and liabilities will reverse. If the interpretation concerning tax laws differs from the one established by tax authorities or if the reversal dates of future tax assets and liabilities differ from the ones estimated, the income tax provision could increase or decrease in the next few years.

## Accounting changes

### Goodwill and intangible assets

On January 1, 2009, Caisse centrale retrospectively adopted the new accounting standard of the Canadian Institute of Chartered Accountants ("CICA") entitled "Goodwill and Intangible Assets" (Section 3064). This standard reinforces an approach based on principles and criteria to recognize costs as assets and clarifies the application of the matching principle in order to eliminate the practice of recognizing as assets items that do not meet the definition of an asset nor the criteria for asset recognition. The adoption of this standard had no impact on Caisse centrale's results and financial position.

### Credit risk and fair value of financial assets and financial liabilities

On January 1, 2009, Caisse centrale adopted the new abstract issued by the Emerging Issues Committee ("EIC") entitled "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" (EIC-173). EIC-173 states that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative financial instruments. The adoption of this EIC abstract had no material impact on the valuation models used to determine the fair value of financial instruments or on Caisse centrale's results and financial position.

### Financial instrument disclosures

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

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

Caisse centrale applied, for the first time, the amendments to this standard to its 2009 Annual Consolidated Financial Statements. For this first year of application, it is not required to provide comparative information for the disclosures required by the amendments. Since these amendments specifically concern disclosures, they had no impact on Caisse centrale's results and financial position.

### Embedded derivatives

In June 2009, the AcSB amended CICA Handbook Section 3855 entitled "Financial Instruments – Recognition and Measurement" by adding guidance concerning the reassessment of embedded derivatives upon reclassification of a financial asset out of the held-for-trading category. Caisse centrale has applied the new guidance to reclassifications made on or after July 1, 2009. This amendment had no impact on Caisse centrale's results and financial position.

### Impairment of financial assets

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

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

Caisse centrale applied the amendments to this standard retrospectively as at January 1, 2009, to its Consolidated Financial Statements as at December 31, 2009. As a result of the adoption of this standard, mortgage loans purchased from Desjardins Group and held for sale as part of securitization activities were reclassified from the loans and receivables category into the held-for-trading category. This change had an impact on fiscal 2009 results of $1.3 million, net of income taxes of $0.3 million.

## Future changes in accounting policies

### Effective interest method

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

### International Financial Reporting Standards

In February 2008, the AcSB confirmed that as of 2011, publicly accountable enterprises will be required to apply International Financial Reporting Standards (IFRS).

For Caisse centrale, January 1, 2011 has therefore been set as the changeover date from Canadian GAAP to IFRS.

Caisse centrale initiated its IFRS conversion project in 2007 by setting up a team integrated within Desjardins Group's project structure. Desjardins Group's role will be to coordinate the conversion for all its components as well as for all the staff affected by this project in order to meet the January 1, 2011 deadline for the changeover. An IFRS conversion program and a detailed conversion plan with three major stages have therefore been developed.

**Stage 1 - Identification and feasibility** - During this stage, Caisse centrale thoroughly assessed the areas in which the implementation of IFRS would have the most repercussions. Caisse centrale also developed a detailed project plan establishing the priority order of the elements to be considered and selected the solutions to be applied.

**Stage 2 - Design, realization and deployment** - The purpose of this stage is to set up the conversion plans for all the standards identified at the Identification stage. This stage includes establishing communication and training strategies for the various stakeholders. This stage also includes making the required changes to the information systems and business processes, and formally finalizing the authorizations required to approve changes to accounting policies.

**Stage 3 – Operation: Post-implementation** – The objective at this stage is to set up a procedure to maintain operations and update knowledge within Caisse centrale.

### Work completed to date

During the year ended December 31, 2009, Caisse centrale completed identification and feasibility stage of its plan as well as several activities of the second stage. Substantially all the program solutions have been designed. For several standards, solutions have been developed and deployed. For others, Caisse centrale expects to complete this work in 2010.

The impacts on information systems, and processes and controls that were reported during Stage I of the plan have been taken into account within various projects.

The progress made to date is in line with the established schedule.

Governance of the IFRS conversion program at Caisse centrale and Desjardins Group has been set up as follows:

- The **Audit and Inspection Commission** approves the accounting treatments selected and oversees the progress of the work.
- The **Steering Committee** establishes the program orientations and priorities. In addition, it ratifies the accounting treatments recommended by the User Committee.
- The **Management Committee** monitors the progress of work to ensure compliance with budgets and schedules. To do so, it ensures in particular that the necessary resources are available, and that the decisions and orientations of the various projects are in line with stated priorities.
- The role of the **User Committee** is to ensure the quality of accounting choices and their seamless implementation within all Desjardins Group components.

### Main impacts of transition to IFRS on Caisse centrale's current accounting policies

International Financial Reporting Standards use a conceptual framework similar to the one used for Canadian GAAP, but they contain major differences regarding the recognition, measurement and presentation of financial information. During the changeover on January 1, 2011, IFRS will be applied retrospectively, except for the application of certain optional and mandatory exemptions provided for in IFRS 1 (revised), "First-time Adoption of International Financial Reporting Standards".

The choices that Caisse centrale expects to make in compliance with IFRS 1 and the changes in significant accounting policies that Caisse centrale has identified under the IFRS conversion program are described on the following pages. This information is based on the IFRS as published by the IASB on December 31, 2009.

During the year ended December 31, 2009, Caisse centrale continued to analyze the implications of the conversion to IFRS on its balance sheets and income. Given, however, developments in the certain standards, the unavailability of certain market data and the schedule for completing certain solutions, Caisse centrale is unable to comment at this stage on the financial implications of the IFRS conversion on its results and financial position.

### Main impact on financial statement presentation

An analysis of the new disclosure requirements that will result from the adoption of IFRS is being made, and a skeleton project for financial statements has been initiated.

### Other implications

Analyses are also being carried out to determine the impact of adopting IFRS on Caisse centrale's capital ratios. Desjardins Group's management has initiated discussions with the regulatory authorities to raise their awareness of these implications. In order to finalize the analyses under way, Caisse centrale must, however, wait until the regulatory authorities take a stand on the treatment of the differences resulting from the major accounting changes at the time and subsequent to the transition.

| Accounting policies affected | Optional exemptions and mandatory exceptions allowed upon first-time adoption of IFRS | Significant changes in accounting policies |
|---|---|---|
| **Derecognition of financial assets** | According to IFRS 1, at the date of transition to IFRS, an entity must apply the transitional provisions in IAS 39, which provide for prospective treatment of the provisions stated in the standard for transactions occurring on or after January 1, 2004.<br><br>For Caisse centrale, that means that all the transactions performed since January 1, 2004, which do not meet the derecognition requirements stated in IAS 39, should be restated and reintegrated into its consolidated balance sheet at the date of transition to IFRS. | According to Caisse centrale's current accounting policies, the derecognition model for a financial asset is based on control, or more specifically, on the surrender of control.<br><br>According to provisions in IAS 39, a set of criteria based mainly on the transfer of risks and rewards, as well as on the control of the financial asset, must be evaluated.<br><br>Caisse centrale transfers mortgage loans to Canada Housing Trust. Even though these securitization transactions are recognized as transfers of receivables under GAAP, they should not meet the derecognition requirements of IFRS. |
| **Provisions for credit losses** | | **General allowance**<br>According to Caisse centrale's current accounting policies, a general allowance is recognized to reflect the best estimate of probable losses related to the portion of the loan portfolio not yet classified as impaired. A general allowance is first determined using a statistical model based on changes in losses by loan category. Moreover, an additional amount is considered in order to reflect the impact of economic and other factors. A general allowance does not represent future losses and does not replace specific allowances.<br><br>According to IFRS, a general allowance includes the allowance for credit losses that are deemed to have occurred but cannot be determined on an individual basis or for a given loan portfolio. In order to measure this allowance, Caisse centrale must determine a loss event, occurring after the loans were granted. The general allowance depends on an assessment of economic conditions, loss statistics and forecasts, the composition of the loan portfolio and other relevant factors. |

| Accounting policies affected | Optional exemptions and mandatory exceptions allowed upon first-time adoption of IFRS | Significant changes in accounting policies |
|---|---|---|
| **Provisions for credit losses (continued)** | | **Specific allowances**<br>According to Caisse centrale's current accounting policies, it establishes distinct specific allowances for loans considered to be impaired.<br><br>According to IFRS, individually significant loans will be reviewed at the end of each period in order to assess whether there is any objective evidence of impairment for which a loss should be recognized in income.<br><br>However, loans which have been individually assessed and for which no impairment loss has been recognized as well as all loans that are not individually significant will then be included in a group of assets with similar risk characteristics, and will be assessed collectively for impairment.<br><br>Impairment of loans, whether or not significant, will be measured by taking the present value of estimated future cash flows discounted at the original loans interest rate. The difference between this valuation and the loan balance will constitute the allowance. Any change in the allowance for credit losses attributable to the passage of time will be recognized in the consolidated statement of income under "Interest income" while revised estimated cash receipts will be recognized in the consolidated statement of income under "Provision for credit losses". |
| **Hedge accounting** | | **Measuring the ineffectiveness of hedging relationships**<br>Under its current accounting policy, Caisse centrale uses the change in variable cash flow method and the shortcut method to measure the ineffectiveness of hedging relationships in certain circumstances.<br><br>IAS 39 does not allow the use of the change in variable cash flow method or the shortcut method to measure the ineffectiveness of hedging relationships.<br><br>In order to comply with these new requirements, Caisse centrale has developed substitution methods for those currently used. These changes will increase the volatility of Caisse centrale's future income. Management, however, is unable for the time being to estimate the resulting financial implications. |

| Accounting policies affected | Optional exemptions and mandatory exceptions allowed upon first-time adoption of IFRS | Significant changes in accounting policies |
|---|---|---|
| **Income taxes** | | **Tax rate**<br>According to Caisse centrale's current accounting policies, deferred income tax assets and liabilities are measured at the marginal tax rate in effect at the date that the liabilities are settled and the date that the assets are realized.<br><br>According to IFRS, the deferred income tax assets and liabilities are measured at the average tax rate expected to be applied to the fiscal year in which the assets will be realized or the liabilities settled, on the tax basis (and tax rules) adopted or substantially adopted at the closing date. |
| **Cumulative translation differences** | IFRS 1 allows cumulative translation differences to be reversed for all foreign operations at the date of transition to IFRS. Consequently, the gain or loss on a subsequent disposal of any foreign operation should exclude translation differences that arose before the date of transition to IFRS and should include translation differences recognized later.<br><br>Caisse centrale expects to use this exemption at the transition date. | |

# Caisse centrale's strategy

### Desjardins Group Treasury

Caisse centrale, Desjardins Group's Treasurer, provides disciplined and state-of-the-art management of financial activities as a whole. Funding, liquidity management, caisse network matching, deposit fund management for the Fédération des caisses Desjardins du Québec ("Fédération"), financing of credit card activities and treasury product offerings to Desjardins business and institutional clients are all services offered by the Treasury segment.

The year 2009 was marked by precarious economic conditions characterized by high financing costs on international capital markets. A few years ago, Caisse centrale adopted a more diversified institutional funding strategy that was less dependent on short-term funds in order to be able to handle liquidity problems. This strategy has therefore enabled Caisse centrale to borrow at competitive rates during this economic crisis.

In early 2009, Caisse centrale floated a debt security issue on European markets for a total of $800 million. This five-year fixed-rate note was issued with the help of a European financial syndicate. There were also two other issues of $500 million each launched in September and December 2009, and a more recent one of $400 million floated in the first few weeks of 2010. These issues were made in the Canadian market because the local market proved to be the least costly.

Caisse centrale is a dynamic player in the securitization of mortgage receivables guaranteed by the Government of Canada. In 2009, its participation in the new Canada Housing Trust issues totalled close to $500 million. This profitable strategy plays an important role in providing liquidity for the entire Desjardins Group at the best cost on the market.

The Treasury segment had an excellent year in 2009, particularly as a result of the quality assessment of the economic situation made by its experts, who accurately gauged market developments.

Desjardins Group's treasurer intends to fine-tune the orientations and strategic initiatives of the Desjardins Group Treasury function in order to promote even more synergy within Desjardins Group. Efforts will continue to be made to further develop the foreign exchange and treasury product offering.

### Corporate service offering

For a number of years, Caisse centrale has been offering a broad spectrum of products and services to medium-sized businesses and large corporations, as well as to governments and their public and parapublic institutions. In addition to its funding solutions, it offers banking services, international services and treasury products that complement those of other Desjardins Group components.

These activities are based on a three-pronged strategy, which consists of enhancing Caisse centrale's role as a bank syndication agent or cosyndication agent, promoting business concentration in five industrial sectors in which it has established its expertise and critical mass, namely, agri-food, communications, forest products, energy resources, and transportation, reinforcing Desjardins' business development outside Quebec and supporting the geographic expansion of its business clients.

For Desjardins Group, the presence of Caisse centrale in several banking syndicates is increasingly important. Its role of bank syndication agent or cosyndication agent continued to grow in 2009, allowing Desjardins to become the agent of choice for large corporations for which Caisse centrale structures, underwrites and syndicates their financing.

Despite the precarious economic situation at the beginning of 2009, Caisse centrale managed to maintain the excellent quality of its loan portfolio by adopting a prudent approach to granting credit. Its strict risk management policy combined with tight monitoring of files allowed it to accurately assess financing applications and to react quickly in risk situations. The hard work of teams to support clients in facing the challenges arising from the economic situation throughout 2009 was greatly appreciated.

In order to extend its reach, Caisse centrale continues to diversify its loan portfolio geographically. As it spreads throughout the country, Caisse centrale can continue to play a decisive role with regard to Canadian credit unions and better service business clients who develop business relations outside the province. Its growing presence outside Quebec also helps it increase Desjardins' visibility and reinforce its image among its members and customers throughout Canada.

In addition, thanks to its U.S. branch, Caisse centrale continues to accompany clients operating in the United States or wishing to do so, by offering them the possibility of performing large financing transactions, particularly through term loans or operating credits. It also offers its services to U.S. clients who wish to break into the Canadian market. Desjardins Bank, Caisse centrale's retail subsidiary, continues to improve its service offering to members in order to properly meet their needs.

In the year ahead, Caisse centrale's priorities, in cooperation with Desjardins Group, will include continued growth in the medium-sized business and large corporate market as well as in the institutional sector, where important breakthroughs were made in 2009. In addition, there will be positive spinoffs in 2010 from bringing together expertise, teams and all business products and services in 2009 as part of Desjardins Group's restructuring. Efforts will be made to offer businesses a more strategic and better integrated approach.

On December 21, 2009, Desjardins Group and Groupe Promutuel signed an agreement-in-principle to create a business partnership for the distribution of financial products and services, such as mortgage loans and savings products. Given the context, Desjardins Group undertook, on conditions to be met within the prescribed time period, to acquire certain deposit and loan portfolios of Promutuel Capital Trust Company Inc. by no later than May 14, 2010. As a result, Caisse Centrale is expected to purchase certain deposit and commercial loan portfolios. The purchase price of the assets acquired and the liabilities assumed will be determined on the closing date of the transaction. As at December 31, 2009, the fair value of the deposits and that of the commercial loans in question were about $115 million and $90 million, respectively.

### International activities

Caisse centrale, through its International Service Centre, is Desjardins Group's representative to foreign banks and maintains a worldwide correspondent network. The International Service Centre's role is, in particular, to offer clients all the services they need for their development, including factoring and Desjardins Global Cash Management. In 2010, it intends to continue to develop a service offering for clients who wish to access foreign markets so as to ensure Desjardins Group's presence worldwide. In fact, in the first few months of 2010, business members will be able to make their own forward exchange contracts online through AccèsD Affaires.

# Economic review

**This section briefly summarizes the economic conditions in 2009 and includes our forecasts for 2010.**

The year 2009 was ushered in amid economic and financial turmoil. A number of economies around the world were simultaneously experiencing sharp, and even record, downturns. Nonetheless, since the second quarter of 2009, a breath of optimism has begun to dominate the news with the first leading indicators of an economic recovery. The stimulus plans adopted by several countries, and the monumental efforts of central banks, which have, among other things, lowered their key interest rates to historic lows and increased their injections of liquidity, have finally started to pay off.

The recovery of international trade, mainly supported by increased demand from China and other emerging countries, has also helped to get the global economy back on track. Countries like Japan and Germany, which are highly dependent on trade flows, were among the first industrialized countries to see their economies start to grow again in the second quarter. The United States and Canada, however, had to wait until the third quarter.

Even though the beginning of 2009 was particularly trying in capital markets, stock exchanges started to make an impressive comeback, after their lows in March. In the United States, the S&P 500 was up 23.5% at year-end, while in Canada, the S&P/TSX index advanced solidly by 30.7%. Commodity prices were also up significantly at the end of the year, after starting to plummet in the second half of 2008. Oil prices hit US$80 at the end of December, after hovering at around US$30 at the beginning of the year. This increase buoyed up the Canadian dollar, which also benefited from the greenback's weakness. The loonie, which had been in the neighbourhood of US$0.80 in January 2009, was close to parity at US$0.95 by the end of the year. Lastly, the yield curve closed the year with a steeper slope. Most of the adjustments took place in the spring when signs of an economic recovery helped to push up longer-term bond rates.

Even if 2010 started off on a better note than 2009, several challenges lie ahead, including U.S. households' scramble to get out of debt, which will be an ongoing process, and the large number of unemployed who will be looking for work. In addition, the fact that economic recovery plans will be ending shortly and that a number of governments will soon need to tackle deficit reduction and their indebtedness could adversely affect economic growth as early as the end of the year. Even the growth of China, which plays a pivotal role in the current recovery, could prove to be disappointing because the country is starting to dismantle its expansionist measures.

The global economic recovery rate should therefore remain moderate, with Canada being no exception. The economic recovery in the central-eastern part of the country will be particularly modest, whereas Quebec and Ontario will remain handicapped by a stronger loonie, which should get closer to sustainable parity with the greenback. Western Canada should nonetheless benefit from the rise of oil prices toward US$90 a barrel, as well as from the positive spinoffs of the Olympic Games. Overall, a wealth effect from the strong upswing in Canadian real estate and the continuing uptrend in stock markets should still maintain Canada's domestic demand.

As for interest rates, it is highly unlikely that the main central banks will step up their monetary tightening. Low production capacity utilization rates and limited wage pressures are not a sign of a run-up in inflation. Central banks will therefore be able to ensure that the economy is strong before going ahead with any interest rate hikes. The Bank of Canada will no doubt honour its commitment to maintain its main key interest rate at 0.25% until June 2010. With the U.S. Federal Reserve Board showing even less inclination to tighten its monetary policy, the Bank of Canada could even wait until the last quarter of 2010 before acting so as not to propel the loonie to new heights. In anticipation of these movements and their effect on short-term rates, a slight flattening of the yield curve is expected for 2010.

## Main economic indicators

| | Forecast 2010 | Preliminary 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| **United States** | | | | | |
| Gross domestic product | **2.5%** | -2.5% | 0.4% | 2.1% | 2.7% |
| Inflation | **2.0** | -0.3 | 3.8 | 2.9 | 3.2 |
| Unemployment | **10.2** | 9.3 | 5.8 | 4.6 | 4.6 |
| **Canada** | | | | | |
| Gross domestic product | **2.3%** | -2.5% | 0.4% | 2.5% | 2.9% |
| Inflation | **1.5** | 0.3 | 2.3 | 2.2 | 2.0 |
| Unemployment | **8.6** | 8.3 | 6.1 | 6.0 | 6.3 |
| Overnight rate | **0.3** | 0.5 | 3.1 | 4.3 | 4.0 |
| Government of Canada bonds - 10 years | **3.6** | 3.2 | 3.6 | 4.3 | 4.2 |
| Canadian dollar (in US$) | **$ 0.98** | $ 0.88 | $ 0.95 | $ 0.93 | $ 0.88 |

# Analysis of consolidated statements of income

## Net income and contribution to network

For 2009, Caisse centrale posted record net income of $127.4 million, compared to a net loss of $36.6 million in 2008. It should be remembered that the loss recorded the previous year was attributable to certain specific items related to the financial crisis that occurred in fiscal 2008. Had these specific items been excluded for a total of $150.2 million after income taxes, the results for 2009 would have nonetheless been $13.8 million or 12% better than the prior year's.

Caisse centrale's gross income stood at $314.4 million, up $32.0 million or 11% from the prior year, after excluding the specific items mentioned above. All segments contributed to this outstanding performance.

Caisse centrale's contribution to the Desjardins network also reached a record high of $159.3 million, compared to $36.1 million in 2008. This $123.2 million increase was attributable to the excellent financial results for the year, which made it possible to record remuneration of capital stock of $123.4 million, while the previous year no remuneration of capital stock had been declared because of the net loss. As a percentage of capital stock, contributions to the caisse network for 2009 represented more than a 12% return.

### Outlook

Caisse centrale will step up the resumption of business development in 2010, thereby ensuring healthy growth of its financial results.

## Net interest income

**Net interest income is the difference between the interest income earned on assets such as loans and securities, and the interest expense paid on liabilities such as deposits and debenture. Net interest income is affected by interest rate fluctuations, funding strategies and the composition of interest-earning and non-interest-earning financial instruments.**

In 2009, net interest income was up by $64.5 million or 36% from 2008, closing the year at $244.9 million. Thus, as shown in Table I, the net interest margin went from 0.78% of consolidated average assets in 2008 to 0.97% by the end of fiscal 2009. This increased margin resulted primarily from the higher margins obtained on the corporate loan portfolio, and the funding cost structure, which made it possible to take advantage of the lower short-term interest rates.

Given the prevailing financial and economic conditions in 2009, business development was conducted prudently, limiting the growth in business volume. The average volume of Caisse centrale's loan portfolio therefore remained relatively stable compared to the previous year. The strategy, however, of withdrawing from less profitable sectors and consolidating support for existing clients allowed Caisse centrale to improve its net interest margin, particularly on its corporate loan portfolio. In addition, the increased use of "Desjardins Acceptances" by public and parapublic sector entities reduced the margins generated by this sector.

For the Desjardins Group Treasury segment, the sharp increase in the net interest margin was attributable to growth in the average volume of liquid assets and a decline in very short-term funding costs as a result of the easing in monetary policy. Indeed, in response to the global financial crisis, the Bank of Canada injected large amounts on the money market in 2009, allowing Caisse centrale to access capital at a modest cost and thus improve its net interest margin.

### Outlook

Caisse centrale forecasts that net interest margin will to be under pressure in 2010 because of the expected increase in the cost of funds.

**Table 1**

## Net interest income on average assets and liabilities

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

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Average balance | Interest | Average rate | Average balance | Interest | Average rate |
| **Assets** | | | | | | |
| Cash and securities | **$ 4,993,666** | **$ 189,580** | **3.80%** | $ 4,844,287 | $ 214,889 | 4.44% |
| Loans | **15,301,467** | **237,625** | **1.55** | 15,284,879 | 593,483 | 3.88 |
| Total interest-earning assets | **20,295,133** | **427,205** | **2.10** | 20,129,166 | 808,372 | 4.02 |
| Other assets | **4,850,616** | **--** | **--** | 3,108,962 | -- | -- |
| **Total assets** | **$ 25,145,749** | **$ 427,205** | **1.70%** | $ 23,238,128 | $ 808,372 | 3.48% |
| **Liabilities and members' equity** | | | | | | |
| Deposits | | | | | | |
| Payable on demand | **$ 3,446,282** | **$ 7,030** | **0.20%** | $ 2,392,582 | $ 55,373 | 2.31% |
| Payable on a fixed date | **13,166,094** | **175,270** | **1.33** | 15,018,699 | 571,304 | 3.80 |
| Subordinated debenture | **--** | **--** | **--** | 24,555 | 1,337 | 5.45 |
| Total interest-bearing liabilities | **16,612,376** | **182,300** | **1.10** | 17,435,836 | 628,014 | 3.60 |
| Other liabilities | **7,258,010** | **--** | **--** | 4,642,015 | -- | -- |
| Members' equity | **1,275,363** | **--** | **--** | 1,160,277 | -- | -- |
| **Total liabilities and members' equity** | **$ 25,145,749** | **$ 182,300** | **0.72%** | $ 23,238,128 | $ 628,014 | 2.70% |
| **Net interest income** | **$ 25,145,749** | **$ 244,905** | **0.97%** | $ 23,238,128 | $ 180,358 | 0.78% |

**Table 2**

## Other income

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

| | 2009 | 2008 | Change $ |
|---|---|---|---|
| Service charges on chequing and deposit accounts | **$ 17,344** | $ 16,358 | $ 986 |
| Foreign exchange income | **37,708** | 40,603 | (2,895) |
| Trading activities | **6,142** | (50,912) | 57,054 |
| Net losses on available-for-sale securities | **(4,779)** | (109,828) | 105,049 |
| Commissions on "Desjardins Acceptances" | **16** | 1,791 | (1,775) |
| Credit fees | **3,680** | 3,004 | 676 |
| Management fees | **3,338** | 4,706 | (1,368) |
| Other | **6,009** | 3,052 | 2,957 |
| **Total** | **$ 69,458** | $ (91,226) | $ 160,684 |

## Other income

**Other income includes all income other than interest income.**

Other income for fiscal 2009 rose to $69.5 million, compared to a loss of $91.2 million in 2008 following the recognition of some specific items totalling $193.3 million. Had the specific items been excluded, other income for the year would have been down $32.6 million from the previous year.

This drop in other income is mainly due to securitized asset management activities. The hedging strategies employed adversely affected other income. It should be pointed out that these strategies yielded excellent results, which are presented in the net interest margin, resulting in positive income for this activity.

Trading portfolio activities were exceptionally brisk in 2009. The strategies adopted by arbitragers made it possible to take advantage of market volatility and the easing of monetary policy by the Bank of Canada.

Revenues from foreign exchange activities, one of the core business development areas favoured by Caisse centrale in recent years, declined by $2.9 million from the previous year. The loonie's strong ascent in 2009 had an unfavourable impact on trading volume, thus accounting for the drop in revenues.

Lastly, the use of "Desjardins Acceptances" declined as fewer businesses opted for this method of financing in 2009. The drop in revenue was offset, however, by the additional revenue in interest margin.

### Outlook

Caisse centrale was able to take advantage of the favourable conditions on capital markets to realize large gains in 2009. The return to normal conditions should nonetheless allow Caisse centrale to pursue growth in other income.

**Table 3**

**Components of net interest income and other income by business segment**

| For the years ended December 31<br>(in thousands of dollars) | 2009 | 2008 | Change $ |
|---|---|---|---|
| **Financing** | | | |
| Net interest income | **$ 96,731** | $ 87,900 | $ 8,831 |
| Other income | **22,412** | (46,647) | 69,059 |
| | **119,143** | 41,253 | 77,890 |
| **Desjardins Group Treasury** | | | |
| Net interest income | **140,868** | 84,471 | 56,397 |
| Other income | **36,033** | (54,747) | 90,780 |
| | **176,901** | 29,724 | 147,177 |
| **Other** | | | |
| Net interest income | **7,306** | 7,987 | (681) |
| Other income | **11,013** | 10,168 | 845 |
| | **18,319** | 18,155 | 164 |
| **Total - Net interest income** | **244,905** | 180,358 | 64,547 |
| **Total - Other income** | **69,458** | (91,226) | 160,684 |
| **Total** | **$ 314,363** | $ 89,132 | $ 225,231 |

## Segment analysis

### Financing

Net interest income in the Financing segment was up $8.8 million in 2009 over the previous year, totalling $96.7 million.

This remarkable performance was largely attributable to the $6.3 million growth in margin generated by the corporate loan portfolio, despite the decrease in outstandings. Corporate loan portfolio outstandings fell nearly 17% from the previous year because of the prudent approach to granting credit since the beginning of the financial crisis. This decline, however, was more than offset by the increase in margins generated by this portfolio, as a result of the strategy of focusing on files with the highest margins.

The average volume of the public and parapublic sector loan portfolio, including "Desjardins Acceptances", was up 20% in 2009. The margin realized on this portfolio was under pressure throughout the year, however, because of the increased use of "Desjardins Acceptances" as a source of financing.

For these reasons, the Financing segment realized a net interest margin of 0.79%, expressed as a percentage of average assets, which was up from 0.74% the previous year.

In addition, as Desjardins Group's treasurer, Caisse centrale continued to provide the entire Desjardins Group with the liquidity required for its operations and development. Total loans outstanding to the Fédération and to other Desjardins entities amounted to $7.5 billion as at December 31, 2009, down $1.1 billion from the previous year. This decline was due to the $705 million drop in loans to the Fédération for cash purposes, and the $433 million decrease in loans to other Desjardins entities.

The Financing segment's other income included non-recurring gains of $9.3 million realized on hedge funds, versus a one-time loss of $60.5 million in 2008. If these specific items were not included, other income for the segment would have been down slightly by $0.8 million compared to the previous year. This drop in other income was because some businesses decided to resort to loans for financing instead of "Desjardins Acceptances".

Had the above-mentioned specific items been excluded, the Financing segment would have posted an increase of $8.0 million or 8% in its total income for 2009.

### Desjardins Group Treasury

The Desjardins Group Treasury segment generated gross income of $176.9 million, up significantly by $147.2 million. It should be noted that in 2008, this business segment was the hardest hit by the financial crisis. In fact, other income had been affected by a loss of approximately $132.7 million on asset-backed securities, credit derivatives and ABCP. If these specific items had not been included, total income for this segment would have been up by $14.5 million or 9%.

Net interest income was up significantly by $56.4 million, or 67%, from the previous year as a result of liquid asset management and the management of asset/liability matching. The strategies, in particular, of relying on interest rate changes proved to be helpful in enhancing returns. The exceptional measures adopted by the Bank of Canada, which consisted of injecting liquidity into a highly volatile market, led to an easing in monetary policies, thus enabling Caisse centrale to benefit from lower financing costs and, in turn, higher margins. Table I clearly shows the lower financing costs and the higher net margin in relation to 2008.

Other income for this segment totalled $36.0 million for fiscal 2009, up $90.8 million from the previous year. Had it not been for the above-mentioned specific items, other income would have dropped 54% or $41.9 million from 2008, chiefly as a result of securitization activities. As previously mentioned, the strategies deployed for this activity affected other income, encouraging enhanced income growth in net interest margin. Had this activity been excluded, other income would have been up slightly by $2.9 million or 5%.

### Other

Gross income for international activities, including those of the subsidiary Desjardins Bank, N.A., remained unchanged from the previous year at $18.3 million.

The drop in short-term interest rates at the beginning of the year accounted for the $0.7 million decline in this segment's net interest margin. However, the higher volumes of funds transfers and income from fees on letters of credit pushed up this segment's other income by $0.8 million, thereby offsetting the decline in net interest income.

**Table 4**

## Non-interest expense

| For the years ended December 31 (in thousands of dollars) | 2009 | 2008 | Change $ |
|---|---|---|---|
| **Salaries and benefits** | **$ 41,845** | $ 30,597 | $ 11,248 |
| **Premises, equipment and furniture, including depreciation** | | | |
| Rent and taxes | **3,855** | 3,589 | 266 |
| Depreciation of premises and equipment | **7,936** | 7,939 | (3) |
| Other | **4,291** | 3,568 | 723 |
| | **16,082** | 15,096 | 986 |
| **Agreements regarding processing services** | **9,785** | 9,225 | 560 |
| **Fees** | **10,504** | 11,058 | (554) |
| **Other** | | | |
| Communications and external relations | **5,070** | 6,029 | (959) |
| Other | **18,026** | 5,260 | 12,766 |
| | **23,096** | 11,289 | 11,807 |
| **Total** | **$ 101,312** | $ 77,265 | $ 24,047 |

## Non-interest expense

**Non-interest expense includes expenses related to personnel administration, premises, equipment and furniture and other operating expenses.**

Table 4 above shows the breakdown of non-interest expense by category. Non-interest expense totalled $101.3 million versus $77.3 million in 2008.

Salaries and benefits, totalling $41.8 million in 2009 versus $30.6 million for the previous year, accounted for close to half of all non-interest expense. This increase was chiefly attributable to the recognition of an additional incentive compensation expense related to the excellent financial results for 2009 and for exceeding objectives set for the year. It should be remembered that no incentive compensation payments were made in 2008.

Expenses related to premises, equipment and furniture were up by nearly $1.0 million from 2008, primarily as a result of the installation of limit management software for risk management. Higher software maintenance costs also accounted for this increase.

Fees fell slightly by $0.6 million in 2009 from the previous year. In 2008, there were one-time audit engagements.

The increase in the "Other" segment was partly due to non-recurring restructuring costs recognized as part of Desjardins Group's new organizational structure and the increase in membership assessments for 2009.

For fiscal 2009, the efficiency ratio stood at 32.2%. It should be pointed out that one-time expenses adversely affected the ratio, in particular restructuring fees. If these items had been excluded, the ratio would have been 28.4% versus 27.4% for 2008. In order to be able to compare the 2008 ratio, specific items that had affected income the previous year were excluded.

### Outlook

Caisse centrale will continue its strict management of non-interest expense, and lower non-interest expense is forecast for 2010.

### Other payments to the Desjardins network

In cooperation with the Desjardins network, Caisse centrale offers a broad spectrum of banking and financing services and treasury products to Canadian public and private organizations. Payments made to the Desjardins network totalled $36.0 million, down slightly by 0.4% from 2008. This decrease was chiefly attributable to the member dividends paid on foreign exchange transactions, which were $0.6 million less than in 2008 as a result of the loonie's parity with the greenback, which adversely affected trading volume.

**Outlook**
Caisse centrale expects payments to remain at a similar level in 2010.

### Income taxes and other taxes

The increase in income taxes recognized in the Consolidated Statements of Income is primarily the result of higher net income. Caisse centrale's effective tax rate was 22.54% in 2009.

**Outlook**
In 2010, the Quebec government tax rate will remain unchanged. However, Caisse centrale will benefit from the reduction announced in the capital tax rate.

### Remuneration of capital stock

Under the Act respecting the Mouvement Desjardins (the "Constituent Legislation"), the Board of Directors of Caisse centrale may declare interest on capital shares; it then determines the terms of payment. The Board of Directors of Caisse centrale applied the principle of declaring, as remuneration of capital stock, an amount corresponding to its non-consolidated net income, including recovery of related income taxes.

For fiscal 2009, $123.4 million of capital stock was declared as interest on subscribed and paid-up capital shares, while $131.7 million was recorded on the Consolidated Balance Sheets as remuneration of capital stock payable, compared to $8.3 million in 2008.

Overall, amounts paid to the Desjardins network, including other payments to members, amounted to $159.4 million, versus $36.1 million in 2008. Caisse centrale's contribution to the Desjardins network represents an annualized return of 12.38% for 2009, compared to a return of 3.11% for the previous year.

**Outlook**
Caisse centrale does not expect any change in its remuneration of capital stock policy in 2010.

# Analysis of consolidated comprehensive income

For fiscal 2009, Caisse centrale's comprehensive income showed a gain of $161.4 million. Other comprehensive income for the period totalled $34 million, versus $0.4 million in 2008. This change was mainly attributable to the increase in the value of available-for-sale securities during the year.

# Analysis of consolidated cash flows

As at December 31, 2009, cash and cash equivalents totalled $47.2 million, down $208.4 million from the previous year-end.

Cash flows from operating activities amounted to $892.0 million, chiefly because of the decline in the value of securities held for trading and the net change in the amounts receivable and payable on derivative financial instruments.

In fiscal 2009, financing activities required cash flows of $1.4 billion, while in 2008, financing activities generated cash flows of $1.3 billion. The difference can be explained by the net decline in deposits and by the net change in commitments under repurchase agreements.

Lastly, investing activities generated cash flows of $329.2 million in 2009, up $1.9 billion from 2008, mostly as a result of the lower volume of loans related to the decline in business sector loan outstandings.

# Analysis of quarterly trends

**Quarterly net income, revenue and non-interest expense are affected by a certain number of trends and factors, such as seasonal changes, general economic conditions, market conditions and foreign exchange rate volatility.**

Among seasonal changes, it should be noted that the first quarter includes fewer days compared to the other quarters. The second quarter is generally affected by a decline in caisse network funding requirements because of personal income tax refunds. The third quarter contains the summer months, during which market activities generally slow down, which in turn impacts Caisse centrale's activities.

A summary of the results for the last eight quarters is found on page 64 of this MD&A. Results for the last eight quarters have therefore been affected by various positive and negative factors:

- Various items related to ABCP were recognized up to the time of their sale in the second quarter of 2009, namely declines in value and losses on available-for-sale securities, interest received or receivable on ABCP holdings, as well as losses on securities held for trading.
- Impairment losses on collateralized debt obligations were recognized in the last two quarters of 2008 and the first quarter of 2009.
- Losses on hedge funds occurred in the last quarter of 2008.
- Losses on credit default swaps occurred in the last two quarters of 2008.
- Restructuring expenses were recognized in the last three quarters of 2009.
- 2009 fourth quarter results were affected by the easing of the Bank of Canada's monetary policies.

## Analysis of fourth quarter results

### Net income

Caisse centrale recorded net income of $10.8 million for the fourth quarter of 2009 versus a net loss of $45.4 million in 2008. The market upheaval in the last quarter of 2008 adversely affected consolidated income.

### Net interest income

For the quarter ended December 31, 2009, net interest income stood at $58.0 million, up $3.4 million from the fourth quarter of 2008.

Desjardins Group's Treasury segment primarily contributed to this increase because of the solid results generated by managing securitized assets.

### Other income

Other income totalled $4.5 million at the end of the last quarter. The low income in the fourth quarter was due to losses related to trading activities. Income from foreign exchange activities fell by $3.4 million as a result of the loonie's advance, thus leading to a drop in trading volume. Management fees, however, increased by $1.8 million over the previous year, and the excellent results for 2009 on property under management offset the decline in income for the period.

### Provision for credit losses

Caisse centrale recorded a provision for credit losses of $8.7 million, versus $5.1 million in 2008. An increase in business loan outstandings in the fourth quarter of 2009, as well as an increase in the provision related to the U.S. subsidiary's personal loan portfolio accounted for this increase.

### Non-interest expense

Non-interest expense amounted to $30.5 million in the fourth quarter, up $9.9 million from the same quarter in 2008. Higher restructuring expenses as a result of the implementation of the new organizational structure and an increase in incentive compensation related to the excellent results mostly accounted for this difference.

### Other payments to the Desjardins network

Amounts redistributed to the Desjardins network totalled $9.2 million in the fourth quarter, down slightly by $0.4 million from 2008 as a result of the drop in foreign exchange income.

**Table 5**

## Asset mix

| As at December 31 (in millions of dollars) | **2009** | | 2008 | | 2007 | | 2006 | | 2005 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Cash and securities | **$ 5,297** | **23%** | $ 4,950 | 20% | $ 4,170 | 20% | $ 3,973 | 23% | $ 3,500 | 22% |
| Loans | **13,080** | **58** | 14,781 | 58 | 13,688 | 67 | 10,924 | 62 | 10,286 | 65 |
| Other | **4,220** | **19** | 5,604 | 22 | 2,573 | 13 | 2,700 | 15 | 1,971 | 13 |
| **Total** | **$ 22,597** | **100%** | $ 25,335 | 100% | $ 20,431 | 100% | $ 17,597 | 100% | $ 15,757 | 100% |
| Average assets | **$ 25,146** | | $ 23,238 | | $ 16,991 | | $ 15,421 | | $ 13,969 | |

**Table 6**

## Cash and securities

| As at December 31 (in millions of dollars) | **2009** | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Cash and deposits with financial institutions | **$ 196** | $ 378 | $ 448 | $ 168 | $ 151 |
| Securities | | | | | |
| Canada | **1,026** | 2,268 | 213 | 287 | 444 |
| Provinces and municipalities in Canada | **1,468** | 592 | 704 | 847 | 944 |
| Other issuers | **2,607** | 1,712 | 2,805 | 2,671 | 1,961 |
| **Total** | **$ 5,297** | $ 4,950 | $ 4,170 | $ 3,973 | $ 3,500 |
| Average liquidity | **$ 4,994** | $ 4,844 | $ 3,435 | $ 2,965 | $ 2,723 |

## Analysis of consolidated balance sheets

Total assets on the Consolidated Balance Sheets of Caisse centrale amounted to $22.6 billion as at December 31, 2009, down more than $2.7 billion from the end of 2008. Furthermore, average assets increased by $1.9 billion or 8% over 2008 to $25.1 billion in 2009, as a result of the gradual decline in the value of derivative financial instruments during 2009.

Cash and securities totalled $5.3 billion at the end of 2009, compared to $5.0 billion as at December 31, 2008. The increased liquidity is intended, among other things, to meet regulatory requirements, according to which a certain liquidity level must be maintained by Caisse centrale. The liquidity ratio, presented in Table 5, therefore stood at 23% at year-end 2009, up from a year earlier.

The increased liquidity was partially attributable to the $500 million issue launched on the Canadian market in December 2009, the proceeds of which were entirely invested in securities. This additional funding was part of Caisse centrale's secure funding strategy aimed at diversifying funding sources and extending duration in order to remain competitive on the market.

A very high percentage of the securities are investment-grade securities, and could be sold off very quickly, if necessary, to meet increased demand for funding from the caisse network and customers. According to the Dominion Bond Rating Service (DBRS), these securities have a minimum rating of R-1M.

As shown in Table 7, the loan portfolio stood at $13.1 billion as at December 31, 2009, down $1.7 billion or 12% from the previous year. Given the financial and economic conditions prevailing since the beginning of the year, Caisse centrale maintained a prudent approach to granting credit, by primarily focusing on providing support to existing clients and building on files with high margins. Thus, business loan outstandings declined to $2.8 billion as at December 31, 2009, down from the record level of $3.4 billion as at December 31, 2008.

Loans to members and other entities included in the scope of consolidation of Desjardins Group were down $1.1 billion as a result of the large repayments made under the Fédération's deposit fund matching strategy.

Mortgage loan securitization activities continued during the year although to a lesser extent than in 2008. In fact, Caisse centrale's participation in the new Canada Housing Trust issues totalled close to $500 million in 2009, compared to $1.6 billion in 2008. In addition, loans to the Fédération for financing activities, including "Desjardins Acceptances" were unchanged from the previous year.

As mentioned in Note 21 to the Consolidated Financial Statements, Caisse centrale conducts transactions with its members and other entities included in the scope of consolidation of Desjardins Group. Pursuant to its Constituent Legislation, the Fédération and its member caisses are members of Caisse centrale. Consequently, transactions with the Fédération for the benefit of its member caisses and for its own financing needs and with other entities included in the scope of consolidation of Desjardins Group are carried out under similar conditions to those negotiated with unrelated third parties. These transactions are conducted in the normal course of business of Caisse centrale and are measured at the exchange amount, which approximates fair market value and is the amount of consideration established and agreed to by the related parties. As at December 31, 2009, the loans granted to members or other entities included in the scope of consolidation of Desjardins Group totalled $7.5 billion.

Other assets stood at $4.2 billion in 2009, down $1.4 billion from a year earlier, primarily as a result of the derivative financial instruments recognized as assets, for which market value had declined by $1.8 billion in 2009 to total $2.8 billion. Higher medium- and long-term interest rates in 2009 and a weaker euro vis-à-vis the Canadian dollar affected the value of derivative financial instruments held to hedge euro-denominated issues. Market factors also pushed down the value of the derivative financial instruments recognized as liabilities to $2.7 billion in 2009, compared to $4.1 billion at the end of fiscal 2008.

As a result of the volatility in the fair value of derivative financial instruments, the amounts payable to brokers and dealers, presented in other liabilities, also decreased.

Deposits totalled $14.8 billion, down $1.5 billion from the previous year. Deposits are analyzed in more detail in "Liquidity and Sources of Financing".

**Outlook**

Caisse centrale will continue its prudent management of balance sheet growth, particularly by maintaining liquidity and capital at adequate levels to fully comply with regulatory requirements.

**Table 7**

## Loan portfolio

| As at December 31<br>(in millions of dollars) | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| **Composition** | **$ 64** | $ 46 | $ 159 | $ 17 | $ -- |
| Securities purchased under reverse repurchase agreements | | | | | |
| Day, call and short-term loans to investment dealers and brokers | **59** | 82 | 62 | 234 | 205 |
| Public and parapublic institutions | **1,974** | 2,201 | 1,672 | 1,526 | 1,477 |
| Members | | | | | |
| Fédération | | | | | |
| - treasury activities | **1,219** | 1,924 | 2,559 | 2,718 | 3,129 |
| - financing activities | **4,557** | 4,475 | 3,923 | 2,927 | 2,443 |
| Other | **20** | 24 | 2 | 70 | 73 |
| Other entities included in the scope of consolidation of Desjardins Group | **1,680** | 2,113 | 2,411 | 873 | 955 |
| Loans purchased from Desjardins Group | **230** | 141 | 124 | 78 | 5 |
| Personal | **597** | 509 | 479 | 524 | 484 |
| Business | **2,809** | 3,393 | 2,401 | 2,045 | 1,587 |
| Allowance for credit losses | **(129)** | (127) | (104) | (88) | (72) |
| **TOTAL** | **$ 13,080** | $ 14,781 | $ 13,688 | $ 10,924 | $ 10,286 |
| **Geographic distribution (based on head office address)** | | | | | |
| Quebec | **$ 11,091** | $ 12,470 | $ 12,010 | $ 9,330 | $ 8,817 |
| Other Canadian provinces | **1,674** | 1,854 | 1,424 | 1,304 | 1,261 |
| International | **315** | 457 | 254 | 290 | 208 |
| **TOTAL** | **$ 13,080** | $ 14,781 | $ 13,688 | $ 10,924 | $ 10,286 |
| Average loans | **$ 15,301** | $ 15,285 | $ 11,441 | $ 10,285 | $ 9,528 |

### Securities - Asset-backed commercial paper

As at December 31, 2008, Caisse centrale held investments in the ABCP market having a face value and a carrying value of $39.2 million and $18.1 million, respectively, although it had never issued this type of financial product to its clients.

The implementation of the ABCP restructuring plan was completed on January 21, 2009. This restructuring plan aimed, among other things, to replace ABCP by new longer-term floating rate notes having a maturity similar to that of the underlying assets. These new notes had been classified as designated as held for trading under the fair value option.

During the second quarter of 2009, Caisse centrale sold these notes to a company included in the scope of consolidation of Desjardins Group for a consideration of $13.9 million, representing the fair value of the investments. No gain or loss was recognized for this transaction. Therefore, as at December 31, 2009, Caisse centrale no longer held any investment in the notes issued following the restructuring.

As part of the restructuring plan, Desjardins Group participated in a margin funding facility ("MFF"). Caisse centrale, as signatory of the MFF for Desjardins Group, participates in the MFF for the benefit of related companies for an amount of $1,192 million in exchange for annual fees of 1.2%. Caisse centrale will be required to maintain a credit rating equivalent to A (low) from at least two of four rating agencies (DBRS, S&P, Fitch and Moody's), failing which it will be required to provide collateral or another form of credit support or have another entity with a sufficiently high credit rating assume its obligations. As at December 31, 2009, no amount had been drawn on the MFF.

Under a separate agreement, Desjardins Group purchased, through Caisse centrale, $400 million in protection for its MFF commitments in exchange for an annual commitment fee of 1.2%, which is the same rate as for third-party institutions that have contributed to the MFF. This participation will automatically end upon the maturity of the MFF.

# Quality of credit

### Impaired loans

A loan is considered to be impaired and the interest thereon ceases to be recorded when (a) there is reason to believe that a portion of the principal or interest cannot be collected or (b) the interest or principal is contractually 90 days in arrears, except where the loan is fully guaranteed or is in collection.

Gross impaired loans amounted to $65.6 million at year-end, compared to $23.7 million in 2008, and their coverage by specific allowances reached 29.4% as at December 31, 2009. The increase in gross impaired loans was mainly attributable to three clients in the construction, forestry and mineral resources sectors as well as to the U.S. subsidiary's personal loan portfolio, which is related to the U.S. real estate situation. It is worth noting that total impaired loans represent only 0.5% of net aggregate loans in a $13.1 billion portfolio.

Caisse centrale's management intends to continue to closely monitor its loan portfolio as part of a prudent approach toward credit risk management in order to maintain asset quality.

### Allowance for credit losses

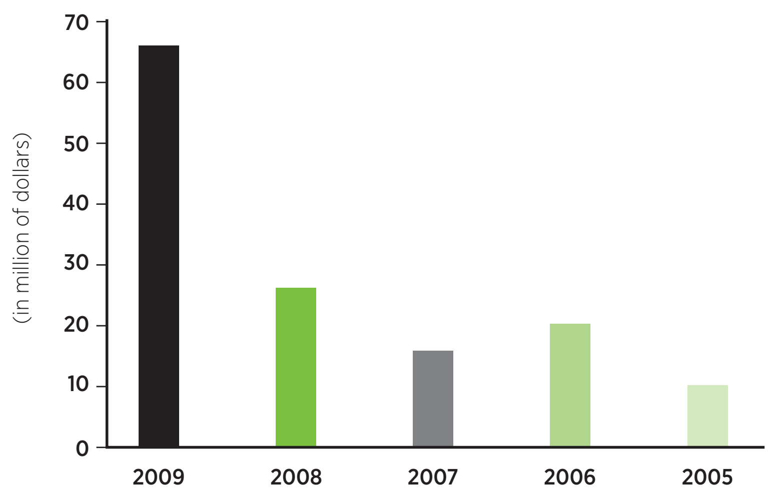
In management's opinion and based on its assessment of economic conditions, the allowance for credit losses recorded on the balance sheet is sufficient to cover any possible risks associated with the loan portfolio. The allowance for credit losses is reduced by actual write-offs, net of recoveries, and is increased by the provision for credit losses charged to the Consolidated Statements of Income. In the Consolidated Balance Sheets, the allowance for credit losses is deducted from the appropriate assets and includes both specific allowances and a general allowance.

### Specific allowances

When a loan is considered to be impaired, its carrying amount is reduced to its estimated realizable value to determine if a specific allowance must be created for the loan.

**Chart I**

**Changes in impaired loans**
As at December 31, 2009




At the end of fiscal 2009, allowances expressly related to specific items in the loan portfolio had increased slightly over the previous year. Consequently, these allowances amounted to $19.3 million, compared to $10.3 million at the same date in 2008. Table 8 provides the breakdown of specific allowances by industry.

**Table 8**

**Breakdown of specific allowances**

| As at December 31 (in thousands of dollars) | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Manufacturing industries | $ 13,427 | $ 7,450 | $ 7,367 | $ 6,800 | $ 3,500 |
| Transportation and warehousing | -- | -- | -- | -- | 250 |
| Primary industries | 1,725 | -- | -- | -- | -- |
| Construction | 2,036 | -- | -- | -- | -- |
| Mortgage portfolio – U.S. subsidiary | 2,107 | 2,867 | 186 | -- | -- |
| **TOTAL** | **$ 19,295** | $ 10,317 | $ 7,553 | $ 6,800 | $ 3,750 |

### General allowance

In order to determine the amount of the general allowance required, Caisse centrale uses an internal model to estimate potential losses in the loan portfolio by excluding impaired loans. More specifically, it is determined by the credit rating, maturity dates, default probabilities, volatility, the type of collateral, and the expected collection. It also takes into account the economic cycle as well as the diversification of the counterparties and the economic and geographic sectors of activity of the credit portfolio. This assessment is examined and reviewed where conditions indicate that initial assumptions will not apply to actual results.

The general allowance for credit losses was decreased from $116.6 million as at December 31, 2008 to $109.3 million as at December 31, 2009 due to the decrease in business loans caused by tighter credit granting policies. Despite the fragile economic situation in 2009, the quality of the portfolio has been maintained.

Consequently, at the close of 2009, the specific and general allowances amounted overall to $128.6 million. This amount represented 3.8% of loans to businesses and individuals, and 1.0% of the total portfolio. Further details on our accounting policies are provided in Note 2 to the Consolidated Financial Statements.

### Provision for credit losses

The provision for credit losses is an amount allocated during the year to the allowance for credit losses to cover credit losses.

In 2009, the provision for credit losses charged to income amounted to $12.6 million, down from $20.7 million in 2008, as a result of the 17% decrease in loans to businesses and individuals. It was, however, partially offset by the increase in the U.S. subsidiary's impaired loans.

### Outlook

Caisse centrale expects the provision for credit losses in 2010 to be higher than in 2009, because of forecast growth in the business loan portfolio.

# Liquidity and sources of financing

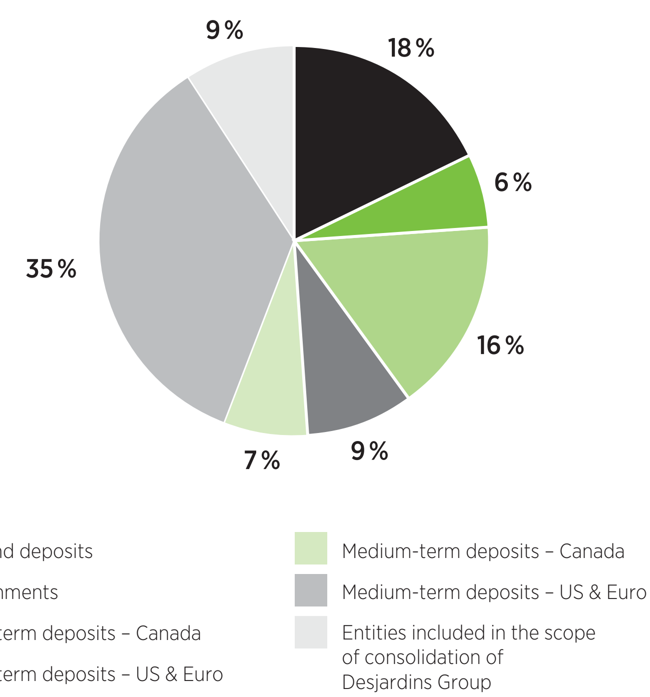
Despite the precarious economic situation in 2009, Caisse centrale managed to maintain sufficient liquidity to meet the needs of the entire Desjardins Group because of its rigorous treasury policy, solid institutional funding and the contribution of the caisse network. This disciplined approach has also allowed Caisse centrale to build a solid foundation and confidently go through this period of worldwide financial stabilization.

In keeping with the institutional funding extension policy, Caisse centrale continued to be present on the federally-guaranteed mortgage loan securitization market under the Canada Housing Trust program. Caisse centrale has in fact been active in the area of securitization of mortgage loans insured by Canada Mortgage and Housing Corporation ("CMHC") and its participation in the new Canada Housing Trust issues totalled close to $500 million in 2009. The main objective of the program is to obtain a long-term source of funding at the lowest cost on the market.

Chart II presents the breakdown of deposits as at December 31, 2009 by program.

**Chart II**

**Deposits by program type**
As at December 31, 2009



Desjardins Group's Treasury is also present on capital markets through its borrowing programs, in addition to tapping the Canadian money market mainly through the issuance of bearer term notes and "Desjardins Acceptances".

**On the Canadian market:**

- a medium-term deposit note program of up to $5 billion.

**On the international market:**

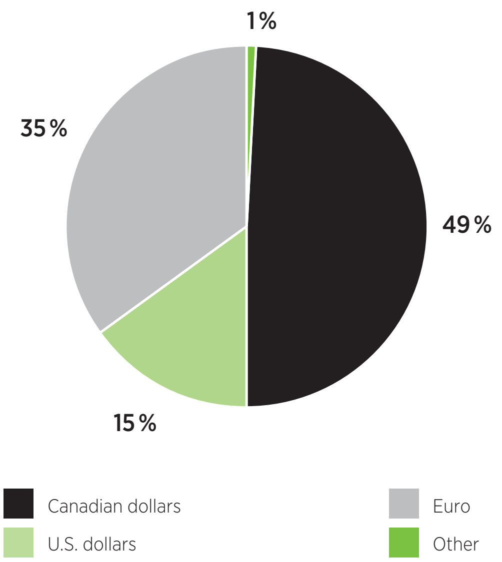
- a short-term European deposit note program of €1 billion;
- a short-term American deposit note program of US$1 billion;
- a European multi-currency medium-term deposit note program of €7 billion.

At the beginning of 2009, Caisse centrale launched a medium-term deposit issue on European markets for C$800 million. These proceeds were used mainly to support the growth of Desjardins Card Services operations. It should be noted that this issue was made despite the difficult market conditions for medium-term borrowings at the time. In September and December 2009, Caisse centrale also launched two medium-term deposit issues on the Canadian market for a total of $1.0 billion. More attractive funding costs than on the European market allowed it to raise funds in the local market, thus limiting its exposure to currency fluctuations. This capital was largely invested in bonds in preparation for maturity renewals over the next year and to meet caisse network requirements.

Chart III and Table 9 present the breakdown of deposits as at December 31, 2009 by currency and by maturity.

**Chart III**

## Deposits by currency
As at December 31, 2009




As at December 31, 2009, outstanding deposits stood at $14.8 billion, down $1.5 billion from $16.3 billion in the previous year, mainly because of less demand for financing from the Desjardins network. Deposits payable on demand totalled $2.7 billion, down $0.5 billion, and deposits payable on a fixed date decreased by $1.0 billion during the year to total $12.1 billion at year-end. The average term of deposit liabilities was 378 days.

**Table 9**

## Deposits by maturity

As at December 31
(in millions of dollars)

| | | Payable on a fixed date | | | | | |
|---|---|---|---|---|---|---|---|
| | Payable on demand | Up to 3 months | Over 3 and up to 12 months | Over 1 and up to 5 years | Over 5 years | **Total 2009** | Total 2008 |
| Governments | $ 530 | $ 884 | $ -- | $ -- | $ -- | **$ 1,414** | $ 1,284 |
| Financial institutions and businesses | 397 | 2,426 | 198 | 7 | -- | **3,028** | 3,907 |
| Capital markets | -- | 1,322 | 1,505 | 4,385 | 9 | **7,221** | 6,110 |
| Members | | | | | | | |
| Fédération | 1,354 | 717 | 30 | 152 | -- | **2,253** | 3,956 |
| Other | 131 | 18 | 2 | 31 | -- | **182** | 168 |
| Other entities included in the scope of consolidation of Desjardins Group | 303 | 271 | 62 | 102 | -- | **738** | 885 |
| **TOTAL** | **$ 2,715** | **$ 5,638** | **$ 1,797** | **$ 4,677** | **$ 9** | **$ 14,836** | $ 16,310 |

**Table 10**

## Deposits and subordinated debenture

| As at December 31 (in millions of dollars) | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Governments | **$ 1,414** | $ 1,284 | $ 2,210 | $ 1,061 | $ 1,677 |
| Financial institutions and businesses | **3,028** | 3,907 | 4,798 | 3,172 | 3,687 |
| Capital markets | **7,221** | 6,110 | 5,437 | 5,849 | 4,483 |
| Members | | | | | |
| Fédération | **2,253** | 3,956 | 1,302 | 2,032 | 1,062 |
| Other | **182** | 168 | 99 | 137 | 64 |
| Other entities included in the scope of consolidation of Desjardins Group | **738** | 885 | 2,192 | 1,180 | 976 |
| | **14,836** | 16,310 | 16,038 | 13,431 | 11,949 |
| Subordinated debenture | **--** | -- | 110 | 117 | 105 |
| **TOTAL** | **$ 14,836** | $ 16,310 | $ 16,148 | $ 13,548 | $ 12,054 |
| Average balance | **$ 16,612** | $ 17,436 | $ 13,272 | $ 11,366 | $ 10,453 |

## Geographic distribution

| | 2009 | | 2008 | | 2007 | | 2006 | | 2005 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Canada | $ 8,285 | **56%** | $ 9,600 | 59% | $ 10,057 | 62% | $ 7,112 | 52% | $ 7,609 | 63% |
| International | 6,551 | **44** | 6,710 | 41 | 6,091 | 38 | 6,436 | 48 | 4,445 | 37 |
| **Total** | **$ 14,836** | **100%** | $ 16,310 | 100% | $ 16,148 | 100% | $ 13,548 | 100% | $ 12,054 | 100% |

# Off-balance sheet arrangements

**In the normal course of business, Caisse centrale concludes various financial transactions which, according to the Canadian GAAP, are not required to be recorded in the Consolidated Balance Sheets or are recorded for different theoretical or contractual amounts. These transactions include securitization operations, off-balance sheet credit instruments, derivative financial instruments and property under management.**

### Securitization operations

As part of its capital and liquidity management strategy, Caisse centrale engages in mortgage loan securitization operations. These transactions involve the use of off-balance sheet arrangements and special purpose vehicles. The special purpose vehicle used by Caisse centrale is Canada Housing Trust, set up by CMHC under the Canada Mortgage Bonds Program.

In this type of transaction, Caisse centrale transfers mortgage-backed securities to the special purpose vehicle against money. The special purpose vehicle finances these purchases by issuing bonds to the investors. Under the terms of the Canada Mortgage Bonds Program, swap contracts must be entered into between Canada Housing Trust and Caisse centrale so that Caisse centrale receives all cash flows related to securitized mortgage loans underlying the mortgage-backed securities on a monthly basis, and pays interest to Canada Housing Trust on the series of Canada Mortgage Bonds on a quarterly basis and the principal at maturity.

Securitization transactions are recorded as sales of assets only if Caisse centrale is deemed to have surrendered control over the assets and has received consideration other than beneficial interests in these assets. At the time of the sale of the assets, Caisse centrale retains certain rights to excess interest spreads, which constitute retained interests, and assumes servicing of the transferred mortgage loans. No loss is expected on the mortgage loans because they are guaranteed. Where applicable, any change in the value of these rights is recognized by Caisse centrale in income. As at December 31, 2009, total securitized mortgage loan outstandings amounted to $4.5 billion. Note 7 to the Consolidated Financial Statements provides more detailed information on these transactions.

## Off-balance sheet credit instruments and derivative financial instruments

In the normal course of its business, Caisse centrale offers its clients various products to meet their liquidity requirements and protect them against a number of risks such as fluctuations in interest and exchange rates. Caisse centrale uses some of these products itself to manage its own risks associated with fluctuating interest and exchange rates. These products can be divided into two broad categories: off-balance sheet credit instruments and derivative financial instruments.

All off-balance sheet credit instruments and derivative financial instruments are subject to Caisse centrale's usual credit standards, financial controls, risk ceilings and monitoring procedures. Caisse centrale constantly improves its risk management systems and valuation models for these products. In management's opinion, these transactions do not represent an unusual risk and no material losses are anticipated as a result of these transactions. Notes 2, 4, 19 and 20 to the Consolidated Financial Statements provide further details on these instruments and their accounting.

### Off-balance sheet credit instruments

Products in this category, which include guarantees, standby letters of credit and commitments to extend credit, are designed to ensure that funds are available to customers to meet their anticipated needs. Since conditional commitments to extend credit are subject to customers' compliance with particular credit standards, the risk associated with such commitments is reduced considerably. An irrevocable commitment requires a duly signed offer, including confirmation of acceptance by the customer. In such cases, Caisse centrale must pay out the amount specified in the commitment even if the customer is unable to meet its financial or contractual obligations. Caisse centrale takes these commitments into consideration in its forward-looking management of liquidity needs to be met. Table 11 presents off-balance sheet credit instruments by maturity over the next few years.

In the normal course of its business, Caisse centrale, like other major Canadian financial institutions, pledges part of its liquid assets in order to participate in the clearing and payments systems. It also enters into long-term leases or service contracts entailing minimum future payments. Table 12 presents the contractual commitments by maturity over the next few years.

**Table 11**

## Off-balance sheet credit instruments (By remaining maturity)

| As at December 31 (in millions of dollars) | Less than 1 year | From 1 to 3 years | Over 3 and up to 5 years | Over 5 years | Total 2009 | Total 2008 |
|---|---|---|---|---|---|---|
| Guarantees and standby letters of credit | $ 240 | $ 46 | $ -- | $ -- | $ 286 | $ 417 |
| Commitments to extend credit | 11,700 | 1,987 | 574 | 1,226 | 15,487 | 13,212 |
| **Total** | **$ 11,940** | **$ 2,033** | **$ 574** | **$ 1,226** | **$ 15,773** | $ 13,629 |

**Table 12**

## Contractual commitment maturities

| As at December 31 (in thousands of dollars) | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 and thereafter | Total |
|---|---|---|---|---|---|---|---|
| | $ 1,623 | $ 1,451 | $ 1,272 | $ 1,212 | $ 1,212 | $ 5,969 | $ 12,739 |

**Table 13**

## Off-balance sheet credit instruments and derivative financial instruments (Notional amounts)

| As at December 31<br>(in millions of dollars) | 2009 | 2008 |
|---|---|---|
| **Credit instruments** | | |
| Guarantees and standby letters of credit | **$ 286** | $ 417 |
| Commitments to extend credit (original term to maturity) | | |
| Over one year | **4,588** | 2,898 |
| One year or less and conditional | **10,899** | 10,314 |
| | **15,773** | 13,629 |
| **Derivative financial instruments** | | |
| Interest rate contracts | **141,245** | 120,834 |
| Foreign exchange contracts | **12,619** | 18,249 |
| Other contracts | **13,004** | 12,000 |
| | **166,868** | 151,083 |
| **Total** | **$ 182,641** | $ 164,712 |

### Derivative financial instruments

Derivative financial instruments are financial contracts which derive their value from the underlying price, interest or exchange rate or index. They include many financial contracts such as futures, interest rate, currency and credit swaps, forward rate agreements, forward exchange contracts and options. Derivative financial instruments are a key risk management tool, for both Caisse centrale and its customers.

Derivative financial instruments are subject to market and credit risk. Caisse centrale assesses the risk associated with derivative financial instruments in the same way as the risks associated with other financial instruments. However, unlike other financial instruments, where credit exposure is generally represented by the nominal or face value, the credit exposure associated with derivative financial instruments is generally a small fraction of the notional amount of the instrument and is represented by the positive market value of the derivative. The various derivative financial instruments allow for the transfer, modification or mitigation of foreign exchange and interest rate risks stemming from changes in these rates. The vast majority of currency and interest rate swaps, forward exchange contracts and options are transacted with banks, members or other entities included in the scope of consolidation of Desjardins Group.

As shown in Table 13, outstanding derivative financial instruments and credit instruments increased by $17.9 billion or 11% as at year-end.

Chart IV shows the distribution of the replacement cost of derivative financial instruments by counterparty type involved. In terms of replacement cost, 88% of counterparties were banks. Members and other entities included in the scope of consolidation of Desjardins Group accounted for 7%. It should be remembered that Caisse centrale acts as an intermediary to meet the Desjardins network's needs in terms of derivative financial instruments.

**Chart IV**

## Replacement cost of derivative financial instruments

By counterparty

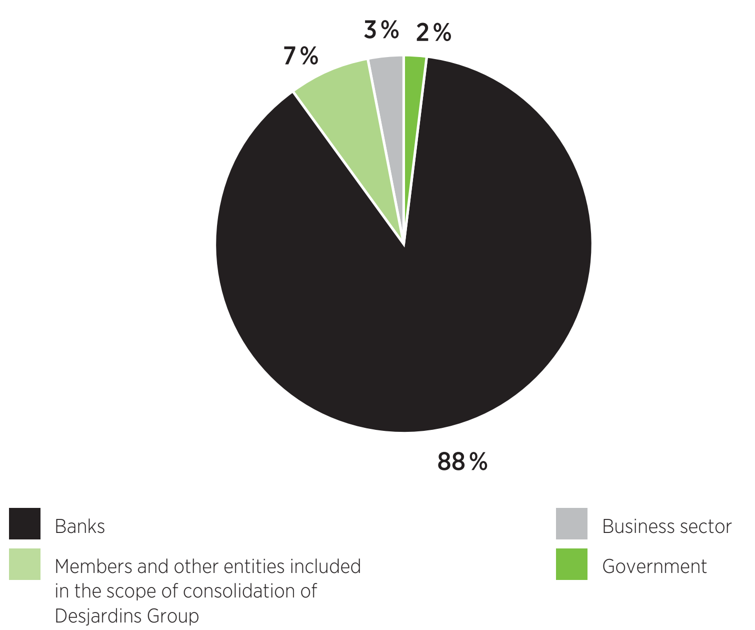
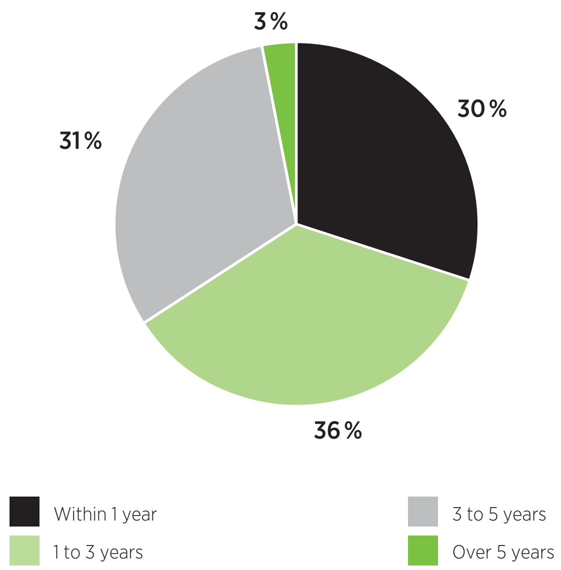


Chart V shows the maturity profile of the derivative financial instruments portfolio. As a general rule, the market risk associated with short-term financial instruments is lower than with long-term ones. As measured by notional amounts, 66% of these derivative financial instruments have remaining terms of less than three years and about half of these will mature within one year.

**Chart V**

## Derivative notional amounts
By maturity




### Assets under management

Caisse centrale manages liquidity for the account of third parties. Such assets under administration do not belong to Caisse centrale and therefore do not appear on the Consolidated Balance Sheets. Management fees are received in exchange for the liquidity management services.

# Risk management review

## Highlights

- **Risk management governance reinforced for Caisse centrale by implementation of the new organization; all risk management operations of entire Desjardins Group now under a single Desjardins Group Risk Management Executive Division.**
- **Implementation or review of frameworks in core risk areas.**
- **Management of the financial crisis.**

Caisse centrale is exposed to different types of risks in the normal course of operations, including credit risk, liquidity risk, market risk, operational risk and reputation risk. Caisse centrale's objective in risk management is to optimize the risk-return trade-off, within the set tolerance limits, by applying integrated risk management and control strategies, policies and procedures throughout the organization's activities. It also aims at providing a prudent and appropriate management framework that complies with accepted accountability and independence principles.

Caisse centrale's Board of Directors is responsible for guiding, planning, coordinating and overseeing all activities of Caisse centrale. The Board also has specific risk management responsibilities with respect to Caisse centrale and, in this regard, is supported by the Risk Management Commission, the Audit Commission and the Board of Ethics and Professional Conduct. Additional information on these bodies may be found on pages 116 to 124 of the section on corporate governance.

A risk report containing key indicators for each type of risk is prepared periodically for the internal Credit Committee, the Credit and Investment Commission and the Risk Management Commission. Constantly being updated, the report includes the latest risk management developments. Information about capital, particularly capital adequacy in relation to risk profile, completes the report.

Caisse centrale's risk management approach is based on principles that promote accountability for the results and the quality of risk management practices and that also confer a pivotal role on the Board of Directors of Caisse centrale in monitoring the risks and results. Several procedures are in place to support the Board of Directors and management in their efforts to fulfill their main risk management responsibilities.

Risk management training sessions were held for Caisse centrale's board members and management committee members. Caisse centrale intends, with regard to such risk management training, to continue to upgrade their knowledge through a professional development plan. Risk management training sessions are already scheduled for 2010, and information bulletins on various risk management topics are and will continue to be presented on a regular basis to the Risk Management Commission and the Credit and Investment Commission.

In addition, two independent functional units complete Caisse centrale's risk management governance infrastructure.

The Risk Management Executive Division of Desjardins Group is a strategic function charged primarily with being a partner in Desjardins Group's development in identifying, measuring, recording and managing risks while ensuring the sustainability of Desjardins Group components, including Caisse centrale. The executive division aims in particular to support business development by helping Desjardins maintain its competitive position and to obtain an appropriate return based on Desjardins Group's risk profile and objectives, to be in charge of the risk management framework for Desjardins Group, to ensure that risks are managed properly and to report on developments in risks. This executive division also ensures coordination between the Fédération and Desjardins Group's business segments and components, including Caisse centrale. This Group-wide coordination is ensured by procedures fostering organizational cohesion and agility and allowing the regulated entities to have the required leverage to discharge their responsibilities.

The Desjardins Group Bureau of Financial Monitoring is an independent and objective, function which promotes integrated oversight of Desjardins Group. Since June 2009, it has included the internal audit services of Desjardins Group components, such as Caisse centrale, as well as the monitoring of the caisse network. As the functional arm of the Audit Commission, the Desjardins Group Bureau of Financial Monitoring directly supports the Commission in its work.

Desjardins Group Internal Audit is in charge of informing, advising and supporting the board of directors, senior management and managers, and providing them with reasonable assurance as to the degree of control over the operations of each entity and all of Desjardins Group, so that they can effectively carry out their responsibilities in accordance with regulatory requirements and governance rules while contributing to the organization's objectives. Desjardins Group Internal Audit intervenes, inter alia, to provide independent assessments of risk management, control and governance procedures and to make recommendations on how to improve their effectiveness as well as ensure that managers conduct their activities in an effective, efficient, sound and prudent manner.

## 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.

During the first quarter of 2009, the Autorité des marchés financiers du Québec (the "AMF") granted Desjardins Group its approval of the advanced internal ratings-based approach, subject to conditions, for credit risk related to retail customer loan portfolios within the framework of the guideline on standards governing the adequacy of base capital, adapted to reflect the provisions of Basel II. At Caisse centrale, credit exposure and market risk exposure are currently assessed using a standardized approach, while operational risk is calculated using a basic indicator approach.

Again this year, numerous efforts were made throughout Desjardins Group to support the implementation of sound risk management practices. Caisse centrale continues to build on the progress made a few years ago in obtaining tools and systems conforming to recognized standards in the core risk areas.

With the adoption of these approaches, combined with the reorganization of the strategic risk management function, it will be possible to better identify and measure risk, and to more closely link regulatory capital requirements to incurred risk. Caisse centrale intends to constantly improve its risk assessment capability, thus reaffirming its formal commitment to meeting the risk management targets and expectations set forth by the AMF.

## Credit risk

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

Caisse centrale is exposed to credit risk primarily through its direct loans to individuals, businesses and government (as at December 31, 2009, loans accounted for 58% of the balance-sheet assets), but also through various other commitments including letters of credit, FX foreign exchange lines and transactions concerning derivative financial instruments and securities.

### Credit risk management

Caisse centrale is accountable for its performance and it therefore has latitude regarding the framework it uses and the approval given, and is also equipped with the corresponding management and monitoring tools and structures.

To assist Caisse centrale in that area, Desjardins Group has set up centralized structures and procedures to ensure that this risk management framework permits effective management that is also sound and prudent.

Accordingly, the Risk Management Commission ensures that risk management activities are adequately structured and monitored throughout Caisse centrale by, among other things, examining the main credit policies and follow-up reports, including those produced by the independent supervisory units. The Integrated Risk Management Committee of Desjardins Group supports the members of the Risk Management Commission of Caisse centrale in carrying out their responsibilities by analyzing the key elements involved in risk management, as well as main reports on specific situations and portfolio status.

Desjardins Group set up a Risk Management Executive Division with four credit risk management divisions. Three of these units share responsibilities based on the main client categories, namely large corporations and capital markets, small- and medium-sized enterprises, and loans to retail clients. Through specialized teams and specific procedures, each unit is structured to cover the specific characteristics of the products or client base, and is responsible for the credit risk in these categories. These units are in turn supported by a division responsible for the main framework elements, and for risk measurement.

Caisse centrale's credit monitoring is carried out by these units.

#### Framework
The credit risk framework is comprised of policies and standards that govern the credit risk management elements for Caisse centrale, such as the responsibilities and powers of the parties involved, the limits imposed by our risk tolerance, the rules governing credit granting and file administration and the rules for communicating exposure to credit risks.

Approval and credit risk management units assume responsibility for credit granting, management and monitoring specific to their products and markets. These units develop their own policies and practices based on their products and clients while complying with the general policies that govern all credit activities.

Together, these monitoring activities, policies and practices set the guideline with respect to risk management and control.

#### Granting credit
This responsibility is assumed by the various units grouped together according to their respective client base.

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

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

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

#### File monitoring and management of higher risks
Portfolios are monitored 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 internal Credit Committee and the Risk Management Commission.

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

#### Counterparty and issuer risk
Of the securities held in all securities portfolios by Caisse centrale, over 50% are issued or guaranteed by public or parapublic entities. The portfolios are mainly with Canadian issuers and counterparties of extremely high quality.

The Risk Management Executive Division of Desjardins Group sets the maximum exposure for each counterparty and issuer based on quantitative and qualitative criteria. The amounts are then allocated to Desjardins components based on their needs.

#### Credit risk mitigation
In its lending operations, Caisse centrale obtains collateral if deemed necessary for a client's loan facility following an assessment of their creditworthiness. Collateral normally takes the form of assets such as cash, government securities, shares, receivables, inventory or capital assets. For some portfolios, programs offered by organizations such as the Canada Mortgage and Housing Corporation are used in addition to customary collateral.

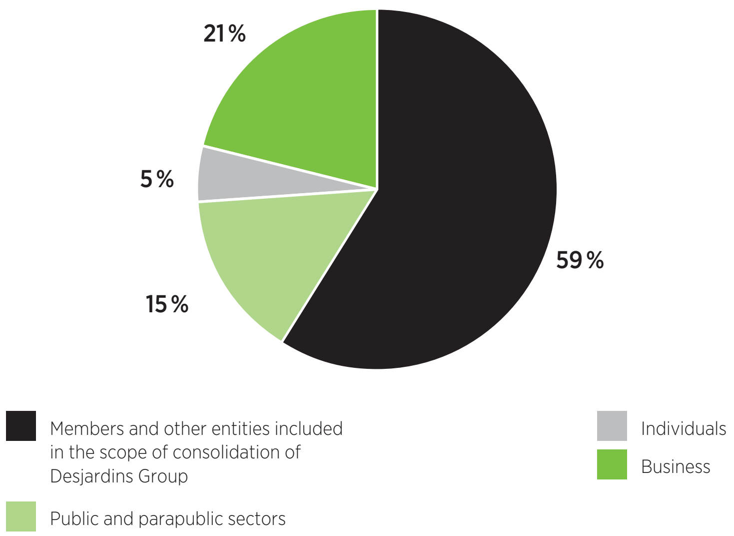
When necessary, Caisse centrale uses mechanisms to share risks with other financial institutions, such as loan syndication.

Lending in Quebec accounts for 85% of total loans; with 13% in the rest of Canada, and 2% in the United States.

Chart VI presents the distribution of loans by borrower category. Additional information on changes in the loan portfolio, including the distribution of loans to businesses and governments, by industry sector, can be found in Table 14.

**Chart VI**

**Loan distribution by borrower category**




In its derivative financial instrument transactions, and its commitments under repurchase and reverse repurchase agreements, Caisse centrale uses various techniques to reduce its counterparty credit risk.

Most derivative financial instrument transactions are carried out over the counter and are governed by International Swaps and Derivatives Association ("ISDA") master agreements that define the terms and conditions for the transactions. These agreements are legal contracts binding the counterparties. The majority of agreements entered into by Caisse centrale provide for the use of netting to determine the net amount of 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.

Commitments under repurchase and reverse repurchase agreements are governed by Investment Industry Regulatory Organization of Canada participation agreements. Caisse centrale also uses netting agreements with its counterparties to mitigate risk and requires a percentage of collateralization (a pledge) on these transactions equivalent to industry best practices. Caisse centrale 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 Caisse centrale are mainly cash and government securities.

## ADDITIONAL CREDIT RISK DATA

**Table 14**

### Outstanding loans to businesses by industry

| As at December 31 (in thousands of dollars) | 2009 | 2008 |
|---|---|---|
| Primary industries | $ 117,032 | $ 142,370 |
| Manufacturing industries | | |
| Food and tobacco | 149,175 | 154,320 |
| Textiles, rubber and plastic | 15,536 | 21,210 |
| Wood and furniture | 66,952 | 69,162 |
| Pulp and paper | 94,701 | 151,035 |
| Metal products | 28,353 | 39,188 |
| Other | 66,096 | 122,361 |
| Construction industry | 25,784 | 57,499 |
| Transportation and warehousing | 124,157 | 168,574 |
| Communications | 111,575 | 179,560 |
| Utilities | 25,990 | 115,289 |
| Retail and wholesale trade | 339,404 | 356,166 |
| Financial intermediaries | 715,371 | 743,058 |
| Real estate | 478,556 | 580,706 |
| Public administration, education and health | 114,569 | 76,244 |
| Lodgings, restaurants and leisure | 10,068 | 10,755 |
| Other services and associations | 322,003 | 363,599 |
| Other | 3,604 | 41,633 |
| **Total** | **$ 2,808,926** | $ 3,392,729 |

**Table 15**

### Risk exposure by asset class

| As at December 31, 2009 (in thousands of dollars) | Exposure used | Unused exposure | Off-balance sheet exposure[1] | Total | Net exposure[2] |
|---|---|---|---|---|---|
| **Standardized approach** | | | | | |
| Sovereign borrowers | $ 3,745,146 | $ 511,498 | $ 990,918 | $ 5,247,562 | $ 4,500,877 |
| Financial institutions | 10,456,243 | 2,528,536 | 2,192,636 | 15,177,415 | 13,064,402 |
| Business | 2,806,459 | 1,433,603 | 94,412 | 4,334,474 | 4,304,244 |
| Mortgages | 335,865 | -- | -- | 335,865 | 335,865 |
| Other exposure on retail customers | 489,250 | 100 | -- | 489,350 | 10,175 |
| Securitization | 269,103 | -- | -- | 269,103 | 269,103 |
| Equities | 68,704 | -- | -- | 68,704 | 68,704 |
| Trading portfolio | -- | -- | 410,630 | 410,630 | 350,708 |
| **TOTAL** | **$ 18,170,770** | **$ 4,473,737** | **$ 3,688,596** | **$26,333,103** | **$22,904,078** |

1 Including transactions linked to pension plans, over-the-counter derivatives and other off-balance sheet exposures.
2 After impact of credit risk mitigation techniques including recourse to securities, guarantees and credit derivatives.

**Table 16**

## Gross exposure by asset class and by risk portion[1]

| As at December 31, 2009 (in thousands of dollars) | 0% | 20% | 35% | 50% | 75% | 100% | Other | Total |
|---|---|---|---|---|---|---|---|---|
| Sovereign borrowers | $ 5,489,696 | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- | $ 5,489,696 |
| Financial institutions | -- | 15,317,924 | -- | -- | -- | -- | -- | 15,317,924 |
| Business | -- | 971,731 | -- | -- | -- | 3,330,089 | 49,842 | 4,351,662 |
| Mortgage loans | -- | -- | 322,175 | -- | -- | 15,797 | -- | 337,972 |
| Other exposure on retail customers | -- | -- | -- | -- | 489,350 | -- | -- | 489,350 |
| Securitization | -- | 149,487 | -- | 119,616 | -- | -- | -- | 269,103 |
| Equities | -- | -- | -- | -- | -- | 68,704 | -- | 68,704 |
| Trading portfolio | 34,746 | 344,401 | -- | 821 | -- | 26,402 | 4,260 | 410,630 |
| **TOTAL** | **$5,524,442** | **$16,783,543** | **$ 322,175** | **$ 120,437** | **$ 489,350** | **$3,440,992** | **$ 54,102** | **$ 26,735,041** |

1 Exposures before specific allowances for losses and before CRA.

## Liquidity risk management

Liquidity risk refers to Caisse centrale'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 Consolidated Balance Sheets, on the date it is due or otherwise.

Caisse centrale manages liquidity risk in order to ensure that it has access, on a timely basis and in a profitable manner, to the funds needed to meet its financial obligations as they become due in both routine and crisis situations. Managing this risk involves maintaining a minimum level of liquid securities, stable and diversified sources of funding, and an action plan to implement in extraordinary circumstances. Liquidity risk management is a key component in an overall risk management strategy, because it is essential for preserving market and depositor confidence. Caisse centrale has established policies describing the principles, limits and procedures that apply to liquidity risk management. Caisse centrale, through 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.

The plan makes it possible to quickly and effectively minimize disruptions caused by sudden changes in member and client behaviour and potential disruptions in markets or economic conditions. In the event of a crisis situation, assets and funding sources will be monitored weekly and a report filed with the appropriate bodies so that the hedge ratio can be measured in relation to hypothetical crisis scenarios so that the Desjardins Group liquidity policy can be complied with.

Desjardins Group's liquidity management is consolidated so that limits can be introduced for various liquidity risk indicators. Day-to-day decisions concerning short-term financing are based on the daily cumulative net cash position, which is monitored through limits tied to liquidity ratios. A specific framework sets out the minimum level of liquid securities that Caisse centrale must maintain. Eligible securities must meet high security and negotiability marketability standards. The liquid securities portfolio comprises mostly securities issued by governments, public bodies and private companies with high credit ratings, i.e. AA- or better.

Caisse centrale ensures stable and diversified sources of funding by type, source and maturity. It can also issue securities and borrow on national and international markets to round out and diversify its funding. A securitization program for mortgages insured by CMHC is also in place.

The strategies implemented in recent years to diversify sources of funding and extend the duration of funding have proven to be effective in weathering the recent capital market crisis. Caisse centrale is also eligible for the Bank of Canada's various intervention programs and the loan facilities for Emergency Lending Assistance advances.

## Market risk management

Market risk refers to the risk of changes in the market value of financial instruments resulting from fluctuations in the parameters affecting this value; in particular, interest rates, exchange rates, and their volatility. The risk of loss as a result of interest rate and exchange rate volatility is the main aspect of market risk to which Caisse centrale is exposed. Estimating potential losses is a key management element.

Caisse centrale implemented a market risk management framework integrating policies, practices and the assignment of responsibilities designed to ensure that risks do not exceed set limits and that only authorized activities are undertaken. The integrated risk management group, which is independent from the sectors initiating transactions, is responsible for examining market risk exposure on a daily basis, and develops and implements risk assessment models. Tolerance levels with respect to the various risks are assessed daily by portfolio and in aggregate for each set limit.

Several techniques are used by Caisse centrale to monitor and manage market risk, including value-at-risk ("VaR") and the value of maximum losses resulting from a one-basis-point change in interest rates on unmatched positions. The integrated risk management group reports daily to management on profits and losses, their potential impacts and compliance with the various set limits. The state of capital markets is constantly monitored by the various sectors involved in managing, processing and controlling market risk. The independent risk management unit is responsible for regularly reviewing models and assessments.

### Value-at-risk

As a market risk assessment tool, VaR is a generally accepted risk measurement concept that uses statistical models and information on historical market prices to calculate, within a given confidence level, the potential loss in market value that Caisse centrale would sustain in its trading portfolios from adverse movements in market rates and prices in a single day. A Monte Carlo VaR simulating 10,000 scenarios is calculated daily for a one-day horizon. Caisse centrale's VaR is based on a 99% confidence level and represents an estimate of the maximum loss that Caisse centrale could sustain in its portfolios. Management recognizes that VaR is not an absolute measurement of market risk and that its use is limited. Management therefore uses various measures and information to help it assess and control the market risks to which its products and portfolios will be exposed.

For example, Table 17 presents the aggregate VaR for trading activities by risk category as well as the effect of diversification, which represents the difference between aggregate VaR and the sum of the VaR of the various risk categories for the fiscal years ended December 31, 2009 and 2008.

**Table 17**

### Aggregate VaR for trading activities

| For the year ended December 31, 2009 (in thousands of dollars) | Low | High | Average | As at December 31, 2009 |
|---|---|---|---|---|
| Interest rate | $ 199 | $ 810 | $ 393 | $ 518 |
| Change | 5 | 275 | 95 | 47 |
| Diversification effect[1] | n.m.[2] | n.m.[2] | (81) | (44) |
| **Aggregate VaR** | $ 205 | $ 818 | $ 407 | $ 521 |

### Aggregate VaR for trading activities

| For the year ended December 31, 2008 (in thousands of dollars) | Low | High | Average | As at December 31 , 2008 |
|---|---|---|---|---|
| Interest rate | $ 7 | $ 1,737 | $ 72 | $ 79 |
| Foreign exchange | 133 | 1,343 | 680 | 295 |
| Diversification effect[1] | n.m.[2] | n.m.[2] | (59) | (31) |
| Aggregate VaR | $ 171 | $ 1,789 | $ 693 | $ 343 |

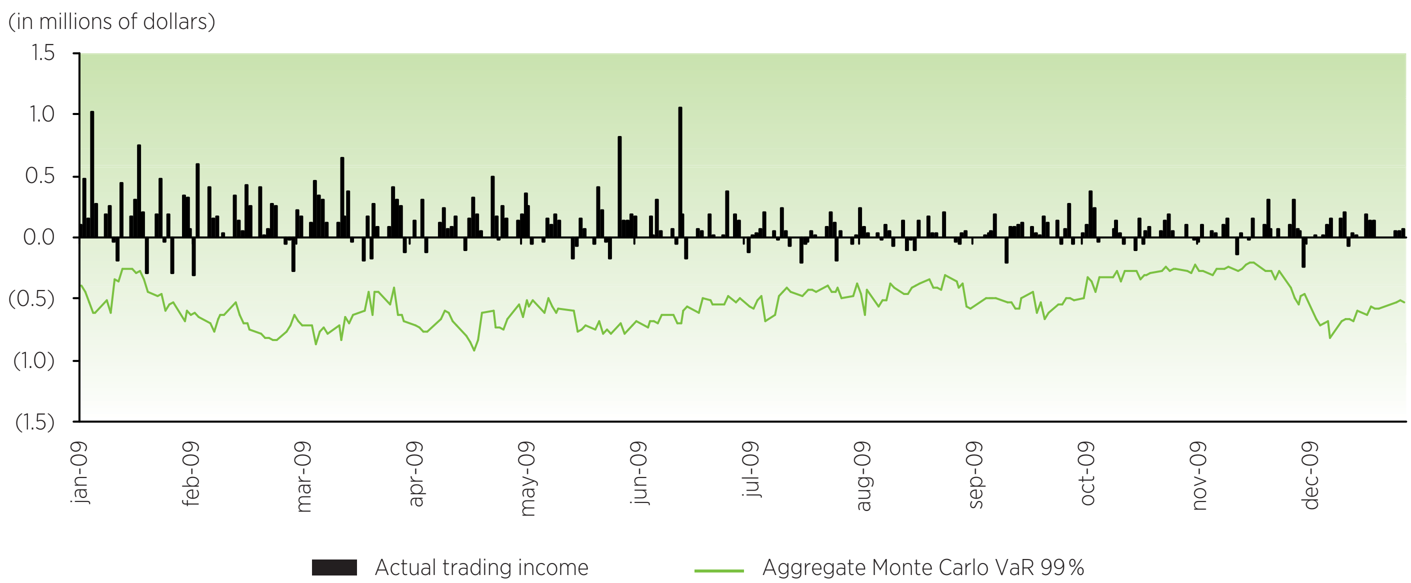
1 Risk reduction related to diversification, namely the difference between the sum of the VaR of the various market risks and aggregate VaR.
2 Not meaningful. Also, the highs and lows of various market risk categories can refer to different dates.

**Back testing**

To validate the VaR model used, Caisse centrale carries out back testing daily with a hypothetical profit or loss on its trading portfolios by comparing the VaR with profits or losses by portfolio and in aggregate. The hypothetical profit or loss 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.

**Chart VII**

## Value-at-risk and Trading income




**Stress testing**

From time to time, certain events that are considered highly unlikely happen and can have a significant impact on Caisse centrale's portfolios. These events at the tail-end of distribution are the results of extreme situations.

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

**Interest rate risk management**

Interest rate risk refers to the sensitivity of Caisse centrale's financial position to interest rate fluctuations. The extent and direction of this impact depends on the assets and liabilities that are subject to a change in rates during a given period.

Caisse centrale can reduce or eliminate interest rate risk by changing the asset and liability mix or by using various derivative financial instruments.

Dynamic and prudent management is applied to optimize net interest income while minimizing the negative impact of interest rate movements. The policies established describe the principles, limits and procedures used to manage this risk.

Caisse centrale is very prudent with regard to interest rate sensitivity. Various methods are used to monitor and manage interest rate risk. Interest rates are monitored daily and periodic reports are filed with the Risk Management Commission.

Table 18 presents the potential impact on the non-trading portfolio of a sudden and sustained 100-basis-point increase or decrease in interest rates on the economic value of equity. Given the currently low interest rate market environment, the impact of a decrease in interest rates is theoretical.

### Foreign exchange risk management

Certain assets and liabilities of Caisse centrale are denominated in foreign currencies. 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. Caisse centrale has established specific policies to manage foreign exchange risk. A 100-bp appreciation of the Canadian dollar against all foreign currencies in which Caisse centrale conducts its activities would not have a significant impact on equity.

**Table 18**

**Sensitivity of the economic value of equity to interest rates (Non-trading portfolios)**

| As at December 31<br>(in thousands of dollars) | **2009** | 2008 |
|---|---|---|
| 100-basis-point increase in interest rates | **$ (36,185)** | $ (40,215) |
| 100-basis-point decrease in interest rates | **36,682** | 40,851 |

## 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.**

For Caisse centrale, operational risk is the risk of loss that can arise from fraud, damage to tangible assets, illegal acts, systems failure, or problems in transaction processing or process management.

Operational risk is inherent to all business activity, whether preformed in-house or outsourced, and cannot be entirely eliminated. Consequently, the objective is to keep operational risk at an acceptable level within a management framework that ensures organizational efficiency for Caisse centrale.

Striving to implement sound and prudent practices and tools for operational risk management, Caisse centrale worked together with Desjardins Group on a common project. In 2009, Caisse centrale established a framework policy on operational risk management. This framework policy provides an official operational risk management framework, establishing the practices leading to its implementation, as well as the related roles and responsibilities

.

#### Risk measurement

Major efforts have been made in the past few years to realize this management framework, the implementation of which will continue over the next few years in order to achieve Desjardins Group's vision of operational risk management.

Through this implementation, it seeks to acquire an overview of the risk profile and exposure to operational risk in order to improve, if necessary, control management and the control environment.

### Risk and control self-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.

### Collecting loss data

Caisse centrale has a database that is used to collect information on operational losses. The information collected includes the amount of losses, the amounts recovered, relevant dates and the type of operational incidents and their causes.

### Operational risk indicators

In order to be able to measure and monitor changes in its major operational risks, Caisse centrale established operational risk indicators in 2009.

#### Risk control

Caisse centrale has put into place a number of operational risk management and risk transfer initiatives and programs:

I. Fraud management: Prevention, research and intervention activities for internal and external fraud;
II. Business continuity: Caisse centrale has a business continuity plan and back-up facilities to ensure uninterrupted delivery of its services in the event of any business interruption or crisis that may arise;
III. Information security: Activities to monitor, manage and protect informational assets;
IV. Regulatory compliance: Efforts to set up a coordinated process to ensure that operations comply with the relevant regulations;
V. Outsourcing relations management: Program aimed at providing a framework for outsourcing management at Caisse centrale;
VI. Insurance and external coverage: Activities through which some of the exposure to operational risk is transferred by purchasing insurance;
VII. Internal audit: Internal systems and controls in pace are periodically reviewed by Desjardins Group internal auditors.

#### Presentation of information

Quarterly reports on Caisse centrale's operational risk provide officers and directors, in particular, with an update on operational losses. Risk and trend indicators are now also included in this periodic reporting.

#### Regulatory compliance

A regulatory compliance function has been set up at Caisse centrale, in compliance with Desjardins Group's orientations. Since 2007, there has been a general policy on regulatory compliance. Throughout 2009, Caisse centrale continued to work on completing the Desjardins Group framework program for regulatory compliance management.

### Reputation risk

**Reputation risk arises from a deterioration of reputation with stakeholders such as members, clients, employees, the media, rating agencies and regulators.**

For a leading financial institution such as Caisse centrale, reputation is extremely important and as such, cannot be managed separately from other risks. Consequently, managing reputation risk in all its spheres of activity is a constant concern for Desjardins Group.

Caisse centrale uses various means to ensure sound reputation risk management, including a Code of Ethics and Professional Conduct, governance practices, awareness sessions, and its risk management framework. Officers and employees are required to perform their duties in accordance with these practices and Desjardins Group's permanent values.

The Integrated Risk Management Executive Division is responsible for disclosing reputation risk. It informs governance bodies thereof through periodic reports.

# Additional information concerning certain risk exposure

To give external users a better idea of Caisse centrale's exposure to risk related to current market events, it was decided to use the best practices promoted by the Financial Stability Forum as a guideline. These best practices include enhanced disclosures of risks related to financial instruments which markets consider to be higher risk, such as special purpose entities, subprime residential mortgages, Alt-A loans, collateralized debt obligations, commercial mortgage-backed securities and leveraged finance. Caisse centrale used these recommendations as a guideline in making the disclosures below.

Caisse centrale's exposure to subprime residential mortgages (defined as loans to borrowers with a high credit risk profile) totalled $1.3 million as at December 31, 2009 (2008: $1.6 million). Only one of these loans is currently in default. Alt-A mortgage exposure (defined as loans to borrowers with non-standard income documentation) was $60.3 million as at December 31, 2009 (2008: $83.3 million).

Exposure to leveraged finance (defined as loans 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) was $111.0 million as at December 31, 2009 (2008: $76.5 million), and is in the form of disbursed and undisbursed commitments. Leveraged finance is generally used to achieve a specific objective, such as making an acquisition, or effecting a takeover or share buy-back.

Caisse centrale has collateralized debt obligations with a face value of $270 million (2008: $293 million). The fair value of collateralized debt obligations as at December 31, 2009 was $254 million (2008: $143 million). None of the securities held are directly backed by subprime residential mortgages. Caisse centrale is not exposed significantly to commercial mortgage-backed securities.

Caisse centrale participates in CMHC's Mortgage-Backed Securities Program. These transactions involve the use of off-balance sheet arrangements and special purpose entities. The special purpose entity used by Caisse centrale is Canada Housing Trust, set up under the Canada Mortgage Bonds Program. These arrangements are described in detail in the "Off-Balance Sheet Arrangements" of this Annual Report.

Table 19 presents information concerning unconsolidated special purpose entities. The securities held by Caisse centrale, as mentioned in the table, are amounts invested in hedge funds under certain Desjardins Group guaranteed-capital savings programs. Desjardins Group is continuing to implement its plan for the complete withdrawal of the amounts invested in these hedge funds.

**Table 19**

## Unconsolidated special purpose entities

| For the period ended December 31, 2009 (in thousands of dollars) | Exposure of Caisse centrale | Total assets of special purpose entities |
|---|---|---|
| Loans by Caisse centrale to entities included in the scope of consolidation of Desjardins Group[1] | **$ 969,006** | **$ 22,235,250** |
| Securities held by Caisse centrale, including $27,173 in entities included in the scope of consolidation of Desjardins Group | **29,679** | **89,040** |

1 The Fédération gave Caisse centrale a guarantee in the amount of $840,006.

## Unconsolidated special purpose entities

| For the period ended December 31, 2008 (in thousands of dollars) | Exposure of Caisse centrale | Total assets of special purpose entities |
|---|---|---|
| Loans by Caisse centrale to entities included in the scope of consolidation of Desjardins Group[1] | $ 1,303,363 | $ 14,460,000 |
| Securities held by Caisse centrale, including $326,372 in entities included in the scope of consolidation of Desjardins Group | 355,362 | 1,045,200 |

1 The Fédération gave Caisse centrale a guarantee in the amount of $1,183,363.

## Capital management

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

Capital is an important factor for assessing the security and soundness of Caisse centrale in relation to all the risks associated with its activities. In recent years, regulators and rating agencies have paid a great deal of attention to financial institutions' capital levels.

### Regulatory capital

The capital adequacy of Caisse centrale is regulated by the standards of the Fédération, which were approved by the AMF. These standards are based on the regulatory requirements of the Basel Committee on Banking Supervision of the Bank for International Settlements ("BIS"), which oversees the capital adequacy of financial institutions operating on international markets. In this way, Caisse centrale can determine where it stands in relation to other financial institutions also involved on international markets.

It should be mentioned that since January 1, 2009, regulatory ratios have been calculated according to the guideline on standards governing the adequacy of base capital applicable to financial services cooperatives, issued by the AMF and adapted from the requirements of the Basel II Capital Accord. This new regulatory framework (Basel II) is largely based on the revised framework for international convergence of capital measurement and capital standards issued by the Bank for International Settlements and aims to relate capital requirements to specific risks which are foreseeable on the basis of the financial institution's own experience and thus provide greater transparency concerning risk management information. The new methods have mainly affected the calculation of risk-weighted assets. The calculation of capital, however, has not been significantly changed.

Total regulatory capital, which constitutes capital, differs from the capital disclosed on the Consolidated Balance Sheets. It comprises two classes: Tier I capital and supplementary or Tier II capital. Tier I capital includes more permanent capital items than Tier II capital. It consists of members' equity (which includes capital stock, retained earnings and the general reserve). Tier II or supplementary capital essentially consists of subordinated debentures and the eligible general allowance for credit losses.

The capital stock issued and outstanding of Caisse centrale was, therefore, composed of 1,287,203 Class A capital shares and 600 qualifying shares outstanding as at December 31, 2009.

Consequently, as at December 31, 2009, capital, as established in accordance with the new regulatory framework (Basel II), totalled $1.4 billion, which is unchanged from the capital calculated, as at December 31, 2008, under the former regulatory framework (Basel I).

In Table 20, the regulatory capital of Caisse centrale was broken down as follows:

**Table 20**

## Composition of regulatory capital

| As at December 31<br>(in thousands of dollars) | **2009**<br>**Under Basel II** | 2008<br>Under Basel I |
|---|---|---|
| **Tier I capital** | | |
| Capital stock | **$ 1,287,206** | $ 1,287,206 |
| Retained earnings (deficit) | **(21)** | (31,993) |
| General reserve | **20,845** | 20,845 |
| | **1,308,030** | 1,276,058 |
| **Tier II capital** | | |
| Eligible general allowance | **90,381** | 89,167 |
| | **90,381** | 89,167 |
| **Total capital** | **$ 1,398,411** | $ 1,365,225 |

### Capital ratio

Section 46 of the Act respecting the Mouvement Desjardins states that Caisse centrale must maintain an adequate capital base consistent with sound and prudent management, in accordance with the standards of the Fédération, which were approved by the AMF.

According to these standards, Caisse centrale must at all times maintain capital in accordance with the following ratios:

a) its total capital must be greater than or equal to 5% of its total assets adjusted based on the standards;
b) its total capital must be greater than or equal to 8% of its risk-weighted assets, of which at least one half is Tier I capital.

Furthermore, the member federations formally undertook to maintain, in proportion to their respective holdings, Caisse centrale's total capital at a minimum level of (i) 5.5% of its total assets, or if higher, at (ii) 8.5% of its risk-weighted assets, as determined in accordance with the established standards.

The capital/asset ratio as at December 31, 2009, established under the new regulatory framework (Basel II), was 6.86%, compared to 6.23% as at December 31, 2008 under the former regulatory framework (Basel I). Tier I capital and total capital ratios calculated under the new regulatory framework (Basel II) and based on risk-weighted assets stood at 15.4% and 16.5%, respectively, compared to 13.4% and 14.3%, respectively, at the end of the previous year under the former regulatory framework (Basel I). As at December 31, 2009, credit risk and market risk were assessed using a standardized approach, whereas operational risk was calculated using a basic indicator approach.

As part of the work on the Desjardins Group capitalization plan, Caisse centrale set target ratios to ensure sound capital management in accordance with the directives of the Fédération. Target ratios of 6% and 10% were set for the capital/asset ratio and the risk-based capital ratio, respectively. Given the quality of Desjardins Group's capital, Caisse centrale has a competitive edge and is well-positioned on the markets.

Risk-weighted assets are set out in Table 21 below.

**Table 21**

## Risk-weighted assets

As at December 31, 2009
(in thousands of dollars)

| | Exposures[1] | Risk-weighted assets | Average risk-weighting rate (%) |
|---|---|---|---|
| **Credit risk** | | | |
| Sovereign borrowers | $ 4,500,877 | $ -- | --% |
| Financial institutions | 13,064,402 | 2,608,740 | 20 |
| Businesses | 4,304,244 | 3,510,771 | 82 |
| Mortgages | 335,865 | 45,971 | 14 |
| Other retail client exposure | 10,175 | 7,631 | 75 |
| Securitization | 269,103 | 89,706 | 33 |
| Equities | 68,704 | 68,704 | 100 |
| Trading portfolio | 350,708 | 90,097 | 26 |
| Other assets | 4,260,855 | 808,850 | 19 |
| **Total credit risk** | **$ 27,164,933** | **$ 7,230,470** | **27%** |
| **Market risk** | | 859,475 | |
| **Operational risk[2]** | | 405,149 | |
| **Total risk-weighted assets** | | **$ 8,495,094** | |

1 Net exposure, after credit risk mitigation (net of specific allowances under the standardized approach but not under the advanced approach, in accordance with the Guideline).
2 The basic indicator approach was used to assess operational risk.

**Rating agencies**

As a reporting issuer, Caisse centrale enjoys favourable credit ratings from rating agencies. In fact, its ratings are among the best of the major banking institutions in Canada.

**Table 22**

## Credit ratings

| | DBRS | Standard & Poor's | Moody's |
|---|---|---|---|
| Short term | **R-1H** | **A-1+** | **P-1** |
| Medium and long-term, senior | **AA** | **AA-** | **Aa1** |

## Five-year consolidated balance sheets

| As at December 31<br>(in thousands of dollars) | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and deposits with financial institutions | **$ 196,321** | $ 378,019 | $ 447,678 | $ 167,871 | $ 150,859 |
| Securities | **5,100,146** | 4,572,320 | 3,722,350 | 3,805,021 | 3,348,898 |
| Loans | | | | | |
| Securities purchased under reverse repurchase agreements | **64,143** | 46,172 | 158,647 | 16,963 | -- |
| Day, call and short-term loans to investment dealers and brokers | **59,000** | 82,000 | 61,500 | 234,000 | 205,000 |
| Public and parapublic sectors | **1,974,169** | 2,201,175 | 1,672,344 | 1,526,534 | 1,476,809 |
| Members | | | | | |
| Fédération | **5,775,888** | 6,398,948 | 6,481,829 | 5,644,679 | 5,572,070 |
| Other | **19,824** | 24,088 | 1,974 | 70,000 | 73,049 |
| Other entities included in the scope of consolidation of Desjardins Group | **1,679,716** | 2,112,724 | 2,411,230 | 872,962 | 955,196 |
| Loans purchased from Desjardins Group | **229,943** | 141,369 | 123,728 | 78,242 | 4,891 |
| Personal | **596,725** | 508,871 | 478,804 | 523,713 | 484,020 |
| Business | **2,808,926** | 3,392,729 | 2,401,653 | 2,044,972 | 1,587,210 |
| Allowance for credit losses | **(128,587)** | (126,888) | (103,794) | (87,895) | (72,123) |
| | **13,079,747** | 14,781,188 | 13,687,915 | 10,924,170 | 10,286,122 |
| Derivative financial instruments | **2,819,219** | 4,611,577 | 1,181,074 | 1,177,172 | 887,756 |
| Customers' liability under acceptances | **750,500** | 428,200 | 892,600 | 1,247,000 | 848,000 |
| Other | **650,768** | 563,868 | 499,769 | 275,983 | 235,818 |
| **Total assets** | **$22,596,701** | $ 25,335,172 | $20,431,386 | $ 17,597,217 | $ 15,757,453 |
| **Liabilities and members' equity** | | | | | |
| Deposits | | | | | |
| Payable on demand | **$ 2,714,943** | $ 3,229,535 | $ 1,578,661 | $ 2,121,655 | $ 896,726 |
| Payable on a fixed date | **12,121,239** | 13,080,188 | 14,458,964 | 11,308,966 | 11,052,217 |
| | **14,836,182** | 16,309,723 | 16,037,625 | 13,430,621 | 11,948,943 |
| Derivative financial instruments | **2,724,607** | 4,085,376 | 1,370,079 | 1,125,021 | 1,287,922 |
| Acceptances | **750,500** | 428,200 | 892,600 | 1,247,000 | 848,000 |
| Obligations related to securities sold short | **167,060** | -- | 155,902 | 16,954 | 78,643 |
| Commitments under repurchase agreements | **986,595** | 942,599 | -- | -- | 244,658 |
| Other | **1,803,484** | 2,306,959 | 866,744 | 749,513 | 556,157 |
| Subordinated debenture | **--** | -- | 109,955 | 117,103 | 105,035 |
| Members' equity | | | | | |
| Capital stock | **1,287,206** | 1,287,206 | 987,206 | 887,206 | 666,206 |
| Retained (deficit) earnings | **(21)** | (31,993) | 4,612 | 2,954 | 1,044 |
| General reserve | **20,845** | 20,845 | 20,845 | 20,845 | 20,845 |
| Accumulated other comprehensive income | **20,243** | (13,743) | (14,182) | -- | -- |
| | **1,328,273** | 1,262,315 | 998,481 | 911,005 | 688,095 |
| **Total liabilities and members' equity** | **$ 22,596,701** | $ 25,335,172 | $ 20,431,386 | $ 17,597,217 | $ 15,757,453 |

## Five-year consolidated statements of income

| For the years ended December 31 (in thousands of dollars) | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| **Interest income** | | | | | |
| Loans | **$ 237,625** | $ 593,483 | $ 607,546 | $ 509,045 | $ 359,216 |
| Securities | **189,580** | 214,889 | 190,416 | 145,410 | 104,786 |
| | **427,205** | 808,372 | 797,962 | 654,455 | 464,002 |
| **Interest expense** | **182,300** | 628,014 | 660,697 | 535,775 | 361,638 |
| **Net interest income** | **244,905** | 180,358 | 137,265 | 118,680 | 102,364 |
| Other income | **69,458** | (91,226) | 70,617 | 70,083 | 59,261 |
| **Gross income** | **314,363** | 89,132 | 207,882 | 188,763 | 161,625 |
| Provision for credit losses | **12,610** | 20,689 | 15,799 | 16,797 | 15,150 |
| | **301,753** | 68,443 | 192,083 | 171,966 | 146,475 |
| **Non-interest expense** | | | | | |
| Salaries and benefits | **41,845** | 30,597 | 30,635 | 35,146 | 28,151 |
| Premises, equipment and furniture, including depreciation | **16,082** | 15,096 | 16,562 | 8,508 | 7,388 |
| Outsourcing of processing services | **9,785** | 9,225 | 9,273 | 9,612 | 8,391 |
| Professional fees | **10,504** | 11,058 | 8,572 | 9,105 | 5,510 |
| Other | **23,096** | 11,289 | 11,194 | 10,888 | 10,413 |
| | **101,312** | 77,265 | 76,236 | 73,259 | 59,853 |
| **Net income (net loss) before other payments to the Desjardins network and income taxes** | **200,441** | (8,822) | 115,847 | 98,707 | 86,622 |
| Other payments to the Desjardins network | **35,975** | 36,129 | 32,184 | 27,944 | 24,392 |
| **Net income (net loss) before income taxes** | **164,466** | (44,951) | 83,663 | 70,763 | 62,230 |
| Income taxes (recovery) | **37,080** | (8,346) | 20,677 | 16,289 | 13,712 |
| **Net income (net loss)** | **$ 127,386** | $ (36,605) | $ 62,986 | $ 54,474 | $ 48,518 |

## Quarterly financial information

| (in thousands of dollars) | 2009 | | | | 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| **(Quarter-end) CONSOLIDATED BALANCE SHEETS** | | | | | | | | |
| **ASSETS** | | | | | | | | |
| Cash and deposits with financial institutions | **$ 196,321** | **$ 145,270** | **$ 278,921** | **$ 289,972** | $ 378,019 | $ 204,725 | $ 164,596 | $ 176,549 |
| Securities | **5,100,146** | **4,013,847** | **4,207,715** | **4,576,493** | 4,572,320 | 4,787,824 | 5,232,985 | 3,605,610 |
| Loans | **13,079,747** | **15,257,798** | **16,137,785** | **15,571,137** | 14,781,188 | 14,811,858 | 15,756,876 | 15,523,908 |
| Derivative financial instruments | **2,819,219** | **3,169,519** | **3,740,765** | **4,460,745** | 4,611,577 | 1,701,446 | 1,756,316 | 2,113,581 |
| Customers' liability under acceptances | **750,500** | **207,400** | **240,900** | **353,468** | 428,200 | 280,500 | 268,100 | 443,500 |
| Other | **650,768** | **828,560** | **1,214,338** | **546,734** | 563,868 | 457,585 | 544,645 | 515,916 |
| | **$22,596,701** | **$23,622,394** | **$25,820,424** | **$25,798,549** | $ 25,335,172 | $ 22,243,938 | $ 23,723,518 | $ 22,379,064 |
| **LIABILITIES AND MEMBERS' EQUITY** | | | | | | | | |
| Deposits | **$ 14,836,182** | **$ 15,874,426** | **$ 17,861,232** | **$ 16,238,446** | $ 16,309,723 | $ 16,604,788 | $ 19,376,838 | $ 17,696,094 |
| Derivative financial instruments | **2,724,607** | **2,936,910** | **3,209,561** | **3,955,644** | 4,085,376 | 1,620,225 | 1,297,726 | 1,568,727 |
| Acceptances | **750,500** | **207,400** | **240,900** | **353,468** | 428,200 | 280,500 | 268,100 | 443,500 |
| Obligations related to securities sold short | **167,060** | **230,215** | **49,320** | **277,598** | -- | 118,212 | 102,345 | 111,481 |
| Commitments under repurchase agreements | **986,595** | **898,534** | **378,591** | **1,574,627** | 942,599 | 1,229,577 | 88,338 | 37,436 |
| Other | **1,803,484** | **2,136,491** | **2,763,610** | **2,071,103** | 2,306,959 | 1,084,246 | 1,412,573 | 1,338,819 |
| Subordinated debenture | **--** | **--** | **--** | **--** | -- | -- | -- | -- |
| Members' equity | **1,328,273** | **1,338,418** | **1,317,210** | **1,327,663** | 1,262,315 | 1,306,390 | 1,177,598 | 1,183,007 |
| | **$22,596,701** | **$23,622,394** | **$25,820,424** | **$25,798,549** | $ 25,335,172 | $ 22,243,938 | $ 23,723,518 | $ 22,379,064 |
| **(For the quarter) CONSOLIDATED STATEMENTS OF INCOME** | | | | | | | | |
| Net interest income | **$ 57,991** | **$ 65,440** | **$ 62,087** | **$ 59,387** | $ 54,583 | $ 47,325 | $ 41,662 | $ 36,788 |
| Other income | **4,468** | **8,286** | **33,403** | **23,301** | (76,232) | (56,374) | 23,777 | 17,603 |
| Provision for credit losses (recovery) | **8,749** | **(1,143)** | **2,739** | **2,265** | 5,090 | 11,299 | 482 | 3,818 |
| Non-interest expense | **30,522** | **21,960** | **27,507** | **21,323** | 20,639 | 18,575 | 19,521 | 18,530 |
| Net income (net loss) before other payments to the Desjardins network and income taxes | **23,188** | **52,909** | **65,244** | **59,100** | (47,378) | (38,923) | 45,436 | 32,043 |
| Other payments to the Desjardins network | **9,175** | **9,459** | **8,914** | **8,427** | 9,618 | 9,064 | 9,057 | 8,390 |
| Net income (net loss) before income taxes | **14,013** | **43,450** | **56,330** | **50,673** | (56,996) | (47,987) | 36,379 | 23,653 |
| Income taxes (recovery) | **3,172** | **10,193** | **12,537** | **11,178** | (11,581) | (10,310) | 8,073 | 5,472 |
| **Net income (net loss)** | **$ 10,841** | **$ 33,257** | **$ 43,793** | **$ 39,495** | $ (45,415) | $ (37,677) | $ 28,306 | $ 18,181 |

# Audit Commission's Annual Report

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

To do so, the Commission reviews the quarterly and annual financial statements, related press releases, the annual Management's Discussion and Analysis, the Annual Information Form and the prospectuses. In addition, it reviews various reports, including those on regulatory ratios, funding, and the quarterly valuation of the derivative portfolio. The Commission ensures that management has designed and implemented an effective internal control system with respect to financial reporting, asset protection, fraud detection and regulatory compliance.

It also ensures that management has implemented systems to manage the main risks that may influence the financial results of Caisse centrale. In this regard, the Commission reviews quarterly and annually the information stemming from this financial governance process.

The external auditor is under the authority of the Commission. To satisfy its responsibilities regarding the external auditor, the Commission ensures and preserves the external auditor's independence by authorizing all non-audit-related services, by recommending auditor appointments and renewals, by setting and recommending auditor compensation and by conducting annual auditor evaluations. In addition, the Commission supervises the work of the external auditors and examines their audit proposal, their audit mandate, their annual audit strategy, their auditors' reports, their auditors' management letter and management's comments. Desjardins Group has a policy that governs the awarding of contracts for related services. Specifically, this policy addresses the following: a) the services that can or cannot be performed by the external auditor, b) the governance procedures that must be followed before mandates may be awarded, and c) the responsibilities of the key players involved. Accordingly, the Commission receives a quarterly report on the contracts awarded to external auditors by Caisse centrale and Desjardins Group.

With respect to relations with the Autorité des marchés financiers, the Commission reviews and follows up on the inspection report issued by the organization, as well as the financial reports that are submitted each quarter to the Autorité des marchés financiers.

The Commission ensures and preserves the independence of Desjardins Group's internal audit service. It analyzes the internal audit team's annual audit strategy with respect to Caisse centrale Desjardins as well as its responsibilities, performance, objectivity and staffing. The Commission reviews the internal audit team's summary reports and, if necessary, takes follow-up action. When doing so, the Commission meets with the head of Internal Audit of Desjardins Group to discuss any important matters submitted to management.

The Commission meets privately with external auditors, management, the head of Internal Audit of Desjardins Group and representatives from the Autorité des marchés financiers. Every quarter, it reports to the Board of Directors and, if necessary, makes recommendations.

Lastly, to comply with sound corporate governance practices, the Commission annually reviews the degree of efficiency and effectiveness with which it has performed the tasks set out in its charter.

The Commission is made up of five independent administrators. Desjardins Group does not remunerate any member, either directly or indirectly, for services other than those rendered as a member of the Fédération's Board of Directors or other Desjardins Group entities and their committees.

All the members of the Commission have the knowledge required to read and interpret the financial statements of a financial institution, based on the criteria established by the Commission's charter. In that regard, in the context of the significant changes arising from the new accounting requirements related to financial accounting and disclosures, the members of the Commission attended several presentations during the year, in particular on the new International Financial Reporting Standards ("IFRS") that will be effective starting in 2011.

The Commission met on six occasions and held two training sessions in fiscal 2009. During the year, Mr. Serge Tourangeau and Mr. Benoit Turcotte left the Commission, and Ms. Annie P. Bélanger and Mr. Pierre Levasseur joined the Commission. As at December 31, 2009, the members of the Commission were Ms. Andrée Lafortune, FCA, Ms. Annie P. Bélanger, Mr. Pierre Leblanc, FCA, Mr. Thomas Blais and Mr. Pierre Levasseur.

**Andrée Lafortune, FCA**
**Chair of the Audit Commission**

Montréal, Québec
February 22, 2010

# Management's Responsibility for Financial Reporting

The Consolidated Financial Statements of Caisse centrale Desjardins ("Caisse centrale") and all information contained in this Annual Report are the responsibility of management, whose duty is to ensure reporting integrity and reliability.

The Consolidated Financial Statements were prepared in accordance with section 163 of the Act respecting financial services cooperatives which requires that, unless otherwise specified by the Autorité des marchés financiers, financial statements be prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Consolidated Financial Statements necessarily contain amounts established by management based on estimates which it deems fair and reasonable. All financial information in the Annual Report is consistent with the Consolidated Financial Statements.

As management is responsible for the reliability of Caisse centrale's Consolidated Financial Statements and related information and the accounting systems from which they are derived, it maintains controls over transactions and related accounting practices. The controls in place include an organizational structure that ensures effective segregation of duties, a code of ethics and professional conduct, standards in personnel hiring and training, policies and procedures, as well as the application of control methods that are regularly updated, thereby exercising adequate supervision of operations. The internal control systems are supplemented by regular independent reviews of Caisse centrale's major business segments. In addition, in the course of his duties, the Internal Auditor of Desjardins Group may confer at any time with the Board of Directors' Audit Commission (the "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 Caisse centrale.

The Autorité des marchés financiers examines the affairs of Caisse centrale annually to ensure that the provisions of its constituent legislation, particularly with respect to the protection of depositors, are duly observed and that Caisse centrale is in sound financial condition.

The Board of Directors approves the financial information contained in the Annual Report by relying on the recommendation of the Commission. To this effect, the Commission is mandated by the Board to review the Consolidated Financial Statements of Caisse centrale as well as the Management's Discussion and Analysis. In addition, the Commission, comprised of directors who are neither officers nor employees of Caisse centrale, 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 external auditors appointed at the general meeting of members, PricewaterhouseCoopers LLP, have the responsibility of auditing the Consolidated Financial Statements in accordance with Canadian generally accepted auditing standards and of expressing their opinion thereon. Their report follows. They may, at any time, meet with the Commission to discuss all matters concerning the nature and execution of their mandate, particularly with respect to the integrity of financial information provided by Caisse centrale and the quality of its internal control systems.

**Monique F. Leroux, FCA, FCMA**
**Chair of the Board and Chief Executive Officer**
**of Caisse centrale Desjardins**

**Raymond Laurin, CA**
**Chief Financial Officer**
**of Caisse centrale Desjardins**

Montréal, Québec
February 25, 2010

# Auditors' Report

To the Members of Caisse centrale Desjardins:

We have audited the consolidated balance sheets of Caisse centrale Desjardins as at December 31, 2009 and 2008 and the consolidated statements of income, members' equity, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of Caisse centrale Desjardins' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Caisse centrale Desjardins as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**PricewaterhouseCoopers LLP**[1]

Montréal, Québec
February 25, 2010

1 Chartered accountant auditor permit No. 14376

## CONSOLIDATED BALANCE SHEETS

| As at December 31<br>(in thousands of dollars) | 2009 | 2008 |
|---|---|---|
| **ASSETS** | | |
| **Cash and deposits with financial institutions** | **$ 196,321** | $ 378,019 |
| **Securities** (Note 5) | | |
| Available-for-sale | **2,788,804** | 2,173,430 |
| Held for trading | **2,311,342** | 2,398,890 |
| | **5,100,146** | 4,572,320 |
| **Loans** (Note 6) | **13,079,747** | 14,781,188 |
| **Other** | | |
| Derivative financial instruments (Note 19) | **2,819,219** | 4,611,577 |
| Customers' liability under acceptances | **750,500** | 428,200 |
| Other assets (Note 8) | **650,768** | 563,868 |
| | **4,220,487** | 5,603,645 |
| | **$ 22,596,701** | $ 25,335,172 |
| **LIABILITIES AND MEMBERS' EQUITY** | | |
| **Deposits** (Note 10) | | |
| Payable on demand | **$ 2,714,943** | $ 3,229,535 |
| Payable on a fixed date | **12,121,239** | 13,080,188 |
| | **14,836,182** | 16,309,723 |
| **Other** | | |
| Derivative financial instruments (Note 19) | **2,724,607** | 4,085,376 |
| Acceptances | **750,500** | 428,200 |
| Obligations related to securities sold short | **167,060** | -- |
| Commitments under repurchase agreements (Note 9) | **986,595** | 942,599 |
| Other liabilities (Note 11) | **1,803,484** | 2,306,959 |
| | **6,432,246** | 7,763,134 |
| **Members' equity** | **1,328,273** | 1,262,315 |
| | **$ 22,596,701** | $ 25,335,172 |

The accompanying notes are an integral part of these Consolidated Financial Statements.

On behalf of the Board,

**Monique F. Leroux, FCA, FCMA**
**Chair of the Board and**
**Chief Executive Officer**

**Denis Paré**
**Vice-Chair of the Board**

## CONSOLIDATED STATEMENTS OF INCOME

**For the years ended December 31**
(in thousands of dollars)

| | 2009 | 2008 |
|---|---|---|
| **Interest income** | | |
| Loans | $ 237,625 | $ 593,483 |
| Securities | 189,580 | 214,889 |
| | 427,205 | 808,372 |
| **Interest expense** | | |
| Deposits | 182,300 | 626,677 |
| Subordinated debenture | -- | 1,377 |
| | 182,300 | 628,014 |
| **Net interest income** | 244,905 | 180,358 |
| **Other income** | | |
| Service charges on chequing and deposit accounts | 17,344 | 16,358 |
| Foreign exchange income | 37,708 | 40,603 |
| Trading activities (Note 17) | 6,142 | (50,912) |
| Net losses on available-for-sale securities | (4,779) | (109,828) |
| Fees on “Desjardins Acceptances” | 16 | 1,791 |
| Credit fees | 3,680 | 3,004 |
| Management fees | 3,338 | 4,706 |
| Other | 6,009 | 3,052 |
| | 69,458 | (91,226) |
| **Gross income** | 314,363 | 89,132 |
| Provision for credit losses (Note 6) | 12,610 | 20,689 |
| | 301,753 | 68,443 |
| **Non-interest expense** | | |
| Salaries and fringe benefits | 41,845 | 30,597 |
| Premises, equipment and furniture, including depreciation | 16,082 | 15,096 |
| Outsourcing of processing services | 9,785 | 9,225 |
| Fees | 10,504 | 11,058 |
| Other | 23,096 | 11,289 |
| | 101,312 | 77,265 |
| **Net income (net loss) before other payments to the Desjardins network and income taxes** | 200,441 | (8,822) |
| Other payments to the Desjardins network | 35,975 | 36,129 |
| **Net income (net loss) before income taxes** | 164,466 | (44,951) |
| Income taxes (recovery) (Note 15) | 37,080 | (8,346) |
| **Net income (net loss)** | $ 127,386 | $ (36,605) |

The accompanying notes are an integral part of these Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY

**For the years ended December 31**
(in thousands of dollars)

| | 2009 | 2008 |
|---|---|---|
| **Capital stock** (Note 12) | | |
| Balance at beginning of year | $ 1,287,206 | $ 987,206 |
| Issuance of Class A capital shares (300,000 shares issued for cash in 2008) | -- | 300,000 |
| Balance at end of year | $ 1,287,206 | $ 1,287,206 |
| **Retained earnings** (deficit)[1] | | |
| Balance at beginning of year | $ (31,993) | $ 4,612 |
| Net income (net loss) | 127,386 | (36,605) |
| Remuneration of capital stock | (123,369) | -- |
| Recovery of income taxes related to remuneration of capital stock (Note 15) | 27,955 | -- |
| Balance at end of year | $ (21) | $ (31,993) |
| **General reserve** | | |
| Balance at beginning and end of year | $ 20,845 | $ 20,845 |
| **Accumulated other comprehensive income, net of income taxes**[1] | | |
| Balance at beginning of year | (13,743) | (14,182) |
| Other comprehensive income for the year | 33,986 | 439 |
| Balance at end of year (Note 13) | 20,243 | (13,743) |
| **Total members' equity** | $ 1,328,273 | $ 1,262,315 |

The accompanying notes are an integral part of these Consolidated Financial Statements.

1 The sum of retained earnings (deficit) and accumulated other comprehensive income is $20.2 million (2008: deficit of $45.7 million).

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

**For the years ended December 31**
(in thousands of dollars)

| | 2009 | 2008 |
|---|---|---|
| **Net income (net loss)** | **$ 127,386** | **$ (36,605)** |
| **Other comprehensive income, net of income taxes** (Note 15) | | |
| Change in net unrealized gains (losses) on available-for-sale securities | **43,083** | (73,185) |
| Reclassification to net income of (gains) and losses on available-for-sale securities | **(583)** | 54,982 |
| Net change in gains on derivative financial instruments designated as cash flow hedges | **(6,292)** | 17,038 |
| Reclassification to net income of gains on derivative financial instruments designated as cash flow hedges | **(837)** | (102) |
| Unrealized foreign exchange (loss) gain resulting from the translation of the financial statements of a self-sustaining foreign operation, net of a gain of $2,448 (2008: loss of $3,335) on hedging transactions | **(1,385)** | 1,706 |
| **Other comprehensive income for the year** | **33,986** | 439 |
| **Comprehensive income (loss) for the year** | **$ 161,372** | $ (36,166) |

The accompanying notes are an integral part of these Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

**For the years ended December 31**
(in thousands of dollars)

| | 2009 | 2008 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income (net loss) | $ 127,386 | $ (36,605) |
| Adjustments to determine cash flows from operating activities: | | |
| Depreciation of premises and equipment premises and equipment and amortization of intangible assets | 7,936 | 7,939 |
| Provision for credit losses | 12,610 | 20,689 |
| Loss on available-for-sale securities | 4,779 | 109,828 |
| Change in future income taxes | 6,056 | (9,991) |
| Net change in securities held for trading | 778,654 | (576,335) |
| Net change in obligations related to securities sold short | 167,060 | (155,902) |
| Change in accrued interest receivable | 39,116 | (138,551) |
| Change in accrued interest payable | (6,659) | 28,070 |
| Change in income taxes | 13,613 | (476) |
| Change in amounts receivable on derivative financial instruments | 1,792,358 | (3,430,503) |
| Change in amounts payable on derivative financial instruments | (1,357,838) | 2,713,981 |
| Change in amounts receivable from brokers and dealers | 45,245 | 114,511 |
| Change in amounts payable to brokers and dealers | (718,563) | 1,487,532 |
| Other items, net amount | (19,757) | 102,072 |
| | 891,996 | 236,259 |
| **Cash flows from financing activities** | | |
| Net change in deposits | (1,473,541) | 272,098 |
| Redemption of the subordinated debenture | -- | (118,787) |
| Issuance of capital shares | -- | 300,000 |
| Net change in commitments under repurchase agreements | 43,996 | 942,599 |
| Remuneration of capital stock paid | -- | (80,116) |
| | (1,429,545) | 1,315,794 |
| **Cash flows from investing activities** | | |
| Change in available-for-sale securities: | | |
| Purchases | (7,098,743) | (13,601,728) |
| Proceeds from maturities | 4,070,824 | 10,748,022 |
| Proceeds from sales | 2,400,909 | 2,372,775 |
| Net change in loans | 1,795,376 | (1,208,797) |
| Proceeds from securitization of mortgage loans | 1,074,730 | 2,104,838 |
| Purchase of mortgage loans | (1,894,608) | (2,113,131) |
| Net change in securities purchased under reverse repurchase agreements | (17,971) | 112,475 |
| Net additions to premises and equipment and intangible assets | (1,344) | (1,185) |
| | 329,173 | (1,586,731) |
| **Net change in cash and cash equivalents** | (208,376) | (34,678) |
| Cash and cash equivalents at beginning of year | 255,611 | 290,289 |
| **Cash and cash equivalents at end of year** | $ 47,235 | $ 255,611 |
| **Represented by:** | | |
| Cash and deposits with financial institutions | $ 196,321 | $ 378,019 |
| Cheques and other items in transit | (149,086) | (122,408) |
| | $ 47,235 | $ 255,611 |
| **Additional information** | | |
| Interest paid during the year | $ 188,959 | $ 599,944 |
| Income taxes paid (received) during the year | (957) | 2,769 |

The accompanying notes are an integral part of these Consolidated Financial Statements.

# Notes to the Consolidated Financial Statements

December 31, 2009 and 2008
(All tabular figures are in thousands of dollars, unless otherwise indicated.)

## Note 1
## Incorporation and mandate

Caisse centrale Desjardins du Québec ("Caisse centrale"), created on June 22, 1979, is a financial services cooperative governed by the Act respecting the Mouvement Desjardins, S.Q. 2000, c. 77 (the "Constituent Legislation") and by the Act respecting financial services cooperatives (Québec). Pursuant to its Constituent Legislation, Caisse centrale may also identify itself under the name of "Caisse centrale Desjardins."

Caisse centrale is a cooperative institution which offers financial services to Desjardins Group, governments, public and parapublic sector institutions, individuals, medium-sized businesses and large corporations. It serves the needs of the Fédération des caisses Desjardins du Québec (the "Fédération"), the Desjardins caisses (the "member caisses"), and other Desjardins Group entities. Caisse centrale's mandate is to provide institutional funding for the Desjardins network and to act as financial agent, notably by supplying interbank exchange services, including clearing house settlements. Caisse centrale's activities on the Canadian and international markets complement those of other Desjardins Group entities.

## Note 2
## Significant accounting policies

The Consolidated Financial Statements of Caisse centrale are prepared in accordance with section 163 of the Act respecting financial services cooperatives which requires that, unless otherwise specified by the Autorité des marchés financiers, consolidated financial statements be prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). There is no significant difference between GAAP and the accounting rules prescribed by the Autorité des marchés financiers. The preparation of consolidated financial statements in conformity with these principles requires management to make estimates and assumptions. Some estimates, including those for the allowance for credit losses, the fair value of financial instruments and the accounting for securitization, litigation, pension plans, intangible assets with finite useful life and income taxes, require that management make complex, subjective judgments which could affect the amounts reported in the Consolidated Financial Statements and the notes thereto. Consequently, actual results may differ from those estimates.

Significant accounting policies used in the preparation of these Consolidated Financial Statements are summarized below.

### Consolidation
The Consolidated Financial Statements include the assets and liabilities and results of operations of Caisse centrale and those of its wholly-owned U.S. subsidiary, Desjardins Bank, N.A., after elimination of intercompany transactions and balances.

### Changes in accounting policies
#### Goodwill and intangible assets
On January 1, 2009, Caisse centrale retrospectively adopted the new accounting standard of the Canadian Institute of Chartered Accountants ("CICA") entitled "Goodwill and Intangible Assets" ("Section 3064"). This standard reinforces an approach based on principles and criteria to recognize costs as assets and clarifies the application of the matching principle in order to eliminate the practice of recognizing as assets items that do not meet the definition of an asset nor the criteria for asset recognition. The adoption of this standard had no impact on Caisse centrale's results and financial position.

### Credit risk and fair value of financial assets and financial liabilities

On January 1, 2009, Caisse centrale adopted the new abstract issued by the Emerging Issues Committee ("EIC") entitled "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" ("EIC-173"). EIC-173 states that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative financial instruments. The adoption of this EIC abstract had no material impact on the valuation models used to determine the fair value of financial instruments or on Caisse centrale's results and financial position.

### Financial instruments

**Financial instrument disclosures**

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

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

Caisse centrale applied for the first time the amendments to this standard to its 2009 Annual Consolidated Financial Statements. For this first year of application, it is not required to provide comparative information for the disclosures required by the amendments. Since these amendments specifically concern disclosures, they had no impact on Caisse centrale's results and financial position.

**Embedded derivatives**

In June 2009, the AcSB amended CICA Handbook Section 3855 entitled "Financial Instruments – Recognition and Measurement" by adding guidance concerning the reassessment of embedded derivatives upon reclassification of a financial asset out of the held-for-trading category. Caisse centrale has applied the new guidance to reclassifications made on or after July 1, 2009. This amendment had no impact on Caisse centrale's results and financial position.

**Impairment of financial assets**

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

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

Caisse centrale applied the amendments to this standard retrospectively as at January 1, 2009, to its Consolidated Financial Statements as at December 31, 2009. As a result of the adoption of this standard, mortgage loans purchased from Desjardins Group and held for sale as part of securitization activities were reclassified from the loans and receivables category into the held-for-trading category. This change had an impact on the results for Fiscal 2009 of $1.3 million, net of income taxes of $0.3 million.

## Financial instruments – Recognition and measurement

**a) Financial instruments – recognition and measurement**

Financial assets should be classified as one of the following: held for trading, available for sale, held to maturity or loans and receivables. Financial liabilities should be classified as held for trading or other. Financial assets and financial liabilities are initially recognized at fair value. Subsequently, financial assets and financial liabilities held for trading as well as available-for-sale financial assets continue to be recorded on the Consolidated Balance Sheets at fair value. Changes in the fair value of financial assets and financial liabilities held for trading are recognized in consolidated income for the year, while changes in the fair value of available-for-sale financial assets are recorded in consolidated other comprehensive income until they are derecognized. Financial assets held to maturity, loans and receivables, and financial liabilities other than held for trading are recognized at amortized cost using the effective interest method. Financial assets classified as available for sale are reviewed regularly on each balance sheet date to determine if there has been a decline in value that is other than temporary or if a reversal of an impairment loss must be recorded. Any impairment loss or reversal of impairment loss is recognized in consolidated income.

Under Section 3855, any financial asset or financial liability whose fair value can be reliably measured may be classified, on initial recognition, as being held for trading, except for certain related party transactions. This designation is then irrevocable. Electing to classify financial instruments as held for trading under the fair value option is subject to the requirements set by the Autorité des marchés financiers.

Fair value is based on the market price when an active market exists. Otherwise, it is estimated using valuation models and techniques such as discounted cash flow analysis or option pricing models, based on observable market factors.

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

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

**b) Reclassification of financial assets**
Since November 1, 2008, Caisse centrale applies the recommendations of Section 3855, "Financial Instruments – Recognition and Measurement," and Section 3862, "Financial Instruments – Disclosures," regarding the reclassification of certain financial assets in specified circumstances. Caisse centrale did not reclassify any financial assets as at December 31, 2009.

**c) Derivative financial instruments and hedges**
Derivative financial instruments, including embedded derivatives which are required to be accounted for separately, are recorded on the Consolidated Balance Sheets at fair value. Derivative financial instruments may be designated as being part of a fair value or cash flow hedging relationship.

Changes in the fair value of derivative financial instruments are recorded in net income, except for derivative financial instruments designated as effective cash flow hedges, for which changes in fair value are recognized in consolidated other comprehensive income.

**d) Comprehensive income**
Consolidated other comprehensive income includes, in particular, unrealized gains and losses on available-for-sale financial assets, unrealized foreign exchange gains and losses resulting from the translation of the financial statements of a self-sustaining foreign operation, net of hedging transactions, and the change in the effective portion of cash flow hedge transactions. These components are recorded net of income tax. The Consolidated Financial Statements include a "Statement of Comprehensive Income" and accumulated other comprehensive income is presented as an item of members' equity.

## Securities
Securities include available-for-sale securities and securities held for trading.

### Available-for-sale securities
Available-for-sale securities are purchased with the primary intent of holding them until maturity or until market conditions are more favourable for other types of investments. Available-for-sale securities are recognized at fair value, and unrealized gains and losses on these securities, including exchange rate fluctuations, are recognized under "Change in net unrealized gains and losses on available-for-sale securities" in the Consolidated Statements of Comprehensive Income. Available-for-sale securities are reviewed regularly on each balance sheet date to determine if there has been a decline in value that is other than temporary. In determining whether a decline is temporary, several factors are considered, including the financial condition and near-term prospects of the issuer, and the length of time that the security has been in an unrealized loss position. Realized gains and losses on these securities upon derecognition, determined using average cost, as well as other-than-temporary impairment losses on these securities are recognized in consolidated income under "Net gains (net losses) on available-for-sale securities" in "Other income". Premiums and discounts are amortized using the effective interest method.

Dividend and interest income, including amortization of premiums and discounts, is recorded in consolidated income under "Interest income".

### Securities held for trading
Securities held for trading comprise securities required to be classified as held for trading and securities designated as held for trading, and are recognized at fair value. Dividend and interest income on these securities is recorded in consolidated income under "Interest income". Realized and unrealized gains and losses on such securities are presented under "Trading activities" in "Other income". Transaction costs are expensed as incurred.

**a) Securities required to be classified as held for trading**
Securities required to be classified as held for trading are purchased and incurred with the intent of generating profits in the near term.

**b) Securities designated as held for trading**
Some securities are designated as held for trading under the fair value option. Such designation is allowed provided that the fair value of the financial instruments concerned can be reliably determined and that the designation is made to eliminate or significantly reduce valuation or recognition inconsistencies that would otherwise arise from measuring financial assets or financial liabilities, or recognizing gains or losses on them, on different bases.

## Loans

Loans, except for loans purchased from Desjardins Group, are stated at cost, net of the allowance for credit losses, discounts and unamortized loan fees. Where deemed appropriate, Caisse centrale obtains security in the form of cash, securities, immovable property, accounts receivable, guarantees, inventories or other assets.

Acting as an intermediary for Desjardins Group entities, Caisse centrale buys and resells mortgage loans as part of securitization activities. These loans are recorded as “Loans purchased from Desjardins Group”. They are classified in the held-for-trading category and recorded at fair value. Prior to January 1, 2009, these loans were classified in loans and receivables and were recorded at cost.

Interest income is recorded on an accrual basis, except when the loan is considered to be impaired.

### Impaired loans

A loan is considered impaired when: (a) there is reason to believe that a portion of the principal or interest cannot be collected, or (b) the interest or principal is contractually 90 days in arrears, except when there is reasonable assurance of collecting the principal or interest. The interest, previously accrued but not received on such a loan, is reversed from interest income on loans in the current year. No portion of cash received on a loan subsequent to its classification as impaired is recorded as income before any prior write-off has been recovered or any specific allowance has been reversed and it is deemed that the loan principal is fully collectible.

An impaired loan is recorded at its estimated realizable value, measured by discounting the expected future cash flows at the interest rate inherent in the loan. When the amount or timing of future cash flows cannot be estimated with reasonable reliability, the loan is recorded at either the fair value of the underlying security or the market price for the loan. Any change in the estimated realizable amount is presented as a charge or credit for loan impairment through the allowance for credit losses. An impaired loan is once again recorded under the accrual method when the principal and interest payments are current and there is no longer any reasonable doubt that the impaired loan will be recovered.

### Past due loans

A loan is considered past due if the payment of principal or interest was not received when contractually due.

### Loan fees

Loan origination, restructuring and renegotiation fees are considered as adjustments to loan yield and are deferred and amortized to “Interest income” over the expected term of such loans using the effective interest method. In the likelihood that a loan will result, commitment and standby fees are also included in “Interest income” over the expected term using the effective interest method. Otherwise, fees are recorded as “Other income” during the commitment or standby period. Loan syndication fees are presented under “Other income” when the syndication agreement is signed, unless the yield of any loan retained by Caisse centrale is less than one of the other comparable lenders involved in the financing. In such cases, an appropriate portion of the fees is deferred and amortized to interest income over the term of the loan using the effective interest method.

## Allowance for credit losses

The allowance for credit losses is maintained at an amount considered sufficient to absorb the estimated losses related to the loan portfolio, off-balance sheet commitments, acceptances and derivative financial instruments. This allowance is increased by the provision for credit losses charged to consolidated income and reduced by write-offs net of recoveries. This allowance comprises specific allowances and a general allowance for credit losses. Management conducts ongoing credit risk assessments and establishes specific allowances when impaired loans are identified.

### Specific allowances

Specific allowances are established on an individual basis for all identified impaired loans, reducing their carrying value to their estimated realizable value.

#### General allowance
The general allowance for credit losses reflects management's estimate of probable portfolio losses that are not covered by specific allowances. The general allowance for credit losses does not represent future losses nor replace specific allowances. It takes into account economic and market conditions that affect the main lending activities, recent credit loss experience, and trends in credit quality and concentration. This allowance also reflects model and estimation risks, which are reviewed and revised where conditions indicate the initial assumptions will differ from actual results.

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

In securitization transactions, Caisse centrale retains the right to an excess interest spread, which is initially recorded at fair value on the Consolidated Balance Sheets under "Other assets" and is considered a retained interest. The excess interest spread is amortized over the term of the mortgage loans transferred and is recorded in consolidated income under "Trading activities".

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

At the time of transfer, Caisse centrale recognizes the gain or loss on the transfer in consolidated income under "Trading activities", net of transaction fees. The gain or loss on the transfer depends on the previous carrying value of the NHA-MBSs sold as well as the fair value of the assets received and liabilities assumed. This fair value is determined using the present value of future expected cash flows taking into account best estimates, which are based on certain key assumptions made by management, including the curve for Canada Mortgage Bonds, discount rates proportional to the risks involved and prepayment rates.

### Acceptances and customers' liability under acceptances
Caisse centrale's potential liability under acceptances is reported as a liability on the Consolidated Balance Sheets. The recourse of Caisse centrale against the customer in the case of a call on commitments of this nature is reported as an offsetting asset of the same amount. These financial instruments are recognized at amortized cost on the Consolidated Balance Sheets. Fees paid to Caisse centrale are recognized in consolidated income under "Fees on Desjardins Acceptances" in "Other income" over the expected term using the effective interest method.

### Obligations related to securities sold short
Securities sold short as part of trading activities, which represent Caisse centrale's obligation to deliver securities sold which were not owned at the time of sale, are recorded as liabilities and are carried at fair value. Realized and unrealized gains and losses thereon are recorded in consolidated income under "Trading activities" in "Other income".

### Assets under administration
Caisse centrale manages liquidities on behalf of third parties. These assets under administration are not the property of Caisse centrale and therefore are not reflected on the Consolidated Balance Sheets. Management fees earned with respect to liquidity management services are recorded in consolidated income under "Management fees" in "Other Income".

### Derivative financial instruments and hedges
Caisse centrale uses derivative financial instruments for trading purposes or for asset and liability management.

The derivative financial instruments most frequently used are forward exchange contracts, currency, interest rate and credit swaps, forward rate agreements and foreign currency, interest rate and stock index options. Derivative financial instruments, including embedded derivatives required to be recognized separately, are stated at fair value on the Consolidated Balance Sheets. Fair value is based on market prices where there is an active market. Otherwise, fair value is estimated by using valuation techniques or models that incorporate current market prices and the contractual prices of the underlying instruments, the time value of money, yield curves and volatility factors. On the Consolidated Balance Sheets, derivative instruments are presented under "Derivative financial instruments" in "Other", and are classified as assets or liabilities depending on their respective positive or negative fair value.

**Embedded derivative financial instruments**
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) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative financial instrument; (c) the hybrid instrument or contract is not measured at fair value with changes in fair value recognized in net income. Embedded derivative financial instruments which are to be recognized separately are measured at fair value, and the changes in fair value are recognized in consolidated income.

Caisse centrale selected January 1, 2003 as the transition date for embedded derivative financial instruments; consequently, only financial instruments or contracts entered into or modified after such transition date were reviewed in order to identify embedded derivative financial instruments.

**Derivatives held for trading purposes**
Derivatives held for trading purposes are mainly used in intermediation activities to meet the needs of the Desjardins network or its customers. Realized and unrealized gains and losses on such derivatives are presented under “Trading activities” in “Other income”.

**Derivatives held for purposes of asset and liability management**
Derivatives held for purposes of asset and liability management are used to manage the interest rate and foreign exchange risk exposure of consolidated balance sheet assets and liabilities, firm commitments and forecasted transactions. Some of these derivative financial instruments qualify for hedge accounting provided they meet certain criteria which are set out below. Hedging activities are designed to modify the exposure of Caisse centrale to one or more risks by creating an offset between changes in the fair value of, or the cash flows attributable to, the hedged item and the hedging item. Hedge accounting ensures that offsetting gains, losses, revenues and expenses are recognized in consolidated income in the same year because otherwise they would be recognized in different years.

**a) Derivatives qualifying for hedge accounting**
To qualify for hedge accounting, a hedging relationship must be designated and documented at its inception. The documentation should address, among others, the specific risk management strategy, the hedged asset, liability or cash flows and the measure of the effectiveness of the hedging relationship. Therefore, each hedging relationship should be documented and tested for effectiveness, individually and on a regular basis, in order to determine, with reasonable assurance, whether it has remained and will continue to be effective. The derivative financial instruments must be highly effective in offsetting changes in the fair value or cash flows of the hedged item that are attributable to the hedged risk exposure.

Whenever hedge accounting is appropriate, the hedging relationship will be designated as fair value or cash flow hedge.

**Fair value hedges**
Fair value hedging relationships are used in risk management strategies. Caisse centrale therefore uses derivative financial instruments, mainly interest rate swaps, to hedge changes in the fair value of fixed-rate financial instruments. These derivative financial instruments mitigate the impact of fluctuating interest rates on results by changing the benchmark rate of the hedged item. Gains and losses resulting from the revaluation of the fair value of the derivative financial instrument are recognized in consolidated income under net interest income regardless of the classification of the hedged item. However, an amount corresponding to the impact of the designated risk on the hedged item will be recognized in this hedged item and in consolidated income. Lastly, the ineffective portion of the hedging instrument will be immediately recognized in consolidated income under “Trading activities” in “Other income”.

The designation of a derivative financial instrument as a hedge is discontinued in the following cases: the hedged item is sold or matures, the hedge is no longer effective or Caisse centrale terminates its designation of the hedging relationship. At the time the hedging relationship is terminated, the amount recognized in the hedged item attributable to the designated risk exposure is amortized to consolidated income under net interest income 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, the amount recorded in the hedged item is immediately recognized in consolidated income under net interest income.

**Cash flow hedges**
Cash flow hedging relationships are used in risk management strategies. Caisse centrale therefore uses derivative financial instruments, mainly interest rate swaps, to hedge the risk of changes in future cash flows related to floating-rate financial instruments. Among other things, such derivative financial instruments convert certain floating-rate financial instruments to fixed-rate financial instruments. Gains or losses resulting from changes in the fair value of the effective portion of the derivative financial instrument are recorded in consolidated other comprehensive income until the hedged item is recognized in consolidated income, at which time such change is recognized under net interest income. The ineffective portion of the hedging instrument is recognized immediately in consolidated income under “Trading activities” in “Other income”.

If a hedge is discontinued, gains or losses recorded in consolidated other comprehensive income are amortized to consolidated income under net interest income 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 consolidated income under net interest income.

**b) Derivatives not qualifying for hedge accounting**
Realized and unrealized gains and losses on derivative financial instruments held for purposes of asset and liability management that do not qualify for hedge accounting are recognized in consolidated income under "Trading activities" in "Other income".

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

### Securities purchased under reverse repurchase agreements and securities sold under repurchase agreements
Caisse centrale enters into short-term purchases and sales of securities with concurrent agreements to sell and buy them back at a specified price and on a specified date. These agreements are accounted for as collateralized lending and borrowing transactions and are recorded on the Consolidated Balance Sheets at amortized cost. Interest income on reverse repurchase agreements is presented as interest income in consolidated income, whereas interest incurred on repurchase agreements is presented as interest expense.

### Foreign currency translation
Monetary items denominated in foreign currencies are translated at rates prevailing on the consolidated balance sheet date and non-monetary items are translated at historical rates. Income and expenses are translated at the average rates prevailing during the year. Unrealized foreign exchange gains or losses and realized foreign exchange gains or losses are recorded in consolidated income under "Other income", except for unrealized gains or losses on available-for-sale securities, which are recognized in consolidated other comprehensive income. Foreign exchange positions, including spot and forward contracts, are valued at prevailing market rates. All assets and liabilities of the self-sustaining foreign subsidiary denominated in foreign currencies are translated at rates prevailing on the balance sheet date, and income and expenses of this foreign operation are translated at the average rate for the period. Exchange gains and losses resulting from the translation of the financial statements of this subsidiary, including the related effects of hedging and taxes, are recorded in consolidated other comprehensive income.

### Cash and cash equivalents
Cash and cash equivalents consist of cash and deposits with financial institutions. Cash includes bank notes and coins. The deposits are issued by investment grade financial institutions.

### Premises and equipment
Premises and equipment are recorded at cost, less accumulated depreciation, and are depreciated over their estimated useful lives in accordance with the following methods and annual rates or term:

| Classes | Amortization methods | Rates/Term |
|---|---|---|
| Office furniture and equipment | Declining balance | 20% |
| Computer equipment | Declining balance | 30% |
| Leasehold improvements | Straight-line | Term of the lease |

### Intangible assets with finite useful life
Computer software is recorded at cost, less accumulated amortization, is amortized over its estimated useful life on a straight-line basis at a rate of 20% and is written down when its net carrying value cannot be recovered in the long term. If applicable, any excess of the carrying value over the fair value is charged to consolidated income.

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

### Employee future benefits

The employees of Caisse centrale participate in the Desjardins Group pension plans as part of defined benefit multi-employer pension plans and in supplemental plans which provide pension benefits in excess of statutory limits. Furthermore, Caisse centrale also provides life insurance coverage and health and dental care benefits to its eligible retired employees through the Desjardins Group multi-employer group insurance plan. Caisse centrale applies the recommendations regarding defined contribution plans since the costs and funding of these plans are not allocated among Desjardins Group member entities.

In addition, Caisse centrale provides additional defined benefit pension plans to certain active and retired executive employees, and applies the recommendations regarding defined benefit pension plans to such plans.

### Income taxes

Caisse centrale accounts for income taxes under the asset-liability method. Under this method, future tax assets and liabilities are calculated based on differences between the carrying value and the tax basis of assets and liabilities using enacted or substantively enacted tax laws and rates expected to apply at the date such differences reverse. Future tax assets and liabilities are included under “Other assets” or “Other liabilities”, as applicable.

The recovery of income taxes appearing in the Consolidated Statements of Members’ Equity under “Retained earnings” is related to the remuneration of capital stock, which is deductible for income tax purposes.

### Guarantees

A guarantee is a contract or indemnification agreement that contingently requires Caisse centrale to make payments to the guaranteed party; as for instance, (i) based on changes in an interest rate, a foreign currency exchange rate, a security or commodity price, or a price or rate index, or the occurrence or non-occurrence of a specified event that is related to an asset, a liability or an equity security of the guaranteed party; (ii) based on the failure by a third party to perform under an obligating agreement or (iii) the failure by a third party to repay its debt when it becomes due and payable.

Guarantees are initially recognized at fair value on the Consolidated Balance Sheets. No revaluation of the fair value is required thereafter.

### Comparative figures

Certain 2008 financial information has been reclassified to conform with the presentation adopted in 2009.

## FUTURE CHANGES IN ACCOUNTING POLICIES

### Effective interest method

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

### International financial reporting standards

On February 13, 2008, the AcSB issued a news release confirming that publicly accountable enterprises will be required to apply International Financial Reporting Standards (“IFRS”) in 2011. Caisse centrale will therefore adopt IFRS on January 1, 2011. Caisse centrale initiated its IFRS conversion project in the fall of 2007.

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

Note 3

# Carrying values of financial assets and financial liabilities by category

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

| As at December 31, 2009 | Held for trading | Designated as held for trading | Available for sale | Loans and receivables | Financial liabilities at cost or amortized cost | Derivatives designated as cash flow hedges | Derivatives designated as fair value hedges |
|---|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | | |
| Cash and deposits with financial institutions | $ 196,321 | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- |
| Securities | | | | | | | |
| Available-for-sale | -- | -- | 2,788,804 | -- | -- | -- | -- |
| Held for trading | 857,745 | 1,453,597 | -- | -- | -- | -- | -- |
| Loans | 229,943 | -- | -- | 12,849,804 | -- | -- | -- |
| Other | | | | | | | |
| Derivative financial instruments | 2,516,346 | -- | -- | -- | -- | 24,666 | 278,207 |
| Customers' liability under acceptances | -- | -- | -- | 750,500 | -- | -- | -- |
| Other assets | -- | -- | -- | 598,048 | -- | -- | -- |
| **Total Financial Assets** | $ 3,800,355 | $ 1,453,597 | $ 2,788,804 | $ 14,198,352 | $ -- | $ 24,666 | $ 278,207 |
| **Financial Liabilities** | | | | | | | |
| Deposits | -- | -- | -- | -- | 14,836,182 | -- | -- |
| Other | | | | | | | |
| Derivative financial instruments | 2,592,368 | -- | -- | -- | -- | 41,546 | 90,693 |
| Acceptances | -- | -- | -- | -- | 750,500 | -- | -- |
| Obligations related to securities sold short | 167,060 | -- | -- | -- | -- | -- | -- |
| Commitments under repurchase agreements | -- | -- | -- | -- | 986,595 | -- | -- |
| Other liabilities | -- | -- | -- | -- | 1,803,484 | -- | -- |
| **Total Financial Liabilities** | $ 2,759,428 | $ -- | $ -- | $ -- | $ 18,376,761 | $ 41,546 | $ 90,693 |

| As at December 31, 2008 | Held for trading | Designated as held for trading | Available for sale | Loans and receivables | Financial liabilities at cost or amortized cost | Derivatives designated as cash flow hedges | Derivatives designated as fair value hedges |
|---|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | | |
| Cash and deposits with financial institutions | $ 378,019 | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- |
| Securities | | | | | | | |
| Available-for-sale | -- | -- | 2,173,430 | -- | -- | -- | -- |
| Held for trading | 1,816,097 | 582,793 | -- | -- | -- | -- | -- |
| Loans | -- | -- | -- | 14,781,188 | -- | -- | -- |
| Other | | | | | | | |
| Derivative financial instruments | 3,638,626 | -- | -- | -- | -- | 45,686 | 927,265 |
| Customers' liability under acceptances | -- | -- | -- | 428,200 | -- | -- | -- |
| Other assets | -- | -- | -- | 498,290 | -- | -- | -- |
| **Total Financial Assets** | $ 5,832,742 | $ 582,793 | $ 2,173,430 | $ 15,707,678 | $ -- | $ 45,686 | $ 927,265 |
| **Financial Liabilities** | | | | | | | |
| Deposits | -- | -- | -- | -- | 16,309,723 | -- | -- |
| Other | | | | | | | |
| Derivative financial instruments | 3,903,018 | -- | -- | -- | -- | 17,169 | 165,189 |
| Acceptances | -- | -- | -- | -- | 428,200 | -- | -- |
| Commitments under repurchase agreements | -- | -- | -- | -- | 942,599 | -- | -- |
| Other liabilities | -- | -- | -- | -- | 2,306,959 | -- | -- |
| **Total Financial Liabilities** | $ 3,903,018 | $ -- | $ -- | $ -- | $ 19,987,481 | $ 17,169 | $ 165,189 |

Note 4
# Fair value of financial instruments

The estimated fair values are intended to approximate amounts at which these financial instruments could be exchanged in a current transaction between willing parties. Price quotations published on an active market represent the best evidence of fair value and, if they are available, Caisse centrale uses them to measure the fair value of financial instruments. The fair value of a financial asset traded on an active market generally reflects the bid price, and the fair value of a financial liability traded on an active market, the asking price. However, many of the financial instruments lack an active market. Therefore, fair values are based on estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates which reflect varying degrees of risk. In addition, the estimated fair values disclosed do not reflect the value of assets and liabilities that are not considered financial instruments, such as premises and equipment and intangible assets with finite useful life. Given the use of judgment in applying a large number of acceptable valuation and estimation techniques to calculate fair values, the fair value estimates cannot necessarily be compared to those of other financial institutions. The estimated fair values reflect market conditions at a specific date and, as such, may not be representative of future fair values. They should also not be interpreted as being realizable in an immediate settlement of the instruments.

The table below presents the carrying value and estimated fair value of financial assets and liabilities, except for financial instruments whose fair value is deemed to approximate their carrying value and financial instruments measured at fair value in the Consolidated Balance Sheets.

| | **2009** | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Fair value | Carrying value | Positive/ (Negative) difference | Fair value | Carrying value | Positive/ (Negative) difference |
| **Financial assets** | | | | | | |
| Loans | **$ 13,125,440** | **$ 13,079,747** | **$ 45,393** | $ 14,861,036 | $ 14,781,188 | $ 79,848 |
| **Financial liabilities** | | | | | | |
| Deposits | **$ 14,991,379** | **$ 14,836,182** | **$ (155,197)** | $ 16,396,316 | $ 16,309,723 | $ (86,593) |

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

- **Loans** - The fair values of loans are estimated using a discounted cash flow calculation based on market interest currently charged for similar new loans as at December 31, 2009 and 2008 and expected amounts at maturity. For certain floating rate loans, for which rates are revised frequently, estimated fair values are assumed to be equal to the carrying values.
- **Deposits** - The fair values of deposits at floating rates or with no stated maturity are assumed to be equal to their carrying values. The estimated fair values of fixed rate deposits are determined by discounting the contractual cash flows, using market interest rates currently offered for deposits of similar remaining maturities.

The following assumption was used for financial instruments whose fair value is deemed to approximate their carrying value:

- **Financial instruments measured at carrying value** - Due to their short-term maturity, the carrying values of certain financial instruments recorded on the Consolidated Balance Sheets were assumed to approximate their fair value. These financial instruments include “Cash and deposits with financial institutions,” “Securities purchased under reverse repurchase agreements,” “Obligations related to securities sold short,” “Customers’ liability under acceptances,” “Commitments under repurchase agreements,” “Acceptances” and “Accrued interest.”

The measurement of financial instruments recognized at fair value on the Consolidated Balance Sheets 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 and liabilities;
- Level 2 – Valuation techniques based primarily on observable market data; and
- Level 3 – Valuation techniques not based primarily on observable market data.

The following table presents the breakdown of measurements of financial instruments recognized at fair value based on these three levels.

| 2009 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Financial instruments held for trading** | | | | |
| Cash and deposits with financial institutions | $ 196,321 | $ -- | $ -- | $ 196,321 |
| Securities held for trading | | | | |
| Securities issued or guaranteed by | | | | |
| Canada | 7,622 | 269,025 | -- | 276,647 |
| Provinces and municipalities in Canada | 95,193 | 99,493 | -- | 194,686 |
| Other securities | | | | |
| Banks and financial institutions | 365,000 | -- | -- | 365,000 |
| Foreign banks | 21,412 | -- | -- | 21,412 |
| Derivative financial instruments | 226 | 2,818,989 | 4 | 2,819,219 |
| Loans | -- | 229,943 | -- | 229,943 |
| | $ 685,774 | $ 3,417,450 | $ 4 | $ 4,103,228 |
| **Securities designated as held for trading** | | | | |
| Other securities | | | | |
| Financial asset-backed securities | -- | 1,423,918 | -- | 1,423,918 |
| Entities included in the scope of consolidation of Desjardins Group | -- | -- | 27,173 | 27,173 |
| Equity securities | -- | -- | 2,506 | 2,506 |
| | $ -- | $ 1,423,918 | $ 29,679 | $ 1,453,597 |
| **Available-for sale securities** | | | | |
| Securities issued or guaranteed by | | | | |
| Canada | 132,656 | 617,109 | -- | 749,765 |
| Provinces and municipalities in Canada | 884,300 | 388,744 | -- | 1,273,044 |
| U.S. public administrations | 3,531 | 11,152 | -- | 14,683 |
| Other securities | | | | |
| Banks and financial institutions | -- | 497,167 | -- | 497,167 |
| Financial asset-backed securities | -- | -- | 254,145 | 254,145 |
| | $ 1,020,487 | $ 1,514,172 | $ 254,145 | $ 2,788,804 |
| **LIABILITIES** | | | | |
| **Financial instruments held for trading** | | | | |
| Derivative financial instruments | 364 | 2,724,243 | -- | 2,724,607 |
| Obligations related to securities sold short | 167,060 | -- | -- | 167,060 |
| | $ 167,424 | $ 2,724,243 | $ -- | $ 2,891,667 |

**Significant transfers between Level 1 and Level 2 during fiscal 2009**
No transfers were made between fair value measurement hierarchy levels during the year.

The following table presents the reconciliation from the beginning balance to the ending balance for Level 3 of the hierarchy for fiscal 2009.

| 2009 | Beginning balance | Realized gains (losses) recognized in net income[1] | Unrealized gains (losses) recognized in net income[2] | Unrealized gains (losses) recognized in other comprehensive income[3] | Purchases | Sales | Ending balance |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| **Financial instruments held for trading[1]** | | | | | | | |
| Derivative financial instruments | $ 54 | $ (1,922) | $ -- | $ -- | $ 15,342 | $ (13,470) | $ 4 |
| **Securities designated as held for trading** | | | | | | | |
| Other securities | | | | | | | |
| Entities included in the scope of consolidation of Desjardins Group | 326,372 | 7,861 | (3,475) | -- | -- | (303,585) | 27,173 |
| Equity securities | 28,990 | 725 | (320) | -- | -- | (26,889) | 2,506 |
| **Available-for-sale securities** | | | | | | | |
| Other securities | | | | | | | |
| Financial asset-backed securities | 161,574 | 2,503 | (19,940) | 26,327 | 2,582,178 | (2,498,497) | 254,145 |
| **Ending balance** | **$ 516,990** | **$ 9,167** | **$ (23,735)** | **$ 26,327** | **$ 2,597,520** | **$ (2,842,441)** | **$ 283,828** |

1 Realized gains or losses on financial assets held for trading and designated as held for trading under the fair value option are presented under “Trading activities” in “Other income” in the Consolidated Statements of Income. Realized gains or losses on available-for-sale financial assets are recognized under “Net gains (losses) on available-for-sale securities” in “Other income.”

2 Unrealized gains or losses on financial assets held for trading and designated as held for trading are presented under “Trading activities” in “Other income” in the Consolidated Statements of Income.

3 Unrealized gains or losses on available-for-sale financial assets are recognized under “Change in net unrealized gains (losses) on available-for-sale securities” in the Consolidated Statements of Comprehensive Income.

Note 5
# Securities

The following table presents an analysis of the maturities of Caisse centrale's securities.

| | Maturity | | | | | 2009 | 2008 |
|---|---|---|---|---|---|---|---|
| | Less than 1 year | 1 to 3 years | Over 3 to 5 years | Over 5 to 10 years | Over 10 years | Total carrying value | Total carrying value |
| **AVAILABLE-FOR-SALE SECURITIES** | | | | | | | |
| **Issued or guaranteed by** | | | | | | | |
| Canada | $ -- | $ 173,191 | $ 576,574 | $ -- | $ -- | $ 749,765 | $ 513,885 |
| Provinces and municipalities in Canada | 86,751 | 551,631 | 634,662 | -- | -- | 1,273,044 | 591,655 |
| U.S. public administrations | 4,974 | 3,102 | -- | 236 | 6,371 | 14,683 | 11,638 |
| **Other securities** | | | | | | | |
| Banks and financial institutions | 158,190 | 192,560 | 146,417 | -- | -- | 497,167 | 824,516 |
| Financial asset-backed securities | 119,616 | 134,529 | -- | -- | -- | 254,145 | 143,448 |
| Other | -- | -- | -- | -- | -- | -- | 88,288 |
| **Total available-for-sale securities** | **$ 369,531** | **$ 1,055,013** | **$ 1,357,653** | **$ 236** | **$ 6,371** | **$ 2,788,804** | $ 2,173,430 |
| **SECURITIES HELD FOR TRADING** | | | | | | | |
| **Securities required to be classified as held for trading** | | | | | | | |
| **Issued or guaranteed by** | | | | | | | |
| Canada | $ 99,981 | $ -- | $ 157,151 | $ -- | $ 19,515 | $ 276,647 | $ 1,754,341 |
| Provinces and municipalities in Canada | 75,000 | -- | 99,493 | 20,193 | -- | 194,686 | -- |
| **Other securities** | | | | | | | |
| Banks and financial institutions | 365,000 | -- | -- | -- | -- | 365,000 | 41,184 |
| Foreign banks | 21,412 | -- | -- | -- | -- | 21,412 | 20,572 |
| **Subtotal** | $ 561,393 | $ -- | $ 256,644 | $ 20,193 | $ 19,515 | $ 857,745 | $ 1,816,097 |
| **Securities designated as held for trading** | | | | | | | |
| **Other securities** | | | | | | | |
| Financial asset-backed securities | 518 | 157,289 | 1,231,197 | 34,914 | -- | 1,423,918 | 227,431 |
| Entities included in the scope of consolidation of Desjardins Group | -- | -- | -- | -- | 27,173 | 27,173 | 326,372 |
| Equity securities | -- | -- | -- | -- | 2,506 | 2,506 | 28,990 |
| **Subtotal** | $ 518 | $ 157,289 | $ 1,231,197 | $ 34,914 | $ 29,679 | $ 1,453,597 | $ 582,793 |
| **Total securities held for trading** | **$ 561,911** | **$ 157,289** | **$ 1,487,841** | **$ 55,107** | **$ 49,194** | **$ 2,311,342** | $ 2,398,890 |
| **TOTAL SECURITIES** | **$ 931,442** | **$ 1,212,302** | **$ 2,845,494** | **$ 55,343** | **$ 55,565** | **$ 5,100,146** | $ 4,572,320 |

Term-to-maturity classifications are based on the contractual maturity of the security. Securities with no maturity date are classified in the "Over 10 years" category.

Total available-for-sale securities include securities denominated in foreign currencies in the amount of C$149,203,101 (2008: C$244,442,049), of which C$14,682,921 is denominated in US dollars (2008: C$26,798,760) and C$134,520,180 is denominated in euros (2008: C$127,852,500).

Total securities held for trading include securities denominated in foreign currencies in the amount of C$51,090,651 (2008: C$382,752,561), all of which are denominated in US dollars (2008: C$375,933,761 denominated in US dollars and C$6,818,800 denominated in euros).

The following table presents unrealized gains and losses on available-for-sale securities.

| | 2009 | | | | 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Carrying value | Amortized cost | Gross unrealized gains | Gross unrealized losses | Carrying value |
| **AVAILABLE-FOR-SALE SECURITIES** | | | | | | | | |
| **Issued or guaranteed by** | | | | | | | | |
| Canada | **$ 737,891** | **$ 12,277** | **$ (403)** | **$ 749,765** | $ 493,001 | $ 23,225 | $ (2,341) | $ 513,885 |
| Provinces and municipalities in Canada | **1,279,349** | **2,917** | **(9,222)** | **1,273,044** | 598,763 | 5,505 | (12,613) | 591,655 |
| U.S. public administrations | **14,700** | **93** | **(110)** | **14,683** | 12,334 | 37 | (733) | 11,638 |
| **Other securities** | | | | | | | | |
| Banks and financial institutions | **485,011** | **12,156** | **--** | **497,167** | 836,758 | 6,510 | (18,752) | 824,516 |
| Financial asset-backed securities | **270,325** | **--** | **(16,180)** | **254,145** | 185,955 | -- | (42,507) | 143,448 |
| Other | **178** | **--** | **(178)** | **--** | 88,530 | 378 | (620) | 88,288 |
| **Total available-for-sale securities** | **$ 2,787,454** | **$ 27,443** | **$ (26,093)** | **$ 2,788,804** | $ 2,215,341 | $ 35,655 | $ (77,566) | $ 2,173,430 |

Gross unrealized losses on available-for-sale securities mainly resulted from fluctuations in market prices as well as changes in interest and exchange rates. Declines in value of available-for-sale securities are regularly monitored by management. As at December 31, 2009, Caisse centrale determined that the gross unrealized losses, recognized in other comprehensive income, are temporary in nature.

**Securities – Asset-backed commercial paper/asset-backed term notes**

As at December 31, 2008, although Caisse centrale had never issued this type of financial product to its clients, it held investments in the Canadian non-bank asset-backed commercial paper (ABCP) market having a face value and a carrying value of $39.2 million and $18.1 million, respectively.

The implementation of the restructuring plan was completed on January 21, 2009. This restructuring plan aimed to replace ABCP by new longer-term floating rate notes having a maturity similar to that of the underlying assets. These new notes had been classified as designated as held for trading under the fair value option.

During the second quarter of 2009, Caisse centrale sold these notes to a company included in the scope of consolidation of Desjardins Group for a consideration of $13.9 million, representing the fair value of the investments. No gain or loss was recognized for this transaction. Therefore, as at December 31, 2009, Caisse centrale no longer held any investment in the notes issued during the restructuring.

As part of the restructuring plan, Desjardins Group participated in a margin funding facility ("MFF"). Caisse centrale, as signatory of the MFF for Desjardins Group, participates in the MFF for the benefit of related companies for an amount of $1,192 million in exchange of annual fees of 1.2%. Caisse centrale will be required to maintain a credit rating equivalent to A (low) from at least two of four rating agencies (DBRS, S&P, Fitch and Moody's), otherwise it will need to provide collateral or another form of credit support or have another entity with a sufficiently high credit rating assume its obligations. As at December 31, 2009, no amount had been drawn on the MFF.

Under a separate agreement, Desjardins Group purchased, through Caisse Centrale, a $400 million protection for its MFF in exchange for an annual commitment fee of 1.2%. This participation will automatically end upon the maturity of MFF.

Note 6
# Loans

| | 2009 | 2008 |
|---|---|---|
| Securities purchased under reverse repurchase agreements | $ 64,143 | $ 46,172 |
| Day, call and short-term loans to investment dealers and brokers | 59,000 | 82,000 |
| Public and parapublic institutions | 1,974,169 | 2,201,175 |
| Members | | |
| Fédération | 5,775,888 | 6,398,948 |
| Other | 19,824 | 24,088 |
| Other entities included in the scope of consolidation of Desjardins Group | 1,679,716 | 2,112,724 |
| Loans purchased from Desjardins Group[1] | 229,943 | 141,369 |
| Personal | 596,725 | 508,871 |
| Business | 2,808,926 | 3,392,729 |
| | $ 13,208,334 | $ 14,908,076 |
| Allowance for credit losses[2] | (128,587) | (126,888) |
| **Total** | **$ 13,079,747** | $ 14,781,188 |
| Gross impaired loans | $ 65,639 | $ 23,672 |
| Specific allowances | (19,295) | (10,317) |
| **Impaired loans net of specific allowance** | **$ 46,344** | $ 13,355 |

1 Refer to the section on changes in accounting policies in Note 2.

2 The allowance for credit losses applies entirely to personal and business loans and commitments.

Total loans before the allowance for credit losses include loans for an amount of C$720,296,605 (2008: C$1,376,795,543) denominated in US dollars.

As at December 31, 2009, the fair value of financial assets pledged as collateral for impaired loans totalled $46.3 million (December 31, 2008: $13.4 million).

The following table presents loans past due but not classified as impaired.

| 2009 | 1 to 29 days | 30 to 59 days | 60 to 89 days | Over 90 days | Total |
|---|---|---|---|---|---|
| Loans past due but not impaired | $ 4,428 | $ 2,910 | $ 1,879 | $ 80 | $ 9,297 |

| 2008 | 1 to 29 days | 30 to 59 days | 60 to 89 days | Over 90 days | Total |
|---|---|---|---|---|---|
| Loans past due but not impaired | $ 3,560 | $ 3,408 | $ 3,461 | $ 85 | $ 10,514 |

As at December 31, 2009, the fair value of foreclosed assets totalled $1.2 million (December 31, 2008: $0.3 million) and was reported under "Other assets" on the Consolidated Balance Sheets. This fair value is based on the selling price of similar assets, less costs to sell.

The carrying value of loans that would be past due or impaired, but whose terms have been renegotiated during the year amounted to $1.6 million as at December 31, 2009 (December 31, 2008: nil).

The following table presents an analysis of the allowance for credit losses.

| **Allowance for credit losses** | 2009 | 2008 |
|---|---|---|
| Balance at beginning of year | $ 126,888 | $ 103,794 |
| Provision for credit losses | 12,610 | 20,689 |
| Write-offs | (8,041) | (177) |
| Recoveries | 26 | -- |
| Changes in foreign exchange rates | (2,896) | 2,582 |
| **Balance at end of year** | $ 128,587 | $ 126,888 |
| **Consisting of:** | | |
| Specific allowances | $ 19,295 | $ 10,317 |
| General allowance for credit losses | 109,292 | 116,571 |
| **Total** | $ 128,587 | $ 126,888 |

Note 7

# Securitization of mortgage loans

Under the NHA Mortgage-Backed Securities Program, Caisse centrale securitized guaranteed residential mortgage loans through the creation of NHA-MBSs. The following table summarizes our mortgage loan securitization activities in 2009 and 2008:

| | 2009 | 2008 |
|---|---|---|
| Mortgage loans securitized | $ 1,707,175 | $ 2,228,211 |
| Net cash proceeds received | 1,074,730 | 2,104,838 |
| Retained interests | 41,930 | 128,340 |
| Assumed servicing liabilities | 8,585 | 20,165 |
| Gain on sale, net of transaction fees | 13,796 | 1,024 |

As at December 31, 2009, Caisse centrale recorded retained interests of $123.4 million (2008: $169.8 million) and assumed servicing liabilities of $22.8 million (2008: $30.2 million) on the Consolidated Balance Sheets. An amount of $823.4 million (2008: $202.2 million) representing mortgage-backed securities created and retained was recorded in securities held for trading as at December 31, 2009.

Total loans securitized outstanding amounted to $4.5 billion as at December 31, 2009 (2008: $4.1 billion).

The following table presents other cash flows from securitization activities:

| | 2009 | 2008 |
|---|---|---|
| Cash flows from retained interests | **$ 66,778** | $ 48,727 |
| Servicing fees paid | **11,486** | 9,276 |

In addition, amortization of the servicing liabilities amounted to $16.0 million in 2009 (2008: $10.1 million).

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

| | 2009 | 2008 |
|---|---|---|
| Discount rate | **2.49%** | 3.49% |
| Prepayment rate for fixed rate and floating rate mortgage loans, respectively | **18% and 28%** | 15% and 25% |
| Weighted average life of mortgage loans | **29 months** | 33 months |

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

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

| | 2009 | 2008 |
|---|---|---|
| Prepayment rate | **18% and 28%** | 15% and 25% |
| Impact of 10% adverse change | **(3,918)** | (4,865) |
| Impact of 20% adverse change | **(7,653)** | (9,550) |
| Discount rate | **2.49%** | 3.49% |
| Impact of 10% adverse change | **(1,226)** | (354) |
| Impact of 20% adverse change | **(1,547)** | (707) |

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

## Note 8
# Other assets

The following table presents a breakdown of other assets.

| | 2009 | 2008 |
|---|---|---|
| Amounts receivable from brokers and dealers | **$ --** | $ 45,245 |
| Interest receivable | **210,800** | 249,917 |
| Accounts receivable | **256,057** | 17,255 |
| Premises and equipment, net of accumulated depreciation of $8,806 (2008: $8,115) | **12,910** | 14,792 |
| Intangible assets with finite useful life, net of accumulated amortization of $18,727 (2008: $12,859) | **12,065** | 16,985 |
| Future tax assets (Note 15) | **27,745** | 35,051 |
| Income taxes recoverable | **--** | 609 |
| Other | **131,191** | 184,014 |
| **Total** | **$ 650,768** | $ 563,868 |

Note 9

# Financial assets transferred but not derecognized

As part of its operations, Caisse centrale carries out transactions by which it transfers financial assets to a third party. These financial assets are presented on the Consolidated Balance Sheets, however, because the transaction fails to meet derecognition criteria.

The carrying value of securities sold under repurchase agreements totalled $1.0 billion as at December 31, 2009 (December 31, 2008: 1.0 billion).

Note 10

# Deposits

Deposits consist of deposits payable on demand and deposits payable on a fixed date. Deposits payable on demand are interest-bearing or non-interest-bearing deposits for which Caisse centrale does not have the right to require notice prior to withdrawal. These deposits are in general chequing accounts. Deposits payable on a fixed date are interest-bearing deposits with a term that generally varies from one day to 10 years. These deposits include term deposits, guaranteed investment certificates and other similar instruments.

The following table presents a breakdown of deposits.

| | 2009 | | | 2008 |
|---|---|---|---|---|
| | Payable on demand | Payable on a fixed date | Total | Total |
| Governments | $ 530,096 | $ 883,809 | $ 1,413,905 | $ 1,284,203 |
| Financial institutions and businesses | 397,284 | 2,630,990 | 3,028,274 | 3,907,017 |
| Capital market | -- | 7,221,037 | 7,221,037 | 6,109,663 |
| Members | | | | |
| Fédération | 1,353,462 | 899,627 | 2,253,089 | 3,955,813 |
| Other | 131,208 | 50,681 | 181,889 | 167,949 |
| Other entities included in the scope of consolidation of Desjardins Group | 302,893 | 435,095 | 737,988 | 885,078 |
| **Total** | **$ 2,714,943** | **$ 12,121,239** | **$ 14,836,182** | $ 16,309,723 |

Total deposits include deposits in foreign currencies in the amount of C$7,552,733,272 (2008: C$7,419,771,358), of which C$2,193,303,792 (2008: C$1,092,135,775) is denominated in US dollars and C$5,135,416,834 (2008: C$6,070,730,919) is denominated in euros.

Note 11

# Other liabilities

The following table presents a breakdown of other liabilities.

| | 2009 | 2008 |
|---|---|---|
| Amounts payable to brokers and dealers | $ 1,180,889 | $ 1,899,451 |
| Remuneration of capital stock payable | 131,673 | 8,304 |
| Interest payable | 96,644 | 103,303 |
| Cheques and other items in transit | 149,086 | 122,408 |
| Accounts payable and other payables | 158,311 | 18,122 |
| Income taxes payable | 13,004 | -- |
| Other | 73,877 | 155,371 |
| **Total** | **$ 1,803,484** | $ 2,306,959 |

Note 12
# Capital stock

The capital stock of Caisse centrale is composed of an unlimited number of Class A capital shares, Class B capital shares and qualifying shares.

### Class A capital shares
The following table presents changes in the number of outstanding shares and their total ascribed value during the year.

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Number | Amount | Number | Amount |
| Capital shares at beginning of year | 1,287,203 | $ 1,287,203 | 987,203 | $ 987,203 |
| Capital shares issued | -- | -- | 300,000 | 300,000 |
| **Capital shares at end of year** | **1,287,203** | **$ 1,287,203** | 1,287,203 | $ 1,287,203 |

Class A capital shares can only be issued to members and each has a par value of $1,000. The Board of Directors has the discretionary power to determine the remuneration to be paid and the payment terms for these shares. They are transferable between members, with the approval of the Board of Directors, and their reimbursement, only possible in the event of the winding-up, insolvency or dissolution of Caisse centrale, is subordinated to the deposits and other debts of Caisse centrale. They are redeemable by Caisse centrale, in whole or in part, with the authorization of the Autorité des marchés financiers. They are convertible by Caisse centrale, with the approval of the Board of Directors, into shares of other classes issued for this purpose.

### Class B capital shares
As at December 31, 2009 and 2008, no Class B capital shares had been issued or were outstanding.

Class B capital shares can only be issued to members. The Board of Directors has the discretionary power to determine the remuneration to be paid and the payment terms for these shares. The remuneration and payment terms may differ from those for Class A capital shares. They are transferable between members, with the approval of the Board of Directors, and their reimbursement, only possible in the event of the winding-up, insolvency or dissolution of Caisse centrale, is subordinated to the deposits and other debts of Caisse centrale. They are redeemable by Caisse centrale, in whole or in part, with the authorization of the Autorité des marchés financiers. They are convertible by Caisse centrale, with the approval of the Board of Directors, into shares of other classes issued for this purpose.

### Qualifying shares
The following table presents changes in the number of outstanding qualifying shares and their total ascribed value during the year.

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Number | Amount | Number | Amount |
| Qualifying shares at beginning and end of year | 600 | $ 3 | 600 | $ 3 |

Qualifying shares can only be issued to members according to the conditions, terms and criteria provided for in the internal management by-laws of Caisse centrale. Their issue price is set at $5.00 each and they are non-interest-bearing. They are redeemable by Caisse centrale only in the event of the withdrawal, exclusion, winding-up, insolvency or dissolution of a member. They are not transferable and their reimbursement, only possible in the event of the winding-up, insolvency or dissolution of Caisse centrale, is subordinated to the deposits and other debts of Caisse centrale and to the holders of the other classes of shares.

### Capital management
Capital is an important factor for assessing the security and soundness of Caisse centrale in relation to all the risks associated with its activities.

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

The capital adequacy of Caisse centrale is regulated by the standards of the Fédération, which were approved by the Autorité des marchés financiers. Since January 1, 2009, regulatory ratios have been calculated according to the guideline on standards governing the adequacy of base capital applicable to financial services cooperatives, issued by the Autorité des marchés financiers and adapted from the requirements of the Basel II Capital Accord. This new regulatory framework is largely based on the revised framework for international convergence of capital measurement and capital standards issued by the Bank for International Settlements. To that effect, credit risk and market risk were assessed using a standardized approach, whereas operational risk was calculated using a basic indicator approach. The new methods have mainly affected the calculation of risk-weighted assets. The calculation of capital, however, has not been significantly changed.

Total regulatory capital, which constitutes capital, differs from the equity disclosed on the Consolidated Balance Sheets. It comprises two classes: Tier I capital and supplementary or Tier II capital. Tier I capital includes more permanent capital items than Tier II capital. It consists of members' equity (which includes capital stock, retained earnings and the general reserve). Tier II or supplementary capital essentially consists of subordinated debentures and the eligible general allowance for credit losses. It should be noted that debentures must be amortized on a straight-line basis over the five years preceding their maturity.

Section 46 of the Act respecting the Mouvement Desjardins states that Caisse centrale must maintain an adequate capital base consistent with sound and prudent management, in accordance with the standards of the Fédération (and approved by the Autorité des marchés financiers).

According to these standards, Caisse centrale must at all times maintain capital in accordance with the following ratios:

(a) its total capital must be greater than or equal to 5% of its total assets adjusted based on the standards;
(b) its total capital must be greater than or equal to 8% of its risk-weighted assets, of which at least one half is Tier I capital.

Furthermore, the member federations undertook to maintain, in proportion to their respective holdings, Caisse centrale's total capital at a minimum level of (i) 5.5% of its total assets, or if higher, at (ii) 8.5% of its risk-weighted assets, as determined in accordance with the established standards.

As at December 31, 2009 and 2008, Caisse centrale complied with these standards.

The regulatory capital of Caisse centrale was broken down as follows as at December 31, 2009 and 2008.

| | **2009**[1] | 2008[2] |
|---|---|---|
| **Tier I capital** | | |
| Capital stock | **$ 1,287,206** | $ 1,287,206 |
| Retained earnings (deficit) | **(21)** | (31,993) |
| General reserve | **20,845** | 20,845 |
| **Total of Tier 1 capital** | **1,308,030** | 1,276,058 |
| **Tier II capital** | | |
| Eligible general allowance | **90,381** | 89,167 |
| **Total of Tier II capital** | **90,381** | 89,167 |
| **TOTAL CAPITAL** | **$ 1,398,411** | $ 1,365,225 |

1 Under the Basel II regulatory framework.
2 Under the Basel I regulatory framework.

Note 13

# Consolidated accumulated other comprehensive income

Consolidated accumulated other comprehensive income includes the after-tax change in unrealized gains and losses on available-for-sale securities, cash flow hedging activities and the unrealized foreign exchange gains and losses resulting from the translation of the financial statements of a self-sustaining foreign operation, net of hedging transactions. The components were as follows as at December 31:

| | 2009 | 2008 |
|---|---|---|
| Net unrealized gains (losses) on available-for-sale securities | $ 7,224 | $ (35,276) |
| Net gains on derivatives financial instruments designated as cash flow hedges | 14,816 | 21,946 |
| Net unrealized foreign exchange loss resulting from the translation of the financial statements of a foreign operation, net of a cumulative gain of $3,682 (2008: gain of $1,234) on hedging transactions | (1,797) | (413) |
| **Accumulated other comprehensive income** | **$ 20,243** | $ (13,743) |

Net unrealized gains (losses) on available-for-sale securities include gross unrealized losses of $27,350,156 (2008: $60,155,599).

Note 14

# Employee future benefits

Caisse centrale employees who are 25 years of age or older are enrolled in the Desjardins Group pension plan (the "Plan") as part of a defined benefit multi-employer pension plan. In addition, certain active executive employees participate in the unified multi-employer supplemental pension plan. A preliminary actuarial valuation of the Plan was performed as of December 31, 2009 in order to start covering, from the beginning of 2010, the solvency deficiency through special payments. The funding deficiency and the solvency deficiency of the Plan are estimated at $526,600,000 and $1,917,700,000, respectively. The formal actuarial valuation will be filed with the Régie des rentes du Québec in March 2010. If needed, special payments will be adjusted. In order to eliminate the deficiency of $1,917,700,000 as at December 31, 2009, special payments are required from January 1, 2010 to December 31, 2016 or until the next actuarial valuation shows that the Plan no longer has a funding or solvency deficiency.

The amount charged to consolidated income with respect to employer contributions to the Plan was $2,710,000 in 2009 (2008: $2,574,000).

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

Caisse centrale's costs and liabilities for the supplemental pension plan are set out in the table below. The date of the actuarial valuation was December 31, 2009.

| | 2009 | 2008 |
|---|---|---|
| **Change in accrued benefit obligation** | | |
| Balance at beginning of year | $ 4,718 | $ 4,902 |
| Service cost for the year | 188 | 216 |
| Interest cost | 312 | 294 |
| Actuarial gains (losses) | 840 | (668) |
| Benefits paid | (220) | (26) |
| **Balance at end of year** | **$ 5,838** | $ 4,718 |
| Unamortized net losses (gains) | (768) | 71 |
| **Accrued benefit liability at end of year** | **$ 5,070** | $ 4,789 |

The expense recognized for the year amounted to $500,000 (2008: $653,000).

The main actuarial assumptions used by Caisse centrale are:

| | 2009 | 2008 |
|---|---|---|
| Discount rate | **6.00%** | 6.50% |
| Rate of compensation increase | **3.50%** | 3.50% |

In addition, Caisse centrale provides life insurance coverage and health and dental care benefits to its eligible retired employees through the Desjardins Group multi-employer group insurance plan. This group insurance plan is not funded. Employer contributions with respect to group insurance offered to retired employees charged to consolidated income totalled $87,000 in 2009 (2008: $75,000).

Total cash payments for employee future benefits in 2009, which are comprised of Caisse centrale's contributions to the multi-employer pension plan, the supplemental pension plan and the multi-employer group insurance plan of Desjardins Group, amounted to $3,017,000 (2008: $2,754,000).

## Note 15
# Income taxes

The income taxes as shown in the Consolidated Financial Statements are detailed as follows:

| For the years ended December 31 | 2009 | 2008 |
|---|---|---|
| **Consolidated Statements of Income** | | |
| Current income taxes | **$ 29,774** | $ 1,645 |
| Future income taxes | **7,306** | (9,991) |
| | **$ 37,080** | $ (8,346) |
| **Consolidated Statements of Members' Equity** | | |
| Recovery of income taxes related to the remuneration of capital stock | **$ (27,955)** | $ -- |
| **Consolidated Statements of Comprehensive Income** | | |
| Tax expense (benefit) in respect of: | | |
| Net unrealized gains and losses on available-for-sale securities | **$ 12,424** | $ (20,786) |
| Reclassification to net income of gains and losses on available-for-sale securities | **(171)** | 15,771 |
| Gains and losses on derivative financial instruments designated as cash flow hedges | **(1,844)** | 4,887 |
| Reclassification to net income of gains and losses on derivative financial instruments designated as cash flow hedges | **(245)** | (29) |
| | **$ 10,164** | $ (157) |
| **Total** | **$ 19,289** | $ (8,503) |

The principal components of the future tax assets and liabilities are as follows:

| | 2009 | 2008 |
|---|---|---|
| **Future tax assets** | | |
| Allowance for credit losses | **$ 25,210** | $ 28,214 |
| Deferred income | **335** | 561 |
| Loan fees | **1,713** | 1,459 |
| Premises and equipment and intangible assets | **--** | 1,674 |
| Tax losses carried forward | **--** | 3,879 |
| Other | **3,479** | 1,174 |
| | **$ 30,737** | $ 36,961 |
| **Future tax liabilities** | | |
| Premises and equipment and intangible assets | **$ (1,668)** | $ -- |
| Other | **(1,324)** | (1,910) |
| | **$ (2,992)** | $ (1,910) |
| **Future tax assets (net)** | **$ 27,745** | $ 35,051 |

The difference between the statutory income tax rate applicable to credit unions and the effective income tax rate is as follows:

| For the years ended December 31 | 2009 | | 2008 | |
|---|---|---|---|---|
| Income taxes applicable to credit unions | $ 37,268 | 22.66% | $ (10,020) | 22.29% |
| Change from: | | | | |
| • Tax rate for the U.S. subsidiary and branch | (64) | (0.04) | 1,953 | (4.34) |
| • Future taxes resulting from changes to income tax rates | -- | -- | (225) | 0.50 |
| • Other | (124) | (0.08) | (54) | 0.12 |
| **Income taxes, as reported in the Consolidated Statements of Income, and effective tax rates** | **$ 37,080** | **22.54%** | $ (8,346) | 18.57% |

Note 16

# Restructuring expenses

In the second quarter of fiscal 2009, the Board of Directors of the Fédération approved the implementation of a new simplified organizational structure for Desjardins Group. This restructuring is part of the Desjardins Group Development Plan proposed in the fall of 2008 and implemented throughout the year.

As part of this restructuring, Caisse centrale recognized severance benefits and professional fees of $4.1 million in its consolidated income for 2009. These charges are presented in “Non-interest expense” under “Other”.

The following table summarizes the amounts payable and the effect on consolidated income. The amounts payable are recorded under “Other liabilities – Other.”

| As at December 31, 2009 | Severance benefits | Professional fees | Total |
|---|---|---|---|
| Restructuring expenses | $ 3,391 | $ 731 | $ 4,122 |
| Payments | 289 | 277 | 566 |
| **Balance at end of year** | **$ 3,102** | **$ 454** | **$ 3,556** |

Note 17

# Income from financial instruments held for trading

Net interest income from financial instruments required to be classified as held for trading is interest income, net of their financing costs. Other income includes primarily realized gains/losses on securities as well as realized and unrealized gains/losses on derivatives relating to these activities.

Financial instruments designated as held for trading under the fair value option are composed of: (i) certain investments made in connection with derivative instruments not designated in hedging relationships, thereby significantly reducing accounting disparities; (ii) securities whose underlying security is composed of hedge funds that are managed using a supported investment strategy aimed at taking advantage of short-term market volatility; (iii) securities including embedded derivatives for which Caisse centrale is unable to measure the fair value of the embedded derivative separately either at acquisition or at a subsequent date.

Net interest income on financial instruments designated as held for trading under the fair value option includes interest income relating to the designated assets, net of their financing costs. Other income mainly includes realized and unrealized gains/losses on the assets designated as held for trading.

The following table presents the impact on consolidated income of financial instruments required to be classified as held for trading.

### Income (loss) from financial instruments required to be classified as held for trading

| | 2009 | 2008 |
|---|---|---|
| Net interest income | $ 36,233 | $ (1,235) |
| Other income (loss) | 14,519 | (17,031) |

The following table presents the impact on consolidated income of financial instruments designated as held for trading.

### Income (loss) from financial instruments designated as held for trading

| | 2009 | 2008 |
|---|---|---|
| Net interest income | $ 32,106 | $ 17,588 |
| Other income (loss) | (8,377) | (33,881) |

Note 18

# Financial instrument risk management

Caisse centrale is exposed to different types of risks in the normal course of operations, including credit risk, liquidity risk, market risk, operational risk and reputation risk. Caisse centrale's objective in risk management is to optimize the risk-return trade-off, within the set tolerance limits, by applying integrated risk management and control strategies, policies and procedures throughout the organization's activities. It also aims at providing a prudent and appropriate management framework that complies with accepted accountability and independence principles.

Caisse centrale's risk management approach is based on principles that promote accountability for the results and the quality of risk management practices and that also confer a pivotal role to the Board of Directors of Caisse in monitoring the risks and results. Several procedures are in place to support the Board of Directors and management in their efforts to fulfil their main risk management responsibilities.

The main risks to which Caisse centrale is exposed are described below.

**Credit risk management**

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

The Risk Management Commission ensures that risk management activities are adequately structured and monitored by, among other things, examining the main credit policies and follow-up reports, including those produced by the independent supervisory units. The Integrated Risk Management Committee of Desjardins Group supports the members of the Risk Management Commission of Caisse centrale in carrying out their responsibilities by analyzing the key elements involved in risk management, as well as main reports on specific situations and portfolio status.

**Credit granting**

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

***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 has 19 ratings, broken down into 12 levels, each representing a default probability level. The characteristics of each borrower are analyzed using models based on internal and external historical data taking into account the specific features of the borrower's economic sector and the performance of comparable businesses. These analyses are performed using systems that can make quantitative comparisons and are supplemented by the professional judgment of the personnel involved with the file.

**File monitoring and management of higher risks**

Portfolios are monitored using procedures that set out the degree of thoroughness and frequency of review based on the quality and extent of the risk related to the exposures. 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 internal Credit Committee and the Risk Management Commission.

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

**Credit risk framework**

The credit risk framework is comprised of policies and standards that monitor the credit risk management elements for Caisse centrale, such as the responsibilities and the powers of the parties involved, the limits imposed by our risk tolerance, the rules governing credit granting and file administration and the rules for communicating our exposures to credit risks.

Approval and credit risk management units assume the responsibilities for credit granting, management and monitoring specific to their products and markets. These units develop their own policies and practices based on their products and clients while complying with the general policies that govern all credit activities.

Together, these monitoring activities, policies and practices determine the course of action with respect to risk management and control.

**Risk mitigation**

In its lending operations, Caisse centrale obtains collateral if deemed necessary for a client's loan facility following an assessment of their creditworthiness. Collateral normally takes the form of assets such as cash, government securities, equity securities, receivables, inventory or capital assets. For some portfolios, programs offered by organizations such as the Canada Mortgage and Housing Corporation are used in addition to customary collateral.

When necessary, Caisse centrale uses mechanisms to share risks with other financial institutions, such as loan syndication.

In its derivative financial instrument, repurchase and reverse repurchase transactions, Caisse centrale uses various techniques to reduce its counterparty credit risk.

Most derivative financial instrument transactions are carried out over the counter and are governed by International Swaps and Derivatives Association ("ISDA") master agreements that define the terms and conditions for the transactions. These agreements are legal contracts binding the counterparties. The majority of agreements entered into by Caisse centrale provide for the use of netting to determine the net amount of 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.

Repurchase and reverse repurchase transactions are governed by Investment Industry Regulatory Organization of Canada participation agreements. Caisse centrale also uses netting agreements with its counterparties to mitigate risk and requires a percentage of collateralization (a pledge) on these transactions equivalent to industry best practices.

Caisse centrale 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 Caisse centrale are mainly cash and government securities.

The following table presents the maximum credit risk exposure.

| | 2009 | 2008 |
|---|---|---|
| **Recognized On The Consolidated Balance Sheet** | | |
| Deposits with financial institutions | $ 194,668 | $ 376,195 |
| Securities | | |
| Available-for-sale debt securities | 2,788,804 | 2,173,430 |
| Debt securities held for trading | 2,281,663 | 2,043,528 |
| Loans | 13,079,747 | 14,781,188 |
| Derivative financial instruments | 2,819,219 | 4,611,577 |
| Customers' liability under acceptances | 750,500 | 428,200 |
| Other assets | 598,048 | 498,290 |
| **Total amount recognized on the consolidated balance sheet** | $ 22,512,649 | $ 24,912,408 |
| **Off-balance sheet** | | |
| Guarantees and standby letters of credit | 286,374 | 416,931 |
| Credit commitments | 15,486,635 | 13,212,160 |
| **Total off-balance sheet** | $ 15,773,009 | $ 13,629,091 |
| **TOTAL** | $ 38,285,658 | $ 38,541,499 |

Concentrations of credit risk exist when a certain number of borrowers or counterparties involved in similar activities are located in the same geographic area or present comparable economic characteristics. Their ability to meet contractual obligations can also be affected by changes in economic, political or other conditions.

The following table presents the breakdown of loans by geographic area.

| | 2009 | 2008 |
|---|---|---|
| Canada | | |
| Québec | 84.9% | 84.5% |
| Ontario | 7.3% | 7.8% |
| Other | 5.4% | 4.6% |
| International | 2.4% | 3.1% |
| **Total** | 100.0% | 100.0% |

**Liquidity risk management**

Liquidity risk refers to Caisse centrale'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 Consolidated Balance Sheets, on the date it is due or otherwise.

Caisse centrale manages liquidity risk in order to ensure that it has access, on a timely basis and in a profitable manner, to the funds needed to meet its financial obligations as they become due in both routine and crisis situations. Managing this risk involves maintaining a minimum level of liquid securities, stable and diversified sources of funding, and an action plan to implement in extraordinary circumstances. Liquidity risk management is a key component in an overall risk management strategy, because it is essential to preserving market and depositor confidence. Caisse centrale has established policies describing the principles, limits and procedures that apply to liquidity risk management. Caisse centrale, through 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.

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

A specific framework sets out the minimum level of liquid securities that Caisse centrale must maintain. Eligible securities must meet high security and negotiability standards. The liquid securities portfolio comprises mostly securities issued by governments, public bodies and private companies with high credit ratings, i.e. AA- or better.

Caisse centrale ensures stable and diversified sources of funding by type, source and maturity. It can also issue securities and borrow on national and international markets to round out and diversify its funding. A securitization program for mortgages insured by the Canada Mortgage and Housing Corporation (CMHC) is also in place.

The strategies implemented in recent years to diversify its sources of funding and increase their duration have proven to be effective in weathering the recent capital market crisis. Caisse centrale is also eligible for the Bank of Canada's various intervention programs and the loan facilities for Emergency Lending Assistance advances.

The following tables present cash flows related to financial liabilities and off-balance sheet credit instruments by remaining contractual maturity, excluding derivative financial instruments. Amounts presented include principal and interest, if any.

| | Payable on demand | Under 1 year | 1 to 5 years | Over 5 years | Total December 31, 2009 |
|---|---|---|---|---|---|
| Deposits | $ 2,714,943 | $ 7,587,172 | $ 4,996,923 | $ 9,682 | $ 15,308,720 |
| Acceptances | -- | 750,500 | | | 750,500 |
| Obligations related to securities sold short | -- | -- | 124,989 | 42,071 | 167,060 |
| Commitments under repurchase agreements | -- | 986,922 | -- | -- | 986,922 |
| Other liabilities | -- | 1,780,661 | 22,823 | -- | 1,803,484 |
| Guarantees and standby letters of credit | -- | 239,733 | 46,641 | -- | 286,374 |
| Commitments to extend credit | -- | 11,699,582 | 2,561,451 | 1,225,602 | 15,486,635 |

| | Payable on demand | Under 1 year | 1 to 5 years | Over 5 years | Total December 31, 2008 |
|---|---|---|---|---|---|
| Deposits | $ 3,229,535 | $ 7,867,444 | $ 5,789,893 | $ 11,764 | $ 16,898,636 |
| Acceptances | -- | 428,200 | -- | -- | 428,200 |
| Commitments under repurchase agreements | -- | 943,868 | -- | -- | 943,868 |
| Other liabilities | -- | 2,276,224 | 30,735 | -- | 2,306,959 |
| Guarantees and standby letters of credit | -- | 339,555 | 77,376 | -- | 416,931 |
| Commitments to extend credit | -- | 10,979,109 | 2,160,100 | 72,951 | 13,212,160 |

The following tables present cash flows related to derivative financial instruments by remaining contractual maturity. Amounts presented include principal and interest.

| | Under 1 year | 1 to 5 years | Over 5 years | Total December 31, 2009 |
|---|---|---|---|---|
| **Derivative financial instruments with net settlement** | | | | |
| Net cash flows to be received | $ 1,078,438 | $ 1,387,671 | $ 67,011 | $ 2,533,120 |
| Net cash flows to be paid | (1,231,473) | (1,622,963) | (67,774) | (2,922,210) |
| **Total** | **$ (153,035)** | **$ (235,292)** | **$ (763)** | **$ (389,090)** |
| **Derivative financial instruments with gross settlement** | | | | |
| Net cash flows to be received | $ 8,482,100 | $ 3,935,957 | $ 9,716 | $ 12,427,773 |
| Net cash flows to be paid | (8,312,753) | (3,855,070) | (8,404) | (12,176,227) |
| **Total** | **$ 169,347** | **$ 80,887** | **$ 1,312** | **$ 251,546** |

| | Under 1 year | 1 to 5 years | Over 5 years | Total December 31, 2008 |
|---|---|---|---|---|
| **Derivative financial instruments with net settlement** | | | | |
| Net cash flows to be received | $ 1,191,756 | $ 2,474,072 | $ 71,123 | $ 3,736,951 |
| Net cash flows to be paid | (1,322,054) | (2,805,721) | (72,214) | (4,199,989) |
| **Total** | $ (130,298) | $ (331,649) | $ (1,091) | $ (463,038) |
| **Derivative financial instruments with gross settlement** | | | | |
| Net cash flows to be received | $ 10,350,955 | $ 6,272,575 | $ 74,316 | $ 16,697,846 |
| Net cash flows to be paid | (10,229,145) | (5,431,348) | (72,130) | (15,732,623) |
| **Total** | $ 121,810 | $ 841,227 | $ 2,186 | $ 965,223 |

## Market risk management

Market risk refers to the risk of changes in the market value of financial instruments resulting from fluctuations in the parameters affecting this value; including interest rate and exchange rate levels and volatility. The risk of loss as a result of interest rate and exchange rate volatility is the main aspect of market risk to which Caisse centrale is exposed. Estimating potential losses is a key management element.

Caisse centrale implemented a market risk management framework integrating policies, practices and the assignment of responsibilities designed to ensure that risks do not exceed set limits and that only authorized activities are undertaken. The integrated risk management group, which is independent from the sectors initiating transactions, is responsible for examining market risk exposure on a daily basis, and develops and implements risk assessment models. Tolerance levels with respect to the various risks are assessed daily by portfolio and in aggregate for each set limit.

Several techniques are used by Caisse centrale to monitor and manage market risk, including value-at-risk ("VaR") and the value of maximum losses resulting from a one-basis point change in interest rates on unmatched positions. The integrated risk management group reports daily to management on profits and losses, their potential impacts and compliance with the various set limits. The state of capital markets is constantly monitored by the various sectors involved in managing, processing and controlling market risk. The independent risk management unit is responsible for regularly reviewing models and assessments.

### Value-at-risk

As a market risk assessment tool, VaR is a generally accepted risk measurement concept that uses statistical models and information on historical market prices to calculate, within a given confidence level, the potential loss in market value that Caisse centrale would sustain in its trading portfolios from adverse movements in market rates and prices in a single day. A Monte Carlo VaR is calculated daily for a one-day horizon. Caisse centrale's VaR is based on a 99% confidence level and represents an estimate of the maximum loss that Caisse centrale could sustain in its portfolios. Management recognizes that VaR is not an absolute measurement of market risk and that its use is limited. Management therefore uses various measures and information to help it assess and control the market risks to which its products and portfolios will be exposed.

The following tables present the aggregate VaR of the trading portfolios recorded in the years ended December 31, 2008 and 2009.

| | For the year ended December 31, 2009 | | | |
|---|---|---|---|---|
| | Low | High | Average | **As at December 31, 2009** |
| Interest rate | $ 199 | $ 810 | $ 393 | **$ 518** |
| Foreign exchange | 5 | 275 | 95 | **47** |
| Diversification effect[1] | n.m.[2] | n.m.[2] | (81) | **(44)** |
| **Aggregate VaR** | **$ 205** | **$ 818** | **$ 407** | **$ 521** |

| | For the year ended December 31, 2008 | | | |
|---|---|---|---|---|
| | Low | High | Average | As at December 31, 2008 |
| Interest rate | $ 7 | $ 1,737 | $ 72 | $ 79 |
| Foreign exchange | 133 | 1,343 | 680 | 295 |
| Diversification effect[1] | n.m.[2] | n.m.[2] | (59) | (31) |
| Aggregate VaR | $ 171 | $1,789 | $ 693 | $ 343 |

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 meaningful. In addition, the highs and lows of various market risk categories can refer to different dates.

**Back testing**

To validate the VaR model used, Caisse centrale carries out back testing daily with a hypothetical and an actual profit or loss on its trading portfolios by comparing the VaR with profits or losses by portfolio and in aggregate. The hypothetical profit or loss 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.

**Stress testing**

From time to time, certain events that are considered highly unlikely happen and can have a significant impact on Caisse centrale's portfolios. These events in the tail-end of distribution are the results of extreme situations.

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

**Interest rate risk management**

Interest rate risk refers to the sensitivity of Caisse centrale's financial position to interest rate fluctuations. The extent and direction of this impact depends on the assets and liabilities that are subject to a change in rates during a given period.

Caisse centrale can reduce or eliminate interest rate risk by changing the assets and liabilities mix or by using various derivative financial instruments.

Dynamic and prudent management is applied to optimize net interest income while minimizing the negative impact of interest rate movements. The policies established describe the principles, limits and procedures used to manage this risk.

The following table presents the potential impact on the non-trading portfolio of a sudden and sustained 100-basis-point increase or decrease in interest rates on the economic value of equity. Given the currently low interest rate market environment, the impact of a decrease in interest rates is theoretical.

## Impact on equity

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| 100-basis-point increase in interest rates | **$ (36,185)** | $ (40,215) |
| 100-basis-point decrease in interest rates | **36,682** | 40,851 |

The extent of the interest rate risk depends on the gap between assets, liabilities and derivative financial instruments. The situation presented reflects the position as at that date and may change depending on the interest rate environment.

The following table presents Caisse centrale's position with regard to interest rate sensitivity as at December 31, 2009. This is the position at that particular date and could have subsequently changed, taking into account forecasted interest rates and customers' preferences for products and maturities.

Assets and liabilities recorded on the Consolidated Balance Sheets and derivative financial instruments presented in the following table are reported in time frames based on the earlier of their contractual repricing date or maturity date. Certain on-balance sheet items, such as investments in equity securities and members' equity, do not create an interest rate exposure for Caisse centrale. These items are reported in the non-interest-rate sensitive column of the table.

| | Immediately interest-rate sensitive | 0 to 3 months | Over 3 to 6 months | Over 6 to 12 months | Over 1 to 5 years | Over 5 years | Non-interest-rate sensitive | Total |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and deposits with financial institutions | $ -- | $ 110 | $ -- | $ -- | $ -- | $ -- | $ 86 | $ 196 |
| Actual yield[1] | | 0.25% | | | | | | |
| Securities | | | | | | | | |
| - Available-for-sale | -- | 850 | -- | 91 | 1,841 | 7 | -- | 2,789 |
| Actual yield[1] | | 0.80% | | 2.68% | 2.95% | 4.26% | | |
| - Held for trading | -- | 661 | -- | 1 | 1,546 | 75 | 29 | 2,312 |
| Actual yield[1] | | 0.32% | | 2.51% | 2.63% | 3.58% | | |
| Loans | 2,125 | 8,797 | 825 | 502 | 910 | 35 | (114) | 13,080 |
| Actual yield[1] | | 2.23% | 3.92% | 4.01% | 4.34% | 5.19% | | |
| Other | -- | (987) | 45 | 9 | 1,099 | -- | 4,054 | 4,220 |
| **Total assets** | **$ 2,125** | **$ 9,431** | **$ 870** | **$ 603** | **$ 5,396** | **$ 117** | **$ 4,055** | **$ 22,597** |
| **Liabilities and members' equity** | | | | | | | | |
| Deposits | $ 2,715 | $ 9,147 | $ 251 | $ 50 | $ 2,673 | $ -- | $ -- | $ 14,836 |
| Actual yield[1] | | 1.52% | 1.23% | 3.60% | 4.49% | | | |
| Obligations related to securities sold short | -- | -- | -- | -- | 125 | 42 | -- | 167 |
| Actual yield[1] | | | | | 1.48% | 3.57% | | |
| Commitments under repurchase agreements | -- | 987 | -- | -- | -- | -- | -- | 987 |
| Actual yield[1] | | 0.44% | | | | | | |
| Other | 1,181 | (6) | -- | -- | (27) | -- | 4,131 | 5,279 |
| Members' equity | -- | -- | -- | -- | -- | -- | 1,328 | 1,328 |
| **Total liabilities and members' equity** | **$ 3,896** | **$ 10,128** | **$ 251** | **$ 50** | **$ 2,771** | **$ 42** | **$ 5,459** | **$ 22,597** |
| Balance sheet gap | $ (1,771) | $ (697) | $ 619 | $ 553 | $ 2,625 | $ 75 | $ (1,404) | $ -- |
| Derivative financial instruments[2] | -- | 7,037 | (736) | (1,242) | (5,209) | 150 | -- | -- |
| Total interest rate sensitivity gap | $ (1,771) | $ 6,340 | $ (117) | $ (689) | $ (2,584) | $ 225 | $ (1,404) | $ -- |
| **2009 cumulative interest rate sensitivity gap** | **$ (1,771)** | **$ 4,569** | **$ 4,452** | **$ 3,763** | **$ 1,179** | **$ 1,404** | **$ --** | **$ --** |
| **2008** | | | | | | | | |
| Balance sheet gap | $ (2,191) | $ (4,123) | $ 365 | $ 949 | $ 6,110 | $ 81 | $ (1,191) | $ -- |
| Derivative financial instruments[2] | -- | 7,580 | (369) | 190 | (7,392) | (9) | -- | -- |
| Total interest rate sensitivity gap | $ (2,191) | $ 3,457 | $ (4) | $ 1,139 | $ (1,282) | $ 72 | $ (1,191) | $ -- |
| **2008 cumulative interest rate sensitivity gap** | $ (2,191) | $ 1,266 | $ 1,262 | $ 2,401 | $ 1,119 | $ 1,191 | $ -- | $ -- |

1 The actual yield represents the weighted average effective yield.
2 Derivative financial instruments represent the net notional amounts of derivative financial instruments, such as forward rate agreements and interest rate swaps, which are used to manage interest rate risk.

### Foreign Exchange Risk Management

Certain assets and liabilities of Caisse centrale are denominated in foreign currencies. 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. Caisse centrale has established specific policies to manage foreign exchange risk. A 100-bp appreciation of the Canadian dollar against all foreign currencies in which Caisse centrale conducts its activities would not have a significant impact on equity.

Note 19

# Derivative financial instruments

In the normal course of business, Caisse centrale offers its customers various instruments to meet their needs for protection against different risks, such as fluctuations in foreign exchange and interest rates. Caisse centrale uses some of these instruments to hedge its own exposure to foreign exchange and interest rate risks and to earn trading income. All financial instruments are subject to credit standards, financial controls and other usual monitoring procedures that are normally applied.

Caisse centrale uses derivative financial instruments primarily for purposes of asset and liability management as well as in intermediation activities conducted to meet the needs of the Desjardins network or its customers (for trading purposes).

Interest rate contracts include interest rate swaps, forward rate agreements and futures. Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional principal 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 principal amount, which call for a cash settlement at a future date for the difference between the contractual rate of interest and the market rate. Futures represent a future commitment to purchase or deliver commodities or financial instruments on a future date at a specified price. Futures are traded in predetermined amounts on organized exchanges and are subject to daily cash margins.

Foreign exchange contracts include forward contracts and currency swaps. Foreign exchange forward contracts represent commitments to exchange two currencies at a specified future date based on a rate agreed upon by both parties at the inception of the contract.

Currency swaps are transactions in which fixed interest payments on notional amounts denominated in different currencies are exchanged. For cross-currency interest rate swaps, fixed and floating interest payments on notional amounts denominated in different currencies are exchanged. Caisse centrale uses currency swaps and interest rate swaps to manage its own asset/liability exposure.

Options are contractual agreements under which the writer grants the purchaser the right, but not the obligation, to buy (call option) or sell (put option) by or at a set date a specified amount of a financial instrument at a predetermined price. The writer receives a premium from the purchaser for this right. Caisse centrale enters into these contracts primarily to serve the needs of customers and to manage its own asset/liability exposure.

Credit swaps are agreements under which the counterparty is compensated for losses on a designated asset (usually a loan or a bond) should a default or a predetermined triggering event occur.

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

| | Maturity | | | | 2009 | 2008 |
|---|---|---|---|---|---|---|
| | 1 year or less | Over 1 to 3 years | Over 3 to 5 years | Over 5 years | Notional amount | Notional amount |
| **Interest rate contracts** | | | | | | |
| Interest rate swaps | **$ 23,960,222** | **$ 51,110,365** | **$ 44,167,102** | **$ 3,574,404** | **$ 122,812,093** | $ 106,783,006 |
| Forward rate agreements | **15,876,000** | **1,230,000** | **--** | **--** | **17,106,000** | 10,949,000 |
| Futures | **541,590** | **290,000** | **--** | **--** | **831,590** | 2,478,150 |
| Options purchased | **97,716** | **100,000** | **50,000** | **--** | **247,716** | 311,673 |
| Options written | **97,716** | **100,000** | **50,000** | **--** | **247,716** | 311,673 |
| **Total interest rate contracts** | 40,573,244 | 52,830,365 | 44,267,102 | 3,574,404 | 141,245,115 | 120,833,502 |
| **Foreign exchange contracts** | | | | | | |
| Forward contracts | **6,013,677** | **162,856** | **--** | **--** | **6,176,533** | 9,455,102 |
| Currency swaps | **2,342,231** | **2,633,225** | **874,447** | **9,032** | **5,858,935** | 7,381,776 |
| Options purchased | **269,958** | **2,102** | **--** | **--** | **272,060** | 652,674 |
| Options written | **309,160** | **2,102** | **--** | **--** | **311,262** | 759,769 |
| **Total foreign exchange contracts** | 8,935,026 | 2,800,285 | 874,447 | 9,032 | 12,618,790 | 18,249,321 |
| **Other contracts** | | | | | | |
| Credit swaps | **3,810** | **1,700,985** | **1,742,654** | **--** | **3,447,449** | 4,032,632 |
| Stock index options – purchased | **563,967** | **1,753,451** | **2,150,185** | **310,775** | **4,778,378** | 3,471,355 |
| Stock index options – written | **563,967** | **1,753,451** | **2,150,185** | **310,775** | **4,778,378** | 3,471,355 |
| **Total other contracts** | 1,131,744 | 5,207,887 | 6,043,024 | 621,550 | 13,004,205 | 10,975,342 |
| **TOTAL DERIVATIVE FINANCIAL INSTRUMENTS** | **$ 50,640,014** | **$ 60,838,537** | **$ 51,184,573** | **$ 4,204,986** | **$ 166,868,110** | $ 150,058,165 |

The fair value of derivative financial instruments is presented in the table below.

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Positive value | Negative value | Net amount | Positive value | Negative value | Net amount |
| **ASSET/LIABILITY MANAGEMENT PURPOSES** | | | | | | |
| **Interest rate contracts** | | | | | | |
| Interest rate swaps | $ 36,783 | $ 114,109 | $ (77,326) | $ 53,300 | $ 149,517 | $ (96,217) |
| **Total interest rate contracts** | 36,783 | 114,109 | (77,326) | 53,300 | 149,517 | (96,217) |
| **Foreign exchange contracts** | | | | | | |
| Currency swaps | 295,814 | 24,461 | 271,353 | 926,638 | 99,927 | 826,711 |
| **Total foreign exchange contracts** | 295,814 | 24,461 | 271,353 | 926,638 | 99,927 | 826,711 |
| **Total – Asset/liability management purposes** | $ 332,597 | $ 138,570 | $ 194,027 | $ 979,938 | $ 249,444 | $ 730,494 |
| **TRADING PURPOSES** | | | | | | |
| **Interest rate contracts** | | | | | | |
| Interest rate swaps | $ 2,013,348 | $ 1,953,811 | $ 59,537 | $ 3,029,460 | $ 3,001,839 | $ 27,621 |
| Forward rate agreements | 5,032 | 6,407 | (1,375) | 11,869 | 9,586 | 2,283 |
| Futures | 226 | 364 | (138) | 1,035 | 5,217 | (4,182) |
| Options purchased | 381 | -- | 381 | 2,687 | -- | 2,687 |
| Options written | -- | 381 | (381) | -- | 2,687 | (2,687) |
| **Total interest rate contracts** | 2,018,987 | 1,960,963 | 58,024 | 3,045,051 | 3,019,329 | 25,722 |
| **Foreign exchange contracts** | | | | | | |
| Forward contracts | 54,869 | 77,252 | (22,383) | 351,338 | 389,969 | (38,631) |
| Currency swaps | 10,151 | 9,900 | 251 | 25,374 | 36,113 | (10,739) |
| Options purchased | 8,683 | -- | 8,683 | 41,828 | -- | 41,828 |
| Options written | -- | 11,045 | (11,045) | -- | 37,930 | (37,930) |
| **Total foreign exchange contracts** | 73,703 | 98,197 | (24,494) | 418,540 | 464,012 | (45,472) |
| **Other contracts** | | | | | | |
| Credit swaps | 8,928 | 141,873 | (132,945) | 284 | 184,827 | (184,543) |
| Stock index options – purchased | 385,004 | -- | 385,004 | 167,764 | -- | 167,764 |
| Stock index options – written | -- | 385,004 | (385,004) | -- | 167,764 | (167,764) |
| **Total other contracts** | 393,932 | 526,877 | (132,945) | 168,048 | 352,591 | (184,543) |
| **Total – Trading purposes** | $2,486,622 | $2,586,037 | $ (99,415) | $ 3,631,639 | $ 3,835,932 | $ (204,293) |
| **Total derivative financial instruments before impact of master netting agreements** | $ 2,819,219 | $ 2,724,607 | $ 94,612 | $ 4,611,577 | $ 4,085,376 | $ 526,201 |
| Less impact of master netting agreements[1] | 2,577,861 | 2,577,861 | -- | 3,864,116 | 3,864,116 | -- |
| **Total derivative financial instruments** | $ 241,358 | $ 146,746 | $ 94,612 | $ 747,461 | $ 221,260 | $ 526,201 |

1 Without the intent of settling the contracts on a net basis or simultaneously.

The fair values of exchange-traded derivative financial instruments are based on quoted market prices or dealer quotes. The fair values of non-exchange-traded or over-the-counter derivative financial instruments are generally calculated at present value, net of contractual cash flows, using prevailing market rates for instruments with similar characteristics and maturities.

The following table presents the derivative financial instruments recorded on the Consolidated Balance Sheets:

| | Notional Amounts 2009 | Assets 2009 | Liabilities 2009 | Notional Amounts 2008 | Assets 2008 | Liabilities 2008 |
|---|---|---|---|---|---|---|
| **Fair value of derivative financial instruments – Asset/liability management purposes** | | | | | | |
| Fair value hedges | $ **10,168,163** | $ **278,207** | $ **90,693** | $ 11,039,318 | $ 927,265 | $ 165,189 |
| Cash flow hedges | **2,229,529** | **24,666** | **41,546** | 1,072,196 | 45,686 | 17,169 |
| Not qualified for hedge accounting | **1,318,052** | **29,724** | **6,331** | 1,116,171 | 6,987 | 67,086 |
| **Total** | $ **13,715,744** | $ **332,597** | $ **138,570** | $ 13,227,685 | $ 979,938 | $ 249,444 |
| **Fair value of derivative financial instruments – Trading purposes** | **153,152,366** | **2,486,622** | **2,586,037** | 136,830,480 | 3,631,639 | 3,835,932 |
| **Total** | $ **166,868,110** | $ **2,819,219** | $ **2,724,607** | $ 150,058,165 | $ 4,611,577 | $ 4,085,376 |

For the year ended December 31, 2009, the ineffective portion of fair value and cash flow hedges recognized in consolidated income under “Trading activities” in “Other income” was a loss of $846,000 (2008: gain of $470,000). All the components of the change in the fair value of the derivative financial instruments used were included to assess the effectiveness of the fair value and cash flow hedges.

In fiscal 2010, Caisse centrale expects that net losses estimated at $6.7 million, recorded in consolidated other comprehensive income as at December 31, 2009, will be reclassified to consolidated income. The maximum length of time over which Caisse centrale hedges its exposure to variability in future cash flows for forecasted transactions is 5.2 years.

The following table summarizes the derivative financial instruments portfolio and related credit exposure of Caisse centrale, before and after the impact of master netting agreements.

- **Notional amount** - Amount to which a rate or price is applied in order to calculate the exchange of cash flows. Such amounts do not appear on the Consolidated Balance Sheets.
- **Replacement cost** - The cost of replacing, at estimated fair value, all contracts having a positive fair value. The amounts do not take into consideration contracts which permit netting of positions or any collateral which may be obtained.
- **Future credit exposure** - The potential for future changes in value based upon a formula prescribed by the Bank for International Settlements ("BIS").
- **Credit risk equivalent** - The total of replacement cost and future credit exposure, excluding items prescribed by the BIS, namely the replacement cost of foreign exchange forward contracts with an original maturity of less than 14 days and exchange-traded derivative instruments subject to daily margin requirements.
- **Risk-weighted balance** - The credit risk equivalent, weighted according to the creditworthiness of the counterparty, as prescribed by the BIS.

| | | | | | 2009 | | 2008 |
|---|---|---|---|---|---|---|---|
| | Notional amount | Replacement cost | Future Credit exposure | Credit Risk equivalent | Risk-weighted balance | Replacement cost | Risk-Weighted balance |
| **ASSET/LIABILITY MANAGEMENT PURPOSES** | | | | | | | |
| **Interest rate contracts** | | | | | | | |
| Interest rate swaps | $ 7,978,906 | $ 36,783 | $ 16,291 | $ 53,074 | $ 10,615 | $ 53,300 | $ 14,663 |
| **Total interest rate contracts** | 7,978,906 | 36,783 | 16,291 | 53,074 | 10,615 | 53,300 | 14,663 |
| **Foreign exchange contracts** | | | | | | | |
| Currency swaps | 5,736,838 | 295,814 | 193,378 | 489,192 | 104,188 | 926,638 | 261,823 |
| **Total foreign exchange contracts** | 5,736,838 | 295,814 | 193,378 | 489,192 | 104,188 | 926,638 | 261,823 |
| **Total – Asset/liability management purposes** | $ 13,715,744 | $ 332,597 | $ 209,669 | $ 542,266 | $ 114,803 | $ 979,938 | $ 276,486 |
| **TRADING PURPOSES** | | | | | | | |
| **Interest rate contracts** | | | | | | | |
| Interest rate swaps | $ 114,833,187 | $ 2,013,348 | $ 493,261 | $ 2,506,687 | $ 511,268 | $ 3,029,460 | $ 697,999 |
| Forward rate agreements | 17,106,000 | 5,032 | 6,150 | 11,182 | 2,325 | 11,869 | 5,098 |
| Futures | 831,590 | 226 | -- | -- | -- | 1,035 | -- |
| Options purchased | 247,716 | 381 | 750 | 1,131 | 226 | 2,687 | 1,289 |
| Options written | 247,716 | -- | -- | -- | -- | -- | -- |
| **Total interest rate contracts** | 133,266,209 | 2,018,987 | 500,161 | 2,519,000 | 513,819 | 3,045,051 | 704,386 |
| **Foreign exchange contracts** | | | | | | | |
| Forward contracts | 6,176,533 | 54,869 | 68,096 | 122,965 | 29,847 | 351,338 | 105,309 |
| Currency swaps | 122,097 | 10,151 | 6,105 | 16,256 | 7,263 | 25,374 | 9,828 |
| Options purchased | 272,060 | 8,683 | 2,805 | 11,488 | 2,945 | 41,828 | 16,274 |
| Options written | 311,262 | -- | -- | -- | -- | -- | -- |
| **Total foreign exchange contracts** | 6,881,952 | 73,703 | 77,006 | 150,709 | 40,055 | 418,540 | 131,411 |
| **Other contracts** | | | | | | | |
| Credit swaps | 3,447,449 | 8,928 | 413,618 | 423,262 | 2,013 | 284 | 7,594 |
| Stock index options – purchased | 4,778,378 | 385,004 | 391,110 | 776,114 | 155,223 | 167,764 | 100,325 |
| Stock index options – written | 4,778,378 | -- | -- | -- | -- | -- | -- |
| **Total other contracts** | 13,004,205 | 393,932 | 804,728 | 1,199,376 | 157,236 | 168,048 | 107,919 |
| **Total – Trading purposes** | $153,152,366 | $ 2,486,622 | $ 1,381,895 | $ 3,869,085 | $ 711,110 | $ 3,631,639 | $ 943,716 |
| **Total derivative financial instruments before impact of master netting agreements** | $166,868,110 | $ 2,819,219 | $ 1,591,564 | $ 4,411,351 | $ 825,913 | $ 4,611,577 | $ 1,220,202 |
| Less impact of master netting agreements[1] | | 2,577,861 | | | 665,090 | 3,864,116 | 741,880 |
| **Total derivative financial instruments** | | $ 241,358 | | | $ 160,823 | $ 747,461 | $ 478,322 |

1 Without the intent of settling the contracts on a net basis or simultaneously.

The following table presents the breakdown of the replacement cost of derivative financial instruments by geographic area, on the basis of the country of domicile of the counterparties as at December 31:

| | 2009 | % | 2008 | % |
|---|---|---|---|---|
| Canada | $ 1,913,250 | 68 | $ 2,966,607 | 64 |
| International | 905,969 | 32 | 1,644,970 | 36 |
| **Total** | **$ 2,819,219** | **100** | $ 4,611,577 | 100 |

The following table presents the breakdown of the replacement cost of derivative financial instruments by the counterparties' industry segment as at December 31:

| | Interest rate contracts | % | Foreign exchange contracts | % | Other contracts | % | 2009 Total | 2008 Total |
|---|---|---|---|---|---|---|---|---|
| Banks | $ 1,768,023 | 86 | $ 324,746 | 88 | $ 385,004 | 98 | $ 2,477,773 | $ 4,084,972 |
| Members | | | | | | | | |
| Fédération | 184,523 | 9 | 2,434 | 1 | 4 | -- | 186,961 | 98,215 |
| Other | 15,279 | 1 | 52 | -- | -- | -- | 15,331 | 15,583 |
| Other entities included in the scope of consolidation of Desjardins Group | 2,206 | -- | 113 | -- | -- | -- | 2,319 | 18,595 |
| Government | 35,064 | 2 | 1,277 | -- | 8,924 | 2 | 45,265 | 162,522 |
| Private sector | 50,675 | 2 | 40,895 | 11 | -- | -- | 91,570 | 231,690 |
| **Total** | **$ 2,055,770** | **100** | **$ 369,517** | **100** | **$ 393,932** | **100** | **$ 2,819,219** | $ 4,611,577 |

Note 20

# Commitments, guarantees and contingencies

**a) Off-balance sheet credit instruments**

In the normal course of business, Caisse centrale offers its customers various products to meet their liquidity needs. All these products are subject to credit standards, financial controls and other usual monitoring procedures that are normally applied.

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Caisse centrale's policy with respect to collateral for these instruments is generally the same as the one which applies to loans.

Guarantees and standby letters of credit, which represent irrevocable commitments that Caisse centrale will make payments in the event that a customer cannot meet its financial obligations to third parties, carry the same credit risk as loans. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of commitments because Caisse centrale does not generally expect the third party to draw funds under the agreement.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. Caisse centrale is exposed to a potential credit risk in an amount equal to the total unused commitments. However, most commitments to extend credit are contingent upon customers complying with specific credit standards.

The total commitments to extend credit do not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The commitments to extend credit are primarily at floating rates and therefore do not expose Caisse centrale to interest rate risk.

The following table discloses the contractual amount and the risk-weighted balance, based on the capital adequacy rules prescribed by the BIS.

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Contractual amount | Risk-weighted balance | Contractual amount | Risk-weighted balance |
| Guarantees and standby letters of credit | $ 286,374 | $ 232,125 | $ 416,931 | $ 325,185 |
| Commitments to extend credit (original term to maturity) | | | | |
| Over one year | 4,588,032 | 1,492,807 | 2,898,451 | 1,067,129 |
| One year or less and conditionals | 10,898,603 | -- | 10,313,709 | -- |
| **Total** | $ 15,773,009 | $ 1,724,932 | $ 13,629,091 | $ 1,392,314 |

**b) Contractual commitments**
As at December 31, 2009, future minimum commitments under long-term leases and service contracts were as follows:

| 2010 | 2011 | 2012 | 2013 | 2014 | 2015 and thereafter | Total |
|---|---|---|---|---|---|---|
| $ 1,623 | $ 1,451 | $ 1,272 | $ 1,212 | $ 1,212 | $ 5,969 | $ 12,739 |

Of the total commitments, $10,545,188 was for commitments made with entities included in the scope of consolidation of Desjardins Group.

**c) Guarantees**
A guarantee is a contract or indemnification agreement that contingently requires Caisse centrale to make payments to the guaranteed party; as for instance, (i) based on changes in an interest rate, a foreign currency exchange rate, a security or commodity price, or a price or rate index, or the occurrence or non-occurrence of a specified event that is related to an asset, a liability or an equity security of the guaranteed party; (ii) based on the failure by a third party to perform under an obligating agreement or (iii) the failure by a third party to repay its debt when it becomes due and payable.

Caisse centrale has issued the following guarantees to third parties:

**Guarantees and standby letters of credit**
Guarantees and standby letters of credit (including Publi-privilège securities) represent an irrevocable commitment by Caisse centrale to make payments in the event that a customer cannot meet its financial obligations to third parties.

These instruments are generally collateralized in accordance with the same policy as the one which Caisse centrale applies with respect to loans. The term of these products is not more than five years.

The allowance for credit losses covers all credit risks, including those related to guarantees and standby letters of credit.

**Other indemnification agreements**
In the normal course of its operations, Caisse centrale enters into a number of agreements containing indemnification provisions such as those normally related to purchase agreements, service agreements and lease agreements. Under these agreements, Caisse centrale may be liable for indemnifying the counterparty pursuant to amendments to statutes and regulations (including tax rules) or as a result of litigation. The term of the agreements varies from one contract to the next. Caisse centrale is not in a position to make a reasonable estimate of the maximum amount that it could be required to pay counterparties. Historically, payments made under these agreements have been immaterial. No amounts have been recognized on the Consolidated Balance Sheets with respect to these agreements.

**Derivative financial instruments**
Caisse centrale trades in credit swaps under which the counterparty is compensated for losses it incurs on designated property (usually a loan or a bond) should a default or a predetermined triggering event occur. The maximum amount of the guarantee is equal to the notional amount of the swaps and totalled $45,000,000 as at December 31, 2009.

## Maximum potential amount of future payments under guarantees

| | 2009 | 2008 |
|---|---|---|
| Guarantees and standby letters of credit | $ 241,374 | $ 280,086 |
| Credit swaps | 45,000 | 136,845 |
| **Total** | **$ 286,374** | $ 416,931 |

**d) Financial assets pledged as collateral**
Assets pledged as collateral by Caisse centrale in the normal course of business are presented in the table below:

| | 2009 | 2008 |
|---|---|---|
| **Assets pledged to the following counterparties:** | | |
| Bank of Canada | $ 132,983 | $ 121,908 |
| Clearing systems, payment systems and depositories | 174,146 | 174,662 |
| | $ 307,129 | $ 296,570 |
| **Assets pledged for the following transactions:** | | |
| Commitments under repurchase agreements | $ -- | $ 25,889 |
| Derivative transactions | 4,493 | 11,311 |
| | $ 4,493 | $ 37,200 |
| **Total** | **$ 311,622** | $ 333,770 |

**e) Financial assets held as collateral**
As at December 31, 2009, the fair value of the financial assets held as collateral and that Caisse centrale is permitted to sell or repledge in the absence of default totalled $64 million (December 31, 2008: $46 million).

These financial assets held as collateral were obtained as a result of transactions involving securities acquired under reverse repurchase agreements. Such transactions are carried out under normal conditions for this type of transaction.

**f) Variable interest entity**
In connection with certain guaranteed-capital savings programs offered by Desjardins Group to its members, Caisse centrale has invested in a hedge fund. This investment represents a variable interest in a variable interest entity ("VIE") of which Caisse centrale is not the primary beneficiary. Caisse centrale is not involved in the VIE's activities and acts solely as an investor. Caisse centrale is not required to consolidate this company since it does not have to absorb a majority of its expected losses and does not receive a majority of its expected residual returns, or both. As at December 31, 2009, the investment by Caisse centrale, recorded in securities designated as held for trading on the balance sheet, totalled $27.2 million (2008: $326 million), and the total assets of this company amounted to close to $73 million (2008: $857 million).

**g) Contingency**
In July 2009, an entity included in the scope of consolidation of Desjardins Group transmitted a claim to Caisse centrale concerning services that it provided. Based on available information to date, Caisse centrale's management cannot determine the impact, if any, of this claim on its financial statements.

Note 21

# Other transactions with Desjardins Group

These transactions with members and other entities included in the scope of consolidation of Desjardins Group represent those not disclosed elsewhere in the Consolidated Financial Statements. Pursuant to its Constituent Legislation, the Fédération and its member caisses are members of Caisse centrale. Consequently, transactions with the Fédération for the benefit of its member caisses and for its own financing needs and with other entities included in the scope of consolidation of Desjardins Group are carried out under similar conditions to those negotiated with unrelated third parties. These transactions are in the normal course of operations of Caisse centrale and are measured at the exchange amount, which approximates fair market value and is the amount of consideration established and agreed to by the related parties.

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Members | | | Members | | |
| | Fédération | Other | Other entities included in the scope of consolidation of Desjardins Group | Fédération | Other | Other entities included in the scope of consolidation of Desjardins Group |
| **Assets** | | | | | | |
| Day, call and short-term loans to investment dealers and brokers | $ -- | $ -- | $ 59,000 | $ -- | $ -- | $ 82,000 |
| Derivative financial instruments | 46,743 | 149,580 | 2,139 | 43,195 | 54,345 | 9,822 |
| Securities purchased under reverse repurchase agreements | -- | -- | 22,003 | -- | -- | -- |
| Other assets | 56,263 | -- | 5,622 | 67,804 | -- | 3,843 |
| **Liabilities** | | | | | | |
| Derivative financial instruments | 641,518 | 723,697 | 8,307 | 632,324 | 1,131,410 | 1,926 |
| Acceptances | -- | -- | -- | -- | -- | 20,300 |
| Securities sold under repurchase agreements | -- | -- | 238,171 | -- | -- | -- |
| Other liabilities | 134,643 | 12,763 | 1,086 | 23,048 | 5,189 | 1,052 |
| **Income** | | | | | | |
| Interest income | 99,977 | 8 | 45,640 | 316,089 | 414 | 98,255 |
| Interest expense | 26,426 | 1,767 | 5,015 | 95,258 | 3,890 | 21,320 |
| Other income | 52,018 | 159,782 | 11,389 | (426,762) | (1,084,011) | 14,141 |
| Non-interest expense | 18,974 | 7,131 | 5,593 | 16,216 | 6,599 | 4,653 |

Note 22

# Segmented information

Caisse centrale conducts its activities in three segments. Each segment offers different services, uses separate strategies and is managed by a senior vice-president.

The accounting policies used by the segments are the same as those described in the significant accounting policies. Caisse centrale measures the performance of these segments based on the gross income generated by each segment. Non-interest expense is managed on a consolidated basis and is not allocated by segment.

The following table summarizes the consolidated financial results of Caisse centrale by business segment:

| | Financing | | Desjardins Group Treasury | | Other | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| Net interest income | **$ 96,731** | $ 87,900 | **$ 140,868** | $ 84,471 | **$ 7,306** | $ 7,987 | **$ 244,905** | $ 180,358 |
| Other income | **22,412** | (46,647) | **36,033** | (54,747) | **11,013** | 10,168 | **69,458** | (91,226) |
| **Gross income** | **$ 119,143** | $ 41,253 | **$ 176,901** | $ 29,724 | **$ 18,319** | $ 18,155 | **$ 314,363** | $ 89,132 |
| Average assets[1] | **$ 12,214,197** | $ 11,841,665 | **$ 12,524,544** | $ 11,026,882 | **$ 407,008** | $ 369,581 | **$ 25,145,749** | $ 23,238,128 |

1 Assets are disclosed on an average basis, as this basis is the most relevant to a financial institution and is the measure examined by Caisse centrale's management.

**Financing segment**

This segment offers a range of financial products and services and grants financing in the form of lines of credit and term loans to members and other entities included in the scope of consolidation of Desjardins Group, public and parapublic entities, and private sector enterprises. It also includes cross-border financing for customers of the U.S. branch. The branch's total gross income and total average assets stood respectively at $3.9 million and $184 million in 2009 (2008: $2.9 million and $152 million).

**Desjardins Group Treasury segment**

This segment manages Caisse centrale's assets and liabilities, and the securities and derivative financial instruments portfolios, as well as the cash of Desjardins Group.

**Other**

This segment combines the international sector and the operations of the subsidiary Desjardins Bank, N.A. Total gross income and total average assets of the subsidiary amounted respectively to $8.7 million and $181 million in 2009 (2008: $7.7 million and $175 million).

# Constitution, regulation and control

## Constitution

La Caisse centrale du Québec was created on June 22, 1979 by an Act to amend the Act respecting La Confédération des caisses populaires et d'économie Desjardins du Québec (1979 S.Q., c. 46), replaced on June 22, 1989 by an Act respecting the Mouvement des caisses Desjardins (1989 S.Q., c. 113), which was replaced on July 1, 2001 by the Act respecting the Mouvement Desjardins (2000 S.Q., c. 77). La Caisse centrale du Québec may also be identified under the name "Caisse centrale Desjardins". Pursuant to its Constituent Legislation, CCD continues its existence as a financial services cooperative and is therefore also governed by the Act respecting financial services cooperatives (2000 S.Q., c. 77) as if it were a federation within the meaning of that Act.

CCD, through its holding company Desjardins FSB Holdings, Inc., incorporated under the laws of the State of Delaware, USA, holds the aggregate of the capital stock of Desjardins Bank N.A., a savings and loan association incorporated under US federal law which has its place of business in Hallandale Beach, Florida, USA. CCD also operate a branch in Florida under the name of "Caisse centrale Desjardins U.S. Branch" incorporated under US federal law.

The capital stock of CCD is composed of an unlimited number of qualifying shares and an unlimited number of Class A capital shares and Class B capital shares subscribed for by its members. These shares can be paid in full or in instalments in accordance with the payment terms and in the cases determined by resolution of the Board of Directors of CCD.

The qualifying shares with an issue price of $5.00 each are reimbursed only in the event of the winding-up, insolvency or dissolution of CCD and are redeemable only in the event of the withdrawal, exclusion, winding-up, insolvency or dissolution of the member. The capital shares with a par value of $1,000 each are reimbursed only in the event of the winding-up, insolvency or dissolution of CCD and are redeemable with the authorization of the Autorité des marchés financiers (the "AMF").

The shares of the capital stock of Caisse centrale are held primarily by the Fédération des caisses Desjardins du Québec (the "FCDQ"), which, with its member caisses, is a full member of Caisse centrale under its Constituent Legislation, and by the three federations of caisses populaires in Ontario, Manitoba and New Brunswick, which are auxiliary members of CCD.

The general meeting of CCD comprises the members of the general meeting of the FCDQ, namely the delegates of the caisses and a representative from the FCDQ. Under the provisions of the Constituent Legislation, the Board of Directors of CCD must be composed of at least three quarters of the Board members of the FCDQ (other than its president), who shall account for over one half of the Board members of CCD. As at the date of this annual report, the members of the Board of Directors of the FCDQ constitute all of the members of the Board of Directors of CCD. For the duration of her mandate, the president of the FCDQ is the Chair of the Board and the Chief Executive Officer of Caisse centrale.

## Regulation and control

The AMF is responsible for the annual inspection and supervision of CCD. The Act respecting financial services cooperatives governs the control exercised by the AMF with regard to the management, transactions and solvency of CCD and to conflicts of interest and self-dealings.

The AMF may make any examination and investigation he considers necessary or expedient into the internal affairs and activities of Caisse centrale, and order any inquiry into any matter within his jurisdiction.

The AMF may request from CCD statements, statistics, reports and any other information he deems appropriate to enable him to determine whether CCD complies with the Constituent Legislation and the applicable provisions of the Act respecting financial services cooperatives. The AMF may, with respect to the financial statements and when deemed expedient, prescribe accounting rules that contain specific requirements or different requirements than those under Canadian generally accepted accounting principles.

Since the FCDQ and its member caisses can elect the majority of its directors, CCD is deemed to be controlled by the FCDQ within the meaning of the Act respecting financial services cooperatives. This Act therefore confers the normative powers applicable to CCD, notably with respect to capitalization and investments, on the FCDQ.

CCD is required to maintain, for its operations, an adequate capital base to ensure sound and prudent management in accordance with the standards adopted by the FCDQ and approved by the AMF.

CCD appoints annually, as auditor, a firm of chartered accountants to conduct the audit of its accounting records and to report to the AMF as prescribed by the Constituent Legislation, the Act respecting financial services cooperatives and government regulations.

CCD establishes, in accordance with its Constituent Legislation, an Audit Commission composed of no less than three members from its Board of Directors, and a Board of Ethics and Professional Conduct consisting of no less than three members elected at the general meeting among its members. The Audit Commission reviews the financial statements of CCD and ensures that its operations are in compliance with the provisions of the applicable legislation and the orders and written instructions of the AMF. The Board of Ethics and Professional Conduct is responsible for adopting and implementing rules to protect CCD and its members with respect to self-dealings, disclosure requirements, privacy of information and conflicts of interest. Annually, the Board of Ethics and Professional Conduct must report to the AMF.

Caisse centrale is registered with the Régie de l'assurance-dépôts du Québec.

# Moving forward with governance

Desjardins Group, the foremost cooperative financial group in Canada, stands apart from banking financial institutions through its cooperative governance, which promotes democratic participation by members and their representatives when establishing its orientations.

The year 2009 was marked by several large-scale projects ultimately aimed at increasing unity of focus and action among all the organizations that make up Desjardins Group: the Desjardins caisses, their subsidiaries, Caisse centrale Desjardins (CCD) and the Fédération des caisses Desjardins du Québec (FCDQ). These projects, carried out as part of a development plan comprising five building blocks, will have a significant impact on the governance of Desjardins Group and CCD. The objective of these efforts is to benefit Desjardins members and clients by:

- Ensuring the long-term strategic development and growth of Desjardins Group
- Increasing collaboration, participation and connections with the caisse network
- Changing CCD's role according to new needs
- Optimizing the performance of the FCDQ, CCD and the subsidiaries
- Mobilizing the approximately 6,200 elected officers and more than 42,200 employees who compose Desjardins Group's human capital

Desjardins aims to accomplish this while respecting the cooperative identity and values that guide Desjardins Group in carrying out its mission.

## Highlights

Events in 2009 were strongly affected by the fallout from the financial crisis that began in 2007 and the activities arising from the Desjardins Group Development Plan adopted in 2008. With this context in mind, the following are the main activities carried out during the fiscal period with respect to CCD governance and, on a broader scale, those of the FCDQ, the subsidiaries and the caisses as well:

- Implementation of a new approach that defines the major orientations of Desjardins Group and that is based on a participatory approach and a Desjardins-wide perspective. The multidisciplinary task forces focused their efforts on 10 key strategic areas for the growth and development of Desjardins Group. The results of their work were the subject of consultations with democratic bodies within the FCDQ and the caisses. This process culminated with Desjardins Group's 20th Congress of Elected Officers, where the goal was to have caisse delegates confirm certain major orientations that will guide the future governance and development of Desjardins, including CCD.
- Thorough review of Desjardins Group's organizational structure, with a view to establishing business sectors better adapted to its current and future needs, while responding to market imperatives and the need to clarify areas of responsibility and accountability.
- Implementation of the new structure aimed at bringing the FCDQ and the subsidiaries closer to the caisses and their members, simplifying organization, optimizing overall performance, ensuring growth and strengthening financial and risk management operations. In 2010, the subsidiaries' governance will be adapted to this organizational structure. In their deliberations, members of the Board of Directors benefited from the support of an expert consulting firm to conduct a rigorous analysis and provide comprehensive information on strategies used by the financial sector worldwide to deal with the issues facing the financial services industry. Several discussion periods were held before deciding upon the final organizational structure, which is being put in place according to extensive implementation and communication plans.
- Proactive management of the effects of the financial crisis on Desjardins Group by:
  - Remaining vigilant with respect to market movements and their impacts on Desjardins Group
  - Adopting a position for Desjardins and its subsidiaries on accounting for asset-backed commercial paper (ABCP) and adopting action plans concerning ABCP securities and hedge funds following receipt of a complete report on the situation
  - Obtaining Bank of Canada borrowing facilities and access to other government intervention measures, such as amendments to the *Act respecting financial services cooperatives*
  - Implementing the Desjardins Group Finance and Risk Management Committee mandated to monitor changes to financial risk on a weekly basis
  - Adopting a contingency plan
  - Reviewing numerous financial frameworks for Caisse centrale Desjardins and Desjardins Trust, as well as the FCDQ and the caisses

This year, the Risk Management Commission and the Audit Commission once again played key roles in following up on activities aimed at managing the effects of the financial crisis on Desjardins and monitoring Desjardins Group's risk.

- Continued cooperation with the *Autorité des marchés financiers* on a number of issues, including the official request for certification under the Basel II Accord with respect to the standardized approach for Desjardins Group's operational risk. In addition, the Risk Management Commission supervised the planning and follow-up on the implementation of new guidelines, including governance guidelines. The culmination of these activities led to the adoption by CCD of frameworks on operational risk management and business continuity.
- Continuation of work towards implementing International Financial Reporting Standards (IFRS), in compliance with a very demanding timetable. The standards, which will come into effect in 2011, will require very complex accounting practices from Desjardins Group in 2010.

## CCD's governance policy

CCD has established a governance policy that respects the guidelines of the Investment Industry Regulatory Organization of Canada (IIROC) and the *Autorité des marchés financiers* (AMF) in Québec, while adapting its content to the cooperative nature of CCD as a member of Desjardins Group.

The first fundamental adaptation relates to the very purpose behind CCD's Board of Directors' measures with respect to corporate governance. Ultimately, the purpose of Desjardins Group's 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. Guided by long-term objectives, it is focused on creating economic value for its owner-users, the caisse members, who therefore benefit from the following:

- A competitive, comprehensive, integrated and accessible service offer
- Member dividends and contributions to the community
- Active contribution to local and regional development with a focus on sustainable development

To reach these objectives, Desjardins seeks to achieve reliable and sufficient profitability, which allows it to ensure its longevity while at the same time respecting its cooperative identity.

## Application of corporate governance guidelines

### Mandate of the Board of Directors

**1) Management of CCD**

The Board of Directors assumes explicit managerial responsibility for CCD by administering its business in a sound and prudent manner. It ensures that the procedures and structures required for it to fully assume its role are in place. Periodically, it reviews its operations from the standpoint of continuous improvement and safeguards the assets of Desjardins Group, its 5.8 million members and its clients.

In accordance with the *Act respecting financial services cooperatives*, the Board exercises all the powers of Caisse centrale Desjardins, except for those which it may delegate from time to time to its commissions and committees. The Board assumes the following responsibilities in particular:

**a. Culture of integrity**

The Board of Directors is responsible for ensuring compliance with the cooperative identity and permanent values of Desjardins, namely: money at the service of human development, democratic action, personal commitment, discipline and integrity, and solidarity with the community. Consequently, the Board is also responsible for enforcing the *Desjardins Group Code of Ethics and Professional Conduct* among management staff, employees and elected officers.

CCD's Board of Ethics and Professional Conduct, like the Board of Directors, reports to the CCD General Meeting. The Board of Ethics and Professional Conduct is responsible for updating the Code and, as needed, issuing advice with regard to ethical or professional conduct. A support structure for the Board's activities enables it to carry out awareness and training activities and provide an advisory service, thereby giving concrete form to Desjardins Group's efforts to ensure compliance with the Code, which in turn provides for the possibility of imposing penalties for violations of professional conduct rules. Desjardins also has a confidential mechanism for reporting violations of the Code and regulatory frameworks.

The *Desjardins Group Code of Ethics and Professional Conduct* is available to the public via its Web site, *desjardins.com*, and CCD's intranet Portal. All individuals who are active within Desjardins are asked to demonstrate ethical values and behaviour based on honesty, transparency, social responsibility and altruism.

**b. Strategic and financial planning process**

The Board of Directors has implemented a continuous strategic and financial planning process for CCD that includes the development of a capitalization plan and a financial plan. The Board is supported by the CCD Management Committee, which helps the Board ensure that strategic and financial orientations and plans are incorporated and that business development strategies are consistent throughout CCD, all while being mindful of the risk involved. The plan is communicated to all Desjardins components so that there is a shared understanding. The 2010–2012 strategic planning exercise called upon the contribution of both the caisses and the democratic bodies within the FCDQ, given the scope of the changes desired by the Board of Directors. From the strategic and financial plan stems the cooperative network's business plan (known as PARC)[1]. 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 information is obtained to correct discrepancies when necessary.

The CCD Board of Directors adopts a three-year strategic and financial plan that is updated annually.

**c. Identification and management of main risks**

The Board is responsible for identifying the main risks for CCD and ensures that the required systems are in place for the integrated management of these risks. CCD is supported by Desjardins Group's Risk Management Executive Division. The CCD Board of Directors is backed by a Risk Management Commission and ensures that the Commission works consistently with the Audit Commission, which remains responsible for risks relating to the process for disclosure of financial information. The CCD Management Committee also supports the Board of Directors in carrying out this responsibility and annually receives a report on the overall risk situation for Desjardins as a whole. The Risk Management Commission has closed-door sessions, without the presence of management.

**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 and Desjardins Group's People and Culture Executive Division. The Commission oversees the program and reports to the Board of Directors, making recommendations, if need be. The process for selecting senior executives for Desjardins Group's new organizational structure was based on work done in recent years on the succession planning program, since selected candidates came primarily from a pool of individuals identified under that program as being possible candidates for management positions.

One of the hallmarks of the Desjardins cooperative difference is that the successor to the Chair of the Board and Chief Executive Officer is chosen by a 256-person electoral college made up of representatives from Québec and Ontario caisses and the President and Chief Executive Officer of Desjardins Group. Although it does not have to appoint the incumbent, the Board of Directors makes sure the succession is properly planned 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 an FCDQ by-law and is overseen by an election committee comprised of elected officers independent from the Board of Directors who are responsible for establishing the rules of conduct and the electoral process. The entire electoral process, more specifically the general rules and code of conduct for candidates and members of the electoral college, is the responsibility of the Election Committee for the position of Desjardins Group President.

1 PARC is a one-year business plan that consolidates the business plans of the 481 caisses and the FCDQ and integrates the subsidiaries' contribution into the service offer for caisse member-owners. The process leading to the establishment of the plan is reviewed periodically to meet caisse expectations.

**e. Integrity of the internal control and management reporting systems**

The Board of Directors, seconded by its Audit Commission, ensures the implementation of effective control systems (accounting, administrative and management) to safeguard the integrity of its operations and obtain the required accountability from managers. The Board is supported in this responsibility by Desjardins Group's Internal Auditor, whose annual plan is approved by the Audit Commission. Work is ongoing to improve documentation of the controls used during the financial reporting process. These efforts are monitored by the Chief Financial Officer of Desjardins Group who, together with Desjardins Group's Chief Executive Officer, is responsible for certifying the consolidated and combined financial statements of Desjardins Group. Major work was carried out in 2009 to define methods and tools for strengthening financial governance in the caisses, including internal controls. These initiatives are in support of the caisses' business objectives and aim to develop their practices in line with regulatory requirements.

The Board also ensures that the CCD 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 may take advantage of business opportunities and measure the risks involved. As files are submitted, Board members are invited to assess the quality of each decision-bearing file. A training session is available to staff who present such files to CCD's decision-making bodies.

To effectively monitor primary performance indicators, management has access to management information; this benefits the Board, as it allows directors to quickly obtain decision-bearing data.

Board members receive financial and operating reports at least quarterly to enable them to assess Desjardins Group's situation and the status of CCD'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 CCD Board of Directors meets regularly according to a predetermined schedule. Board members receive the agenda in advance, along with any relevant documentation, to ensure productive discussions and to facilitate the decision-making process.

They also have technologies that give them access to meeting-related documentation and to the management frameworks for Desjardins activities.

**f. Strategic communications-related orientations**

The Board of Directors adopts strategic communications orientations aligned with its strategic and financial planning by setting the actions to be taken and the results to be measured. CCD also drafts internal and external communication policies in order to improve its relations with the caisses and their members, its employees, the subsidiaries and their clients, socio-economic and community organizations, opinion makers, the public, the media, rating and scoring agencies and the various levels of government. The FCDQ has adopted a Desjardins-wide strategic communication policy that incorporates the disclosure of financial information and of major changes that can affect Desjardins Group's financial position.

CCD uses various channels to communicate effectively with its many stakeholders. These channels include the annual general meetings, the release of CCD's quarterly financial results, periodic communications to the Desjardins network, a toll-free telephone number, a Web site and a mechanism for confidentially reporting actions that violate the *Code of Ethics and Professional Conduct*, specific rules and regulatory guidelines.

In addition, CCD acts as a liaison with international rating and scoring agencies in collaboration with the FCDQ and maintains relations with the various levels of government via Desjardins Group's Government Relations Division.

### 2) Composition of the Board of Directors

The CCD Board of Directors consists of 22 members, the majority of whom are unrelated parties, which is defined in Paragraph 3. They are also the directors for the FCDQ, Desjardins Venture Capital, Desjardins Trust and Capital Desjardins.

The Vice-Presidents of the Outaouais, Abitibi-Témiscamingue, Nord du Québec and the Bas-St-Laurent and Gaspésie, Îles-de-la-Madeleine councils of representatives also serve on the Board of Directors as managing directors.

### 3) Applying the definition of unrelated party

The Board of Directors includes five related officers, namely the Chair of the Board and Chief Executive Officer of Desjardins Group and Caisse centrale Desjardins and four caisse general managers. The first is a related party because he or she is a member of FCDQ and CCD management, and the other four are related parties because they are employees of companies, namely caisses, that are part of Desjardins Group. In addition, the directors have no business or personal relationships with members of the CCD Management Committee, or interests which, in the opinion of the Board, could significantly interfere with their ability to act in the best interests of CCD 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 *Code of Ethics and Professional Conduct*, which governs the actions of its directors, and to the declarations of interests filed annually by the directors. Directors focus their full attention on their roles and responsibilities at Desjardins; none of them sit on a board of directors of any other major company. Generally speaking, they hold one or two administrator positions with not-for-profit organizations.

A list of directors, along with their status (related or unrelated), can be found on page 125 of this report.

**4) Nominations process**

Taking into account the cooperative structure of CCD and the principle of delegation which prevails within Desjardins Group, CCD's Board of Directors is composed of persons elected by the delegates of CCD's and the FCDQ's member caisses who, at regional or group caisse meetings, directly elect 17 of the 22 Board members. These individuals chair the councils of representatives[1]. Thus, it is the caisse delegates who must choose, from among those interested, the candidates most capable of taking on two roles, namely, that of a CCD director and that of regional representative. Before nominations are accepted, candidates are reminded of the responsibilities and requirements related to the position of president of a council of representatives. Because they are, at the same time, officers of a caisse, members of their councils of representatives and, finally, members of the CCD Board of Directors, the Board benefits from having directors with thorough knowledge of Desjardins Group activities who are nonetheless independent of management. This in-depth knowledge of the organization's activities is a significant advantage resulting from the cooperative structure of Desjardins Group.

The presidents of the councils of representatives are also responsible for ensuring that the orientations, as defined by the Board, are understood by the caisses; for ensuring that the mechanisms for collaboration, participation and connection with the network are effective; and for communicating to the Board the concerns of the caisses they represent. Board members are driven by concern for the common good of members and other Desjardins stakeholders, which is reflected in their leadership.

The four remaining positions filled by caisse general managers are determined at an election held at an Assembly of Representatives of the CCD, and the final position is reserved for the Chair of the Board and Chief Executive Officer of Desjardins Group.

The election process for CCD directors therefore ensures the independence of the members of the Board vis-à-vis the Chair of the Board and Chief Executive Officer of Desjardins Group, since the latter has no influence on their selection.

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 the Board members are replaced. This affords the directors the time needed to deepen their understanding of issues and to actively participate in Board activities. Since 2001, there has been a natural and continuous renewal of members on the Board of Directors, 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 Québec, from the group caisses and from Ontario caisses populaires, as well as by their particular skills and experience (chartered accountants, lawyers, notaries, managers, professional mediators, professors of management, entrepreneurs, caisse general managers, etc.).

All the processes, terms, conditions and requirements relating to the responsibilities of a CCD Board member and president of a council of representatives have been listed in a guide available to caisse officers to support individuals interested in applying for positions on the Board while also assisting those called upon to elect FCDQ and CCD officers.

**5) Assessing the effectiveness of structures**

The Board of Directors and its commissions and committees evaluate their performance annually 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 also oversees the plan. The Board also receives a mid-year progress report. The evaluation program for all CCD structures also calls for a personal self-assessment followed by a meeting between each director and the Chair of the Board. In 2009, the Board continued the work undertaken in the previous year. Each director assessed the evaluation process in place and the tools used. Engagement and skills development were also integrated into the evaluation. Individual meetings between the President and Chief Executive Officer and each Board member resumed after having been suspended in 2008. The Chair of the Board is responsible for the evaluation process, and the Corporate Governance Commission provides oversight.

**6) Orientation and training program for new directors**

CCD offers its directors orientation sessions and ongoing training, and develops sessions tailored to their specific needs.

All new directors attend an integration 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. 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 CCD are also organized to give the directors a more complete picture of the organization and of its main strategic projects.

The training program for Board members falls under the activities of the Desjardins Cooperative Institute, a training institute created for the managers and elected officers of Desjardins Group. In 2009, the Board of Directors assigned the Senior Vice-President of People and Culture, Desjardins Group, the mandate of completing an overall review of training at Desjardins for employees, management staff and elected officers in order to refocus efforts on strategic priorities and to optimize the communication of said priorities.

1 The councils of representatives are democratic bodies within the FCDQ and CCD whose decision-making responsibilities are, in each of the regions and for the group caisses, to ensure that associative activities remain dynamic, through: collaboration between the region's caisses and the FCDQ and CCD; its influence on decisions that affect major orientations and projects by actively participating in consultations; its contribution to the identification of regional issues and business development opportunities; its follow-up on member satisfaction and Desjardins Group's image in the region; as well as through institutional presence in the region. The councils of representatives direct associative activities through the leadership role assumed by each council member. They also ensure that concerns expressed by the caisses in the region are considered by the FCDQ and CCD.

**7) Size of the Board of Directors**

The composition of the Board of Directors is designed to provide an appropriate representation of the caisses in the 17 regions in the province of Québec plus part of Ontario, as well as the group caisses. Moreover, 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.

Efficient meeting organization and good discipline among the directors themselves compensate for the fairly large size of the Board. Furthermore, the Chair of the Board and Chief Executive Officer holds periodic, informal meetings with the directors that serve to increase the efficiency of the formal meetings. The results of the performance evaluation of the Board of Directors reveal, from year to year, the very high relevance of these meetings. After each Board of Directors, committee or commission meeting, a closed-door session is held without the members of CCD 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, a body that follows market trends in this domain very closely.

Remuneration schedule for members of the CCD Board of Directors and Board of Ethics and Professional Conduct:

| | |
|---|---|
| Chair of the Board of Directors | $20,000 paid to the FCDQ because it is assumed by the President and CEO of Desjardins Group |
| Annual retainer for the chair of a commission[1] | $6,500 |
| Annual retainer for a member of the Board of Directors[2] | $7,500 |
| Annual retainer for a member of a Board of Directors' commission or committee | $2,000 |
| Attendance allowance for Board of Directors meetings[3] | $1,000 (maximum per day) |
| Attendance allowance for committee or commission meetings[3] | $500 (per half-day) |
| Conference calls | $200 |
| Attendance allowance for members of the Board of Ethics and Professional Conduct | $1,500 for the Chair<br>$750 for members |

1 For committees that hold fewer than four meetings, the attendance allowance is doubled and replaces the annual retainer.
2 For the four general managers who are members of the Boards of Directors, the policy stipulates that the Board of Directors for their caisse is responsible for deciding if they keep all of their remuneration.
3 Regardless of the number of Board, commission or committee meetings held on the same day, the maximum daily retainer is $1,000, and every effort is made to concentrate meetings in a single day to keep costs down as much as possible.

## Remuneration of members of the Board of Directors

Disclosure of the amounts of remuneration paid to each Board member for the duties they assume for the Fédération des caisses Desjardins du Québec (FCDQ), Caisse centrale Desjardins (CCD), Desjardins Venture Capital (DVC) or Desjardins Trust, or for their role as Chair of the Board of a subsidiary.

| NAME | Received from the FCDQ, CCD, DVC and Desjardins trust | | Other fees[12] | | 2009 TOTAL |
|---|---|---|---|---|---|
| | Attendance allowance | Annual retainer | Attendance allowance | Annual retainer | |
| ARSENAULT, Dominique[15] | $ 10,300 | $ 8,188 | | | **$ 18,488** |
| BARIL, Jacques | $ 44,500 | $ 70,500 | | | **$ 115,000** |
| BÉLANGER, Annie P. | $ 48,700 | $ 28,313 | | | **$ 77,013** |
| BLAIS, Thomas | $ 57,400 | $ 67,000 | $ 17,800[13] | $ 15,000[13] | **$ 157,200** |
| BOUDREAULT, Laurier | $ 41,200 | $ 32,000 | | | **$ 73,200** |
| CHAMBERLAND, Serges | $ 37,000 | $ 73,500 | | | **$ 110,500** |
| CHARBONNEAU, Louise | $ 42,400 | $ 32,000 | | | **$ 74,400** |
| DUGUAY, Denis | $ 42,300 | $ 53,000 | | | **$ 95,300** |
| DUMAS, Alain | $ 42,000 | $ 32,000 | | | **$ 74,000** |
| GAGNÉ, André (Chair of the Board, DAM)[14] | $ 48,400 | $ 47,000 | $ 7,400 | $ 28,500 | **$ 131,300** |
| GRANT, Norman | $ 44,600 | $ 58,875 | | | **$ 103,475** |
| LACHAPELLE, André (Chair of the Board, CRCD)[14] | $ 33,300 | $ 47,000 | $ 12,500 | $ 28,000 | **$ 120,800** |
| LAFONTAINE, Daniel[19] | $ 27,100 | $ 19,250 | | | **$ 46,350** |
| LAFORTUNE, Andrée | $ 60,100 | $ 84,500 | | | **$ 144,600** |
| LAUZON, Marcel (Chair of the Board, DID)[14] | $ 43,800 | $ 51,875 | $ 6,400 | $ 28,500 | **$ 130,575** |
| LEBLANC, Pierre | $ 60,000 | $ 64,000 | | | **$ 124,000** |
| LEVASSEUR, Pierre | $ 41,000 | $ 39,000 | | | **$ 80,000** |
| MERCIER, Daniel[15] | $ 12,200 | $ 13,375 | | | **$ 25,575** |
| PARÉ, Denis | $ 64,030[16] | $ 59,000[16] | | | **$ 123,030** |
| RAÎCHE, Alain[20] | $ 5,600 | $ 2,500 | | | **$ 8,100** |
| ROY, Michel | $ 39,800 | $ 51,875 | | | **$ 91,675** |
| SAMSON, Clément (Chair of the Board, DGIG)[14] | $ 51,500[16] | $ 51,875 | $ 200[17] | $ 30,500 | **$ 151,075** |
| ST-PIERRE BABIN, Sylvie (Chair of the Board, DFS)[14] | $ 39,800 | $ 55,000 | $ 14,700[17] | $ 28,500 | **$ 138,000** |
| TARDIF, Pierre[15] | $ 15,000[14-16] | $ 13,750[14-16] | $ 3,100 | $ 8,750 | **$ 40,600** |
| TOURANGEAU, Serge (Chair of the Board, Desj. Sec.)[14] | $ 42,700 | $ 55,875 | $ 6,700 | $ 14,583 | **$ 119,858** |
| TURCOTTE, Benoît | $ 49,300 | $ 34,000 | $ 6,000[17] | | **$ 89,300** |
| VINET, Yvon | $ 34,800 | $ 35,250 | | | **$ 70,050** |
| **Total** | **$ 1,078,830** | **$ 1,180,501** | **$ 91,800** | **$ 182,333** | **$2,533,464**[18] |

12 Amounts received for chairing the board of a subsidiary.
13 Amount received as a director of Desjardins Credit Union (DCU).
14 Desjardins Asset Management (DAM), Capital régional et coopératif Desjardins (CRCD), Développement international Desjardins (DID), Desjardins General Insurance Group (DGIG), Desjardins Financial Security (DFS), Desjardins Securities (Desj. Sec.).
15 Term of office ended March 2009.
16 Includes special remuneration paid to members of the Reporting Follow-up Committee that intervened at CCD, members of the *Conseil québécois de la coopération et de la mutualité* (CQCM) and members of the Senior Management Selection Interview Committee.
17 Includes amount received as a trainer at the Desjardins Cooperative Institute.
18 63% of this amount is related to duties assumed at the FCDQ alone.
19 Term of office ended October 4, 2009.
20 Term of office began December 7, 2009.

Remuneration of members of the CCD Board of Ethics and Professional Conduct

| Name | Attendance allowance |
|---|---|
| Denis Rousseau, Chair* | $ 10,400 |
| Germain Perron* | $ 3,950 |
| Jacques Sansoucy* | $ 4,950 |

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 CCD General Meeting. The total remuneration budget (annual retainers plus attendance allowances) is reported at 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 $2,011,900 in 2007 to $2,476,000 in 2008 and to $2,497,682 in 2009.

### 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 orientation, planning, supervisory and control activities. These commissions and committees are comprised entirely or almost entirely of unrelated parties. The composition and mandate of these commissions and committees are reviewed annually. In 2009, the Board of Directors made clarifications to the electoral rules applicable to selecting CCD Executive Committee members as well as regarding the eligibility of general managers (related administrators) to Board commissions.

### 10) Responsibility for corporate governance

The Board gives the Corporate Governance Commission the responsibility of applying and updating the governance program in light of new industry trends. The Commission reports on its observations and makes recommendations to the Board of Directors. This commission holds closed-door sessions, without the presence of management.

### 11) Defining the authority of the Management Committee

The responsibilities of the Chair of the Board and Chief Executive Officer of Caisse centrale Desjardins are set out in CCD's Internal By-laws. The same is true for the President and Chief Operating Officer, a position held by the General Manager. In addition, the Board has set out in writing a clear distribution of responsibilities between the Board of Directors and the Management Committee, which it continually clarifies to enhance the effectiveness of corporate governance.

The annual objectives of the Chair of the Board and Chief Executive Officer 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 the General Manager are established by the President and Chief Executive Officer as part of CCD's incentive plan.

The Board of Directors has guidelines for setting objectives to ensure sound management of incentive plans and an equitable application for all Desjardins components. The degree to which these objectives are achieved is measured through an annual review process. The CAR supervises the performance evaluation of the Chair of the Board and Chief Executive Officer, with each director participating anonymously in this review process using a grid prepared in advance by this committee and without the presence of management.

### 12) The Board's independence from the Management Committee

The Board has created different structures and procedures to ensure its independence from CCD management, including the following:

a. Having only one member of CCD management who is also an officer elected by representatives of members (the Chair of the Board and Chief Executive Officer of Caisse centrale Desjardins).
b. The position of Vice-Chair of the Board of Directors, created by the General Meeting, the holder of which 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.
c. Periodic informal meetings among the directors. The Chair of the Board and Chief Executive Officer updates the General Manager, who is not present at these meetings. Both unrelated and related directors, however, are 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.
d. 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.
e. The Chairs of the Audit Commission, the Credit and Investment Commission and the Risk Management Commission are unrelated directors.
f. The Corporate Governance Commission (of which only one member is a related party) assumes responsibility for:
   1) Managing relations between the Board and the CCD Management Committee
   2) Ensuring that the Board fulfills its duties. In addition, the responsibility of developing or supervising agendas for the Board of Directors and its committees is assigned to the Chair of the Board and Chief Executive Officer
g. Members of the Human Resources Commission have access to an external consultant, if needed, with respect to matters dealing with the aggregate remuneration of executives.
h. CCD 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.

### 13) Audit Commission

The Audit Commission, established under the *Act respecting financial services cooperatives*, acts as an audit committee for Caisse centrale Desjardins. It is composed entirely of unrelated directors; two of the members, one of which is the Chair, have accounting expertise.

The roles and responsibilities of the Audit Commission have been defined in such a way so as to give its members a very clear understanding of their oversight duties. The Audit Commission has all the power and information it needs to fulfill its mandate. Its role is to review all financial information and supervise the implementation of an effective control process and the required reporting. It has direct communication channels with the persons responsible for internal audit at Desjardins Group and with the external auditors in order to discuss and review certain issues, should the need arise. The Audit Commission holds closed-door sessions, without the presence of management.

**14) Hiring outside advisors**
A director may hire the services of an outside advisor at CCD's expense. However, to ensure that such services are relevant, a request must be submitted to the Corporate Governance Commission.

## Mandates and composition of the commissions, committees and Board of Ethics and Professional Conduct of Caisse centrale Desjardins

**As at December 31, 2009**
N.B.: * unrelated person
** managing director

## Executive Committee (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. There were no meetings in 2009.

**Members:**
Monique F. Leroux, Chair of the Board
Denis Paré*, Vice-Chair of the Board
Clément Samson*, Secretary of the Board
Serges Chamberland*(i)
Louise Charbonneau
André Gagné*
Sylvie St-Pierre Babin*(i)

(i) Began their terms at the end of March 2009.
Pierre Tardif and Daniel Mercier were members until March 2009.

## Audit Commission (composed of five directors)

This commission supports the Board in its monitoring and control responsibilities for CCD, and examines in detail all elements related to the disclosure of financial information. It met eight times, including two training sessions, in 2009.

**Members:**
Andrée Lafortune*, FCA, Chair
Annie P. Bélanger*/**(i)
Thomas Blais*
Pierre Leblanc*, FCA
Pierre Levasseur*(i)

(i) Began their terms at the end of March 2009.
Serge Tourangeau and Benoît Turcotte were members until March 2009.

## Risk Management Commission (composed of six directors)

This commission assists the Board of Directors in the identification and tracking of major risks to CCD. It met five times in 2009.

**Members:**
Serges Chamberland*, Chair
Norman Grant*
André Lachapelle*
Marcel Lauzon*
Michel Roy*
Benoît Turcotte*/**(i)
Andrée Lafortune and Alain Dumas sit on the Commission as observers.

(i) Began his term at the end of March 2009.
Jacques Baril was a member until March 2009.

## Human Resources Commission (composed of five directors)

This commission periodically reviews the positioning of Desjardins Group's overall remuneration system in order to enable Desjardins to remain competitive. It ensures that the remuneration practices in effect within Desjardins comply with Desjardins Group's policies and guiding principles. The mandate of this commission excludes the examination of issues concerning the conditions of employment of the Chair of the Board and Chief Executive Officer. It met six times, including one videoconference, in 2009.

**Members:**
Monique F. Leroux, Chair of the Board
Denis Paré*, Vice-Chair of the Board
André Gagné*(i)
Marcel Lauzon*
Yvon Vinet*(i)

(i) Began their terms at the end of March 2009.
Clément Samson and Pierre Tardif were members until March 2009.

## Corporate Governance Commission (composed of five directors)

This commission supports the Board of Directors in applying and updating the corporate governance program. It is also 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. It met five times, including two videoconferences, in 2009.

**Members:**
Monique F. Leroux, Chair of the Board
André Gagné*
Sylvie St-Pierre Babin*
Clément Samson*(i)
Yvon Vinet*(i)

(i) Began their terms at the end of March 2009.
Serges Chamberland and Daniel Mercier were members until March 2009.

## Credit and Investment Commission (composed of six directors)

This commission supports the Board of Directors in setting and monitoring investment policy. The Credit and Investment Commission is responsible for decisions regarding CCD's lending, investing and borrowing activities, as well as its other financial commitments. To this end, it exercises its authority within the approval limits set out in the general policies adopted from time to time by the Board of Directors. It met 13 times, including 10 teleconferences, in 2009.

**Members:**
Norman Grant, Chair*(1)
Jacques Baril*
Laurier Boudreault
Louise Charbonneau
Alain Dumas
Daniel Lafontaine(2)

(1) Began his term at the end of March 2009.
(2) Term of office ended October 4, 2009.

## Board of Ethics and Professional Conduct (composed of three elected officers)

Under the *Act respecting financial services cooperatives*, CCD has a Board of Ethics and Professional Conduct that is independent of the Board of Directors, the members of which are elected officers of Desjardins Group. The role of the Board of Ethics and Professional Conduct is to adopt the rules of ethics and conduct applicable to CCD officers and employees, present them for approval to the Board of Directors and ensure that they are complied with, support CCD in applying the rules of ethics and conduct, issue opinions and make observations and recommendations with respect to ethical and professional conduct issues, especially in cases of misconduct, and notify the Board of Directors in these cases. It met seven times, including two teleconferences, in 2009.

**Members:**
Denis Rousseau, Chair*
Germain Perron*
Jacques Sansoucy*

## Attendance of directors at Board of Directors meetings

The following table shows the Board meeting attendance record for CCD Board of Directors members throughout 2009.

| Name | Board Meetings Attented |
|---|---|
| Arsenault, Dominique**(1) | 4/4 |
| Baril, Jacques | 14/15 |
| Bélanger, Annie P.** | 11/11 |
| Blais, Thomas | 14/15 |
| Boudreault, Laurier | 14/15 |
| Chamberland, Serges | 11/15 |
| Charbonneau, Louise | 14/15 |
| Duguay, Denis | 15/15 |
| Dumas, Alain | 15/15 |
| Gagné, André | 15/15 |
| Grant, Norman | 15/15 |
| Lachapelle, André | 13/15 |
| Lafontaine, Daniel | 11/11 |
| Lafortune, Andrée | 14/15 |
| Lauzon, Marcel | 15/15 |
| Leblanc, Pierre | 15/15 |
| Leroux, Monique F. | 15/15 |
| Levasseur, Pierre | 11/11 |
| Mercier, Daniel | 4/4 |
| Paré, Denis | 14/15 |
| Roy, Michel | 14/15 |
| Samson, Clément | 15/15 |
| St-Pierre Babin, Sylvie | 15/15 |
| Tardif, Pierre | 3/4 |
| Tourangeau, Serge | 14/15 |
| Turcotte, Benoît** | 15/15 |
| Vinet, Yvon | 11/11 |

** Managing Director
(1) Term of office ended at the end of March 2009

Record of attendance for members of the CCD Board of Ethics and Professional Conduct

| Name | Meetings Attented |
|---|---|
| Rousseau, Denis | 6/7 |
| Perron, Germain | 6/7 |
| Sansoucy, Jacques | 7/7 |

The absences of the directors were due to professional duties or illness in the family. In addition, when they are absent, the presidents of the Councils of Representatives are replaced by their vice-presidents as Managing Directors, thus ensuring continuous regional representation.

# Boards of Directors[1]

**Monique F. Leroux**
President and Chief Executive Officer
Desjardins Group

**Denis Paré**[2]
Vice-Chair of the Board
President Council of Representatives – Cantons-de-l'Est

**Clément Samson**[2]
Secretary of the Board
President Council of Representatives – Québec-Ouest, Rive-Sud

**Jacques Baril**[2]
President
Council of Representatives – Est de Montréal

**Thomas Blais**[2]
President Council of Representatives – Caisses populaires de l'Ontario

**Laurier Boudreault**
General Caisse Manager
Council of Representatives – Québec-Ouest, Rive-Sud

**Serges Chamberland**[2]
President Council of Representatives Saguenay, Lac-St-Jean, Charlevoix et Côte Nord

**Louise Charbonneau**
General Caisse Manager
Council of Representatives – Est de Montréal

**Denis Duguay**[2]
President Council of Representatives – Richelieu-Yamaska

**Alain Dumas**
General Caisse Manager
Council of Representatives – Mauricie

**André Gagné**[2]
President Council of Representatives – Québec-Est

**Norman Grant**[2]
President Council of Representatives – Bas-Saint-Laurent et Gaspésie, Îles-de-la-Madeleine

**André Lachapelle**[2]
President Council of Representatives – Lanaudière

**Andrée Lafortune**[2]
President Council of Representatives – Ouest de Montréal

**Marcel Lauzon**[2]
President Council of Representatives – Laval-Laurentides

**Pierre Leblanc**[2]
President Council of Representatives – Mauricie

**Pierre Levasseur**[2]
President Council of Representatives – Centre-du-Québec

**Alain Raîche**
General Caisse Manager
Council of Representatives – Lanaudière

**Michel Roy**[2]
President Council of Representatives – Kamouraska, Chaudière-Appalaches

**Sylvie St-Pierre Babin**[2]
President Council of Representatives – Outaouais, Abitibi-Témiscamingue, Nord du Québec

**Serge Tourangeau**[2]
President Council of Representatives – Caisses de groupes

**Yvon Vinet**[2]
President Council of Representatives – Rive-Sud de Montréal

# Managing Directors

**Annie P. Bélanger**[2]
Vice-President, Council of Representatives
Bas-Saint-Laurent et, Gaspésie, Îles-de-la-Madeleine

**Benoît Turcotte**[2]
Vice-President, Council of Representatives
Outaouais, Abitibi-Témiscamingue, Nord du Québec

# Board of Ethics and Professional Conduct

**Denis Rousseau**
President

**Jacques Sansoucy**
Secretary

**Germain Perron**
Member

1 As at December 31, 2009
2 Unrelated director

# Officers

**Monique F. Leroux**
Chair of the Board and Chief Executive Officer

**Bruno Morin**
General Manager, Caisse centrale Desjardins
Senior Vice-President and General Manager
Wealth Management and Life and Health Insurance, Desjardins Group

**Stéphane Achard**
Senior Vice-President and General Manager
Business and Institutional Services, Desjardins Group

**Renaud Coulombe**
General Counsel Vice-President Legal Affairs and Compliance,
Desjardins Group

**Jacques Descôteaux**
Chief Treasurer, Desjardins Group

**Louis-Daniel Gauvin**
Senior Vice-President and Chief Risk Officer, Desjardins Group

**Raymond Laurin**
Chief Financial Officer, Caisse centrale Desjardins
Senior Vice-President, Finance and Treasury Executive Division and Office of the CFO,
Desjardins Group

# Alternate Members

**Réal Bellemare**
Vice-President Large Business and Capital Market Risk and Special Assignements,
Desjardins Group

**Alain Leprohon**
Vice-President Finance, Business and Institutional Services, Desjardins Group

**Richard Nadeau**
Vice-President Capital Markets, Desjardins Group

# Members

- Fédération des caisses Desjardins du Québec and its caisses
- Fédération des caisses populaires de l'Ontario Inc.
- Fédération des caisses populaires du Manitoba Inc.
- Fédération des caisses populaires acadiennes Ltd
- Desjardins General Insurance Group
- Desjardins Financial Security
- Desjardins Trust Inc.

# Auditor

- PricewaterhouseCoopers LLP
  Montreal, Quebec

# Other Information

**Head Office**
1170 Peel Street, suite 600, Montréal, Québec, Canada H3B 0B1
Telephone: 514-281-7070
Facsimile: 514-281-7083
Internet Address: www.desjardins.com/ccd

**Toronto Office**
145 King St. West, suite 2750, Toronto, Ontario, Canada M5H 1J8
Telephone: 416-599-0381
Facsimile: 416-599-5172

**Calgary Office**
205 5th Avenue S.W., suite 700, Calgary, Alberta, Canada T2P 2V7
Telephone: 403-538-4806
Facsimile: 403-538-4849

## LOCATIONS OUTSIDE CANADA

**Caisse centrale Desjardins U.S. Branch**
1001 East Hallandale Beach Blvd., suite 200, Hallandale Beach, Florida, USA, 33009-4429
Telephone: 954-456-5058
Facsimile: 954-457-7927

**Desjardins Bank N.A.**

**Head Office - Hallandale Beach**
1001 East Hallandale Beach Blvd., Hallandale Beach, Florida, USA , 33009-4429
Telephone: 954-454-1001
Facsimile: 954-457-7927

**Pompano Beach Branch**
2741 East Atlantic Blvd., Pompano Beach, Florida, USA., 33062
Telephone: 954-785-7110
Facsimile: 954-785-2115

**Lauderhill Branch**
7329 West Oaklank Park Blvd., Lauderhill, Florida, USA, 33319
Telephone: 955-578-7328
Facsimile: 955-578-7325

# Regional Offices

**Estrie**
1815 King Street West, suite 300, Sherbrooke, Québec J1J 2E3
Telephone: 819-821-3220 [1310]
Telephone: 1-800-481-3220 [1310]

**Outaouais**
880 de la Carrière Blvd., suite 100, Gatineau, Québec J8Y 6T5
Telephone: 819-778-1400 [455]
Telephone: 1-877-441-1400 [455]

**Québec**
5600 des Galeries Blvd., suite 140, Québec, Québec G2K 2H6
Telephone: 1-866-634-1881

**Saint-Lambert**
2051 Victoria Street, Saint-Lambert, Québec J4S 1H1
Telephone: 450-672 4116
Telephone: 1-866-672-4116

**Saguenay - Lac-St-Jean**
1685 Talbot Blvd., suite 650, Saguenay, Québec G7H 7Z4
Telephone: 418-696-1712

# Desjardins International Service Centre

**Montréal**
1 Complexe Desjardins, suite 2822, Montréal, Québec H5B 1B3
Telephone: 1-800-707-2305

**Québec**
5600 des Galeries Blvd., suite 140, Québec, Québec G2K 2H6
Telephone: 1-866-634-5775

# Financial Glossary

**Acceptance and customers' liability under acceptances**
Short-term debt security that can be traded in the money market, which Caisse centrale guarantees for a borrower and for which the borrower pays a stamping fee.

**Allowance for credit losses**
Estimate of probable credit losses related to financial instruments, whether or not presented on the Consolidated Balance Sheets of Caisse centrale, including loans, off-balance sheet commitments, acceptances and derivative financial instruments. This allowance includes a general allowance for credit losses and specific allowances. A number of factors affect the estimates for the allowance for credit losses, including risk assessment, default probability, loss in the event of default, valuation of security, economic conditions and borrowers' specific situations. Any change in the estimates can lead to modifications of the allowance for credit losses.

**Asset under administration**
Asset managed by Caisse centrale. These assets are not the property of Caisse centrale and therefore are not reported in the Consolidated Balance Sheet.

**Autorité des marchés financiers**
Organization whose mission is to administer all the laws governing the supervision of the financial industry, notably in the areas of insurance, deposit-taking institutions and financial product and service distribution, as well as securities.

**Balance sheet 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 indices. Matching is used in asset-liability management.

**Basis point**
Unit of measure equal to one one-hundredth of a percent.

**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.

**Commitment to extend credit**
Credit facility offered to customers in the form of loans, bank acceptances and other financing vehicles reported on the balance sheet, or in the form of off-balance sheet credit instruments such as guarantees and letters of credit.

**Credit default swap**
Contract between two parties providing for the sale of a credit protection for reference benchmark bonds. If the acquiring entity experiences a credit incident, it receives a non-recurring payment from the counterparty.

**Currency and interest rate swap**
Transaction where two parties agree to exchange, over a specified period, currencies or interest flows, "generally a fixed rate and a floating rate", based on a notional amount.

**Derivative financial instruments**
A contract whose value is derived from interest rates, foreign exchange rates, equity or commodity prices. Derivative financial instruments are used to transfer, modify or reduce current or expected risks, including risks related to interest and exchange rates and other market risks. The most common types of derivatives financial instruments include foreign exchange forward contracts, foreign currency and interest rate futures, forward rate agreements, and foreign currency and interest rate options. Derivative financial instruments can be traded either on organized exchanges or through over-the-counter agreements.

**Foreign exchange forward contract**
Commitment to buy or sell a specified amount of foreign currency on or before the maturity date at a set exchange rate

**Forward rate agreement**
A type of derivative which obliges two parties to make a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional amount. Used as a hedge, a forward rate agreement protects against future movements in market interest rates.

**Guarantee and standby letter of credit**
Irrevocable commitment that payments will be made in the event a customer cannot meet its obligations to third parties.

**Hedge**
Risk management technique used to protect financial results from market, interest rate, or foreign currency risks arising from normal banking operations. The elimination or reduction of such exposures is accomplished by establishing offsetting positions. For example, assets denominated in foreign currencies can be offset with liabilities in the same currencies or through the use of foreign exchange hedging instruments such as futures, options, or foreign exchange contracts.

**Hybrid asset**
Asset composed of a combination of synthetic assets and traditional assets.

**Impaired loan**
A loan is considered impaired when: (a) there is reason to believe that a portion of the principal or interest cannot be collected, or (b) the interest or principal is contractually 90 days in arrears, except when there is reasonable assurance of collecting the principal or interest.

**Interest rate sensitivity**
Earning assets and interest-bearing liabilities which mature or are subject to interest rate adjustments within a specified term or have an interest rate that floats in reference to a base interest rate.

**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.

**Liquidities**
Generally, assets held in cash or in securities easily convertible to cash, such as deposits with financial institutions and securities.

**Master netting agreement**
Legal agreement entered into by Caisse centrale and a counterparty providing for the net settlement of derivative financial instrument contracts through a single payment to reduce credit risk exposure in case of default or termination of a contract.

**Net interest income**
Difference between interest income earned on assets and interest expense related to liabilities. The ratio of net interest income to average assets is called “net interest margin”.

**Non-bank-sponsored asset-backed commercial paper**
Short-term investment backed by tangible assets.

**Notional amount**
Reference amount used to calculate payments for instruments like forward rate agreements and interest rate swaps. This amount does not change hands.

**Obligation related to securities sold short**
Transaction in which the seller sells securities it does not own. The seller borrows the securities in order to deliver them to the purchaser. At a later date, the seller buys identical securities in the market to replace the borrowed securities.

**Provision for credit losses**
Amount allocated during the year to the allowance for credit losses to cover credit losses.

**Return on average assets**
The ratio of net income to average total assets during a year.

**Risk weighting**
Process by which weighting factors are applied to the face value of certain assets in order to reflect a comparable risk level. Off-balance credit instruments and derivative financial instruments are also converted by adjusting the notional amounts to balance sheet (or credit) equivalents and by applying appropriate risk weighting factors. Total risk-weighted assets constitute the denominator of the various capital ratios as prescribed by the Bank for International Settlements (BIS).

**Securities purchased under reverse repurchase agreements and securities sold under repurchase agreements**
Caisse centrale enters into short-term purchases and sales of securities with concurrent agreements to sell and buy them back at a specified price and on a specified date. These agreements are accounted for as collateralized lending and borrowing transactions and are recorded on the Consolidated Balance Sheets at amortized cost.

**Securitization**
Mechanism by which financial assets (ex.: mortgage loans) are converted into asset-backed securities. These securities are thereafter transferred into a trust.

**Special purpose entity**
Limited-life entity created to legally isolate the financial assets it holds from a transferring company, mainly to securitize these assets in order to generate funds, reduce credit risk or manage capital.

**Stock index option**
The right (as opposed to obligation) to sell (put option) or buy (call option) on or before a maturity date a specified amount of a stock index at a set price (exercise price).

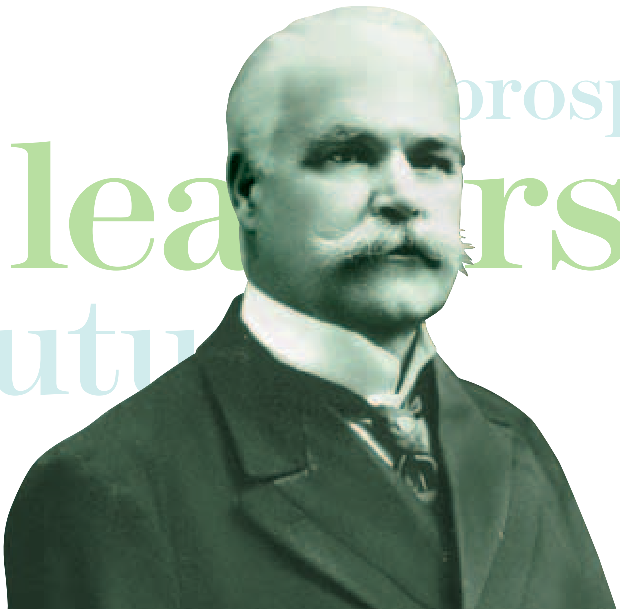
**Subordinated debenture**
Unsecured bond issued by Caisse centrale and subordinated in right of payment in the event of liquidation to the claims of depositors and certain other creditors.

**Subsidiary**
Company in which Caisse centrale holds a majority interest.

**Trading portfolio**
Securities held on a short term basis for arbitrage purposes.

**Valuation at market value; mark-to-market**
Valuation at market rates, as of the balance sheet date, of securities, loans, deposits, the subordinated debenture and derivative financial instruments.

**Variable interest entity (VIE)**
Includes an 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 do not own a financial interest giving them a controlling financial interest.




**COOPERATION:**
**A MODEL WITH PROMISE FOR THE FUTURE**

Leading up to the 110th anniversary of Desjardins Group, its founder, Alphonse Desjardins, was named the *Greatest Canadian Co-operator* following a popular vote held by the Canadian Co-operative Association.

This nomination, received in June 2009, recognizes the cooperative vision of Alphonse Desjardins, who not only created financial cooperatives in Québec, but also inspired the creation of credit unions elsewhere in Canada and in the United States.

This great honour also demonstrates that cooperation, as it has been perpetuated for more than a century at Desjardins Group, remains a promising model.

Drawing strength from this vision it shares with its members and clients, elected officers and employees, Desjardins helps improve the quality of life of individuals and communities with a view to creating sustainable prosperity.

**That's how we give full meaning to the phrase "Cooperate to shape our destiny".**