IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY U.S. PERSON OR TO ANY PERSON OR ADDRESS IN THE U.S. EXCEPT TO QUALIFIED INSTITUTIONAL BUYERS (AS DEFINED BELOW)

IMPORTANT: You must read the following before continuing. The following applies to the prospectus following this page (the "**Prospectus**"), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY THE SECURITIES OF THE ISSUER (AS DEFINED BELOW). THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON OR TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

The Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver the Prospectus to any other person. By accepting this email and accessing the Prospectus, you shall be deemed to have confirmed and represented to us that (a) you have understood and agree to the terms set out herein, (b) you consent to delivery of the Prospectus by electronic transmission, (c) you are either (i) not a U.S. person (within the meaning of Regulation S under the Securities Act) nor acting for the account or benefit of a U.S. person and the electronic mail address that you have given to us and to which this e-mail has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands) or the District of Columbia or (ii) (A) a "qualified institutional buyer" within the meaning of Rule 144A under the Securities Act or (B) an institutional "accredited investor" within the meaning of Rule 501(a)(1),(2),(3) or (7) under the Securities Act and (d) if you are a person in the United Kingdom, then you are a person who (i) has professional experience in matters relating to investments and/or (ii) is a high net worth entity falling within Article 49(2)(a) to (d) of the Financial Services and Markets Act (Financial Promotion) Order 2005 or a certified high net worth individual within Article 48 of the Financial Services and Markets Act (Financial Promotion) Order 2005. This document and the accompanying Prospectus are not a "prospectus" for purposes of Section 12(a)(2) or any other provisions of the Securities Act.

The Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of The Royal Bank of Scotland plc ("**RBS**" or "**Royal Bank of Scotland**"), Caisse centrale Desjardins du Québec (the "**Issuer**" or "**Caisse centrale**"), nor any person who controls it nor any director, officer, employee nor agent of it or affiliate of any such person) accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from RBS.

PROSPECTUS DATED 14 MARCH 2011

CAISSE CENTRALE DESJARDINS DU QUÉBEC

€5,000,000,000
Global Covered Bond Programme
unconditionally and irrevocably guaranteed as to payments by
CCDQ COVERED BOND GUARANTOR LIMITED PARTNERSHIP
(a limited partnership formed under the laws of Ontario)

Under this €5 billion global covered bond programme (the "**Programme**"), Caisse centrale Desjardins du Québec (the "**Issuer**" or "**Caisse centrale**") may from time to time issue Covered Bonds (as defined herein) denominated in any currency agreed between the Issuer and the relevant Dealer(s) (as defined in this Prospectus).

CCDQ Covered Bond Guarantor Limited Partnership (the "**Guarantor**") has agreed to guarantee payments of interest and principal under the Covered Bonds, pursuant to a direct and, following the occurrence of a Covered Bond Guarantee Activation Event (as defined elsewhere in this Prospectus), unconditional and irrevocable guarantee (the "**Covered Bond Guarantee**") which is secured by the assets of the Guarantor, including the Covered Bond Portfolio (as defined elsewhere in this Prospectus). Recourse against the Guarantor under the Covered Bond Guarantee is limited to the aforementioned assets and the Guarantor will not have any other source of funds available to meet its obligations under the Covered Bond Guarantee.

The Covered Bonds may be issued in registered or bearer form. The maximum aggregate nominal amount of all Covered Bonds outstanding at any one time under the Programme will not exceed €5 billion (or its equivalent in other currencies calculated as described in the Dealership Agreement described herein) subject to any increase as described herein. The price and amount of the Covered Bonds to be issued under the Programme will be determined by the Issuer and the relevant Dealer or Dealers at the time of issue in accordance with prevailing market conditions. **An investment in Covered Bonds issued under the Programme involves certain risks. See "*Risk Factors*" for a discussion of certain risk factors to be considered in connection with an investment in the Covered Bonds. The Covered Bonds are not guaranteed under the *Deposit Insurance Act* (Québec) or the *Canada Deposit Insurance Corporation Act*.**

Unless otherwise specified in the applicable Final Terms, the Issuer, at its Executive Offices located in Montréal, Québec, Canada, will accept investments evidenced by the Covered Bonds but without prejudice to the provisions of Condition 9 (see "*Terms and Conditions of the Covered Bonds—Payments*").

Applications have been made to the Financial Services Authority (the "**UK Listing Authority**") in its capacity as competent authority under the *Financial Services and Markets Act 2000*, as amended (the "**FSMA**") for covered bonds (the "**Covered Bonds**") issued under the Programme described in this Prospectus during the period of twelve months after the date hereof to be admitted to the official list of the UK Listing Authority (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Covered Bonds to be admitted to trading on the main market of the London Stock Exchange (the "**Main Market**") or on the London Stock Exchange's Professional Securities Market (the "**PSM**"). The Main Market is a regulated market for the purposes of Directive 2004/39/EC (the "**Markets in Financial Instruments Directive**"). The PSM is not a regulated market for the purposes of the Markets in Financial Instruments Directive.

In the case of any Covered Bonds which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which would otherwise require the publication of a prospectus under the Directive 2003/71/EC (as amended from time to time, the "**Prospectus Directive**", which term includes any relevant implementing measures in the United Kingdom), the minimum denomination shall be €100,000 (or such other amount which is specified as the minimum denomination under Article 3(2)(b) of the Prospectus Directive) (or its equivalent in any other currency as at the date of issue of the Covered Bonds).

The Covered Bonds and the related Covered Bond Guarantee have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"). The Covered Bonds and the related Covered Bond Guarantee may not be offered, sold or delivered, directly or indirectly, within the United States or to or for the account or benefit of U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Covered Bonds are being offered only (i) in offshore transactions to non-U.S. persons in reliance upon Regulation S under the Securities Act and (ii) in the case of Legended Covered Bonds only either to (a) "qualified institutional buyers" within the meaning of and in reliance upon Rule 144A under the Securities Act or (b) institutional "accredited investors" within the meaning of Rule 501(a)(1), (2), (3) or (7) under the Securities Act. See "*Form of the Covered Bonds*" for a description of the manner in which Covered Bonds will be issued. Legended Covered Bonds are subject to certain restrictions on transfer. See "*Subscription and Sale and Transfer and Selling Restrictions*". Covered Bonds may be subject to U.S. tax law requirements.

Covered Bonds issued under the Programme are expected on issue to be assigned a rating of "AAA" by DBRS Limited ("**DBRS**"), a rating of "Aaa" by Moody's Investors Service Inc. ("**Moody's**") and a rating of "AAA" by Fitch, Inc. ("**Fitch**") unless otherwise specified in the applicable Final Terms. Investors are cautioned to evaluate each rating independently of any other rating. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, revision or withdrawal at any time by the assigning agency and each rating should be evaluated independently of any other. The rating of certain Series of Covered Bonds to be issued under the Programme may be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to a relevant Series of Covered Bonds will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) No. 1060/2009 (the "**CRA Regulation**") will be disclosed in the Final Terms. See "*Credit Rating Agencies*" on page 4.

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation, unless the rating is provided by a credit rating agency operating in the European Union before 7 June, 2010 (the "**EU CRA**"), or a non-EU credit rating agency that is a member of the same group, where the EU CRA has submitted an application for registration in accordance with the CRA Regulation (or in the case of a non-EU affiliate, the EU CRA has in such application disclosed an intention to endorse the non-EU affiliate's ratings) and such registration (or, in the case of the non-EU rating, the ability to endorse the relevant non-EU affiliate's ratings) is not refused.

Arranger for the Programme

"Offering Circular" means this document, including all documents incorporated by reference herein as set out under the heading "Documents Incorporated by Reference". This Offering Circular, excluding those items incorporated by reference herein as set out in paragraphs (h) to (k) under the heading "Documents Incorporated by Reference" (such documents collectively, the "Incorporated Documents") shall constitute the prospectus (the "Prospectus").

This Prospectus comprises (i) a base prospectus (the "Base Prospectus") for the purposes of Article 5.4 of the Prospectus Directive and (ii) listing particulars ("Listing Particulars") for the purpose of LR 2.2.11 of the Listing Rules Instrument 2005. References to Base Prospectus herein include the Listing Particulars unless the context otherwise requires.

You should rely only on the information contained or incorporated by reference in this document. The Issuer and the Guarantor have not authorized anyone to provide you with different information. The Issuer and the Guarantor are not, and none of the Arranger or Dealers are, making an offer of these Covered Bonds in any state or jurisdiction where such offer is not permitted.

Copies of Final Terms for Covered Bonds that are offered to the public in the European Economic Area ("EEA") or admitted to trading on a regulated market in the EEA in circumstances requiring publication of a prospectus in accordance with the Prospectus Directive or admitted to trading on the PSM (i) can be viewed on the website of the Regulatory News Service operated by the London Stock Exchange at http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html under the name of the Issuer and the headline "Publication of Prospectus" and (ii) will be available without charge from the Issuer at the head office of the Issuer located at 1170 Peel Street, Suite 600, Montréal, Québec, Canada H3B 0B1 and the specified office of each Paying Agent set out at the end of this Prospectus, see "*Terms and Conditions of the Covered Bonds*".

The Issuer and the Guarantor accept responsibility for the information in this Prospectus. To the best of the knowledge of the Issuer and the Guarantor, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus should be read and construed with any amendment or supplement hereto and with any other documents which are deemed to be incorporated herein or therein by reference and shall be read and construed on the basis that such documents are so incorporated and form part of the Prospectus (but not the Base Prospectus or Listing Particulars, save for the Incorporated Documents and any supplementary prospectus approved by the UK Listing Authority and the documents specifically incorporated by reference therein). Any reference in this document to Base Prospectus means this document together with the Incorporated Documents, any supplementary prospectus approved by the UK Listing Authority and any documents specifically incorporated by reference therein. In relation to any Tranche or Series (as such terms are defined herein) of Covered Bonds, this Prospectus shall also be read and construed together with the applicable Final Terms.

No person has been authorized by the Issuer, the Guarantor, the Bond Trustee, the Arranger or any of the Dealers to give any information or to make any representation not contained in or not consistent with this Prospectus or any amendment or supplement hereto or any document incorporated herein or therein by reference or entered into in relation to the Programme or any information supplied by the Issuer or the Guarantor or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorized by the Issuer, the Guarantor, the Arranger, any Dealer or the Bond Trustee.

No representation or warranty is made or implied by the Arranger or the Dealers or any of their respective affiliates, and neither the Arranger nor the Dealers nor any of their respective affiliates make any representation or warranty or accept any responsibility or any liability, as to the accuracy or completeness of the information contained or incorporated by reference in this Prospectus and any other information provided by the Issuer and the Guarantor in connection with the Programme. Neither the Arranger, the Dealers nor the Bond Trustee accepts any responsibility or liability in relation to the information contained or incorporated by reference in this Prospectus or any other information provided by the Issuer and the Guarantor in connection with the Programme. Neither the delivery of this Prospectus or any Final Terms nor the offering, sale or delivery of any Covered Bond shall, in any circumstances, create any implication that the information contained or incorporated by reference herein is true subsequent to the date hereof, the date indicated on such document incorporated by reference herein or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial situation of the Issuer or the Guarantor since the date hereof, the date indicated on such document incorporated by reference herein or, as the case may be, the date upon which this Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

None of this Prospectus, any Final Terms, any financial statements or any further information supplied in connection with the Programme constitutes an offer or an invitation to subscribe for or purchase any Covered Bonds, nor are they intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, the Guarantor, the Arranger, the Dealers, the Bond Trustee or any of them that any recipient of this Prospectus, any supplement hereto, any information incorporated by reference herein or therein, any other information provided in connection with the Programme and, in respect to each Tranche of Covered Bonds, the applicable Final Terms, should subscribe for or purchase any Covered Bond. Each investor contemplating purchasing Covered Bonds should determine for itself the relevance of the information contained or incorporated by reference in this Prospectus, should make its own independent investigation of the condition (financial or

otherwise) and affairs, and its own appraisal of the creditworthiness, of the Issuer and the Guarantor and should consult its own legal and financial advisors prior to subscribing for or purchasing any of the Covered Bonds. Each investor's or purchaser's purchase of Covered Bonds should be based upon such investigation as it deems necessary. Potential purchasers cannot rely, and are not entitled to rely, on the Arranger, the Dealers or the Bond Trustee in connection with their investigation of the accuracy of any information or their decision whether to subscribe for, purchase or invest in the Covered Bonds. None of the Arranger, the Dealers or the Bond Trustee undertakes any obligation to advise any investor or potential investor in or purchaser of the Covered Bonds of any information coming to the attention of any of the Arranger, the Dealers or the Bond Trustee, as the case may be.

The distribution of this Prospectus and any Final Terms and the offering, sale and delivery of the Covered Bonds in certain jurisdictions may be restricted by law. In particular, no action has been taken by the Issuer or the Guarantor or the Arranger or the Dealers which would permit a public offering of the Covered Bonds or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, the Covered Bonds may not be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the Prospectus Directive and any other applicable laws and regulations and the Dealers have represented that all offers and sales by them will be made on the same terms. Persons into whose possession this Prospectus or any Final Terms comes are required by the Issuer, the Guarantor, the Bond Trustee, the Arranger and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Covered Bonds and on the distribution of the Prospectus or any Final Terms and other offering material relating to the Covered Bonds in Canada, the United States, the EEA (including the United Kingdom, France and Italy), Hong Kong and Japan, see "*Subscription and Sale and Transfer and Selling Restrictions*" below. Neither this Prospectus nor any Final Terms may be used for the purpose of an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation.

This Prospectus has been prepared on the basis that any offer of Covered Bonds in any Member State of the EEA which has implemented the Prospectus Directive (each, a "Relevant Member State") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Covered Bonds. Accordingly, any person making or intending to make an offer in that Relevant Member State of Covered Bonds which are the subject of an offering contemplated in this Prospectus as completed by Final Terms in relation to the offer of those Covered Bonds may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. None of the Issuer, the Guarantor, the Bond Trustee, the Arranger or any Dealer has authorized, nor do they authorize, the making of any offer of Covered Bonds in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

The Prospectus has not been submitted for clearance to the Autorité des marchés financiers in France.

All references in this Prospectus to "U.S.$" or "U.S. dollars" are to the currency of the United States of America, to "$", "C$", "CAD" or "Canadian dollars" are to the currency of Canada and to "euro" and "€' are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the functioning of the European Union, as amended. In the documents incorporated by reference in this Prospectus, unless otherwise specified herein or the context otherwise requires, references to "$" are to Canadian dollars.

All references in this Prospectus to the "European Economic Area" or "EEA" are to the Member States of the European Union together with Iceland, Norway and Liechtenstein.

All references to "Condition(s)" are to the conditions described in the Prospectus under "Terms and Conditions of the Covered Bonds".

IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF COVERED BONDS UNDER THE PROGRAMME, THE DEALER OR DEALERS (IF ANY) NAMED AS STABILIZING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILIZING MANAGER(S)) IN THE APPLICABLE FINAL TERMS MAY OVER-ALLOT COVERED BONDS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE COVERED BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILIZING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILIZING MANAGER(S)) WILL UNDERTAKE STABILIZATION ACTIVITIES. ANY STABILIZATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE RELEVANT TRANCHE OF COVERED BONDS IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT TRANCHE OF COVERED BONDS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE RELEVANT TRANCHE OF COVERED BONDS. ANY STABILIZATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILIZING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILIZING MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

Investors whose investment authority is subject to legal restrictions should consult their legal advisors to determine whether and to what extent the Covered Bonds constitute legal investments for them. See "*Risk Factors—Legal investment considerations may restrict certain investments*".

CREDIT RATING AGENCIES

Moody's is not established in the European Union but Moody's Investors Service Ltd., London, its EU CRA affiliate, has applied for registration under the CRA Regulation indicating an intention to endorse its ratings, although notification of the corresponding registration decision (including its ability to endorse Moody's ratings) has not yet been provided by the relevant competent authority.

Fitch is not established in the European Union but Fitch Ratings Limited, one of its EU CRA affiliates, has applied for registration under the CRA Regulation indicating an intention to endorse its ratings. Notification of the corresponding registration decision (including such EU CRA affiliate's ability to endorse Fitch's ratings) has not yet been provided by the relevant competent authority.

DBRS is not established in the European Union but DBRS Ratings Limited, its EU CRA affiliate, has applied for registration under the CRA Regulation indicating an intention to endorse its ratings, although notification of the corresponding registration decision (including its ability to endorse DBRS's ratings) has not yet been provided by the relevant competent authority.

U.S. INFORMATION

The Covered Bonds have not been approved or disapproved by the U.S. Securities and Exchange Commission (the "**SEC**") or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Prospectus or confirmed the accuracy or determined the adequacy of the information contained in this Prospectus. Any representation to the contrary is unlawful.

This Prospectus is being provided on a confidential basis in the United States to a limited number of "qualified institutional buyers" within the meaning of Rule 144A under the Securities Act ("**QIBs**") and institutional "accredited investors" as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act ("**Institutional Accredited Investors**") solely in connection with the consideration of the purchase of the Covered Bonds being offered hereby. Its use for any other purpose in the United States is not authorized. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

Registered Covered Bonds may be offered or sold within the United States only to QIBs and Institutional Accredited Investors, in either case in transactions exempt from registration under the Securities Act. Each U.S. purchaser of Registered Covered Bonds is hereby notified that the offer and sale of any Registered Covered Bonds to it may be made in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A under the Securities Act. Purchasers of Definitive IAI Registered Covered Bonds will be required to execute and deliver an IAI Investment Letter. Each purchaser or holder of Definitive IAI Registered Covered Bonds, Covered Bonds represented by a Rule 144A Global Covered Bond or any Covered Bonds issued in registered form in exchange or substitution therefor (together "**Legended Covered Bonds**") will be deemed, by its acceptance or purchase of any such Legended Covered Bonds, to have made certain representations and agreements intended to restrict the resale or other transfer of such Covered Bonds as set out in "Subscription and Sale and Transfer and Selling Restrictions". Unless otherwise stated, terms used in this paragraph have the meanings given to them in "Form of the Covered Bonds" and "Subscription and Sale and Transfer and Selling Restrictions".

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER CHAPTER 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with any resales or other transfers of Covered Bonds that are "restricted securities" as defined in Rule 144(a)(3) under the Securities Act, the Issuer has undertaken in the Trust Deed to furnish, upon the request of a holder of such Covered Bonds or any beneficial interest therein, to such holder or to a prospective purchaser designated by him, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of request, the Issuer is neither subject to reporting under Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**") nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

By requesting copies of any of the documents referred to above, each potential purchaser agrees to keep confidential the various documents and all written information clearly labelled "Confidential" which from time to time have been or will be disclosed to it concerning the Guarantor or the Issuer or any of their affiliates, and agrees not to disclose any portion of the same to any person.

Notwithstanding anything herein to the contrary, investors (and each employee, representative or other agent of the investors) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the offering and all materials of any kind (including opinions or other tax analyses) that are provided to the investors relating to such tax treatment and tax structure (as such terms are defined in Treasury Regulation Section 1.6011-4). This authorization of tax disclosure is retroactively effective to the commencement of discussions between the Issuer, the Guarantor, the Arranger, the Dealers or their respective representatives and a prospective investor regarding the transactions contemplated herein.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain of the statements included and/or incorporated by reference in this Prospectus constitute forward-looking statements. Words such as "expects," "believes," "anticipates," "includes," "plans," "assumes," "estimates," "projects," "intends" or variations of such words are generally part of forward-looking statements. Forward-looking statements are made based on management's current expectations and beliefs concerning future developments and their potential effects on Caisse centrale. There can be no assurance that future developments

affecting the Issuer will be those anticipated by management. These forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and there are certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in the forward-looking statements, including without limitation:

- risks described under “Risk Factors”;
- general economic, market and political conditions, including the performance of financial markets and interest rate fluctuations;
- volatility in the securities markets;
- re-estimates of the policy and contract liabilities of the Desjardins Financial Group;
- competition in our and the Desjardins Financial Group’s markets and products;
- the impact of changing regulation or accounting practices;
- the continued threat of terrorism and ongoing military and other actions;
- effects of a pandemic or natural disaster;
- adverse technological developments;
- adverse litigation results;
- changes in applicable laws or regulations, including insurance and tax laws affecting the Desjardins Financial Group;
- other governmental actions;
- other risks and uncertainties that have not been identified at this time; and
- Caisse centrale’s response to these factors.

The factors identified above are believed to be important factors, but not necessarily all of the important factors, that could cause actual results to differ materially from those expressed in any forward-looking statement. Unpredictable or unknown factors could also have material adverse effects on the Issuer. All forward-looking statements included and/or incorporated by reference in this Prospectus and in the documents incorporated by reference herein are expressly qualified in their entirety by the foregoing cautionary statements and by the risk factors included and/or incorporated by reference in this Prospectus and in the documents incorporated by reference herein. Except as required by law, rule or regulation, the Issuer undertakes no obligation to update, amend or clarify forward-looking statements, whether as a result of new information, future events or otherwise.

LIMITATIONS ON ENFORCEMENT OF U.S. LAWS AGAINST THE ISSUER, ITS MANAGEMENT AND OTHERS

The Issuer is a financial services cooperative created under the laws of the Province of Québec, its directors and executive officers and some of the experts named in this document, are resident outside the United States, and a substantial portion of its assets and all or a substantial portion of the assets of such persons are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon such persons to enforce against them judgments of the courts of the United States predicated upon, among other things, the civil liability provisions of the federal securities laws of the United States. In addition, it may be difficult for investors to enforce, in original actions brought in courts in jurisdictions located outside the United States, among other things, civil liabilities predicated upon such securities laws.

The Issuer has been advised by its Canadian counsel, McCarthy Tétrault LLP, that a judgment of a United States court predicated solely upon civil liability of a compensatory nature under such laws would probably be enforceable under applicable Canadian law if the United States court in which the judgment was obtained has a basis for jurisdiction in the matter that was recognized by a Canadian court for such purposes. The Issuer has also been advised by such counsel, however, that there is some residual doubt whether an original action could be brought successfully in Canada predicated solely upon such civil liabilities.

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APPENDIX A-3: DESJARDINS FINANCIAL GROUP 2010 THIRD QUARTER REPORT

APPENDIX A-4: DESJARDINS FINANCIAL GROUP PRESS RELEASE RE: 2010 FINANCIAL RESULTS

STRUCTURE OVERVIEW

The information in this section is an overview of the structure relating to the Programme and does not purport to be complete. The information is taken from, and is qualified in its entirety by, the remainder of this Prospectus. Words and expressions defined below shall have the same meanings in this section. A glossary of certain defined terms used in the Prospectus is contained at the end of this Prospectus.

Overview of the Desjardins Financial Group

Caisse centrale is part of the Desjardins Financial Group. The Desjardins Financial Group is an institutional network of financial services cooperatives. Within the Desjardins Financial Group there are 481 individual Caisses (or credit unions) located throughout Québec and Ontario. Each Caisse is ultimately owned by its members and the members of each Caisse make deposits with and borrow from (including by way of hypothecary (or mortgage) loans) the particular Caisse of which it is a member. Every Caisse must be a member of the Fédération des caisses Desjardins du Québec (the "**Federation**") to be constituted initially and to maintain its existence.

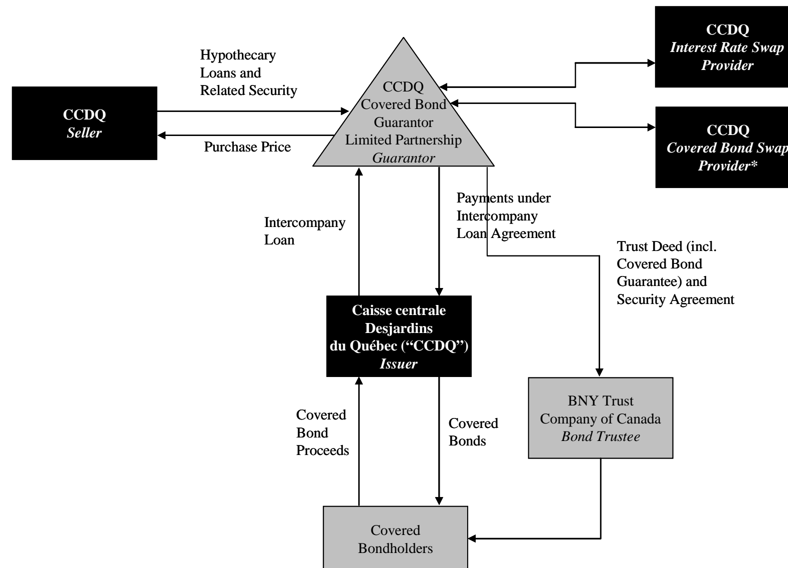
The shares of capital stock of Caisse centrale are held primarily by the Federation, which, together with its member Caisses, is a full member of Caisse centrale. The Federation acts as the coordinating organization of the Caisses and the affiliated institutions and subsidiaries of the Desjardins Financial Group, including Caisse centrale. In this capacity, the Federation, on behalf of its member Caisses, is the primary counterparty to Caisse centrale in connection with Caisse centrale's funding, hedging and other services to the Caisse network. The Federation also acts as a control and supervisory body over Caisse centrale and the Caisses.

For a more detailed description of the Desjardins Financial Group, see the section entitled "*Desjardins Financial Group*" below.

For the purposes of the Programme, Caisse centrale (in its capacity as the Seller) will acquire residential real estate hypothecary or mortgage loans (the "**Loans**") and their Related Security from the individual Caisses who originated the Loans (the "**Originators**") pursuant to one or more hypothecary loan sale agreements (each, an "**Origination Hypothecary Loan Sale Agreement**"). As further described below, the Seller will sell the Initial Covered Bond Portfolio to the Guarantor on the First Transfer Date and may, from time to time, sell additional Loans and their Related Security to the Guarantor to the extent that it has acquired such Loans from the Originators. An Originator that has sold any Loans and their Related Security to the Seller (including the Loans forming part of the Initial Covered Bond Portfolio) shall be required, upon demand from the Seller, to sell further Loans to the Seller at such time and in such manner as may be prescribed by the Seller. For the avoidance of doubt, the Programme will not be reliant on the ability of the Seller to acquire additional Loans and their Related Security from the Originators. Instead, the Partners shall use all reasonable efforts to ensure that the Guarantor is in compliance with the Asset Coverage Test. In that respect, the Limited Partner shall use all reasonable efforts to, as the Limited Partner may determine in its sole discretion, (i) make a Cash Capital Contribution, (ii) make a Capital Contribution in Kind to the Partnership, and/or (iii) require that Caisse centrale sell New Loans and their Related Security to the Guarantor, in the aggregate or in each case, as applicable, in an amount sufficient to ensure the Guarantor is or will be in compliance with the Asset Coverage Test on future Calculation Dates. For further details, see the section entitled "*Structure Overview*" as well as the section entitled "*Summary of the Principal Documents*" below.

Caisse centrale's obligations in its capacity as Issuer under the Covered Bonds are solely the obligations of Caisse centrale and are not guaranteed by, or obligations of, the Federation, any Caisse or any other affiliate of Caisse centrale, the Federation or any other person, other than, after a Covered Bond Guarantee Activation Event, the Guarantor.

Structure Diagram



* Cashflows under the Swap Agreements will be exchanged only after the occurrence of a Covered Bond Guarantee Activation Event.

Structure Overview

- *Programme*: Under the terms of the Programme, the Issuer will issue Covered Bonds on each Issue Date. The Covered Bonds will be direct, unsecured and unconditional obligations of the Issuer. **The Covered Bonds are not guaranteed under the *Deposit Insurance Act* (Québec) or the *Canada Deposit Insurance Corporation Act*.**

- *Covered Bond Guarantee*: The Guarantor has provided a direct and, following the occurrence of a Covered Bond Guarantee Activation Event, unconditional and irrevocable guarantee as to payments of interest and principal under the Covered Bonds when such amounts become Due for Payment where such amounts would otherwise be unpaid by the Issuer. Upon the occurrence of a Covered Bond Guarantee Activation Event, the Covered Bonds will become immediately due and payable as against the Issuer and, where that Covered Bond Guarantee Activation Event is the service of a Guarantor Acceleration Notice on the Guarantor, the Guarantor's obligations under the Covered Bond Guarantee will also be accelerated. Payments by the Guarantor under the Covered Bond Guarantee will be made subject to, and in accordance with, the relevant Priorities of Payment.

- *Security*: The Guarantor's obligations under the Covered Bond Guarantee and the Transaction Documents to which it is a party are secured by a first ranking security interest and hypothec over the present and future acquired assets of the Guarantor (which consist principally of the Guarantor's interest in the Covered Bond Portfolio, the Substitute Assets, the Authorized Investments, the Transaction Documents to which it is a party, funds being held for the account of the Guarantor by its service providers and funds in the Guarantor Accounts) in favour of the Bond Trustee (for itself and on behalf of the Secured Creditors) pursuant to the Security Agreements.

- *Covered Bond Portfolio*: The Initial Covered Bond Portfolio will consist solely of Loans acquired by the Seller from the Originators that are residential real estate hypothecary loans established in favour of borrowers residing in the Province of Québec secured by hypothecs (a hypothec being the Québec civil law equivalent of a mortgage) and insured under CMHC Mortgage Insurance as to principal and interest by Canada Mortgage and Housing Corporation ("**CMHC**") under the *National Housing Act* (Canada) ("**CMHC Insured Hypothecs**") as described herein. In respect of the Loans in the Covered Bond Portfolio, the applicable Originator holds registered title to the related Hypothecs and any applicable Related Security on behalf of the Guarantor. The Covered Bond Portfolio from time to time will consist of Loans secured by CMHC Insured Hypothecs and, subject to Rating Agency Confirmation, New Portfolio Asset Types.

  CMHC is Canada's national housing agency, and is a Canadian federal Crown corporation, wholly owned by the Government of Canada. CMHC's obligations are those of Her Majesty The Queen in Right of Canada, and as such carry the full faith and credit of the Government of Canada. CMHC derives its authorities from the *Canada Mortgage and Housing Corporation Act* (Canada), the *National Housing Act* (Canada) and, as a federal Crown corporation, the *Financial Administration Act* (Canada). CMHC insures the payment of principal and interest on designated first hypothecary or mortgage loans on private residential properties in Canada on and subject to the terms and conditions of the applicable CMHC Mortgage Insurance. As of the date hereof, CMHC Insured Hypothecs are (i) zero per cent credit risk weighted by the *Autorité des marchés financiers* (Québec), the regulator for the Desjardins Financial Group, and (ii) zero per cent credit risk weighted under the standardized approach and

have a limited impact on risk-weighted assets under the advanced internal ratings-based approach of the Office of the Superintendent of Financial Institutions, the Canadian banking regulator.

- *Intercompany Loan Agreement*: Under the terms of the Intercompany Loan Agreement, prior to the issuance of the first Tranche of Covered Bonds, the Issuer will make available to the Guarantor an interest-bearing Intercompany Loan, comprised of a Guarantee Loan and a revolving Demand Loan in an initial combined aggregate amount equal to the Total Credit Commitment. The Intercompany Loan will be denominated in Canadian dollars. The interest rate on the Intercompany Loan will be a Canadian dollar floating rate based on the yield on the Covered Bond Portfolio less the sum of a specified spread and an amount for certain expenses of the Guarantor, provided that the interest payable and the applicable rate of interest on the Intercompany Loan shall not exceed, as applicable: (i) prior to a Covered Bond Guarantee Activation Event, the yield on the Covered Bond Portfolio; and (ii) following a Covered Bond Guarantee Activation Event, the amount received by the Guarantor pursuant to the Interest Rate Swap Agreement, and in each case less a minimum spread and an amount for certain expenses of the Guarantor. The balance of the Guarantee Loan and Demand Loan will fluctuate with the issuances and redemptions of Covered Bonds and the requirements of the Asset Coverage Test. The Guarantee Loan will be a drawn amount equal to the balance of outstanding Covered Bonds at any relevant time plus that portion of the Covered Bond Portfolio required to collateralize the Covered Bonds to ensure that the Asset Coverage Test is met at all times (see "*Summary of the Principal Documents—Limited Partnership Agreement—Asset Coverage Test*"). The Demand Loan will be a revolving credit facility, the outstanding balance of which will be equal to the difference between the balance of the Intercompany Loan and the balance of the Guarantee Loan at any relevant time.

  At any time prior to a Demand Loan Repayment Event, the Guarantor may re-borrow any amount repaid by the Guarantor under the Intercompany Loan for a permitted purpose provided, among other things: (i) such drawing does not result in the Intercompany Loan exceeding the Total Credit Commitment; and (ii) no Issuer Event of Default or Guarantor Event of Default has occurred and is continuing. Unless otherwise agreed by the Issuer and subject to Rating Agency Confirmation, no Additional Loan Advances will be made to the Guarantor under the Intercompany Loan following the occurrence of a Demand Loan Repayment Event.

  To the extent the Covered Bond Portfolio increases or is required to be increased to meet the Asset Coverage Test, the Issuer may increase the Total Credit Commitment to enable the Guarantor to acquire New Loans and their Related Security from the Seller.

  The Demand Loan or any portion thereof will be repayable no later than the first Montréal Business Day following 60 days after a demand therefor is served on the Guarantor, subject to a Demand Loan Repayment Event having occurred (see below in respect of the repayment of the Demand Loan in such circumstance) and the Asset Coverage Test being met on the date of repayment after giving effect to such repayment.

  Following the occurrence of a Demand Loan Repayment Event, the Guarantor will be required to repay any amount of the Demand Loan that exceeds the Demand Loan Contingent Amount on the first Guarantor Payment Date following 60 days after such Demand Loan Repayment Event. Following such Demand Loan Repayment Event, the Guarantor will be required to repay the then outstanding Demand Loan on the date on which the Asset Percentage is next calculated. Repayment of any amount outstanding under the Demand Loan will be subject to the Asset Coverage Test being met on the date of repayment after giving effect to such repayment.

  The Guarantor may repay the principal on the Demand Loan in accordance with the Priorities of Payment and the terms of the Intercompany Loan Agreement, using (i) funds being held for the account of the Guarantor by its service providers and/or funds in the Guarantor Accounts (other than any amount standing to the credit of the Pre-Maturity Liquidity Ledger); and/or (ii) proceeds from the sale of Substitute Assets and/or Authorized Investments, as the case may be; and/or (iii) proceeds from the sale of Loans and their Related Security to the Seller or to another person subject to a right of pre-emption on the part of the Seller.

  The Guarantor will be entitled to set off amounts paid by the Guarantor under the Covered Bond Guarantee against amounts owing by it to the Issuer under the Intercompany Loan Agreement.

  For greater certainty, payments due by the Issuer under the Covered Bonds are not conditional upon receipt by the Issuer of payments in respect of the Intercompany Loan.

- *Proceeds of the Intercompany Loan*: The Guarantor will use the initial advance of proceeds from the Intercompany Loan to purchase the Initial Covered Bond Portfolio consisting of Loans and their Related Security from the Issuer, as Seller, in accordance with the terms of the Hypothecary Loan Sale Agreement and use additional advances (i) to purchase New Loans and their Related Security for the Covered Bond Portfolio pursuant to the terms of the Hypothecary Loan Sale Agreement; and/or (ii) to invest in Substitute Assets in an amount not exceeding the prescribed limit; and/or (iii) subject to complying with the Asset Coverage Test, to make Capital Distributions to the Limited Partner; and/or (iv) to make deposits of the proceeds in the

Guarantor Accounts (including, without limitation, to fund the Reserve Fund (to an amount not exceeding the prescribed limit) and the Pre-Maturity Liquidity Ledger) and make investments in Authorized Investments.

- *Consideration*: Under the terms of the Hypothecary Loan Sale Agreement, the Seller will sell the Initial Covered Bond Portfolio and may, from time to time, sell New Loans and their Related Security to the Guarantor on a fully-serviced basis in exchange for cash consideration or a deemed cash payment equal to the fair market value of these Loans at the relevant Transfer Date. The Limited Partner may also make Capital Contributions in exchange for an additional interest in the capital of the Guarantor.

- *Cashflows*: At any time there is no Asset Coverage Test Breach Notice outstanding and no Covered Bond Guarantee Activation Event has occurred, the Guarantor will:

  - apply Available Revenue Receipts to (i) pay interest due on the Intercompany Loan and (ii) make Capital Distributions to the Limited Partner. However, these payments will only be made in accordance with, and after payment of certain items ranking higher in, the Pre-Acceleration Revenue Priority of Payments; and

  - apply Available Principal Receipts to (i) fund the Pre-Maturity Liquidity Ledger in respect of any liquidity that may be required in respect of Hard Bullet Covered Bonds following any breach of the Pre-Maturity Test; (ii) acquire New Loans and their Related Security; (iii) pay principal amounts outstanding on the Intercompany Loan; and (iv) make Capital Distributions to the Limited Partner. However, these payments will only be made in accordance with, and after payment of certain items ranking higher in, the Pre-Acceleration Principal Priority of Payments.

  For further details of the Pre-Acceleration Revenue Priority of Payments and Pre-Acceleration Principal Priority of Payments, see "*Cashflows*" below.

  While an Asset Coverage Test Breach Notice is outstanding but prior to a Covered Bond Guarantee Activation Event having occurred, the Guarantor will continue to apply Available Revenue Receipts and Available Principal Receipts as described above, except that, while any Covered Bonds remain outstanding:

  - in respect of Available Revenue Receipts, no further amounts will be paid to the Issuer under the Intercompany Loan Agreement, towards any indemnity amount due to any of the Partners under the Limited Partnership Agreement or towards any Capital Distributions; and

  - in respect of Available Principal Receipts, no payments will be made other than into the GIC Account and, as required, credited to the Pre-Maturity Liquidity Ledger (see "*Cashflows*" below).

  Following service of a Notice to Pay on the Guarantor (but prior to service of a Guarantor Acceleration Notice on the Guarantor) the Guarantor will use all moneys to pay Guaranteed Amounts in respect of the Covered Bonds when the same become Due for Payment subject to paying higher ranking obligations of the Guarantor (including the obligations of the Guarantor to make repayment on the Demand Loan, as described above) in accordance with the Priorities of Payment.

  Following service of a Guarantor Acceleration Notice on the Guarantor, the Covered Bonds will become immediately due and repayable (if not already due and payable following the occurrence of an Issuer Event of Default) and the Bond Trustee will enforce its claim against the Guarantor under the Covered Bond Guarantee for an amount equal to the Early Redemption Amount in respect of each Covered Bond together with accrued interest and any other amounts due under the Covered Bonds (other than additional amounts payable by the Issuer under Condition 8). At such time, the Security will also become enforceable by the Bond Trustee (for the benefit of the Covered Bondholders). Any moneys recovered by the Bond Trustee from realization on the Security following enforcement will be distributed according to the Post-Enforcement Priority of Payments, see "*Cashflows*" below.

- *Asset Coverage Test*: The Programme provides that the assets of the Guarantor are subject to an Asset Coverage Test in respect of the Covered Bonds. Accordingly, for so long as Covered Bonds remain outstanding, the Guarantor must ensure that monthly, on each Calculation Date, the Adjusted Aggregate Loan Amount will be in an amount at least equal to the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on that Calculation Date. The Partners shall use all reasonable efforts to ensure that the Guarantor is in compliance with the Asset Coverage Test. In that respect, the Limited Partner shall use all reasonable efforts to, as the Limited Partner may determine in its sole discretion, (i) make a Cash Capital Contribution, (ii) make a Capital Contribution in Kind to the Partnership, and/or (iii) require that Caisse centrale sell New Loans and their Related Security to the Guarantor, in the aggregate or in each case, as applicable, in an amount sufficient to ensure the Guarantor is or will be in compliance with the Asset Coverage Test on future Calculation Dates. The Asset Coverage Test may give limited credit to Non-Performing Loans based on the long-term debt credit ratings assigned to CMHC from time to time. The Asset Coverage Test will be tested by the Cash Manager as at each Calculation Date and monitored from time to time by the Asset Monitor. Such testing will be completed within the time period specified in the Cash

Management Agreement. A breach of the Asset Coverage Test as at a Calculation Date, if not remedied so that the breach no longer exists on the immediately succeeding Calculation Date, will require the Guarantor (or the Cash Manager on its behalf) to serve an Asset Coverage Test Breach Notice on the Partners, the Bond Trustee and, if delivered by the Cash Manager, the Guarantor. An Asset Coverage Test Breach Notice will be revoked if the Asset Coverage Test is satisfied as at the next Calculation Date following service of the Asset Coverage Test Breach Notice, provided a Covered Bond Guarantee Activation Event has not occurred. See "*Summary of the Principal Documents—Limited Partnership Agreement—Asset Coverage Test*".

At any time an Asset Coverage Test Breach Notice is outstanding:

(a) the application of Available Revenue Receipts and Available Principal Receipts will be restricted while any Covered Bonds remain outstanding; and

(b) the Issuer will not be permitted to make further issuances of Covered Bonds.

If an Asset Coverage Test Breach Notice has been served and is not revoked on or before the Guarantor Payment Date following the next Calculation Date after service of such Asset Coverage Test Breach Notice, then an Issuer Event of Default will have occurred and the Bond Trustee will be entitled (and, in certain circumstances, may be required) to serve an Issuer Acceleration Notice on the Issuer, following which the Bond Trustee must forthwith serve a Notice to Pay on the Guarantor (which shall constitute a Covered Bond Guarantee Activation Event).

- *Amortization Test*: Following service of a Notice to Pay on the Guarantor (but prior to service of a Guarantor Acceleration Notice) and, for so long as Covered Bonds remain outstanding, the Guarantor must ensure that, as at each Calculation Date following service of such Notice to Pay on the Guarantor, the Guarantor is in compliance with the Amortization Test. The Amortization Test will be tested by the Cash Manager and will be verified by the Asset Monitor as at each Calculation Date. Such testing will be completed within the time period specified in the Cash Management Agreement. The Amortization Test may give limited credit to Non-Performing Loans based on the long-term debt credit ratings assigned to CMHC from time to time. A breach of the Amortization Test will constitute a Guarantor Event of Default, which will entitle the Bond Trustee to serve a Guarantor Acceleration Notice declaring the Covered Bonds immediately due and repayable and entitle the Bond Trustee to exercise the remedies available to it under the Security Agreements, including to enforce on the Security granted under the Security Agreements. See "*Summary of the Principal Documents—Limited Partnership Agreement—Amortization Test*".

- *Extendable obligations under the Covered Bond Guarantee*: An Extended Due for Payment Date may be specified as applying in relation to a Series of Covered Bonds in the applicable Final Terms. This means that, if the Issuer fails to pay the Final Redemption Amount of the relevant series of Covered Bonds on the Final Maturity Date (subject to applicable grace periods) and if the Guaranteed Amounts equal to the Final Redemption Amount of the relevant Series of Covered Bonds are not paid in full by the Extension Determination Date (for example because, following the service of a Notice to Pay on the Guarantor, the Guarantor has insufficient moneys available in accordance with the Priorities of Payment to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount of the relevant Series of Covered Bonds after payment of higher ranking amounts and taking into account amounts ranking *pari passu* in the Priorities of Payment), then payment of the unpaid amount pursuant to the Covered Bond Guarantee will be automatically deferred (without a Guarantor Event of Default occurring as a result of such non-payment) and will be due and payable on the date specified in the applicable Final Terms as the Extended Due for Payment Date (subject to any applicable grace period) and interest will continue to accrue and be payable on the unpaid amount in accordance with Condition 5, at a Rate of Interest determined in accordance with Condition 5.03 (in the same manner as the Rate of Interest for Floating Rate Covered Bonds). To the extent that a Notice to Pay has been served on the Guarantor and the Guarantor has sufficient time and sufficient moneys to pay in part the Guaranteed Amounts corresponding to the relevant Final Redemption Amount in respect of the relevant Series of Covered Bonds, the Guarantor will make such partial payment on any Interest Payment Date up to and including the relevant Extended Due for Payment Date, in accordance with the Priorities of Payment and as described in Condition 6.01 and will pay Guaranteed Amounts constituting Scheduled Interest on each Original Due for Payment Date and the Extended Due for Payment Date with any unpaid portion thereof (if any) becoming due and payable on the Extended Due for Payment Date. Any amount that remains unpaid on any such Interest Payment Date will be automatically deferred for payment until the applicable Extended Due for Payment Date (where the relevant Series of Covered Bonds are subject to an Extended Due for Payment Date).

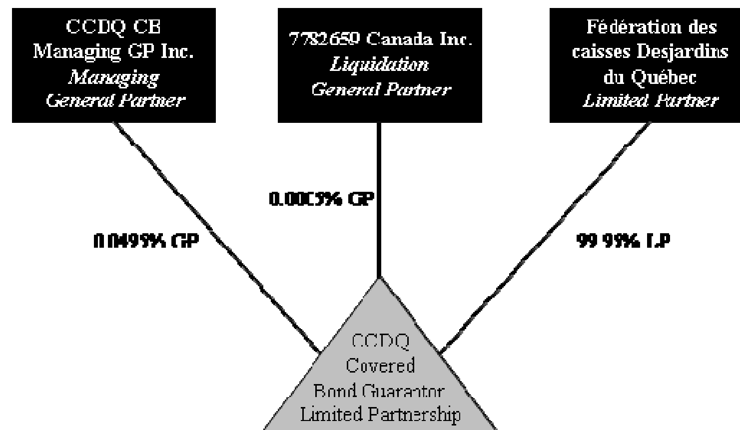
- *Servicing*: Caisse centrale, as Servicer, has agreed to provide administrative services to the Guarantor in respect of the Covered Bond Portfolio. As at the Programme Establishment Date, the Servicer intends to sub contract or delegate the performance of all its duties under the Servicing Agreement, including the exercise of reasonable care and prudence in the making of the Loans, in the administration of the Loans, in the collection of the repayment of the Loans and in the protection of the security for each Loan, to each Originator in respect of the Loans originated by it that form part of the Covered Bond Portfolio, provided that the Servicer is not released or discharged from any liability under the Servicing Agreement and remains liable for the performance or non-performance or breach by any sub-contractor or delegate of the duties so subcontracted or delegated under the Servicing Agreement. In certain circumstances, the Servicer or such Originator may be required to assign the role of Servicer to a third

party acceptable to the Bond Trustee and qualified to service the Covered Bond Portfolio (see "*Summary of the Principal Documents—Servicing Agreement*").

- *Further Information*: For a more detailed description of the transactions summarized above relating to the Covered Bonds see, amongst other relevant sections of this Prospectus, "*Overview of the Programme*", "*Terms and Conditions of the Covered Bonds*", "*Summary of the Principal Documents*", "*Credit Structure*" and "*Cashflows*".

Ownership Structure of the Guarantor

- As at the date of this Prospectus, the Partners of the Guarantor are the Limited Partner, which holds 99.95 per cent of the interest in the Guarantor, and the Managing GP and the Liquidation GP, each of which own 99 per cent and 1 per cent, respectively, of the remaining 0.05 per cent general partner interest in the Guarantor.



- A new Limited Partner may be admitted to the Guarantor, subject to meeting certain conditions precedent including (except in the case of a Subsidiary of a current Limited Partner), but not limited to, receipt of Rating Agency Confirmation.

- Other than in respect of those decisions reserved to the Partners and the limited circumstances described below, the Managing GP will manage and conduct the business of the Guarantor and will have all the rights, power and authority to act at all times for and on behalf of the Guarantor (provided that a voluntary liquidation of the Guarantor would require the consent of the Liquidation GP).

- Under certain circumstances, including a Covered Bond Guarantee Activation Event or insolvency or winding-up of the Managing GP, the Liquidation GP will assume the management responsibilities of the Managing GP.

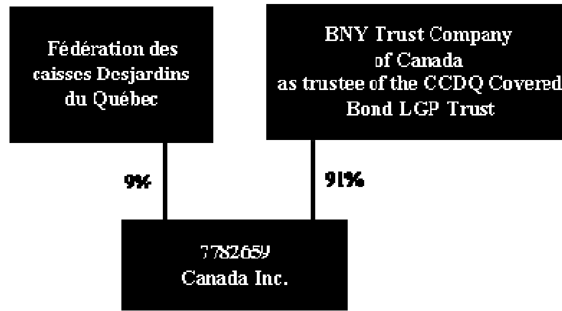
Ownership Structure of the Managing GP

- The Managing GP is a wholly-owned subsidiary of the Federation. The directors and officers of the Managing GP are officers and employees of the Federation.

Ownership Structure of the Liquidation GP

- As at the date of this Prospectus, 91 per cent of the issued and outstanding shares in the capital of the Liquidation GP are held by the Corporate Services Provider, as trustee of the CCDQ Covered Bond LGP Trust (the "**LGP Trust**") and 9 per cent of the issued and outstanding shares in the capital of the Liquidation GP are held by the Federation. A majority of the directors of the Liquidation GP are appointed by the Corporate Services Provider, as trustee of the LGP Trust, and are independent of the Federation. The Federation is entitled to have one nominee on the board of the Liquidation GP who is an officer or employee of the Federation.

- The beneficiary of the LGP Trust will be one or more charities registered under the *Income Tax Act* (Canada).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RISK FACTORS

The Issuer and the Guarantor believe that the following risk factors are material for the purpose of assessing risk associated with the Issuer and the Guarantor. Most of these factors are contingencies which may or may not occur and neither the Issuer nor the Guarantor is in a position to express a view on the likelihood of any such contingency occurring or the likelihood or extent to which any such contingencies may affect the ability of the Issuer or the Guarantor to pay interest, principal or other amounts on or in connection with any Covered Bonds.

In addition, factors which could be material for the purpose of assessing the market risk associated with Covered Bonds issued under the Programme are also described below.

The Issuer and the Guarantor believe that the factors described below represent the principal risks inherent in investing in Covered Bonds issued under the Programme, but the inability of the Issuer and the Guarantor to pay interest, principal or other amounts on or in connection with any Covered Bonds or to perform any of its obligations may occur for other reasons which may not be considered significant risks by each of the Issuer and the Guarantor based on information currently available to it or which it may currently be able to anticipate. The risks described below are not the only risks faced by the Issuer and the Guarantor. Additional risks and uncertainties, including those not presently known to the Issuer or the Guarantor or that they currently believe to be immaterial, could also adversely affect the ability of the Issuer or the Guarantor to pay interest, principal or other amounts on or in connection with any Covered Bonds or to perform any of its obligations. Prospective investors should also read the detailed information set out elsewhere in this Prospectus or any applicable Supplement (including information incorporated by reference herein or therein) and any applicable Final Terms to reach their own views prior to making any investment decisions.

Factors that may affect the Issuer's abilities to fulfil its obligations under Covered Bonds issued under the Programme

Banking and financial services involve risks. The value of the Covered Bonds will be affected by the general creditworthiness of the Issuer. Prospective investors should consider the following categories of risks to which the Issuer's businesses are exposed.

1. Strategic risk, being the potential for loss arising from ineffective business strategies, from improper implementation of business strategies or from a lack of responsiveness to changes in the business environment.

2. Credit risk, being the potential for financial loss if a borrower or counterparty in a transaction fails to meet its agreed payment obligations. Credit risk is one of the most significant and pervasive risks in banking. Every loan, extension of credit or transaction that involves the transfer of payments between the Issuer and other parties or financial institutions exposes the Issuer to some degree of credit risk.

3. Market risk, being the potential for loss from changes in the value of financial instruments. The value of financial instruments can be affected by changes in interest rates, foreign exchange rates, equity and commodity prices, and credit spreads. The Issuer is exposed to market risk in its trading and investment portfolios, as well as through its non-trading activities. In the Issuer's trading and investment portfolios, the Issuer is an active participant in the market, seeking to realize returns for the Issuer through careful management of its positions and inventories. In the Issuer's non-trading activities, it is exposed to market risk through the transactions that its customers execute with the Issuer.

4. Interest rate risk, being the impact that changes in interest rates could have on the Issuer's margins, earnings and economic value.

5. Liquidity risk, being the risk that the Issuer cannot meet a demand for cash or fund its obligations as they come due. Demand for cash can arise from withdrawals of deposits, debt maturities and commitments to provide credit. Liquidity risk also includes the risk of not being able to sell assets in a timely manner at a reasonable price.

6. Operational risk, being the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operating a complex financial institution exposes the Issuer's businesses to a broad range of operational risks, including failed transaction processing and documentation errors, fiduciary and information breaches, technology failures, business disruption, theft and fraud, workplace injury and damage to physical assets as a result of internal or outsourced business activities. The impact can result in significant financial loss, reputational harm or regulatory censure and penalties. Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that the Issuer will be unable to comply with its obligations as a company with securities admitted to the Official List.

7. Insurance risk, being the risk of loss due to actual insurance claims exceeding the expected insurance claims. This risk can arise if there is improper estimation or selection of the underlying risks, poor product design, adverse development of insurance liabilities, extreme or catastrophic events, as well as the inherent randomness associated with the risks insured. Insurance by nature involves the distribution of products that transfer individual risks to the issuer with the expectation of a return built into

the insurance premiums earned. The Issuer is exposed to insurance risk in its property and casualty insurance business, and in its life and health insurance and reinsurance businesses.

8. Regulatory and legal risk, being the risk of non-compliance with regulatory, legal and comparable requirements. Further, legal risk includes the effectiveness of preventing and handling litigation. Financial services is one of the most closely regulated industries, and the management of a financial services business such as the Issuer's is expected to meet high standards in all business dealings and transactions. As a result, the Issuer is exposed to regulatory and legal risk in virtually all of its activities. Failure to meet regulatory and legal requirements not only poses a risk of censure or penalty, and may lead to litigation, but also puts the Issuer's reputation at risk. Financial penalties, unfavourable judicial or regulatory judgements and other costs associated with legal proceedings may also adversely affect the earnings of the Issuer. Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that the Issuer will be unable to comply with its obligations as a company with securities admitted to the Official List.

9. Reputational risk, being the risk that negative publicity, whether true or not, regarding an institution's business practices, actions or inactions, will or may cause a decline in the institution's value, liquidity or customer base.

10. Environmental risk, being the risk of loss to the Issuer's financial, operational or reputational value resulting from the impact of environmental issues or concerns.

There are numerous other factors, many beyond the Issuer's control, that could cause the Issuer's actual results to differ materially from the expectations of management. In the following discussion, the Issuer explains how certain key factors could have an adverse effect on the Issuer's actual results.

Factors which are material for the purpose of assessing risks relating to the Issuer

General economic and business conditions in the regions in which the Issuer operates may significantly affect the Issuer's revenues.

General economic and business conditions in the regions in which the Issuer operates (principally within the Province of Québec) may significantly affect the Issuer's revenues. These conditions include short and long-term interest rates, inflation, capital market fluctuations, foreign exchange rates, the stability of various financial markets, including the impact from the continuing volatility in the U.S. subprime and related markets and lack of liquidity in various other financial markets, the strength of the economy, terrorist threats and the volume of business the Issuer conducts in a given region.

The monetary policies of the Bank of Canada, the Federal Reserve Board in the United States and the European Central Bank have an impact on the Issuer's revenues and changes in the money supply and the general level of interest rates may affect the Issuer's profitability.

The monetary policies of the Bank of Canada, the Federal Reserve Board in the United States and the European Central Bank, as well as other interventions in capital markets, have an impact on the Issuer's revenues. Changes in the money supply and the general level of interest rates may affect the Issuer's profitability. A fluctuation in the level of interest rates affects the spread between interest paid on deposits and interest earned on loans, leading to a variation in the Issuer's net interest income. The Issuer has no control over changes in monetary policies or capital market conditions, and consequently, cannot forecast or anticipate them.

The degree of competition affects the Issuer's performance.

The degree of competition in markets in which the Issuer 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. Some of the Issuer's competitors have greater financial, technical, marketing and other resources and more personnel than the Issuer.

Changes in standards, laws and regulations could have an impact on the Issuer.

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

The Issuer can be adversely affected by reliance on information concerning customers and counterparties provided by such customers and counterparties if such information is misleading or incomplete.

The Issuer relies on the completeness and accuracy of the information concerning customers and counterparties provided by such customers and counterparties. When deciding to authorize credit or other transactions with customers or counterparties, the Issuer may use information provided by them, including financial statements and other financial information. The Issuer 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 Issuer's financial condition and revenues could be adversely affected if it relies on financial statements that do not comply with Canadian 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.

The success of new products and services in retaining or increasing the Issuer's market share depends partly on its skill in adapting its products and services to changing industry standards.

The Issuer's ability to retain or increase its market share depends partly on its skill in adapting its products and services to changing industry standards. 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 commission-based products and services. Moreover, the adoption of new technology, including Internet services, could result in major expenses for the Issuer, as it would be required to modify or adapt our products and services.

The Issuer's future performance depends partly on its ability to recruit and retain key officers.

The Issuer's future performance depends partly on its ability to recruit and retain key officers. In addition, intense rivalry to attract the best personnel pervades the financial services industry. The Issuer cannot be sure that it will be able to continue to recruit and retain key officers.

Interruptions in network access services or other communication services could adversely affect the Issuer's ability to conduct its business.

Third parties provide some of the essential components of the Issuer'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 Issuer's ability to offer products and services to customers and to otherwise conduct its business.

Difficulties in implementing the Issuer's new technology platform could adversely affect its business.

The Issuer recently conducted a major review of its technology requirements and selected a new provider to assist it with its technology operations, including, outsourcing of its centralized information-technology infrastructure operations and hosting services. This new platform is currently being phased in and is scheduled to be fully operational by the second quarter of 2011. Any delays or unanticipated difficulties in transitioning to this new platform could adversely affect the Issuer's ability to conduct its business and offer its products and services to its customers.

Foreign exchange rate fluctuations may affect the Issuer's financial position and its future earnings.

Exchange rate fluctuations in the Canadian dollar, the U.S. dollar and other foreign currencies may affect the Issuer's financial position and its future earnings. A higher Canadian dollar may also adversely affect the earnings of its business clients in Canada.

The Issuer is subject to risks from geographic concentration.

As of December 31, 2009, the Desjardins Financial Group's lending in Québec accounted for 95% of its total loans and its and the Issuer's operations are heavily concentrated in Québec. As a result of this geographic concentration, the Issuer's results depend largely on economic conditions in Québec. Deterioration in economic conditions in this market could:

- increase loan delinquencies;
- increase problem assets and foreclosures;
- increase claims and lawsuits;
- decrease the demand for the Issuer's products and services; and
- decrease the value of collateral for loans, especially real estate, in turn reducing customers' borrowing power, the value of assets associated with nonperforming loans and collateral coverage.

The Issuer is exposed to credit risk.

Credit risk is the risk of losses resulting from a borrower's or counterparty's failure to honour its contractual obligations, whether or not these obligations appear on the balance sheet. The Issuer is exposed to credit risk primarily through its loans to businesses and to a lesser extent, indirectly, through loans by members of the Desjardins Financial Group to individuals and businesses to the extent nonperformance

of such loans exposes the Federation and the Issuer's other affiliates to credit risk that impairs their ability to perform their obligations to the Issuer. As of December 31, 2010 loans accounted for 59.2% of the Issuer's assets. Additionally, making loans involves certain other risks including, interest rate changes over the time period in which loans may be repaid, risks resulting from changes in the economy, risks inherent in dealing with borrowers and, in the case of a loan backed by collateral, risks resulting from uncertainties about the future value of the collateral. The Issuer is also exposed to credit risk through various other commitments including letters of credit, foreign exchange lines and transactions involving derivative financial instruments and securities. In addition, in connection with the Issuer's hedging activities on behalf of the Desjardins Financial Group and its other derivatives transactions, the Issuer is exposed to credit risk of its contractual counterparties in those transactions.

Allowance for credit losses is based on, among other things, our assumptions regarding delinquency trends and future loss expectations and may prove insufficient.

The Issuer's allowance for credit losses is based on, among other things, national and regional economic conditions, historical loss experience, and its assumptions regarding delinquency trends and future loss expectations. If the Issuer's assumptions prove to be incorrect, its allowance for loan losses may not be sufficient to cover losses inherent in its loan portfolio. If actual net write-offs were to exceed the Issuer's allowance, its earnings would be negatively impacted by additional provisions for credit losses. Any increase in the Issuer's allowance for credit losses or loan write-offs could have an adverse effect on its results of operations or financial condition.

The Issuer's net income depends primarily upon its net interest income.

The Issuer's net income depends primarily upon its net interest income. Net interest income is income that remains after deducting, from total income generated by earning assets, the interest expense attributable to the acquisition of the funds required to support earning assets. Income from earning assets includes income from loans, investment securities and short-term investments. The amount of interest income is dependent on many factors including the volume of earning assets, the general level of interest rates, the dynamics of the change in interest rates, and the levels of nonperforming loans. The cost of funds varies with the amount of funds necessary to support earning assets, the rates paid to attract and hold deposits, rates paid on borrowed funds and the levels of non-interest-bearing demand deposits and equity capital.

Different types of assets and liabilities may react differently, and at different times, to changes in market interest rates. The Issuer expects that it will periodically experience "gaps" in the interest rate sensitivities of its assets and liabilities. That means either its interest-bearing liabilities will be more sensitive to changes in market interest rates than its interest-earning assets, or vice versa. When interest-bearing liabilities mature or reprice more quickly than interest-earning assets, an increase in market rates of interest could reduce the Issuer's net interest income. Likewise, when interest-earning assets mature or reprice more quickly than interest-bearing liabilities, falling interest rates could reduce the Issuer's net interest income. The Issuer is unable to predict changes in market interest rates, which are affected by many factors beyond its control, including inflation, recession, unemployment, money supply, domestic and international events, investor and consumer demand and changes in the Canadian and other financial markets.

The Issuer attempts to manage risk from changes in market interest rates, in part, by controlling the mix of interest- rate-sensitive assets and interest-rate-sensitive liabilities. However, interest-rate risk management techniques are not exact. A rapid increase or decrease in interest rates could adversely affect the Issuer's results of operations and financial performance.

The Issuer has exposure to certain classes of financial instruments and investments which markets consider to be higher risk.

The Issuer has some exposure to certain classes of financial instruments which markets consider to be higher risk, primarily, Alt-A loans, leveraged finance and collateralized loan obligations. The Issuer's Alt-A hypothec exposure (defined as loans to borrowers with non-standard income documentation) was $48.5 million as at December 31, 2010. 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 $78.7 million as at December 31, 2010, and is in the form of disbursed and undisbursed commitments. The Issuer did not have any collateralized debt obligations as at December 31, 2010.

In light of the Issuer's dependence upon the Federation and the Desjardins Financial Group, it may be adversely affected by business risks affecting those entities.

Given the Issuer's dependence on the Federation and the Desjardins Financial Group and the volume and significance of its transactions with these entities, risks affecting the various businesses of the Desjardins Financial Group (including liquidity risk, credit risk, market risk, operational risk, as well as insurance risk associated with the design and pricing of insurance products and underwriting and claims risks associated with those products) may also pose risks to the Issuer's financial condition or results of operations. Additional information about risks relating to the businesses of the Desjardins Financial Group is available on pages 117 through 125 of the Desjardins Financial Group 2009 Annual Report, which report is appended to this Prospectus.

Accounting Policies and Methods Used by the Issuer

The accounting policies and methods the Issuer utilizes determine how the Issuer reports its financial condition and results of operations, and they may require management to make estimates or rely on assumptions about matters that are inherently uncertain. Such estimates and assumptions may require revisions and changes to them and any such revisions and changes may materially adversely affect the Issuer's results of operations and financial condition.

Factors which are material for the purpose of assessing risks relating to the Guarantor

Finite Resources Available to the Guarantor to Meet its Obligations Under the Covered Bond Guarantee

The Guarantor's ability to meet its obligations under the Covered Bond Guarantee will depend on: (i) the realizable value of the assets of the Guarantor, including the Covered Bond Portfolio; (ii) the amount of Available Revenue Receipts and Available Principal Receipts generated by the Covered Bond Portfolio and the timing thereof; (iii) amounts received from the Swap Providers and the timing thereof; (iv) the realizable value of Substitute Assets and/or Authorized Investments held by it; and (v) the receipt by it of funds held for and on behalf of the Guarantor by its service providers and of credit balances and interest on credit balances from the Guarantor Accounts. The Guarantor will not have any other source of funds available to meet its obligations under the Covered Bond Guarantee.

If a Guarantor Event of Default occurs and the Security created by or pursuant to the Security Agreements is enforced, the proceeds from the realization of Charged Property may not be sufficient to meet the claims of all the Secured Creditors, including the holders of the Covered Bonds.

If, following enforcement of the Security constituted by or pursuant to the Security Agreements, the Secured Creditors have not received the full amount due to them pursuant to the terms of the Transaction Documents, it is expected that they will have an unsecured claim against the Issuer for the shortfall. There is no guarantee that the Issuer will have sufficient funds to pay that shortfall in whole or in part.

Holders of the Covered Bonds should note that the Asset Coverage Test has been structured to ensure that the Adjusted Aggregate Loan Amount is at least equal to the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds for so long as Covered Bonds remain outstanding, which should reduce the risk of there ever being a shortfall (although there is no assurance of this result and the sale of New Loans and their Related Security by the Seller to the Guarantor, advances under the Intercompany Loan or additional Capital Contributions by the Limited Partner may be required to avoid or remedy a breach of the Asset Coverage Test). The Guarantor must ensure that following the service of a Notice to Pay, the Amortization Test is met on each Calculation Date. A breach of the Amortization Test will constitute a Guarantor Event of Default and will entitle the Bond Trustee to serve a Guarantor Acceleration Notice on the Guarantor (see "*Summary of the Principal Documents—Limited Partnership Agreement—Asset Coverage Test*" and "*Credit Structure—Asset Coverage Test*"). The Partners shall use all reasonable efforts to ensure that the Guarantor is in compliance with the Asset Coverage Test. In that respect, the Limited Partner shall use all reasonable efforts to, as the Limited Partner may determine in its sole discretion, (i) make a Cash Capital Contribution, (ii) make a Capital Contribution in Kind to the Partnership, and/or (iii) require that Caisse centrale sell New Loans and their Related Security to the Guarantor, in the aggregate or in each case, as applicable, in an amount sufficient to ensure the Guarantor is or will be in compliance with the Asset Coverage Test on future Calculation Dates.

Reliance of the Guarantor on Third Parties

The Guarantor has entered into agreements with a number of third parties pursuant to which such third parties have agreed to perform services for the Guarantor. In particular, but without limitation, the Servicer has been appointed to service Loans in the Covered Bond Portfolio sold to the Guarantor, the Cash Manager has been appointed to calculate and monitor compliance with the Asset Coverage Test and the Amortization Test and to provide cash management services to the Guarantor and the GIC Account and Transaction Account (to the extent maintained) will be held with the Account Depository Institution. Several of those roles, including, but not limited to, the roles of Servicer, Cash Manager and Account Depository Institution, are initially performed by the Issuer. See also "*Other factors which are material for the purposes of assessing the risks involved in an investment in the Covered Bonds*". In the event that any of those parties fails to perform its obligations under the relevant agreement to which it is a party, the realizable value of the Covered Bond Portfolio or any part thereof or pending such realization (if the Covered Bond Portfolio or any part thereof cannot be sold) may affect the ability of the Guarantor to meet its obligations under the Covered Bond Guarantee. For instance, if the Servicer has failed to administer adequately the Loans, this may lead to higher incidences of non-payment or default by Borrowers. If a Loan is not being administered in accordance with the CMHC Mortgage Insurance, the ability to make a claim or obtain the benefit of coverage under such CMHC Mortgage Insurance may be adversely affected or terminated. See "*Default by Borrowers in paying amounts due on their Loans; CMHC Mortgage Insurance*". Following a Covered Bond Guarantee Activation Event, the Guarantor is also reliant on the GIC Provider and the Swap Providers to provide it with the funds matching its obligations under the Intercompany Loan Agreement and the Covered Bond Guarantee, as described below.

If a Servicer Event of Default occurs pursuant to the terms of the Servicing Agreement, then the Guarantor and/or the Bond Trustee will be entitled to terminate the appointment of the Servicer and appoint a new servicer in its place. A Servicer Event of Default includes an event in respect of the Servicer failing to comply with the requirement for the Covered Bond Portfolio to be serviced by a CMHC approved lender. There can be no assurance that a substitute servicer with sufficient experience in administering hypothecary or mortgage loans

secured by hypothecs or mortgage liens of residential properties in Canada that is a CMHC approved lender would be found who would be willing and able to service the Loans and their Related Security and enter into a servicing agreement with the Guarantor. If found, a substitute servicer may not have ratings from the Rating Agencies on its unsecured, unguaranteed and unsubordinated debt obligations above the level specified in the Servicing Agreement or may not be rated at all and Rating Agency Confirmation may not be delivered for such substitute servicer. A substitute servicer may charge higher servicing fees that it agrees to with the Guarantor, which servicing fees will be entitled to priority over payments to holders of the Covered Bonds. CMHC Mortgage Insurance may cease to be in force in respect of a Loan if it is not administered by a CMHC approved lender. Further, the removal of the Seller as initial Servicer without the consent of CMHC may adversely affect the coverage of the CMHC Insured Hypothecs under the CMHC Mortgage Insurance. See "*Default by Borrowers in paying amounts due on their Loans; CMHC Mortgage Insurance*".

If the Seller, as initial Servicer, becomes subject to insolvency proceedings, it could give rise to a stay of proceedings that would delay and may otherwise impair the Guarantor's or the Bond Trustee's exercise of rights and remedies in respect of the removal of the Seller as the initial Servicer.

The ability of a substitute servicer to perform fully the required services would depend, among other things, on the information, software and records available at the time of the appointment. Any delay or inability to appoint a substitute servicer may affect the realizable value of the Covered Bond Portfolio or any part thereof, and/or the ability of the Guarantor to meet its obligations under the Covered Bond Guarantee.

The Servicer has no obligation itself to advance payments that Borrowers fail to make in a timely fashion. Holders of the Covered Bonds will have no right to consent to or approve of any actions taken by the Servicer under the Servicing Agreement.

The Bond Trustee is not obligated to act as a servicer or to monitor the performance by the Servicer of its obligations in any circumstances. If the Government of Canada's sovereign debt credit rating is downgraded, this may negatively affect the long term debt credit rating of CMHC, and consequently, negatively impact the value of the Loans for the purposes of the Asset Coverage Test and Amortization Test.

Reliance on Swap Providers

To provide a hedge against possible variances in the rates of interest payable on the Loans in the Covered Bond Portfolio (which may, for example, include variable rates of interest or fixed rates of interest) following the occurrence of a Covered Bond Guarantee Activation Event and the amount (if any) payable under the Covered Bond Swap Agreement, the Guarantor has entered into the Interest Rate Swap Agreement with the Interest Rate Swap Provider. In addition, to provide a hedge against currency and/or other risks arising, following the occurrence of a Covered Bond Guarantee Activation Event, in respect of amounts received by the Guarantor under the Interest Rate Swap Agreement and amounts payable in respect of its obligations under the Covered Bond Guarantee, the Guarantor will enter into the Covered Bond Swap Agreement with the Covered Bond Swap Provider.

If the Guarantor fails to make timely payments of amounts due under any Swap Agreement (except where such failure is caused by the assets available to the Guarantor being insufficient to make the required payment in full), then it will have defaulted under that Swap Agreement and such Swap Agreement may be terminated. Further, a Swap Provider is only obliged to make payments to the Guarantor as long as and to the extent that the Guarantor complies with its payment and delivery obligations. The Guarantor will not be in breach of its payment obligations where the Guarantor fails to pay a required payment in full, provided such non-payment is caused by the assets of the Guarantor being insufficient to make such payment in full under the relevant Swap Agreement. If a Swap Agreement terminates or the Swap Provider is not obliged to make payments or if it defaults in its obligations to make payments of amounts (including in the relevant currency, if applicable) equal to the full amount to be paid to the Guarantor on the payment date under the relevant Swap Agreement, the Guarantor will be exposed to changes in the relevant currency exchange rates to Canadian dollars and to any changes in the relevant rates of interest. Unless a replacement Swap Agreement is entered into, the Guarantor may have insufficient funds to meet its obligations under the Covered Bond Guarantee.

If a Swap Agreement terminates, then the Guarantor may be obliged to make a termination payment to the relevant Swap Provider. There can be no assurance that the Guarantor will have sufficient funds available to make a termination payment under the relevant Swap Agreement, nor can there be any assurance that the Guarantor will be able to find a replacement swap counterparty which agrees to enter into a replacement swap agreement and has sufficiently high ratings to prevent a downgrade of the then current ratings of the Covered Bonds by any one of the Rating Agencies.

If the Guarantor is obliged to pay a termination payment under any Swap Agreement, such termination payment will rank ahead of amounts due on the Covered Bonds (in respect of the Interest Rate Swap Agreement) and *pari passu* with amounts due on the Covered Bonds (in respect of the Covered Bond Swap Agreement), except where default by, or downgrade of, the relevant Swap Provider has caused the relevant Swap Agreement to terminate. The obligation to pay a termination payment may adversely affect the ability of the Guarantor to meet its obligations under the Covered Bond Guarantee. Additionally, the failure of the Guarantor to receive a termination payment from the relevant Swap Provider may adversely affect the ability of the Guarantor to meet its obligations under the Covered Bond Guarantee.

Differences in timings of obligations of the Guarantor and the Covered Bond Swap Provider under the Covered Bond Swap Agreement

Cashflows will be exchanged under the Covered Bond Swap Agreement following a Covered Bond Guarantee Activation Event. Following a Covered Bond Guarantee Activation Event, the Guarantor will make payments to the Covered Bond Swap Provider on each Guarantor Payment Date from the amounts received by the Guarantor under the Interest Rate Swap Agreement. The Covered Bond Swap Provider may not be obliged to make payments to the Guarantor under the Covered Bond Swap Agreement until amounts are Due for Payment on the Covered Bonds, which may be 12 months or more after payments have been made by the Guarantor to the Covered Bond Swap Provider under the Covered Bond Swap Agreement. If the Covered Bond Swap Provider does not meet its payment obligations to the Guarantor under the Covered Bond Swap Agreement and the Covered Bond Swap Provider does not make a termination payment that has become due from it to the Guarantor, the Guarantor may have a larger shortfall in funds with which to meet its obligations under the Covered Bond Guarantee than if the Covered Bond Swap Provider's payment obligations coincided with Guarantor's payment obligations under the Covered Bond Guarantee. As a result, the difference in timing between the obligations of the Guarantor under the Covered Bond Swap Agreement and the obligations of the Covered Bond Swap Provider under the Covered Bond Swap Agreement could adversely affect the Guarantor's ability to meet its obligations under the Covered Bond Guarantee.

Funds held in Trust

If the Servicer receives any collections in respect of the Loans and their Related Security in the Covered Bond Portfolio to which the Guarantor is entitled and which are to be paid to the Cash Manager or the Guarantor Accounts, as the case may be, it will hold such monies in trust for the Guarantor free and clear of any adverse claims and shall, as soon as reasonably practicable (but in any event no later than within two Montréal Business Days of receipt), transfer such monies to the Cash Manager prior to a downgrade in the ratings of the Cash Manager by the Rating Agencies below the levels specified pursuant to the Servicing Agreement and following a downgrade of the ratings of the Cash Manager by the Rating Agencies below the level specified pursuant to the Servicing Agreement into the GIC Account. The proceeds and claims under the CMHC Mortgage Insurance paid to the Servicer will be held by the Servicer in trust for the Guarantor. In the event that the ratings of the Servicer fall below the levels specified pursuant to the Servicing Agreement, the Servicer will be required to keep such proceeds separate and apart from its other assets. In the event of an insolvency of the Servicer prior to such requirement to keep such proceeds separate and apart from its other assets, the ability of the Guarantor to trace and recover any such monies may be impaired.

Withholding on payments under the Covered Bond Guarantee

Interest paid or credited or deemed to be paid or credited on a Covered Bond by the Guarantor pursuant to the Covered Bond Guarantee will be exempt from Canadian withholding tax to the extent interest paid or credited by the Issuer on such Covered Bond would have been exempt. See "*Taxation—Canada*". If such payments by the Guarantor pursuant to the Covered Bond Guarantee are not exempt, such payments will be made subject to any applicable withholding or deduction and the Guarantor will have no obligation to gross up in respect of any withholding or deduction which may be required in respect of any such payment.

Factors which are material for the purposes of assessing the risks relating to the Covered Bond Portfolio

Limited description of the Covered Bond Portfolio

The Initial Covered Bond Portfolio will consist solely of Loans originated by the Originators that are residential real estate hypothecary loans established in favour of borrowers residing in the Province of Québec secured by hypothecs which are CMHC Insured Hypothecs. The Covered Bond Portfolio from time to time will consist of Loans secured by CMHC Insured Hypothecs and, subject to Rating Agency Confirmation, New Portfolio Asset Types. CMHC, Canada's national housing agency, is a Canadian federal Crown corporation, wholly owned by the Government of Canada. CMHC's obligations are those of Her Majesty The Queen in Right of Canada, and as such carry the full faith and credit of the Government of Canada. As a federal Crown corporation, CMHC reports to the Parliament of Canada through a Minister. CMHC derives its authorities from the *Canada Mortgage and Housing Corporation Act* (Canada), the *National Housing Act* (Canada) and, as a federal Crown corporation, the *Financial Administration Act* (Canada). CMHC insures the payment of principal and interest on first hypothecary or mortgage loans on private residential properties in Canada.

Holders of the Covered Bonds will not receive detailed statistics or information in relation to the Loans or Related Security comprising at any time the Covered Bond Portfolio because it is expected that the constitution of the Covered Bond Portfolio will frequently change due to, for instance, repayments of such Loans by Borrowers from time to time and the need to replace such Loans with New Loans in the Covered Bond Portfolio, or the Covered Bond Portfolio being increased to, among other things, permit the issuance of additional Covered Bonds and ensure that the Asset Coverage Test is met.

There is no assurance that the characteristics of New Loans assigned to the Guarantor in the future will be the same as those in the Initial Covered Bond Portfolio described above. However, each Loan will be required to meet the Eligibility Criteria and the Loan Representations and Warranties set out in the Hypothecary Loan Sale Agreement although the Eligibility Criteria and Loan Representations and Warranties may change in certain circumstances as described herein. In particular, each Loan will have the benefit of CMHC Mortgage Insurance as described herein. See "*Summary of the Principal Documents—Hypothecary Loan Sale Agreement—Sale by the Seller of Loans and their Related Security*". In addition, the Asset Coverage Test is intended to ensure that the Adjusted Aggregate

Loan Amount is an amount equal to or in excess of the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds for so long as Covered Bonds remain outstanding. The Cash Manager will prepare and provide monthly Investor Reports to the Issuer, the Guarantor, the Bond Trustee and the Rating Agencies that will set out certain information in relation to the Asset Coverage Test and the Issuer will make such Investor Reports available to Covered Bondholders (See "*General Information*").

Maintenance of the Covered Bond Portfolio

The Asset Coverage Test and the Amortization Test are intended to ensure that the assets and cashflows of the Guarantor, including the Loans and their Related Security in the Covered Bond Portfolio and cashflows in respect thereof, will be adequate to enable the Guarantor to meet its obligations under the Covered Bond Guarantee following the occurrence of a Covered Bond Guarantee Activation Event. Accordingly, it is expected (but there is no assurance) that the Covered Bond Portfolio could be realized for sufficient values, together with the other assets of the Guarantor, to enable the Guarantor to meet its obligations under the Covered Bond Guarantee.

Asset Coverage Test: The Partners shall use all reasonable efforts to ensure that the Guarantor is in compliance with the Asset Coverage Test. In that respect, the Limited Partner shall use all reasonable efforts to, as the Limited Partner may determine in its sole discretion, (i) make a Cash Capital Contribution, (ii) make a Capital Contribution in Kind to the Partnership, and/or (iii) require that Caisse centrale sell New Loans and their Related Security to the Guarantor, in the aggregate or in each case, as applicable, in an amount sufficient to ensure the Guarantor is or will be in compliance with the Asset Coverage Test on future Calculation Dates.

If a breach of the Asset Coverage Test occurs which is not cured as at the next Calculation Date, an Asset Coverage Test Breach Notice will be served on the Guarantor. Failure to meet the Asset Coverage Test as of the Calculation Date following the service of such Asset Coverage Test Breach Notice will result in an Issuer Event of Default. There is no specific recourse by the Guarantor to the Issuer or the Limited Partner in respect of any failure by the Limited Partner to make a Capital Contribution in any circumstances, including following receipt of an Asset Coverage Test Breach Notice.

The Asset Percentage is a component of the Asset Coverage Test which establishes the credit enhancement required for the then outstanding Covered Bonds in accordance with the terms of the Limited Partnership Agreement and in accordance with Rating Agency methodologies. Pursuant to the terms of the Asset Coverage Test, there is a limit to the degree to which the Asset Percentage may be decreased without the consent of the Issuer and as a result, there is a corresponding limit on the amount of credit enhancement required to be maintained to meet the Asset Coverage Test.

If the various methodologies used to determine the Asset Percentage conclude that additional credit enhancement is required beyond the maximum provided for (by requiring a reduction in the Asset Percentage below the minimum Asset Percentage), and the Issuer does not agree to provide credit enhancement beyond the maximum provided for (by agreeing to a reduction in the Asset Percentage below the minimum Asset Percentage), any Rating Agency may reduce, remove, suspend or place on credit watch, its rating of the Covered Bonds and the assets of the Guarantor may be seen to be insufficient to ensure that, in the scenarios employed in the cashflow models, the assets and cashflows of the Guarantor will be adequate to enable it to meet its obligations under the Covered Bond Guarantee following a Covered Bond Guarantee Activation Event, notwithstanding that the Asset Coverage Test continues to be met.

Amortization Test: Pursuant to the Limited Partnership Agreement, following service of a Notice to Pay on the Guarantor (but prior to service of a Guarantor Acceleration Notice) and, for so long as Covered Bonds remain outstanding, the Guarantor must ensure that, as at each Calculation Date following service of such Notice to Pay, the Guarantor is in compliance with the Amortization Test. The Amortization Test is met if the Amortization Test Aggregate Loan Amount is in an amount at least equal to the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds. The Amortization Test is intended to ensure that the assets of the Guarantor do not fall below a certain threshold to ensure that the assets of the Guarantor are sufficient to meet its obligations under the Covered Bond Guarantee.

If the collateral value of the Covered Bond Portfolio has not been maintained in accordance with the terms of the Asset Coverage Test or the Amortization Test, this may affect the realizable value of the Covered Bond Portfolio or any part thereof (both before and after the occurrence of a Guarantor Event of Default) and/or the ability of the Guarantor to meet its obligations under the Covered Bond Guarantee. Failure to satisfy the Amortization Test as at any Calculation Date following the service of a Notice to Pay will constitute a Guarantor Event of Default, thereby entitling the Bond Trustee to accelerate the Covered Bonds against the Issuer (if the Covered Bonds have not already been accelerated) and the Guarantor's obligations under the Covered Bond Guarantee against the Guarantor subject to and in accordance with the Conditions.

The Properties comprising Related Security for Loans in the Covered Bond Portfolio are not subject to periodic valuations. As a result, the realizable value on the Covered Bond Portfolio could be negatively affected by a significant decline in the values of properties across regions in which such Properties are located without such decline requiring the Limited Partner to make Capital Contributions or otherwise resulting in a breach of the Asset Coverage Test.

Prior to the occurrence of an Issuer Event of Default, the Asset Monitor will, subject to receipt of the relevant information from the Cash Manager, test the calculations performed by the Cash Manager in respect of the Asset Coverage Test annually as at the Calculation Date immediately prior to each anniversary of the Programme Establishment Date and more frequently in certain circumstances. Following the

occurrence of an Issuer Event of Default, the Asset Monitor will be required to test the calculations performed by the Cash Manager in respect of the Amortization Test. See further "*Summary of the Principal Documents—Asset Monitor Agreement*".

The Bond Trustee will not be responsible for monitoring compliance with, nor the monitoring of, the Asset Coverage Test or the Amortization Test or any other test, or supervising the performance by any other party of its obligations under any Transaction Document.

Sale of Loans and their Related Security following the occurrence of a Pre-Maturity Test breach, an Asset Coverage Test Breach Notice or a Notice to Pay

If, prior to maturity of Hard Bullet Covered Bonds, the Pre-Maturity Test is breached, the Guarantor may offer to sell Randomly Selected Loans to seek to generate sufficient cash to enable the Guarantor to pay the Final Redemption Amount on any Hard Bullet Covered Bonds should the Issuer fail to pay the Final Redemption Amount on the Final Maturity Date: see "*Summary of the Principal Documents—Limited Partnership Agreement—Sales of Randomly Selected Loans following a breach of the Pre-Maturity Test*".

If an Asset Coverage Test Breach Notice or a Notice to Pay is served on the Guarantor (and, in the case of an Asset Coverage Test Breach Notice, for as long as such notice has not been revoked), the Guarantor may be obliged to sell Randomly Selected Loans and their Related Security in order to remedy a breach of the Asset Coverage Test or to make payments to the Guarantor's creditors, including payments under the Covered Bond Guarantee, as appropriate: see "*Summary of the Principal Documents—Limited Partnership Agreement—Sale of Randomly Selected Loans at any time an Asset Coverage Test Breach Notice is outstanding or a Notice to Pay has been served on the Guarantor*".

There is no guarantee that a buyer will be found to acquire such Loans and their Related Security at the times required and there can be no guarantee or assurance as to the price which may be able to be obtained, which may affect payments under the Covered Bond Guarantee. However, prior to the service of a Guarantor Acceleration Notice, the Loans and their Related Security may not be sold by the Guarantor for less than an amount equal to the Adjusted Required Redemption Amount for the relevant Series of Covered Bonds until six months prior to: (i) the Final Maturity Date in respect of such Covered Bonds; or (ii) (if the same is specified as applicable in the applicable Final Terms) the Extended Due for Payment Date under the Covered Bond Guarantee in respect of such Covered Bonds. In the six months prior to, as applicable, the Final Maturity Date or Extended Due for Payment Date, the Guarantor is obliged to sell Loans and their Related Security for the best price reasonably available notwithstanding that such price may be less than the Adjusted Required Redemption Amount. Where the Guarantor is obliged to sell the Loans and their Related Security by a particular date, this may have an adverse affect on the price for which they can be sold. The Seller that assigned the relevant Loans and their Related Security to the Guarantor will have a right of pre-emption to purchase such Loans and their Related Security in the event the Guarantor wishes to or is required to sell such Loans and their Related Security (see "*Summary of the Principal Documents—Hypothecary Loan Sale Agreement—Right of pre-emption*").

Realization of Charged Property following the occurrence of a Guarantor Event of Default

If a Guarantor Event of Default occurs and a Guarantor Acceleration Notice is served on the Guarantor, then the Bond Trustee will be entitled to enforce the Security created under and pursuant to the Security Agreements and the proceeds from the realization of the Charged Property will be applied by the Bond Trustee towards payment of all secured obligations in accordance with the Post-Enforcement Priority of Payments described in "*Cashflows*" below.

There is no guarantee that the proceeds of realization of the Charged Property will be in an amount sufficient to repay all amounts due to the Secured Creditors (including the holders of the Covered Bonds) under the Covered Bonds and the Transaction Documents.

If a Guarantor Acceleration Notice is served on the Guarantor, then the Covered Bonds may be repaid sooner or later than expected or not at all.

Factors that may affect the realizable value of the Covered Bond Portfolio or any part thereof or the ability of the Guarantor to meet its obligations under the Covered Bond Guarantee

Following the occurrence of a Covered Bond Guarantee Activation Event, the realizable value of the Loans and their Related Security in the Covered Bond Portfolio may be reduced (which may affect the ability of the Guarantor to meet its obligations under the Covered Bond Guarantee) by:

- representations or warranties not being given by the Guarantor or the Seller, as the case may be (unless otherwise agreed with the Seller), on the sale of the Loans by the Guarantor;
- default by Borrowers of amounts due on the Loans or Loans not being administered in accordance with the applicable CMHC Mortgage Insurance (see "*Default by Borrowers in paying amounts due on their Loans; CMHC Mortgage Insurance*");
- the insolvency of the Seller (including as initial Servicer) or any individual Caisse which has sold Loans to the Seller;

- changes to the lending criteria of the Desjardins Financial Group assigning the Loans and their Related Security;
- the Guarantor not being the registered creditor of the Loans in the Covered Bond Portfolio and notice of the sale, transfer and assignment of such Loans and their Related Security not having been given to Borrowers;
- risks in relation to some types of the Loans which may adversely affect the value of the Covered Bond Portfolio or any part thereof;
- recourse to the Seller being limited under the terms of the Hypothecary Loan Sale Agreement;
- possible regulatory changes by the *Autorité des marchés financiers* (Québec), CMHC and other regulatory authorities;
- regulations that could lead to some terms of the Loans being unenforceable; and
- general market conditions which may make the sale of Loans unattainable or difficult.

Each of these factors is considered in more detail below. However, it should be noted that the Asset Coverage Test, the Amortization Test and the Eligibility Criteria are intended to ensure that the Guarantor will have adequate assets and cashflows to enable the Guarantor to meet its obligations under the Covered Bond Guarantee following the occurrence of a Covered Bond Guarantee Activation Event. Accordingly, it is expected (but there is no assurance) that the Covered Bond Portfolio could be realized for sufficient values, together with the other assets of the Guarantor, to enable the Guarantor to meet its obligations under the Covered Bond Guarantee.

In the event the Issuer is required to assign some or all of its obligations to one or more third party service providers, as Servicer, Covered Bond Swap Provider, Interest Rate Swap Provider or Cash Manager, such third party service providers may require fees for such services in excess of the rates or amounts, if any, currently being paid to the Issuer by the Guarantor. Any such increase in fees for the services currently provided by the Issuer could have an adverse impact on the ability of the Guarantor to meet its obligations under the Covered Bonds. Additionally, there can be no assurance that any third party service provider will have the same level of operational experience as the Issuer, and operational issues may arise in connection with appointing one or more third party service providers.

No representations or warranties to be given by the Guarantor or the Seller if Loans and their Related Security are to be sold

Following the occurrence of a Covered Bond Guarantee Activation Event (including as a result of an Issuer Event of Default following a breach of the Pre-Maturity Test), and/or an Asset Coverage Test Breach Notice or a Notice to Pay is served on the Guarantor (and, in the case of an Asset Coverage Test Breach Notice, for so long as such notice has not been revoked), the Guarantor may be obliged to sell Loans and their Related Security to third party purchasers, subject to a right of pre-emption of the Seller that assigned such Loans and their Related Security to the Guarantor (see "*Summary of the Principal Documents—Limited Partnership Agreement—Method of Sale of Loans and their Related Security*"). In respect of any sale of Loans and their Related Security to third parties, however, the Guarantor will not be permitted to give warranties or indemnities in respect of those Loans and their Related Security (unless expressly permitted to do so by the Bond Trustee). There is no assurance that the Seller would give any warranties or representations in respect of the Loans and their Related Security. Any Loan Representations and Warranties previously given by the Seller in respect of Loans in the Covered Bond Portfolio may not have value for a third party purchaser particularly if the Seller is then insolvent. Accordingly, there is a risk that the realizable value of the Loans and their Related Security could be adversely affected by the lack of representations and warranties which in turn could adversely affect the ability of the Guarantor to meet its obligations under the Covered Bond Guarantee.

Default by Borrowers in paying amounts due on their Loans; CMHC Mortgage Insurance

Borrowers may default on their obligations due under the Loans. Defaults may occur for a variety of reasons. The Loans are affected by credit, liquidity and interest rate risks. Various factors influence hypothecary or mortgage loan delinquency rates, prepayment rates, repossession frequency and the ultimate payment of interest and principal. Examples of such factors include changes in the national or international economic climate, regional economic or housing conditions, changes in tax laws, interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies. Other factors involving Borrowers' individual, personal or financial circumstances may affect the ability of Borrowers to repay the Loans. Loss of earnings, illness, divorce and other similar factors may lead to an increase in delinquencies by and bankruptcies of Borrowers, and could ultimately have an adverse impact on the ability of Borrowers to repay the Loans. In addition, the ability of a Borrower to sell a property given as security for a Loan at a price sufficient to repay the amounts outstanding under that Loan will depend upon a number of factors, including general market conditions, the availability of buyers for that property, the value of that property and property values in general at the time. Non Performing Loans in the Covered Bond Portfolio may be given limited weighting for the purposes of the Asset Coverage Test or the Amortization Test.

Interest and principal payments on a Loan will be insured under CMHC Mortgage Insurance in respect of amounts related to the principal balance of the Loan which does not exceed the applicable CMHC Approved Limit. In those limited circumstances in which an Originator makes an advance under a Loan which exceeds the CMHC Approved Limit, the portion of the advance in excess of the CMHC Approved

Limit shall be a "**Surplus Advance**". A Surplus Advance will not be given any weighting for the purpose of the Asset Coverage Test or the Amortization Test. Also, collections received upon realization of a Loan for which a Surplus Advance exists shall be applied to repayment of the portion of the related Loan that does not exceed the CMHC Approved Limit in priority to that portion which constitutes a Surplus Advance.

CMHC is Canada's national housing agency, and is a Canadian federal Crown corporation, wholly owned by the Government of Canada. CMHC's obligations are those of Her Majesty The Queen in Right of Canada, and as such carry the full faith and credit of the Government of Canada. Under the CMHC Mortgage Insurance, the amount payable by CMHC to an insured under the policy is generally equal to:

(a) the aggregate of:

(i) the outstanding principal amount of the Loan;

(ii) specified charges advanced by approved hypothecary or mortgage lenders or the holder of a Loan in order to safeguard the interest of such hypothecary or mortgage lender, Loan holder or of CMHC;

(iii) such reasonable amount on account of legal costs as is approved by CMHC; and

(iv) unpaid interest accruing under the Loan for a period of 12 months and such additional periods as determined in accordance with the policy, including additional periods relating to enforcement of rights or remedies with respect to the Loan (the amount of interest payable under the CMHC Mortgage Insurance will generally be at the rate stated in the Loan documents); less,

(b) the aggregate of the amount of any loss or damage:

(i) that results from a failure to exercise reasonable care and prudence in the making or administration of the Loan, in the collection of the repayment thereof or in the protection of or realization on security for the Loan;

(ii) that results from a contravention of or failure to comply with the regulations under the *National Housing Act* (Canada) applicable to the policy or a condition on which the Loan was insured; or

(iii) that CMHC is satisfied, on reasonable grounds, results from a contravention of or failure to comply with a requirement of CMHC to refrain from exercising such of its remedies in respect of the default as CMHC may specify.

Pursuant to its purchase of the CMHC Insured Hypothecs and the Related Security, the Guarantor will acquire the right to amounts paid under the CMHC Mortgage Insurance to the extent related to such Loans. Claims under the CMHC Mortgage Insurance must be made by the initial Servicer or a successor Servicer acceptable to CMHC. As a result, the Guarantor will not have a right, itself, to collect the amounts which may be payable pursuant to the CMHC Mortgage Insurance related to the Loans. The Seller will, or will cause each Originator to, hold on behalf of the Guarantor and the Bond Trustee the Originator's or, as the case may be, the Seller's rights under the CMHC Mortgage Insurance relating to the Loans forming part of the Covered Bond Portfolio as well as the proceeds from the claims under the CMHC Mortgage Insurance to the extent related to such Loans. In the event of a downgrade in the ratings of the Servicer's unsecured, unguaranteed and unsubordinated debt obligations below a level specified in the Servicing Agreement, the Servicer will be required to keep such proceeds separate and apart from its other assets. In the event of an insolvency of the Servicer prior to such requirement to keep such proceeds separate and apart from its other assets, the ability of the Guarantor to trace and recover any such proceeds may be impaired. If a Loan is not being administered in accordance with the CMHC Mortgage Insurance, the ability to make a claim or obtain the benefit of coverage under the applicable CMHC Mortgage Insurance may be adversely affected or terminated. As such, the removal of the Seller as initial Servicer without the consent of CMHC may adversely affect the coverage of CMHC Insured Hypothecs under CMHC Mortgage Insurance.

A future change in the policies of CMHC could affect the amount CMHC will pay on insured Loans, or the circumstances in which CMHC Mortgage Insurance will be provided for hypothecary or mortgage loans secured by hypothecs or mortgage liens which may form part of the Covered Bond Portfolio.

Further, the filing of a claim under CMHC Mortgage Insurance is not complete unless the insured delivers to CMHC all documentation and evidence required by CMHC. Payments by CMHC in respect of a Loan may not occur if the filing of the related claim is not complete.

CMHC Mortgage Insurance will cease to be in force if:

(i) it has been obtained by fraud or fraudulent misrepresentation on the part of the insured;

(ii) the insured Loan is sold to a person other than a CMHC approved lender unless the Loan continues to be administered by CMHC, the initial Servicer or a successor Servicer acceptable to CMHC (the Servicer is a CMHC approved lender for the purposes of CMHC Mortgage Insurance); or

(iii) the right of recovery under the hypothec or mortgage lien securing the insured Loan has ceased to exist (which, for greater certainty, would include valid security was not initially created or the security has been discharged), other than by reason of the acquisition by the insured of the hypothecated or mortgaged property after default.

Changes to the Lending Criteria

Each of the Loans sold by the Seller to the Guarantor will have been originated by an Originator in accordance with the Desjardins Financial Group's Lending Criteria at the time of origination. It is expected that the Desjardins Financial Group's Lending Criteria will generally consider type of property, term of loan, age of applicant, loan-to-value ratio, status of applicants and credit history. In the event of the sale of any Loans and their Related Security to the Guarantor, the Seller will only warrant that such Loans and their Related Security meet the Eligibility Criteria and were originated in accordance with the Desjardins Financial Group's Lending Criteria applicable at the time of origination. The Desjardins Financial Group retains the right to revise its Lending Criteria from time to time. If the Lending Criteria change in a manner that affects the creditworthiness of the Loans, that may lead to increased defaults by Borrowers and may affect the realizable value of the Covered Bond Portfolio, or part thereof, and the ability of the Guarantor to meet its obligations under the Covered Bond Guarantee. As described above, the Asset Coverage Test and the Amortization Test may give limited credit to the Non-Performing Loans based on the long-term debt credit ratings assigned to CMHC from time to time.

Notice and registration of the sale, transfer and assignment of the Loans and their Related Security in the Covered Bond Portfolio may not be made or given, as the case may be, on the relevant Transfer Dates

The sale, transfer and assignment by the Originators to the Seller and by the Seller to the Guarantor of the Loans and their Related Security will be effected in accordance with the terms of the Origination Hypothecary Loan Sale Agreement and the Hypothecary Loan Sale Agreement, respectively.

Other than certain registrations and notifications that are required to be made as set out in the Origination Hypothecary Loan Sale Agreement and the Hypothecary Loan Sale Agreement (including (i) registrations in the appropriate land registry or land titles offices in respect of the sale, transfer and assignment of the relevant Loans from the Originators to the Seller and from the Seller to the Guarantor effected by the Origination Hypothecary Loan Sale Agreement and the Hypothecary Loan Sale Agreement, respectively (and any applicable registration in respect of registered title to the relevant Loans), and (ii) the provision to Borrowers under the related Loans or the obligors under their Related Security of actual notice of the sale, transfer and assignment thereof to the Seller and subsequently to the Guarantor), all material filings, recordings, notifications, registrations or other actions under all applicable laws have been made or taken in each jurisdiction where necessary or appropriate (and where permitted by applicable law) to give legal effect to the sale, transfer and assignment of the Loans and their Related Security and the right to transfer servicing of such Loans as contemplated by the Origination Hypothecary Loan Sale Agreement and the Hypothecary Loan Sale Agreement, respectively, and to validate, preserve, render opposable, perfect and protect the Guarantor's ownership interest in and rights to collect any and all of the related Loans being purchased on the relevant Transfer Date, including the right to arrange for the servicing and enforcement of such Loans and their Related Security.

Notice of the sale, transfer and assignment of the Loans and, where appropriate, the registration or recording in the appropriate land registry or land titles offices of the transfer of legal title to the Hypothecs will not be given or made, as the case may be, except in the circumstances described in "*Summary of the Principal Documents—Hypothecary Loan Sale Agreement—Notice to Borrower of the sale, assignment and transfer of the Loans and their Related Security and registration of transfer of title to the Hypothecs*".

Similarly, Borrowers will not be given notice of the interests of the Bond Trustee (for itself and on behalf of the other Secured Creditors) in the Loans and their Related Security, granted pursuant to the terms of the Security Agreements, nor will the interests of the Bond Trustee (for itself and on behalf of the other Secured Creditors) in the Hypothecs be registered in the appropriate land registry or land titles offices, prior to notice of the Guarantor's interests in the Loans and their Related Security, and/or registration of the transfer of title to the Hypothecs, having been given or made, as the case may be.

As long as the interests of the Guarantor in the Loans and their Related Security are not registered at the appropriate land registry or land titles offices and notice has not been given to Borrowers, the following risks exist:

- *first*, if any Originator wrongly sells a Loan and its Related Security which has already been sold to the Seller and on-sold to the Guarantor, or the Seller wrongly sells a Loan and its Related Security which has already been sold to the Guarantor, in each case, to another person and that person acted in good faith and did not have notice of the interests of the Guarantor in the Loan and its Related Security, then such person might obtain good title to the Loan and its Related Security, free from the interests of the Guarantor. If this occurred then the Guarantor would not have good title to the affected Loan and its Related Security and it would not be entitled to payments by a Borrower in respect of that Loan. However, the risk of third party claims obtaining priority to the interests of the Guarantor would likely be limited to circumstances arising from a breach by such Originator or by

the Seller of its contractual obligations or fraud, negligence or mistake on the part of such Originator, the Seller or the Guarantor or their respective personnel or agents;

- *second*, the rights of the Guarantor may be subject to the rights of the Borrowers against the Originators, such as rights of compensation or set-off, which occur in relation to transactions or deposits made between Borrowers and the Originators, as applicable, and the rights of Borrowers to redeem their hypothecary or mortgage loans by repaying the Loans directly to the Originators, as applicable; and

- *third*, unless the Guarantor has given the relevant notices and effected the relevant registrations with respect to the sale, transfer and assignment of the Loans and their Related Security (which it is only entitled to do in certain limited circumstances), the Guarantor may not, itself, be able to enforce any Borrower's obligations under a Loan or its Related Security but would have to join the Seller and the relevant Originator as a party to any legal proceedings.

The foregoing risks apply equally to the Bond Trustee (for itself and on behalf of the other Secured Creditors). If any of the risks described in the first two bullet points above were to occur then the realizable value of the Covered Bond Portfolio or any part thereof and/or the ability of the Guarantor to meet its obligations under the Covered Bond Guarantee or the Bond Trustee (for itself and on behalf of the other Secured Creditors) to enforce its Security granted under the Security Agreements with respect to the Covered Bond Portfolio may be adversely affected.

While the exercise of compensation or set-off rights by Borrowers may adversely affect the realizable value of the Covered Bond Portfolio and/or the ability of the Guarantor to meet its obligations under the Covered Bond Guarantee or the Bond Trustee (for itself and on behalf of the other Secured Creditors) to realize on the Covered Bond Portfolio under the Security Agreements, the Canadian dollar deposits of Borrowers with the Caisses are currently insured up to C$100,000, subject to certain exceptions, by the *Autorité des marchés financiers* (Québec) under the *Deposit Insurance Act* (Québec), resulting in deposit insurance similar in nature to that provided by the Canada Deposit Insurance Corporation.

Once notice has been given to the Borrowers of the sale, transfer and assignment of the Loans and their Related Security to the Guarantor and of the interest of the Bond Trustee in the Loans and their Related Security (for itself and on behalf of the other Secured Creditors), legal compensation or set-off rights which a Borrower may have against the Originator (such as, for example, compensation or set-off rights associated with Borrowers holding deposits with the relevant Originator), will crystallize and further rights of legal compensation or set-off would cease to accrue from that date and no new rights of legal compensation or set-off could be asserted following that notice. Compensation or set-off rights arising out of a transaction connected with the Loan will not be affected by that notice and will continue to exist.

Further, for so long as notice of the sale, transfer and assignment of the Loans and their Related Security has not been given to the Borrowers and title to the Hypothecs has not been registered in the appropriate land registry or land titles offices in the name of the Guarantor, the Originators will undertake for the benefit of the Seller, and the Seller will undertake for the benefit of the Guarantor and the Secured Creditors, that it will lend its name to, and take such other steps as may be reasonably required by the Seller, the Guarantor and/or the Bond Trustee, as applicable, in relation to, any legal proceedings in respect of the Loans and their Related Security.

Limitations on recourse to the Seller

The Guarantor and the Bond Trustee will not undertake any investigations, searches or other actions on any Loan or its Related Security and will rely instead on the Loan Representations and Warranties given in the Hypothecary Loan Sale Agreement by the Seller in respect of the Loans sold by it to the Guarantor.

If any Loan and its Related Security assigned by the Seller to the Guarantor does not materially comply with any of the Loan Representations and Warranties made by the Seller as at the Transfer Date of that Loan, then the Seller will be required to notify the Guarantor and the Bond Trustee as soon as reasonably practical after becoming aware of the fact and, upon receipt of a request to do the same from the Guarantor, remedy the breach within 28 Montréal Business Days of receipt by it of the request.

If the Seller fails to remedy the breach of a Representation and Warranty within 28 Montréal Business Days of such request, then the Seller will be required (but only prior to the occurrence of an Issuer Event of Default and after the service of a Loan Repurchase Notice) to repurchase on or before the next following Calculation Date (or such other date that may be agreed between the Guarantor and the Seller) the relevant Loan and its Related Security and any other Loans secured or intended to be secured by such Related Security that are included in the Covered Bond Portfolio, at the purchase price paid by the Guarantor for the relevant Loan(s) and its or their Related Security, as the case may be, plus expenses as at the relevant repurchase date, less any amounts received from the Borrower since the Transfer Date in respect of principal on such Loan and the Related Security.

There can be no assurance that the Seller, in the future, will have the financial resources to repurchase a Loan or Loans and its or their Related Security. There is no further recourse to the Seller in respect of a breach of a Loan Representation or Warranty.

Factors which are material for the purpose of assessing risks relating to the Covered Bonds

Obligations under the Covered Bonds

The Covered Bonds will not represent an obligation or be the responsibility of any of the Dealers, the Arranger, the Bond Trustee, or any other person involved in or associated with the Programme, or their officers, directors, employees, security holders or incorporators, other than the Issuer and, after a Covered Bond Guarantee Activation Event, the Guarantor. The Issuer will be liable solely in its corporate capacity, the Managing GP and Liquidation GP will be liable solely as general partners of the Guarantor in their corporate capacity and the Limited Partner of the Guarantor will be liable in its capacity solely to the extent of its interests in the Guarantor, for their respective obligations in respect of the Covered Bonds and the Covered Bond Guarantee, as applicable, and such obligations will not be the obligations of any of their respective officers, directors, employees, security holders or incorporators, as the case may be.

Issuer liable to make payments when due on the Covered Bonds

The Issuer is liable to make payments when due on the Covered Bonds. The Covered Bonds will not be insured under the *Deposit Insurance Act* (Québec) or the *Canada Deposit Insurance Corporation Act* and will constitute legal, valid and binding direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank *pari passu* with all deposit liabilities of the Issuer without any preference among themselves and at least *pari passu* with all other unsubordinated and unsecured obligations of the Issuer, present and future (except as otherwise prescribed by law).

The Guarantor has no obligation to pay the Guaranteed Amounts payable under the Covered Bond Guarantee until the occurrence of a Covered Bond Guarantee Activation Event. The occurrence of an Issuer Event of Default does not constitute a Guarantor Event of Default. However, failure by the Guarantor to pay amounts when Due for Payment under the Covered Bond Guarantee would constitute a Guarantor Event of Default which would entitle the Bond Trustee to accelerate the obligations of the Issuer under the Covered Bonds (if the Covered Bonds have not already become due and payable) and the obligations of the Guarantor under the Covered Bond Guarantee and entitle the Bond Trustee to enforce the Security.

The obligations under the Covered Bonds are not guaranteed by the Federation or the Desjardins Financial Group

Caisse centrale's obligations in its capacity as Issuer under the Covered Bonds are not guaranteed by the Federation or the Desjardins Financial Group. Through an equity maintenance agreement, the holders of shares of the capital stock of Caisse centrale have formally undertaken 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, determined in accordance with the established standards. As at December 31, 2009 and December 31, 2010, Caisse centrale's capital/assets ratios were 6.86% and 6.30%, respectively, and its capital to risk-weighted assets ratios were 16.5% and 18.4%, respectively. See "*Caisse centrale Desjardins du Québec*". The equity maintenance agreement is not a guarantee of the Covered Bonds and investors will not have any rights as third party beneficiaries or otherwise under the equity maintenance agreement.

Caisse centrale is dependent on the Federation, its member Caisses and the other members of the Desjardins Financial Group

A significant portion of Caisse centrale's cash flow and income is derived from its lending and other relationships with the Federation and to a lesser degree the other members of the Desjardins Financial Group. The Federation, in turn, depends on interest and other payments from the Caisses and the other members of the Desjardins Financial Group for its income. Accordingly, conditions adversely affecting the Caisses and the other members of the Desjardins Financial Group could impair the Federation's ability to satisfy its obligations to Caisse centrale. A default by the Federation or such other persons in their obligations to Caisse centrale would materially impair its ability to make payments on the Covered Bonds.

Guarantor only obliged to pay Guaranteed Amounts when the same are Due for Payment

Subsequent to a failure by the Issuer to make a payment in respect of one or more Series of Covered Bonds, the Bond Trustee may, but is not obliged to, serve an Issuer Acceleration Notice on the Issuer and Notice to Pay on the Guarantor (which would constitute a Covered Bond Guarantee Activation Event) unless and until service of such Issuer Acceleration Notice is requested or directed, as applicable, by the Holders of at least 25 per cent of the aggregate Principal Amount Outstanding of the Covered Bonds then outstanding as if they were a single Series or an Extraordinary Resolution of all the Holders of the Covered Bonds in accordance with Condition 7.01. As a result, a certain percentage of the Holders of the Covered Bonds may be able to direct such action without obtaining the consent of the other Holders of the Covered Bonds.

The Guarantor will not be obliged to pay Holders of the Covered Bonds any amounts which may be payable in respect of the Covered Bonds until a Covered Bond Guarantee Activation Event has occurred. Following a Covered Bond Guarantee Activation Event, the Guarantor will be obliged to pay Guaranteed Amounts as and when the same are Due for Payment.

Payments by the Guarantor will be made subject to any applicable withholding or deduction and the Guarantor will not be obliged to pay any additional amounts as a consequence. Prior to service on the Guarantor of a Guarantor Acceleration Notice, the Guarantor will not be obliged to make any payments payable in respect of broken funding indemnities, penalties, premiums, default interest or interest on interest which may accrue on or in respect of the Covered Bonds. In addition, the Guarantor will not be obliged at any time to make any payments in respect of additional amounts which may become payable by the Issuer under Condition 8.

Subject to any grace period, if the Guarantor fails to make a payment when Due for Payment under the Covered Bond Guarantee or any other Guarantor Event of Default occurs, then the Bond Trustee may accelerate the obligations of the Guarantor under the Covered Bond Guarantee by service of a Guarantor Acceleration Notice, whereupon the Bond Trustee will have a claim under the Covered Bond Guarantee for an amount equal to the Early Redemption Amount of each Covered Bond, together with accrued interest and all other amounts then due under the Covered Bonds (other than additional amounts payable under Condition 8). In such circumstances, the Guarantor will not be obliged to gross up in respect of any withholding or deduction which may be required in respect of any payment. Following service of a Guarantor Acceleration Notice, the Bond Trustee may enforce the security granted under the Security Agreements over the Covered Bond Portfolio. The proceeds of enforcement of the Security will be applied by the Bond Trustee in accordance with the Post-Enforcement Priority of Payments in the Security Agreements, and holders of the Covered Bonds will receive amounts from the Guarantor (if any) on an accelerated basis.

Excess Proceeds received by the Bond Trustee

Following the occurrence of an Issuer Event of Default and delivery of an Issuer Acceleration Notice and a Notice to Pay on the Guarantor, the Bond Trustee may receive Excess Proceeds. The Excess Proceeds will be paid by the Bond Trustee, as soon as practicable after receipt thereof by the Bond Trustee, on behalf of the Holders of the Covered Bonds of the relevant Series, to the Guarantor for the account of the Guarantor and will be held by the Guarantor in the Guarantor Accounts. The Excess Proceeds will thereafter form part of the Security granted pursuant to the Security Agreements and will be used by the Guarantor in the same manner as all other moneys from time to time standing to the credit of the Guarantor Accounts. Any Excess Proceeds received by the Bond Trustee will discharge *pro tanto* the obligations of the Issuer in respect of the Covered Bonds, Receipts and Coupons (subject to restitution of the same if such Excess Proceeds will be required to be repaid by the Guarantor). However, the obligations of the Guarantor under the Covered Bond Guarantee are (following service of a Notice to Pay on the Guarantor) unconditional and irrevocable and the receipt by the Bond Trustee of any Excess Proceeds will not reduce or discharge any such obligations.

By subscribing for Covered Bond(s), each holder of the Covered Bonds will be deemed to have irrevocably directed the Bond Trustee to pay the Excess Proceeds to the Guarantor in the manner as described above.

Covered Bonds issued under the Programme

Save in respect of the first Series of Covered Bonds issued under the Programme, Covered Bonds issued under the Programme will either be fungible with an existing Series of Covered Bonds or have different terms from an existing Series of Covered Bonds (in which case they will constitute a new Series).

All Covered Bonds issued from time to time will rank *pari passu* with each other in all respects and will share in the Security granted by the Guarantor under the Security Agreements. If an Issuer Event of Default occurs in respect of a particular Series of Covered Bonds, the Covered Bonds of all Series outstanding will, provided a Covered Bond Guarantee Activation Event has occurred, accelerate at the same time against the Issuer and have the benefit of payments made by the Guarantor under the Covered Bond Guarantee. In order to ensure that any further issue of Covered Bonds under the Programme does not adversely affect Holders of the existing Covered Bonds:

- the Asset Coverage Test will be required to be met both before and after any further issue of Covered Bonds; and
- on or prior to the date of issue of any further Covered Bonds, the Issuer will be obliged to obtain Rating Agency Confirmation.

Bond Trustee's powers may affect the interests of the Holders of the Covered Bonds

In the exercise of its powers, trusts, authorities and discretions, the Bond Trustee will only have regard to the interests of the Holders of the Covered Bonds. In the exercise of its powers, trusts, authorities and discretions, the Bond Trustee may not act on behalf of the Issuer.

If, in connection with the exercise of its powers, trusts, authorities or discretions, the Bond Trustee is of the opinion that the interests of the Holders of the Covered Bonds of any one or more Series would be materially prejudiced thereby, the Bond Trustee will not exercise such power, trust, authority or discretion without the approval by Extraordinary Resolution of such holders of the relevant Series of Covered Bonds then outstanding or by a direction in writing of such Holders of the Covered Bonds representing at least 25 per cent of the Principal Amount Outstanding of Covered Bonds of the relevant Series then outstanding.

Extendable obligations under the Covered Bond Guarantee

Following the failure by the Issuer to pay the Final Redemption Amount of a Series of Covered Bonds on their Final Maturity Date (subject to applicable grace periods) and if following service of a Notice to Pay on the Guarantor (by no later than the date which falls one Business Day prior to the Extension Determination Date), the Guarantor has insufficient moneys available in accordance with the Guarantee Priority of Payments for the payment in full of the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of such Series of the Covered Bonds, then the payment of such Guaranteed Amounts may be automatically deferred for payment until the applicable Extended Due for Payment Date (where the relevant Series of Covered Bonds are subject to an Extended Due for Payment Date) as described in Condition 6.01 and interest will continue to accrue and be payable on the unpaid amount in accordance with Condition 5, at a Rate of Interest determined in accordance with Condition 5.03 (in the same manner as the Rate of Interest for Floating Rate Covered Bonds). To the extent that a Notice to Pay has been served on the Guarantor and the Guarantor has sufficient time and sufficient moneys to pay in part the Guaranteed Amounts corresponding to the relevant Final Redemption Amount in respect of such Covered Bonds, the Guarantor will make such partial payment on any Interest Payment Date up to and including the relevant Extended Due for Payment Date in accordance with the Priorities of Payment and as described in Condition 6.01 and the Guarantor will pay Guaranteed Amounts constituting Scheduled Interest on each Original Due for Payment Date and the Extended Due for Payment Date and any unpaid amounts in respect thereof shall be due and payable on the Extended Due for Payment Date. The Issuer is not required to notify Covered Bondholders of such deferral. This will occur (subject to no Guarantor Event of Default having occurred) if the Final Terms for a relevant Series of Covered Bonds provides that such Covered Bonds are subject to an Extended Due for Payment Date.

The Extended Due for Payment Date will fall one year or more after the Final Maturity Date (as specified in the applicable Final Terms) and the Guarantor will pay Guaranteed Amounts constituting Scheduled Interest on each Original Due for Payment Date and the Extended Due for Payment Date and any unpaid amounts in respect thereof shall be due and payable on the Extended Due for Payment Date. In these circumstances, except where the Guarantor has failed to apply money in accordance with the Priorities of Payment, failure by the Guarantor to meet its obligations in respect of the Final Redemption Amount on the Final Maturity Date (or such later date within any applicable grace period) will not constitute a Guarantor Event of Default. However, failure by the Guarantor to pay Guaranteed Amounts corresponding to the Final Redemption Amount or the balance thereof, as the case may be, on the Extended Due for Payment Date and/or pay Guaranteed Amounts constituting Scheduled Interest on any Original Due for Payment Date or the Extended Due for Payment Date will (subject to any applicable grace period) be a Guarantor Event of Default.

Modification and Waivers; The Bond Trustee may agree to modifications to the Transaction Documents without, respectively, the Covered Bondholders' or Secured Creditors' prior consent; Rating Agency Confirmations

The Conditions of the Covered Bonds contain provisions for calling meetings of Holders of Covered Bonds to consider matters affecting their interest generally. These provisions permit defined majorities to bind all Holders of Covered Bonds including Holders of Covered Bonds who do not attend and vote at the relevant meeting and Holders of Covered Bonds who voted in a manner contrary to the majority.

Pursuant to the terms of the Trust Deed, the Bond Trustee may also, without the consent or sanction of any of the Holders of the Covered Bonds or any of the other Secured Creditors, concur with any person in making or sanctioning any modification to the Transaction Documents:

- provided that the Bond Trustee is of the opinion that such modification will not be materially prejudicial to the interest of any of the Holders of the Covered Bonds of any Series; or

- which in the opinion of the Bond Trustee are made to correct a manifest error or are of a formal, minor or technical nature or are made to comply with mandatory provisions of law.

Pursuant to the terms of the Trust Deed, the Bond Trustee may, without the consent or sanction of any of the Holders of the Covered Bonds or any of the other Secured Creditors grant any authorization or waiver of (on such terms and conditions (if any) as shall seem expedient to it) any proposed or actual breach of any of the covenants contained in the Trust Deed, the Security Agreements or any of the other Transaction Documents, provided that the Bond Trustee is of the opinion that such waiver or authorization will not be materially prejudicial to the interest of any of the Holders of the Covered Bonds of any Series.

Pursuant to the terms of the Transaction Documents certain conditions, actions and steps under or with respect to the Transaction Documents require Rating Agency Confirmation. Certain Rating Agencies have issued policies or commented that such Rating Agencies do not provide consent to or approval of changes or amendments to the transaction documents or structure and that such Rating Agencies are not bound by the provisions of transaction documents in programmes for which they provide ratings. As a result of such policies and comments, a formal written or published response from the Rating Agencies with respect to the granting of Rating Agency Confirmation or confirming that such Rating Agencies do not consider such confirmation or response necessary in the circumstances (which would also satisfy such requirement) may not be forthcoming despite such condition, action or step being in the best interest of Covered Bondholders. In these circumstances, the Issuer may in the future be restricted from taking such conditions, actions or steps in a timely manner.

Potential Conflict of Interest in Connection with the Programme

The Issuer has a number of roles pursuant to the Programme including, but not limited to, the roles of Issuer, Seller, Servicer, Cash Manager and initial counterparty under the Swap Agreements. In respect of the Programme, the Issuer will act in its own interest subject to compliance with the Transaction Documents. Such actions by the Issuer may not be in the best interests of the holders of the Covered Bonds. Subject to compliance with the Transaction Documents, the Issuer may act in its own interest without incurring any liability to the holders of any Series or Tranche of Covered Bonds.

Certain decisions of Holders of the Covered Bonds taken at the Programme level

Any Extraordinary Resolution to direct the Bond Trustee to serve an Issuer Acceleration Notice following an Issuer Event of Default, to direct the Bond Trustee to serve a Guarantor Acceleration Notice following a Guarantor Event of Default and any direction to the Bond Trustee to take any enforcement action must be passed at a single meeting of the Holders of all Covered Bonds of all Series then outstanding.

Change of law

The structure of the issue of the Covered Bonds and the ratings which are to be assigned to them are based on the laws of the Province of Ontario and the federal laws of Canada applicable therein including federal banking, bankruptcy and income tax laws in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible change to these laws, including the *National Housing Act* (Canada) and the regulations and policies thereunder with respect to CMHC Mortgage Insurance and NHA Mortgage-Backed Securities, the applicable laws, regulations and policies with respect to the issuance of Covered Bonds, the Covered Bonds themselves or the bankruptcy and receivership of the Issuer or the Guarantor after the date of this Prospectus, nor can any assurance be given as to whether any such change could adversely affect the ability of the Issuer to meet its obligations in respect of the Covered Bonds or the Guarantor to meet its obligations under the Covered Bond Guarantee.

The Conditions of the Covered Bonds permit the Issuer to exchange, without the consent of the Bond Trustee, or the Holders of the Covered Bonds, any existing Covered Bonds then outstanding for new Covered Bonds (and to make any necessary amendments to the Transaction Documents) following the coming into force in Canada of any legislation similar to covered bond legislation in force in the European Union or any rules, regulations or guidelines published by any governmental authority that provides for bonds issued by Canadian issuers or Canadian chartered banks to qualify for benefits similar to those available pursuant to covered bond legislation in force in European Union countries provided that, amongst other things, each of the Rating Agencies confirms in writing that any such new Covered Bonds will be assigned the same or better ratings as are then applicable to the existing Covered Bonds. Any such new Covered Bonds will qualify as covered bonds under such new legislation, rules, regulations or guidelines and will be in identical form, amounts and denominations and will be subject to the same economic terms and conditions as the existing Covered Bonds then outstanding.

Covered Bonds where denominations involve integral multiples: definitive Covered Bonds

In relation to any issue of Covered Bonds which has denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that the Covered Bonds may be traded in the clearing systems in amounts that are not integral multiples of such minimum Specified Denomination. In such a case, a Holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in its account with the relevant clearing system at the relevant time may not receive a definitive Covered Bond in respect of such holding (should definitive Covered Bonds be provided) and would need to purchase or sell a principal amount of Covered Bonds such that its holding amounts to a Specified Denomination before definitive Covered Bonds are issued to such Holder.

If definitive Covered Bonds are issued, Holders should be aware that definitive Covered Bonds which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Ratings of the Covered Bonds

The ratings assigned to the Covered Bonds address:

(a) with respect to Fitch, the relative vulnerability of a default of the Covered Bonds on an ordinal scale as well as the recovery given a default of the Covered Bonds;

(b) with respect to DBRS, the risk of default on the Covered Bonds; and

(c) with respect to Moody's, the expected loss posed to investors.

The expected ratings of the Covered Bonds are set out in the relevant Final Terms for each Series of Covered Bonds. Any Rating Agency may lower its rating or withdraw its rating or place the rating on negative watch if, in the sole judgment of the Rating Agency, the credit

quality of the Covered Bonds has declined or is in question. If any rating assigned to the Covered Bonds is lowered or withdrawn or placed on negative watch, the market value of the Covered Bonds may be reduced. The rating assigned to the Covered Bonds may not reflect the potential of all risks related to structure, market, additional and other factors discussed herein and other factors that may affect the value of the Covered Bonds. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time.

Rating Agency Confirmation in respect of Covered Bonds

The terms of certain of the Transaction Documents provide that, in certain circumstances, the Issuer and/or the Guarantor must obtain confirmation from each Rating Agency that any particular action proposed to be taken by the Issuer, the Guarantor, the Seller, the Servicer, the Cash Manager, the Bond Trustee or any other party to a Transaction Document will not result in a downgrade of the then current rating of the Covered Bonds or cause such rating to be withdrawn. However, holders of the Covered Bonds should be aware that if a confirmation or some other response by a Rating Agency is a condition to any action or step or is otherwise required under any Transaction Document and a written request for Rating Agency Confirmation is delivered to that Rating Agency by the Issuer and/or the Guarantor, as applicable, and either (i) the Rating Agency indicates that it does not consider such confirmation or response necessary in the circumstances or (ii) within 30 days of receipt of such request to the Rating Agency, such request elicits no confirmation or response or otherwise no statement by the Rating Agency that such confirmation or response could not be given, the Issuer, the Guarantor and/or the Bond Trustee, as applicable, will be entitled to disregard the requirement for such confirmation, affirmation of rating or other response by the Rating Agency and proceed on the basis that such confirmation or affirmation of rating or other response by the Rating Agency is not required in the particular circumstances of the request. In such circumstances, there can be no assurance that a Rating Agency would not downgrade the then current rating of the Covered Bonds or cause such rating to be withdrawn.

The failure by a Rating Agency to respond to a written request for a confirmation or affirmation shall not be interpreted to mean that such Rating Agency has given any deemed Rating Agency Confirmation or affirmation of rating or other response in respect of such action or step.

By subscribing for or purchasing Covered Bond(s), each holder of Covered Bonds shall be deemed to have acknowledged and agreed that a credit rating of a Series of Covered Bonds by the Rating Agencies is an assessment of credit risk and does not address other matters that may be of relevance to holders of Covered Bonds, including, without limitation, in the case of Rating Agency Confirmation, whether such action is either (i) permitted by the terms of the relevant Transaction Document or (ii) in the best interests of, or not prejudicial to, some or all of the holders of Covered Bonds.

By subscribing for or purchasing Covered Bond(s), each holder of Covered Bonds shall be deemed to have acknowledged and agreed that: (a) a Rating Agency Confirmation may or may not be given at the sole discretion of each Rating Agency; (b) depending on the timing of delivery of the request and any information needed to be provided as part of any such request, it may be the case that a Rating Agency cannot provide a Rating Agency Confirmation in the time available, or at all, and the Rating Agency shall not be responsible for the consequences thereof; (c) a Rating Agency Confirmation, if given, will be given on the basis of the facts and circumstances prevailing at the relevant time, and in the context of cumulative changes to the transaction of which the Covered Bonds forms a part; and (d) a Rating Agency Confirmation represents only a restatement of the opinions given, and shall not be construed as advice for the benefit of any holder of Covered Bonds or any other party.

The Covered Bonds may not be a suitable investment for all investors

Each of the risks highlighted herein could adversely affect the trading price of any Covered Bonds or the rights of investors under any Covered Bonds and, as a result, investors could lose all or some of their investment. The Issuer and the Guarantor believe that the factors described herein represent the principal risks inherent in investing in Covered Bonds issued under the Programme, but the Issuer and the Guarantor may be unable to pay or deliver amounts on or in connection with any Covered Bonds for other reasons and the Issuer and the Guarantor do not represent that the statements herein regarding the risks of holding any Covered Bonds are exhaustive.

Each potential investor in the Covered Bonds must determine the suitability of that investment in light of his or her own circumstances. In particular, each potential investor should:

(a) have sufficient knowledge and experience to make a meaningful evaluation of the Covered Bonds, the merits and risks of investing in the Covered Bonds and the information contained or incorporated by reference in this Prospectus or any applicable supplement or Final Terms;

(b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Covered Bonds and the impact the Covered Bonds will have on its overall investment portfolio;

(c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Covered Bonds, including Covered Bonds with principal or interest payable in one or more currencies, or where the currency for

principal or interest payments is different from the potential investor's currency; understand thoroughly the terms of the Covered Bonds and be familiar with the behaviour of any relevant indices and financial markets; and

(d) be able to evaluate (either alone or with the help of a financial adviser) at the time of initial investment and on an ongoing basis possible economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Covered Bonds are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Covered Bonds which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Covered Bonds will perform under changing conditions, the resulting effect on the value of the Covered Bonds and the impact this investment will have on the potential investor's overall investment portfolio.

Risks related to the structure of a particular issue of Covered Bonds

A wide range of Covered Bonds may be issued under the Programme. A number of these Covered Bonds may have features which contain particular risks for potential investors, the most common of which are set out below:

Covered Bonds subject to optional or mandatory redemption by the Issuer

An optional redemption feature of Covered Bonds is likely to limit their market value. During any period when the Issuer may elect to redeem Covered Bonds, the market value of those Covered Bonds generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

If the Covered Bonds are redeemable early at the Issuer's option or otherwise subject to mandatory redemption, the Issuer may be expected to (in the case of optional redemption) or must (in the case of mandatory redemption) redeem Covered Bonds, if the Issuer has a right of redemption in respect of the relevant Series of Covered Bonds, when its cost of borrowing is lower than the interest rate on the Covered Bonds. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Covered Bonds being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Index Linked Covered Bonds, Equity Linked Covered Bonds, Commodity Linked and Dual Currency Covered Bonds

The Issuer may issue Covered Bonds with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "**Relevant Factor**"). In addition, the Issuer may issue Covered Bonds with principal or interest payable in one or more currencies which may be different from the currency in which the Covered Bonds are denominated. Potential investors should be aware that:

(a) the market price of such Covered Bonds may be volatile;

(b) they may receive no interest;

(c) payment of principal or interest may occur at a different time or in a different currency than expected;

(d) they may lose all or a substantial portion of their principal;

(e) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;

(f) if a Relevant Factor is applied to Covered Bonds in conjunction with a multiplier greater than one or contains some other leverage factors, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and

(g) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factors, the greater the effect on yield.

Variable Rate Covered Bond with a multiplier or other leverage factor

Covered Bonds with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Covered Bonds

Inverse Floating Rate Covered Bonds have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Covered Bonds typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Covered Bonds are more volatile because an increase in the reference rate not only decreases the interest rate of the Covered Bonds, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Covered Bonds.

Fixed/Floating Rate Covered Bonds

Fixed/Floating Rate Covered Bonds may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of the Covered Bonds since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Covered Bonds may be less favourable than then prevailing spreads on comparable Floating Rate Covered Bonds tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on the other Covered Bonds. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Covered Bonds.

Interest rate risks

Investment in Fixed Rate Covered Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Covered Bonds.

Additional risks

Additional risk factors in relation to specific issues of Covered Bonds may be included in the applicable Final Terms.

Covered Bonds issued at a substantial discount or premium

The issue price of Covered Bonds specified in the applicable Final Terms may be more than the market value of such Covered Bonds as of the issue date, and the price, if any at which a Dealer or any other person willing to purchase the Covered Bonds in secondary market transactions may be lower than the issue price. In particular, the issue price may take into account amounts with respect to commissions relating to the hedging of the Issuer's obligations under such Covered Bonds, and secondary market prices are likely to exclude such amounts. In addition, pricing models of market participants may differ or produce a different result.

The market values of Covered Bonds issued at a substantial discount or premium to their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing Covered Bonds. Generally, the longer the remaining term of the Covered Bonds, the greater the price volatility as compared to conventional interest-bearing Covered Bonds with comparable maturities.

Canadian usury laws

The *Criminal Code* (Canada) prohibits the receipt of "interest" (as such term is broadly defined therein) at a "criminal rate" (namely, an effective annual rate of interest that exceeds 60 per cent). Accordingly, the provisions for the payment of interest or a redemption amount in excess of the aggregate principal amount of the Covered Bonds may not be enforceable if the provision provides for the payment of "interest" in excess of an effective annual rate of interest of 60 per cent.

Covered Bonds in NGCB form and Covered Bonds in registered form held under the NSS

Covered Bonds in NGCB form and Covered Bonds in registered form held under the NSS to allow for the possibility of Covered Bonds being issued and held in a manner which will permit them to be recognized as eligible collateral for monetary policy of the central banking system for the euro (the "**Eurosystem**") and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. However, in any particular case, such recognition will depend upon satisfaction of the Eurosystem eligibility criteria at the relevant time. Investors should make their own assessment as to whether the Covered Bonds meet such Eurosystem eligibility criteria.

Factors which are material for the purposes of assessing the risks relating to the Issuer's and the Guarantor's legal and regulatory situation

Bankruptcy or insolvency risk

The sales of the Loans and their Related Security from the Originators to the Seller and the subsequent sale from the Seller to the Guarantor are intended by the Originators, the Seller and the Guarantor to be and will be documented as sales. However, if the Seller or the Guarantor or any Originator were to become subject to insolvency and/or restructuring proceedings, stakeholders of the Seller or the relevant Originator could attempt to challenge the transactions, including to re-characterize the sale of the Loans and their Related Security as a loan from the Seller to such Originator or from the Guarantor to the Seller, as the case may be, or to consolidate the assets of the relevant Originator with the assets of the Seller or the assets of the Seller with the assets of the Guarantor. In this regard, the Transaction Documents contain restrictions on the Originators, the Seller and the Guarantor intended to reduce the possibility that a Canadian court would order consolidation of the assets and liabilities of the Originators, Seller and the Guarantor given, among other things, current jurisprudence on the matter. Nonetheless, any attempt to challenge the transaction or to consolidate the assets of the relevant Originator with the assets of the Seller or the assets of the Seller with the assets of the Guarantor, as the case may be, even if unsuccessful, could result in a delay or reduction of collections on the Loans and their Related Security available to the Guarantor to meet its obligations under the Covered Bond Guarantee.

To the extent that the Servicer becomes insolvent and loses its status as a CMHC approved lender, is unable to administer the Loans in accordance with the requirements of the CMHC Mortgage Insurance or is unable to satisfy its servicing obligations as a CMHC approved lender, CMHC payments under CMHC Mortgage Insurance relating to the Loans may be adversely affected. See "*Default by Borrowers in paying amounts due on their Loans; CMHC Mortgage Insurance*".

The ability of the Bond Trustee (for itself and on behalf of the other Secured Creditors) to enforce the security granted to it pursuant to the terms of the Security Agreements is subject to the bankruptcy and insolvency laws of Canada. The *Bankruptcy and Insolvency Act* (Canada) ("**BIA**") and the *Companies' Creditors Arrangement Act* (Canada) ("**CCAA**") both provide regimes pursuant to which debtor companies are entitled to seek temporary relief from their creditors. Canadian jurisprudence makes it clear that both the BIA and the CCAA apply to limited partnerships. Further, it is a possibility that the *Autorité des marchés financiers* (Québec) would take the view that it could appoint a receiver over the Guarantor.

If the Guarantor or the Issuer voluntarily or involuntarily becomes subject to insolvency or winding-up proceedings including pursuant to the BIA, the CCAA or the *Winding-up and Restructuring Act* (Canada), it may delay or otherwise impair the exercise of rights or any realization by the Bond Trustee (for itself and on behalf of the other Secured Creditors) under the Covered Bond Guarantee and/or the Security Agreements (See also "*Factors that may affect the realizable value of the Covered Bond Portfolio or any part thereof or the ability of the Guarantor to meet its obligations under the Covered Bond Guarantee*").

Remedial Powers of the Autorité des marchés financiers (Québec) under the Caisses Act

The *Autorité des marchés financiers* (Québec) issued a notice dated April 2, 2010 relating to the issuance of covered bonds by financial services cooperatives and the expectations of the *Autorité des marchés financiers* (Québec) in that respect. The *Autorité des marchés financiers* (Québec), under Section 567 of the Caisses Act, has the power, where in the opinion of the *Autorité des marchés financiers* (Québec) a financial services cooperative is not adhering to sound and prudent management practices or is not complying with the Caisses Act, a compliance program or an undertaking under the Caisses Act, to order the cooperative to cease a course of action or to implement specified measures as are necessary to remedy the situation.

Implementation of Basel III

The Issuer has adopted the requirement of the Basel II capital standards framework which amended the capital adequacy rules introduced in 1988. On September 12, 2010, the Basel Committee on Banking Supervision announced the endorsement of the proposals previously announced in December 2009 and July 2010 (known as Basel III) aimed at further strengthening global capital standards. These reforms include increased capital and liquidity requirements as well as transition arrangements.

The Issuer cannot predict the precise effects of the potential changes that might result from the implementation of Basel III on both its own financial performance or the impact on the pricing of its Covered Bonds issued under the Programme. Prospective investors in the Covered Bonds should consult their own advisers as to the potential consequences for them and for the Issuer of the application of Basel III.

General

No assurance can be given that additional regulations or guidance from CMHC, Canadian Deposit Insurance Corporation, the *Autorité des marchés financiers* or any other regulatory authority will not arise with regard to the mortgage market in Canada generally, the Seller's or Guarantor's particular sector in that market or specifically in relation to the Seller or the Guarantor. Any such action or developments may

have a material adverse effect on the Seller, and/or the Guarantor and their respective businesses and operations. This may adversely affect the ability of the Guarantor to dispose of the Covered Bond Portfolio or any part thereof in a timely manner and/or the realizable value of the Covered Bond Portfolio or any part thereof and accordingly affect the ability of the Issuer and (following the occurrence of a Covered Bond Guarantee Activation Event) the Guarantor, respectively, to meet their obligations under the Covered Bonds in the case of the Issuer and the Covered Bond Guarantee in the case of the Guarantor.

Other factors which are material for the purposes of assessing the risks involved in an investment in the Covered Bonds

Risks related to the market generally

Set out below is a description of the principal market risks, including liquidity risk, interest rate risk and credit risk:

The secondary market generally

Covered Bonds may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Covered Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed liquid secondary market. This is particularly the case for Covered Bonds that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Covered Bonds generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Covered Bonds.

The Covered Bonds have not been, and will not be, registered under the Securities Act or any other securities laws applicable in the United States and are subject to certain restrictions on the resale and other transfer thereof as set forth under "Subscription and Sale and Transfer and Selling Restrictions".

Absence of secondary market; lack of liquidity

There is not, at present, an active and liquid secondary market for the Covered Bonds, and there can be no assurance that a secondary market for the Covered Bonds will develop. The Covered Bonds have not been, and will not be, registered under the Securities Act or any other applicable securities laws and are subject to certain restrictions on the resale and other transfer thereof as set forth under "*Subscription and Sale and Transfer and Selling Restrictions*". If a secondary market does develop, it may not continue for the life of the Covered Bonds or it may not provide holders of the Covered Bonds with liquidity of investment with the result that a holder of the Covered Bonds may not be able to find a buyer to buy its Covered Bonds readily or at prices that will enable the holder of the Covered Bonds to realize a desired yield.

No obligation to maintain listing

The Issuer is not under any obligation to Covered Bondholders to maintain any listing of Covered Bonds and may, in good faith and in its sole discretion, determine that it is unduly onerous to maintain such listing and seek to terminate the listing of such Covered Bonds provided it uses all reasonable efforts to seek an alternative admission to listing, trading and/or quotation of such Covered Bonds by another listing authority, securities exchange and/or quotation system that it deems appropriate (including a market which is not a regulated market for the purposes of the Markets in Financial Instruments Directive or a market outside of the EEA) as agreed between the Issuer and the relevant Dealer(s). However, if such alternative listing is not available or, in the opinion of the Issuer, acting reasonably and in good faith, is unduly onerous, the Covered Bonds may be delisted and an alternative listing may not be obtained.

Although there is no assurance as to the liquidity of any Covered Bonds as a result of the admission to trading on a regulated market for the purposes of the Markets in Financial Instruments Directive, delisting such Covered Bonds may have a material effect on the ability of investors to (a) continue to hold such Covered Bonds or (b) resell the Covered Bonds in the secondary market.

EU Savings Tax Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "**Savings Tax Directive**"), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to, or collected by such person for, an individual resident in that other Member State or certain limited types of entity established in that other Member State. However, for a transitional period (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries), Austria and Luxembourg are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld). A number of non-EU countries and territories, including Switzerland, have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Savings Tax Directive, which may, if implemented, amend or broaden the scope of the requirements described above. Such amendments could apply to Covered Bonds that have already been issued at the date of the amendment of the Savings Tax Directive. Investors who are in any doubt as to their position should consult their professional advisers.

If a payment to an individual were to be made or collected through a Member State (or any non-EU country or territory which has adopted similar measures in order to conform to the Savings Tax Directive) which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Covered Bonds as a result of the imposition of such withholding tax. The Issuer has agreed to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Savings Tax Directive.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Covered Bonds are legal investments for it, (ii) Covered Bonds can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Covered Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Covered Bonds under any applicable risk-based capital or similar rules.

Interests of Dealers

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer in the ordinary course of business without regard to the Issuer, the Bond Trustee, the Holders of the Covered Bonds or the Guarantor.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published by the Issuer or are published simultaneously with this Prospectus and as at the date of this Prospectus have been approved by or filed with the UK Listing Authority are hereby incorporated in, and form part of, this Prospectus and both the Base Prospectus and Listing Particulars set out in the Prospectus:

(a) the Issuer's annual information form dated March 26, 2010 (the "**2009 Annual Information Form**"), excluding all information incorporated therein by reference (such information is not relevant for prospective investors or is covered elsewhere in the Prospectus);

(b) the following sections of the Issuer's 2009 Annual Report for the year ended December 31, 2009 (the "**CCDQ 2009 Annual Report**"):

(i) Management's Discussion and Analysis for the year ended December 31, 2009 which is provided on pages 18 to 65 of the CCDQ 2009 Annual Report;

(ii) the Issuer's audited consolidated financial statements for the years ended December 31, 2009 and 2008, together with the auditor's report thereon which are provided on pages 66 to 114 of the CCDQ 2009 Annual Report; and

(iii) a discussion of the Issuer's business segments in the section entitled "Areas of Activity", which is provided on page 3 of the CCDQ 2009 Annual Report;

the remainder of the 2009 Annual Report is not relevant for prospective investors and is not incorporated by reference;

(c) the Issuer's Management's Discussion and Analysis for the year ended December 31, 2010; and

(d) the Issuer's audited consolidated financial statements for the years ended December 31, 2010 and 2009, together with the auditor's report thereon.

The following documents are appended to this Prospectus:

(e) the following sections of the Desjardins Financial Group's 2009 Annual Report for the year ended December 31, 2009 (the "**DFG 2009 Annual Report**"):

(i) Management's Discussion and Analysis for the year ended December 31, 2009 which is provided on pages 57 to 148 of the DFG 2009 Annual Report;

(ii) the Desjardins Financial Group's audited combined financial statements for the years ended December 31, 2009 and 2008, together with the auditor's report thereon which are provided on pages 149 to 213 of the DFG 2009 Annual Report (since the issuance of the DFG 2009 Annual Report, the combined financial statements for the year ended December 31, 2009 for the Desjardins Financial Group have been restated in connection with the decision by the Desjardins Financial Group to adopt a voluntary change in accounting policy under Canadian GAAP for the year ended December 31, 2010; however, the restated combined financial statements for the year ended December 31, 2009 for the Desjardins Financial Group have not been released as of the date of this Prospectus; the financial information relating to the Desjardins Financial Group presented in, or appended to, this Prospectus, as of its date, does not reflect the results of the restatement; the impact of the restatement is not material to potential investors);

(f) the following sections of the Desjardins Financial Group's Third Quarter 2010 Report (the "**DFG Third Quarter 2010 Report**"):

(i) Management's Discussion and Analysis on pages 3 to 24; and

(ii) the unaudited interim combined financial statements for the three-month and nine-month periods ended September 30, 2010 with comparative unaudited interim combined financial statements for the three-month and nine-month periods ended September 30, 2009, prepared in accordance with Canadian GAAP (before the restatement mentioned in item (e)(ii) above, the impact of which is not material to potential investors), which are provided on pages 25 to 45; and

(g) the press release dated February 25, 2011 announcing Desjardins Financial Group's unaudited combined financial results for the year ended December 31, 2010.

Information, documents or statements expressed to be incorporated by reference into, or that form part of one or more of, the documents described above form part of this Offering Circular but do not form part of the Base Prospectus or the Listing Particulars of the Issuer approved by the UK Listing Authority for purposes of the Prospectus Directive.

In addition, the following documents published or issued from time to time after the date hereof will be deemed to be incorporated in, and form part of, this Offering Circular, provided that such documents will not form part of the Base Prospectus or the Listing Particulars approved by the UK Listing Authority for the purposes of the Prospectus Directive unless otherwise incorporated in or attached to a supplementary prospectus approved by the UK Listing Authority:

(h) the Issuer's most recently published annual information form;

(i) the Issuer's and the Desjardins Financial Group's audited consolidated and combined financial statements, together with the auditor's reports thereon and management's discussion and analysis for the year then ended contained in the most recently published Annual Reports and, if published later, the Issuer's and the Desjardins Financial Group's comparative unaudited interim consolidated and combined financial statements and management's discussion and analysis for the period then ended contained in the most recently published Quarterly Reports;

(j) all supplements or amendments to the Offering Circular prepared by the Issuer from time to time (other than those filed pursuant to Article 16 of the Prospectus Directive and approved by the UK Listing Authority under section 87G of the FSMA); and

(k) any material change reports (excluding confidential material change reports) filed by the Issuer with the various securities commissions or similar authorities in Canada pursuant to the requirements of applicable securities legislation, after the date of this Offering Circular and during the currency of this Offering Circular;

provided that any statement contained herein or in a document all or the relative portion of which is or is deemed to be incorporated by reference will be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained herein, in any other subsequently filed document which is or is deemed to be incorporated by reference in this Offering Circular, or in any supplement approved by the UK Listing Authority (including any documents incorporated by reference therein) modifies or supersedes such earlier statement (whether expressly, by implication or otherwise).

Following the publication of this Prospectus, one or more supplements to this Prospectus may be prepared by the Issuer and approved by the UK Listing Authority in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, but implication or otherwise), be deemed to modify or supersede statements contained in this Prospectus or in a document which is incorporated by reference in this Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.

Copies of this Prospectus and the documents incorporated by reference in this Prospectus (but excluding items (h) to (k) above unless otherwise incorporated in a supplementary prospectus under Article 16 of the Prospectus Directive) and any supplement hereto approved by the UK Listing Authority can be (i) viewed on the website of the Regulatory News Service operated by the London Stock Exchange at http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html under the name of the Issuer and the headline "Publication of Prospectus"; (ii) obtained on written request and without charge from the specified offices of the Issuer and each Paying Agent, as set out at the end of this Prospectus; and (iii) with respect to the documents incorporated by reference in this Base Prospectus, by accessing the Issuer's disclosure documents through the Internet on the Canadian System for Electronic Document Analysis and Retrieval at www.SEDAR.com (an internet based securities regulatory filing system).

The Issuer will, in the event of any significant new factor, material mistake or material inaccuracy relating to the information included in this Prospectus which is capable of affecting the assessment of any Covered Bonds, prepare a supplement to this Prospectus or publish a new Prospectus for use in connection with any subsequent issue of Covered Bonds issued in circumstances requiring publication of a prospectus under the Prospectus Directive. The Issuer has undertaken to the Dealers in the Dealership Agreement that it will comply with section 87G of the FSMA.

The financial statements of Caisse centrale incorporated by reference in this Prospectus and the financial statements of the Desjardins Financial Group appended hereto have not been prepared in accordance with the international accounting standards adopted pursuant to the procedure of Article 3 of Regulation (EC) No. 1606/2002 of the European Parliament and the European Council of the European Union. Effective for the financial year beginning on 1 January 2011, Caisse centrale and the Desjardins Financial Group will prepare their consolidated or combined financial statements, as the case may be, in accordance with IFRS.

FINAL TERMS OR STAND-ALONE PROSPECTUS

In this section the expression "necessary information" means, in relation to any Series or Tranche of Covered Bonds, the information necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and of the rights attaching to the Covered Bonds. In relation to the different types of Covered Bonds which may be issued under the Programme the Issuer has endeavoured to include in this Prospectus all of the necessary information except for information relating to the Covered Bonds which is not known at the date of this Prospectus and which can only be determined at the time of an individual issue of a Tranche of Covered Bonds.

Any information relating to the Covered Bonds which is not included in this Prospectus and which is required in order to complete the necessary information in relation to a Series or Tranche of Covered Bonds will be contained in the applicable Final Terms. Such information will be contained in the applicable Final Terms unless, in accordance with Article 16 of the Prospective Directive, any of such information constitutes a significant new factor relating to the information contained in this Prospectus in which case such information, together with all of the other necessary information in relation to the relevant series of Covered Bonds, may be contained in a supplemental Prospectus.

For a Series or Tranche of Covered Bonds which is the subject of the Final Terms, those Final Terms will, for the purposes of such Series or Tranche only, supplement this Prospectus and must be read in conjunction with this Prospectus. The terms and conditions applicable to any particular Series or Tranche of Covered Bonds which is the subject of Final Terms are the Conditions as supplemented, amended and/or replaced to the extent described in the applicable Final Terms.

Together with this Prospectus and any supplemental prospectus, the Final Terms will be a single document containing the necessary information relating to the Issuer, the Guarantor and the relevant Covered Bonds.

OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, information contained elsewhere in this Prospectus and, in relation to the terms and conditions of any particular Tranche of Covered Bonds, the applicable Final Terms. Words and expressions defined elsewhere in this Prospectus shall have the same meanings in this summary. A glossary of certain defined terms is contained at the end of this Prospectus.

Issuer:	Caisse centrale Desjardins du Québec (the "**Issuer**" or "**Caisse centrale**")
Guarantor:	CCDQ Covered Bond Guarantor Limited Partnership
Arranger:	The Royal Bank of Scotland plc ("**RBS**")
Dealers:	The Arranger and any other dealers appointed from time to time by the Issuer generally in respect of the Programme or in relation to a particular Series or Tranche of Covered Bonds.
Seller:	The Issuer and any New Seller who may from time to time accede to the Hypothecary Loan Sale Agreement and sell Loans and their Related Security or New Loans and their Related Security to the Guarantor.
Servicer:	The Issuer, subject to replacement in accordance with the terms of the Servicing Agreement.
Cash Manager:	The Issuer, subject to replacement in accordance with the terms of the Cash Management Agreement.
Issuing and Paying Agent and Calculation Agent:	The Bank of New York Mellon, London Branch acting through its office at One Canada Square, 48th Floor, London, E14 4AL
European Exchange Agent, European Registrar and Transfer Agent:	The Bank of New York Mellon, London Branch acting through its office at One Canada Square, 48th Floor, London, E14 4AL
U.S. Registrar, Transfer Agent, Exchange Agent and Paying Agent:	The Bank of New York Mellon acting through its offices at 101 Barclay Street, 4th Floor, New York, New York 10286 United States
Bond Trustee:	BNY Trust Company of Canada, acting through its offices located at 11th Floor, 320 Bay Street, Toronto, Ontario M5H 4A6
Asset Monitor:	PricewaterhouseCoopers LLP
Interest Rate Swap Provider:	The Issuer, subject to replacement in accordance with the terms of the Interest Rate Swap Agreement.
Covered Bond Swap Provider:	The Issuer, subject to replacement in accordance with the terms of the Covered Bond Swap Agreement.
GIC Provider:	Initially, the Issuer.
Account Depository Institution:	Initially, the Issuer.
Standby Account Depository Institution:	Royal Bank of Canada, acting through its branch located at 200 Bay Street, Toronto, Ontario, Canada M5J 2J5
Standby GIC Provider:	Royal Bank of Canada, acting through its branch located at 200 Bay Street, Toronto, Ontario, Canada M5J 2J5
Description:	Global Covered Bond Programme.
Certain Restrictions:	Each Series or Tranche of Covered Bonds denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale and Transfer and Selling*

Restrictions").

Programme Size:	Up to €5 billion (or its equivalent in Specified Currencies), outstanding at any time, subject to increase. The Issuer may increase the amount of the Programme in accordance with the terms of the Dealership Agreement. Covered Bonds denominated in a currency other than euros shall be translated into euros at the date of the agreement to issue such Covered Bonds using (a) the spot rate of exchange for the purchase of such currency against payment of euros being quoted by the Issuing and Paying Agent on the date on which such agreement was made which, where the parties enter into a subscription agreement in respect of the Covered Bonds, shall be the date of execution thereof, and in all other cases, the date of the applicable Final Terms or (b) such other rate as the Issuer and the relevant Dealer may agree, such rate being indicated in the applicable Final Terms.
Distribution:	Covered Bonds may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis, subject to the restrictions set forth in "*Subscription and Sale and Transfer and Selling Restrictions*".
Issuance of Series:	Covered Bonds will be issued in series (each, a "**Series**"). Each Series may comprise one or more tranches ("**Tranches**" and each, a "**Tranche**") issued on different issue dates. The Covered Bonds of each Series will all be subject to identical terms, except that (i) the issue date and the amount of the first payment of interest may be different in respect of different Tranches and (ii) a Series may comprise Covered Bonds in bearer form and Covered Bonds in registered form and Covered Bonds in more than one denomination. The Covered Bonds of each Tranche will be subject to identical terms in all respects, save that a Tranche may comprise Covered Bonds in bearer form and Covered Bonds in registered form and may comprise Covered Bonds of different denominations. Each holder of a Definitive N Covered Bond shall hold its own series.
Specified Currencies:	Covered Bonds may be denominated in any currency or currencies subject to compliance with all applicable legal and/ or regulatory and/or central bank requirements, such currencies to be agreed upon between the Issuer, the relevant Dealer(s) or the Covered Bondholder, as the case may be, and the Bond Trustee (as set out in the applicable Final Terms). Payments in respect of Covered Bonds may, subject to compliance as described above, be made in and/or linked to, any currency or currencies other than the currency in which such Covered Bonds are denominated as may be specified in the applicable Final Terms. The Issuer is an "authorised person" under the FSMA.
Denomination:	Covered Bonds may be issued on a fully-paid basis at any price and in such denominations as may be agreed between the Issuer and the relevant Dealer(s) or the Covered Bondholder, as the case may be, and as indicated in the applicable Final Terms, save that the minimum denomination of each Covered Bond to be admitted to trading on a regulated market within the EEA or offered to the public in circumstances which would otherwise require the publication of a prospectus under the Prospectus Directive, will be at least €100,000 (or, if the Covered Bonds are denominated in a currency other than euros, at least the equivalent amount in such currency as at the Issue Date of such Covered Bonds) or such other higher amount as may be required from time to time by the relevant regulator (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency. The minimum denomination of each Definitive IAI Registered Covered Bond, each Definitive Rule 144A Covered Bond and each Definitive N Covered Bond will be as stated in the applicable Final Terms in U.S. dollars (or its approximate equivalent in other Specified Currencies).
Redenomination:	The applicable Final Terms may provide that certain Covered Bonds may be redenominated into another currency. If so, the redenomination provisions will be set out in the applicable Final Terms.
Maturities:	Such maturities as may be agreed between the Issuer and the relevant Dealer(s) or the Covered Bondholder, as the case may be, and as indicated in the applicable Final Terms, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant regulator (or equivalent body) or any laws or regulations applicable to the Issuer or the

	relevant Specified Currency.
Form of the Covered Bonds:	The Covered Bonds will be issued in bearer or registered form or in such other form as shall be agreed upon by the Guarantor, the Issuer, the relevant Dealer(s) or Covered Bondholder(s), as the case may be, and the Bond Trustee as described in "*Form of the Covered Bonds*". Registered Covered Bonds will not be exchangeable for Bearer Covered Bonds and vice versa. Each Tranche of Bearer Covered Bonds will be issued in the form of either a Temporary Global Covered Bond or a Permanent Global Covered Bond deposited with the Common Safekeeper for Euroclear and Clearstream, Luxembourg (in the case of Bearer Covered Bonds intended to be issued in NGCB form) or otherwise with a Common Depositary for Euroclear and Clearstream, Luxembourg, as specified in the applicable Final Terms. A Temporary Global Covered Bond will be exchangeable for a Permanent Global Covered Bond or, if so specified in the applicable Final Terms, Bearer Definitive Covered Bonds. Unless otherwise specified in the applicable Final Terms, a Permanent Global Covered Bond will be exchangeable for Bearer Definitive Covered Bonds only in the limited circumstances specified in "*Terms and Conditions of the Covered Bonds*". Registered Covered Bonds sold in reliance on Regulation S under the Securities Act will be issued in the form of Regulation S Global Covered Bonds, while Registered Covered Bonds sold in reliance on Rule 144A under the Securities Act will be issued in the form of Rule 144A Global Covered Bonds (together, the "**Registered Global Covered Bonds**"). If a Registered Global Covered Bond is held under the new safekeeping structure for registered global securities which are intended to constitute eligible collateral for Eurosystem Monetary policy and intra day operations (the "**NSS**"), the Registered Global Covered Bond will be delivered on or prior to the original issue date of the relevant Tranche to a Common Safekeeper for Euroclear and/or Clearstream Luxembourg and registered in the name of a nominee of the Common Safekeeper. Registered Global Covered Bonds not held under the NSS will either be deposited with a custodian for, and registered in the name of a nominee for, The Depositary Trust Company ("**DTC**") or Euroclear and Clearstream, Luxembourg, as specified in the applicable Final Terms. Unless otherwise specified in the applicable Final Terms, Registered Covered Bonds will be exchangeable for Registered Definitive Covered Bonds in the limited circumstances specified in "*Terms and Conditions of the Covered Bonds*". Any reference herein to DTC, Euroclear and/or Clearstream, Luxembourg, shall, whenever the context so permits, except in relation to Covered Bonds issued in NGCB form or held under the NSS for registered global securities, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Term or as otherwise may be approved by the Issuer, Issuing and Paying Agent and the Bond Trustee. Registered Covered Bonds sold to Institutional Accredited Investors who agree to purchase for their own account and not with a view to the distribution thereof will be issued in definitive form in the name of the holder thereof in denominations specified in the applicable Final Terms. Definitive N Covered Bonds will be issued to each holder (unless otherwise specified in the applicable Final Terms) by a deed of issuance (a "**Definitive N Covered Bonds Deed**"). Registered Covered Bonds are subject to transfer restrictions described under "*Subscription and Sale and Transfer and Selling Restrictions*". See "*Form of the Covered Bonds*" for further details.
Interest:	Covered Bonds may be interest bearing or non-interest bearing. Interest (if any) may accrue at a fixed or floating rate (detailed in a formula or otherwise) and may vary during the lifetime of the relevant Series.
Types of Covered Bonds:	The following is a non-exhaustive list of the types of Covered Bonds that may be issued under the Programme: • Fixed Rate Covered Bonds

- Floating Rate Covered Bonds
- Index Linked Covered Bonds
- Dual Currency Covered Bonds
- Instalment Covered Bonds
- Zero Coupon Covered Bonds.

Other Types of Covered Bonds: Covered Bonds with respect to which payment of principal and/or interest is linked to any source or types of Covered Bonds not referred to above (including Equity Linked Covered Bonds and Credit Linked Covered Bonds) may be issued under the Programme on terms agreed between the Issuer and the relevant Dealer(s) and/or Purchaser(s) and set out in the applicable Final Terms, as appropriate.

Fixed Rate Covered Bonds: Fixed Rate Covered Bonds will bear interest at a fixed rate which will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer(s) and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Final Terms), provided that if an Extended Due for Payment Date is specified in the Final Terms, interest following the Due for Payment Date will continue to accrue and be payable on the unpaid amount in accordance with Condition 5, at a Rate of Interest determined in accordance with Condition 5.03 (in the same manner as the Rate of Interest for Floating Rate Covered Bonds) even where the relevant Covered Bonds are Fixed Rate Covered Bonds.

Floating Rate Covered Bonds: Floating Rate Covered Bonds will bear interest at a rate determined:

(i) on the same basis as the floating rate under a schedule and confirmation for the relevant Tranche and/or Series of Covered Bonds in the relevant Specified Currency governed by the Covered Bond Swap Agreement incorporating the ISDA Definitions; or

(ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or

(iii) on such other basis as may be agreed between the Issuer and the relevant Dealer(s),

as set out in the applicable Final Terms. The Margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer(s) for each Tranche and Series of Floating Rate Covered Bonds as set out in the applicable Final Terms.

Index Linked Covered Bonds: Payments of principal in respect of Index Linked Redemption Covered Bonds or of interest in respect of Index Linked Interest Covered Bonds will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer(s) may agree (as set out in the applicable Final Terms).

Dual Currency Covered Bonds: Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Covered Bonds will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer(s) may agree (as set out in the applicable Final Terms).

Instalment Covered Bonds: Instalment Covered Bonds are redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Final Terms.

Zero Coupon Covered Bonds: Zero Coupon Covered Bonds may be offered and sold at a discount to their nominal amount and will not bear interest except in the case of late payment unless otherwise specified in the applicable Final Terms.

Rating Agency Confirmation: Any issuance of new Covered Bonds will be conditional upon obtaining Rating Agency Confirmation in respect of the ratings of the then outstanding Covered Bonds by the Rating

Agencies.

Ratings: Covered Bonds issued under the Programme are expected on issue to be assigned a rating of "AAA" by DBRS, a rating of "Aaa" by Moody's and a rating of "AAA" by Fitch unless otherwise specified in the applicable Final Terms.

Listing and admission to trading: Application has been made to admit Covered Bonds issued under the Programme for the period of 12 months from the date of this Prospectus to the Official List and to admit the Covered Bonds to trading on the Main Market or the Professional Securities Market of the London Stock Exchange. Covered Bonds may be unlisted or may be listed on such other or further stock exchanges or regulated or unregulated markets, as may be agreed between the Issuer, the Guarantor, the Bond Trustee and the relevant Dealer(s) in relation to each Tranche. The Final Terms relating to each Tranche of the Covered Bonds will state whether or not the Covered Bonds are to be listed and/or admitted to trading and, if so, on which stock exchange(s) and/or markets. Definitive N Covered Bonds may not be listed and/or admitted to trading.

Redemption: The applicable Final Terms relating to each Tranche of Covered Bonds will indicate either that the relevant Covered Bonds of such Tranche cannot be redeemed prior to their stated maturity (other than in the case of Instalment Covered Bonds or following an Issuer Event of Default or a Guarantor Event of Default or as indicated below) or that such Covered Bonds will be redeemable at the option of the Issuer upon giving notice to the holders of the Covered Bonds, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Final Terms).

Early redemption will be permitted for taxation reasons and illegality as mentioned in "*Terms and Conditions of the Covered Bonds—Early Redemption for Taxation Reasons*" and "*—Redemption due to Illegality*", but will otherwise be permitted only to the extent specified in the applicable Final Terms.

The Issuer may also issue Covered Bonds the terms of which permit it to pay and/or discharge its obligations with respect to such Covered Bonds by the payment or delivery of securities and/ or other property or any combination of cash, securities and/or other property. The terms of such Covered Bonds and the conditions upon which such payment and/or discharge may be effected will be set out in full in the applicable Final Terms, as appropriate.

Extendable obligations under the Covered Bond Guarantee: The applicable Final Terms may also provide that (if a Notice to Pay has been served on the Guarantor) the Guarantor's obligations under the Covered Bond Guarantee to pay the Guaranteed Amounts corresponding to the Final Redemption Amount of the applicable Series of Covered Bonds on their Final Maturity Date (subject to applicable grace periods) may be deferred until the Extended Due for Payment Date. In such case, such deferral will occur automatically (i) if the Issuer fails to pay the Final Redemption Amount of the relevant Series of Covered Bonds on their Final Maturity Date (subject to applicable grace periods) and (ii) if the Guaranteed Amounts equal to the Final Redemption Amount in respect of such Series of Covered Bonds are not paid in full by the Guarantor by the Extension Determination Date (for example, because the Guarantor has insufficient moneys in accordance with the Priorities of Payment to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount of the relevant Series of Covered Bonds after payment of higher ranking amounts and taking into account amounts ranking *pari passu* in the Priorities of Payment). To the extent a Notice to Pay has been served on the Guarantor and the Guarantor has sufficient time and sufficient moneys to pay in part the Final Redemption Amount, such partial payment will be made by the Guarantor on any Interest Payment Date up to and including the relevant Extended Due for Payment Date as described in Condition 6.01. Interest will continue to accrue and be payable on the unpaid amount in accordance with Condition 5, at a Rate of Interest determined in accordance with Condition 5.03 (in the same manner as the Rate of Interest for Floating Rate Covered Bonds). The Guarantor will pay Guaranteed Amounts constituting Scheduled Interest on each Original Due for Payment Date and the Extended Due for Payment Date and any unpaid amounts in respect thereof shall be due and payable on the Extended Due for Payment Date.

Canadian Taxation: Payments in respect of the Covered Bonds, Receipts and Coupons will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Canada or any province or territory or political subdivision thereof or any authority or agency therein or thereof

having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law or the interpretation or administration thereof. In that event, the Issuer will (save as provided in Condition 8) pay such additional amounts as will result in the holders of Covered Bonds, Receipts or Coupons receiving such amounts as they would have received in respect of such Covered Bonds, Receipts or Coupons had no such withholding or deduction been required. Under the Covered Bond Guarantee, the Guarantor will not be liable to pay any such additional amounts as a consequence of any applicable tax withholding or deduction. For a more detailed description of withholding tax see "*Terms and Conditions of the Covered Bonds—Taxation*".

If (i) any portion of interest payable on a Covered Bond is contingent or dependent on the use of, or production from, property in Canada or is computed by reference to revenue, profit, cash flow, commodity price or any other similar criteria or by reference to dividends paid or payable to shareholders of a corporation; or (ii) the recipient of interest on a Covered Bond does not deal at arm's length with the Issuer for purposes of the *Income Tax Act* (Canada), such interest (including amounts paid by the Guarantor in respect of such interest) may be subject to Canadian non-resident withholding tax. Additional opinions from Canadian tax counsel may be required. See the discussion under the caption "*Taxation—Canada*".

U.S. Taxation: See the discussion under the caption "*Taxation—United States Federal Income Taxation*".

ERISA and other U.S. Plans: Subject to the limitations described under "*Certain Considerations for ERISA and Other U.S. Employee Benefit Plans*" and unless otherwise stated in the Final Terms, a Covered Bond may be purchased by Benefit Plan Investors (as defined in Section 3(42) of the U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**")), as well as other U.S. employee benefit plans. See "*Certain Considerations for ERISA and Other U.S. Employee Benefit Plans*".

Cross-Default: If a Guarantor Acceleration Notice is served in respect of any one Series of Covered Bonds, then the obligation of the Guarantor to pay Guaranteed Amounts in respect of all Series of Covered Bonds outstanding will be accelerated.

Status of the Covered Bonds: The Covered Bonds will constitute legal, valid and binding direct, unconditional, unsubordinated and unsecured obligations of the Issuer and will rank *pari passu* with all deposit liabilities of the Issuer without any preference among themselves and (save for any applicable statutory provisions) at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer, from time to time outstanding.

The Covered Bonds will not be deposits insured under the *Deposit Insurance Act* (Québec) or the *Canada Deposit Insurance Corporation Act*.

Governing Law and Jurisdiction: The Covered Bonds and most Transaction Documents will be governed by, and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein, except that the Origination Hypothecary Loan Sale Agreements may be governed by, and construed in accordance with the laws of the Province of Ontario or the laws of the Province of Québec and the federal laws of Canada applicable therein, the Subservicing Agreement and certain Security Agreements will be governed by the laws of the Province of Québec and the federal laws of Canada applicable therein and the Swap Agreements will be governed by English law. See "*Summary of the Principal Documents*".

Ontario courts have non-exclusive jurisdiction in the event of litigation in respect of the contractual documentation and the Covered Bonds governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein, and, subject to certain exceptions can enforce foreign judgements in respect of agreements governed by foreign laws.

Definitive N Covered Bonds shall be governed by, and construed in accordance with, the laws of the Federal Republic of Germany. Ontario courts have exclusive jurisdiction in the event of litigation in respect of Definitive N Covered Bonds.

Terms and Conditions: With the exception of Definitive N Covered Bonds, Final Terms will be prepared in respect of each Tranche of Covered Bonds. A copy of each Final Terms will, in the case of Covered Bonds to be admitted to the Official List and to be admitted to trading on the Main Market or the PSM, be delivered to Listing Applications at the UK Listing Authority and to the London Stock

Exchange on or before the closing date of such Covered Bonds. The terms and conditions applicable to each Tranche will be those set out herein under "Terms and Conditions of the Covered Bonds" as supplemented, modified or replaced by the applicable Final Terms.

Clearing System: DTC, Euroclear, Clearstream, Luxembourg and/or, in relation to any Covered Bonds, any other clearing system as may be specified in the applicable Final Terms. Definitive N Covered Bonds will not be settled in a clearing system.

Non-U.S. Selling Restrictions: There will be specific restrictions on offers, sales and deliveries of Covered Bonds and on the distribution of offering material in Canada, Japan, the EEA, the United Kingdom, France, Italy and Hong Kong, as well as such other restrictions as may be required in connection with a particular issue of Covered Bonds as set out in the applicable Final Terms. See "*Subscription and Sale and Transfer and Selling Restrictions*".

U.S. Selling Restrictions: The Issuer is Category 1 for the purposes of Regulation S under the Securities Act.

If specified in the applicable Final Terms, Covered Bonds may be sold to QIBs in compliance with Rule 144A under the Securities Act and to Institutional Accredited Investors who agree to purchase for their own account and not with a view to the distribution thereof.

The Covered Bonds issued in bearer form on or before March 18, 2012, will be issued in compliance with U.S. Treasury Regulation §1.163-5(c)(2)(i)(D) (the "**TEFRA D Rules**") unless (i) the applicable Final Terms state that the Covered Bonds are issued in compliance with U.S. Treasury Regulation §1.163-5(c)(2)(i)(C) (the "**TEFRA C Rules**") or (ii) the Covered Bonds are issued other than in compliance with the TEFRA D Rules or the TEFRA C Rules but in circumstances in which the Covered Bonds will not constitute "registration required obligations" under the *United States Tax Equity and Fiscal Responsibility Act of 1982* ("**TEFRA**"), which circumstances will be referred to in the applicable Final Terms as a transfer to which TEFRA is not applicable. The Covered Bonds issued in bearer form after March 18, 2012 are expected to be issued in compliance with requirements then existing that are generally expected to be similar to those contained in the TEFRA C Rules or TEFRA D Rules with the intention that such Covered Bonds will constitute "foreign targeted obligations" and will thus be exempt from Code Section 4701 under the *Hiring Incentives to Restore Employment Act of 2010* (the "**HIRE Act**"). Details regarding any such conditions and the tax consequences attaching thereto will be described in the applicable Final Terms.

Transfer Restrictions: There are restrictions on the transfer of certain Registered Covered Bonds. See "*Subscription and Sale and Transfer and Selling Restrictions—United States—Transfer Restrictions*".

Covered Bond Guarantee: Payment of interest and principal in respect of the Covered Bonds when Due for Payment will be irrevocably guaranteed by the Guarantor. The obligations of the Guarantor to make payment in respect of the Guaranteed Amounts when Due for Payment are subject to the condition that a Covered Bond Guarantee Activation Event has occurred. The obligations of the Guarantor under the Covered Bond Guarantee will accelerate against the Guarantor upon the service of a Guarantor Acceleration Notice. The obligations of the Guarantor under the Covered Bond Guarantee constitute direct obligations of the Guarantor secured against the assets of the Guarantor, including the Covered Bond Portfolio.

Payments made by the Guarantor under the Covered Bond Guarantee will be made subject to, and in accordance with, the applicable Priorities of Payment.

Security: To secure its obligations under the Covered Bond Guarantee and the Transaction Documents to which it is a party, the Guarantor will grant a first ranking security interest and hypothec over its present and future acquired assets, including the Covered Bond Portfolio, in favour of the Bond Trustee (for itself and on behalf of the other Secured Creditors) pursuant to the terms of the Security Agreements.

Covered Bond Portfolio: The Covered Bond Portfolio will consist solely of Loans originated by the individual Caisses forming part of the Desjardins Financial Group that are residential real estate hypothecary or mortgage loans established in favour of borrowers residing in the Province of Québec or the Province of Ontario which are CMHC Insured Hypothecs as described herein. Subject to Rating Agency Confirmation, the Covered Bond Portfolio may also contain New Portfolio Asset Types provided that such New Portfolio Asset Types have the benefit of CMHC Mortgage Insurance (or

equivalent insurance or a guarantee, in each case, by CMHC or another insurer whose obligations are guaranteed 100 per cent by the Government of Canada). CMHC is Canada's national housing agency, and is a Canadian federal Crown corporation, wholly owned by the Government of Canada. CMHC's obligations are those of Her Majesty The Queen in Right of Canada, and as such carry the full faith and credit of the Government of Canada. CMHC insures the payment of principal and interest on designated first hypothecary or mortgage loans on private residential properties in Canada on and subject to the terms and conditions of the applicable CMHC Mortgage Insurance.

The Loans will be serviced by the Issuer pursuant to the terms of the Servicing Agreement. As at the Programme Establishment Date, the Issuer intends to sub contract or delegate the performance of all its duties under the Servicing Agreement, including the exercise of reasonable care and prudence in the making of the Loans, in the administration of the Loans, in the collection of the repayment of the Loans and in the protection of the security for each Loan, to each Originator in respect of the Loans originated by it that form part of the Covered Bond Portfolio, provided that the Servicer is not released or discharged from any liability under the Servicing Agreement and remains liable for the performance or non-performance or breach by any sub-contractor or delegate of the duties so subcontracted or delegated under the Servicing Agreement (see "*Summary of the Principal Documents—Servicing Agreement*").

Intercompany Loan:

Under the terms of the Intercompany Loan Agreement, prior to the issuance of the first Tranche of Covered Bonds, the Issuer will make available to the Guarantor an interest-bearing Intercompany Loan, comprised of a Guarantee Loan and a revolving Demand Loan, in an initial combined aggregate amount equal to the Total Credit Commitment, subject to increases and decreases as described below. The Intercompany Loan will be denominated in Canadian dollars. The interest rate on the Intercompany Loan will be a Canadian dollar floating rate based on the yield on the Covered Bond Portfolio less the sum of a specified spread and an amount for certain expenses of the Guarantor, provided that the interest payable and the applicable rate of interest on the Intercompany Loan shall not exceed, as applicable: (i) prior to a Covered Bond Guarantee Activation Event, the yield on the Covered Bond Portfolio; and (ii) on or following a Covered Bond Guarantee Activation Event, the amount received by the Guarantor pursuant to the Interest Rate Swap Agreement, and in each case less a minimum spread and an amount for certain expenses of the Guarantor. The balance of the Guarantee Loan and Demand Loan will fluctuate with the issuances and redemptions of Covered Bonds and the requirements of the Asset Coverage Test.

To the extent the Covered Bond Portfolio increases or is required to be increased to meet the Asset Coverage Test, the Issuer may increase the Total Credit Commitment to enable the Guarantor to purchase New Loans and their Related Security from the Seller.

Guarantee Loan:

The Guarantee Loan will be in an amount equal to the balance of outstanding Covered Bonds at any relevant time plus that portion of the Covered Bond Portfolio required in accordance with the Asset Coverage Test as over collateralization for the Covered Bonds in excess of the amount of then outstanding Covered Bonds (see "*Summary of the Principal Documents—Limited Partnership Agreement—Asset Coverage Test*").

Demand Loan:

The Demand Loan will be a revolving credit facility, the outstanding balance of which will be equal to the difference between the balance of the Intercompany Loan and the balance of the Guarantee Loan at any relevant time. At any time prior to a Demand Loan Repayment Event (or following a Demand Loan Payment Event if agreed to by the Issuer and subject to Rating Agency Confirmation), the Guarantor may borrow any withdrawn or committed amount, re-borrow any amount repaid by the Guarantor under the Intercompany Loan for a permitted purpose provided, among other things, (i) such drawing does not result in the Intercompany Loan exceeding the Total Credit Commitment; and (ii) no Issuer Event of Default or Guarantor Event of Default has occurred and is continuing.

The Proceeds of the Intercompany Loan:

The Guarantor will use the initial advance of proceeds from the Intercompany Loan to purchase the Initial Covered Bond Portfolio consisting of Loans and their Related Security from the Seller in accordance with the terms of the Hypothecary Loan Sale Agreement and use additional advances (i) to purchase New Loans and their Related Security pursuant to the terms of the Hypothecary Loan Sale Agreement; and/or (ii) to invest in Substitute Assets in an amount not exceeding the prescribed limit; and/or (iii) subject to complying with the Asset Coverage Test to make Capital Distributions to the Limited Partner; and/or (iv) to make deposits of the proceeds in

the Guarantor Accounts (including, without limitation, to fund the Reserve Fund to an amount not exceeding the prescribed limit), and the Pre-Maturity Liquidity Ledger and make investments in Authorized Investments.

Capital Contribution: Each of the Managing GP and the Liquidation GP have contributed a nominal cash amount to the Guarantor and respectively hold 99 per cent and 1 per cent of the 0.05 per cent general partner interest in the Guarantor. The Limited Partner holds the substantial economic interest in the Guarantor (approximately 99.95 per cent) having made a Cash Capital Contribution to the Guarantor. The Limited Partner may from time to time make additional Capital Contributions.

Consideration: Under the terms of the Hypothecary Loan Sale Agreement, the Seller will sell the Initial Covered Bond Portfolio and may, from time to time, sell New Loans and their Related Security to the Guarantor on a fully-serviced basis in exchange for cash consideration or a deemed cash payment. The Limited Partner may also make Capital Contributions in exchange for an additional interest in the capital of the Guarantor.

Interest Rate Swap Agreement: To provide a hedge against possible variances in the rates of interest payable on the Loans and related amounts in the Covered Bond Portfolio (which may, for instance, include variable rates of interest or fixed rates of interest) following the occurrence of a Covered Bond Guarantee Activation Event and the amounts payable under the Covered Bond Swap Agreement, the Guarantor will enter into the Interest Rate Swap Agreement with the Interest Rate Swap Provider. See "*Summary of the Principal Documents—Interest Rate Swap Agreement*".

Covered Bond Swap Agreement: To provide a hedge against currency and/or other risks arising, following the occurrence of a Covered Bond Guarantee Activation Event, in respect of amounts received by the Guarantor under the Interest Rate Swap Agreement and amounts payable in respect of its obligations under the Covered Bond Guarantee, the Guarantor will enter into the Covered Bond Swap Agreement (which may include a new schedule and confirmation(s) for each Tranche and/ or Series of Covered Bonds) with the Covered Bond Swap Provider. See "*Summary of the Principal Documents—Covered Bond Swap Agreement*".

FORM OF THE COVERED BONDS

The Covered Bonds of each Series will be in either bearer form, with or without receipts, interest coupons and/or talons attached, or registered form, without receipts, interest coupons and/or talons attached. Bearer Covered Bonds will be offered and sold only outside the United States and in reliance on Regulation S under the Securities Act ("**Regulation S**") and Registered Covered Bonds may be offered and sold both outside the United States in reliance on the exemption from registration provided by Regulation S and within the United States or to, or for the benefit of U.S. persons who are QIB's, in reliance on Rule 144A or another exemption from registration under the Securities Act.

Bearer Covered Bonds

Each Tranche of Bearer Covered Bonds will be initially issued in the form of a temporary global covered bond without receipts or interest coupons attached (a "**Temporary Global Covered Bond**") or, if so specified in the applicable Final Terms (the "**applicable Final Terms**"), a permanent global covered bond without receipts or interest coupons attached (a "**Permanent Global Covered Bond**" and, together with the Temporary Global Covered Bonds, the "Bearer Global Covered Bonds" and each a "**Bearer Global Covered Bond**") which, in either case, will:

(a) if the Bearer Global Covered Bonds are intended to be issued in NGCB form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the "**Common Safekeeper**") for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, sociéte anonyme ("**Clearstream, Luxembourg**"); and

(b) if the Bearer Global Covered Bonds are not intended to be issued in NGCB form, be delivered on or prior to the original issue date of the Tranche to a common depositary (the "**Common Depositary**") for Euroclear and Clearstream, Luxembourg.

While any Bearer Covered Bond is represented by a Temporary Global Covered Bond, payments of principal, interest (if any) and any other amount payable in respect of the Bearer Covered Bonds due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Global Covered Bond if the Temporary Global Covered Bond is not intended to be issued in NGCB form) only to the extent that certification to the effect that the beneficial owners of interests in such Bearer Covered Bond are not U.S. persons for U.S. federal income tax purposes or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Issuing and Paying Agent.

On and after the date (the "**Exchange Date**") which is 40 days after a Temporary Global Covered Bond is issued, interests in such Temporary Global Covered Bond will be exchangeable (free of charge) upon a request as described therein either for: (i) interests in a Permanent Global Covered Bond of the same Series; or (ii) Bearer Definitive Covered Bonds of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of Bearer Definitive Covered Bonds, to such notice period as is specified in the applicable Final Terms), in each case against certification of non-US beneficial ownership as described above unless such certification has already been given. The holder of a Temporary Global Covered Bond will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Covered Bond for an interest in a Permanent Global Covered Bond or for Bearer Definitive Covered Bonds is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Global Covered Bond will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the case may be) of the Permanent Global Covered Bond if the Permanent Global Covered Bond is not intended to be issued in NGCB form) without any requirement for certification.

The applicable Final Terms will specify that a Permanent Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for Bearer Definitive Covered Bonds with, where applicable, receipts, interest coupons and talons attached upon either: (i) not less than 60 days' written notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Covered Bond) to the Issuing and Paying Agent as described therein; or (ii) only upon the occurrence of an Exchange Event. For these purposes, "**Exchange Event**" means that: (i) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available; or (ii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Bearer Covered Bonds represented by the Permanent Global Covered Bond in definitive form. The Issuer will promptly give notice to holders of the Covered Bonds of each Series of Bearer Global Covered Bonds in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Covered Bond) or the Bond Trustee may give notice to the Issuing and Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (ii) above, the Issuer may also give notice to the Issuing and Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Issuing and Paying Agent.

Where Covered Bonds are issued in a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, a Holder may, as a result of trading in the clearing systems, hold an amount which is less than the minimum Specified Denomination in its account with the relevant clearing system at the relevant time. In such case, the Holder may not receive a Bearer Definitive Covered Bond in respect of such holding and would need to purchase or sell a principal amount of Covered Bonds such that its holding amounts to a Specified Denomination before Bearer Definitive Covered Bonds are issued to such Holder.

Bearer Global Covered Bonds and Bearer Definitive Covered Bonds, other than Temporary Global Covered Bonds, will be issued pursuant to the Agency Agreement.

The following legend will appear on all Bearer Covered Bonds which have an original maturity of more than one year and on all receipts and interest coupons relating to such Bearer Covered Bonds:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE".

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Covered Bonds, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Bearer Covered Bonds, receipts or interest coupons.

Covered Bonds which are represented by a Bearer Global Covered Bond will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

Legended Covered Bonds

The Legended Covered Bonds of each Tranche offered and sold in reliance on Regulation S, which will be sold to non-U.S. persons outside the United States, will initially be represented by a global covered bond in registered form (a "**Regulation S Global Covered Bond**"). Prior to expiry of the Distribution Compliance Period (as defined in Regulation S) applicable to each Tranche of Covered Bonds, beneficial interests in a Regulation S Global Covered Bond may not be offered, sold or delivered, directly or indirectly, to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 2 and may not be held otherwise than through Euroclear or Clearstream, Luxembourg, and such Regulation S Global Covered Bond will bear a legend regarding such restrictions on transfer.

The Legended Covered Bonds of each Tranche may only be offered and sold in the United States or to U.S. persons in transactions exempt from registration under the Securities Act: (i) to "qualified institutional buyers" within the meaning of Rule 144A under the Securities Act ("**QIBs**"); or (ii) to institutional "accredited investors" (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) ("**Institutional Accredited Investors**") who agree to purchase the Covered Bonds for their own account and not with a view to the distribution thereof.

The Legended Covered Bonds of each Tranche sold to QIBs will be represented by a global covered bond in registered form (a "**Rule 144A Global Covered Bond**" and, together with a Regulation S Global Covered Bond, the "**Registered Global Covered Bonds**").

Registered Global Covered Bonds will either: (i) be deposited with a custodian for, and registered in the name of a nominee of, DTC for the accounts of Euroclear and Clearstream, Luxembourg; or (ii) be deposited with a common depositary for, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg; or (iii) in the case of Registered Global Covered Bonds held under the NSS, delivered to, and registered in the name of a nominee of, a Common Safekeeper for Euroclear and/or Clearstream, Luxembourg, as specified in the applicable Final Terms. Persons holding beneficial interests in Registered Global Covered Bonds will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of Definitive Covered Bonds in fully registered form.

The Legended Covered Bonds of each Tranche sold to Institutional Accredited Investors will be in definitive form, registered in the name of the holder thereof ("**Definitive IAI Registered Covered Bonds**"). Definitive IAI Registered Covered Bond will be issued in the denominations specified in the applicable Final Terms in U.S. dollars (or the approximate equivalents in the applicable Specified Currency). The Rule 144A Global Covered Bonds and the Definitive IAI Registered Covered Bonds will be subject to certain restrictions on transfer set forth therein and will bear a legend regarding such restrictions described under "*Subscription and Sale and Transfer and Selling Restrictions*".

Payments of principal, interest and any other amount in respect of the Registered Global Covered Bonds will, in the absence of provision to the contrary, be made to the person shown on the Register as the registered holder of the Registered Global Covered Bonds. None of the Issuer, the Guarantor, the Bond Trustee, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Legended Covered Bonds in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date immediately preceding the due date for payment in the manner provided in that Condition. Interests in a Registered Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for Registered Definitive Covered Bonds without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, "**Exchange Event**" means that: (i) in the case of Covered Bonds registered in the name of a nominee for DTC, either DTC has notified the Issuer that it is unwilling or unable to continue to act as depository for the Covered Bonds and no alternative clearing system is available or DTC has ceased to constitute a clearing agency registered under the Exchange Act; (ii) in the case of Covered Bonds registered in the name of a nominee for a common depositary for Euroclear and Clearstream, Luxembourg, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available; or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Covered Bonds represented by the Registered Global Covered Bond in definitive form. The Issuer will promptly give notice to holders of the Covered Bonds of each Series of Registered Global Covered Bonds in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, DTC, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any registered holder of an interest in such Registered Global Covered Bond) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

Definitive Rule 144A Covered Bonds, Definitive IAI Registered Covered Bonds and Definitive N Registered Covered Bonds will be issued in the minimum denominations specified in the applicable Final Terms in U.S. dollars (or the approximate equivalents in the applicable Specified Currency).

Definitive N Covered Bonds will be issued to each holder (unless otherwise specified in the applicable Final Terms) by a Definitive N Covered Bonds Deed.

Transfer of Interests

Interests in a Registered Global Covered Bond may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Covered Bond or in the form of a Definitive IAI Registered Covered Bond, and Definitive IAI Registered Covered Bonds may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such Covered Bonds in the form of an interest in a Registered Global Covered Bond. No beneficial owner of an interest in a Registered Global Covered Bond will be able to transfer such interest, except in accordance with the applicable procedures of DTC, Euroclear and Clearstream, Luxembourg, in each case to the extent applicable. **Legended Covered Bonds are also subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions, see "*Subscription and Sale and Transfer and Selling Restrictions*".**

General

Pursuant to the Agency Agreement (as defined under "*Terms and Conditions of the Covered Bonds*"), the Issuing and Paying Agent shall arrange that, where a further Tranche of Covered Bonds is issued which is intended to form a single Series with an existing Tranche of Covered Bonds, the Covered Bonds of such further Tranche shall be assigned a common code and ISIN and, where applicable, a CUSIP and CINS number which are different from the common code, ISIN, CUSIP and CINS assigned to Covered Bonds of any other Tranche of the same Series until at least the expiry of the Distribution Compliance Period applicable to the Covered Bonds of such Tranche.

Any reference herein to DTC, Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, except in relation to Covered Bonds in NGCB form or held under the NSS, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms or as may otherwise be approved by the Issuer, the Issuing and Paying Agent and the Bond Trustee.

No holder of the Covered Bonds, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer or the Guarantor unless the Bond Trustee, having become so bound to proceed, fails so to do within a reasonable period and the failure shall be continuing.

TERMS AND CONDITIONS OF THE COVERED BONDS

*The following are the terms and conditions of the Covered Bonds (the "**Terms and Conditions**" or the "**Conditions**"), which as supplemented, modified or replaced in relation to any Covered Bonds by the applicable Final Terms, will be applicable to each Series of Covered Bonds issued after the date of this Prospectus unless otherwise specified in the applicable Final Terms. Either (i) the full text of these Terms and Conditions (subject to simplification by deletion of non-applicable provisions) together with the relevant provisions of the Final Terms or (ii) these Terms and Conditions as so supplemented, modified or replaced (subject to simplification by deletion of non-applicable provisions) shall be endorsed on the definitive Bearer Covered Bonds and Registered Covered Bonds or attached to the Temporary Global Covered Bond or the Permanent Global Covered Bond. All capitalized terms that are not defined in these Terms and Conditions will have the meanings given to them in the Final Terms.*

This Covered Bond is one of a Series (as defined below) of Covered Bonds issued by La Caisse centrale Desjardins du Québec (the "**Issuer**" or "**Caisse centrale**") as part of the Issuer's €5 billion Global Covered Bond programme (the "**Programme**") and constituted by a Trust Deed (as amended, restated, supplemented or replaced from time to time, the "**Trust Deed**") dated March 14, 2011, (the "**Programme Establishment Date**") made between the Issuer, CCDQ Covered Bond Guarantor Limited Partnership, as guarantor (the "**Guarantor**") and BNY Trust Company of Canada, as bond trustee (in such capacity, the "**Bond Trustee**" which expression shall include any successor as bond trustee).

The Covered Bonds have the benefit of an agency agreement dated as of the Programme Establishment Date (as amended, restated, supplemented or replaced from time to time, the "**Agency Agreement**") and made between the Issuer, the Guarantor, the Bond Trustee, The Bank of New York Mellon in its capacities as U.S. registrar (the "**U.S. Registrar**", which expression shall include any successor in such capacity), transfer agent, exchange agent (the "**U.S. Exchange Agent**", which expression shall include any successor in such capacity) and paying agent (the "**U.S. Paying Agent**", which expression shall include any successor in such capacity) and The Bank of New York Mellon, London Branch, in its capacity as issuing and principal paying agent (the "**Issuing and Paying Agent**", which expression shall include any successor to The Bank of New York Mellon, London Branch, in such capacity), calculation agent (the "**Calculation Agent**", which expression shall include any successor to The Bank of New York Mellon, London Branch, in its capacity as such and any substitute calculation agent appointed in accordance with the Agency Agreement either with respect to the Programme or with respect to a particular Series), European registrar (the "**European Registrar**", which expression shall include any successor to The Bank of New York Mellon, London Branch, in its capacity as such, and the "**Registrar**" or "**Registrars**" for a Tranche (as defined below) shall be as specified in the applicable Final Terms (as defined below)), exchange agent (the "**European Exchange Agent**", and collectively with the U.S. Exchange Agent, the "**Exchange Agent**", which expression shall include any successor in this capacity) and as transfer agent and the other transfer agents named therein (collectively, the "**Transfer Agent**" which expression shall include any Registrar and any additional or successor transfer agents), and the paying agents named therein (the "**Paying Agents**", which expression shall include the Issuing and Paying Agent, the U.S. Paying Agent and any substitute or additional paying agents appointed in accordance with the Agency Agreement either with respect to the Programme or with respect to a particular Series). As used herein, "**Agents**" shall mean the Paying Agents, the Registrar or Registrars, the Exchange Agent and the Transfer Agents.

Save as provided in Conditions 7 and 13, references in these Terms and Conditions to "**Covered Bonds**" are to Covered Bonds of this Series and shall mean:

(a) in relation to any Covered Bonds represented by a global covered bond (a "**Global Covered Bond**"), units of the lowest Specified Denomination in the Specified Currency;

(b) any Global Covered Bond;

(c) any definitive Covered Bonds in bearer form ("**Bearer Definitive Covered Bonds**") issued in exchange for a Global Covered Bond in bearer form; and

(d) any definitive Covered Bonds in registered form ("**Registered Definitive Covered Bonds**") (whether or not issued in exchange for a Global Covered Bond in registered form).

Save as provided in Conditions 7 and 13, any references to "**Coupons**" (as defined in Condition 1.06), "**Receipts**" (as defined in Condition 1.07) or "**Talons**" (as defined in Condition 1.06) are to Coupons, Receipts and Talons relating to Covered Bonds of this Series.

References in these Terms and Conditions to the Final Terms are to Part A of the Final Terms prepared in relation to the Covered Bonds of the relevant Tranche or Series.

In respect of any Covered Bonds, references herein to these "Terms and Conditions" are to these terms and conditions as supplemented or modified or (to the extent thereof) replaced by Part A of the Final Terms and any reference herein to a "**Condition**" is a reference to the relevant Condition of the Terms and Conditions of the relevant Covered Bonds.

The Covered Bonds are issued in series (each, a "**Series**"), and each Series may comprise one or more tranches ("**Tranches**" and each, a "**Tranche**") of Covered Bonds. Each Tranche will be the subject of Final Terms (each, "**Final Terms**"), a copy of which will be available free of charge during normal business hours at the specified office of the Issuing and Paying Agent and/or, as the case may be, the applicable Registrar and each other Paying Agent. In the case of a Tranche of Covered Bonds that is not offered to the public nor admitted to trading on a regulated market in any the EEA in circumstances requiring publication of a prospectus in accordance with Directive 2003/71/EC and any relevant implementing measure nor admitted to trading on the Professional Securities Market, copies of the Final Terms will only be available for inspection by a Holder of or, as the case may be, a Relevant Account Holder (each as defined herein) in respect of, such Covered Bonds.

The Bond Trustee acts for the benefit of the holders for the time being of the Covered Bonds (the "**holders of the Covered Bonds**", which expression shall, in relation to any Covered Bonds represented by a Global Covered Bond, be construed as provided below), the holders of the Receipts (the "**Receiptholders**") and the holders of the Coupons (the "**Couponholders**", which expression shall, unless the context otherwise requires, include the holders of the Talons (as defined in Condition 1.06 below)), and for holders of each other series of Covered Bonds in accordance with the provisions of the Trust Deed.

The Guarantor has, in the Trust Deed, irrevocably and unconditionally guaranteed the due and punctual payment of the Guaranteed Amounts in respect of the Covered Bonds as and when the same shall become due for payment on certain dates and in accordance with the Trust Deed ("**Due for Payment**"), but only after the occurrence of a Covered Bond Guarantee Activation Event.

The security for the obligations of the Guarantor under the Covered Bond Guarantee and the other Transaction Documents to which it is a party has been created in and pursuant to, and on the terms set out in security agreements (as amended, restated, supplemented or replaced from time to time, the "**Security Agreements**") dated the Programme Establishment Date and made between the Guarantor, the Bond Trustee and certain other Secured Creditors.

These Terms and Conditions include summaries of and are subject to, the provisions of the Trust Deed, the Security Agreements, the Agency Agreement and the other Transaction Documents. Copies of the Trust Deed, the Security Agreements, the Master Definitions and Construction Agreement (as defined below), the Agency Agreement and each of the other Transaction Documents (other than the Dealership Agreement and any subscription agreements) are available for inspection during normal business hours at the office for the time being of the Bond Trustee being at the Programme Establishment Date at 11th Floor, 320 Bay Street, Toronto, Ontario M5H 4A6, and at the specified office of each of the Paying Agents. Copies of the applicable Final Terms of all Covered Bonds of each Series (including in relation to unlisted Covered Bonds of any Series) are obtainable during normal business hours of the specified office of each of the Paying Agents, and any holder of the Covered Bonds must produce evidence satisfactory to the Issuer and the Bond Trustee or, as the case may be, relevant Paying Agent as to its holding of Covered Bonds and identity. The holders of the Covered Bonds, the Receiptholders and Couponholders are deemed to have notice of, or are bound by, and are entitled to the benefit of, all the provisions of, and definitions contained in, the Trust Deed, the Security Agreements, the Master Definitions and Construction Agreement, the Agency Agreement, each of the other Transaction Documents (other than the Dealership Agreement and any subscription agreements) and the applicable Final Terms which are applicable to them and to have notice of each set of Final Terms relating to each other Series.

Except where the context otherwise requires, capitalized terms used or otherwise defined in these Terms and Conditions shall bear the meanings given to them in the applicable Final Terms and/or the Master Definitions and Construction Agreement made between the parties to the Transaction Documents on or about the Programme Establishment Date (as amended, restated, supplemented or replaced from time to time, the "**Master Definitions and Construction Agreement**"), a copy of each of which may be obtained as described above.

1 Form and Denomination

1.01 Covered Bonds are issued in bearer form ("**Bearer Covered Bonds**") or in registered form ("**Registered Covered Bonds**"), or in such other form as shall be agreed upon by the Issuer, the Guarantor, the relevant Dealer(s) or Covered Bondholder(s), as the case may be, and the Bond Trustee, as specified in the Final Terms and are serially numbered. Registered Covered Bonds will not be exchangeable for Bearer Covered Bonds and vice versa.

The Covered Bond is a Fixed Rate Covered Bond, a Floating Rate Covered Bond, a Zero Coupon Covered Bond or an Index Linked Interest Covered Bond or any appropriate combination thereof, depending on the Interest Basis specified in the applicable Final Terms.

The Covered Bond may also be an Index Linked Redemption Covered Bond (collectively with Index Linked Interest Covered Bonds, "**Index Linked Covered Bonds**" and each an "Index Linked Covered Bond"), a Dual Currency Covered Bond, an Instalment Covered Bond or in a combination of any of the foregoing, depending on the Redemption/Payment Basis specified in the applicable Final Terms.

The Covered Bond may also be a Covered Bond to which payment of principal and/or interest is linked to any other source or of a type not referred to above (including Equity Linked Covered Bonds and Credit Linked Covered Bonds) the terms of which will be specified in the applicable Final Terms.

1.02 For so long as any of the Covered Bonds is represented by a Temporary Global Covered Bond and/ or a Permanent Global Covered Bond held on behalf of Euroclear and/or Clearstream, Luxembourg or so long as The Depositary Trust Company ("**DTC**") or its nominee is the registered holder of a Registered Global Covered Bond, each person (other than Euroclear or Clearstream, Luxembourg or DTC) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg or DTC as the holder of a particular principal amount of such Covered Bonds (a "**Relevant Account Holder**") (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg or DTC as to the principal amount of such Covered Bonds standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Guarantor, the Bond Trustee, the Issuing and Paying Agent, the Registrar and any other Agent as the holder of such principal amount of such Covered Bonds for all purposes, in accordance with and subject to the Terms and Conditions of the relevant Global Covered Bond and the Trust Deed, other than with respect to the payment of principal or interest on the Covered Bonds, and, in the case of DTC or its nominee, voting, giving consents and making requests, for which purpose the bearer of the relevant Temporary Global Covered Bond and/or Permanent Global Covered Bond or registered holder of a Registered Global Covered Bond (or in either case, the Bond Trustee in accordance with the Trust Deed) shall be treated by the Issuer, the Guarantor, the Bond Trustee, the Issuing and Paying Agent and any Agent and any Registrar as the holder of such principal amount of such Covered Bonds in accordance with and subject to the terms of the relevant Global Covered Bond and the expression "Holder" and related expressions shall be construed accordingly. Similar rights as those made available to Relevant Account Holders in the preceding sentence may be made available to Relevant Account Holders in other relevant clearing systems as more fully provided in the Final Terms. Covered Bonds which are represented by a Global Covered Bond will be transferable only in accordance with the then current rules and procedures of Euroclear or of Clearstream, Luxembourg or DTC or any other relevant clearing system, as the case may be.

References to DTC, Euroclear or Clearstream, Luxembourg shall, whenever the context so permits, except in relation to Covered Bonds in NGCB form or held under the New Safekeeping Structure for registered global securities, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms as may otherwise be approved by the Issuer, the Issuing and Paying Agent and the Bond Trustee.

Bearer Covered Bonds

1.03 In the case of Covered Bonds issued in bearer form on or before March 18, 2012, the Final Terms shall, if applicable, specify whether U.S. Treasury Regulation § 1.163-5(c)(2)(i)(D) (the "**TEFRA D Rules**") or U.S. Treasury Regulation § 1.163-5(c)(2)(i)(C) (the "**TEFRA C Rules**") shall apply. Each Tranche of Bearer Covered Bonds with an original maturity of more than one year is represented upon issue by a Temporary Global Covered Bond, unless the Final Terms specify otherwise, in particular, when the TEFRA C Rules apply. For Covered Bonds issued in bearer form after March 18, 2012, the Final Terms shall specify any requirements applicable to such Covered Bonds to qualify such Covered Bonds as "foreign targeted obligations" that will be exempt from Code Section 4701 under the HIRE Act.

Where the Final Terms applicable to a Tranche of Bearer Covered Bonds so specify or where a Tranche of Bearer Covered Bonds has an original maturity of one year or less, such Tranche is (unless otherwise specified in the Final Terms) represented upon issue by a Permanent Global Covered Bond.

Interests in the Temporary Global Covered Bond may be exchanged for:

(a) interests in a Permanent Global Covered Bond; or

(b) if so specified in the Final Terms, Bearer Definitive Covered Bonds.

Exchanges of interests in a Temporary Global Covered Bond for Bearer Definitive Covered Bonds or, as the case may be, a Permanent Global Covered Bond will be made only on or after the Exchange Date (as specified in the Final Terms) and (unless the Final Terms specify that the TEFRA C Rules are applicable to the Covered Bonds) provided certification as to the beneficial ownership thereof as required by U.S. Treasury regulations has been received in accordance with the terms of the Temporary Global Covered Bond (each certification in substantially the form set out in the Temporary Global Covered Bond or in such other form as is customarily issued in such circumstances by the relevant clearing system).

1.04 The bearer of any Temporary Global Covered Bond shall not (unless, upon due presentation of such Temporary Global Covered Bond for exchange (in whole but not in part only) for a Permanent Global Covered Bond or for delivery of Bearer Definitive Covered Bonds, such exchange or delivery is improperly withheld or refused and such withholding or refusal is continuing at the relevant payment date) be entitled to collect any payment in respect of the Covered Bonds represented by such Temporary Global Covered Bond which falls due on or after the Exchange Date or be entitled to exercise any option on a date after the Exchange Date specified in the applicable Final Terms.

1.05 For Covered Bonds issued in bearer form on or before March 18, 2012, unless the Final Terms specify that the TEFRA C Rules are applicable to the Covered Bonds and subject to Condition 1.04 above, if any date on which a payment of interest is due on the Covered Bonds of a Tranche occurs while any of the Covered Bonds of that Tranche are represented by a Temporary Global Covered Bond, the related interest payment will be made on the Temporary Global Covered Bond only to the extent that certification as to the beneficial

ownership thereof as required by U.S. Treasury regulations (in substantially the form set out in the Temporary Global Covered Bond or in such other form as is customarily issued in such circumstances by the relevant clearing system), has been received by Euroclear Bank S.A./N.V. ("**Euroclear**") or Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") or any other relevant clearing system in accordance with the terms of the Temporary Global Covered Bond. Payments of amounts due in respect of a Permanent Global Covered Bond or (subject to Condition 1.04 above) a Temporary Global Covered Bond will be made through Euroclear or Clearstream, Luxembourg or any other relevant clearing system without any requirement for further certification. Any reference herein to Euroclear or Clearstream, Luxembourg shall be deemed to include a reference to any other relevant clearing system. With respect to payments of interest on Covered Bonds issued in bearer form after March 18, 2012, the Final Terms shall specify any requirements applicable to such Covered Bonds to qualify such Covered Bonds as "foreign targeted obligations" that will be exempt from Code Section 4701 under the HIRE Act.

1.06 Bearer Definitive Covered Bonds that are not Zero Coupon Covered Bonds have attached thereto, at the time of their initial delivery, coupons ("**Coupons**"), the presentation of which will be a prerequisite to the payment of interest save in certain circumstances specified herein. Definitive Covered Bonds that are not Zero Coupon Covered Bonds, if so specified in the Final Terms, have attached thereto, at the time of their initial delivery, a talon ("**Talon**") for further coupons and the expression "Coupons" shall, where the context so requires, include Talons.

1.07 Bearer Definitive Covered Bonds, the principal amount of which is repayable by instalments ("**Instalment Covered Bonds**") in such amounts as may be specified in, or determined in accordance with, the provisions of the Final Terms (each an "**Instalment Amount**"), have endorsed thereon a grid for recording the repayment of Instalment Amounts or, if so specified in the Final Terms, have attached thereto, at the time of their initial delivery, payment receipts ("**Receipts**") in respect of the Instalment Amounts repaid.

Denomination

Denomination of Bearer Covered Bonds

1.08 Bearer Covered Bonds are in the Specified Denomination(s) specified in the Final Terms. Unless otherwise specified in the Final Terms, Bearer Covered Bonds of one denomination may not be exchanged for Bearer Covered Bonds of any other denomination.

Denomination of Registered Covered Bonds

1.09 Registered Covered Bonds are in the Specified Denominations specified in the Final Terms.

Currency of Covered Bonds

1.10 The Covered Bonds are denominated in such currency as may be specified in the Final Terms. Any currency may be so specified, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

2 Title and Transfer

2.01 Title to Bearer Covered Bonds, Receipts and Coupons passes by delivery. References herein to the "Holders" of Bearer Covered Bonds or of Receipts or Coupons are to the bearers of such Bearer Covered Bonds or such Receipts or Coupons.

2.02 Title to Registered Covered Bonds passes by due endorsement in the relevant register. The Issuer shall procure that the Registrar keep a register or registers in which shall be entered the names and addresses of the Holders of Registered Covered Bonds and particulars of the Registered Covered Bonds held by them. Such registration shall be noted on the Registered Covered Bonds by the Registrar.

References herein to the "**Holders**" of Registered Covered Bonds are to the persons in whose names such Registered Covered Bonds are so registered in the relevant register.

2.03 The Holder of any Bearer Covered Bond, Coupon, Receipt or Registered Covered Bond will for all purposes of the Trust Deed, Security Agreements and Agency Agreement (except as otherwise required by applicable law or regulatory requirement) be treated as its absolute owner whether or not it is overdue and regardless of any notice of ownership, trust or any interest thereof or therein, any writing thereon, or any theft or loss thereof and no person shall be liable for so treating such Holder.

Transfer of Registered Covered Bonds

2.04 A Registered Covered Bond may, upon the terms and subject to the terms and conditions set forth in the Agency Agreement and as required by law, be transferred in whole or in part only (provided that such part is a Specified Denomination specified in the Final Terms) upon the surrender of the Registered Covered Bond to be transferred, together with a form of transfer duly completed and executed, at the specified office of the Registrar. A new Registered Covered Bond will be issued to the transferee and, in the case of a

transfer of part only of a Registered Covered Bond, a new Registered Covered Bond in respect of the balance not transferred will be issued to the transferor.

2.05 Each new Registered Covered Bond to be issued upon the registration of the transfer of a Registered Covered Bond will, within three Relevant Banking Days of the transfer date be available for collection by each relevant Holder at the specified office of the Registrar or, at the option of the Holder requesting such transfer, be mailed (by uninsured post at the risk of the Holder(s) entitled thereto) to such address(es) as may be specified by such Holder. For these purposes, a form of transfer received by the Registrar or the Issuing and Paying Agent after the Record Date in respect of any payment due in respect of Registered Covered Bonds shall be deemed not to be effectively received by the Registrar or the Issuing and Paying Agent until the day following the due date for such payment.

2.06 Transfers of beneficial interests in Rule 144A Global Covered Bonds (as defined below) and Regulation S Global Covered Bonds (as defined below) (together, the "**Registered Global Covered Bonds**") will be effected by DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. The laws of some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Covered Bonds represented by a Registered Global Covered Bond to such persons may depend upon the ability to exchange such Covered Bonds for Covered Bonds in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Covered Bonds represented by a Registered Global Covered Bond accepted by DTC to pledge such Covered Bonds to persons or entities that do not participate in the DTC system or otherwise take action in respect of such Covered Bonds may depend upon the ability to exchange such Covered Bonds for Covered Bonds in definitive form. A beneficial interest in a Registered Global Covered Bond will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Registered Definitive Covered Bonds or for a beneficial interest in another Registered Global Covered Bond only in the Specified Denominations set out in the applicable Final Terms and only in accordance with the rules and operating procedures for the time being of DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement. Transfers of a Registered Global Covered Bond registered in the name of a nominee for DTC shall be limited to transfers of such Registered Global Covered Bond, in whole but not in part, to another nominee of DTC or to a successor of DTC or such successor's nominee.

2.07 Subject as provided in Conditions 2.09, 2.10, 2.11, 2.12 and 22, upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Definitive Covered Bond may be transferred in whole or in part in the authorized denominations set out in the applicable Final Terms. In order to effect any such transfer (a) the holder or holders must (i) surrender the Registered Covered Bond for registration of the transfer of the Registered Covered Bond (or the relevant part of the Registered Covered Bond) at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their, attorney or attorneys duly authorized in writing, and (ii) complete and deposit such other certifications as may be required by the Registrar or, as the case may be, the relevant Transfer Agent, and (b) the Registrar or, as the case may be, the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request.

Any such transfer will be subject to such reasonable regulations as the Issuer, the Bond Trustee and the Registrar may from time to time prescribe (the initial such regulations being set out in the Agency Agreement).

Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with, any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail to such address as the transferee may request, a new Registered Definitive Covered Bond of a like aggregate nominal amount to the Registered Definitive Covered Bond (or the relevant part of the Registered Definitive Covered Bond) transferred.

In the case of the transfer of part only of a Registered Definitive Covered Bond, a new Registered Definitive Covered Bond in respect of the balance of the Registered Definitive Covered Bond not transferred will (in addition to the new Registered Definitive Covered Bond in respect of the nominal amount transferred) be so authenticated and delivered or (at the risk of the transferor) so sent by uninsured mail to the address specified by the transferor.

2.08 For the purposes of these Terms and Conditions:

(a) "**Distribution Compliance Period**" means the period that ends 40 days after the later of (i) the date on which the offering of Covered Bonds comprising any Tranche commenced to persons other than distributors in reliance on Regulation S and (ii) the date of issuance of such Covered Bonds, as certified by the relevant Dealer (in the case of a non-syndicated issue) or the relevant Lead Manager (in the case of a syndicated issue);

(b) "**Institutional Accredited Investor**" means an institutional "accredited investor" (as defined in Rule 501 (a)(1), (2), (3) or (7) under the Securities Act);

(c) "**Legended Covered Bonds**" means Registered Definitive Covered Bonds that are issued to Institutional Accredited Investors and Registered Covered Bonds (whether in definitive form or represented by a Registered Global Covered Bond) sold in private transactions to QIBs in accordance with the requirements of Rule 144A;

(d) "**NGCB**" means a Temporary Global Covered Bond or a Permanent Global Covered Bond, in either case in respect of which the applicable Final Terms specify that it is a new global covered bond;

(e) "**QIB**" means a "qualified institutional buyer" within the meaning of Rule 144A;

(f) "**Regulation S**" means Regulation S under the Securities Act;

(g) "**Regulation S Global Covered Bond**" means a Registered Global Covered Bond representing Covered Bonds sold outside the United States in reliance on Regulation S;

(h) "**Relevant Banking Day**" means a day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in the place where the specified office of the Registrar is located and, in the case only of an exchange of a Bearer Covered Bond for a Registered Covered Bond, where such request for exchange is made to the Issuing and Paying Agent, in the place where the specified office of the Issuing and Paying Agent is located;

(i) "**Rule 144A**" means Rule 144A under the Securities Act;

(j) "**Rule 144A Global Covered Bond**" means a Registered Global Covered Bond representing Covered Bonds sold in the United States to QIBs in reliance on Rule 144A;

(k) "**Securities Act**" means the U.S. Securities Act of 1933, as amended; and

(l) the "**transfer date**" shall be the Relevant Banking Day following the day on which the relevant Registered Covered Bond shall have been surrendered for transfer in accordance with Condition 2.04.

2.09 The issue of new Registered Covered Bonds on transfer will be effected without charge by or on behalf of the Issuer, the Issuing and Paying Agent or the Registrar, but upon payment by the applicant of (or the giving by the applicant of such indemnity as the Issuer, the Issuing and Paying Agent or the Registrar may require in respect of) any tax, duty or other governmental charges which may be imposed in relation thereto.

2.10 In the event of a partial redemption of Covered Bonds under Condition 6, the Issuer shall not be required to register the transfer of any Registered Covered Bond, or part of a Registered Covered Bond called for partial redemption.

2.11 Prior to expiry of the applicable Distribution Compliance Period, transfers by the holder of, or of a beneficial interest in, a Regulation S Global Covered Bond to a transferee in the United States or who is a U.S. person will only be made:

(a) upon receipt by the Registrar of a written certification substantially in the form set out in the Agency Agreement, amended as appropriate (a "**Transfer Certificate**"), copies of which are available from the specified office of the Registrar or any Transfer Agent, from the transferor of the Covered Bond or beneficial interest therein to the effect that such transfer is being made:

(i) to a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A; or

(ii) to a person who is an Institutional Accredited Investor, together with, in the case of this paragraph (ii), a duly executed investment letter from the relevant transferee substantially in the form set out in the Agency Agreement (an "**IAI Investment Letter**"); or

(b) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of United States counsel, that such transfer is in compliance with any applicable securities laws of any state of the United States,

and, in each case, in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

In the case of (a)(i) above, such transferee may take delivery through a Legended Covered Bond in global or definitive form and, in the case of (a)(ii) above, such transferee may take delivery only through a Legended Covered Bond in definitive form. Prior to the end of the

applicable Distribution Compliance Period, beneficial interests in Regulation S Covered Bonds registered in the name of a nominee for DTC may only be held through the accounts of Euroclear and Clearstream, Luxembourg. After expiry of the applicable Distribution Compliance Period: (A) beneficial interests in Regulation S Global Covered Bonds registered in the name of a nominee for DTC may be held through DTC directly, by a participant in DTC or indirectly through a participant in DTC; and (B) such certification requirements will no longer apply to such transfers.

2.12 Transfers of Legended Covered Bonds or beneficial interests therein may be made:

(a) to a transferee who takes delivery of such interest through a Regulation S Global Covered Bond, upon receipt by the Registrar of a duly completed Transfer Certificate from the transferor to the effect that such transfer is being made in accordance with Regulation S and that, in the case of a Regulation S Global Covered Bond registered in the name of a nominee for DTC, if such transfer is being made prior to expiry of the applicable Distribution Compliance Period, the interests in the Covered Bonds being transferred will be held immediately thereafter through Euroclear and/or Clearstream, Luxembourg; or

(b) to a transferee who takes delivery of such interest through a Legended Covered Bond:

(i) where the transferee is a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, without certification; or

(ii) where the transferee is an Institutional Accredited Investor, subject, in the case of this paragraph (ii), to delivery to the Registrar of a Transfer Certificate from the transferor to the effect that such transfer is being made to an Institutional Accredited Investor, together with a duly executed IAI Investment Letter from the relevant transferee; or

(c) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of United States counsel, that such transfer is in compliance with any applicable securities laws of any state of the United States,

and, in each case, in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

Covered Bonds transferred by Institutional Accredited Investors to QIBs pursuant to Rule 144A or outside the United States pursuant to Regulation S will be eligible to be held by such QIBs or non-U.S. investors through DTC, Euroclear or Clearstream, Luxembourg, as appropriate, and the Registrar will arrange for any Covered Bonds which are the subject of such a transfer to be represented by the appropriate Registered Global Covered Bonds, where applicable. Upon the transfer, exchange or replacement of Legended Covered Bonds, or upon specific request for removal of the legend therein, the Registrar shall deliver only Legended Covered Bonds or refuse to remove the Legend therein, as the case may be, unless there is delivered to the Issuer such satisfactory evidence as may reasonably be required by the Issuer, which may include an opinion of United States counsel, that neither the Legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

3 Status of the Covered Bonds

The Covered Bonds will not be insured under the *Deposit Insurance Act* (Québec) or the *Canada Deposit Insurance Corporation Act*, and will constitute legal, valid and binding direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank *pari passu* with all deposit liabilities of the Issuer without any preference among themselves and at least *pari passu* with all other unsubordinated and unsecured obligations of the Issuer, present and future (except as otherwise prescribed by law). Unless otherwise specified in the Final Terms, the investments to be evidenced by the Covered Bonds will be accepted by the Issuer at its Executive Office in Montréal, but without prejudice to the provisions of Condition 9.

4 Guarantee

Payment of Guaranteed Amounts in respect of the Covered Bonds when the same shall become Due for Payment has been unconditionally and irrevocably guaranteed by the Guarantor (the "**Covered Bond Guarantee**") in favour of the Bond Trustee (for and on behalf of the Covered Bondholders) following a Covered Bond Guarantee Activation Event pursuant to the terms of the Trust Deed. The Guarantor shall have no obligation under the Covered Bond Guarantee to pay any Guaranteed Amounts until a Covered Bond Guarantee Activation Event (as defined below) has occurred. The obligations of the Guarantor under the Covered Bond Guarantee are direct and, following the occurrence of a Covered Bond Guarantee Activation Event, unconditional and, except as provided in the Guarantee Priorities of Payment, unsubordinated obligations of the Guarantor, which are secured as provided in the Security Agreements. For the purposes of these Terms and Conditions, a "**Covered Bond Guarantee Activation Event**" means the earlier to occur of (i) an Issuer Event of Default together with the service of an Issuer Acceleration Notice on the Issuer and the service of a Notice to Pay on the Guarantor; and (ii) a Guarantor Event of Default together with the service of a Guarantor Acceleration Notice on the Issuer and the Guarantor. If a Notice to Pay is served

on the Guarantor, the Guarantor shall pay Guaranteed Amounts in respect of the Covered Bonds on the Original Due for Payment Dates or, if applicable, the Extended Due for Payment Date.

Any payment made by the Guarantor under the Covered Bond Guarantee shall (unless such obligation shall have been discharged as a result of the payment of Excess Proceeds to the Bond Trustee pursuant to Condition 7) discharge *pro tanto* the obligations of the Issuer in respect of such payment under the Covered Bonds, Receipts and Coupons except where such payment has been declared void, voidable or otherwise recoverable in whole or in part and recovered from the Bond Trustee or the holders of the Covered Bonds.

5 Interest

Interest

5.01 Covered Bonds may be interest-bearing or non interest-bearing. The Interest Basis is specified in the applicable Final Terms. Words and expressions appearing in this Condition 5 and not otherwise defined herein or in the Final Terms shall have the meanings given to them in Condition 5.09.

Interest on Fixed Rate Covered Bonds

5.02 Each Fixed Rate Covered Bond bears interest on its Outstanding Principal Amount from and including the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrears on the Interest Payment Date(s) in each year up to and including the Final Maturity Date if that does not fall on an Interest Payment Date.

Unless otherwise provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on, but excluding, such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount(s) so specified.

As used in these Terms and Conditions, "**Fixed Interest Period**" means the period from and including an Interest Payment Date (or the Interest Commencement Date) to but excluding the next (or first) Interest Payment Date.

Interest will be calculated on the Calculation Amount of the Fixed Rate Covered Bonds and will be paid to the Holders of the Covered Bonds (in the case of a Global Covered Bond, interest will be paid to Clearstream, Luxembourg and/or Euroclear and/or DTC for distribution by them to Relevant Account Holders in accordance with their usual rules and operating procedures). If interest is required to be calculated for a period ending other than on an Interest Payment Date, or if no Fixed Coupon Amount is specified in the applicable Final Terms, such interest shall be calculated in accordance with Condition 5.08.

Notwithstanding anything else in this Condition 5.02, if an Extended Due for Payment Date is specified in the Final Terms, interest following the Due for Payment Date will continue to accrue and be payable on any unpaid amount in accordance with Condition 5 at a Rate of Interest determined in accordance with Condition 5.03 (in the same manner as the Rate of Interest for Floating Rate Covered Bonds).

Interest on Floating Rate Covered Bonds and Index Linked Interest Covered Bonds

5.03 Interest Payment Dates

Each Floating Rate Covered Bond and Index Linked Interest Covered Bond bears interest on its Outstanding Principal Amount from (and including) the Interest Commencement Date and such interest will be payable in arrears on either:

(a) the Specified Interest Payment Date(s) (each an "**Interest Payment Date**") in each year specified in the applicable Final Terms; or

(b) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (in such case, each an "**Interest Payment Date**") which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression, shall, in these Terms and Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date). Interest will be calculated on the Calculation Amount of the Floating Rate Covered Bonds or Index Linked Interest Covered Bonds and will be paid to the Holders of the Covered Bonds (in the case of a Global Covered Bond, interest will be paid to Clearstream, Luxembourg and/or Euroclear and/or DTC for distribution by them to Relevant Account Holders in accordance with their usual rules and operating procedures).

Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Covered Bonds and Index Linked Interest Covered Bonds will be determined in the manner specified in the applicable Final Terms.

Where the Screen Rate Determination is specified in the applicable Final Terms the Rate of Interest for each Interest Period will be determined by the Calculation Agent on the following basis:

(a) the Calculation Agent will determine the rate for deposits or, as the case may require, the arithmetic mean (rounded, if necessary, to the nearest ten thousandth of a percentage point, 0.00005 per cent being rounded upwards) of the rates for deposits in the relevant currency for a period of the duration of the relevant Interest Period on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(b) if, on any Interest Determination Date, no such rate for deposits so appears or, as the case may be, if fewer than two such rates for deposits so appear or if the Relevant Screen Page is unavailable, the Calculation Agent will request appropriate quotations and will determine the arithmetic mean (rounded as described above) of the rates at which deposits in the relevant currency are offered by the Reference Banks at approximately the Relevant Time on the Interest Determination Date to prime banks in the London interbank market in the case of LIBOR or in the Euro-zone (as defined herein) interbank market in the case of EURIBOR for a period of the duration of the relevant Interest Period and in an amount that is representative for a single transaction in the relevant market at the relevant time;

(c) if, on any Interest Determination Date, only two or three rates are so quoted, the Calculation Agent will determine the arithmetic mean (rounded as described above) of the rates so quoted; or

(d) if fewer than two rates are so quoted, the Calculation Agent will determine the arithmetic mean (rounded as described above) of the rates quoted by four major banks in the Financial Centre as selected by the Calculation Agent, at approximately 11.00 a.m. (Financial Centre time) on the first day of the relevant Interest Period for loans in the relevant currency to leading European banks for a period for the duration of the relevant Interest Period and in an amount that is representative for a single transaction in the relevant market at the relevant time,

and the Rate of Interest applicable to such Covered Bonds during each Interest Period will be the rate or, as the case may be, the arithmetic mean (rounded as described above) of the rates so determined, plus or minus (as indicated in the Final Terms) the Margin, if any, provided however that if the Calculation Agent is unable to determine a rate or, as the case may be, an arithmetic mean of rates in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to such Covered Bonds during such Interest Period will be the rate or, as the case may be, the arithmetic mean (rounded as described above) of the rates determined in relation to such Covered Bonds in respect of the last preceding Interest Period, plus or minus (as indicated in the Final Terms) the Margin, if any.

ISDA Rate Covered Bonds

5.04 Where ISDA Determination is specified in the Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin, if any. For purposes of this Condition 5.04, "**ISDA Rate**" for an Interest Period means a rate equal to the Fixed Rates, Fixed Amounts, Fixed Prices, Floating Rates, Floating Amounts or Floating Prices, as the case may be, or as otherwise specified in the applicable Final Terms, as would have applied (regardless of any event of default or termination event or tax event thereunder) if the Issuer had entered into a schedule and confirmation in respect of the relevant Tranche or Series of Covered Bonds, as applicable, with the Holder of such Covered Bond under the terms of an agreement to which the ISDA Definitions applied and under which:

- the Fixed Rate Payer, Fixed Amount Payer, Floating Rate Payer or, as the case may be, Floating Amount Payer is the Issuer (as specified in the Final Terms);
- the Effective Date is the Interest Commencement Date;
- the Floating Rate Option (which may refer to a Rate Option or a Price Option, specified in the ISDA Definitions) is as specified in the applicable Final Terms;
- the Designated Maturity is the period specified in the applicable Final Terms;
- the Issuing and Paying Agent is the Calculation Agent;
- the Calculation Periods are the Interest Periods;

- the Payment Dates are the Interest Payment Dates;
- the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate ("**LIBOR**") for a currency, the first day of that Interest Period or (ii) in any other case, as specified in the applicable Final Terms;
- the Calculation Amount is the principal amount of such Covered Bond;
- the Day Count Fraction applicable to the calculation of any amount is that specified in the Final Terms or, if none is so specified, as may be determined in accordance with the ISDA Definitions;
- the applicable Business Day Convention applicable to any date is that specified in the Final Terms or, if none is so specified, as may be determined in accordance with the ISDA Definitions; and
- the other terms are as specified in the Final Terms;

for the purposes of this Condition 5.04, "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Optio**n", "**Designated Maturity**" and "**Reset Date**" have the meanings given to those terms in the ISDA Definitions.

Maximum Rate of Interest or Minimum Rate of Interest

5.05 If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the Final Terms, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.

Accrual of Interest after the due date

5.06 Interest will cease to accrue as from the due date for redemption therefor (or, in the case of an Instalment Covered Bond, in respect of each Instalment Amount, on the due date for payment of the relevant Instalment Amount) unless upon due presentation or surrender thereof (if required), payment in full of the Final Redemption Amount or the relevant Instalment Amount is improperly withheld or refused or default is otherwise made in the payment thereof. In such event, interest shall continue to accrue on the principal amount in respect of which payment has been improperly withheld or refused or default has been made (as well after as before any demand or judgment) at the Rate of Interest then applicable or such other rate as may be specified for this purpose in the Final Terms if permitted by applicable law ("**Default Rate**") until the date on which, upon due presentation or surrender of the relevant Covered Bond (if required), the relevant payment is made or, if earlier (except where presentation or surrender of the relevant Covered Bond is not required as a precondition of payment), the seventh day after the date on which, the Issuing and Paying Agent or, as the case may be, the Registrar having received the funds required to make such payment, notice is given to the Holders of the Covered Bonds in accordance with Condition 14 that the Issuing and Paying Agent or, as the case may be, the Registrar has received the required funds (except to the extent that there is failure in the subsequent payment thereof to the relevant Holder).

Interest Amount(s), Calculation Agent and Reference Banks

5.07 If a Calculation Agent is specified in the Final Terms, the Calculation Agent, as soon as practicable after the Relevant Time on each Interest Determination Date (or such other time on such date as the Calculation Agent may be required to calculate any Final Redemption Amount or Instalment Amount, obtain any quote or make any determination or calculation) will determine the Rate of Interest and calculate the amount(s) of interest payable (the "**Interest Amount(s)**") in the manner specified in Condition 5.08 below, calculate the Final Redemption Amount or Instalment Amount, obtain such quote or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date or, as the case may be, the Final Redemption Amount or any Instalment Amount to be notified to the Issuing and Paying Agent, the Registrar (in the case of Registered Covered Bonds), the Issuer, the Holders in accordance with Condition 14 and, if the Covered Bonds are listed on a stock exchange or admitted to listing by any other authority and the rules of such exchange or other relevant authority so require, such exchange or listing authority as soon as possible after their determination or calculation but in no event later than the fourth London Banking Day thereafter or, if earlier in the case of notification to the stock exchange or other relevant authority, the time required by the relevant stock exchange or listing authority. The Interest Amounts and the Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Covered Bonds become due and payable under Condition 7, the Rate of Interest and the accrued interest payable in respect of the Covered Bonds shall nevertheless continue to be calculated in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made. The determination of each Rate of Interest, Interest Amount, Final Redemption Amount and Instalment Amount, the obtaining of each quote and the making of each determination or calculation by the Calculation Agent shall (in the absence of manifest error) be final and binding upon the Issuer and the Holders and neither the Calculation Agent nor any Reference Bank shall have any liability to the Holders in respect of any determination, calculation, quote or rate made or provided by it.

The Issuer will procure that there shall at all times be such Reference Banks as may be required for the purpose of determining the Rate of Interest applicable to the Covered Bonds and a Calculation Agent, if provision is made for one in the Terms and Conditions.

If the Calculation Agent is incapable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for any Interest Period or to calculate the Interest Amounts or any other requirements, the Bond Trustee shall determine the Rate of Interest at such rate as, in its absolute discretion (having regard as it shall think fit to the foregoing provision of this Condition, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Final Terms), it shall deem fair and reasonable in all circumstances or, as the case may be, the Bond Trustee shall calculate (or appoint an agent to calculate) the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Calculation Agent. The Calculation Agent may not resign its duties without a successor having been appointed.

Calculations and Adjustments

5.08 The amount of interest payable in respect of any Covered Bond for any period shall be calculated by applying the Rate of Interest to the Calculation Amount, and, in each case, multiplying such sum by the Day Count Fraction, save that (i) if the Final Terms specifies a specific amount in respect of such period, the amount of interest payable in respect of such Covered Bond for such Interest Period will be equal to such specified amount and (ii) in the case of Fixed Rate Covered Bonds, the interest shall be calculated on such basis as may be specified in the applicable Final Terms.

For the purposes of any calculations referred to in these Terms and Conditions (unless otherwise specified in the Final Terms), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent being rounded up to 0.00001 per cent), (b) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount and (c) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the smallest sub-unit of such currency, with halves being rounded upwards.

Where the Covered Bonds are represented by a Global Covered Bond or where the Specified Denomination of a Covered Bond in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Covered Bond shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Outstanding Principal Amount of the Global Covered Bond or the Specified Denomination of a Covered Bond in definitive form, without any further rounding.

Definitions

5.09 In the Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Banking Day**" means, in respect of any city, a day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in that city.

"**Business Day**" means (i) in relation to Covered Bonds payable in other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets are open for general business (including dealings in foreign exchange and foreign currency deposits) and settle payments in the relevant currency in Montreal, London and the Financial Centre(s) specified in the Final Terms or (ii) in relation to Covered Bonds payable in euro, a day (other than a Saturday or Sunday) which is a TARGET Business Day (as defined below) and on which commercial banks and foreign exchange markets are open for general business (including dealings in foreign exchange and foreign currency deposits) in the Financial Centre(s) specified in the Final Terms.

"**Business Day Convention**" means a convention for adjusting any date if it would otherwise fall on a day that is not a Business Day and the following Business Day Conventions, where specified in the Final Terms in relation to any date applicable to any Covered Bonds, shall have the following meanings:

(a) "**Following Business Day Convention**" means that such date shall be postponed to the first following day that is a Business Day;

(b) "**Modified Following Business Day Convention**" or "**Modified Business Day Convention**" means that such date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;

(c) "**Preceding Business Day Convention**" means that such date shall be brought forward to the first preceding day that is a Business Day; and

(d) "**FRN Convention**" or "**Eurodollar Convention**" means that each such date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the Final Terms after the calendar month in which the preceding such date occurred, provided that:

(i) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;

(ii) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and

(iii) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred.

"**Calculation Agent**" means the Issuing and Paying Agent or such other agent as may be specified in the Final Terms as the Calculation Agent.

"**Day Count Fraction**" means, in respect of the calculation of an amount for any period of time (each such period an "**Accrual Period**"), such day count fraction as may be specified in the Final Terms and:

(a) if "**Actual/Actual**" or "**Actual/Actual (ISDA)**" is so specified, means the actual number of days in the Accrual Period divided by 365 (or, if any portion of the Accrual Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Accrual Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Accrual Period falling in a non-leap year divided by 365);

(b) if "**Actual/365 (Fixed)**" is so specified, means the actual number of days in the Accrual Period divided by 365;

(c) if "**Actual/360**" is so specified, means the actual number of days in the Accrual Period divided by 360;

(d) if "**30E/360**" or "**Eurobond Basis**" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Interest Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Interest Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"**M2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Interest Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D2, will be 30.

(e) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Interest Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Interest Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"**M2**" is the calendar month, expressed as number, in which the day immediately following the last day included in the Interest Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30; and

(f) if "**30E/360 (ISDA)**" is so specified, means the number of days in the Accrual Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \text{ x } (Y_2 - Y_1)] + [30 \text{ x } (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where,

"**Y1**" is the year, expressed as a number, in which the first day of the Accrual Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included the Accrual Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Accrual Period falls;

"**M2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Accrual Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Accrual Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Accrual Period, unless (i) that day is the last day of February but not the Final Maturity Date or (ii) such number would be 31, in which case D2 will be 30; and

(g) if "**Actual/Actual (ICMA)**" or "**Act/Act (ICMA)**" is specified in the applicable Final Terms, a fraction equal to "number of days accrued/number of days in year", as such terms are used in Rule 251 of the statutes, by-laws, rules and recommendations of the International Capital Market Association (the "**ICMA Rule Book**"), calculated in accordance with Rule 251 of the ICMA Rule Book as applied to non U.S. dollar denominated straight and convertible bonds issued after December 31, 1998, as though the interest coupon on a bond were being calculated for a coupon period corresponding to the Interest Period.

"**Determination Date**" means such dates as specified in the applicable Final Terms.

"**Determination Period**" means the period from and including a Determination Date in any year to but excluding the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date).

"**Euro-zone**" means the region comprised of those member states of the European Union participating in the European Monetary Union from time to time.

"**Financial Centre**" means such financial centre or centres as may be specified in relation to the relevant currency for the purposes of the definition of "Business Day" in the ISDA Definitions or indicated in the Final Terms or, in the case of Covered Bonds denominated in euro, such financial centre or centres as the Calculation Agent may select.

"**Interest Commencement Date**" means the date of issue (the "**Issue Date**") of the Covered Bonds (as specified in the Final Terms) or such other date as may be specified as such in the Final Terms.

"**Interest Determination Date**" means, in respect of any Interest Period, the date falling such number (if any) of Banking Days in such city(ies) as may be specified in the Final Terms prior to the first day of such Interest Accrual Period, or if none is specified:

(a) in the case of Covered Bonds denominated in Pounds Sterling or in another currency if so specified in the applicable Final Terms, the first day of such Interest Period; or

(b) in any other case, the date falling two London Banking Days (or, in the case of EURIBOR or EUROLIBOR, two TARGET Business Days) prior to the first day of such Interest Accrual Period.

"**Interest Payment Date**" means the date or dates specified as such in, or determined in accordance with the provisions of, the Final Terms and, as the same may be adjusted in accordance with the Business Day Convention, if any, specified in the Final Terms or if the Business Day Convention is the FRN Convention and an interval of a number of calendar months is specified in the Final Terms as being the Interest Period, each of such dates as may occur in accordance with the FRN Convention at such specified period of calendar months following the Issue Date of the Covered Bonds (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case).

"**Interest Period**" means each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date, provided always that the first Interest Period shall commence on and include the Interest Commencement Date and the final Interest Period shall end on but exclude the Final Maturity Date.

"**Interest Period End Date**" means the date or dates specified as such in, or determined in accordance with the provisions of, the Final Terms and, as the same may be adjusted in accordance with the Business Day Convention, if any, specified in the Final Terms or, if the Business Day Convention is the FRN Convention and an interval of a number of calendar months is specified in the Final Terms as the Interest Accrual Period, such dates as may occur in accordance with the FRN Convention at such specified period of calendar months following the Interest Commencement Date (in the case of the first Interest Period End Date) or the previous Interest Period End Date (in any other case) or, if none of the foregoing is specified in the Final Terms, means the date or each of the dates which correspond with the Interest Payment Date(s) in respect of the Covered Bonds.

"**ISDA Definitions**" means the 2006 ISDA Definitions (as amended, supplemented and updated as at the date of issue of the first Tranche of the Covered Bonds of the relevant Series (as specified in the Final Terms) as published by the International Swaps and Derivatives Association, Inc.) unless otherwise specified in the applicable Final Terms.

"**Montréal Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in Montréal.

"**Outstanding Principal Amount**" means, in respect of a Covered Bond, its principal amount less, in respect of any Instalment Covered Bond, any principal amount on which interest shall have ceased to accrue in accordance with Condition 5.06 or otherwise as indicated in the Final Terms.

"**Rate of Interest**" means the rate or rates (expressed as a percentage per annum) or amount or amounts (expressed as a price per unit of relevant currency) of interest payable in respect of the Covered Bonds specified in, or calculated or determined in accordance with the provisions of, the Final Terms.

"**Reference Banks**" means such banks as may be specified in the Final Terms as the Reference Banks, or, if none are specified, "Reference Banks" has the meaning given in the ISDA Definitions, *mutatis mutandis*.

"**Relevant Time**" means the time as of which any rate is to be determined as specified in the Final Terms (which in the case of LIBOR means London time or in the case of EURIBOR means Central European Time) or, if none is specified, at which it is customary to determine such rate.

"**Reuters Screen**" means, when used in connection with a designated page and any designated information, the display page so designated on the Reuters Market 3000 (or such other page as may replace that page on that service for the purpose of displaying such information).

"**TARGET Business Day**" means, a day in which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System is open.

Zero-Coupon Covered Bonds

5.10 If any Final Redemption Amount in respect of any Zero Coupon Covered Bond is not paid when due, interest shall accrue on the overdue amount at a rate per annum (expressed as a percentage per annum) equal to the Amortization Yield defined in, or determined in accordance with the provisions of, the Final Terms or at such other rate as may be specified for this purpose in the Final Terms until the date on which, upon due presentation or surrender of the relevant Covered Bond (if required), the relevant payment is made or, if earlier

(except where presentation or surrender of the relevant Covered Bond is not required as a precondition of payment), the seventh day after the date on which, the Issuing and Paying Agent or, as the case may be, the Registrar having received the funds required to make such payment, notice is given to the Holders of the Covered Bonds in accordance with Condition 14 that the Issuing and Paying Agent or, as the case may be, the Registrar has received the required funds (except to the extent that there is failure in the subsequent payment thereof to the relevant Holder). The amount of any such interest shall be calculated in accordance with the provisions of Condition 5.08 as if the Rate of Interest was the Amortization Yield, the Outstanding Principal Amount was the overdue sum and the Day Count Fraction was as specified for this purpose in the Final Terms or, if not so specified, 30E/360 (as defined in Condition 5.09).

6 Redemption and Purchase

Redemption at Maturity

6.01 Unless previously redeemed, or purchased and cancelled or unless such Covered Bond is stated in the Final Terms as having no fixed maturity date, this Covered Bond shall be redeemed at its Final Redemption Amount specified in or determined in the manner specified in the applicable Final Terms in the Specified Currency on the Final Maturity Date.

Without prejudice to Condition 7, if an Extended Due for Payment Date is specified as applicable in the Final Terms for a Series of Covered Bonds and the Issuer has failed to pay the Final Redemption Amount on the Final Maturity Date specified in the Final Terms (or after expiry of the grace period set out in Condition 7.01(a)) and, following service of a Notice to Pay on the Guarantor by no later than the date falling one Business Day prior to the Extension Determination Date, the Guarantor has insufficient moneys available in accordance with the Guarantee Priority of Payments to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount of the relevant Series of Covered Bonds on the date falling on the earlier of (a) the date which falls two Business Days after service of such Notice to Pay on the Guarantor or, if later, the Final Maturity Date (or, in each case, after the expiry of the grace period set out in Condition 7.02) under the terms of the Covered Bond Guarantee or (b) the Extension Determination Date, then (subject as provided below) payment of the unpaid amount by the Guarantor under the Covered Bond Guarantee shall be deferred until the Extended Due for Payment Date, provided that in respect of any amount representing the Final Redemption Amount due and remaining unpaid on the earlier of (a) and (b) above, the Guarantor will apply any moneys available (after paying or providing for payment of higher ranking or *pari passu* amounts in accordance with the Guarantee Priority of Payments) to pay the Guaranteed Amounts corresponding to the Final Redemption Amount of the relevant Series of Covered Bonds on any Interest Payment Date thereafter up to (and including) the relevant Extended Due for Payment Date.

The Issuer shall confirm to the Issuing and Paying Agent as soon as reasonably practicable and in any event at least 4 Business Days prior to the Final Maturity Date of such Series of Covered Bonds whether payment will be made in full of the Final Redemption Amount in respect of such Series of Covered Bonds on that Final Maturity Date.

The Guarantor shall notify the relevant holders of the Covered Bonds (in accordance with Condition 14), the Rating Agencies, the Bond Trustee, the Issuing and Paying Agent and the Registrar (in the case of Registered Covered Bonds) as soon as reasonably practicable and in any event at least one Business Day prior to the dates specified in (a) and (b) of the second paragraph of this Condition 6.01 of any inability of the Guarantor to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of a Series of Covered Bonds pursuant to the Covered Bond Guarantee. Any failure by the Guarantor to notify such parties shall not affect the validity or effectiveness of the extension nor give rise to any rights in any such party.

In the circumstances outlined above, the Guarantor shall on the earlier of (a) the date falling two Business Days after the service of a Notice to Pay on the Guarantor or if later the Final Maturity Date (or, in each case, after the expiry of the applicable grace period set out in Condition 7.02) and (b) the Extension Determination Date, under the Covered Bond Guarantee, apply the moneys (if any) available (after paying or providing for payment of higher ranking or *pari passu* amounts in accordance with the Guarantee Priority of Payments) *pro rata* in part payment of an amount equal to the Final Redemption Amount of each Covered Bond of the relevant Series of Covered Bonds and shall pay Guaranteed Amounts constituting the Scheduled Interest in respect of each such Covered Bond on such date. The obligation of the Guarantor to pay any amounts in respect of the balance of the Final Redemption Amount not so paid shall be deferred as described above. Such failure to pay by the Guarantor shall not constitute a Guarantor Event of Default.

Any discharge of the obligations of the Issuer as the result of the payment of Excess Proceeds to the Bond Trustee shall be disregarded for the purposes of determining the amounts to be paid by the Guarantor under the Covered Bond Guarantee in connection with this Condition 6.01.

For the purposes of these Terms and Conditions:

"**Extended Due for Payment Date**" means, in relation to any Series of Covered Bonds, the date, if any, specified as such in the applicable Final Terms to which the payment of all or (as applicable) part of the Final Redemption Amount payable on the Final Maturity Date will be deferred in the event that the Final Redemption Amount is not paid in full on the Extension Determination Date.

"**Extension Determination Date**" means, in respect of a Series of Covered Bonds, the date falling two Business Days after the expiry of seven days from (and including) the Final Maturity Date of such Series of Covered Bonds.

"**Guarantee Priority of Payments**" means the priority of payments relating to moneys received by the Cash Manager for and on behalf of the Guarantor and moneys standing to the credit of the Guarantor Accounts, to be paid on each Guarantor Payment Date in accordance with the Limited Partnership Agreement.

"**Rating Agency**" means any of DBRS Limited, Moody's Investors Service Inc. or Fitch, Inc., to the extent that at the relevant time they provide ratings in respect of the then outstanding Covered Bonds, or their successors and "**Rating Agencies**" means each Rating Agency.

Early Redemption for Taxation Reasons

6.02 If, in relation to any Series of Covered Bonds (i) as a result of any amendment to, clarification of, or change including any announced proposed change in the laws or regulations, or the application or interpretation thereof of Canada or any political subdivision thereof or any authority or agency therein or thereof having power to tax or in the interpretation or administration of any such laws or regulations which becomes effective on or after the Issue Date of such Covered Bonds or any other date specified in the Final Terms, (ii) any judicial decision, administrative pronouncement, published or private ruling, regulatory procedure, rule, notice, announcement, assessment or reassessment (including any notice or announcement of intent to adopt or issue such decision, pronouncement, ruling, procedure, rule, notice, announcement, assessment or reassessment) (collectively, an "administrative action"); or (iii) any amendment to, clarification of, or change in, the official position with respect to or the interpretation of any administrative action or any interpretation or pronouncement that provides for a position with respect to such administrative action that differs from the theretofore generally accepted position, in each of case (i), (ii) or (iii), by any legislative body, court, governmental authority or agency, regulatory body or taxing authority, irrespective of the manner in which such amendment, clarification, change, administrative action, interpretation or pronouncement is made known, which amendment, clarification, change or administrative action is effective or which interpretation, pronouncement or administrative action is announced on or after the date of issue of the Covered Bonds, there is more than an insubstantial risk (assuming any proposed or announced amendment, clarification, change, interpretation, pronouncement or administrative action is effective and applicable) the Issuer would be required to pay additional amounts as provided in Condition 8, and such circumstances are evidenced by the delivery by the Issuer to the Issuing and Paying Agent and Bond Trustee of (x) a certificate signed by two senior officers of the Issuer stating that the said circumstances prevail and describing the facts leading thereto, and (y) an opinion of independent legal advisers of recognized standing to the effect that the circumstances set forth in (i), (ii) or (iii) above prevail, the Issuer may, at its option and having given no less than 30 nor more than 60 days' notice (ending, in the case of Floating Rate Covered Bonds, on an Interest Payment Date) to the Holders of the Covered Bonds in accordance with Condition 14 (which notice shall be irrevocable), redeem all (but not some only) of the outstanding Covered Bonds at their Outstanding Principal Amount or, in the case of Zero Coupon Covered Bonds, their Amortized Face Amount (as defined in Condition 6.10) or such Early Redemption Amount as may be specified in, or determined in accordance with the provisions of, the Final Terms, together with accrued interest (if any) thereon, provided, however, that no such notice of redemption may be given earlier than 90 days (or, in the case of Floating Rate Covered Bonds a number of days which is equal to the aggregate of the number of days falling within the then current Interest Period plus 60 days) prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Covered Bonds then due.

The Issuer may not exercise such option in respect of any Covered Bond which is the subject of the prior exercise by the Holder thereof of its option to require the redemption of such Covered Bond under Condition 6.06.

Call Option

6.03 If a Call Option is specified in the Final Terms as being applicable, then the Issuer may, having given the appropriate notice to the Holders in accordance with Condition 14, which Notice shall be irrevocable, and shall specify the date fixed for redemption and subject to such conditions as may be specified in the Final Terms, redeem all or some only of the Covered Bonds of this Series outstanding on any Optional Redemption Date at the Optional Redemption Amount(s) specified in, or determined in the manner specified in the applicable Final Terms together with accrued interest (if any) thereon on the date specified in such notice.

The Issuer may not exercise such option in respect of any Covered Bond which is the subject of the prior exercise by the Holder thereof of its option to require the redemption of such Covered Bond under Condition 6.06.

6.04 The appropriate notice referred to in Condition 6.03 is a notice given by the Issuer to the Holders of the Covered Bonds of the relevant Series in accordance with Condition 14, which notice shall be irrevocable and shall specify:

- the Series of Covered Bonds subject to redemption;
- whether such Series is to be redeemed in whole or in part only and, if in part only, the aggregate principal amount of and (except in the case of a Global Covered Bond) the serial numbers of the Covered Bonds of the relevant Series which are to be redeemed;

- the due date for such redemption, which shall be not less than thirty days nor more than 60 days after the date on which such notice is given and which shall be such date or the next of such dates ("**Call Option Date(s)**") or a day falling within such period ("**Call Option Period**"), as may be specified in the Final Terms and which is, in the case of Covered Bonds which bear interest at a floating rate, a date upon which interest is payable; and

- the Optional Redemption Amount at which such Covered Bonds are to be redeemed.

Partial Redemption

6.05 If the Covered Bonds are to be redeemed in part only on any date in accordance with Condition 6.03:

- such redemption must be for an amount not less than the Minimum Redemption Amount or not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms;

- in the case of a partial redemption of Bearer Definitive Covered Bonds, the Covered Bonds to be redeemed shall be drawn by lot in such European city as the Issuing and Paying Agent may specify, or identified in such other manner or in such other place as the Issuing and Paying Agent may approve and deem appropriate and fair;

- in the case of a Global Covered Bond, the Covered Bonds to be redeemed shall be selected in accordance with the then rules of Euroclear and/or Clearstream, Luxembourg and/or DTC and/or any other relevant clearing system (to be reflected in the records of Euroclear and/or Clearstream, Luxembourg and/or DTC or such other relevant clearing system as either a pool factor or a reduction in principal amount, at their discretion); and

- in the case of Registered Definitive Covered Bonds, the Covered Bonds shall be redeemed (so far as may be practicable) *pro rata* to their principal amounts, provided always that the amount redeemed in respect of each Covered Bond shall be equal to a Specified Denomination,

subject always to compliance with all applicable laws and the requirements of any stock exchange on which the relevant Covered Bonds may be listed.

In the case of the redemption of part only of a Registered Definitive Covered Bond, a new Registered Definitive Covered Bond in respect of the unredeemed balance shall be issued in accordance with Conditions 2.04 to 2.08, which shall apply as in the case of a transfer of Registered Definitive Covered Bonds as if such new Registered Definitive Covered Bond were in respect of the untransferred balance.

Put Option

6.06 If a Put Option is specified in the Final Terms as being applicable, upon the Holder of any Covered Bond of this Series giving the required notice to the Issuer specified in the applicable Final Terms (which notice shall be irrevocable), the Issuer will, upon expiry of such notice, redeem such Covered Bond subject to and in accordance with the terms specified in the applicable Final Terms in whole (but not in part only) on the Optional Redemption Date and at the Optional Redemption Amount specified in, or determined in accordance with the provisions of, the applicable Final Terms, together with accrued interest (if any) thereon. In order to exercise such option, the Holder must, not less than 45 days before the Optional Redemption Date where the Covered Bond is a Covered Bond in definitive form held outside Euroclear, Clearstream, Luxembourg and/or DTC deposit the relevant Covered Bond (together, in the case of a Bearer Definitive Covered Bond that is not a Zero Coupon Covered Bond, with all unmatured Coupons appertaining thereto other than any Coupon maturing on or before the Optional Redemption Date (failing which the provisions of Condition 9.05 apply)) during normal business hours at the specified office of, in the case of a Bearer Covered Bond, any Paying Agent or, in the case of a Registered Covered Bond, the Registrar together with a duly completed early redemption notice ("**Put Notice**") in the form which is available from the specified office of any of the Paying Agents or, as the case may be, the Registrar specifying, in the case of a Global Covered Bond, the aggregate principal amount in respect of which such option is exercised (which must be a Specified Denomination specified in the Final Terms). Notwithstanding the foregoing, Covered Bonds represented by a Permanent Global Covered Bond or Global Registered Covered Bond shall be deemed to be deposited with the Paying Agent or the Registrar, as the case may be, for purposes of this Condition 6.06 at the time a Put Notice has been received by the Paying Agent or Registrar, as the case may be, in respect of such Covered Bonds. No Covered Bond so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement).

In the case of the redemption of part only of a Registered Covered Bond, a new Registered Definitive Covered Bond in respect of the unredeemed balance shall be issued in accordance with Conditions 2.04 to 2.08 which shall apply as in the case of a transfer of Registered Definitive Covered Bonds as if such new Registered Definitive Covered Bond were in respect of the untransferred balance.

The Holder of a Covered Bond may not exercise such Put Option in respect of any Covered Bond which is the subject of an exercise by the Issuer of its option to redeem such Covered Bond under either Condition 6.02 or 6.03.

Purchase of Covered Bonds

6.07 The Issuer or any of its subsidiaries may at any time purchase Covered Bonds in the open market or otherwise and at any price provided that all unmatured Receipts and Coupons appertaining thereto are purchased therewith. If purchases are made by tender, tenders must be available to all Holders of the relevant Covered Bonds alike.

Cancellation of Redeemed and Purchased Covered Bonds

6.08 All unmatured Covered Bonds and Coupons redeemed in accordance with this Condition 6 will be cancelled forthwith and may not be reissued or resold. All unmatured Covered Bonds and Coupons purchased in accordance with Condition 6.07 may be cancelled or may be reissued or resold.

Further Provisions applicable to Redemption Amount and Instalment Amount

6.09 The provisions of Condition 5.07 and the last paragraph of Condition 5.08 shall apply to any determination or calculation of the Redemption Amount or any Instalment Amount required by the Final Terms to be made by the Calculation Agent (as defined in Condition 5.09).

References herein to "**Redemption Amount**" shall mean, as appropriate, the Final Redemption Amount, final Instalment Amount, the Optional Redemption Amount, the Early Redemption Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with, the provisions of the applicable Final Terms.

6.10 In the case of any Zero Coupon Covered Bond, the "**Amortized Face Amount**" shall be an amount equal to the sum of:

(a) the Issue Price specified in the Final Terms; and

(b) the product of the Amortization Yield (compounded annually or otherwise as specified in the Final Terms) being applied to the Issue Price from (and including) the Issue Date specified in the Final Terms to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Covered Bond becomes due and repayable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of the Day Count Fraction (as defined in Condition 5.09) specified in the Final Terms.

6.11 If any Redemption Amount (other than the Final Redemption Amount) is improperly withheld or refused or default is otherwise made in the payment thereof, the Amortized Face Amount shall be calculated as provided in Condition 6.10 but as if references in subparagraph (b) to the date fixed for redemption or the date upon which such Zero Coupon Covered Bond becomes due and repayable were replaced by references to the earlier of:

(a) the date on which, upon due presentation or surrender of the relevant Covered Bond (if required), the relevant payment is made; and

(b) (except where presentation or surrender of the relevant Covered Bond is not required as a precondition of payment), the seventh day after the date on which, the Issuing and Paying Agent or, as the case may be, the Registrar having received the funds required to make such payment, notice is given to the Holders of the Covered Bonds in accordance with Condition 14 of that circumstance (except to the extent that there is a failure in the subsequent payment thereof to the relevant Holder).

Instalment Covered Bonds

6.12 Any Instalment Covered Bond will be redeemed in the Instalment Amounts and on the Instalment Dates specified in the applicable Final Terms.

Index Linked Redemption Covered Bonds

6.13 Provisions relating to the terms of any Index Linked Redemption Covered Bond, including the redemption thereof, will be set out in the applicable Final Terms.

Other Redemption and Purchase Provisions

6.14 Notwithstanding the foregoing:

(a) the relevant provisions relating to the redemption and purchase of Covered Bonds the terms of which permit the Issuer to pay and/or discharge its obligations with respect to such Covered Bonds by the payment or delivery of securities and/or other property or any combination of cash, securities and/or other property shall be set forth in the applicable Final Terms; and

(b) any additional redemption events which shall enable the Issuer to redeem the Covered Bonds of any Series shall be set forth in the applicable Final Terms.

Legislative Exchange

6.15 Following the coming into force in Canada, at any time after the Programme Establishment Date, of (i) any legislation similar to covered bond legislation in force in any European Union country, or (ii) any rules, regulations or guidelines published by any governmental authority that provides for bonds issued by Canadian issuers to qualify for the same or similar benefits available to covered bonds issued under covered bonds legislation in force in any European Union country, the Issuer may, at its option and without the consent of the Bond Trustee, the holders of the Covered Bonds, the Receiptholders or the Couponholders, exchange all (but not some only) of the Covered Bonds of all Series then outstanding (the "**Existing Covered Bonds**") for new Covered Bonds which qualify as covered bonds under such new legislation, rules, regulations or guidelines (the "**New Covered Bonds**") in identical form, amounts and denominations as the Existing Covered Bonds and on the same economic terms and conditions as the Existing Covered Bonds (and to make any necessary amendments to the Transaction Documents) (the "**Legislative Exchange**") if not more than 60 nor less than 30 days' notice to the holders of the Covered Bonds (in accordance with Condition 14) and the Bond Trustee is given and provided that:

(a) on the date on which such notice expires the Issuer delivers to the Bond Trustee a certificate signed by two senior officers of the Issuer and a certificate signed by a designated officer of the Managing GP of the Guarantor confirming that, in the case of the Issuer, no Issuer Event of Default or Potential Issuer Event of Default (as defined below) and, in the case of the Guarantor, no Guarantor Event of Default or Potential Guarantor Event of Default (as defined below), shall have occurred and be continuing;

(b) each of the Rating Agencies has confirmed in writing that the New Covered Bonds will be assigned the same or better ratings than those then applicable to the Existing Covered Bonds; and

(c) if the Existing Covered Bonds are listed, quoted and/or traded on or by a competent and/or relevant listing authority, stock exchange and/or quotation system on or before the date on which such notice expires the Issuer delivers to the Bond Trustee a certificate signed by two senior officers of the Issuer confirming that all applicable rules of such competent and/or relevant listing authority, stock exchange and/or quoting system have been or will be complied with.

The Existing Covered Bonds will be cancelled concurrently with the issue of the New Covered Bonds and with effect on and from the date of issue thereof all references herein to Covered Bonds shall be deemed to be references to the New Covered Bonds.

Redemption due to Illegality

6.16 The Covered Bonds of all Series may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bond Trustee, the Issuing and Paying Agent, the Registrar and, in accordance with Condition 14, all holders of the Covered Bonds (which notice shall be irrevocable), if the Issuer satisfies the Bond Trustee immediately before the giving of such notice that it has, or will, before the next Interest Payment Date of any Covered Bond of any Series, become unlawful for the Issuer to make, fund or allow to remain outstanding any advance made by it to the Guarantor pursuant to the Intercompany Loan Agreement, as a result of any change in, or amendment to, the applicable laws or regulations or any change in the application or official interpretation of such laws or regulations, which change or amendment has become or will become effective before the next such Interest Payment Date. Covered Bonds redeemed pursuant to this Condition 6.16 will be redeemed at their Early Redemption Amount together (if appropriate) with interest accrued to (but excluding) the date of redemption.

Prior to the publication of any notice of redemption pursuant to this Condition 6.16, the Issuer shall deliver to the Issuing and Paying Agent and Bond Trustee a certificate signed by two senior officers of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and the Issuing and Paying Agent and Bond Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on all holders of the Covered Bonds, Receiptholders and Couponholders.

7 Events of Default

Issuer Events of Default

7.01 The Bond Trustee at its discretion may, and if so requested in writing by the holders of at least 25 per cent of the aggregate Principal Amount Outstanding of the Covered Bonds (which for this purpose or the purpose of any Extraordinary Resolution (as defined in the Trust Deed) referred to in this Condition 7.01 means the Covered Bonds of this Series together with the Covered Bonds of any other Series constituted by the Trust Deed) then outstanding as if they were a single Series (with the nominal amount of Covered Bonds not denominated in euros converted into euros at the rate specified in the applicable Final Terms) or if so directed by an Extraordinary Resolution of all the holders of the Covered Bonds shall, (but in the case of the happening of any of the events mentioned in sub-paragraphs (b), (d) or (e) below, only if the Bond Trustee shall have certified in writing to the Issuer and the Guarantor that such event is, in its opinion, materially prejudicial to the interests of the holders of the Covered Bonds of any Series) (subject in each case to being indemnified and/or secured to its satisfaction), and the Bond Trustee shall in the case of the happening of any of the events mentioned in sub-paragraphs (a) or (c) below, give notice (an "**Issuer Acceleration Notice**") in writing to the Issuer that as against the Issuer (but, for the avoidance of doubt, not against the Guarantor under the Covered Bond Guarantee) each Covered Bond of each Series is, and each such Covered Bond shall thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest as provided in the Trust Deed if any of the following events (each, an "**Issuer Event of Default**") shall occur and be continuing:

(a) the Issuer fails to pay any principal or interest in respect of the Covered Bonds within seven Montréal Business Days of the due date; or

(b) the Issuer fails to perform or observe any obligations under the Covered Bonds, Receipts or Coupons of any Series, the Trust Deed or any other Transaction Document to which the Issuer is a party (other than the Dealership Agreement, any subscription agreement for the Covered Bonds and any Definitive N Covered Bond Deeds) but excluding any obligation of the Issuer to comply with the Asset Coverage Test and such failure continues for the period of 30 days (or such longer period as the Bond Trustee may permit) next following the service by the Bond Trustee on the Issuer of notice requiring the same to be remedied (except in circumstances where the Bond Trustee considers such failure to be incapable of remedy in which case no period of continuation will apply and no notice by the Bond Trustee will be required); or

(c) the Issuer shall have become insolvent, or if a liquidator, receiver or receiver and manager of the Issuer or any other officer having similar powers shall be appointed, or if the *Autorité des marchés financiers* (Québec) shall have taken control of the assets of the Issuer or of the Issuer itself; or

(d) an Asset Coverage Test Breach Notice has been served and not revoked (in accordance with the terms of the Transaction Documents) on or before the Guarantor Payment Date immediately following the next Calculation Date after service of such Asset Coverage Test Breach Notice; or

(e) if the Pre-Maturity Test in respect of any Series of Hard Bullet Covered Bonds is breached less than nine months prior to the Final Maturity Date of that Series of Hard Bullet Covered Bonds, and the Guarantor has not cured the breach before the earlier to occur of: (i) ten Montréal Business Days from the date that the Seller is notified of the breach of the Pre-Maturity Test and (ii) the Final Maturity Date of that Series of Hard Bullet Covered Bonds.

For the purposes of these Terms and Conditions "**Calculation Date**" means the last Montréal Business Day of each month.

Upon the Covered Bonds becoming immediately due and repayable against the Issuer pursuant to this Condition 7.01, the Bond Trustee shall forthwith serve a notice to pay (the "**Notice to Pay**") on the Guarantor pursuant to the Covered Bond Guarantee and the Guarantor shall be required to make payments of Guaranteed Amounts when the same shall become Due for Payment in accordance with the terms of the Covered Bond Guarantee. Following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice, the Bond Trustee may or shall take such proceedings against the Issuer in accordance with the first paragraph of Condition 7.03.

The Trust Deed provides that all moneys (the "**Excess Proceeds**") received by the Bond Trustee from the Issuer or any receiver, liquidator, administrator or other similar official appointed in relation to the Issuer following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice and a Notice to Pay on the Guarantor, shall be paid by the Bond Trustee, as soon as practicable after receipt thereof by the Bond Trustee, on behalf of the holders of the Covered Bonds of the relevant Series to the Guarantor (or the Cash Manager on its behalf) for the account of the Guarantor and shall be held in the Guarantor Accounts and the Excess Proceeds shall thereafter form part of the Security granted pursuant to the Security Agreements and shall be used by the Guarantor (or the Cash Manager on its behalf) in the same manner as all other moneys from time to time held by the Cash Manager and/or standing to the credit of the Guarantor in the Guarantor Accounts. Any Excess Proceeds received by the Bond Trustee shall discharge *pro tanto* the obligations of the Issuer in respect of the payment of the amount of such Excess Proceeds under the Covered Bonds, Receipts and Coupons. However, the obligations of the Guarantor under the Covered Bond Guarantee are, following a Covered Bond Guarantee Activation Event, unconditional and irrevocable and the receipt by the Bond Trustee of any Excess Proceeds shall not reduce or discharge any of such obligations.

By subscribing for Covered Bonds, each holder of the Covered Bonds shall be deemed to have irrevocably directed the Bond Trustee to pay the Excess Proceeds to the Guarantor in the manner as described above.

Guarantor Events of Default

7.02 The Bond Trustee at its discretion may, and if so requested in writing by the holders of at least 25 per cent of the aggregate Principal Amount Outstanding of the Covered Bonds (which for this purpose and the purpose of any Extraordinary Resolution referred to in this Condition 7.02 means the Covered Bonds of this Series together with the Covered Bonds of any other Series constituted by the Trust Deed) then outstanding as if they were a single Series (with the nominal amount of Covered Bonds not denominated in euros converted into euros at the rate specified in the applicable Final Terms) or if so directed by an Extraordinary Resolution of all the holders of the Covered Bonds shall (but in the case of the happening of any of the events described in paragraphs (b) to (h) below, only if the Bond Trustee shall have certified in writing to the Issuer and the Guarantor that such event is, in its opinion, materially prejudicial to the interests of the holders of the Covered Bonds of any Series) (subject in each case to being indemnified and/or secured to its satisfaction) give notice (the "**Guarantor Acceleration Notice**") in writing to the Issuer and to the Guarantor, that (x) each Covered Bond of each Series is, and each Covered Bond of each Series shall as against the Issuer (if not already due and repayable against it following an Issuer Event of Default), thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest and (y) all amounts payable by the Guarantor under the Covered Bond Guarantee shall thereupon immediately become due and payable at the Guaranteed Amount corresponding to the Early Redemption Amount for each Covered Bond of each Series together with accrued interest, in each case as provided in the Trust Deed and thereafter the Security shall become enforceable if any of the following events (each, a "**Guarantor Event of Default**") shall occur and be continuing:

(a) default is made by the Guarantor for a period of seven days or more in the payment of any Guaranteed Amounts when Due for Payment in respect of the Covered Bonds of any Series, except in the case of the payment of a Guaranteed Amount when Due for Payment under Condition 6.01 where the Guarantor shall be required to make payments of Guaranteed Amounts which are Due for Payment on the dates specified therein; or

(b) if default is made by the Guarantor in the performance or observance of any obligation, condition or provision binding on it (other than any obligation for the payment of Guaranteed Amounts in respect of the Covered Bonds of any Series) under the Trust Deed, the Security Agreements or any other Transaction Document (other than the obligation of the Guarantor to repay the Demand Loan pursuant to the terms of the Intercompany Loan Agreement) to which the Guarantor is a party and, except where such default is or the effects of such default are, in the opinion of the Bond Trustee, not capable of remedy when no such continuation and notice as is hereinafter mentioned will be required, such default continues for 30 days (or such longer period as the Bond Trustee may permit) after written notice thereof has been given by the Bond Trustee to the Guarantor requiring the same to be remedied; or

(c) an order is made or an effective resolution passed for the liquidation or winding up of the Guarantor; or

(d) if the Guarantor ceases or threatens to cease to carry on its business or substantially the whole of its business; or

(e) the Guarantor shall stop payment or shall be unable, or shall admit inability, to pay its debts generally as they fall due or shall be adjudicated or found bankrupt or insolvent; or

(f) proceedings are initiated against the Guarantor under any applicable liquidation, winding up, insolvency, bankruptcy, composition, reorganization or other similar laws (including, but not limited to, presentation of a petition or the filing of documents with a court or any registrar for its winding-up, administration or dissolution or the giving notice of the intention to appoint an administrator (whether out of court or otherwise)); or a receiver and/or manager, administrative receiver, administrator, trustee or other similar official shall be appointed (whether out of court or otherwise) in relation to the Guarantor or in relation to the whole or any part of its assets, or a distress, diligence or execution or other process shall be levied or enforced upon or sued out against the whole or any part of its assets, or if the Guarantor shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, winding up, insolvency, bankruptcy, composition, reorganization or other similar laws or shall make a conveyance or assignment for the benefit of, or shall enter into any composition with, its creditors generally; or

(g) a failure to satisfy the Amortization Test as at any Calculation Date following service of a Notice to Pay; or

(h) the Covered Bond Guarantee is not, or is claimed by the Guarantor not to be, in full force and effect.

Following the occurrence of a Guarantor Event of Default and service of a Guarantor Acceleration Notice on the Guarantor, the Bond Trustee may or shall take such proceedings or steps in accordance with the first and second paragraphs, respectively, of Condition 7.03 and the holders of the Covered Bonds shall have a claim against the Guarantor, under the Covered Bond Guarantee, for an amount equal to the Early Redemption Amount together with accrued but unpaid interest and any other amount due under the Covered Bonds (other than additional amounts payable under Condition 8) as provided in the Trust Deed in respect of each Covered Bond.

Enforcement

7.03 The Bond Trustee may at any time, at its discretion and without further notice, take such proceedings against the Issuer and/or the Guarantor, as the case may be, and/or any other person as it may think fit to enforce the provisions of the Trust Deed, the Covered Bonds, the Receipts and the Coupons, but it shall not be bound to take any such enforcement proceedings in relation to the Trust Deed, the Covered Bonds, the Receipts or the Coupons or any other Transaction Document unless (i) it shall have been so directed by an Extraordinary Resolution of all the holders of the Covered Bonds of all Series (with the Covered Bonds of all Series taken together as a single Series as described above) or so requested in writing by the holders of not less than 25 per cent of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series then outstanding (taken together and converted into euros at the rate specified in the applicable Final Terms as described above) and (ii) it shall have been indemnified and/or secured to its satisfaction.

The Bond Trustee may at any time, at its discretion and without further notice, take such proceedings against the Guarantor and/or any other person as it may think fit to enforce the provisions of the Security Agreements and may, at any time after the Security has become enforceable, take such steps as it may think fit to enforce the Security, but it shall not be bound to take any such steps unless (i) it shall have been so directed by an Extraordinary Resolution of all the holders of the Covered Bonds of all Series (with the Covered Bonds of all Series taken together as a single Series as described above) or a request in writing by the holders of not less that 25 per cent of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series then outstanding (taken together and converted into euros at the rate specified in the applicable Final Terms as described above); and (ii) it shall have been indemnified and/or secured to its satisfaction.

In exercising any of its powers, trusts, authorities and discretions the Bond Trustee shall only have regard to the interests of the holders of the Covered Bonds of all Series and shall not have regard to the interests of any other Secured Creditors.

No holder of the Covered Bonds, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer or the Guarantor or to take any action with respect to the Trust Deed, the Covered Bonds, the Receipts, the Coupons, or the Security unless the Bond Trustee, having become bound so to proceed, fails so to do within a reasonable time and such failure shall be continuing.

8 Taxation

8.01 All amounts payable (whether in respect of principal or interest) in respect of the Covered Bonds, Receipts and Coupons will be paid free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Canada, any province or territory or political subdivision thereof or any authority or agency therein or thereof having power to tax unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law or the interpretation or administration thereof. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Holder after such withholding or deduction shall equal the respective amounts of principal and interest which would have been received in respect of the Covered Bonds, Receipts or Coupons (as the case may be), in the absence of such withholding or deduction; except that no additional amounts shall be payable with respect to any payment in respect of any Covered Bond, Receipt or Coupon:

(a) to, or to a third party on behalf of, a Holder who is liable for such taxes, duties, assessments or governmental charges in respect of such Covered Bond, Receipt or Coupon by reason of his having some connection with Canada (for these purposes "connection" includes but is not limited to any present or former connection between such holder (or between a fiduciary, seller, beneficiary, member or shareholder of, or possessor of power over such holder if such holder is an estate, trust, partnership, limited liability company or corporation) and such jurisdiction) otherwise than the mere holding of (but not the enforcement of) such Covered Bond, Receipt or Coupon; or

(b) to, or to a third party on behalf of, a Holder in respect of whom such tax, duty, assessment or governmental charge is required to be withheld or deducted by reason of the Holder being a person with whom the Issuer is not dealing at arm's length (within the meaning of the *Income Tax Act* (Canada)); or

(c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) presented for payment by or on behalf of a Holder who would be able to avoid such withholding or deduction by presenting the relevant Covered Bond, Receipt or Coupon to another Paying Agent in a member state of the European Union; or

(e) presented for payment more than 30 days after the Relevant Date except to the extent that the Holder thereof would have been entitled to such additional amount on presenting the same for payment on the thirtieth such day; or

(f) to, or to a third party on behalf of, a Holder who is liable for such taxes, duties, assessments or other governmental charges by reason of such Holder's failure to comply with any certification, identification, documentation or other reporting requirement concerning the nationality, residence, identity or connection with Canada of such Holder, if (i) compliance is required by law as a precondition to, exemption from, or reduction in the rate of, the tax, assessment or other governmental charge and (ii) the Issuer has given Holders at least 30 days' notice that Holders will be required to provide such certification, identification, documentation or other requirement; or

(g) in respect of any taxes, duties, assessments or governmental charges of whatever nature imposed or levied otherwise than by withholding from amounts payable in respect of the Covered Bonds, Receipts and Coupons; or

(h) in respect of any estate, inheritance, gift, sales, transfer, personal property or any similar tax, duty, assessment or governmental charge; or

(i) where any combination of items (a) – (h) applies;

nor will such additional amounts be payable with respect to any payment in respect of the Covered Bonds, Receipts and Coupons to a holder that is a fiduciary or partnership or to any person other than the sole beneficial owner of such Covered Bond, Receipt or Coupon to the extent that the beneficiary or seller with respect to such fiduciary, or member of such partnership or beneficial owner thereof would not have been entitled to receive a payment of such additional amounts had such beneficiary, seller, member or beneficial owner received directly its beneficial or distributive share of such payment. For the purposes of this Condition 8.01, the term "**Holder**" shall be deemed to refer to the beneficial holder for the time being of the Covered Bonds.

8.02 For the purposes of these Terms and Conditions, the "**Relevant Date**" means, in respect of any Covered Bond, Receipt or Coupon, the date on which payment thereof first become due and payable, or, if the full amount of the moneys payable has not been received by the Issuing and Paying Agent, or as the case may be, the Registrar on or prior to such due date, the date on which, the full amount of such moneys shall have been so received and notice to that effect shall have been duly given to the Holders in accordance with Condition 14.

8.03 If the Issuer and/or the Guarantor become subject generally at any time to any taxing jurisdiction other than or in addition to Canada, references in Condition 6.02, Condition 8.01 and Condition 8.05, as applicable, to Canada shall be read and construed as references to Canada and/or to such other jurisdiction(s).

8.04 Any reference in these Terms and Conditions to any payment due in respect of the Covered Bonds, Receipts or Coupons shall be deemed to include any additional amounts which may be payable under this Condition 8. Unless the context otherwise requires, any reference in these Terms and Conditions to "principal" shall include any premium payable in respect of a Covered Bond, any Instalment Amount or Final Redemption Amount, any Excess Proceeds which may be payable by the Bond Trustee under or in respect of the Covered Bonds and any other amounts in the nature of principal payable pursuant to these Terms and Conditions and "interest" shall include all amounts payable pursuant to Condition 5 and any other amounts in the nature of interest payable pursuant to these Terms and Conditions.

8.05 Should any payments made by the Guarantor under the Covered Bond Guarantee be subject to any withholding or deduction for or on account of taxes or duties of whatever nature imposed or levied by or on account of Canada, any province or territory, political sub-division thereof or by any authority or agency therein or thereof having power to tax, the Guarantor will not be obliged to pay any additional amounts as a consequence.

9 Payments

Payments—Bearer Covered Bonds

9.01 Conditions 9.02 to 9.06 are applicable in relation to Bearer Covered Bonds.

9.02 Payment of amounts (other than interest) due in respect of Bearer Covered Bonds will be made against presentation and (save in the case of partial payment or payment of an Instalment Amount other than the final Instalment Amount) surrender of the relevant Bearer Covered Bonds at the specified office of any of the Paying Agents.

Payment of Instalment Amounts (other than the final Instalment Amount) in respect of an Instalment Covered Bond which is a Bearer Definitive Covered Bond with Receipts will be made against presentation of the Covered Bond together with the relevant Receipt and surrender of such Receipt.

The Receipts are not and shall not in any circumstances be deemed to be documents of title and if separated from the Covered Bond to which they relate will not represent any obligation of the Issuer. Accordingly, the presentation of a Covered Bond without the relevant Receipt or the presentation of a Receipt without the Covered Bond to which it appertains shall not entitle the Holder to any payment in respect of the relevant Instalment Amount.

9.03 Payment of amounts in respect of interest on Bearer Covered Bonds will be made:

(a) in the case of a Temporary Global Covered Bond or Permanent Global Covered Bond, against presentation of the relevant Temporary Global Covered Bond or Permanent Global Covered Bond at the specified office of any of the Paying Agents outside (unless Condition 9.04 applies) the United States and, in the case of a Temporary Global Covered Bond, upon due certification as required therein;

(b) in the case of Bearer Definitive Covered Bonds without Coupons attached thereto at the time of their initial delivery, against presentation of the relevant Bearer Definitive Covered Bonds at the specified office of any of the Paying Agents outside (unless Condition 9.04 applies) the United States; and

(c) in the case of Bearer Definitive Covered Bonds delivered with Coupons attached thereto at the time of their initial delivery, against surrender of the relevant Coupons or, in the case of interest due otherwise than on an Interest Payment Date, against presentation of the relevant Bearer Definitive Covered Bonds, in either case at the specified office of any of the Paying Agents outside (unless Condition 9.04 applies) the United States.

9.04 Notwithstanding the foregoing (and in relation to payments in U.S. dollars only), payments of amounts due in respect of interest on the Bearer Covered Bonds and exchanges of Talons for Coupon sheets in accordance with Condition 9.06 will not be made at the specified office of any Paying Agent in the United States (as defined in the United States Internal Revenue Code and Regulations thereunder) unless (i) payment in full of amounts due in respect of interest on such Covered Bonds when due or, as the case may be, the exchange of Talons at all the specified offices of the Paying Agents outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions and (ii) such payment or exchange is permitted by applicable United States law. If clauses (i) and (ii) of the previous sentence apply, the Issuer shall forthwith appoint a further Paying Agent with a specified office in New York City.

9.05 Each Bearer Definitive Covered Bond initially delivered with Coupons, Talons or Receipts attached thereto should be presented and, save in the case of partial payment of the Redemption Amount, surrendered for final redemption together with all unmatured Receipts, Coupons and Talons relating thereto, failing which:

(a) unless otherwise specified in the applicable Final Terms, the amount of any missing unmatured Coupons (or, in the case of a payment not being made in full, that portion of the amount of such missing Coupon which the Redemption Amount paid bears to the Redemption Amount due) relating to Bearer Definitive Covered Bonds that are Fixed Rate Covered Bonds or bear interest in fixed amounts will be deducted from the amount otherwise payable on such final redemption, the amount so deducted being payable against surrender of the relevant Coupon at the specified office of any of the Paying Agents at any time within two years of the Relevant Date applicable to payment of such Redemption Amount (whether or not the Issuer's obligation to make payment in respect of such Coupon would otherwise have ceased under Condition 10);

(b) unless otherwise specified in the Final Terms, all unmatured Coupons relating to such Bearer Definitive Covered Bonds that are Floating Rate Covered Bonds or that bear interest in variable amounts (whether or not such Coupons are surrendered therewith) shall become void and no payment shall be made thereafter in respect of them;

(c) in the case of Bearer Definitive Covered Bonds initially delivered with Talons attached thereto, all unmatured Talons (whether or not surrendered therewith) shall become void and no exchange for Coupons shall be made thereafter in respect of them; and

(d) in the case of Bearer Definitive Covered Bonds initially delivered with Receipts attached thereto, all Receipts relating to such Covered Bonds in respect of a payment of an Instalment Amount which (but for such redemption) would have fallen due on a date after such due date for redemption (whether or not surrendered therewith) shall become void and no payment shall be made thereafter in respect of them.

The provisions of paragraph (a) of this Condition 9.05 notwithstanding, if any Bearer Definitive Covered Bonds should be issued with a Maturity Date and Rate or Rates of Interest such that, on the presentation for payment of any such Bearer Definitive Covered Bond without any unmatured Coupons attached thereto or surrendered therewith, the amount required by paragraph (a) to be deducted would be greater than the Redemption Amount otherwise due for payment, then, upon the due date for redemption of any such Bearer Definitive Covered Bond, such unmatured Coupons (whether or not attached) shall become void (and no payment shall be made in respect thereof) as shall be required so that, upon application of the provisions of paragraph (a) in respect of such Coupons as have not so become void, the amount required by paragraph (a) to be deducted would not be greater than the Redemption Amount otherwise due for payment.

Where the application of the foregoing sentence requires some but not all of the unmatured Coupons relating to a Bearer Definitive Covered Bond to become void, the relevant Paying Agent shall determine which unmatured Coupons are to become void, and shall select for such purpose Coupons maturing on later dates in preference to Coupons maturing on earlier dates.

9.06 In relation to Bearer Definitive Covered Bonds initially delivered with Talons attached thereto, on or after the Interest Payment Date of the final Coupon comprised in any Coupon sheet, the Talon comprised in the Coupon sheet may be surrendered at the specified office of any Paying Agent outside (unless Condition 9.04 applies) the United States in exchange for a further Coupon sheet (including any appropriate further Talon), subject to the provisions of Condition 10 below. Each Talon shall, for the purpose of these Terms and Conditions, be deemed to mature on the Interest Payment Date on which the final Coupon comprised in the relevant Coupon sheet matures.

Payments—Registered Covered Bonds

9.07 Condition 9.08 is applicable in relation to Registered Covered Bonds.

9.08 Payments of principal (other than instalments of principal prior to the final instalment) in respect of each Registered Covered Bond (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Covered Bond at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by electronic transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Covered Bond appearing in the register (the "**Register**") of holders of the Registered Covered Bonds maintained by the Registrar at the close of business on the third Business Day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (i) a holder does not have a "Designated Account" or (ii) the principal amount of the Covered Bonds held by a holder is less than U.S.$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, "**Designated Account**" means the account (which, in the case of a payment in Japanese Yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a "**Designated Bank**" and identified as such in the Register and Designated Bank means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest and payments of instalments of principal (other than the final instalment) in respect of each Registered Covered Bond (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the Business Day in the city where the specified office of the Registrar is located on the relevant due date to the holder (or the first named of joint holders) of the Registered Covered Bond appearing in the Register at the close of business on (i) the first Business Day (in relation to Global Covered Bonds); and (ii) the fifteenth day (in relation to Registered Definitive Covered Bonds), whether or not such fifteenth day is a Business Day, before the relevant due date (the "**Record Date**") at the holder's address shown in the Register on the Record Date and at the holder's risk. Upon application of the holder to the specified office of the Registrar not less than three Business Days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Registered Covered Bond, the payment may be made by electronic transfer on the due date in the manner provided in the preceding paragraph. Any such application for electronic transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) and instalments of principal (other than the final instalment) in respect of the Registered Covered Bonds which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Covered Bond on redemption and the final instalment of principal will be made in the same manner as payment of the principal in respect of such Registered Covered Bond.

Holders of Registered Covered Bonds will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Covered Bond as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Covered Bonds.

All amounts payable to DTC or its nominee as registered holder of a Registered Global Covered Bond in respect of Covered Bonds denominated in a Specified Currency other than U.S. dollars shall be paid by electronic transfer by the Registrar to an account in the relevant Specified Currency of the Exchange Agent on behalf of DTC or its nominee for conversion into and payment in U.S. dollars in accordance with the provisions of the Agency Agreement. None of the Issuer, the Guarantor, the Bond Trustee or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Unless otherwise specified in the applicable Final Terms, if the due date for payment of any amount due in respect of any Registered Covered Bond is not a Payment Day (as defined in Condition 9.11), then the Holder thereof will not be entitled to payment thereof until the next day which is such a day, and from such day and thereafter will be entitled to receive payment by cheque on any local banking day, and will be entitled to payment by transfer to a designated account on any day which is a local banking day, a Payment Day and a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in the place where the relevant designated account is located and no further payment on account of interest or otherwise shall be due in respect of such postponed payment unless there is a subsequent failure to pay in accordance with these Terms and Conditions in which event interest shall continue to accrue as provided in Condition 5.06 or, if appropriate, Condition 5.10.

Payments—General Provisions

9.09 Save as otherwise specified in these Terms and Conditions, Conditions 9.10 to 9.14 are applicable in relation to Bearer Covered Bonds and Registered Covered Bonds.

9.10 Payments of amounts due (whether principal, interest or otherwise) in respect of Covered Bonds will be made in the currency in which such amount is due (a) by cheque or (b) at the option of the payee, by transfer to an account denominated in the relevant currency (or in the case of euro, an account to which euro may be credited or transferred) specified by the payee. In the case of Bearer Covered Bonds, if payments are made by transfer, such payments will only be made by transfer to an account maintained by the payee outside of the United States. In no event will payment of amounts due in respect of Bearer Covered Bonds be made by a cheque mailed to an address in the United States. Payments will, without prejudice to the provisions of Condition 8, be subject in all cases to any applicable fiscal or other laws and regulations.

9.11 For the purposes of these Terms and Conditions:

(a) "**local banking day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in the place of presentation of the relevant Covered Bond or, as the case may be, Coupon; and

(b) "**Payment Day**" means (a) in the case of any currency other than euro, a day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) and foreign exchange markets settle payments in the Financial Centre(s) specified in the Final Terms or (b) in the case of payment in euro, a day which is a TARGET Business Day and on which commercial banks and foreign exchange markets are open for general business (including dealings in foreign exchange and foreign currency deposits) in the Financial Centre(s) specified in the Final Terms.

9.12 No commissions or expenses shall be charged to the Holders of Covered Bonds or Coupons in respect of such payments.

9.13 Notwithstanding the foregoing, the relevant provisions relating to the payment of Covered Bonds the terms of which permit the Issuer to pay and/or discharge its obligations with respect of such Covered Bonds by the payment or delivery of securities and/or other property or any combination of cash, securities and/or other property shall be set forth in the applicable Final Terms.

9.14 Unless otherwise specified in the applicable Final Terms, if the due date for payment of any amount due in respect of any Covered Bond is not a Payment Day (as defined in Condition 9.11), then the Holder thereof will not be entitled to payment thereof until the next day which is such a day, and from such day and thereafter will be entitled to receive payment by cheque on any local banking day, and will be entitled to payment by transfer to a designated account on any day which is a local banking day, a Payment Day and a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in the place where the relevant designated account is located and no further payment on account of interest or otherwise shall be due in respect of such postponed payment unless there is a subsequent failure to pay in accordance with these Terms and Conditions in which event interest shall continue to accrue as provided in Condition 5.06 or, if appropriate, Condition 5.10.

Compensation or Set-off

9.15 Any payments under or pursuant to the Definitive N Covered Bonds shall be made by the Issuer free of compensation or set-off and withholding if and to the extent so specified in the applicable Final Terms.

10 Prescription

10.01 Subject to applicable law, the Issuer's obligation to pay an amount of principal and interest in respect of Covered Bonds will cease if the Covered Bonds or Coupons, as the case may be, are not presented within two years after the Relevant Date (as defined in Condition 8.02) for payment thereof, or such other length of time as is specified in the Final Terms.

10.02 In relation to Bearer Definitive Covered Bonds initially delivered with Talons attached thereto, there shall not be included in any Coupon sheet issued upon exchange of a Talon any Coupon which would be void pursuant to Condition 9.05 or this Condition 10 or the maturity date or due date for the payment of which would fall after the due date for the redemption of the relevant Covered Bond, or any Talon the maturity date of which would fall after the due date for the redemption of the relevant Covered Bond.

11 The Paying Agents, the Registrar, Transfer Agents, the Calculation Agent and the Exchange Agent

11.01 The initial Paying Agents, the Registrar, the Transfer Agents and the Exchange Agent and their respective initial specified offices are specified herein. The Issuer reserves the right, without approval of the Bond Trustee, at any time to vary or terminate the appointment of any Paying Agent (including the Issuing and Paying Agent), any Transfer Agent(s), the Registrar, the Exchange Agent or

the Calculation Agent and to appoint additional or other Paying Agents, Transfer Agents or another Registrar, Exchange Agent or Calculation Agent provided that it will at all times maintain (i) an Issuing and Paying Agent, (ii) in the case of Registered Covered Bonds, a Registrar, (iii) a Paying Agent (which may be the Issuing and Paying Agent) with a specified office in a continental European city, (iv) a Paying Agent in a member state of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive, (v) so long as the Covered Bonds are admitted to the Official List and to trading on the London Stock Exchange and/or admitted to listing or trading on any other stock exchange or relevant authority, a Paying Agent (in the case of Bearer Covered Bonds) and a Transfer Agent (in the case of Registered Covered Bonds), which may in either case be the Issuing and Paying Agent, each with a specified office in London and/or in such other place as may be required by the rules of such other stock exchange or other relevant authority, (vi) in the circumstances described in Condition 9.04, a Paying Agent with a specified office in New York City, (vii) a Calculation Agent where required by the Terms and Conditions applicable to any Covered Bonds, and (viii) so long as any of the Registered Global Covered Bonds payable in a Specified Currency other than U.S. dollars are held through DTC or its nominee, there will at all times be an Exchange Agent with a specified office in the United States (in the case of (i), (ii), (iii) and (vii) with a specified office located in such place (if any) as may be required by the Terms and Conditions). The Agents, the Registrar and the Calculation Agent reserve the right at any time to change their respective specified offices to some other specified office in the same metropolitan area. Notice of all changes in the identities or specified offices of any Agent, the Registrar or the Calculation Agent will be given promptly by the Issuer to the Holders in accordance with Condition 14.

11.02 The Agents, the Registrar and the Calculation Agent act solely as agents of the Issuer and, in certain circumstances of the Bond Trustee, and save as provided in the Agency Agreement or any other agreement entered into with respect to its appointment, do not assume any obligations towards or relationship of agency or trust for any Holder of any Covered Bond, Receipt or Coupon and each of them shall only be responsible for the performance of the duties and obligations expressly imposed upon it in the Agency Agreement or other agreement entered into with respect to its appointment or incidental thereto.

11.03 Notwithstanding the foregoing, the Issuing and Paying Agent, on behalf of itself and the other Paying Agents, shall have the right to decline to act as the Paying Agent with respect of any Covered Bonds issued pursuant to the Programme that are payable and/or dischargeable by the Issuer by the payment or delivery of securities and/or other property or any combination of cash, securities and/or property whereupon the Issuer or an affiliate thereof shall either (i) act as Paying Agent or (ii) engage another financial institution to act as Paying Agent in respect of such Covered Bonds. The Final Terms relating to such Covered Bonds shall include the relevant details regarding the applicable Paying Agent.

12 Replacement of Covered Bonds

If any Covered Bond, Receipt or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Issuing and Paying Agent or any Paying Agent (in the case of Bearer Covered Bonds and Coupons) or of the Registrar or any Transfer Agent (in the case of Registered Covered Bonds) (the "**Replacement Agent**"), subject to all applicable laws and the requirements of any stock exchange on which the Covered Bonds are listed, upon payment by the claimant of all expenses incurred in connection with such replacement and upon such terms as to evidence, security, indemnity and otherwise as the Issuer and the Replacement Agent may require. Mutilated or defaced Covered Bonds, Receipts and Coupons must be surrendered before replacements will be delivered therefor.

13 Meetings of Holders of the Covered Bonds, Modification and Waiver

The Trust Deed contains provisions for convening meetings of the holders of the Covered Bonds to consider any matter affecting their interests, including the modification by Extraordinary Resolution of these Terms and Conditions or the provisions of the Trust Deed. The quorum at any such meeting in respect of any Covered Bonds of any Series for passing an Extraordinary Resolution is one or more persons holding or representing not less than a clear majority of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding, or at any adjourned meeting one or more persons being or representing holders of the Covered Bonds whatever the nominal amount of the Covered Bonds of such Series so held or represented, except that at any meeting the business of which includes the modification of any Series Reserved Matter (as defined below), the quorum shall be one or more persons holding or representing not less than two-thirds of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one third of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding. An Extraordinary Resolution passed at any meeting of the holders of the Covered Bonds of a Series shall, subject as provided below, be binding on all the holders of the Covered Bonds of such Series, whether or not they are present at the meeting, and on all Receiptholders and Couponholders in respect of such Series of Covered Bonds. Pursuant to the Trust Deed, the Bond Trustee may convene a single meeting of the holders of Covered Bonds of more than one Series if in the opinion of the Bond Trustee there is no conflict between the holders of such Covered Bonds, in which event the provisions of this paragraph shall apply thereto *mutatis mutandis*.

Notwithstanding the provisions of the immediately preceding paragraph, any Extraordinary Resolution to direct the Bond Trustee to accelerate the Covered Bonds pursuant to Condition 7 or to direct the Bond Trustee to take any enforcement action (a "**Programme Resolution**") shall only be capable of being passed at a single meeting of the holders of the Covered Bonds of all Series then outstanding. Any such meeting to consider a Programme Resolution may be convened by the Issuer, the Guarantor or the Bond Trustee or by holders of the Covered Bonds of any Series. The quorum at any such meeting for passing a Programme Resolution is one or more persons holding or

representing at least a clear majority of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series for the time being outstanding or at any adjourned such meeting one or more persons holding or representing Covered Bonds whatever the nominal amount of the Covered Bonds of any Series so held or represented. A Programme Resolution passed at any meeting of the holders of the Covered Bonds of all Series shall be binding on all holders of the Covered Bonds of all Series, whether or not they are present at the meeting, and on all related Receiptholders and Couponholders in respect of such Series of Covered Bonds.

In connection with any meeting of the holders of Covered Bonds of more than one Series the Covered Bonds of any Series not denominated in euros shall be converted into euros at the rate specified in the applicable Final Terms.

The Bond Trustee, the Guarantor and the Issuer may also agree, without the consent of the holders of the Covered Bonds, Receiptholders or Couponholders of any Series and without the consent of the other Secured Creditors (and for this purpose the Bond Trustee may disregard whether any such modification relates to a Series Reserved Matter), to:

(a) any modification of the Covered Bonds of one or more Series, the related Receipts and/or Coupons or any Transaction Document provided that in the opinion of the Bond Trustee such modification is not materially prejudicial to the interests of any of the holders of the Covered Bonds of any Series; or

(b) any modification of the Covered Bonds of any one or more Series, the related Receipts and/or Coupons or any Transaction Document which is of a formal, minor or technical nature or is in the opinion of the Bond Trustee made to correct a manifest error or to comply with mandatory provisions of law.

The Bond Trustee may also agree, without the consent of the holders of the Covered Bonds of any Series, the related Receiptholders and/or Couponholders, to the waiver or authorization of any breach or proposed breach of any of the provisions of the Covered Bonds of any Series, or determine, without any such consent as described above, that any Issuer Event of Default or Guarantor Event of Default or Potential Issuer Event of Default or Potential Guarantor Event of Default shall not be treated as such, provided that, in any such case, it is not, in the opinion of the Bond Trustee, materially prejudicial to the interests of any of the holders of the Covered Bonds of any Series.

Any such modification, waiver, authorization or determination shall be binding on all holders of the Covered Bonds of all Series of Covered Bonds for the time being outstanding, the related Receiptholders and the Couponholders and the other Secured Creditors, and unless the Bond Trustee otherwise agree, any such modification shall be notified by the Issuer to the holders of the Covered Bonds of all Series of Covered Bonds for the time being outstanding and the other Secured Creditors in accordance with the relevant terms and conditions as soon as practicable thereafter.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorization or determination), the Bond Trustee shall have regard to the general interests of the holders of the Covered Bonds of each Series as a class (but shall not have regard to any interests arising from circumstances particular to individual holders of the Covered Bonds, Receiptholders or Couponholders whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual holders of the Covered Bonds, the related Receiptholders, Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Bond Trustee shall not be entitled to require, nor shall any holder of the Covered Bonds, Receiptholder or Couponholder be entitled to claim, from the Issuer, the Guarantor, the Bond Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual holders of the Covered Bonds, Receiptholders and/or Couponholders, except to the extent already provided for in Condition 8 and/or in any undertaking or covenant given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

For the purposes of these Terms and Conditions:

"**Potential Issuer Event of Default**" means any condition, event or act which, with the lapse of time and/ or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, would constitute an Issuer Event of Default;

"**Potential Guarantor Event of Default**" means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, would constitute a Guarantor Event of Default; and

"**Series Reserved Matter**" in relation to Covered Bonds of a Series means: (i) reduction or cancellation of the amount payable or, where applicable, modification of the method of calculating the amount payable or modification of the date of payment or, where applicable, modification of the method of calculating the date of payment in respect of any principal or interest in respect of the Covered Bonds; (ii) subject to any applicable redenomination provisions specified in the applicable Final Terms, alteration of the currency in which payments under the Covered Bonds, Receipts and Coupons are to be made; (iii) alteration of the majority required to pass an Extraordinary Resolution; (iv) any amendment to the Covered Bond Guarantee or the Security Agreements (except in a manner determined by the Bond Trustee not to be materially prejudicial to the interests of the holders of the Covered Bonds of any Series); (v) except in accordance with

Condition 6.15 or Condition 13, the sanctioning of any such scheme or proposal for the exchange or sale of the Covered Bonds for or the conversion of the Covered Bonds into, or the cancellation of the Covered Bonds in consideration of, shares, stock, covered bonds, bonds, debentures, debenture stock and/or other obligations and/or securities of the Issuer or any other company formed or to be formed, or for or into or in consideration of cash, or partly for or into or in consideration of such shares, stock, bonds, covered bonds, debentures, debenture stock and/or other obligations and/or securities as described above and partly for or into or in consideration of cash and for the appointment of some person with power on behalf of the holders of the Covered Bonds to execute an instrument of transfer of the Registered Covered Bonds held by them in favour of the persons with or to whom the Covered Bonds are to be exchanged or sold respectively; and (vi) alteration of specific sections of the Trust Deed relating to the quorum and procedure required for meetings of holders of Covered Bonds.

14 Notices

To Holders of Bearer Definitive Covered Bonds

14.01 Notices to Holders of Bearer Definitive Covered Bonds will be deemed to be validly given if published in a leading daily newspaper having general circulation in London (which is expected to be the *Financial Times*). The Issuer shall also ensure that notices are duly published in compliance with the requirements of each stock exchange or any other relevant authority on which the Covered Bonds are listed. Any notice so given will be deemed to have been validly given on the date of first such publication (or, if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Holders of Coupons will be deemed for all purposes to have notice of the contents of any notice given to Holders of Bearer Covered Bonds in accordance with this Condition.

To Holders of Registered Definitive Covered Bonds

14.02 Notices to Holders of Registered Definitive Covered Bonds, save where another means of effective communication has been specified herein or in the Final Terms, will be deemed to be validly given if sent by first class mail (or equivalent) or, if posted to an overseas address, by air mail to them (or, in the case of joint Holders, to the first-named in the register kept by the Registrar) at their respective addresses as recorded in the register kept by the Registrar, and will be deemed to have been validly given on the fourth weekday after the date of such mailing or, if posted from another country, on the fifth such day. The Issuer shall also ensure that notices are duly published in compliance with the requirements of each stock exchange or any other relevant authority on which the Covered Bonds are listed.

To Issuer

14.03 Notices to be given by any holder of Covered Bonds to the Issuer shall be in writing and given by lodging the same, together with the relevant Covered Bond or Covered Bonds, with the Issuing and Paying Agent or the Registrar, as the case may be. While any of the Covered Bonds are represented by a Global Covered Bond, such notice may be given by any accountholder to the Issuing and Paying Agent through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Issuing and Paying Agent or the Registrar and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

Global Covered Bonds

14.04 So long as the Covered Bonds are represented in their entirety by any Global Covered Bonds held on behalf of DTC and/or Euroclear and/or Clearstream, Luxembourg, there may be substituted for publication in newspaper(s) (in accordance with Condition 14.01) the delivery of the relevant notice to DTC and/or Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Covered Bonds and, in addition, for so long as any Covered Bonds are listed on a stock exchange or admitted to listing by any other relevant authority and the rules of the stock exchange, or as the case may be, other relevant authority so require, such notice shall be published in a manner which complies with the rules and regulations of that stock exchange, as the case may be, or any other relevant authority. Any such notice shall be deemed to have been given to the holders of the Covered Bonds on the day on which the said notice was given to DTC and/or Euroclear and/or Clearstream, Luxembourg.

15 Further Issues

The Issuer may from time to time, without the consent of the Holders of any Covered Bonds or Coupons, create and issue further Covered Bonds having the same terms and conditions as such Covered Bonds in all respects (or in all respects except for the first payment of interest, if any, on them and/or the Specified Denomination thereof) so as to form a single series with the Covered Bonds of any particular Series.

16 Currency Indemnity

The currency in which the Covered Bonds are denominated or, if different, payable, as specified in the Final Terms (the "**Contractual Currency**"), is the sole currency of account and payment for all sums payable by the Issuer in respect of the Covered Bonds, including

damages. Any amount received or recovered in a currency other than the Contractual Currency (whether as a result of, or of the enforcement of, a judgement or order of a court of any jurisdiction or otherwise) by any Holder of a Covered Bond or Coupon in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer to the extent of the amount in the Contractual Currency which such Holder is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first day on which it is practicable to do so). If that amount is less than the amount in the Contractual Currency expressed to be due to any Holder of a Covered Bond or Coupon in respect of such Covered Bond or Coupon the Issuer shall indemnify such Holder against any loss sustained by such Holder as a result. In any event, the Issuer shall indemnify each such Holder against any cost of making such purchase which is reasonably incurred. These indemnities constitute a separate and independent obligation from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Holder of a Covered Bond or Coupon and shall continue in full force and effect despite any judgement, order, claim or proof for a liquidated amount in respect of any sum due in respect of the Covered Bonds or any judgement or order. Any such loss shall be deemed to constitute a loss suffered by the relevant Holder of a Covered Bond or Coupon and no proof or evidence of any actual loss will be required by the Issuer.

17 Waiver and Remedies

No failure to exercise, and no delay in exercising, on the part of the Holder of any Covered Bond, any right hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or future exercise thereof or the exercise of any other right. Rights hereunder shall be in addition to all other rights provided by law. No notice or demand given in any case shall constitute a waiver of rights to take other action in the same, similar or other instances without such notice or demand.

18 Substitution

Subject as provided in the Trust Deed, the Bond Trustee, if it is satisfied that to do so would not be materially prejudicial to the interests of the holders of the Covered Bonds, may agree, without the consent of the holders of the Covered Bonds, Receiptholders or Couponholders, to the substitution of a Subsidiary of the Issuer in place of the Issuer as principal debtor under the Covered Bonds and the Trust Deed, provided that the obligations of such Subsidiary in respect of the Covered Bonds and the Trust Deed shall be guaranteed by the Issuer in such form as the Bond Trustee may require.

Any substitution pursuant to this Condition 18 shall be binding on the holders of the Covered Bonds, the Receiptholders and the Couponholders and, unless the Bond Trustee agrees otherwise, shall be notified to the holders of the Covered Bonds as soon as practicable thereafter in accordance with Condition 14.

It shall be a condition of any substitution pursuant to this Condition 18 that the Covered Bond Guarantee shall remain in place or be modified to apply *mutatis mutandis* and continue in full force and effect in relation to any Subsidiary of the Issuer which is proposed to be substituted for the Issuer as principal debtor under the Covered Bonds and the Trust Deed.

19 Rating Agency Confirmation

19.01 By subscribing for or purchasing Covered Bond(s), each holder of Covered Bonds shall be deemed to have acknowledged and agreed that a credit rating of a Series of Covered Bonds by the Rating Agencies is an assessment of credit risk and does not address other matters that may be of relevance to holders of Covered Bonds, including, without limitation, in the case of a confirmation by each Rating Agency that any action proposed to be taken by the Issuer, the Guarantor, the Seller, the Servicer, the Cash Manager, the Bond Trustee or any other party to a Transaction Document will not result in a downgrade of the then current rating of the Covered Bonds or cause such rating to be withdrawn (a "**Rating Agency Confirmation**"), whether such action is either (i) permitted by the terms of the relevant Transaction Document or (ii) in the best interests of, or not prejudicial to, some or all of the holders of Covered Bonds.

19.02 Each of the Issuer, the Guarantor, the Bond Trustee, and the Secured Creditors (including the Holders of Covered Bonds) is deemed to have acknowledged and agreed that a Rating Agency Confirmation does not impose or extend any actual or contingent liability on the Rating Agencies to the Issuer, the Guarantor, the Bond Trustee, the Secured Creditors (including the Holders of Covered Bonds) or any other person or create any legal relations between the Rating Agencies and the Issuer, the Guarantor, the Bond Trustee, the Secured Creditors (including the Holders of Covered Bonds) or any other person whether by way of contract or otherwise.

19.03 By subscribing for or purchasing Covered Bond(s), each holder of Covered Bonds shall be deemed to have acknowledged and agreed that:

(a) a Rating Agency Confirmation may or may not be given at the sole discretion of each Rating Agency;

(b) depending on the timing of delivery of the request and any information needed to be provided as part of any such request, it may be the case that a Rating Agency cannot provide a Rating Agency Confirmation in the time available, or at all, and the Rating Agency shall not be responsible for the consequences thereof;

(c) a Rating Agency Confirmation, if given, will be given on the basis of the facts and circumstances prevailing at the relevant time, and in the context of cumulative changes to the transaction of which the Covered Bonds forms a part; and

(d) a Rating Agency Confirmation represents only a restatement of the opinions given, and shall not be construed as advice for the benefit of any holder of Covered Bonds or any other party.

19.04 If a Rating Agency Confirmation or some other response by a Rating Agency is a condition to any action or step or is otherwise required under any Transaction Document and a written request for such Rating Agency Confirmation or response is delivered to that Rating Agency by any of the Issuer, the Guarantor and/or the Bond Trustee, as applicable (each a "**Requesting Party**"), and either (i) the Rating Agency indicates that it does not consider such confirmation or response necessary in the circumstances or (ii) within 30 days of receipt of such request to the Rating Agency, such request elicits no confirmation or response and/or such request elicits no statement by the Rating Agency that such confirmation or response could not be given, the Requesting Party will be entitled to disregard the requirement for a Rating Agency Confirmation or affirmation of rating or other response by the Rating Agency and proceed on the basis that such confirmation or affirmation of rating or other response by the Rating Agency is not required in the particular circumstances of the request. The failure by a Rating Agency to respond to a written request for a confirmation or affirmation shall not be interpreted to mean that such Rating Agency has given any deemed Rating Agency Confirmation or affirmation of rating or other response in respect of such action or step.

20 Indemnification of Bond Trustee and Bond Trustee contracting with the Issuer and/or the Guarantor

If, in connection with the exercise of its powers, trusts, authorities or discretions the Bond Trustee is of the opinion that the interests of the holders of the Covered Bonds of any one or more Series would be materially prejudiced thereby, the Bond Trustee shall not exercise such power, trust, authority or discretion without the approval by Extraordinary Resolution of such holders of the relevant Series of Covered Bonds then outstanding or by a direction in writing of such holders of the Covered Bonds of at least 25 per cent of the Principal Amount Outstanding of Covered Bonds of the relevant Series then outstanding.

The Trust Deed and the Security Agreements contain provisions for the indemnification of the Bond Trustee and for relief from responsibility, including provisions relieving the Bond Trustee from taking any action unless indemnified and/or secured to the satisfaction of the Bond Trustee. The Trust Deed and the Security Agreements also contain provisions pursuant to which the Bond Trustee is entitled, among other things: (i) to enter into business transactions with the Issuer, the Guarantor and/or any of their respective Subsidiaries and affiliates and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer, the Guarantor and/or any of their respective Subsidiaries and affiliates; (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the holders of the Covered Bonds, Receiptholders or Couponholders or the other Secured Creditors; and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

The Bond Trustee will not be responsible for any loss, expense or liability, which may be suffered as a result of any Loans or Related Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by clearing organizations or their operators or by intermediaries such as banks, brokers or other similar persons on behalf of the Bond Trustee. The Bond Trustee will not be responsible for: supervising the performance by the Issuer or any other party to the Transaction Documents of their respective obligations under the Transaction Documents and the Bond Trustee will be entitled to assume, until it has written notice to the contrary, that all such persons are properly performing their duties; considering the basis on which approvals or consents are granted by the Issuer or any other party to the Transaction Documents under the Transaction Documents; (iii) monitoring the Covered Bond Portfolio, including, without limitation, whether the Covered Bond Portfolio is in compliance with the Asset Coverage Test or the Amortization Test; or (iv) monitoring whether Loans and their Related Security satisfy the Eligibility Criteria. The Bond Trustee will not be liable to any holder of the Covered Bonds or other Secured Creditor for any failure to make or to cause to be made on their behalf the searches, investigations and enquiries which would normally be made by reasonable and prudent institutional mortgage or hypothecary lenders in the Seller's or the applicable Originator's market in relation to the Security and have no responsibility in relation to the legality, validity, sufficiency and enforceability of the Security and the Transaction Documents.

21 Law and Jurisdiction

The Trust Deed, Agency Agreement, the Covered Bonds and Receipts, Coupons and Talons related thereto and the other Transaction Documents, except for the Origination Hypothecary Loan Sale Agreements, the Subservicing Agreement, certain Security Agreements and the Swap Agreements, are governed by and shall be construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein. The Origination Hypothecary Loan Sale Agreements may be governed by and construed in accordance with the laws of the Province of Ontario or the laws of the Province of Québec and the federal laws of Canada applicable therein. The Subservicing Agreement and certain Security Agreements are governed by and shall be construed in accordance with the laws of the Province of Québec and the federal laws of Canada applicable therein. The Swap Agreements are governed by and shall be construed in accordance with English law.

22 Terms and Conditions of Definitive N Covered Bonds

22.01 If in the applicable Final Terms it is specified that Definitive N Covered Bonds are issued, then the following Conditions shall apply in addition to the terms and conditions set out in Condition 1 through Condition 21 above. In the event of any inconsistency between Conditions 1 until and including 21 and this Condition 22, this Condition 22 will prevail with regard to Definitive N Covered Bonds.

22.02 *Interpretation*: For the purposes of this Condition 22, "**Holder**" means the registered holder of a Definitive N Covered Bond. Any reference herein to Holder in plural form shall constitute a reference to Holder in singular form. Any reference herein to Definitive N Covered Bond includes, unless the context otherwise requires, any new Definitive N Covered Bond that has been issued upon transfer of a Definitive N Covered Bond. With respect to Definitive N Covered Bonds, any applicable reference herein to Covered Bonds, Definitive Covered Bonds, Definitive Registered Covered Bonds or Definitive N Covered Bonds in plural form shall constitute a reference to Covered Bond, Definitive Covered Bond, Definitive Registered Covered Bond or Definitive N Covered Bond in singular form. All grammatical and other changes required by the use of the each singular form shall be deemed to have been made herein and the provisions hereof shall be applied so as to give effect to such change.

22.03 *Currency and Principal Amount*: Definitive N Covered Bonds may be issued by the Issuer in a specified currency and in a principal amount as specified in the applicable Final Terms.

22.04 *Form*: Each Definitive N Covered Bond will be issued in registered form and signed manually by two authorized signatories of the Issuer and authenticated manually by or on behalf of the Registrar.

22.05 *Payment*: The Issuer is only obliged to perform its payment obligations owed to the Holder of a Definitive N Covered Bond upon the surrender of such Definitive N Covered Bond.

22.06 *Transfer*:

(a) The rights of the Holder evidenced by a Definitive N Covered Bond and title to a Definitive N Covered Bond itself will pass by absolute assignment between the transferor and transferee with notification thereof to the Issuer and registration in the Register. Except as ordered by a court of competent jurisdiction or as required by law, the Issuer, any applicable Agents and the Registrar shall deem and treat the registered Holder of a Definitive N Covered Bond as the absolute Holder thereof and of the rights evidenced thereby.

(b) The rights of the Holder evidenced by a Definitive N Covered Bond and title to a Definitive N Covered Bond itself shall be transferred upon the surrender of a Definitive N Covered Bond, together with the form of assignment and notification duly completed and executed, at the specified office of the Registrar. In the case of a transfer of a Definitive N Covered Bond, a new Definitive N Covered Bond will be issued to the transferee upon request of the transferee.

(c) Each new Definitive N Covered Bond to be issued upon transfer of a Definitive N Covered Bond will, within seven Business Days of delivery of such Definitive N Covered Bond and the duly completed and executed form of assignment and notification, be available for collection at the specified office of the Registrar or, at the request of the Holder making such delivery and as specified in the relevant form of assignment, be mailed at the risk of the new Holder entitled to the new Definitive N Covered Bond to such address as may be specified in the form of assignment.

(d) Transfers will be effected without charge by or on behalf of the Issuer or the Registrar, but upon payment (or the giving of such indemnity as may be required from the Issuer, any applicable Agents or the Registrar) in respect of any tax, duty or other charges which may be imposed in relation to it.

(e) A Holder may not transfer a Definitive N Covered Bond (i) during the 15 Business Day period prior to the Final Maturity Date (and the 15 Business Day period prior to the Extended Due for Payment Date, as applicable) or (ii) after such Definitive N Covered Bond has been called for redemption.

22.07 *Redenomination*: Each Definitive N Covered Bond may be redenominated at the specified office of the Replacement Agent, subject to all applicable laws, upon such terms as to evidence and otherwise as the Issuer and the Replacement Agent may require. The original Definitive N Covered Bond must be surrendered before redenominated Definitive N Covered Bonds will be delivered therefor.

USE OF PROCEEDS

Except as otherwise set out in the applicable Final Terms, the net proceeds of the issue of each Tranche of Covered Bonds will be added to the general funds of the Issuer.

PRO FORMA FINAL TERMS

(set out below is the form of Final Terms which will be completed for each Tranche of Covered Bonds issued under the Programme)

CAISSE CENTRALE DESJARDINS DU QUÉBEC

€5,000,000,000
Global Covered Bond Programme
unconditionally and irrevocably guaranteed as to payments by
CCDQ COVERED BOND GUARANTOR LIMITED PARTNERSHIP
(a limited partnership formed under the laws of Ontario)

[Notice Regarding Offers in the EEA

The Prospectus referred to below (as completed by these Final Terms) has been prepared on the basis that any offer of Covered Bonds in any Member State of the European Economic Area which has implemented the Prospectus Directive (2003/71/EC) (each, a "Relevant Member State") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of the Covered Bonds. Accordingly, any person making or intending to make an offer in any Relevant Member State of the Covered Bonds may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer has authorized, nor do they authorize, the making of any offer of Covered Bonds in any other circumstances.[1]]

PART A—CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Prospectus dated [ ] [and the supplemental Prospectus[es] dated [ ]] which [together] constitute[s] [a base prospectus for the purposes of Directive 2003/71/EC (the "**Prospectus Directive**")] [listing particulars for the purposes of Chapter 4 of the FSA's Listing Rules]. This document constitutes the Final Terms of the Covered Bonds described herein [for the purposes of Article 5.4 of the Prospectus Directive] and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Prospectus [as so supplemented]. [The Prospectus [and the supplemental Prospectus[es]], together with all documents incorporated by reference therein, [is] [are] available for viewing at, and copies may be obtained from the registered office of the Issuer at 1170 Peel Street, Suite 600, Montréal, Québec, Canada H3B 0B1, and at the offices of the Issuing and Paying Agent, The Bank of New York Mellon, London Branch, One Canada Square, 48th Floor, London, E14 4AL, United Kingdom and can also be viewed on the website of the Regulatory News Service operated by the London Stock Exchange at *http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html* under the name "Caisse centrale Desjardins" and the headline "Publication of Prospectus".

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the [Prospectus] dated [original date] [and the supplemental Prospectus[es] dated [ ][2]]. This document constitutes the Final Terms of the Covered Bonds described herein [for the purposes of Article 5.4 of Directive 2003/71/EC (the "**Prospectus Directive**")] and must be read in conjunction with the Prospectus dated [current date] [and the supplemental Prospectus[es] dated [ ][2], which [together] constitute[s] [a base prospectus for the purposes of the Prospectus Directive] [listing particulars for the purposes of Chapter 4 of the FSA's Listing Rules], save in respect of the Conditions which are extracted from the [Prospectus] dated [original date] [and the supplemental Prospectus[es] dated [ ]] and are attached hereto. Full information on the Issuer and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Prospectus dated [original date] and the Prospectus dated [current date] [and the supplemental Prospectus[es] dated [ ] and [ ]]. The [Prospectuses] [and the supplemental Prospectus[es]] are available for viewing and copies may be obtained from the registered office of the Issuer, located at 1170 Peel Street, Suite 600, Montréal, Québec, Canada, H3B 0B1 and at the offices of the Issuing and Paying Agent, The Bank of New York Mellon, London Branch, One Canada Square, 48th Floor, London, E14 4AL, United Kingdom and can also be viewed on the website of the Regulatory News Service operated by the London Stock Exchange at

[1] Include this legend only where there is an exempt offer of Covered Bonds.

[2] Only include details of a supplemental Prospectus in which the Conditions have been amended for the purposes of all future issues under the Programme.

http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html under the name of the Issuer and the headline "Publication of Prospectus".

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Final Terms.]

[When completing any final terms, or adding any other final terms or information, consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive. If so, to avoid rescission rights applicable to a supplement, one can do a Stand-Alone Prospectus incorporating by reference the Registration and Securities Note elements of the Prospectus and including the Final Terms (but renamed Pricing Supplement) and specific Risk Factors (if any) and a Summary.]

1.	(i) Issuer:	Caisse centrale Desjardins du Québec (the "**Issuer**" or "**Caisse centrale**")
	(ii) Guarantor:	CCDQ Covered Bond Guarantor Limited Partnership
2.	[(i)] Series Number: [(ii) Tranche Number:	[ ] [ ] *[If fungible with an existing Series, details of that Series, including the date on which the Covered Bonds become fungible.]*
3.	Specified Currency or Currencies: (Condition 1.10)	[ ]
4.	Aggregate Principal Amount [of Covered Bonds admitted to trading][3]:	[ ]
	[(i)] Series: [(ii) Tranche:	[ ] [ ]
5.	Issue Price:	[ ]% of the Aggregate Principal Amount [plus accrued interest from [*insert date*] (if applicable)]
6.	(a) Specified Denominations: (Condition 1.08 or 1.09)	*In the case of Covered Bonds which are to be (1) offered to the public in a Member States of the European Economic Area in circumstances which would otherwise require the publication of a prospectus under the Prospectus Directive or (2) admitted to trading on a regulated market within the European Economic Area, the minimum Specified Denomination shall be €100,000 (of if the Covered Bonds are denominated in a currency other than euro, the equivalent amount in such currency)* *[N.B.—where Bearer Covered Bonds with multiple denominations above €100,000 or equivalent are being used, the following sample wording should be followed:* [*[€100,000]* [and integral multiples of *[€1,000]* in excess thereof up to and including *[€199,000]*]. No Covered Bonds in definitive form will be issued with a denomination above *[€199,000]*.] *(N.B. If Item 24 indicates that a Bearer Global Covered Bond is exchangeable for Bearer Definitive Covered Bonds at the option of a Holder, on [ ] days' notice/at any time, the Specified Denominations may not include integral multiples of a lesser amount in excess of a minimum Specified Denomination.)* [So long as the Covered Bonds are represented by a Temporary Global Covered Bond or Permanent Global Covered Bond and the relevant clearing system(s) so permit, the Covered Bonds will be tradable only in principal amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) and higher integral multiples of [ ],

[3] Add for an issue of Covered Bonds to be admitted to trading on the PSM.

		notwithstanding that no definitive Covered Bonds will be issued with a denomination above [ ]].
	(b) Calculation Amount:	*[If only one Specified Denomination and no integral multiples in excess thereof, insert the Specified Denomination. If there is more than one Specified Denomination, and no integral multiples in excess thereof, insert the highest common factor of the Specified Denominations. If there are integral multiples in excess of the Specified Denomination(s), insert the highest common factor of the integral multiples and the Specified Denomination(s).]*
		[Note: there must be a common factor in the case of two or more Specified Denominations or integral multiples in excess of the Specified Denomination(s).]
7.	(i) Issue Date:	[ ]
	(ii) Interest Commencement Date:	[Specify/Issue Date/Not Applicable]
8.	(i) Maturity Date:	*[Specify date or (for Floating Rate Covered Bonds) Interest Payment Date falling in or nearest to the relevant month and year]*
	(ii) Extended Due for Payment Date of Guaranteed Amounts corresponding to the Final Redemption Amount under the Covered Bond Guarantee:	*[Specify date 1 year or more after the Final Maturity Date or (for Floating Rate Covered Bonds) Interest Payment Date falling in or nearest to the relevant month 1 year or more after the Final Maturity Date]*
9.	Interest Basis:	[ ]] per cent Fixed Rate]
		[[LIBOR/EURIBOR/other (*specify reference rate*)] +/- [ ] per cent Floating Rate] [Zero Coupon] [Index Linked Interest] [Other (*specify*)] (further particulars specified below)
10.	Redemption/Payment Basis[4]:	[Redemption at par] [Hard Bullet Covered Bond] [Index Linked Redemption] [Dual Currency] [Instalment] [Other (*specify*)]
11.	Change of Interest of Redemption/Payment Basis:	*[Specify details of any provision for convertibility of Covered Bonds into another interest or redemption/payment basis]*
12.	Put/Call Options:	[Investor Put]
		[Issuer Call]
		[(further particulars specified below)]
13.	(i) Status of the Covered Bonds:	Senior
	(ii) Status of the Guarantee:	Senior secured with recourse limited to the assets of Guarantor
	(iii) [Date [Board] approval for issuance of Covered Bonds obtained:	[ ] [and [ ], respectively]]
		(N.B. Only relevant where Board (or similar) authorization is required for the particular tranche of Covered Bonds or the related Covered Bond Guarantee)
14.	Method of distribution:	[Syndicated/Non-syndicated]

[4] If the Final Redemption Amount is other than 100% of the principal value, the Covered Bonds will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply. This pro forma final terms has been annotated to indicate where the key additional requirements of Annex XII are dealt with.

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15.	Fixed Rate Covered Bond Provisions: (Condition 5.02)	[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
	(i) Rate[(s)] of Interest:	[ ] per cent per annum [payable [annually/semi-annually/ quarterly/monthly] in arrear] *(NB: If an Extended Due for Payment Date is specified, interest following the Due for Payment Date will continue to accrue and be payable on any unpaid amount at a Rate of Interest determined in accordance with Condition 5.03.)*
	(ii) Interest Payment Date(s):	[ ] in each year [adjusted in accordance with *[specify Business Day Convention and any applicable Financial Centre(s) for the definition of "Business Day"]*/not adjusted] up to and including the [Final Maturity Date] [Extended Due for Payment Date, if applicable]/[specify other] (provided however that after the Extension Determination Date, the Interest Payment Date shall be monthly) *(N.B.—This will need to be amended in the case of long or short Coupons.)*
	(iii) Fixed Coupon Amount[(s)]:	[ ] per Calculation Amount
	(iv) Broken Amount(s):	[ ] per Calculation Amount, payable on the Interest Payment Date falling [on/or] [ ] *[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount[(s)]]*
	(v) Day Count Fraction:	[30/360 /Actual/Actual (ICMA/ISDA)/other]
	(vi) Determination Dates:	[ ] in each year *(insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA))*
	(vii) Other terms relating to the method of calculating interest for Fixed Rate Covered Bonds:	[Not Applicable/*give details*]
16.	Floating Rate Covered Bond Provisions: (Condition 5.03)	[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i) Interest Period(s):	[ ]
	(ii) Specified Interest Payment Dates:	[ ] (provided however that after the Extension Determination Date, the Specified Interest Payment Date shall be monthly) *NB: Specify the Specified Period(s)/Specified Interest Payment Date(s) up to and including the Extended Due for Payment Date, if applicable*
	(iii) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
	(iv) Additional Financial Centre(s):	[ ]
	(v) Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other (*give details*)]

	(vi) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Issuing and Paying Agent):	[ ]
	(vii) Screen Rate Determination:	
	— Reference Rate:	[ ] *(Either LIBOR, EURIBOR or other, although additional information is required if other, including fallback provisions)*
	— Interest Determination Date(s):	[ ] *(Second London Business Day prior to start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET System is open prior to start of each Interest Period if EURIBOR or euro LIBOR.)* *(NB: Specify the Interest Determination Date(s) up to and including the Extended Due for Payment Date, if applicable)*
	— Relevant Screen Page:	[ ] *(In the case of EURIBOR, if not Reuters EURIBOR01, ensure it is on page which shows a composite rate or amend fallback provisions appropriately.)*
	— Relevant Time:	[ ]
	— Reference Banks:	[ ]
	(viii) ISDA Determination:	Issuer is [Fixed Rate/Fixed Amount/Floating Rate/Floating Amount] Payer
	— Floating Rate Option:	[ ]
	— Designed Maturity:	[ ]
	— Reset Date:	[ ]
	(ix) Margin(s):	[+/-][ ] per cent per annum
	(x) Minimum Rate of Interest: (Condition 5.05)	[ ] per cent per annum
	(xi) Maximum Rate of Interest: (Condition 5.05)	[ ] per cent per annum
	(xii) Day Count Fraction:	[ ]
	(xiii) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Covered Bonds, if different from those set out in the Conditions:	[ ]
17.	Zero Coupon Covered Bond Provisions:	[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*

	(i) Amortization Yield:	[ ] per cent per annum
	(ii) Reference Price:	[ ]
	(iii) Any other formula/basis of determining amount payable:	[ ]
18.	Index-Linked Interest Covered Bond/other variable- linked interest Covered Bond Provisions[5]:	[ ] [Applicable/Not Applicable] (I*f not applicable, delete the remaining subparagraphs of this paragraph*) *[N.B. If the Final Redemption Amount is other than 100 per cent of the nominal value, the Covered Bonds will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply. Note that some regulatory authorities may require the inclusion of information or placeholders addressing Paragraph 5 of Annex XII even though (noting that such information is not required by Annex XIII) the denomination of the Covered Bonds is €100,000 or more. Where Annex XII is not applicable but income on the Covered Bonds is linked to an underlying, nevertheless consider including disclosure in relation to the underlying.]*
	(i) Index/Formula/other variable:	*[give or annex details]*
	(ii) Name and address of the party responsible for calculating the interest due (if not the Issuing and Paying Agent):	[ ] [include name and address of Calculation Agent]
	(iii) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable:	[ ]
	(iv) Determination Date(s):	[ ]
	(v) Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[ ]
	(vi) Interest or accrual period(s):	[ ]
	(vii) Specified Interest Payment Dates:	[ ]
	(viii) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
	(ix) Additional Financial Centre(s):	[ ]
	(x) Minimum Rate/Amount of Interest:	[ ] per cent per annum
	(xi) Maximum Rate/Amount of Interest:	[ ] per cent per annum

[5] If any interest payable on a Covered Bond, or any portion of the Aggregate Principal Amount in excess of the Issue Price, is to be calculated by reference to an index or formula or any Covered Bond is issued as partly paid, such interest or principal, as the case may be, may be subject to Canadian non-resident withholding tax and additional opinions from Canadian tax counsel may be required.

	(xii) Day Count Fraction	[ ]
	(xiii) Other terms or special conditions:	[ ]
19.	Dual Currency Covered Bond Provisions:	[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)* *[N.B. If the Final Redemption Amount is other than 100 per cent of the nominal value, the Covered Bonds will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply. Note that some regulatory authorities may require the inclusion of information or placeholders addressing Paragraph 5 of Annex XII even though (noting that such information is not required by Annex XIII) the denomination of the Covered Bonds is €100,000 or more. Where Annex XII is not applicable but income on the Covered Bonds is linked to an underlying, nevertheless consider including disclosure in relation to the underlying.]*
	(i) Rate of Exchange/method of calculating Rate of Exchange:	[*give details*]
	(ii) Name and address of party responsible for calculating the principal and/or interest due (if not the Issuing and Paying Agent):	[ ]
	(iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	*(If not applicable, delete the remaining subparagraphs of this paragraph)* [ ]
	(iv) Person at whose option Specified Currency(ies) is/are payable:	[ ]

PROVISIONS RELATING TO REDEMPTION

20.	Call Option (Condition 6.03):	[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
	(i) Optional Redemption Date(s):	[ ]
	(ii) Optional Redemption Amount(s) of each Covered Bond and method, if any, of calculation of such amount(s):	[ ] per Calculation Amount
	(iii) If redeemable in part:	
	(a) Minimum Redemption Amount:	[ ] per Calculation Amount
	(b) Maximum Redemption Amount:	[ ] per Calculation Amount
	(iv) Notice period[6]:	[ ]

[6] If setting notice periods which are different to those provided in the terms and conditions, issuers are advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the issuer and its fiscal agent or any trustee.

21.	Put Option (Condition 6.06):	[Applicable/Not Applicable]
		(If not applicable, delete the remaining subparagraphs of this paragraph)
	(i) Optional Redemption Date(s):	[ ]
	(ii) Optional Redemption Amount(s) of each Covered Bond and method, if any, of calculation of such amount(s):	[ ] per Calculation Amount
	(iii) Notice period[7]:	[ ]
22.	Final Redemption Amount of each Covered Bond:	[ ] per Calculation Amount/other/see Appendix]
		[N.B. If the Final Redemption Amount is other than 100 per cent of the nominal value, the Covered Bonds will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply. Note that some regulatory authorities may require the inclusion of information or placeholders addressing Paragraph 5 of Annex XII even though (noting that such information is not required by Annex XIII) the denomination of the Covered Bonds is €100,000 or more. Where Annex XII is not applicable but income on the Covered Bonds is linked to an underlying, nevertheless consider including disclosure in relation to the underlying.]
	In cases where the Final Redemption Amount is Index Linked or other variable linked:	
	(i) Index/Formula/variable:	*[give or annex details]*
	(ii) Name and address of party responsible for calculating the Final Redemption Amount (if not the Issuing and Paying Agent):	[ ]
	(iii) Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable is impossible or otherwise disrupted:	[ ]
	(iv) Determination Date(s):	[ ]
	(v) Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[ ] per Calculation Amount
	(vi) Payment Date:	[ ]
	(vii) Minimum Final Redemption	[ ] per Calculation Amount

[7] If setting notice periods which are different to those provided in the terms and conditions, issuers are advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems, as well as any other notice requirements which may apply, for example, as between the issuer and its fiscal agent or any trustee.

	Amount:	
	(viii) Maximum Final Redemption Amount:	[ ] per Calculation Amount
23.	Early Redemption Amount: Early Redemption Amount(s) payable on redemption for taxation reasons or illegality or upon acceleration following an Issuer Event of Default or Guarantor Event of Default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[ ] per Calculation Amount/other/see Appendix *[If effective date for changes in law triggering redemption for taxation reasons is not Issue Date, indicate effective date.]*

GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

24.	Form of the Covered Bonds:	[Bearer Covered Bonds:] [Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond which is exchangeable for Bearer Definitive Covered Bonds on [ ] days' notice/at any time/only after an Exchange Event] [Temporary Global Covered Bond exchangeable for Bearer Definitive Covered Bonds [and/or Registered Definitive Covered Bonds]on [ ] days' notice] [Permanent Global Covered Bond exchangeable for Bearer Definitive Covered Bonds on [ ] days' notice/at any time/only after an Exchange Event] [Registered Covered Bonds:] [Registered Covered Bonds registered in the name of a nominee for [a common depositary for Euroclear and/or Clearstream, Luxembourg/a Common Safekeeper for Euroclear and/or Clearstream, Luxembourg (that is, held under the NSS]] [Regulation S Global Covered Bond (U.S.$[ ] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg] and exchangeable on [ ] days' notice/at any time/only after an Exchange Event/Rule 144A Global Covered Bond (U.S.$[ ] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg] and exchangeable on [ ] days' notice/at any time/only after an Exchange Event/Definitive IAI Registered Covered Bonds (specify nominal amounts) /Definitive N Covered Bonds, issued to each holder by Definitive N Covered Bonds Deed. Specified office of Issuer for notification of transfers of Definitive N Covered Bonds: [Frankfurt office, [address]/other]]
25.	New Global Covered Bond:	[Yes] [No] *(If the Covered Bonds are intended to be eligible collateral for Eurosystem monetary policy and intra-day credit operations, the New Global Covered Bond should be used. The New Global Covered Bond should only be used if it is intended that the Covered Bonds be held in a manner which would allow Eurosystem eligibility and a "yes" election is made in the section in Part B under the heading "Operational Information" entitled "Intended to be held in a manner which would allow Eurosystem eligibility".)*

26.	Exclusion of compensation and set-off:	[Not Applicable/*give details*]
		[See Condition 9.15. *If compensation and set-off are excluded for the purpose of Definitive N Covered Bonds to be issued to German insurers, insert*: "Counterclaims. As long as, and to the extent that, this Definitive N Covered Bond forms part of the restricted assets (*gebundenes Vermögen*) within the meaning of Section 54(3) of the German Act Concerning the Supervision of Insurance Companies (*Gesetzüber die Beaufsichtigung der Versicherungsunternehmen*), as amended, in conjunction with the German Regulation Concerning the Investment of the Restricted Assets of Insurance Companies (*Verordnung über die Anlage des gebundenen Vermögens von Versicherungsunternehmen*), as amended, the Issuer waives (also in the event of insolvency of the holder of the Definitive N Covered Bond or in the event that insolvency proceedings or similar proceedings are instituted against the holder of the Definitive N Covered Bond) any right of set-off, combination or consolidation as well as any right to exercise any pledges, rights of retention and other rights which could affect the rights under the Definitive N Covered Bond."]
27.	Financial Centre(s) or other special provisions relating to payment dates:	*[Not Applicable/give details. Note that this item relates to the date and place of payment, and not interest period end dates, to which items 15(ii), 16(iv) and 18(ix) relate.]*
28.	Talons for future Coupons or Receipts to be attached to Definitive Covered Bonds (and dates on which such Talons mature): (Condition 1.06)	[Yes/No. *If yes, give details*]
29.	Details relating to Instalment Covered Bonds: amount of each instalment ("**Instalment Amounts**"), date on which each payment is to be made ("**Instalment Dates**"):	[Not Applicable/*give details*]
30.	Redenomination provisions:	[Not Applicable/The provisions annexed hereto apply]
31.	Consolidation provisions:	[Not Applicable/The provisions annexed hereto apply]
32.	Covered Bond Swap Rate:	[*Specify*/Not Applicable]
33.	Other final terms:	[Not Applicable/*give details*]
		[When adding any other final terms consideration should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]
		[Include Notice provisions other than those found in Condition 14.]
		[Include additional Events of Default (Condition 7.01) and any Default Rate (Condition 5.06).]
34.	(i) If syndicated, names of Managers:	[Not Applicable/*give names*]
	[(ii)] Stabilizing Manager(s) (if any):	[Not Applicable/*give names*]

DISTRIBUTION

35.	If non-syndicated, name of Dealer:	[Not Applicable/*give names*]

36.	U.S. Selling Restrictions:	[Regulation S compliance Category 1;] [TEFRA C rules apply] [TEFRA D rules apply] [TEFRA rules not applicable] [HIRE Act rules apply] [Rule 144A eligible/sales to Institutional Accredited Investors under the Securities Act permitted]
37.	Additional selling restrictions:	[Not Applicable/*give details*] [The Covered Bonds may not be offered, sold or distributed, directly or indirectly, in Canada or to or for the benefit of, any resident in Canada][8]
38.	Additional United States Tax Considerations:	[Not Applicable/*give details*]
39.	Exchange Date:	[ ] / Not Applicable.
40.	The Aggregate Principal Amount of the Covered Bonds issued has been translated into euros at the rate of €1.00 = [ ], producing a sum of:	[€] [Not Applicable]

[8] Consider including this prohibition/certification, among others for Covered Bonds permitting physical settlement of securities.

PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for the issue [and] [the admission to [the Official List of *[specify stock exchange]* and to] trading on *[specify relevant regulated market]* of the Covered Bonds described herein pursuant to the €5 billion Global Covered Bond Programme of Caisse centrale Desjardins du Québec.

RESPONSIBILITY

The Issuer and the Guarantor accept responsibility for the information contained in these Final Terms. *[specify relevant third party information]* has been extracted from [*specify source*]. The Issuer and the Guarantor confirm that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:	Signed on behalf of the Managing GP for and on behalf of the Guarantor:
By: ______________________ Duly authorized	By: ______________________ Duly authorized
By: ______________________ Duly authorized	By: ______________________ Duly authorized

PART B—OTHER INFORMATION[9]

1. **LISTING**

(i) Listing/Admission to trading:	[Application has been made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to [the Official List of the UK Listing Authority/Luxembourg Stock Exchange /other and to] trading on [*specify relevant regulated market/PSM/other*] with effect from [ ].] [Application is expected to be made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to [the Official List of the UK Listing Authority/Luxembourg Stock Exchange/other] and to trading on [*specify relevant regulated market/PSM/other*] with effect from [ ].] [Not Applicable.] *(Where documenting a fungible issue need to indicate that original Covered Bonds are already admitted to trading.)*
[(ii) Estimate of total expenses related to admission to trading:	[ ]]

2. **RATINGS**

The Covered Bonds to be issued have been rated:

Ratings:

DBRS: AAA Moody's: Aaa Fitch: AAA

[[Other]: [ ]]

[[*insert credit rating agency*] is established in the European Union and has applied for registration under Regulation (EC) No. 1060/2009, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.]

[[*insert credit rating agency*] is not established in the European Union but a European Union affiliate has applied for registration under Regulation (EC) No. 1060/2009 indicating an intention to endorse its ratings, although notification of the corresponding registration decision (including its ability to endorse [*insert credit rating agency*]'s ratings) has not yet been provided by the relevant competent authority.]

[[*insert credit rating agency*] is established in the European Union and registered under Regulation (EC) No. 1060/2009.]

[[*insert credit rating agency*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009.]

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under Regulation (EC) No. 1060/2009, unless the rating is provided by a credit rating agency operating in the European Union before June 7, 2010 (the "EU CRA"), or a non-European Union credit rating agency that is a member of the same group, where the EU CRA has submitted an application for registration in accordance with Regulation (EC) No. 1060/2009 (or in the case of a non-European Union affiliate, the EU CRA has in such application disclosed an intention to endorse the non-European Union affiliate's ratings) and such registration (or, in the case of the non-European Union rating, the ability to endorse the relevant non-European Union affiliate's ratings) is not refused.

[9] If an issue of Covered Bonds is (i) NOT admitted to trading on regulated market in the EEA or the PSM and (ii) only offered in the EEA in circumstances where a prospectus is not required under the Prospectus Directive, the Issuer may elect to amend and/or delete certain of the above paragraphs of Part B.

(The above disclosure should reflect the rating allocated to Covered Bonds of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

3. **[INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]**

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

"Save as discussed in ["*Subscription and Sale and Transfer and Selling Restrictions*"], so far as the Issuer is aware, no person involved in the offer of the Covered Bonds has an interest material to the offer".]

[When adding any other description, consideration should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]

4. **REASON FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES**

[(i) Reasons for the offer: [ ]

(See "Use of Proceeds" wording in Prospectus—if reasons for offer different from that set out in the Prospectus will need to include those reasons here.)]

[(ii)] Estimated net proceeds: [ ]

(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)

[(iii)] Estimated total expenses: [ ]

[N.B.: If the Covered Bonds are derivative securities to which Annex XII of the Prospectus Directive Regulation applies (i) above is required where the reasons for the offer are different from making profit and/or hedging certain risks regardless of the minimum denomination of the securities and where this is the case disclosure of net proceeds and total expenses at (ii) and (iii) above are also required.]

5. **[FIXED RATE COVERED BONDS ONLY—YIELD**

Indication of yield: [ ]

[The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

6. **[INDEX-LINKED OR OTHER VARIABLE-LINKED COVERED BONDS ONLY —PERFORMANCE OF INDEX/FORMULA/other variable, and other information concerning the underlying**

Need to include details of where past and future performance and volatility of the index/formula/other variable can be obtained. [Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information. Include other information concerning the underlying required by Paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.]]

[When completing this paragraph, consideration should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]

The Issuer [intends to provide post-issuance information on *[specify what information will be reported and where it can be obtained]*] [does not intend to provide post-issuance information]. *[Identify source of all third party information.]*

7. **[DUAL CURRENCY COVERED BONDS ONLY—PERFORMANCE OF RATE[S] OF EXCHANGE**

Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained.

[When adding any other description, consideration should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]

[Identify source of all third party information.]

8. OPERATIONAL INFORMATION

(i) ISIN Code:	[ ]
(ii) Common Code:	[ ]
(iii) *[insert here any other relevant codes such as CUSIP and CINS codes)]*	[ ]
(iv) Any clearing system(s) other than Euroclear Bank S.A./N.V., Clearstream Banking Société Anonyme or DTC, their addresses and the relevant identification number(s):	[Not Applicable/*give name(s), address(es) and number(s)*]
(v) Delivery:	Delivery [against/free of] payment
(vi) Name(s) and address(es) of initial Paying Agent(s), Registrars, Exchange Agent and Transfer Agents:	[ ]
(vii) Name(s) and address(es) of additional or substitute Paying Agent(s) or Transfer Agent(s):	[ ]
(viii) Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes] [No]
	[Note that the designation "yes" simply means that the Covered Bonds are intended upon issue to be deposited with one of the ICSDs as common safekeeper[, and registered in the name of a nominee of one of the ICSDs acting as Common Safekeeper, that are held under the New Safekeeping Structure for registered global securities *(include this text for Covered Bonds in registered form which are intended to be held under the NSS)*] and does not necessarily mean that the Covered Bonds will be recognized as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria] *[Include this text if "yes" is selected in which case the Covered Bonds in bearer form must be issued in NGCB form.]*

DESJARDINS FINANCIAL GROUP

The information appearing below is supplemented by the more detailed information contained in the documents appended to the Base Prospectus. See Paragraphs (e)-(g) of the section entitled "Documents Incorporated by Reference".

Founded 110 years ago, the Desjardins Financial Group is an institutional network of financial services cooperatives. The Desjardins Financial Group is currently the leading financial institution in Québec and the largest cooperative financial group in Canada providing the members of its Caisse network and its subsidiaries' clients, both individuals and businesses, with a full range of financial products and services. As of 31 December 2009, the Desjardins Financial Group included over 42,200 employees, more than 2,700 automated teller machines, 903 service centers, 51 business centers and 481 Caisses located throughout Québec and Ontario and is ultimately owned by its 5.8 million members. The Desjardins Financial Group is not a legal entity itself but is the term used to describe the numerous legal entities that form the group, as more fully described in this section.

The 481 individual Caisses at the core of the Desjardins Financial Group are autonomous legal entities organized as financial services cooperatives (or credit unions) which provide a wide range of financial services to their members and which are governed by *An Act respecting financial services cooperatives* (Québec) (the "**Caisses Act**"). Under the Caisses Act, every Caisse must be a member of the Federation to be constituted initially and to maintain its existence. The Caisses are grouped together as members of the Federation and, together with the Federation, form a network of financial services cooperatives. As a general rule, the activities of a Caisse are exercised mainly with and for its members, which are either individuals or entities that open an account and purchase a qualifying share of the Caisse. In general, the members of the Caisses are residents of Canada. The Federation is a distinct legal entity which acts as the coordinating organization of the Caisses and the affiliated institutions and subsidiaries of the Desjardins Financial Group, including Caisse centrale. In this capacity, the Federation, on behalf of its member Caisses, is the primary counterparty to Caisse centrale in connection with Caisse centrale's funding, hedging and other services to the Caisse network. The Federation also acts as a control and supervisory body over Caisse centrale and the Caisses. The *Caisses Act* grants broad rule-making powers to the Federation, in particular with respect to the capital base, reserves, liquid assets, credit and investment activities of the caisses and Caisse centrale. The Federation is responsible for inspecting and auditing Caisse centrale and the Caisses. The Federation is managed by its Board of Directors and the Board of Ethics and Professional Conduct in the manner contemplated by the Caisses Act. The *Autorité des marchés financiers* (Québec) is the governmental regulatory agency responsible for the annual inspection and supervision of Desjardins Financial Group and Caisse centrale's financial disclosure controls and procedures.

In addition to the Caisse network, Desjardins Financial Group includes subsidiaries of the Federation offering life and health insurance, general insurance, securities brokerage, venture capital and asset management. Desjardins Financial Group offers a range of insurance products through its Caisse network in Québec which provides for earnings diversification. Management of the Desjardins Financial Group believes this capability is a major competitive advantage over federally-regulated banks which are currently prohibited from selling insurance products through their retail banking branches. Desjardins Financial Group's life and health insurance business serves over five million clients, is the leading insurer in Québec and a leading insurer in Canada offering an extensive range of products through offices throughout Canada. Desjardins Financial Group's general insurance business is the leading direct insurance provider in Québec, the 10th largest property and casualty insurer in Canada and the seventh largest personal lines insurer in Canada. Desjardins Financial Group's securities brokerage business had 48 full service branches with $21 billion under administration as at 31 December 2009 and its fixed income group ranked eighth in Canada and its Disnat trading platform ranked first in Canada as of 31 December 2009.

Desjardins Financial Group's large retail deposit base provides it with a stable and low-cost source of funding. Desjardins Financial Group funds itself through a diverse funding program primarily incurred by Caisse centrale, which includes a domestic commercial paper program with no limit, a European /U.S. commercial paper program (€1 billion/US$1 billion), a domestic medium-term notes program ($6.4 billion), a Global medium-term notes program (€7 billion), domestic CMHC-loan securitization through Caisse centrale and subordinated debentures ($3 billion) through Desjardins Capital Inc. As at 31 December 2010, 62% of Caisse centrale's deposits were Canadian dollar deposits, 24% were Euro deposits and 14% were U.S. dollar deposits.

Desjardins Financial Group's loan portfolio, net of the allowance for credit losses, grew 5.1% or $5.7 billion since the end of 2009, to $115.6 billion as at 30 September 2010. Desjardins Financial Group continued to succeed in residential financing, particularly in Québec where it is a key player. Despite signs in both the construction and home resale sectors that residential activity was slowing in the third quarter of 2010, demand at the Caisses for residential mortgages remained strong. As at 30 September 2010, the Desjardins Financial Group had $71.9 billion in residential mortgages outstanding, up 6.3% or $4.2 billion since the end of 2009. This portfolio represented 61.7% of the total loan portfolio as at 30 September 2010. Desjardins Financial Group's share of the consumer, credit card and other personal loans market grew 2.4% or $403 million since the end of 2009. As at 30 September 2010, the amount of consumer, credit card and other personal loans outstanding was $17.3 billion. Desjardins Financial Group is also very active in businesses and governments financing; outstanding loans to businesses and governments grew 3.9% or $1.0 billion over the same period, to $27.3 billion for the third quarter.

The Desjardins Financial Group has recently reorganized itself along four (4) business segments and six (6) support groups, namely: Personal Services, Business and Institutional Services, Wealth Management and Life and Health Insurance, Property and Casualty Insurance, Finance and Treasury and Office of the CFO, Risk Management, Technology and Shared Services, People and Culture, Strategy, Performance and Development, and Desjardins Financial Group Communications. The financial products and services offered

by Caisse centrale are included within the Business and Institutional Services business unit while the treasury function is part of the Finance and Treasury and Office of the CFO support group.

Total earnings before member dividends was $1.3 billion for the nine months ended 30 September 2010 compared to $833 million for the nine months ended 30 September 2009. The increase in total earnings before member dividends was driven by increases in earnings in the following business lines: personal services and business and institutional services earnings increased to $723 million for the nine months ended 30 September 2010 from $526 million for the nine months ended 30 September 2009; wealth management and life and health insurance earnings increased to $236 million for the nine months ended 30 September 2010 from $177 million for the nine months ended 30 September 2009; property and casualty insurance earnings increased to $93 million for the nine months ended 30 September 2010 from $67 million for the nine months ended 30 September 2009 and other earnings increased to $201 million for the nine months ended 30 September 2010 from $63 million for the nine months ended 30 September 2009.

Recent Developments

On 23 December 2010, Desjardins Financial Group agreed to acquire Western Financial Group for approximately $443 million. Western Financial Group is the largest insurance and financial services retailer in Western Canada with 121 offices in British Columbia, Alberta, Saskatchewan and Manitoba. The transaction will be carried out by way of a take-over bid through Desjardins Financial Corporation Inc., a wholly-owned indirect subsidiary of the Federation. Western Financial Group has entered into a support agreement with Desjardins Financial Corporation, confirming that it will support the offer subject to customary conditions. The transaction is subject to customary conditions, including the tender of at least 66 2/3% of outstanding common shares, no material adverse changes to Western Financial's business and the receipt of all applicable regulatory approvals. The transaction is expected to close in the second quarter of 2011.

Caisse centrale's obligations under the Covered Bonds are solely the obligations of Caisse centrale and are not guaranteed by, or obligations of, the Federation, any Caisse or any other affiliate of Caisse centrale, the Federation or any other person, other than, after a Covered Bond Guarantee Activation Event, the Guarantor.

CAISSE CENTRALE DESJARDINS DU QUÉBEC

The information appearing below is supplemented by the more detailed information contained in the documents incorporated by reference in the Base Prospectus. See Paragraphs (a) — (d) of the section entitled "Documents Incorporated by Reference".

History and Development of the Issuer

Caisse centrale, established on June 22, 1979, is a financial services cooperative governed by *An Act respecting the Mouvement Desjardins* (Québec) (the "**Constituent Legislation**") and by the Caisses Act. Caisse centrale may also identify itself under the name of "Caisse centrale Desjardins." Caisse centrale is part of the Desjardins Financial Group.

Caisse centrale commenced its operations on 14 October 1981. The registered head office and principal place of business of Caisse centrale is located at 1170 Peel Street, Suite 600, Montréal, Québec, Canada, H3B 0B1 and the telephone contact number is + (514) 281-7070. Caisse centrale also maintains administrative offices at 145 King Street West, Suite 2750, Toronto, Ontario, Canada, M5H 1J8 and at 205 5th Avenue S.W., Suite 700, Calgary, Alberta, Canada, T2P 2V7.

Major Shareholder

Under Caisse centrale's Constituent Legislation, the Federation and its member Caisses are ex officio members of Caisse centrale. As a financial services cooperative governed by the Caisses Act, shares of capital stock can be issued to Caisse centrale's members only (and cannot be subscribed therefore to or issued to the public).

Shares of the capital stock of Caisse centrale are held essentially by the Federation on behalf of its member Caisses (the other holders are the three federations of caisses populaires of Ontario, Manitoba and New Brunswick as auxiliary members of Caisse centrale). In accordance with cooperative principles and the provisions of the Caisses Act, voting rights are attributable to membership, not shares. Voting is expressed through the Caisses' representatives or delegates and not by proxies representing the number of shares held. Since the Federation and its member Caisses can elect the majority of its directors, Caisse centrale is deemed to be directly controlled by the Federation within the meaning of the Caisses Act which then confers on the Federation normative powers applicable to Caisse centrale, notably with respect to capitalisation and investments.

On each of 30 June 2010 (300,000 shares), 30 September 2008, 31 March 2008, 21 September 2007 and 29 November 2006, Caisse centrale issued to its member federations a total of 700,000 Class A capital shares with a par value of $1,000 each, all of which were fully paid, for a total consideration of $700,000,000. As of the date hereof, there were 1,587,203 Class A capital shares issued and outstanding and 600 qualifying shares issued.

The following table sets forth information with respect to ownership, beneficially or of record, or more than 10% of the Class A capital shares of Caisse centrale:

Name and Address	Number of Capital A Shares	Percentage of Outstanding Shares
Fédération des caisses Desjardins du Québec 100, avenue des Commandeurs Lévis, Québec G6V 7N5	1,487,210	93.7%

Organizational Structure

Caisse centrale owns a subsidiary bank in the State of Florida, United States, Desjardins Bank, N.A., a national bank incorporated under U.S. federal law and also operates a branch in this State.

The *Autorité des marchés financiers* (Québec) is the governmental regulatory authority responsible for the annual inspection and supervision of Caisse centrale. The Constituent Legislation of Caisse centrale governs the control exercised by the *Autorité des marchés financiers* (Québec) with regard to the management, transactions and solvency of Caisse centrale and to conflicts of interest and self-dealings. Since the Federation and its member Caisses can elect the majority of its directors, Caisse centrale is deemed to be controlled by the Federation within the meaning of the Constituent Legislation which confers normative powers applicable to Caisse centrale, notably with respect to capitalisation and investments, on the Federation. Caisse centrale 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 Federation and approved by the *Autorité des marchés financiers* (Québec).

Through an equity maintenance agreement, the holders of shares of the capital stock of Caisse centrale have formally undertaken 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, determined in accordance with the established standards. As at 31 December 2009 and 31 December 2010, Caisse centrale's capital/assets ratios were 6.86% and 6.30%, respectively, and its capital to risk-weighted assets ratios were 16.5% and 18.4%, respectively. Information in this section has been extracted from the complete audited consolidated financial statements of Caisse centrale for the year ended 31 December 2009 contained in the CCDQ 2009 Annual Report and from the complete audited consolidated financial statements of Caisse centrale for the year ended 31 December 2010, respectively, which statements are incorporated by reference in this Prospectus.

Principal Activities

Caisse centrale is a cooperative institution which offers financial services to the Desjardins Financial Group, governments, public and parapublic sector institutions, and medium-sized and large businesses. It serves the needs of the Federation, the Caisses and the other entities of the Desjardins Financial Group. Caisse centrale's mandate is to provide institutional funding for the Desjardins Caisses network and to act as financial agent, notably by supporting inter-bank exchange services, including clearing house settlements. Caisse centrale's activities on the Canadian and international markets complement those of the other entities of the Desjardins Financial Group.

Caisse centrale conducts its activities in three segments. Each segment offers different services, uses separate strategies and is managed by a senior vice-president.

Financial Operations

Caisse centrale offers a range of financial products and services and grants financing in the form of lines of credit and term loans to members and entities of the Desjardins Financial Group, public and parapublic agencies and to medium-sized and large businesses. In the corporate market, where Caisse centrale focuses on the service and manufacturing sectors, many of its teams specialize in agrifood, forest products, communications, energy, real estate, steel and transportation. Lastly, major transborder financings are offered by its U.S. branch.

Desjardins Financial Group Treasury

Caisse centrale acts as the financial agent and treasurer of the Desjardins Financial Group. Caisse centrale is the Desjardins Financial Group's direct clearer at the Canadian Payments Association and at The Canadian Depository for Securities Limited which provide clearing settlements for payment instruments and securities transactions in Canada.

Caisse centrale's mission is to act as the Desjardins Caisses network's supplier of funds. Over the years, Caisse centrale built itself a national and international supply base by varying markets, instruments, maturity dates and the currency of its deposits. Caisse centrale supplies the Desjardins Financial Group with funds and various treasury products. It obtains its funds principally from depositors from the

short, medium and long-term Canadian and international capital markets. Under its Constituent Legislation, Caisse centrale may not receive deposits from individuals.

Caisse centrale manages cash for the Desjardins Financial Group and major liquidity and investment portfolios for Desjardins entities. As treasurer for the Desjardins Financial Group, Caisse centrale develops and implements liquidity management and asset-liability matching strategies for the Desjardins Financial Group as a whole.

International Services Management

Caisse centrale manages the Desjardins International Service Centre offering to individual and business customers in collaboration with the Caisses network foreign exchange contracts, foreign currency accounts, import/export letters of credit, funds transfers, export financing or U.S. banking services, through Desjardins Bank N.A., its retail banking subsidiary in the United States.

Competition

Caisse centrale primarily competes in the capital markets and the financing markets.

Capital markets

In the capital markets, Caisse centrale competes on two fronts. It competes with other institutional issuers (corporate, government and financial issuers) for raising funds among institutional investors. Caisse centrale is active on both short and long term markets. It has funding programmes in place in Canada, the United States and Europe. Caisse centrale also offers treasury and derivative products to its corporate and institutional clients (in the domestic market) and as such competes with other providers of these products, notably the major Canadian financial institutions. By major Canadian financial institutions Caisse centrale refers primarily to the "Big Six" Schedule I banks which all have significant capital markets operations that constitute the bulk of the Canadian market.

Financing markets

Caisse centrale is active in several financing markets. It is an active participant in the Canadian corporate loan syndication market (with a strong emphasis on the Province of Québec). It also offers loans and banking services to mid-sized companies and public and parapublic institutions, mostly in Québec.

In both markets, it competes with other Canadian financial institutions. Based on its presence in the Province of Québec, Caisse centrale has a significantly higher share of these markets in the Province of Québec than in other provinces where it is a minor player.

Trend Information

The last several months have seen mixed signals from the United States, with good news alternating with bad news. The employment market has started to recover the jobs lost during the recession, and Caisse centrale expects that there should be a gradual turnaround in employment in 2011. This is expected to give a boost to consumer spending. The U.S. economy is also positioned to enjoy sustained growth in non-residential investments. However, there is every reason to believe that the real estate market will remain depressed. Caisse centrale anticipates that core inflation will remain very weak and that the federal fund target rate will likely remain unchanged throughout 2011.

In Canada, the trouble that is plaguing foreign trade will continue to hold economic growth in check in the next few quarters. Nevertheless, Caisse centrale expects that real GDP will likely grow moderately thanks to relatively robust domestic demand. Not only will non-residential investments continue playing catch-up, but consumer spending will keep benefiting from several favourable factors. Government spending will inevitably keep winding down, however, and the downwards trend in residential investment will continue. Canadian monetary authorities (the Bank of Canada) are still inclined to raise the key interest rates, but given the tribulations experienced since mid-2010, they will probably have to wait until the second half of 2011 before ordering any further hikes in the target for the overnight rate.

Since 31 December 2010, the last day of the financial period in respect of which the most recent audited published consolidated financial statements of Caisse centrale have been prepared, there has been no material adverse change in the prospects of Caisse centrale and its subsidiaries taken as a whole.

Directors of Caisse centrale

The following table sets forth as at the date hereof the name and province of residence in Canada, position held within the Desjardins Financial Group and principal activity outside Caisse centrale of each member of the Board of Directors of Caisse centrale.

Name and Province of Residence	Position Held within Desjardins Financial Group	Principal Activity Outside Caisse centrale
Jacques Baril Québec	President, Council of Representatives, Montréal - East	Retired
Annie P. Bélanger Québec	Vice-President, Council of Representatives, Bas-Saint-Laurent et Gaspésie—Îles-de-la-Madeleine	Retired
Laurier Boudreault Québec	General Manager, Caisse populaire Desjardins des Rivières Chaudière et Etchemin	General Manager, Caisse populaire Desjardins des Rivières Chaudière et Etchemin
Donat Boulerice Ontario	President, Council of Representatives, Caisses populaires de l'Ontario	Teacher
Serge Chamberland Québec	President, Council of Representatives Saguenay-Lac-St-Jean-Charlevoix-Côte-Nord	Assistant General Manager, Saguenay City
Denis Duguay Québec	President, Council of Representatives, Richelieu - Yamaska	Retired
Alain Dumas Québec	General Manager, Caisse populaire Desjardins de St-Tite	General Manager, Caisse populaire Desjardins de St-Tite
André Gagné Québec	President, Council of Representatives, Québec-East	Retired
Norman Grant Québec	President, Council of Representatives, Bas St-Laurent and Gaspésie- Îles-de-la-Madeleine	Retired
Andrée Lafortune Québec	President, Council of Representatives, Montréal West	Associate Professor Montréal University Chartered Accountant, FCA
Marcel Lauzon Québec	President, Council of Representatives, Laval-Laurentides	Retired
Pierre Leblanc Québec	President, Council of Representatives, Mauricie	Chartered Accountant
Line Lemelin Québec	President, Council of Representatives, Lanaudière	Occupational Therapist
Monique F. Leroux Québec	President of the Desjardins Financial Group and Chief Executive Officer, Fédération des caisses Desjardins du Québec	President of the Desjardins Financial Group and Chief Executive Officer, Fédération des caisses Desjardins du Québec
Pierre Levasseur Québec	President, Council of Representatives, Québec Centre	Retired
Denis Paré Québec	President, Council of Representatives, Cantons-de-l'Est	Notary
Johanne Perron Québec	President, Council of Representatives, Ouest de Montréal	General Manager, Caisse Desjardins du Quartier-Latin de Montréal
Alain Raîche Québec	General Manager, Caisse populaire Desjardins Les Méandres	General Manager, Caisse populaire Desjardins Les Méandres

Name and Province of Residence	Position Held within Desjardins Financial Group	Principal Activity Outside Caisse centrale
Michel Roy Québec	President, Council of Representatives, Kamouraska-Chaudière-Appalaches	Retired
Clément Samson Québec	President, Council of Representatives, Québec-West-South Shore	Lawyer
Sylvie St-Pierre Babin Québec	President, Council of Representatives, Outaouais, Abitibi-Témiscamingue et Nord du Québec	Lawyer
Serge Tourangeau Québec	President, Council of Representatives, Group caisses	Retired
Benoit Turcotte Québec	Vice-President, Council of Representatives, Outaouais, Abitibi-Témiscamingue et Nord du Québec	Businessman
Yvon Vinet Québec	President, Council of Representatives, South Shore of Montréal	Notary

The business address of all of the directors is the registered office of the Issuer, 1170 Peel Street, Suite 600, Montréal, Québec, Canada H3B 0B1.

There are no potential conflicts of interests between any duties owed to Caisse centrale by the Directors and the private interests and/or other duties owed by these individuals.

Material Contracts

Caisse centrale has not entered into any contracts outside the ordinary course of business of Caisse centrale's business which could result in it or any member of the Desjardins Financial Group being under an obligation or entitlement that is material to Caisse centrale's ability to meet its obligations in respect of any Covered Bonds to be issued by Caisse centrale other than, with respect to any Covered Bonds, the contracts described in "*Subscription and Sale and Transfer and Selling Restrictions*", "*Terms and Conditions of the Covered Bonds*" and "*Summary of the Principal Documents*".

For a further description of the Issuer's business segments, see the section entitled "Areas of Activity" in the CCDQ 2009 Annual Report and the section entitled "Description of the Business" in the 2009 Annual Information Form, incorporated by reference into this Prospectus.

Corporate Information

Caisse centrale's registered head office and principal place of business are located at 1170 Peel Street, Suite 600, Montréal, Québec, Canada H3B 0B1 and its telephone number is + (514) 281-7070. Caisse centrale also maintains administrative offices at 145 King Street West, Suite 2750, Toronto, Ontario, Canada M5H 1J8 and at 205 5th Avenue S.W., Suite 700, Calgary, Alberta, Canada T2P 2V7. Additional information regarding Caisse centrale can be found on its Internet website at www.desjardins.com. Such information, however, is not incorporated by reference in, and shall not be deemed to be a part of, this Prospectus.

PRESENTATION OF FINANCIAL RESULTS

The information in the tables appearing under "*Financial Summary*" below was prepared in accordance with Canadian GAAP.

FINANCIAL SUMMARY

Summary Consolidated Financial Data of Caisse centrale

The following financial information is only a summary and you should read it in conjunction with Caisse centrale's consolidated financial statements and the related notes contained in the CCDQ 2009 Annual Report and the audited annual consolidated financial statements of Caisse centrale for the year ended 31 December 2010.

The following table sets forth Caisse centrale summary consolidated financial and other data as of and for each of the years ended 31 December 2010, 2009 and 2008. The information as of and for the years ended 31 December 2010, 2009 and 2008 has been derived from Caisse centrale's audited annual consolidated financial statements.

	Year Ended 31 December		
	2010	**2009**	**2008**
	(in thousands of Canadian dollars, except other data)		
Income Statement Data:			
Net interest income	235,816	244,905	180,358
Other income	45,251	69,458	(91,226)
Total revenues	281,067	314,363	89,132
Provisions for credit losses	(32,788)	12,610	20,689
Non-interest expenses	87,727	101,312	77,265
Net income	142,198	127,386	(36,605)
Balance Sheet Data (end of period):			
Total loans, net of allowance for credit losses	15,946,369	13,079,747	14,781,188
Total assets	26,900,086	22,596,701	25,335,172
Deposits	18,753,726	14,836,182	16,309,723
Other liabilities	6,499,110	6,432,246	7,763,134
Subordinated debenture	—	—	—
Total members' equity	1,647,250	1,328,273	1,262,315
Other Data:			
Interest coverage ratio(1)	1.81	1.90	0.93

(1) The interest coverage ratio is calculated by dividing earnings by interest expense. For this purpose, "earnings" consist of interest income, plus other income and minus provision for credit losses, non-interest expense and other payments to the Desjardins network.

Summary Combined Financial Data of the Desjardins Financial Group

The following financial information is only a summary and you should read it in conjunction with the Desjardins Financial Group's combined financial statements and the related notes contained in the Desjardins Financial Group 2009 Combined Financial Statements and the Desjardins Financial Group unaudited interim combined financial statements contained in the Desjardins Financial Group Third Quarter 2010 Report appended to this Prospectus. In connection with the decision by the Desjardins Financial Group to adopt a voluntary change in accounting policy under Canadian GAAP for the year ended December 31, 2010, the combined financial statements for the year ended December 31, 2009 for the Desjardins Financial Group have been restated, but have not been released as of the date of this Prospectus. The financial information relating to the Desjardins Financial Group presented in, or appended to, this Prospectus, as of its date, does not reflect the results of the restatement. The impact of the restatement is not material to potential investors. See "*Documents Incorporated by Reference*."

The following table sets forth the Desjardins Financial Group's summary financial and other data as of and for each of the years ended December 31, 2009, 2008 and 2007 and as of and for the nine-month periods ended September 30, 2010 and 2009. The information as of and for the years ended December 31, 2009, 2008 and 2007 has been derived from the Desjardins Financial Group's audited combined financial statements. The information as of and for the nine-month periods ended September 30, 2010 and 2009 has been derived from the Desjardins Financial Group's unaudited interim combined financial statements (before the restatement mentioned above, the impact of which is not material to potential investors) and includes, in the opinion of management of the Desjardins Financial Group, all adjustments (consisting solely of normal recurring adjustments) necessary to present fairly the information for such periods. Results presented for the nine-months period ended September 30, 2010 are not necessarily indicative of results to be expected for the full year.

	Nine Months Ended September 30,		Year Ended December 31,		
	2010	2009	2009	2008	2007
	(in thousands of Canadian dollars, except other data)				
Income Statement Items:					
Net interest income	2,907	2,581	3,522	3,418	3,245
Net premiums	3,185	3,165	4,247	4,131	3,824
Other income	2,924	2,341	2,901	824	2,602
Total income	9,016	8,087	10,670	8,373	9,671
Claims, benefits, annuities, and changes in insurance provisions	3,253	2,985	3,758	3,144	3,171
Non-interest expense	3,900	3,716	5,141	4,800	4,823
Surplus earnings before member dividends	1,253	833	1,077	78	1,101
Member dividends	213	239	311	215	592
Balance Sheet Data (end of period):					
Gross loans	116,493	109,327	110,841	105,288	96,165
Total assets	175,503	163,213	157,203	152,298	144,059
Retail deposits	77,456	74,336	75,420	71,958	66,319
Total deposits(1)	112,338	105,886	106,161	101,436	95,766
Equity	13,042	10,734	11,197	9,875	9,282
Other Data:					
Return on equity(%)(2)	13.9	10.9	10.4	0.8	12.3
Productivity ratio(3)	67.7	72.8	74.4	91.8	74.2
Gross impaired loans as % of gross loans(%)(4)	0.45	0.46	0.46	0.40	0.41
Impaired loans coverage ratio	160.3	166.9	166.2	195.7	194.9
Tier 1 capital ratio(%)(5)	17.6	14.9	15.9	13.4	14.2
Tier 1 capital:					
Reserves	8,983	8,214	8,149		
Eligible capital stock	2,134	1,208	1,607		
Retained earnings	1,013	554	795		
Non-controlling interests	53	42	42		
Goodwill	(109)	(123)	(109)		
Other deductions(6)	(169)	(264)	(244)		
Total Tier 1 capital(5)	11,905	9,631	10,240		
Tier 2 capital:					
Subordinated debentures	2,125	1,300	1,300		
Eligible general allowance	403	392	388		
Other eligible securities	70	76	77		
Unrealized cumulative gains on available for sale securities (net of taxes)	3	-	5		
Other deductions(6)	(2,208)	(1,768)	(1,770)		
Total Tier 2 Capital	393	NM	N.M.		
Tier 1 capital ratio(%)(5)	17.6	14.9	15.9		
Total capital ratio(%)(5)	18.2	14.9	15.9		

(1) As of September 30, 2010, in addition to the retail deposits, $25.5 billion of deposits were business and government institutions and $9.4 billion of deposits were other deposits.

(2) Return on equity is calculated by dividing surplus earnings before member dividends by average common equity (annualized).

(3) Defined as non-interest expense over total income, net of claims and insurance benefits.

(4) Gross impaired loans equivalent to non-performing loans.

(5) Under the Basel II regulatory framework.

(6) Including the provision deficit related to the internal ratings based approach under the Basel II regulatory framework, unrated securitization exposures and investments in unconsolidated subsidiaries (mainly Desjardins Financial Security and Desjardins General Insurance Group) as well as affiliated companies.

CCDQ COVERED BOND GUARANTOR LIMITED PARTNERSHIP

General

CCDQ Covered Bond Guarantor Limited Partnership (the "**Guarantor**") is a limited partnership formed on March 4, 2011 and existing under the *Limited Partnerships Act* (Ontario). The registered office of the Guarantor is Suite 5300, Toronto Dominion Bank Tower, Toronto, Ontario, M5K 1E6 and the telephone contact number is 416-362-1812. The Guarantor is governed by the Limited Partnership Agreement (see "*Summary of the Principal Documents – Limited Partnership Agreement*").

Description of Limited Partnership

Pursuant to the terms of the *Limited Partnerships Act* (Ontario), a limited partner in a limited partnership is liable for the liabilities, debts and obligations of the partnership, but only to the extent of the amount contributed by it or agreed to be contributed by it to the partnership, unless, in addition to exercising rights and powers as a limited partner, the limited partner takes part in the control of the business of the partnership. Subject to applicable law, limited partners will otherwise have no liability in respect of the liabilities, debts and obligations of the partnership. Each general partner will have unlimited liability for an obligation of the partnership unless the holder of such obligation agrees otherwise.

Business of the Guarantor

The Guarantor is a special purpose vehicle whose only business is to carry on activities that facilitate the Programme by entering into the Intercompany Loan Agreement and accepting Capital Contributions from its partners; using the proceeds from the Intercompany Loan and Capital Contributions (i) to purchase the Covered Bond Portfolio consisting of Loans and their Related Security from the Seller in accordance with the terms of the Hypothecary Loan Sale Agreement and New Loans and their Related Security pursuant to the terms of the Hypothecary Loan Sale Agreement; and/or (ii) to invest in Substitute Assets in an amount not exceeding the prescribed limit and Authorized Investments; and/or (iii) subject to complying with the Asset Coverage Test (as described below) to make Capital Distributions to the Limited Partner; and/or (iv) to make deposits of the proceeds in the Guarantor Accounts (including, without limitation, to fund the Reserve Fund and the Pre-Maturity Liquidity Ledger to an amount not exceeding the prescribed limit); and/or (v) arranging for the servicing of the Loans and their Related Security by the Servicer; and/or (vi) entering into the Trust Deed, giving the Covered Bond Guarantee and entering into the Security Agreements; and/or (vii) entering into the Transaction Documents to which it is a party; and (viii) performing its obligations thereunder and in respect thereof and doing all things incidental or ancillary thereto.

The Guarantor has not, since its formation, engaged in, and will not, while there are Covered Bonds outstanding, engage in any material activities other than activities relating to the business of the Guarantor described above and/or incidental or ancillary thereto. The Guarantor and its general partners are not required by applicable Canadian law (including the *Limited Partnerships Act* (Ontario)) to publish any financial statements.

The Guarantor has no employees.

Partners of the Guarantor

On the Programme Establishment Date, the partners (the "**Partners**") of the Guarantor will be:

- CCDQ CB Managing GP Inc., as the managing general partner (the "**Managing GP**"), a wholly owned subsidiary corporation of the Federation incorporated March 3, 2011 under the laws of Canada as a special purpose entity to be the managing general partner of the Guarantor, with its registered office at Suite 5300, Toronto Dominion Bank Tower, Toronto, Ontario, M5K 1E6;

- 7782659 Canada Inc., as the liquidation general partner (the "**Liquidation GP**"), a corporation incorporated February 18, 2011 under the laws of Canada as a special purpose entity to be the liquidation general partner of the Guarantor, with its registered office at 11th Floor, 320 Bay Street, Toronto, Ontario M5H 4A6; and

- The Federation, as the sole limited partner.

The Capital Contribution Balance of each of the Partners will be recorded in the Capital Account Ledger. As of the Programme Establishment Date, the Federation holds substantially all of the capital in the Guarantor with the Managing GP and the Liquidation GP each holding a nominal interest in the Guarantor.

Each of the Partners has covenanted in the Limited Partnership Agreement that, except as provided in the Transaction Documents, it will not sell, transfer, convey, create or permit to arise any security or real right on, declare a trust over, create any beneficial interest in or

otherwise dispose of its interest in the Guarantor without the prior written consent of the Guarantor and, while there are Covered Bonds outstanding, the Bond Trustee.

Directors of the Partners of the Guarantor

The following table sets out the directors of the Managing GP and the Liquidation GP (and their respective business addresses and occupations).

Directors of the Managing GP

Name	Business Address	Business Occupation
Alain Leprohon	1170 Peel Street, Suite 600, Montréal, Québec, Canada H3B 0B1	Vice-president, Finance, Institutional Services, Desjardins Financial Group
Renaud Coulombe	1170 Peel Street, Suite 600, Montréal, Québec, Canada H3B 0B1	Vice-president, Legal Affairs and Compliance, Desjardins Financial Group
Louis-Daniel Gauvin	1170 Peel Street, Suite 600, Montréal, Québec, Canada H3B 0B1	Senior Vice-president, Risk, Desjardins Financial Group
Raymond Laurin	1170 Peel Street, Suite 600, Montréal, Québec, Canada H3B 0B1	Senior Vice-president, Finance and Treasury and Office of the CFO, Desjardins Financial Group
Jacques Descôteaux	1170 Peel Street, Suite 600, Montréal, Québec, Canada H3B 0B1	Chief Treasurer, Desjardins Financial Group
Stéphane Achard	1170 Peel Street, Suite 600, Montréal, Québec, Canada H3B 0B1	Senior Vice-president, Institutional Services, Desjardins Financial Group

Each of the directors of the Managing GP are officers and/or employees of the Issuer.

Directors of the Liquidation GP

Name	Business Address	Business Occupation
Barbara Adele William, CMA	2275 Lake Shore West, Toronto Ontario, M8V 3Y3	President, InterGest Canada/Accountant
Dr. Elko Joachim Kleinschmidt	Professor emeritus, McMaster University, Hamilton, Ontario, Canada	Retired
Jacques Descôteaux	1170 Peel Street, Suite 600, Montréal, Québec, Canada H3B 0B1	Chief Treasurer, Desjardins Financial Group

Governance of the Guarantor

Pursuant to the terms of the Limited Partnership Agreement, the Managing GP will manage the business and affairs of the Guarantor, act on behalf of the Guarantor, make decisions regarding the business of the Guarantor and have the authority to bind the Guarantor in respect of any such decision. The Managing GP will be required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of the Guarantor, and to exercise the care, diligence and skill of a reasonably prudent person in comparable circumstances. The authority and power vested in the Managing GP to manage the business and affairs of the Guarantor includes all authority necessary or incidental to carry out the objects, purposes and business of the Guarantor, including the ability to engage agents to assist the Managing GP to carry out its management obligations and administrative functions in respect of the Guarantor and its business.

Except in certain limited circumstances (described below under "*Withdrawal or Removal of the General Partners*"), the Liquidation GP will not generally take part in managing the affairs and business of the Guarantor. However, the Liquidation GP's consent will be required for a voluntary wind up or dissolution of the Guarantor.

Each of the Partners has agreed that it will not, for so long as there are Covered Bonds outstanding, terminate or purport to terminate the Guarantor or institute any winding-up, administration, insolvency or other similar proceedings against the Guarantor. Furthermore, the Partners have agreed, among other things, except as specifically otherwise provided in the Transaction Documents, not to demand or receive payment of any amounts payable by the Guarantor (or the Cash Manager on its behalf) or the Bond Trustee unless all amounts then due and payable by the Guarantor to all other creditors ranking higher in the relevant Priorities of Payment have been paid in full.

Potential Conflict of Interest

All of the directors of the Managing GP and one of the three directors of the Liquidation GP are officers or employees of the Issuer or affiliates of the Issuer; however, the Issuer and Guarantor believe that no material potential conflict of interest exists between any duties of these individuals to the Guarantor, or between the other directors of the Liquidation GP and the Guarantor, and their private interests or other duties.

Reimbursement of General Partners

The Guarantor will be obliged to reimburse the Managing GP and Liquidation GP for all out-of-pocket costs and expenses incurred on behalf of the Guarantor by the Managing GP or Liquidation GP in the performance of their duties under the Limited Partnership Agreement.

Liability of the Limited Partners of the Guarantor

The Guarantor will operate in a manner so as to ensure, to the greatest extent possible, the limited liability of the limited partner(s). Limited partner(s) may lose their limited liability in certain circumstances. If limited liability is lost by reason of the negligence of the Managing GP or Liquidation GP, as the case may be, in performing its duties and obligations under the Limited Partnership Agreement, in each case, as determined by a court of competent jurisdiction in a final non-appealable decision, the Managing GP or the Liquidation GP, as applicable, shall indemnify the limited partner(s) against all claims arising from assertions that their respective liabilities are not limited as intended by the Limited Partnership Agreement. However, since the Managing GP and the Liquidation GP have no significant assets or financial resources, any indemnity from them may have nominal value.

Withdrawal or Removal of the General Partners

The Managing GP or Liquidation GP may resign as managing general partner or liquidation general partner, as the case may be, on not less than 180 days' prior written notice to the Partners and the Bond Trustee, provided that neither the Managing GP nor Liquidation GP will resign if the effect would be to dissolve the Guarantor. In the event that the Liquidation GP resigns as liquidation general partner, the Managing GP shall use its best commercially reasonable efforts to, without delay, find a replacement liquidation general partner acceptable to the limited partner(s) of the Guarantor and the Bond Trustee, to accept the role of liquidation general partner formerly held by the Liquidation GP and acquire a general partner interest in the Guarantor.

In the event the Managing GP resigns, a Covered Bond Guarantee Activation Event occurs, or a winding-up or insolvency of the Managing GP occurs, the Managing GP shall forthwith, or in the case of resignation at the expiry of the notice period described above, cease to be the managing general partner of the Guarantor and the Liquidation GP shall assume the role and responsibilities (but not the interest in the Guarantor) of the Managing GP (until a replacement managing general partner is appointed in accordance with the terms of the Limited Partnership Agreement) and continue the business of the Guarantor as Managing GP.

If at any time the Liquidation GP becomes the Managing GP pursuant to the foregoing, it may appoint a replacement Managing GP acceptable to the limited partner(s) of the Guarantor and the Bond Trustee to act as Managing GP and acquire a general partner interest in the Guarantor. Following the appointment of the replacement Managing GP pursuant to the foregoing, the replacement Managing GP shall have the powers, duties and responsibilities of the Managing GP of the Guarantor and the Liquidation GP shall resume its role, as it was, prior to assuming the role and responsibility of the Managing GP.

SUMMARY OF THE PRINCIPAL DOCUMENTS

Trust Deed

The Trust Deed, made between the Issuer, the Guarantor and the Bond Trustee on the Programme Establishment Date as amended and/or restated and/or supplemented from time to time, is the principal agreement governing the Covered Bonds. The Trust Deed contains provisions relating to, among other things:

- the constitution of the Covered Bonds and the terms and conditions of the Covered Bonds (as more fully set out under "*Terms and Conditions of the Covered Bonds*" above);
- the covenants of the Issuer and the Guarantor;
- the terms of the Covered Bond Guarantee (as described below);
- the enforcement procedures relating to the Covered Bonds and the Covered Bond Guarantee;
- the appointment, powers and responsibilities of the Bond Trustee and the circumstances in which the Bond Trustee may resign, retire or be removed; and
- procedures for convening and holding meetings of Covered Bondholders to consider any matter affecting their interests, and for the appointment of a chairman who in the case of an equality of votes has a casting vote in addition to any other vote(s) to which such person may be entitled.

Covered Bond Guarantee

Under the terms of the Covered Bond Guarantee (contained in the Trust Deed) the Guarantor has agreed to, following the occurrence of a Covered Bond Guarantee Activation Event, unconditionally and irrevocably pay or procure to be paid to or to the order of the Bond Trustee (for the benefit of the holders of the Covered Bonds), an amount equal to that portion of the Guaranteed Amounts which shall become Due for Payment but would otherwise be unpaid, as of any Original Due for Payment Date, or, if applicable, Extended Due for Payment Date, by the Issuer. Under the Covered Bond Guarantee, the Guaranteed Amounts will become due and payable on any date on which a Guarantor Acceleration Notice is served.

Following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice, the Bond Trustee will serve a Notice to Pay on the Guarantor. Payment by the Guarantor of the Guaranteed Amounts pursuant to the Covered Bond Guarantee will be made on the later of: (i) the day which is two Montréal Business Days after service of a Notice to Pay on the Guarantor; or (ii) the day on which the Guaranteed Amounts are otherwise Due for Payment.

All payments of Guaranteed Amounts by or on behalf of the Guarantor will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or other governmental charges of whatever nature, imposed or levied by or on behalf of Canada or any province or territory thereof, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Guarantor will not pay any additional amounts to the Bond Trustee or any holder of Covered Bonds, Receipts and/or Coupons in respect of the amount of such withholding or deduction.

Under the terms of the Covered Bond Guarantee, the Guarantor agrees that its obligations under the Covered Bond Guarantee will be as guarantor and will be absolute and unconditional, irrespective of, and unaffected by, any invalidity, irregularity or unenforceability of, or defect in, any provisions of the Trust Deed or the Covered Bonds or Receipts or Coupons or the absence of any action to enforce the same or the waiver, modification or consent by the Bond Trustee or any of the holders of the Covered Bonds, Receiptholders or Couponholders in respect of any provisions of the same or the obtaining of any judgment or decree against the Issuer or any action to enforce the same or any other circumstances which might otherwise constitute a legal or equitable discharge or defence of a Guarantor.

Subject to the grace period specified in Condition 7.02(a) of the Conditions, failure by the Guarantor to pay the Guaranteed Amounts when Due for Payment will result in a Guarantor Event of Default.

Following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice, the Bond Trustee may receive Excess Proceeds. The Trust Deed provides that all Excess Proceeds received by the Bond Trustee, will, as soon as practicable after receipt thereof by the Bond Trustee, be paid on behalf of the Holders of the Covered Bonds of the relevant Series to the Guarantor (or the Cash Manager on its behalf) for the account of the Guarantor. Such Excess Proceeds will be held in the Guarantor Accounts and will thereafter form part of the Security granted pursuant to the Security Agreements and be used by the Guarantor (or the Cash Manager on its behalf) in the same manner as all other moneys from time to time held by the Cash Manager and/or standing to the credit of the Guarantor in the Guarantor Accounts. Any Excess Proceeds received by the Bond Trustee will discharge *pro tanto* the obligations of the Issuer in respect of the

Covered Bonds, Receipts and Coupons (subject to restitution of the same if such Excess Proceeds will be required to be repaid by the Guarantor). However, the obligations of the Guarantor under the Covered Bond Guarantee are direct and, following the occurrence of a Covered Bond Guarantee Activation Event, unconditional and irrevocable and the receipt by the Bond Trustee of any Excess Proceeds will not reduce or discharge any of such obligations.

By subscribing for Covered Bond(s), each holder of the Covered Bonds will be deemed to have irrevocably directed the Bond Trustee to pay the Excess Proceeds to the Guarantor in the manner as described above.

Intercompany Loan Agreement

The Intercompany Loan Agreement between the Issuer and the Guarantor entered into on the Programme Establishment Date as amended and/or restated and/or supplemented from time to time, is the governing agreement with respect to the Intercompany Loan.

Under the terms of the Intercompany Loan Agreement, prior to the issuance of the first Series of Covered Bonds, the Issuer will lend to the Guarantor an interest-bearing intercompany loan (the "**Intercompany Loan**"), comprised of a guarantee loan (the "**Guarantee Loan**") and a revolving demand loan (the "**Demand Loan**"), in an initial combined aggregate amount equal to the Total Credit Commitment, subject to increases and decreases as described below. The initial advance on the loan will be an amount sufficient to acquire the Initial Covered Bond Portfolio. The Intercompany Loan will be denominated in Canadian dollars. The interest rate on the Demand Loan will be a Canadian dollar floating rate and the interest rate on the Guarantee Loan will be a rate equal to the yield on the Covered Bond Portfolio, in each case subject to the limitation that the interest payable and the applicable rate of interest on the Intercompany Loan shall not exceed, as applicable: (i) prior to a Covered Bond Guarantee Activation Event, the yield on the Covered Bond Portfolio; and (ii) on or following a Covered Bond Guarantee Activation Event, the amount received by the Guarantor pursuant to the Interest Rate Swap Agreement, and in each case less a minimum spread and an amount for certain expenses of the Guarantor.

The Guarantee Loan will be in an amount equal to the balance of outstanding Covered Bonds at any relevant time plus that portion of the Covered Bond Portfolio required to collateralize the Covered Bonds to ensure that the Asset Coverage Test is met (see "*Summary of the Principal Documents—Limited Partnership Agreement—Asset Coverage Test*"). The Demand Loan will be a revolving credit facility, the outstanding balance of which will be equal to the difference between the balance of the Intercompany Loan and the balance of the Guarantee Loan at any relevant time. The balance of the Guarantee Loan and Demand Loan will fluctuate with the issuances and redemptions of Covered Bonds and the requirements of the Asset Coverage Test.

At any time prior to a Demand Loan Repayment Event, the Guarantor may re-borrow any amount repaid by the Guarantor under the Intercompany Loan for a permitted purpose provided, among other things: (i) such drawing does not result in the Intercompany Loan exceeding the Total Credit Commitment; and (ii) no Issuer Event of Default or Guarantor Event of Default has occurred and is continuing. Unless otherwise agreed by the Issuer and subject to Rating Agency Confirmation, no Additional Loan Advances will be made to the Guarantor under the Intercompany Loan following the occurrence of a Demand Loan Repayment Event.

To the extent the Covered Bond Portfolio increases or is required to be increased to meet the Asset Coverage Test, the Issuer may increase the Total Credit Commitment to enable the Guarantor to acquire New Loans and their Related Security from the Seller.

The Demand Loan or any portion thereof will be repayable no later than the first Montréal Business Day following 60 days after a demand therefor is served on the Guarantor, subject to a Demand Loan Repayment Event having occurred (see below in respect of the repayment of the Demand Loan in such circumstance) and the Asset Coverage Test being met on the date of repayment after giving effect to such repayment. At any time the Guarantor makes a repayment on the Demand Loan, in whole or in part, the Cash Manager will calculate the Asset Coverage Test, as of the date of repayment, to confirm the then outstanding balance on the Demand Loan and that the Asset Coverage Test will be met on the date of repayment after giving effect to such repayment.

If (i) Caisse centrale is required to assign the Interest Rate Swap Agreement to a third party (due to a failure by the Issuer to meet the ratings levels specified in the Interest Rate Swap Agreement or otherwise); (ii) an Issuer Event of Default has occurred, notice of an Issuer Acceleration Notice has been given to the Issuer and a Notice to Pay has been served on the Guarantor; (iii) the Intercompany Loan Agreement is terminated or the revolving commitment thereunder is not renewed; or (iv) to the extent Fitch is a Rating Agency, if the Issuer's unsecured, unsubordinated and unguaranteed debt obligations are assigned a rating by Fitch of less than the ratings specified in the Intercompany Loan Agreement (each of (i), (ii), (iii) and (iv) above, a "**Demand Loan Repayment Event**"), the Guarantor will be required to repay any amount of the Demand Loan that exceeds the Demand Loan Contingent Amount on the first Guarantor Payment Date following 60 days after the occurrence of such Demand Loan Repayment Event. Following such Demand Loan Repayment Event, the Guarantor will be required to repay the full amount of the then outstanding Demand Loan on the date on which the Asset Percentage is calculated (whether or not such calculation is a scheduled calculation or a calculation made at the request of Caisse centrale); provided that the Asset Coverage Test will be met on the date of repayment after giving effect to such repayment. For greater certainty, following an Issuer Event of Default, the Asset Coverage Test will be conducted and the Asset Percentage calculated, solely for the purpose of determining the amount of the Demand Loan repayable on the relevant repayment date and that the Asset Coverage Test will be met after giving effect to any such repayment. In calculating the Asset Coverage Test following an Issuer Event of Default, the amount of any Excess Proceeds received by the Guarantor from the Bond Trustee will be deducted from the Adjusted Aggregate Loan Amount. For the purposes of the foregoing, the "**Demand Loan Contingent Amount**" will be equal to the lesser of:

(a) the aggregate amount of the Intercompany Loan then outstanding, minus the aggregate amount of the Guarantee Loan then outstanding (as determined by an Asset Coverage Test run on the relevant repayment date); and

(b) 1 per cent of the amount of the Guarantee Loan then outstanding (as determined by an Asset Coverage Test calculated on the relevant repayment date),

provided, for greater certainty, that in calculating the amount of the Guarantee Loan and the Demand Loan for purposes of determining the Demand Loan Contingent Amount, no credit shall be given to the Guarantor in the Asset Coverage Test for any Excess Proceeds received by the Guarantor from the Bond Trustee.

The Guarantor may repay the principal on the Demand Loan in accordance with the Priorities of Payment and the terms of the Intercompany Loan Agreement, using (i) funds being held for the account of the Guarantor by its service providers and/or funds in the Guarantor Accounts (other than any amount in the Pre-Maturity Liquidity Ledger); and/or, (ii) proceeds from the sale of Substitute Assets and/or Authorized Investments; and/or (iii) proceeds from the sale, pursuant to the Limited Partnership Agreement, of Loans and their Related Security to the Seller or to another person subject to a right of pre-emption on the part of the Seller. See "*Cashflows*".

The Guarantor will be entitled to set off amounts paid by the Guarantor under the Covered Bond Guarantee first against any amounts (other than interest and principal) owing by the Guarantor to Caisse centrale in respect of the Intercompany Loan Agreement, then against interest (including accrued interest) due and unpaid under the Intercompany Loan and then against the outstanding principal balance owing on the Intercompany Loan.

The Guarantor will use the initial advance of proceeds from the Intercompany Loan to purchase the Initial Covered Bond Portfolio consisting of Loans and their Related Security from the Seller in accordance with the terms of the Hypothecary Loan Sale Agreement and use additional advances (i) to purchase New Loans and their Related Security pursuant to the terms of the Hypothecary Loan Sale Agreement; and/or (ii) to invest in Substitute Assets in an amount not exceeding the prescribed limit; and/or (iii) subject to complying with the Asset Coverage Test, to make Capital Distributions to the Limited Partner; and/or (iv) to make deposits of the proceeds in the Guarantor Accounts (including, without limitation, to fund the Reserve Fund to an amount not exceeding the prescribed limit and to fund the Pre-Maturity Liquidity Ledger) and make investments in Authorized Investments.

Origination Hypothecary Loan Sale Agreements

From time to time as may be required by the Seller, Loans originated by one or more Originators which are residential real estate secured hypothecary or mortgage loans established in favour of borrowers residing in the Province of Québec or the Province of Ontario with the benefit of CMHC Insured Hypothecs will be sold to the Seller pursuant to one or more Origination Hypothecary Loan Sale Agreements.

Hypothecary Loan Sale Agreement

The Seller

Loans and their Related Security will, from time to time as may be required, be sold by the Seller to the Guarantor prior to the issuance of the first Tranche of Covered Bonds, and from time to time thereafter on a fully-serviced basis pursuant to the terms of the Hypothecary Loan Sale Agreement entered into on the Programme Establishment Date by and among the Seller, the Guarantor and the Bond Trustee.

Sale by the Seller of Loans and their Related Security

The Initial Covered Bond Portfolio will consist solely of Loans originated by an Originator and sold to the Seller which are residential real estate secured hypothecary loans established in favour of borrowers residing in the Province of Québec with the benefit of CMHC Insured Hypothecs.

The Covered Bond Portfolio will consist of Loans and their Related Security sold for cash or a deemed cash payment by the Seller to the Guarantor as part of the Initial Covered Bond Portfolio and New Loans and their Related Security and/or New Portfolio Asset Types including NHA Mortgage-Backed Securities, which are fully guaranteed as to timely payment of principal and interest by CMHC pursuant to the *National Housing Act* (Canada), sold for cash or a deemed cash payment from time to time following the sale of the Initial Covered Bond Portfolio by the Seller to the Guarantor on the First Transfer Date. An Originator that has sold any Loans and their Related Security to the Seller (including the Loans forming part of the Initial Covered Bond Portfolio) shall be required, upon demand from the Seller, to sell further Loans to the Seller at such time and in such manner as may be prescribed by the Seller.

The Guarantor will use the proceeds of a drawing under the Intercompany Loan (which may be applied in whole or in part by the Guarantor) and/or Available Principal Receipts to acquire Loans and their Related Security from the Seller. As consideration for the sale of the Loans and their Related Security to the Guarantor, the Seller will receive a cash payment or deemed cash payment equal to the fair market value of those Loans sold by it as at the relevant Transfer Date.

If Loans and their Related Security are sold by or on behalf of the Guarantor as described below under "*Limited Partnership Agreement—Sale of Randomly Selected Loans at any time an Asset Coverage Test Breach Notice is outstanding or a Notice to Pay has been served on the Guarantor*" or a breach of the Pre Maturity Test occurs, the obligations of the Seller insofar as they relate to such Loans and their Related Security will cease to apply.

The Seller will also be required to repurchase Loans and their Related Security sold to the Guarantor in the circumstances described below under "*Repurchase of Loans*" and "*Loan Representations and Warranties*".

The Seller will, or will cause each Originator to, (i) not cancel the CMHC Mortgage Insurance relating to any Loan which comprises part of the Covered Bond Portfolio, (ii) hold on behalf of the Guarantor and the Bond Trustee the Originator's or, as the case may be, the Seller's rights under the CMHC Mortgage Insurance relating to the Loans forming part of the Covered Bond Portfolio as well as the proceeds from the claims under the CMHC Mortgage Insurance to the extent related to such Loans and (iii) satisfy those covenants arising under the CMHC Mortgage Insurance which are necessary for the CMHC Mortgage Insurance to continue to apply to each Loan as described herein.

CMHC Insured Hypothecs

Interest and principal payments on the Loans will be insured under CMHC Mortgage Insurance. CMHC is Canada's national housing agency, and is a Canadian federal Crown corporation, wholly owned by the Government of Canada. CMHC's obligations are those of Her Majesty The Queen in Right of Canada, and as such carry the full faith and credit of the Government of Canada. Under the CMHC Mortgage Insurance, the amount payable by CMHC to an insured under the policy is generally equal to:

(a) the aggregate of:

   (i) the outstanding principal amount of the Loan;

   (ii) specified charges advanced by approved mortgage lenders or the holder of a Loan in order to safeguard the interest of such mortgage lender, Loan holder or of CMHC;

   (iii) such reasonable amount on account of legal costs as is approved by CMHC; and

   (iv) unpaid interest accruing under the Loan for a period of 12 months and such additional periods as determined in accordance with the policy, including additional periods relating to enforcement of rights or remedies with respect to the Loan (the amount of interest payable under the CMHC Mortgage Insurance will generally be at the mortgage rate stated in the Loan documents); less,

(b) the aggregate of the amount of any loss or damage:

   (i) that results from a failure to exercise reasonable care and prudence in the making or administration of the Loan, in the collection of the repayment thereof or in the protection of or realization on security for the Loan;

   (ii) that results from a contravention of or failure to comply with the regulations under the *National Housing Act* (Canada) applicable to the policy or a condition on which the Loan was insured; or

   (iii) that CMHC is satisfied, on reasonable grounds, results from a contravention of or failure to comply with a requirement of CMHC to refrain from exercising such of its remedies in respect of the default as CMHC may specify.

The proceeds from the claims under the CMHC Mortgage Insurance (in respect of Loans in the Covered Bond Portfolio) paid to the Servicer will be held by the Servicer in trust for the Guarantor. Pursuant to its purchase of CMHC Insured Hypothecs and the Related Security, the Guarantor will acquire all of the Seller's right, title and interest in the proceeds of the claims made under the CMHC Mortgage Insurance related to such Loans. Claims under the CMHC Mortgage Insurance must be made by the initial Servicer (or an Originator in its capacity as sub-servicer) or a successor Servicer acceptable to CMHC. As a result, the Guarantor will not have a right itself to collect the amounts which may be payable pursuant to the CMHC Mortgage Insurance related to the Loans. The Seller will, or will cause each Originator to, hold the Originator's or, as the case may be, the Seller's rights under the CMHC Mortgage Insurance relating to the Loans forming part of the Covered Bond Portfolio and the proceeds received of any claims made under such CMHC Mortgage Insurance in trust for the Guarantor and the Bond Trustee.

A future change in the policies of CMHC could affect the amount CMHC will pay on insured loans, or the circumstances in which CMHC Mortgage Insurance will be provided for Hypothecary or mortgage loans secured by hypothecs or mortgages which may form part of the Covered Bond Portfolio.

If a Loan is not being administered by the initial Servicer (or an Originator in its capacity as sub-servicer), or a successor Servicer acceptable to CMHC, in accordance with the CMHC Mortgage Insurance, the ability to make a claim or obtain the benefit of coverage under the applicable CMHC Mortgage Insurance may be adversely affected or terminated. Further, the filing of a claim under CMHC Mortgage Insurance is not complete unless the insured delivers to CMHC all documentation and evidence required by CMHC. Payments by CMHC in respect of a Loan may not occur if the filing of the related claim is not complete.

CMHC Mortgage Insurance will cease to be in force if:

(a) it has been obtained by fraud or fraudulent misrepresentation on the part of the insured or current holder;

(b) the insured Loan is sold to a person other than a CMHC approved lender unless the Loan continues to be administered by CMHC, the initial Servicer or a successor Servicer acceptable to CMHC (the Servicer and each Originator in its capacity as sub-servicer is a CMHC approved lender for the purposes of CMHC Mortgage Insurance); or

(c) the right of recovery under the mortgage securing the insured Loan has ceased to exist (which, for greater certainty, would include circumstances where valid security was not initially created or the security has been discharged), other than by reason of the acquisition of the mortgaged property by the insured after default.

CMHC Approved Lender

CMHC has designated certain mortgage lenders as CMHC approved lenders in respect of the origination and administration of CMHC insured loans. The Seller, as initial Servicer, and each Originator in its capacity as sub-servicer, is a CMHC approved lender. A CMHC approved lender is required to exercise reasonable care and prudence in the making of an approved CMHC insured loan, in the administration of a CMHC insured loan (including the filing of any claims under the applicable CMHC Mortgage Insurance), in the collection of the repayment of a CMHC insured loan and in the protection of the security for a CMHC insured loan, in addition to complying with all applicable eligibility, origination, servicing, realisation and other relevant criteria and servicing standards of CMHC.

Obligations of a CMHC approved lender include the following:

(a) CMHC approved lenders must comply with the *National Housing Act* (Canada), the National Housing Loan Regulations and applicable CMHC's policies and procedures;

(b) CMHC approved lenders must be able to demonstrate, on an ongoing basis, an acceptable level of mortgage administration and servicing expertise; and

(c) minimum capitalization requirements must be maintained by CMHC approved lenders.

The retention of a CMHC approved lender designation is conditioned upon the CMHC approved lender continuing to meet the requirements, criteria and policies as established in the original designation or previous renewal granted by CMHC, including, without limitation, continuing to be a viable concern at all times, acting in a prudent manner at all times and demonstrating a continuing satisfactory overall performance in the underwriting or administration of Loans.

CMHC approved lenders who do not abide by the applicable policies and regulations in respect of retention of a CMHC approved lender designation may be:

(a) suspended from initiating and administering CMHC insured loans;

(b) suspended from initiating further CMHC insured loans but allowed to administer their current portfolio; or

(c) subject to lending restrictions.

Eligibility Criteria and Conditions Precedent

The sale of Loans and their Related Security to the Guarantor will be subject to (i) various conditions (the "**Conditions Precedent**") and (ii) certain eligibility criteria (the "**Eligibility Criteria**"), (which are all subject to amendment and replacement from time to time provided Rating Agency Confirmation is received) being satisfied on the relevant Transfer Date, including that:

(a) no Issuer Event of Default or Guarantor Event of Default under the Transaction Documents shall have occurred which is continuing as at the relevant Transfer Date;

(b) the Guarantor, acting on the advice of the Cash Manager, is not aware, and could not reasonably be expected to be aware, that the purchase of the relevant Loans and their Related Security, would adversely affect the then current ratings of the Covered Bonds by the Rating Agencies;

(c) no Loan has a Current Balance of more than C$3,000,000 as at the relevant Cut-off Date;

(d) each Loan relates to a Property which is a residential Property;

(e) the Loan has the benefit of CMHC Mortgage Insurance and the CMHC Mortgage Insurance was granted for at least the full amount of the Loan at such time and the principal amount of the Loan does not exceed the CMHC Approved Limit; and

(f) if a New Portfolio Asset Type is proposed to be sold, such New Portfolio Asset Type has the benefit of CMHC Mortgage Insurance up to the CMHC Approved Limit (or equivalent insurance or a guarantee, in each case, provided by CMHC or another insurer whose obligations are guaranteed 100 per cent by the Government of Canada) and Rating Agency Confirmation has been received by the Seller or the Guarantor in accordance with the terms of the Hypothecary Loan Sale Agreement that such New Portfolio Asset Type may be sold to the Guarantor.

In addition to the satisfaction of the Conditions Precedent and the Eligibility Criteria, on the relevant Transfer Date, the Loan Representations and Warranties (described below in "*Loan Representations and Warranties*") will be given by the Seller in respect of the Loans and their Related Security sold by the Seller to the Guarantor.

If an Originator accepts an application from or makes an offer (which is accepted) to a Borrower for a Product Switch or Further Advance, then if certain Eligibility Criteria, including the Eligibility Criteria referred to in paragraphs (c), (d) and (e) above, relating to the Loan subject to that Product Switch or Additional Loan Advance are not satisfied on the next following Calculation Date, the Guarantor will be entitled to rectify such breach of the Eligibility Criteria by requiring the Seller to repurchase such Loan.

Notice to Borrower of the sale, assignment and transfer of the Loans and their Related Security and registration of transfer of title to the Hypothecs

The Hypothecs related to the Loans will be sold, transferred and assigned by the Originators to the Seller and by the Seller to the Guarantor pursuant to the terms of the Origination Hypothecary Loan Sale Agreement and the Hypothecary Loan Sale Agreement, respectively, but will remain registered in the name of the Originator and notice of the sale, transfer and assignment will not be given to the Borrowers or, in respect of the Related Security, any relevant guarantor of any Borrower. Such notice and, where appropriate, the registration or recording in the appropriate land registry or land titles offices of the transfer by the Originators to the Seller and by the Seller to the Guarantor of title to the Hypothecs will be deferred and will only take place in the circumstances described below.

The Seller (directly or through the applicable Originator) will agree to (a) hold registered title to the related Loans and their Related Security as agent and nominee for the Guarantor and (b) deliver such agreements and take all actions with respect to the Loans and Related Security as the Guarantor (or its Managing GP) may direct in accordance with the Origination Hypothecary Loan Sale Agreement and the Hypothecary Loan Sale Agreement (or an applicable nominee agreement).

Notice of the sale, assignment and transfer of the Loans and their Related Security and a direction to make all future repayments of the Loans to the Standby Account Depository Institution for the account of the Guarantor will be sent by the Seller, the Originator, or, as necessary, by the Guarantor (or the Servicer on behalf of the Guarantor) on behalf of the Seller or the Originator (under applicable powers of attorney granted to the Guarantor) and where required, registration of the transfer of title to the Hypothecs will be made in the appropriate land registry or land titles offices, on or before the 60th day following the earliest to occur of:

(a) a Servicer Event of Default;

(b) the occurrence of a Covered Bond Guarantee Activation Event;

(c) the acceptance by an applicable Purchaser of any offer by the Guarantor to sell Loans and their Related Security (only in respect of the Loans being sold and their Related Security) to any such Purchaser who is not the Seller, unless otherwise agreed by such Purchaser and the Guarantor, with the consent of the Bond Trustee, which consent will not be unreasonably withheld;

(d) the Seller and/or the Guarantor being required: (i) by law, (ii) by an order of a court of competent jurisdiction, or (iii) by a regulatory authority which has jurisdiction over the Seller or the Guarantor, to effect such notice and registration;

(e) the date on which the Seller incurs a downgrade in the ratings of its unsecured, unsubordinated and unguaranteed debt obligations by the Rating Agencies below a level specified in the Hypothecary Loan Sale Agreement; and

(f) the occurrence of an Insolvency Event in relation to the Seller.

Except where lodged with the relevant registry in relation to any registration or recording which may be pending, the Loan, the Related Security and the Loan Files relating to the Loans in the Covered Bond Portfolio will be held by, or to the order of, the Servicer or by solicitors, service providers or licensed notaries acting for the Servicer in connection with the creation of the Loans and their Related Security. The Servicer will undertake that all the Loan Files relating to the Loans in the Covered Bond Portfolio which are at any time in its possession or under its control or held to its order will be held to the order of the Bond Trustee or as the Bond Trustee may direct. The right, interest and title of the Guarantor to the Loans and their Related Security will be secured by irrevocable powers of attorney granted by the Seller and the Federation on behalf of the relevant Originator, as of the Transfer Date such Loans are transferred, in favour of the Guarantor (or the Managing GP and the Liquidation GP on behalf of the Guarantor) and the Bond Trustee in respect of registered title to the Loans and their Related Security.

Loan Representations and Warranties

Neither the Guarantor nor the Bond Trustee has made or has caused to be made on its behalf any enquiries, searches or investigations in respect of the Loans and their Related Security to be sold to the Guarantor. Instead, each is relying entirely on the Loan Representations and Warranties by the Seller contained in the Hypothecary Loan Sale Agreement. The parties to the Hypothecary Loan Sale Agreement may, with the prior written consent of the Bond Trustee (which shall be given if Rating Agency Confirmation has been received), amend the Loan Representations and Warranties in the Hypothecary Loan Sale Agreement.

The material Loan Representations and Warranties are as follows and are given on the relevant Transfer Date in respect of the Loans and their Related Security to be sold to the Guarantor only on that date and on the Calculation Date following the making of any Further Advance or Product Switch in respect of the Loan to which the Further Advance or Product Switch relates:

- the Seller is (and has been since the sale thereto by the Originators) the legal and beneficial owner of the Loans to be sold to the Guarantor, excluding registered or recorded title to Loans which may continue to be held by an applicable Originator (and the Originators respectively have been the owners of such Loans from the origination thereof up to the moment on which they were sold by the Originators to the Seller), free and clear of any encumbrances, other than certain permitted encumbrances and upon each purchase, the Guarantor shall acquire a valid and enforceable first priority perfected and opposable beneficial ownership interest in the applicable Loans free and clear of any encumbrances, other than certain permitted encumbrances;

- each Loan was originated in the ordinary course of business of the Originator thereof (and kept on its books for a minimum of one month) prior to the Cut-off Date;

- the first payment due in respect of each Loan has been paid by the relevant Borrower;

- each Loan was originated in Canadian dollars and is denominated in Canadian dollars;

- no Loan has a Current Balance of more than C$3,000,000 as at the relevant Cut-off Date;

- each Loan that has an amortization period has a remaining amortization period of less than 40 years as at the relevant Cut-off Date;

- prior to the making of each advance under a Loan, the Lending Criteria and all preconditions to the making of any Loan were satisfied in all material respects subject only to such exceptions as would be acceptable to reasonable and prudent institutional mortgage or hypothecary lenders in the Desjardins Financial Group's market;

- the Lending Criteria are consistent with the criteria that would be used by reasonable and prudent institutional mortgage or hypothecary lenders in the Desjardins Financial Group's market;

- all of the Borrowers are individuals or have guarantees from individuals for the Loans (which guarantees and any security related to such guarantees are assignable and will be sold, transferred and assigned to the Guarantor as Related Security for the Loans in accordance with the terms of the Hypothecary Loan Sale Agreement);

- the whole of the Current Balance on each Loan is secured by a Hypothec over residential property;

- each Hypothec constitutes a valid first priority hypothec or mortgage lien over the related Property, or is insured as a first priority hypothec or mortgage lien, in each case subject to certain permitted encumbrances;

- the True Balance on each Loan (other than any agreement for Additional Loan Advances (if any)) constitutes a legal, valid, binding and enforceable debt due to the Originator from the relevant Borrower and the terms of each Loan and its related

Hypothec constitute valid and binding obligations of the Borrower enforceable in accordance with their terms except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally or by general principles of equity;

- other than (i) registrations in the appropriate land registry or land titles offices in respect of the sale, transfer and assignment of the relevant Loans from the Seller to the Guarantor effected by the Hypothecary Loan Sale Agreement (and any applicable registration in respect of registered title to the relevant Loans), (ii) the provision to Borrowers under the related Loans or the obligors under their Related Security of actual notice of the sale, transfer and assignment thereof to the Guarantor, and (iii) the registration provided in Article 1642 of the Civil Code to be effected in accordance with the Hypothecary Loan Sale Agreement, all material filings, recordings, notifications, registrations or other actions under all applicable laws have been made or taken in each jurisdiction where necessary or appropriate (and where permitted by applicable law) to give legal effect to the sale, transfer and assignment of the Loans and their Related Security and the right to transfer servicing of such Loans as contemplated by the Hypothecary Loan Sale Agreement, and to validate, preserve, render opposable, perfect and protect the Guarantor's ownership interest in and rights to collect any and all of the related Loans being purchased on the relevant Transfer Date, including the right to arrange for the servicing and enforcement of such Loans and their Related Security, in each case, in accordance with the terms of the Transaction Documents and the CMHC Mortgage Insurance;

- there is no requirement in order for a sale, transfer and assignment of the Loans and their Related Security to be effective to obtain the consent of the Borrower to such sale, transfer or assignment and such sale, transfer and assignment shall not give rise to any claim by the Borrower against the Guarantor, the Bond Trustee or any of their successors in title or assigns;

- all of the Properties are in Québec or Ontario;

- not more than 12 months (or a longer period as may be acceptable to reasonable and prudent institutional mortgage or hypothecary lenders in the Seller's or the applicable Originator's market) prior to the granting of each Loan, the relevant Originator obtained information on the relevant Property from an independently maintained valuation model, acceptable to reasonable and prudent institutional mortgage or hypothecary lenders in the Seller's or the applicable Originator's market, or received a valuation report on the relevant Property, which would be, and the contents or confirmation, as applicable, of which, were such as would be, acceptable to reasonable and prudent institutional mortgage or hypothecary lenders in the Seller's or the applicable Originator's market or obtained such other form of valuation of the relevant Property which has received Rating Agency Confirmation;

- prior to the taking of Related Security (other than a re-mortgage) in respect of each Loan, the relevant Originator instructed lawyers or service providers to conduct a search of title to the relevant Property and to undertake such other searches, investigations, enquiries and actions on behalf of the applicable Originator as would be acceptable to reasonable and prudent institutional mortgage or hypothecary lenders in the applicable Originator's market or the Borrower was required to obtain either (i) a solicitor's or notary's opinion on title or (ii) lender's title insurance in respect of the Loan from an insurer acceptable to reasonable and prudent institutional mortgage or hypothecary lenders in the applicable Originator's market;

- each Loan contains a requirement that the relevant Property be covered by building insurance maintained by the Borrower or in the case of a leasehold property under a policy arranged by a relevant landlord or property management company;

- the Originator or the Seller, as the case may be, has, since the making of each Loan, kept or procured the keeping of full and proper accounts, books and records showing clearly all transactions, payments, receipts, proceedings and notices relating to such Loans;

- each Loan is not a Non-Performing Loan;

- there are no governmental authorizations, approvals, licences or consents required as appropriate for the Seller to enter into or to perform its obligations under the Hypothecary Loan Sale Agreement or to make the Hypothecary Loan Sale Agreement legal, valid, binding, enforceable and admissible into evidence in a court of competent jurisdiction, other than authorizations, approvals, licenses, consents, actions, notices or polling that have been obtained, made or taken; and

- each Loan has the benefit of CMHC Mortgage Insurance and (A) the CMHC Mortgage Insurance connected to the Loan (i) was granted for at least the full amount of the Loan at origination and the principal amount of the Loan does not exceed the CMHC Approved Limit, (ii) constitutes legal, valid and binding obligations of CMHC, enforceable in accordance with their terms, (iii) all material terms and conditions applicable to the CMHC Mortgage Insurance at the time of origination of the Loan were complied with by the relevant Originator and (B) the Seller is not aware of any reason why any claim made in accordance with the requirements pertaining thereto under the CMHC Mortgage Insurance in respect of a Loan should not be paid in full and in a timely manner (it being understood that, in respect of a Loan, this representation and warranty shall apply to CMHC Insured Loan Indebtedness and not Surplus Advances).

On each Transfer Date, the Guarantor shall be entitled to collections in respect of the Loans purchased on such Transfer Date during the period from the Cut-off Date to the Transfer Date.

If New Portfolio Asset Types are to be sold to the Guarantor, then the Loan Representations and Warranties in the Hypothecary Loan Sale Agreement will be modified as required to accommodate these New Portfolio Asset Types. All portfolio assets constituting a New Portfolio Asset Type will have the benefit of CMHC Mortgage Insurance (or equivalent insurance or a guarantee, in each case, provided by CMHC or another insurer whose obligations are guaranteed 100 per cent by the Government of Canada). The prior consent of the holders of the Covered Bonds to the requisite amendments will not be required.

Repurchase of Loans

If the Seller receives a Loan Repurchase Notice from the Guarantor (or the Cash Manager on its behalf) identifying a Loan or its Related Security in the Covered Bond Portfolio which, as at the relevant Transfer Date or relevant Calculation Date (in the case of a Product Switch or an Additional Loan Advance): (i) does not comply with the Loan Representations and Warranties set out in the Hypothecary Loan Sale Agreement; or (ii) is subject to an adverse claim other than certain permitted security interests and such breach or adverse claim materially and adversely affects the interest of the Guarantor in such Loan or the value of the affected Loan, then the Seller will, subject to the applicable breach or adverse claim being cured during a 20 Montréal Business Day period commencing on the date on which such non-compliance is discovered, be required to repurchase on the first Calculation Date occurring after such 20 Montréal Business Day Period: (a) any such Loan and its Related Security; and (b) any other Loan secured or intended to be secured by that Related Security or any part of it. The repurchase price payable upon the repurchase of any Loan is an amount (not less than zero) equal to the purchase price paid by the Guarantor for such Loan and its Related Security plus expenses as at the relevant repurchase date, less any amounts received from the Borrower since the Transfer Date in respect of principal on such Loan. The repurchase proceeds received by the Guarantor will be applied (other than Accrued Interest and Arrears of Interest) in accordance with the Pre-Acceleration Principal Priority of Payments (see "*Cashflows*" below).

Non-Performing Loans

The Cash Manager will identify any Non-Performing Loans in the Covered Bond Portfolio and upon identification serve a Non-Performing Loans Notice on the Seller and the Servicer. Non-Performing Loans may be given limited credit in the Asset Coverage Test or the Amortization Test, as applicable, based on the long-term debt credit ratings assigned to CMHC from time to time.

Other rights and obligations to repurchase

Prior to the occurrence of an Issuer Event of Default, the Seller may from time to time offer to repurchase a Loan (or Loans) and their Related Security from the Guarantor for a purchase price of not less than the fair market value of the relevant Loan. The Guarantor may accept such offer at its discretion, provided that any such sale will be subject to the Asset Coverage Test being met on the date of such sale, after giving effect to the sale.

The Seller shall act in accordance with the terms of the CMHC Mortgage Insurance applicable to the Loans in the Covered Bond Portfolio so that the CMHC Mortgage Insurance will continue to apply to each Loan in the Covered Bond Portfolio to the extent of the applicable CMHC Approved Limit. To the extent that the Seller has not provided for the CMHC Mortgage Insurance to continue to so apply, the Seller shall be obligated to repurchase the applicable Loans in accordance with the terms of the Hypothecary Loan Sale Agreement.

Right of pre-emption

Under the terms of the Hypothecary Loan Sale Agreement, the Seller has a right of pre-emption in respect of any sale, in whole or in part, of Loans and their Related Security.

In connection with any sale of Loans and their Related Security by the Guarantor, except where such Loans and their Related Security are being sold to the Seller pursuant to an offer from the Seller, the Guarantor will serve on the Seller a Loan Offer Notice offering to sell Loans and their Related Security for an offer price equal to the greater of the fair market value of such Loans and the Adjusted Required Redemption Amount, subject to the offer being accepted by the Seller within 10 Montréal Business Days.

At any time there is no Asset Coverage Test Breach Notice outstanding and no Covered Bond Guarantee Activation Event has occurred, it will be a condition to the Guarantor's right to sell Loans and their Related Security that the Asset Coverage Test or Amortization Test, as applicable, will be met on the date of such sale, after giving effect to the sale.

If an Issuer Event of Default has occurred but no liquidator or administrator has been appointed to the Seller, the Seller's right to accept the offer (and therefore its right of pre-emption) will be conditional upon the delivery by the Seller of a solvency certificate to the Guarantor and the Bond Trustee. If the Seller rejects the Guarantor's offer or fails to accept it in accordance with the foregoing, the Guarantor may offer to sell such Loans and their Related Security to other Purchasers (as described under "*Limited Partnership*

Agreement—Sale of Randomly Selected Loans at any time an Asset Coverage Test Breach Notice is outstanding or a Notice to Pay has been served on the Guarantor", below).

If the Seller validly accepts the Guarantor's offer to sell such Loans and their Related Security, the Guarantor will, within three Montréal Business Days of such acceptance, serve a Loan Repurchase Notice on the Seller. The Seller will sign and return a duplicate copy of such Loan Repurchase Notice and will repurchase from the Guarantor free from the Security created by the Security Agreements the relevant Loans and their Related Security (and any other Loan secured or intended to be secured by that Related Security or any part of it) referred to in the relevant Loan Repurchase Notice. Completion of the purchase of such Loans and their Related Security by the Seller will take place, upon satisfaction of any applicable conditions to the purchase and sale, on the first Guarantor Payment Date following receipt of the relevant Loan Repurchase Notice(s) or such other date as the Guarantor may direct in the Loan Repurchase Notice (provided that such date is not later than the earlier to occur of the date which is: (a) 10 Montréal Business Days after returning the Loan Repurchase Notice to the Guarantor; and (b) the Final Maturity Date of the Earliest Maturing Covered Bonds).

For the purposes hereof:

"**Adjusted Required Redemption Amount**" means the Canadian Dollar Equivalent of the Required Redemption Amount, plus or minus the Canadian Dollar Equivalent of any swap termination amounts payable under the Covered Bond Swap Agreement to or by the Guarantor in respect of the relevant Series of Covered Bonds less (where applicable) amounts held by the Cash Manager for and on behalf of the Guarantor and amounts standing to the credit of the Guarantor Accounts and the Canadian Dollar Equivalent of the principal balance of any Substitute Assets and/or any Authorized Investments (excluding all amounts to be applied on the next following Guarantor Payment Date to repay higher ranking amounts in the Guarantee Priority of Payments and those amounts that are required to repay any Series of Covered Bonds which mature prior to or on the same date as the relevant Series of Covered Bonds) plus or minus any swap termination amounts payable to or by the Guarantor under the Interest Rate Swap Agreement minus amounts standing to the credit of the Pre-Maturity Liquidity Ledger.

"**Required Redemption Amount**" means, in respect of a Series of Covered Bonds, the amount calculated as follows:

the Principal Amount Outstanding of the relevant Series of Covered Bonds x [1 + Negative Carry Factor x (days to maturity of the relevant Series of Covered Bonds/365)]

Further drawings under Loans

The Seller is solely responsible for funding all Additional Loan Advances, if any, in respect of Loans sold by the Seller to the Guarantor. The sale to the Guarantor of each Additional Loan Advance shall occur automatically upon the advance of further money to the relevant Borrower and the underlying automatic sale from the applicable Originator to the Seller. The amount of the Intercompany Loan will increase by the amount of the funded Additional Loan Advances.

New Sellers

In the future, any New Seller that wishes to sell loans and their Related Security to the Guarantor will accede to the Hypothecary Loan Sale Agreement. The sale of New Loans and their Related Security by New Sellers to the Guarantor will be subject to certain conditions, including the following:

- each New Seller accedes to the terms of the Hypothecary Loan Sale Agreement (with such subsequent amendments as may be agreed by the parties thereto) or enters into a new Hypothecary Loan Sale Agreement with the Guarantor and the Bond Trustee, in each case so that it has, in relation to those New Loans and their Related Security to be sold by the relevant New Seller, substantially the same rights and obligations as the Seller had in relation to those Loans and their Related Security comprised in the Initial Covered Bond Portfolio under the Hypothecary Loan Sale Agreement;

- each New Seller accedes to the Dealership Agreement(s) and enters into such other documents as may be required by the Bond Trustee and/or the Guarantor (acting reasonably) to give effect to the addition of a New Seller to the transactions contemplated under the Programme;

- any New Loans and their Related Security sold by a New Seller to the Guarantor comply with the Eligibility Criteria set out in the Hypothecary Loan Sale Agreement;

- either (i) the Servicer services the New Loans and their Related Security sold by a New Seller on the terms set out in the Servicing Agreement (with such subsequent amendments as may be agreed by the parties thereto) and CMHC approves of such servicing or (ii) the New Seller is a CMHC approved lender and enters into a servicing agreement with the Guarantor and the Bond Trustee which sets out the servicing obligations of the New Seller in relation to the New Loans and their Related Security and which is on terms substantially similar to the terms set out in the Servicing Agreement (in the event the New Loans and their Related Security are not purchased on a fully serviced basis, the servicing agreement shall set out fees payable to the

Servicer or the New Seller acting as servicer of such New Loans and their Related Security which may be determined on the date of the accession of the New Seller to the Programme) and, in such case, such New Seller and the Servicer comply with the requirements of the applicable CMHC Mortgage Insurance;

- the Bond Trustee is satisfied that any accession of a New Seller to the Programme will not prejudice the Asset Coverage Test; and

- the Bond Trustee is satisfied that the accession of a New Seller to the Programme is not materially prejudicial to holders of the Covered Bonds and Rating Agency Confirmation has been obtained in respect of such New Seller.

If the above conditions are met, the consent of holders of the Covered Bonds will not be required or obtained in connection with the accession of a New Seller to the Programme.

Servicing Agreement

Pursuant to the terms of the Servicing Agreement entered into on the Programme Establishment Date between the Guarantor, the Servicer, the Seller, the Cash Manager and the Bond Trustee, the Servicer has agreed to service on behalf of the Guarantor the Loans and their Related Security sold by the Seller to the Guarantor in the Covered Bond Portfolio.

The Servicer will administer the Loans and their Related Security comprised in the Covered Bond Portfolio in accordance with the applicable CMHC Mortgage Insurance, applicable law, CMHC servicing standards, the Servicing Agreement and the other Transaction Documents and with reasonable care and diligence, using that degree of skill and attention that it exercises in managing, servicing, administering, collecting on and performing similar functions relating to comparable loans that it services for itself.

The Servicer will be required to administer the Loans in accordance with the Servicing Agreement:

(a) as if the Loans and their Related Security sold by the Seller to the Guarantor had not been sold to the Guarantor but remained with the Seller; and

(b) in accordance with the Seller's or the relevant Originator's administration, arrears and enforcement policies and procedures forming part of the Servicer's policy from time to time as they apply to those Loans and subject to and in accordance with the terms of any CMHC Mortgage Insurance applicable to the Covered Bond Portfolio.

The Servicer's actions in servicing the Loans in accordance with its procedures will be binding on the Guarantor, the Seller and the Secured Creditors.

The Servicer will have the power to exercise the rights, powers and discretions and to perform the duties of the Guarantor in relation to the Loans and their Related Security that it is servicing pursuant to the terms of the Servicing Agreement, and to do anything which it reasonably considers necessary or convenient or incidental to the administration of those Loans and their Related Security, in accordance with the applicable CMHC Mortgage Insurance.

Undertakings of the Servicer

Pursuant to the terms of the Servicing Agreement, the Servicer will undertake in relation to those Loans and their Related Security in the Covered Bond Portfolio that it is servicing, among other things, to:

- maintain its status as a CMHC approved lender;

- keep records and accounts on behalf of the Guarantor in relation to the Loans and their Related Security in a manner that ensures there will be sufficient documentation to make any claim under CMHC Mortgage Insurance in respect of each of the Loans and their Related Security;

- keep the Loan Files in its possession or under its control in safe custody and maintain records necessary to enforce each Hypothec and to provide the Guarantor and the Bond Trustee with access to the Loan Files and other records relating to the administration of the Loans and their Related Security;

- maintain a register in respect of the Covered Bond Portfolio;

- make available upon request to the Guarantor and the Bond Trustee a report on a monthly basis containing information about the Loans and their Related Security comprised in the Covered Bond Portfolio;

- assist the Cash Manager in the preparation of a monthly asset coverage report in accordance with the Cash Management Agreement;

- take all reasonable steps to recover all sums due to the Guarantor, including making claims under the CMHC Mortgage Insurance in respect of any Purchased Loan or their Related Security and instituting proceedings and enforcing any relevant Loan or Hypothec in compliance with any terms of the CMHC Mortgage Insurance and any other requirements of CMHC and provided any such procedures are using the discretion of reasonable and prudent institutional mortgage or hypothecary lenders in the Seller's or the applicable Originator's market in applying the enforcement procedures forming part of the Seller's policy;

- enforce any Loan which is in default in accordance with the Seller's enforcement procedures or, to the extent that such enforcement procedures are not applicable having regard to the nature of the default in question, with the usual procedures undertaken by reasonable and prudent institutional mortgage or hypothecary lenders in the Seller's or the applicable Originator's market on behalf of the Guarantor; and

- notify the Rating Agencies and the Guarantor upon a change to the terms of CMHC Mortgage Insurance or a change to CMHC's published guidelines relating to residential mortgage insurance which is material and adverse to the Holders of Covered Bonds and/or the Guarantor.

Setting of variable rate and other discretionary rates and margins

Pursuant to the terms of the Hypothecary Loan Sale Agreement and in accordance with the Hypothecary Loan Conditions applicable to certain Loans, the Seller has prescribed policies relating to interest rate setting, arrears management and handling of complaints which the Guarantor (and any subsequent purchaser thereof) will be required to adhere to following the transfer of Loans and their Related Security. Such arrears management and handling of complaints policies are consistent with those to be applied by the Servicer under the terms of the Servicing Agreement. The interest rate setting policy specified in the Hypothecary Loan Sale Agreement is only applicable to Loans with interest rates which may be varied from time to time in the discretion of the lender under the relevant Loan.

In addition to the undertakings described above, the Servicer has also undertaken in the Servicing Agreement to determine and set the variable rate and any other discretionary rates and margins in relation to any applicable Loans in the Covered Bond Portfolio for which the Guarantor is entitled to set the variable rate and any other discretionary rates and margins pursuant to the terms of such Loans. The Servicer shall set such rates and margins in accordance with the policy to be adhered to by the Guarantor above, at such times as the Guarantor would be entitled to set such rates and margins, except in the limited circumstances described below, when the Guarantor will be entitled to set such rates and margins. The Servicer will not at any time prior to the earlier of (i) the occurrence of a Covered Bond Guarantee Activation Event, and/or (ii) a Servicer Event of Default having occurred, without the prior written consent of the Guarantor, set or maintain any such discretionary rates or margins at rates or margins which are higher than (although they may be lower than or equal to) the applicable then prevailing discretionary rates or margins of the Seller for loans owned by the Seller which have a similarly determined variable rate or margin to the relevant Loan in the Covered Bond Portfolio sold by the Seller to the Guarantor.

In particular, the Servicer will determine on each Calculation Date, having regard to:

(a) the income which the Guarantor would expect to receive during the next succeeding Guarantor Payment Period (the relevant Guarantor Payment Period);

(b) any discretionary rates and margins in respect of the Loans which the Servicer proposes to set under the Servicing Agreement for the relevant Guarantor Payment Period; and

(c) the other resources available to the Guarantor including the Interest Rate Swap Agreement, the Covered Bond Swap Agreement and the Reserve Fund,

whether the Guarantor would receive an amount of income during the relevant Guarantor Payment Period which, when aggregated with the funds otherwise available to it, is less than the amount which is the aggregate of (1) the amount of interest which would be payable (or provisioned to be paid) under the Covered Bond Guarantee on each Guarantor Payment Date falling at the end of the relevant Guarantor Payment Period and any amounts which would be payable (or provisioned to be paid) to the Covered Bond Swap Provider under the Covered Bond Swap Agreement in respect of all Covered Bonds on each Guarantor Payment Date of each Series of Covered Bonds falling at the end of the relevant Guarantor Payment Period and (2) the other senior expenses payable by the Guarantor ranking in priority thereto in accordance with the relevant Priorities of Payment applicable prior to a Guarantor Event of Default.

If the Servicer determines that there will be a shortfall in the foregoing amounts, it will give written notice to the Guarantor and the Bond Trustee, within one Montréal Business Day, of the amount of the shortfall. If the Guarantor or the Bond Trustee notifies the Servicer and the Issuer that, having regard to the obligations of the Guarantor and the amount of the shortfall, further Loans and their Related Security should be sold to the Guarantor, the Issuer will use all reasonable efforts to ensure that the obligations of the Guarantor for such period will be met. This may include, making advances under the Intercompany Loan or selling Loans and their Related Security to the

Guarantor on or before the next Calculation Date in such amounts and with such rates or margins, as applicable, sufficient to avoid such shortfall on future Calculation Dates.

In addition, the Servicer will determine on each Calculation Date following an Issuer Event of Default, having regard to the aggregate of:

(a) any variable or discretionary rate or margin, in respect of the Loans which the Servicer proposes to set under the Servicing Agreement for the relevant Guarantor Payment Period; and

(b) the other resources available to the Guarantor under the Interest Rate Swap Agreement,

whether the Guarantor would receive an aggregate amount of interest on the Loans sufficient to pay the full amounts payable under the Interest Rate Swap Agreement during the relevant Guarantor Payment Period (the "**Post Issuer Event of Default Yield Shortfall Test**").

If the Servicer determines that the Post Issuer Event of Default Yield Shortfall Test will not be met, it will give written notice to the Guarantor and the Bond Trustee, prior to the Guarantor Payment Date immediately following such Calculation Date, of the amount of the shortfall and the rates or margins, for any discretionary rates or margins which the Guarantor is entitled to set with respect to Loans in the Covered Bond Portfolio pursuant to the terms of such Loans, which need to be set in order for no shortfall to arise, and the Post Issuer Event of Default Yield Shortfall Test to be met, having regard to the date(s) on which the change to such discretionary rates or margins would take effect and at all times acting in accordance with the standards of reasonable and prudent institutional mortgage or hypothecary lenders in the Seller's or the applicable Originator's market. If the Guarantor or the Bond Trustee notifies the Servicer that, having regard to the obligations of the Guarantor, such discretionary rates or margins should be increased, the Servicer or replacement Servicer, as the case may be, will take all steps which are necessary to increase such discretionary rates or margins including publishing any notice which is required in accordance with the Hypothec Terms.

The Guarantor and the Bond Trustee may terminate the authority of the Servicer to determine and set any such discretionary rates or margins on the occurrence of a Servicer Event of Default as defined under "*—Removal or resignation of the Servicer*", in which case the Guarantor and the Bond Trustee will agree to appoint the replacement Servicer to set such discretionary rates or margins itself in the manner described above.

Removal or resignation of the Servicer

The Guarantor and the Bond Trustee may, upon written notice to the Servicer, terminate the Servicer's rights and obligations immediately (unless otherwise specified below) if any of the following events (each a "**Servicer Termination Event**" and, each of the first three events set out below, a "**Servicer Event of Default**") occurs:

- the Servicer's unsecured, unguaranteed and unsubordinated debt obligations are assigned a rating from the Rating Agencies below the Servicer Replacement Threshold Ratings and the Servicer does not obtain Rating Agency Confirmation by, for example, taking certain remedial measures which may include providing collateral for or arranging for its obligations under the Servicing Agreement to be guaranteed by an entity with rating(s) required by the relevant Rating Agencies, or taking such other action as may be required by the relevant Rating Agencies;

- the Servicer defaults in the payment of any amount due to the Guarantor under the Servicing Agreement and fails to remedy that default for a period of three Montréal Business Days after the earlier of the Servicer becoming aware of the default and receipt by the Servicer of written notice from the Bond Trustee and the Guarantor requiring the same be remedied;

- the Servicer fails to comply with any of its other covenants and obligations under the Servicing Agreement which failure in the reasonable opinion of the Bond Trustee is materially prejudicial to the interests of the holders of the Covered Bonds (or the Servicer fails to comply with the requirement for it to maintain its status as a CMHC approved lender) and does not remedy such failure within the earlier of 20 Montréal Business Days after becoming aware of the failure and receipt by the Servicer of written notice from the Bond Trustee and the Guarantor requiring the same to be remedied;

- an Insolvency Event occurs in relation to the Servicer or any credit support provider in respect of the Servicer or the merger of the Servicer without an assumption of the obligations under the Servicing Agreement; or

- the Guarantor resolves, after due consideration and acting reasonably, that the appointment of the Servicer should be terminated provided that a substitute servicer has entered into a substitute servicing agreement with the parties to the Servicing Agreement (excluding the Servicer) on substantially similar terms and conditions as the Servicing Agreement and for which Rating Agency Confirmation has been received.

Such termination will become effective upon the appointment of a successor Servicer in place of such Servicer. The Servicer, the Guarantor and the Bond Trustee agree to use commercially reasonable efforts to arrange for the appointment of a successor Servicer

acceptable to CMHC. Any such appointment of a successor Servicer without the prior approval of CMHC may adversely affect the coverage under CMHC Mortgage Insurance for a CMHC Insured Hypothec.

Subject to the fulfillment of a number of conditions, the Servicer may voluntarily resign by giving not less than 12 months' notice to the Bond Trustee and the Guarantor provided that a CMHC approved successor servicer qualified to act as such with a management team with experience of administering mortgages in Canada has been appointed and enters into a servicing agreement with the Guarantor substantially on the same terms as the Servicing Agreement, except as to fees, and CMHC has approved the appointment of such successor Servicer. The resignation of the Servicer is conditional on Rating Agency Confirmation unless the holders of the Covered Bonds agree otherwise by Extraordinary Resolution.

If the appointment of the Servicer is terminated, the Servicer must deliver the Loan Files relating to the Loans in the Covered Bond Portfolio administered by it to, or at the direction of, the Guarantor. Any successor Servicer shall be a CMHC approved lender. The Servicing Agreement will terminate at such time as the Guarantor has no further interest in any of the Loans or their Related Security sold to the Guarantor and serviced under the Servicing Agreement that comprised the Covered Bond Portfolio.

The Servicer may sub-contract or delegate the performance of its duties under the Servicing Agreement provided that it meets conditions as set out in the Servicing Agreement and that such sub-contracting or delegation is in accordance with the CMHC Mortgage Insurance. As at the Programme Establishment Date, the Servicer intends to sub contract or delegate the performance of all its duties under the Servicing Agreement, including the exercise of reasonable care and prudence in the making of the Loans, in the administration of the Loans, in the collection of the repayment of the Loans and in the protection of the security for each Loan, to each Originator in respect of the Loans originated by it that form part of the Covered Bond Portfolio, provided that the Servicer is not released or discharged from any liability under the Servicing Agreement and remains liable for the performance or non-performance or breach by any sub-contractor or delegate of the duties so subcontracted or delegated under the Servicing Agreement. In certain circumstances, the Servicer or such Originator may be required to assign the role of Servicer to a third party acceptable to the Bond Trustee and qualified to service the Covered Bond Portfolio.

The Bond Trustee will not be obliged to act as Servicer in any circumstances.

Asset Monitor Agreement

Under the terms of the Asset Monitor Agreement entered into on the Programme Establishment Date between the Asset Monitor, the Guarantor, the Issuer, the Cash Manager and the Bond Trustee, the Asset Monitor has agreed, subject to due receipt of the information to be provided by the Cash Manager to the Asset Monitor, to carry out arithmetic testing of, and report on the arithmetic accuracy of the calculations performed by the Cash Manager in respect of the Calculation Date immediately prior to each anniversary of the Programme Establishment Date with a view to confirming that the Asset Coverage Test or the Amortization Test, as applicable, is met as at that Calculation Date.

If the ratings of the unsecured, unguaranteed and unsubordinated debt obligations of the Cash Manager or the Issuer by the Rating Agencies fall below the ratings specified in the Asset Monitor Agreement or if an Asset Coverage Test Breach Notice has been served and has not been revoked, the Asset Monitor will, subject to receipt of the relevant information from the Cash Manager, be required to carry out such arithmetic testing and report on such arithmetic accuracy following each Calculation Date and, following a determination by the Asset Monitor of any errors in the calculations performed by the Cash Manager such that the Asset Coverage Test has been failed as at the applicable Calculation Date (where the Cash Manager had recorded it as being satisfied) or the Adjusted Aggregate Loan Amount or the Amortization Test Aggregate Loan Amount is mis-stated by an amount exceeding 1 per cent of the Adjusted Aggregate Loan Amount or the Amortization Test Aggregate Loan Amount, as applicable, (as at the date of the relevant Asset Coverage Test or the relevant Amortization Test), the Asset Monitor will be required to conduct such arithmetic tests and report on such arithmetic accuracy following each Calculation Date for a period of six months thereafter. The role of the Asset Monitor shall be limited to verification of the arithmetical accuracy of the calculations performed by the Cash Manager.

The Asset Monitor is entitled, subject to certain conditions, to assume that all information provided to it by the Cash Manager for the purpose of reporting on the arithmetic accuracy is true and correct and not misleading and is not required to report as such or otherwise take steps to verify the accuracy of any such information. The Asset Monitor Report will be delivered to the Cash Manager, the Guarantor, the Issuer and the Bond Trustee.

The Guarantor will pay to the Asset Monitor a fee per report (exclusive of GST) equal to the amount set out in the Asset Monitor Agreement from time to time, for the reports to be performed by the Asset Monitor.

The Guarantor may, at any time, only with the prior written consent of the Bond Trustee, terminate the appointment of the Asset Monitor by giving at least 60 days' prior written notice to the Asset Monitor, and the Asset Monitor may, at any time, resign by giving at least 60 days' prior written notice (and immediately if continuing to perform its obligations under the Asset Monitor Agreement becomes unlawful or conflicts with independence or professional rules applicable to the Asset Monitor) to the Guarantor and the Bond Trustee.

Upon giving notice of resignation, the Asset Monitor will use reasonable efforts to assist the Guarantor in appointing a replacement Asset Monitor approved by the Bond Trustee (such approval to be granted by the Bond Trustee if the replacement is an accounting firm of national standing which agrees to perform the duties (or substantially similar duties) of the Asset Monitor set out in the Asset Monitor Agreement). If a replacement is not appointed by the date which is 30 days prior to the date when tests are to be carried out in accordance with the terms of the Asset Monitor Agreement, then the Guarantor will use all reasonable efforts to appoint an accounting firm of national standing to carry out the relevant tests on a one-off basis, provided that notice of such appointment is given to the Bond Trustee.

The Bond Trustee will not be obliged to act as Asset Monitor in any circumstances.

Limited Partnership Agreement

The general and limited partners of the Guarantor have agreed to operate the business of the Guarantor in accordance with the terms of a limited partnership agreement entered into on the Programme Establishment Date between the Managing GP, as managing general partner, the Liquidation GP, as liquidation general partner, and the Federation, as Limited Partner, together with such other persons as may become partners of the Guarantor and the Bond Trustee (the "**Limited Partnership Agreement**").

General Partner and Limited Partners of the Guarantor

As at the Date of this Prospectus, the Managing GP is the managing general partner and the Liquidation GP is the liquidation general partner and the Federation is the sole limited partner of the Guarantor. The Partners will have the duties and obligations, rights, powers and privileges specified in the *Limited Partnerships Act* (Ontario) and pursuant to the terms of the Limited Partnership Agreement.

No new Limited Partner may be otherwise appointed, and no new general partner may be added or general partner replaced without the consent of the Limited Partner and, while there are Covered Bonds outstanding, the Bond Trustee, and receipt by the Issuer and/or the Bond Trustee of Rating Agency Confirmation.

Capital Contribution

On or before the Programme Establishment Date, each of the Managing GP and the Liquidation GP have contributed a nominal cash amount to the Guarantor and hold 99 per cent and 1 per cent respectively of the 0.05 per cent general partner interest. The Limited Partner holds the substantial economic interest in the Guarantor (approximately 99.95 per cent) having also contributed cash to the Guarantor. The Partners may from time to time make additional Capital Contributions to the Partnership, including without limitation after receipt of an Asset Coverage Test Breach Notice.

New Limited Partners

In the future, any person that wishes to become a new Limited Partner will, subject to the following paragraph, require the consent of the Limited Partner and, while there are Covered Bonds outstanding, the Bond Trustee and be required, to the extent applicable, to accede to the Hypothecary Loan Sale Agreement and any other Transaction Documents to which the Limited Partner is a party and deliver such other agreements and provide such other assurances as may be required by the Guarantor and/or the Bond Trustee (acting reasonably). Subject to compliance with the foregoing, the consent of the Covered Bondholders will not be required to the accession of a new Limited Partner to the Guarantor.

The Limited Partner may assign all or some portion of its interest in the Guarantor to any Subsidiary by giving written notice of such assignment to the Guarantor and the Bond Trustee, and the assignee of such interest acceding to the Limited Partnership Agreement. Any such assignment shall not relieve the Limited Partner of its obligations under the Limited Partnership Agreement or require the consent of the General Partners, Bond Trustee, the holders of the Covered Bonds or, if applicable, any other Limited Partner.

Capital Distributions

Provided the Asset Coverage Test or the Amortization Test, as applicable, will be met after giving effect to any Capital Distribution, the Managing GP, may from time to time, in its discretion, make Capital Distributions to the Partners. Pursuant to the terms of the Limited Partnership Agreement distributions to the Liquidation GP will be limited to an amount which may be less than the Liquidation GP's *pro rata* interest in the Guarantor.

Asset Coverage Test

The Guarantor must ensure that as at each Calculation Date, the Adjusted Aggregate Loan Amount is in an amount at least equal to the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated at the relevant Calculation Date.

If as at any Calculation Date, the Adjusted Aggregate Loan Amount is less than the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of all Covered Bonds as calculated at the relevant Calculation Date, then the Guarantor (or the Cash Manager on its behalf) will notify the Partners and the Bond Trustee thereof. The Partners shall use all reasonable efforts to ensure that the Guarantor is in compliance with the Asset Coverage Test. In that respect, the Limited Partner shall use all reasonable efforts to, as the Limited Partner may determine in its sole discretion, (i) make a Cash Capital Contribution, (ii) make a Capital Contribution in Kind to the Partnership, and/or (iii) require that Caisse centrale sell New Loans and their Related Security to the Guarantor, in the aggregate or in each case, as applicable, in an amount sufficient to ensure the Guarantor is or will be in compliance with the Asset Coverage Test on future Calculation Dates. If the Adjusted Aggregate Loan Amount is less than the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of all Covered Bonds on the next following Calculation Date, the Asset Coverage Test will be breached and the Guarantor (or the Cash Manager on its behalf) will serve an Asset Coverage Test Breach Notice on the Partners, the Bond Trustee and, if delivered by the Cash Manager, the Guarantor. The Asset Coverage Test Breach Notice will be revoked if the Asset Coverage Test is satisfied as at the next Calculation Date following service of an Asset Coverage Test Breach Notice provided no Covered Bond Guarantee Activation Event has occurred.

At any time there is an Asset Coverage Test Breach Notice outstanding:

(a) the Guarantor may be required to sell Randomly Selected Loans (as described further under "Limited Partnership Agreement—Sale of Loans and their Related Security following service of an Asset Coverage Test Breach Notice or service of a Notice to Pay on the Guarantor");

(b) prior to the occurrence of a Covered Bond Guarantee Activation Event, the Pre-Acceleration Revenue Priority of Payments and the Pre-Acceleration Principal Priority of Payments will be modified as more particularly described in "*Allocation and distribution of Available Revenue Receipts and Available Principal Receipts when an Asset Coverage Test Breach Notice is outstanding but no Covered Bond Guarantee Activation Event has occurred*" below; and

(c) the Issuer will not be permitted to make any further issuances of Covered Bonds.

If an Asset Coverage Test Breach Notice has been served and not revoked on or before the Guarantor Payment Date immediately following the Calculation Date after service of such Asset Coverage Test Breach Notice, then an Issuer Event of Default will occur and the Bond Trustee will be entitled (and, in certain circumstances may be required) to serve an Issuer Acceleration Notice. Following service of an Issuer Acceleration Notice, the Bond Trustee will be required to serve a Notice to Pay on the Guarantor.

For the purposes hereof:

"**Adjusted Aggregate Loan Amount**" means the amount calculated as at each Calculation Date in respect of CMHC Insured Loan Indebtedness as follows:

$$A+B+C+D+E-Z$$

where,

A = the lower of (i) and (ii), where:

(i) = the sum of the "**LTV Adjusted True Balance**" of each Loan in the Covered Bond Portfolio, which shall be the lower of (1) the actual True Balance of the CMHC Insured Loan Indebtedness of the relevant Loan in the Covered Bond Portfolio on such Calculation Date, and (2) the Latest Valuation relating to that Loan multiplied by M.

"M" means:

(a) 90% for all Loans on any day that no long-term debt credit rating assigned to CMHC is below the ratings specified in the Limited Partnership Agreement;

(b) 80% for all Loans that are not Non-Performing Loans on any day that a long-term debt credit rating assigned to CMHC is below the ratings specified in the Limited Partnership Agreement; or

(c) 0% for all Loans that are Non-Performing Loans on any day that a long-term debt credit rating assigned to CMHC is below the ratings specified in the Limited Partnership Agreement;

minus

the aggregate sum of the following deemed reductions to the aggregate LTV Adjusted True Balance of the Loans in the Covered Bond Portfolio if any of the following occurred during the previous Calculation Period:

(1) a Loan or its Related Security was, in the immediately preceding Calculation Period, in breach of the Loan Representations and Warranties contained in the Hypothecary Loan Sale Agreement or subject to any other obligation of the Seller to repurchase the relevant Loan and its Related Security, and in each case the Seller has not repurchased the Loan or Loans of the relevant Borrower and its or their Related Security to the extent required by the terms of the Hypothecary Loan Sale Agreement. In this event, the aggregate LTV Adjusted True Balance of the Loans in the Covered Bond Portfolio on such Calculation Date will be deemed to be reduced by an amount equal to the LTV Adjusted True Balance of the relevant Loan or Loans on such Calculation Date of the relevant Borrower; and/or

(2) the Seller, in any preceding Calculation Period, was in breach of any other material warranty under the Hypothecary Loan Sale Agreement and/or the Servicer was, in any preceding Calculation Period, in breach of a material term of the Servicing Agreement. In this event, the aggregate LTV Adjusted True Balance of the Loans in the Covered Bond Portfolio on such Calculation Date will be deemed to be reduced by an amount equal to the resulting financial loss incurred by the Guarantor in the immediately preceding Calculation Period (such financial loss to be calculated by the Cash Manager without double counting and to be reduced by any amount paid to the Guarantor by the Seller to indemnify the Guarantor for such financial loss);

AND

(ii) = the aggregate "**Asset Percentage Adjusted True Balance**" of the Loans in the Covered Bond Portfolio which in relation to each Loan shall be the lower of (1) the actual True Balance of the relevant Loan in the Covered Bond Portfolio on such Calculation Date, and (2) the Latest Valuation relating to that Loan multiplied by N

"N" means:

(a) 100% for all Loans that are not Non-Performing Loans;

(b) 90% for all Loans that are Non-Performing Loans on any day that no long-term debt credit rating assigned to CMHC is below the ratings specified in the Limited Partnership Agreement; or

(c) 0% for all Loans that are Non-Performing Loans on any day that a long-term debt credit rating assigned to CMHC is below the ratings specified in the Limited Partnership Agreement;

minus

the aggregate sum of the following deemed reductions to the aggregate Asset Percentage Adjusted True Balance of the Loans in the Covered Bond Portfolio if any of the following occurred during the previous Calculation Period:

(1) a Loan or its Related Security was, in the immediately preceding Calculation Period, in breach of the Loan Representations and Warranties contained in the Hypothecary Loan Sale Agreement or subject to any other obligation of the Seller to repurchase the relevant Loan and its Related Security, and in each case the Seller has not repurchased the Loan or Loans of the relevant Borrower and its or their Related Security to the extent required by the terms of the Hypothecary Loan Sale Agreement. In this event, the aggregate Asset Percentage Adjusted True Balance of the Loans in the Covered Bond Portfolio on such Calculation Date will be deemed to be reduced by an amount equal to the Asset Percentage Adjusted True Balance of the relevant Loan or Loans (as calculated on the last day of the immediately preceding Calculation Period) of the relevant Borrower; and/or

(2) the Seller, in any preceding Calculation Period, was in breach of any other material warranty under the Hypothecary Loan Sale Agreement and/or the Servicer was, in the immediately preceding Calculation Period, in breach of a material term of the Servicing Agreement. In this event, the aggregate Asset Percentage Adjusted True Balance of the Loans in the Covered Bond Portfolio on such Calculation Date will be deemed to be reduced by an amount equal to the resulting financial loss incurred by the Guarantor in the immediately preceding Calculation Period (such financial loss to be calculated by the Cash Manager without double counting and to be reduced by any amount paid to the Guarantor by the Seller to indemnify the Guarantor for such financial loss),

the result of the calculation in this paragraph (ii) being multiplied by the Asset Percentage (as defined below);

B = the aggregate amount of any Principal Receipts on the Loans in the Covered Bond Portfolio up to such Calculation Date (as recorded in the Principal Ledger) which have not been applied as at such Calculation Date to acquire further Loans and their

Related Security or otherwise applied in accordance with the Limited Partnership Agreement and/or the other Transaction Documents;

C = the aggregate amount of any Cash Capital Contributions made by the Partners (as recorded in the Capital Account Ledger for each Partner of the Guarantor) or proceeds advanced under the Intercompany Loan Agreement which have not been applied as at such Calculation Date to acquire further Loans and their Related Security or otherwise applied in accordance with the Limited Partnership Agreement and/or the other Transaction Documents;

D = the aggregate outstanding principal balance of any Substitute Assets and/or Authorized Investments, as applicable;

E = the aggregate amount of the proceeds from any sale of Randomly Selected Loans standing to the credit of the Pre-Maturity Liquidity Ledger (but without double counting);

Z = zero so long as the Interest Rate Swap Agreement provides for the hedging of interest received in respect of (i) any Substitute Assets; and (ii) cash balances held in the GIC Account following a Covered Bond Guarantee Activation Event; otherwise the weighted average remaining maturity expressed in years of all Covered Bonds then outstanding multiplied by the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds multiplied by the Negative Carry Factor where the "**Negative Carry Factor**" is (i) 0.5 per cent if the weighted average margin of the interest rate payable on the Covered Bonds is less or equal to 0.1 per cent per annum or (ii) 0.5 per cent plus that margin minus 0.1 per cent, if that margin is greater than 0.1 per cent per annum (provided that if the weighted average remaining maturity is less than one, the weighted average shall be deemed, for the purposes of this calculation, to be one).

"**Asset Percentage**" means 97 per cent or such lesser percentage figure as determined by the Managing GP (or the Cash Manager) on behalf of the Guarantor from time to time in accordance with the terms of the Limited Partnership Agreement and notified to the Rating Agencies, provided that the Asset Percentage shall not be less than 90 per cent unless otherwise agreed by the Issuer (and following an Issuer Event of Default, the Guarantor for the purposes of making certain determinations in respect of the Intercompany Loan).

Prior to the Guarantor Payment Date immediately following the Cash Flow Model Calculation Date (as defined below) falling in February, May, August and November of each year and on such other date as the Limited Partner may request following the date on which Caisse centrale is required to assign the Interest Rate Swap Agreement to a third party (each such date, a "**Cash Flow Model Calculation Date**"), the Guarantor (or the Cash Manager on its behalf) will notify the Rating Agencies of the percentage figure selected by it as the Asset Percentage, being the difference between 100 per cent and the amount of credit enhancement required to ensure that the Covered Bonds maintain the then current ratings of the Covered Bonds by the Rating Agencies based on various methodologies prescribed by the Rating Agencies to ensure that sufficient credit enhancement will be maintained; provided that, as described above, the Asset Percentage shall not be less than 90 per cent.

The Asset Percentage will from time to time be adjusted in accordance with the various methodologies prescribed by the Rating Agencies to ensure that sufficient credit enhancement will be maintained, and, if the Asset Percentages that would result from the above calculations in respect of a particular Calculation Date as determined by the various methodologies of the Rating Agencies are not the same, the lowest such figure will be applied as the applicable Asset Percentage, provided that, as described above, the Asset Percentage shall not be less than 90 per cent.

Amortization Test

Following service of a Notice to Pay on the Guarantor (but prior to service of a Guarantor Acceleration Notice) and, for so long as Covered Bonds remain outstanding, the Guarantor must ensure that, as at each Calculation Date following service of such Notice to Pay, the Guarantor is in compliance with the Amortization Test. Such testing will be completed within the time period specified in the Cash Management Agreement.

Following service of a Notice to Pay on the Guarantor, if as at any Calculation Date the Amortization Test Aggregate Loan Amount is less than the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date, then the Amortization Test will be deemed to be breached and a Guarantor Event of Default will occur. The Guarantor, the Cash Manager or the Asset Monitor, as the case may be, will immediately and in any event prior to the Guarantor Payment Date immediately following such Calculation Date, notify the Guarantor, the Issuer, and the Bond Trustee (while Covered Bonds are outstanding) of any breach of the Amortization Test and the Bond Trustee will be entitled to serve a Guarantor Acceleration Notice in accordance with the Conditions.

The "**Amortization Test Aggregate Loan Amount**" will be calculated as at each Calculation Date in respect of CMHC Insured Loan Indebtedness as follows:

A+B+C+D-Z

where,

A = the aggregate "**Amortization Test True Balance**" of each Loan, which shall be the lower of (1) the actual True Balance of the relevant Loan as calculated on such Calculation Date multiplied by N and (2) the Latest Valuation multiplied by N.

"N" means:

(a) 100% for all Loans that are not Non-Performing Loans;

(b) 90% for all Loans that are Non-Performing Loans on any day that no long-term debt credit rating assigned to CMHC is below the ratings specified in the Limited Partnership Agreement; or

(c) 0% for all Loans that are Non-Performing Loans on any day that a long-term debt credit rating assigned to CMHC is below the ratings specified in the Limited Partnership Agreement;

B = the sum of the amount of any cash standing to the credit of the Guarantor Accounts (excluding any Revenue Receipts received in the immediately preceding Calculation Period);

C = the aggregate outstanding principal balance of any Substitute Assets and/or Authorized Investments, as applicable;

D = the aggregate amount of the proceeds from any sale of Randomly Selected Loans standing to the credit of the Pre-Maturity Liquidity Ledger (but without double counting); and

Z = zero so long as following a Covered Bond Guarantee Activation Event the Interest Rate Swap Agreement provides for the hedging of interest received in respect of (i) any Substitute Assets; and (ii) cash balances held in the GIC Account; otherwise the weighted average remaining maturity of all Covered Bonds then outstanding multiplied by the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds multiplied by the Negative Carry Factor.

Sales of Randomly Selected Loans following a breach of the Pre-Maturity Test

The Pre-Maturity Test will be breached if the ratings of the Issuer's unsecured, unsubordinated and unguaranteed debt obligations fall below the Pre-Maturity Minimum Ratings and a Hard Bullet Covered Bond is due for repayment within a specified period of time thereafter. See "*Credit Structure—Pre-Maturity Liquidity*". If the Pre-Maturity Test is breached, the Guarantor may offer to sell Randomly Selected Loans pursuant to the terms of the Limited Partnership Agreement (see "*—Method of Sale of Loans and their Related Security*" below), subject to:

(i) any right of pre-emption of the Seller pursuant to the terms of the Hypothecary Loan Sale Agreement;

(ii) a Contribution in Kind made by one or more of the Partners (as recorded in the Capital Account Ledger for such Partners of the Guarantor) of certain Substitute Assets and/or Authorized Investments in accordance with the Limited Partnership Agreement with an aggregate principal amount up to at least the Required Redemption Amount of the Series of Hard Bullet Covered Bonds to which the breach of the Pre-Maturity Test relates (which shall be a credit to the Pre-Maturity Liquidity Ledger); or

(iii) Cash Capital Contributions made by one or more of the Partners (as recorded in the Capital Account Ledger for each applicable Partner of the Guarantor) or proceeds advanced under the Intercompany Loan Agreement which have not been applied to acquire further Loans and their Related Security or otherwise applied in accordance with the Limited Partnership Agreement and/or the other Transaction Documents with an aggregate principal amount up to at least the Required Redemption Amount of the Series of Hard Bullet Covered Bonds to which the breach of the Pre-Maturity Test relates (which shall be a credit to the Pre-Maturity Liquidity Ledger).

If the Issuer fails to repay any Series of Hard Bullet Covered Bonds on the Final Maturity Date thereof, then following the occurrence of an Issuer Event of Default and service of a Notice to Pay on the Guarantor, the proceeds from any sale of Randomly Selected Loans standing to the credit of the Pre Maturity Liquidity Ledger will be applied to repay the relevant Series of Hard Bullet Covered Bonds. Otherwise, the proceeds will be applied as set out in "*Credit Structure—Pre-Maturity Liquidity*" below.

Sales of Randomly Selected Loans after a Demand Loan Repayment Event has occurred or the Issuer has otherwise demanded that the Demand Loan be repaid

If, prior to the service of an Asset Coverage Test Breach Notice or a Notice to Pay, a Demand Loan Repayment Event has occurred or the Issuer has demanded that the Demand Loan be repaid, the Guarantor may be required to sell Loans and their Related Security in the Covered Bond Portfolio in accordance with the Limited Partnership Agreement (see "*—Method of Sale of Loans and their Related Security*" below), subject to the rights of pre-emption enjoyed by the Seller to purchase the Loans and their Related Security pursuant to the terms of the Hypothecary Loan Sale Agreement. Any such sale will be subject to the condition that the Asset Coverage Test is satisfied after the receipt of the proceeds of such sale and repayment, after giving effect to such repayment.

Sale of Randomly Selected Loans at any time an Asset Coverage Test Breach Notice is outstanding or a Notice to Pay has been served on the Guarantor

At any time an Asset Coverage Test Breach Notice is outstanding or a Notice to Pay has been served on the Guarantor, but prior to service of a Guarantor Acceleration Notice on the Guarantor, the Guarantor may be obliged to sell Loans and their Related Security in the Covered Bond Portfolio in accordance with the Limited Partnership Agreement (see "*— Method of Sale of Loans and their Related Security*" below), subject to the rights of pre-emption enjoyed by the Seller to buy the Loans and their Related Security pursuant to the terms of the Hypothecary Loan Sale Agreement and subject to additional advances on the Intercompany Loan and any Cash Capital Contribution made by the Limited Partner. The proceeds from any such sale or refinancing will be credited to the GIC Account and applied as set out in the Priorities of Payments (see "*Cashflows*" below).

Method of Sale of Loans and their Related Security

If the Guarantor is required to sell Loans and their Related Security to Purchasers following a breach of the Pre-Maturity Test, the occurrence of a Demand Loan Repayment Event, the Demand Loan being demanded by the Issuer, the service of an Asset Coverage Test Breach Notice (if not revoked) or a Notice to Pay on the Guarantor, the Guarantor will be required to ensure that before offering Loans for sale:

(a) the Loans and their Related Security being sold are Randomly Selected Loans; and

(b) the Loans have an aggregate True Balance in an amount (the "**Required True Balance Amount**") which is as close as possible to the amount calculated as follows:

(i) following a Demand Loan Repayment Event or the Demand Loan being demanded by the Issuer but prior to service of an Asset Coverage Test Breach Notice, such amount that would ensure that, if the Randomly Selected Loans were sold at their True Balance plus the Arrears of Interest and Accrued Interest thereon, the Demand Loan as calculated on the date of the demand could be repaid, subject to satisfaction of the Asset Coverage Test; or

(ii) following the service of an Asset Coverage Test Breach Notice (but prior to service of a Notice to Pay on the Guarantor), such amount that would ensure that, if the Loans were sold at their True Balance plus the Arrears of Interest and Accrued Interest thereon, the Asset Coverage Test would be satisfied on the next Calculation Date taking into account the payment obligations of the Guarantor on the Guarantor Payment Date following that Calculation Date (assuming for this purpose that the Asset Coverage Test Breach Notice is not revoked on the next Calculation Date); or

(iii) following a breach of the Pre-Maturity Test or service of a Notice to Pay on the Guarantor:

$$N \times \frac{\text{True Balance of all the Loans in the Covered Bond Portfolio}}{\text{the Canadian Dollar Equivalent of the Required Redemption Amount in respect of each Series of Covered Bonds then outstanding}}$$

where "N" is an amount equal to:

(x) in respect of Randomly Selected Loans being sold following a breach of the Pre-Maturity Test, the Canadian Dollar Equivalent of the Required Redemption Amount of the relevant Series of Hard Bullet Covered Bonds less amounts standing to the credit of the Pre-Maturity Liquidity Ledger that are not otherwise required to provide liquidity for any Series of Hard Bullet Covered Bonds which mature within 12 months of the date of such calculation; or

(y) in respect of Randomly Selected Loans being sold following service of a Notice to Pay, the Canadian Dollar Equivalent of the Required Redemption Amount of the Earliest Maturing Covered Bonds less amounts standing to the credit of the Guarantor Accounts and the principal amount of any Substitute Assets and/or Authorized Investments (excluding all amounts to be applied on the next following Guarantor Payment Date to repay higher ranking amounts in the Guarantee Priority of Payments and those amounts that are required to repay any Series of Covered Bonds which mature prior to or on the same date as the relevant Series of Covered Bonds).

The Guarantor will offer the Loans and their Related Security for sale to Purchasers for the best price reasonably available but in any event:

(a) following (i) a Demand Loan Repayment Event, the Demand Loan being demanded by the Issuer or (ii) the service of an Asset Coverage Test Breach Notice (but prior to the service of a Notice to Pay on the Guarantor), in each case, for an amount not less than the True Balance of the Loans plus the Arrears of Interest and Accrued Interest thereon; and

(b) following a breach of the Pre-Maturity Test or service of a Notice to Pay on the Guarantor, for an amount not less than the Adjusted Required Redemption Amount.

Following the service of a Notice to Pay on the Guarantor, if the Loans and their Related Security have not been sold (in whole or in part) in an amount equal to the Adjusted Required Redemption Amount by the date which is six months prior to, as applicable, if the Covered Bonds are not subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the Final Maturity Date or, if the Covered Bonds are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the Extended Due for Payment Date in respect of the Earliest Maturing Covered Bonds (after taking into account all payments, provisions and credits to be made in priority thereto), or the Final Maturity Date of the relevant Series of Hard Bullet Covered Bonds in respect of a sale in connection with the Pre-Maturity Test, then the Guarantor will offer the Loans for sale for the best price reasonably available notwithstanding that such amount may be less than the Adjusted Required Redemption Amount.

The Guarantor will through a tender process appoint a portfolio manager of recognized standing on a basis intended to incentivize the portfolio manager to achieve the best price for the sale of the Loans (if such terms are commercially available in the market) to advise it in relation to the sale of the Loans to Purchasers (except where the Seller is buying the Loans in accordance with their right of pre-emption in the Hypothecary Loan Sale Agreement). The terms of the agreement giving effect to the appointment in accordance with such tender will be approved by the Bond Trustee.

In respect of any sale or refinancing of Loans and their Related Security at any time an Asset Coverage Test Breach Notice is outstanding, a breach of the Pre-Maturity Test, or a Notice to Pay has been served on the Guarantor, the Guarantor will instruct the portfolio manager to use all reasonable efforts to procure that Loans are sold as quickly as reasonably practicable (in accordance with the recommendations of the portfolio manager) taking into account the market conditions at that time and the scheduled repayment dates of the Covered Bonds and the terms of the Limited Partnership Agreement.

The terms of any sale and purchase agreement with respect to the sale of Loans (which will give effect to the recommendations of the portfolio manager) will be subject to the prior written approval of the Bond Trustee. The Bond Trustee will not be required to release the Loans from the Security unless the conditions relating to the release of the Security (as described under "*Security Agreements—Release of Security*", below) are satisfied.

Following the service of a Notice to Pay on the Guarantor, if Purchasers accept the offer or offers from the Guarantor so that some or all of the Loans will be sold prior to the next following Final Maturity Date or, if the Covered Bonds are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the next following Extended Due for Payment Date in respect of the Earliest Maturing Covered Bonds, then the Guarantor will, subject to the foregoing paragraph, enter into a sale and purchase agreement with the relevant Purchasers which will require among other things a cash payment from the relevant Purchasers. Any such sale will not include any Loan Representations and Warranties from the Guarantor in respect of the Loans and the Related Security unless expressly agreed by the Bond Trustee or otherwise agreed with the Seller.

Covenants of the General Partner and Limited Partner of the Guarantor

Each of the Partners covenants that, subject to the terms of the Transaction Documents, it will not sell, transfer, convey, create or permit to arise any security on, declare a trust over, create any beneficial interest in or otherwise dispose of its interest in the Guarantor without the prior written consent of the Managing GP and, while the Covered Bonds are outstanding, the Bond Trustee.

The Guarantor covenants that it will not, save with the prior written consent of the Limited Partner (and, for so long as any Covered Bonds are outstanding, the consent of the Bond Trustee) or as envisaged by the Transaction Documents:

(a) have an interest in a bank account;

(b) have any employees, premises or subsidiaries;

(c) acquire any material assets;

(d) sell, exchange, deal with or grant any option, present or future right to acquire any of the assets or undertakings of the Guarantor or any interest therein or thereto;

(e) enter into any contracts, agreements or other undertakings;

(f) incur any indebtedness or give any guarantee or indemnity in respect of any such indebtedness;

(g) create or permit to subsist any security interest or real right over the whole or any part of the assets or undertakings, present or future of the Guarantor;

(h) change the name or business of the Guarantor or do any act in contravention of, or make any amendment to, the Limited Partnership Agreement;

(i) do any act which makes it impossible to carry on the ordinary business of the Guarantor, including winding up the Guarantor;

(j) compromise, compound or release any debt due to it;

(k) commence, defend, consent to a judgment, settle or compromise any litigation or other claims relating to it or any of its assets;

(l) permit a person to become a general or limited partner (except in accordance with the terms of the Limited Partnership Agreement); or

(m) consolidate or merge with another person.

Limit on investing in Substitute Assets

At any time that no Asset Coverage Test Breach Notice is outstanding and prior to a Notice to Pay having been served on the Guarantor, the Guarantor will be permitted to hold Substitute Assets provided that the aggregate value of the Substitute Assets does not at any time exceed an amount equal to 10 per cent of the total assets of the Guarantor and provided that investments in Substitute Assets are made in accordance with the terms of the Cash Management Agreement and subject to the applicable Priority of Payments.

For greater certainty, amounts standing to the credit of the Guarantor in any Guarantor Account and invested in Authorized Investments will not constitute Substitute Assets.

At any time an Asset Coverage Test Breach Notice is outstanding or a Covered Bond Guarantee Activation Event has occurred, the Substitute Assets held by or on behalf of the Guarantor must be sold as quickly as reasonably practicable with proceeds credited to the GIC Account and/or invested in Authorized Investments.

There is no limit on the amounts that the Guarantor will be entitled to invest in Authorized Investments.

Other Provisions

The allocation and distribution of Revenue Receipts, Principal Receipts and all other amounts received by the Guarantor is described under "*Cashflows*" below.

For so long as any Covered Bonds are outstanding, each of the Partners has agreed that it will not terminate or purport to terminate the Guarantor or institute any winding-up, administration, insolvency or other similar proceedings against the Guarantor. Furthermore, each of the Partners has agreed, among other things, except as otherwise specifically provided in the Transaction Documents not to demand or receive payment of any amounts payable to such Partners by the Guarantor (or the Cash Manager on its behalf) or the Bond Trustee unless all amounts then due and payable by the Guarantor to all other creditors ranking higher in the relevant Priorities of Payments have been paid in full.

Each of the Partners will be responsible for the payment of its own tax liabilities and will be required to indemnify the other from any liabilities which they incur as a result of the relevant partner's non-payment.

Following the appointment of a liquidator to any Partner, any decisions of the Guarantor that are reserved to the Partners or a unanimous decision of the Partners in the Limited Partnership Agreement will be made by the Partner(s) not in liquidation only.

Cash Management Agreement

The Cash Manager will provide certain cash management services to the Guarantor pursuant to the terms of the Cash Management Agreement entered into on the Programme Establishment Date between the Guarantor, Caisse centrale in its capacities as Cash Manager, Seller and Servicer, and the Bond Trustee.

The Cash Manager's services include but are not limited to:

(a) maintaining the Ledgers on behalf of the Guarantor;

(b) collecting the Revenue Receipts and the Principal Receipts from the Servicer and distributing and/or depositing the Revenue Receipts and the Principal Receipts in accordance with the Priorities of Payment described under "*Cashflows*", below;

(c) determining whether the Asset Coverage Test is satisfied as at each Calculation Date in accordance with the Limited Partnership Agreement, as more fully described under "*Credit Structure—Asset Coverage Test*";

(d) determining whether the Amortization Test is satisfied as at each Calculation Date following an Issuer Event of Default and service of a Notice to Pay in accordance with the Limited Partnership Agreement, as more fully described under "*Credit Structure—Amortization Test*", below;

(e) preparation of Investor Reports in respect of the Covered Bonds for the Bond Trustee and the Rating Agencies and as otherwise specified in the applicable Final Terms; and

(f) on each Montréal Business Day, determining whether the Pre-Maturity Test for each Series of Hard Bullet Covered Bonds, if any, is satisfied as more fully described under "*Credit Structure—Pre-Maturity Liquidity*" below.

In the event of a downgrade in the ratings of the unsecured, unsubordinated and unguaranteed debt obligations of the Issuer or the Cash Manager by the Rating Agencies below a level specified in the Cash Management Agreement, the Cash Manager will be required to direct the Servicer to deposit all Revenue Receipts and Principal Receipts received by the Servicer directly into the GIC Account.

In the event of a further downgrade in the ratings of the unsecured, unsubordinated and unguaranteed debt obligations of the Cash Manager by the Rating Agencies below a level specified in the Cash Management Agreement, the Cash Manager will be required to assign the Cash Management Agreement to a third party service provider acceptable to the Bond Trustee and for which Rating Agency Confirmation has been received. In addition to the foregoing, the Guarantor and the Bond Trustee will, in certain circumstances, each have the right to terminate the appointment of the Cash Manager in which event the Guarantor will appoint a substitute (the identity of which will be subject to the Bond Trustee's written approval). Any substitute cash manager will have substantially the same rights and obligations as the Cash Manager (although the fee payable to the substitute cash manager may be higher).

Interest Rate Swap Agreement

To provide a hedge against possible variances in the rates of interest payable on the Loans and related amounts in the Covered Bond Portfolio (which may, for instance, include variable rates of interest or fixed rates of interest) following the occurrence of a Covered Bond Guarantee Activation Event and the Covered Bond Swap Agreement, the Guarantor has entered into the Interest Rate Swap Agreement with the Interest Rate Swap Provider. The Guarantor and the Interest Rate Swap Provider will agree to swap the amount of interest received by the Guarantor from Borrowers and related amounts in exchange for an amount sufficient to pay, amongst other things, the amount payable by the Guarantor under the Covered Bond Swap Agreement plus an amount for certain expenses of the Guarantor.

No cash flows will be exchanged under the Interest Rate Swap Agreement unless and until a Covered Bond Guarantee Activation Event has occurred.

The Interest Rate Swap Agreement will terminate (unless terminated earlier by an Interest Rate Swap Early Termination Event) on the earlier of:

(a) the Final Maturity Date for the final Tranche or Series of Covered Bonds then outstanding (provided that the Issuer has not given prior written notice to the Interest Rate Swap Provider and the Guarantor that it intends to issue additional Covered Bonds following such date) or, if the Guarantor notifies the Interest Rate Swap Provider, prior to the Final Maturity Date for such final Tranche or Series of Covered Bonds then outstanding, of the inability of the Guarantor to pay in full Guaranteed Amounts corresponding to the Final Redemption Amount in respect of such final Tranche or Series of Covered Bonds then outstanding, the final date on which an amount representing the Final Redemption Amount for such final Tranche or Series of Covered Bonds then outstanding is paid (but in any event not later than the Extended Due for Payment Date for such Tranche or Series of Covered Bonds);

(b) the date designated therefor by the Bond Trustee and notified to the Interest Rate Swap Provider and the Guarantor for purposes of realizing the Security in accordance with the Security Agreements and distributing the proceeds therefrom in accordance with the Post Enforcement Priority of Payments following the enforcement of the Security pursuant to Condition 7.03;

(c) the date on which the notional amount under the Interest Rate Swap Agreement reduces to zero (as a result of the reduction for the amount of any Early Redemption Amount paid pursuant to Condition 7.02 in respect of the final Tranche or Series of Covered Bonds then outstanding or any Final Redemption Amount paid pursuant to Condition 6.01 in respect of the final Tranche or Series of Covered Bonds then outstanding following the Final Maturity Date for such Tranche or Series of Covered Bonds, provided in each case that the Issuer has not given prior written notice to the Interest Rate Swap Provider that it intends to issue additional Covered Bonds following such date); and

(d) the date of redemption pursuant to Conditions 6.02 or 6.16 in respect of any final Tranche or Series of Covered Bonds then outstanding (provided that the Issuer has not given prior written notice to the Interest Rate Swap Provider that it intends to issue additional Covered Bonds following such date).

The Interest Rate Swap Agreement may also be terminated in certain other circumstances (each referred to as an "**Interest Rate Swap Early Termination Event**"), including:

- at the option of any party to the Interest Rate Swap Agreement, if there is a failure by the other party to pay any amounts due under the Interest Rate Swap Agreement, provided that no such failure to pay by the Guarantor, other than payments in respect of Swap Collateral Excluded Amounts, will entitle the Interest Rate Swap Provider to terminate the Interest Rate Swap Agreement, if such failure is due to the assets available at such time to the Guarantor being insufficient to make the required payment in full);

- at the option of the Guarantor, in the event that the ratings of the unsecured, unsubordinated and unguaranteed debt obligations of the Interest Rate Swap Provider, or any credit support provider, as applicable, by the Rating Agencies are downgraded by the Rating Agencies below the ratings of the Rating Agencies specified in the Interest Rate Swap Agreement and the Interest Rate Swap Provider does not obtain Rating Agency Confirmation by, for example, taking certain remedial measures which may include providing collateral for or arranging for its obligations under the Interest Rate Swap Agreement to be guaranteed by an entity with rating(s) at the required levels or taking such other action agreed to by the Guarantor and the Interest Rate Swap Provider, subject to receipt of Rating Agency Confirmation; and

- upon the occurrence of the insolvency of the Interest Rate Swap Provider, or any credit support provider and certain insolvency-related events in respect of the Guarantor, or the merger of the Interest Rate Swap Provider without an assumption of the obligations under the Interest Rate Swap Agreement.

Upon the termination of the Interest Rate Swap Agreement pursuant to an Interest Rate Swap Early Termination Event, the Guarantor or the Interest Rate Swap Provider may be liable to make a termination payment to the other in accordance with the provisions of the Interest Rate Swap Agreement.

As noted herein, the notional amount of the Interest Rate Swap Agreement will be adjusted to correspond to any sale of Loans following each of a Demand Loan Repayment Event, the Demand Loan being demanded by the Issuer, breach of the Pre-Maturity Test, service of an Asset Coverage Test Breach Notice and service of a Notice to Pay and swap termination payments may be due and payable in accordance with the terms of the Interest Rate Swap Agreement as a consequence thereof.

Swap Collateral Excluded Amounts, if applicable, will be paid to the Interest Rate Swap Provider directly and not via the Priorities of Payments. If withholding taxes are imposed on payments made by the Interest Rate Swap Provider under the Interest Rate Swap Agreement, the Interest Rate Swap Provider will always be obliged to gross up these payments. If withholding taxes are imposed on payments made by the Guarantor to the Interest Rate Swap Provider under the Interest Rate Swap Agreement, the Guarantor shall not be obliged to gross up those payments.

The Interest Rate Swap Agreement will be in the form of an ISDA Master Agreement, including a schedule and confirmation thereto and credit support annex.

Under the Interest Rate Swap Agreement, the Guarantor's obligations are limited in recourse to the Charged Property.

The Interest Rate Swap Agreement will be governed by, and construed in accordance with English law.

Covered Bond Swap Agreement

To provide a hedge against currency and/or other risks, in respect of amounts received by the Guarantor under the Interest Rate Swap Agreement and amounts payable in respect of its obligations under the Covered Bond Guarantee, the Guarantor will enter into the Covered Bond Swap Agreement with the Covered Bond Swap Provider, and may enter into a new schedule and confirmation(s) for each Tranche and/or Series of Covered Bonds issued at the time such Covered Bonds are issued. The Covered Bond Swap Provider and the Guarantor will agree to swap Canadian dollar floating rate amounts received by the Guarantor under the Interest Rate Swap Agreement (described above) into the exchange rate specified in the Covered Bond Swap Agreement relating to the relevant Tranche or Series of Covered Bonds to hedge certain currency and/or other risks in respect of amounts received by the Guarantor under the Interest Rate Swap Agreement and amounts payable or that may become payable in respect of its obligations under the Covered Bond Guarantee. No cash flows will be exchanged under the Covered Bond Swap Agreement unless and until a Covered Bond Guarantee Activation Event has occurred.

If prior (i) to the Final Maturity Date in respect of the relevant Series or Tranche of Covered Bonds, or (ii) any Interest Payment Date or the Extended Due for Payment Date following a deferral of the Due for Payment Date to the Extended Due for Payment Date by the Guarantor pursuant to Condition 6.01 (if an Extended Due for Payment Date is specified as applicable in the Final Terms for a Series of Covered Bonds and the payment of the Final Redemption Amount or any part of it by the Guarantor under the Covered Bond Guarantee is deferred pursuant to Condition 6.01), the Guarantor notifies the Covered Bond Swap Provider (pursuant to the terms of the Covered Bond Swap Agreement) of the amount in the Specified Currency to be paid by such Covered Bond Swap Provider on such Final Maturity Date or Interest Payment Date thereafter (such amount being equal to the Final Redemption Amount or the relevant portion thereof payable by the Guarantor on such Final Maturity Date or Interest Payment Date under the Covered Bond Guarantee in respect of the relevant Series or Tranche of Covered Bonds), then the Covered Bond Swap Provider will pay the Guarantor such amount and the Guarantor will pay the Covered Bond Swap Provider the Canadian Dollar Equivalent of such amount. Further, if on any day an Early Redemption Amount is payable pursuant to Condition 7.02, the Covered Bond Swap Provider will pay the Guarantor such Amount (or the relevant portion thereof) and the Guarantor will pay the Covered Bond Swap Provider the Canadian Dollar Equivalent thereof, following which the notional amount of the Covered Bond Swap Agreement will reduce accordingly.

The Covered Bond Swap Agreement will (unless terminated earlier by a Covered Bond Swap Early Termination Event) terminate in respect of any relevant Tranche or Series of Covered Bonds, on the earlier of:

(a) the Final Maturity Date for, or if earlier, the date of redemption in whole of, such Series of Covered Bonds or, if the Guarantor notifies the Covered Bond Swap Provider, prior to the Final Maturity Date for such Tranche or Series of Covered Bonds, of the inability of the Guarantor to pay in full Guaranteed Amounts corresponding to the Final Redemption Amount in respect of such Tranche or Series of Covered Bonds, the final Interest Payment Date on which an amount representing the Final Redemption Amount for such Tranche or Series of Covered Bonds is paid (but in any event not later than the Extended Due for Payment Date for such Tranche or Series of Covered Bonds); and

(b) the date designated therefor by the Bond Trustee and notified to the Covered Bond Swap Provider and the Guarantor for purposes of realizing the Security in accordance with the Security Agreements and distributing the proceeds therefrom in accordance with the Post-Enforcement Priority of Payments following the enforcement of the Security pursuant to Condition 7.03.

The Covered Bond Swap Agreement may also be terminated in certain other circumstances (each referred to as a "**Covered Bond Swap Early Termination Event**"), including:

- at the option of any party to the Covered Bond Swap Agreement, if there is a failure by the other party to pay any amounts due under the Covered Bond Swap Agreement, provided that no such failure to pay by the Guarantor, other than payments in respect of Swap Collateral Excluded Amounts, will entitle the Covered Bond Swap Provider to terminate the Covered Bond Swap Agreement, if such failure is due to the assets available at such time to the Guarantor being insufficient to make the required payment in full);

- at the option of the Guarantor, in the event that the ratings of the unsecured, unsubordinated and unguaranteed debt obligations of the Covered Bond Swap Provider, or any credit support provider, as applicable, by the Rating Agencies are downgraded by the Rating Agencies below the ratings of the Rating Agencies specified in the Covered Bond Swap Agreement and the Covered Bond Swap Provider does not obtain a Rating Agency Confirmation by, for example, taking certain remedial measures which

may include providing collateral for or arranging for its obligations under the Covered Bond Swap Agreement to be guaranteed by an entity with rating(s) required by the relevant Rating Agencies, or taking such other action as may be required by the relevant Rating Agencies; and

- upon the occurrence of the insolvency of the Covered Bond Swap Provider or any credit support provider, and certain insolvency-related events in respect of the Guarantor or the merger of the Covered Bond Swap Provider without an assumption of the obligations under the Covered Bond Swap Agreement.

Upon the termination of the Covered Bond Swap Agreement pursuant to a Covered Bond Swap Early Termination Event, the Guarantor or the Covered Bond Swap Provider may be liable to make a termination payment to the other in accordance with the provisions of the Covered Bond Swap Agreement.

Any termination payment made by the Covered Bond Swap Provider to the Guarantor in respect of the Covered Bond Swap Agreement will first be used to the extent necessary (prior to the occurrence of a Guarantor Event of Default and service of a Guarantor Acceleration Notice) to pay a replacement Covered Bond Swap Provider to enter into a replacement Covered Bond Swap with the Guarantor, unless a replacement Covered Bond Swap Agreement has already been entered into on behalf of the Guarantor.

Any premium received by the Guarantor from a replacement Covered Bond Swap Provider entering into a Covered Bond Swap Agreement will first be used to make any termination payment due and payable by the Guarantor with respect to the Covered Bond Swap Agreement, unless such termination payment has already been made or behalf of the Guarantor.

Swap Collateral Excluded Amounts, if applicable, will be paid to the Covered Bond Swap Provider directly and not via the Priorities of Payments.

If withholding taxes are imposed on payments made by the Covered Bond Swap Provider to the Guarantor under the Covered Bond Swap Agreement, the Covered Bond Swap Provider will always be obliged to gross up those payments. If withholding taxes are imposed on payments made by the Guarantor to the Covered Bond Swap Provider under the Covered Bond Swap Agreement, the Guarantor will not be obliged to gross up those payments.

The Covered Bond Swap Agreement will be in the form of an ISDA Master Agreement, including a schedule and confirmation and credit support annex, if applicable, in relation to each particular Tranche or Series of Covered Bonds, as the case may be.

Under the Covered Bond Swap Agreement, the Guarantor's obligations are limited in recourse to the Charged Property. To the extent that the Guarantor is unable to make any payment in full under the Covered Bond Swap Agreement due to its assets being insufficient to make such payment in full, the Covered Bond Swap Provider's payment obligations will ratably reduce.

The Covered Bond Swap Agreement will be governed by, and construed in accordance with English law.

Account Agreement

Pursuant to the terms of the Account Agreement entered into on the Programme Establishment Date between the Guarantor, the Account Depository Institution, the GIC Provider, the Cash Manager and the Bond Trustee (as amended and/or restated and/or supplemented from time to time), the Guarantor will maintain with the Account Depository Institution the accounts described below, which will be operated in accordance with the Cash Management Agreement, the Limited Partnership Agreement and the Security Agreements:

(a) the GIC Account into which amounts may be deposited by the Guarantor (including, following the occurrence of an Issuer Event of Default which is not cured within the applicable grace period, all amounts received from Borrowers in respect of Loans in the Covered Bond Portfolio). On each Guarantor Payment Date as applicable, amounts required to meet the Guarantor's various creditors and amounts to be distributed to the Partners under the Limited Partnership Agreement will be transferred to the Transaction Account (to the extent maintained); and

(b) the Transaction Account (to the extent maintained) into which, amounts may be deposited by the Guarantor prior to their transfer to the GIC Account. Moneys standing to the credit of the Transaction Account will be transferred on each Guarantor Payment Date and applied by the Cash Manager in accordance with the Priorities of Payments described below under "*Cashflows*".

If the unsecured, unsubordinated and unguaranteed debt obligations of the Account Depository Institution cease to be rated by the Rating Agencies at or above the Account Depository Institution Threshold Ratings (as defined below), then within 30 calendar days of such occurrence either:

- the GIC Account and the Transaction Account (to the extent maintained) will be required to be closed and all amounts standing to the credit thereof transferred to accounts held with the Standby Account Depository Institution; or

- the Account Depository Institution will obtain an unconditional and unlimited guarantee of its obligations under the Account Agreement from a satisfactorily rated financial institution, provided that Rating Agency Confirmation has been received within 30 Montréal Business Days of such downgrade.

"**Account Depository Institution Threshold Ratings**" means the threshold ratings P-1 (in respect of Moody's), R-1(middle) and A(low) (in respect of DBRS; for greater certainty, the ratings from DBRS are only required to be at or above one of such ratings), or F1 or A (in respect of Fitch; provided that both such ratings from Fitch are required), as applicable, of the unsecured, unsubordinated and unguaranteed debt obligations of the Account Depository Institution by the Rating Agencies

Standby Account Agreement

Pursuant to the terms of a standby account agreement (the "**Standby Account Agreement**") entered into on the Programme Establishment Date between the Guarantor, the Standby Account Depository Institution, the Standby GIC Provider, the Cash Manager, the Issuer and the Bond Trustee (as amended and/or restated and/or supplemented from time to time), the Standby Account Depository Institution will open and maintain a standby GIC account (the "**Standby GIC Account**") and standby transaction account (the "**Standby Transaction Account**") in the name of the Guarantor following delivery by the Guarantor (or the Cash Manager on its behalf) of a standby account depository institution notice (the "**Standby Account Depository Institution Notice**") to the Standby Account Depository Institution.

Pursuant to the terms of the Cash Management Agreement, the Cash Manager will deliver a Standby Account Depository Institution Notice to the Standby Account Depository Institution if the funds held in the GIC Account and the Transaction Account (to the extent maintained) are required to be transferred to the Standby Account Depository Institution pursuant to the terms of the Account Agreement or the Account Agreement is terminated for any reason.

The Standby Account Agreement provides that the Standby GIC Account and the Standby Transaction Account, when opened, will be subject to the security in favour of the Bond Trustee (for itself and on behalf of the Other Secured Creditors) granted under the Security Agreements and that payments of amounts owing to the Standby Account Depository Institution in respect of fees or otherwise shall be subject to the relevant Priorities of Payment set out in the Limited Partnership Agreement and the Security Agreements.

The Standby Account Agreement further provides that if the ratings of the unsecured, unsubordinated and unguaranteed debt obligations of the Standby Account Depository Institution by the Rating Agencies fall below the ratings for the Standby Account Depository Institution specified in the Standby Account Agreement, then within 30 calendar days of such occurrence either:

- the Standby GIC Account and the Standby Transaction Account (to the extent maintained) will be required to be closed and all amounts standing to the credit thereof transferred to accounts held with a satisfactorily rated bank; or

- the Standby Account Depository Institution will obtain an unconditional and unlimited guarantee of its obligations under the Standby Account Agreement from a satisfactorily rated financial institution,

in each case, provided that Rating Agency Confirmation has been received in respect of the substitute bank or credit enhancement provider within 30 Montréal Business Days of such downgrade.

References in this Prospectus to the GIC Account or the Transaction Account include, unless otherwise stated, references to the Standby GIC Account or the Standby Transaction Account when the Standby GIC Account and the Standby Transaction Account become operative.

Guaranteed Investment Contract

The Guarantor will enter into a Guaranteed Investment Contract (or "**GIC**") with the GIC Provider, the Cash Manager and the Bond Trustee on the Programme Establishment Date, pursuant to which the GIC Provider has agreed to pay interest on the moneys standing to the credit of the Guarantor in the GIC Account at specified rates determined in accordance with the GIC during the term of the GIC. The Guarantor or the Bond Trustee may terminate the GIC following the closing of the GIC Account or termination of the Account Agreement.

Standby Guaranteed Investment Contract

Pursuant to the terms of a standby guaranteed investment contract (the "**Standby Guaranteed Investment Contract**") entered into on the Programme Establishment Date by and among the Standby Account Depository Institution, the Standby GIC Provider, the Guarantor, the Cash Manager, the Issuer and the Bond Trustee (as amended and/or restated and/or supplemented from time to time), the Standby GIC Provider has agreed to pay interest on the moneys standing to the credit of the Standby GIC Account at specified rates determined in accordance with the terms of the Standby Guaranteed Investment Contract during the term of the Standby Account Agreement. The Standby Guaranteed Investment Contract will be automatically terminated following the closing of the Standby GIC Account and/or termination of the Standby Account Agreement in accordance with the Standby Account Agreement.

Security Agreements

Pursuant to the terms of the Security Agreements entered into on the Programme Establishment Date by the Guarantor, the Bond Trustee, and other Secured Creditors (as amended and/or restated and/or supplemented from time to time), the secured obligations of the Guarantor and all other obligations of the Guarantor under or pursuant to the Transaction Documents to which it is a party owed to the Bond Trustee and the other Secured Creditors are secured by a first ranking security interest and hypothec (the "**Security**") over all present and after-acquired undertaking, property and assets of the Guarantor (the "**Charged Property**"), including without limitation the Covered Bond Portfolio, and any other Loans and their Related Security, Substitute Assets or Authorized Investments that the Guarantor may acquire from time to time and funds being held for the account of the Guarantor by its service providers and the amounts standing to the credit of the Guarantor in the Guarantor Accounts, subject to the right of the Guarantor (provided the Asset Coverage Test or the Amortization Test, as applicable, is met) to sell such Charged Property.

Release of Security

In the event of any sale of Loans and their Related Security by the Guarantor pursuant to and in accordance with the Transaction Documents, the Bond Trustee will, while any Covered Bonds are outstanding (subject to the written request of the Guarantor), release those Loans from the Security created by and pursuant to the Security Agreements on the date of such sale but only if:

(a) the Bond Trustee provides its prior written consent to the terms of such sale as described under "*Limited Partnership Agreement—Method of Sale of Loans and their Related Security*" above; and

(b) in the case of the sale of Loans, the Guarantor provides to the Bond Trustee a certificate confirming that the Loans being sold are Randomly Selected Loans.

In the event of the repurchase of a Loan and its Related Security by the Seller pursuant to and in accordance with the Transaction Documents, the Bond Trustee will release that Loan from the Security created by and pursuant to the Security Agreements on the date of the repurchase.

Enforcement

If a Guarantor Acceleration Notice is served on the Guarantor, the Bond Trustee will be entitled to appoint a receiver, and/or enforce the Security constituted by the Security Agreements (including selling the Covered Bond Portfolio), and/or take such steps as it deems necessary, subject in each case to being indemnified and/or secured to its satisfaction. All proceeds received by the Bond Trustee from the enforcement of the Security will be applied in accordance with the Post-Enforcement Priority of Payments described under "*Cashflows*".

The Security Agreements are governed by the laws of the Province of Québec and the federal laws of Canada applicable therein (other than certain other provisions relating to real property located outside of the Province of Québec, which will be governed by the law of the jurisdiction in which such property is located, and the General Security Agreement, which is governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein).

Corporate Services Agreement

Pursuant to the terms of a corporate services agreement such corporate services agreement as amended and/or restated and/or supplemented from time to time, (the "**Corporate Services Agreement**") entered into on the Programme Establishment Date with, *inter alios*, the Corporate Services Provider, the Liquidation GP, the Issuer and the Guarantor, the Corporate Services Provider will provide corporate services to the Liquidation GP.

CREDIT STRUCTURE

Under the terms of the Covered Bond Guarantee, the Guarantor has agreed to, following the occurrence of a Covered Bond Guarantee Activation Event, unconditionally and irrevocably pay or procure to be paid to or to the order of the Bond Trustee (for the benefit of the holders of the Covered Bonds), an amount equal to that portion of the Guaranteed Amounts which shall become Due for Payment but would otherwise be unpaid, as of any Original Due for Payment Date, or, if applicable, Extended Due for Payment Date, by the Issuer. Under the Covered Bond Guarantee, the Guaranteed Amounts will become due and payable on any earlier date on which a Guarantor Acceleration Notice is served. The Issuer will not be relying on payments from the Guarantor in respect of advances under the Intercompany Loan Agreement or receipt of Available Revenue Receipts or Available Principal Receipts from the Covered Bond Portfolio in order to pay interest or repay principal under the Covered Bonds.

There are a number of features of the Programme which enhance the likelihood of timely and, as applicable, ultimate payments to holders of the Covered Bonds, as follows:

- the Covered Bond Guarantee provides credit support to the Issuer;
- the Pre-Maturity Test is intended to test the liquidity of the Guarantor's assets in respect of principal due on the Final Maturity Date of Hard Bullet Covered Bonds;
- the Asset Coverage Test is intended to test the asset coverage of the Guarantor's assets in respect of the Covered Bonds at all times;
- the Amortization Test is intended to test the asset coverage of the Guarantor's assets in respect of the Covered Bonds following the occurrence of a Covered Bond Guarantee Activation Event;
- a Reserve Fund (if the ratings of the Issuer's unsecured, unsubordinated and unguaranteed debt obligations by the Rating Agencies fall below the levels specified in the Limited Partnership Agreement) will be established by the Guarantor (or the Cash Manager on its behalf) in the GIC Account to trap Available Revenue Receipts; and
- under the terms of the GIC, the GIC Provider has agreed to pay a variable rate of interest on all amounts held by the Guarantor in the GIC Account at a floor of 0.10 per cent below the average of the rates per annum for Canadian dollar bankers' acceptances having a term of 30 days that appears on the Reuters Screen as of 10:00 a.m. (Montréal time) on the date of determination, as reported by the GIC Provider (and if such screen is not available, any successor or similar service as may be selected by the GIC Provider) or such greater amount as the Guarantor and the GIC Provider may agree from time to time.

Certain of these factors are considered more fully in the remainder of this Section.

Guarantee

The Covered Bond Guarantee provided by the Guarantor under the Trust Deed guarantees payment of Guaranteed Amounts when the same become Due for Payment in respect of all Covered Bonds issued under the Programme. The Covered Bond Guarantee will not guarantee any amount becoming payable for any other reason, including any accelerated payment pursuant to Condition 7 (Events of Default and Enforcement) following the occurrence of an Issuer Event of Default. In this circumstance (and until a Guarantor Event of Default occurs and a Guarantor Acceleration Notice is served), the Guarantor's obligations will only be to pay the Guaranteed Amounts as such amounts fall Due for Payment.

See further "*Summary of the Principal Documents—Trust Deed*" with respect to the terms of the Covered Bond Guarantee. See "*Cashflows—Guarantee Priority of Payments*" with respect to the payment of amounts payable by the Guarantor to holders of the Covered Bonds and other Secured Creditors following the occurrence of an Issuer Event of Default.

Pre-Maturity Liquidity

Certain Series of Covered Bonds may be scheduled to be redeemed in full on their respective Final Maturity Dates without any provision for scheduled redemption other than on the Final Maturity Date (the "**Hard Bullet Covered Bonds**"). The applicable Final Terms will identify whether any Series of Covered Bonds is a Series of Hard Bullet Covered Bonds. The Pre-Maturity Test is intended to test the liquidity of the Guarantor's assets in respect of the Hard Bullet Covered Bonds when the Issuer's unsecured, unsubordinated and unguaranteed debt obligations credit ratings, as applicable, fall below a certain level. On each Montréal Business Day (each, a "**Pre-Maturity Test Date**") prior to the occurrence of an Issuer Event of Default or the occurrence of a Guarantor Event of Default, the Guarantor (or the Cash Manager on its behalf) will determine if the Pre-Maturity Test has been breached, and if so, it will immediately notify the Seller and the Bond Trustee.

The Issuer will fail and be in breach of the "**Pre-Maturity Test**" on a Pre-Maturity Test Date if:

(a) the rating from DBRS of the Issuer's unsecured, unsubordinated and unguaranteed debt obligations falls below A(high) or A(low) and the Final Maturity Date of the Series of Hard Bullet Covered Bonds falls within six months or 12 months, respectively, from the relevant Pre-Maturity Test Date; or

(b) the rating from Moody's of the Issuer's unsecured, unsubordinated and unguaranteed debt obligations falls below P-1 and the Final Maturity Date of the Series of Hard Bullet Covered Bonds falls within 12 months from the relevant Pre-Maturity Test Date; or

(c) the rating from Fitch of the Issuer's unsecured, unsubordinated and unguaranteed debt obligations falls below F1+ and the Final Maturity Date of the Series of Hard Bullet Covered Bonds falls within 12 months from the relevant Pre-Maturity Test Date,

(each of the ratings set out above, the "**Pre-Maturity Minimum Ratings**").

Following a breach of the Pre-Maturity Test in respect of a Series of Hard Bullet Covered Bonds, the Guarantor may offer to sell Randomly Selected Loans to Purchasers, subject to:

(i) any right of pre-emption of the Seller pursuant to the terms of the Hypothecary Loan Sale Agreement;

(ii) a Contribution in Kind made by one or more of the Partners (as recorded in the Capital Account Ledger for such Partners of the Guarantor) of certain Substitute Assets and/or Authorized Investments in accordance with the Limited Partnership Agreement with an aggregate principal amount up to at least the Required Redemption Amount of the Series of Hard Bullet Covered Bonds to which the Pre-Maturity Test Date relates (which shall be a credit to the Pre-Maturity Liquidity Ledger); or

(iii) Cash Capital Contributions made by one or more of the Partners (as recorded in the Capital Account Ledger for each applicable Partner of the Guarantor) or proceeds advanced under the Intercompany Loan Agreement which have not been applied to acquire further Loans and their Related Security or otherwise applied in accordance with the Limited Partnership Agreement and/or the other Transaction Documents with an aggregate principal amount up to at least the Required Redemption Amount of the Series of Hard Bullet Covered Bonds to which the Pre-Maturity Test Date relates (which shall be a credit to the Pre-Maturity Liquidity Ledger).

An Issuer Event of Default will occur if the Pre-Maturity Test in respect of any Series of Hard Bullet Covered Bonds is breached less than nine months prior to the Final Maturity Date of that Series of Hard Bullet Covered Bonds and the Guarantor has not taken the required action as described above before the earlier to occur of (i) 10 Montréal Business Days from the date that the Seller is notified of the breach of the Pre-Maturity Test and (ii) the Final Maturity Date of that Series of Hard Bullet Covered Bonds (see further: Condition 7.01). To cure a Pre-Maturity Test breach within such period, the Pre-Maturity Liquidity Ledger shall be funded so that by the end of such period, there will be an amount equal to the Required Redemption Amount of that Series of Hard Bullet Covered Bonds standing to the credit of the Pre-Maturity Liquidity Ledger (after taking into account the Required Redemption Amount of all other Series of Hard Bullet Covered Bonds which mature within 12 months of the date of such calculation). The method for selling Randomly Selected Loans is described in "*Summary of the Principal Documents— Limited Partnership Agreement—Method of Sale of Loans and their Related Security*" above. The proceeds of sale of Randomly Selected Loans will be recorded to the Pre-Maturity Liquidity Ledger on the GIC Account.

In certain circumstances, Revenue Receipts will also be available to repay a Hard Bullet Covered Bond, as described in "*Cashflows—Pre-Acceleration Revenue Priority of Payments*" below.

Failure by the Issuer to pay the full amount due in respect of a Series of Hard Bullet Covered Bonds on the Final Maturity Date thereof, subject to applicable cure periods, will constitute an Issuer Event of Default. Following service of a Notice to Pay on the Guarantor, the Guarantor will apply funds standing to the Pre-Maturity Liquidity Ledger to repay the relevant Series of Hard Bullet Covered Bonds.

If the Issuer and/or the Guarantor fully repay the relevant Series of Hard Bullet Covered Bonds on the Final Maturity Date thereof, cash standing to the credit of the Pre-Maturity Liquidity Ledger on the GIC Account will be applied by the Guarantor in accordance with the Pre-Acceleration Principal Priority of Payments, unless:

(a) the Issuer is failing the Pre-Maturity Test in respect of any other Series of Hard Bullet Covered Bonds, in which case the cash will remain on the Pre-Maturity Liquidity Ledger in order to provide liquidity for that other Series of Hard Bullet Covered Bonds; or

(b) the Issuer is not failing the Pre-Maturity Test, but the Cash Manager elects to retain the cash on the Pre-Maturity Liquidity Ledger in order to provide liquidity for any future Series of Hard Bullet Covered Bonds.

Amounts standing to the credit of the Pre-Maturity Liquidity Ledger following the repayment of the Hard Bullet Covered Bonds as described above may, except where the Cash Manager has elected or is required to retain such amounts on the Pre-Maturity Liquidity Ledger, also be used to repay the advances under the Intercompany Loan Agreement, subject to the Guarantor making provision for higher ranking items in the Pre-Acceleration Principal Priority of Payments.

Asset Coverage Test

The Asset Coverage Test is intended to ensure that (subject to certain limitations with respect to the Asset Percentage, which may be removed by agreement with the Issuer) the Guarantor can meet its obligations under the Covered Bond Guarantee. Under the Limited Partnership Agreement, so long as the Covered Bonds remain outstanding, the Guarantor must ensure that on each Calculation Date the Adjusted Aggregate Loan Amount will be in an amount at least equal to the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date. If, on any Calculation Date, the Asset Coverage Test is not satisfied and such failure is not remedied on or before the next following Calculation Date, the Asset Coverage Test will be breached and the Guarantor (or the Cash Manager on its behalf) will serve an Asset Coverage Test Breach Notice on the Partners, the Bond Trustee and, if delivered by the Cash Manager, the Guarantor. The Asset Coverage Test is a formula which adjusts the True Balance of each Loan in the Covered Bond Portfolio and has further adjustments to take account of a failure by the Seller to repurchase Loans, pursuant to a Loan Repurchase Notice delivered in accordance with the terms of the Hypothecary Loan Sale Agreement.

See further "*Summary of the Principal Documents—Limited Partnership Agreement—Asset Coverage Test" and "Summary of the Principal Documents—Hypothecary Loan Sale Agreement—Repurchase of Loans*", above.

An Asset Coverage Test Breach Notice will be revoked if, as at any Calculation Date falling on or prior to the next Calculation Date following the service of the Asset Coverage Test Breach Notice, the Asset Coverage Test is satisfied and no Covered Bond Guarantee Activation Event has occurred.

If an Asset Coverage Test Breach Notice has been served and is not revoked on or before the Guarantor Payment Date immediately following the Calculation Date after service of such Asset Coverage Test Breach Notice, then an Issuer Event of Default will have occurred and the Bond Trustee will be entitled (and, in certain circumstances, may be required) to serve an Issuer Acceleration Notice. Following service of an Issuer Acceleration Notice, the Bond Trustee must serve a Notice to Pay on the Guarantor.

Amortization Test

The Amortization Test is intended to ensure that if, following an Issuer Event of Default, service of an Issuer Acceleration Notice on the Issuer and the service of a Notice to Pay on the Guarantor (but prior to service on the Guarantor of a Guarantor Acceleration Notice), the assets of the Guarantor available to meet its obligations under the Covered Bond Guarantee fall to a level where holders of the Covered Bonds may not be repaid, a Guarantor Event of Default will occur and all amounts owing under the Covered Bonds may be accelerated. Under the Limited Partnership Agreement, following service of a Notice to Pay on the Guarantor, for so long as there are Covered Bonds outstanding, the Guarantor must ensure that, as at each Calculation Date following an Issuer Event of Default, service of an Issuer Acceleration Notice and the service of a Notice to Pay on the Guarantor, the Amortization Test Aggregate Loan Amount will be in an amount at least equal to the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date. The Amortization Test is a formula which adjusts the True Balance of each Loan in the Covered Bond Portfolio and has further adjustments to take account of Loans in arrears. See further "*Summary of the Principal Documents—Limited Partnership Agreement— Amortization Test*", above.

Reserve Fund

The Guarantor will be required (if the ratings of the Issuer's unsecured, unsubordinated and unguaranteed debt obligations by the Rating Agencies fall below the levels specified in the Limited Partnership Agreement) to establish the Reserve Fund on the GIC Account which will be credited with Available Revenue Receipts up to an amount equal to the Reserve Fund Required Amount. The Guarantor will not be required to maintain the Reserve Fund following the occurrence of an Issuer Event of Default.

The Reserve Fund will be funded from Available Revenue Receipts after the Guarantor has paid all of its obligations in respect of items ranking higher than the Reserve Ledger in the Pre-Acceleration Revenue Priority of Payments on each subsequent Guarantor Payment Date.

A Reserve Ledger will be maintained by the Cash Manager to record the balance from time to time of the Reserve Fund. Following the occurrence of an Issuer Event of Default, service of an Issuer Acceleration Notice and service of a Notice to Pay on the Guarantor, amounts standing to the credit of the Reserve Fund will be added to certain other income of the Guarantor in calculating Available Revenue Receipts.

CASHFLOWS

As described above under "*Credit Structure*", until the occurrence of a Covered Bond Guarantee Activation Event, the Covered Bonds will be obligations of the Issuer only. The Issuer is liable to make payments when due on the Covered Bonds, whether or not it has received any corresponding payment from the Guarantor under the Intercompany Loan.

This section summarizes the Priorities of Payments of the Guarantor, as to the allocation and distribution of amounts standing to the credit of the Guarantor on the Ledgers and their order of priority:

(a) when no Asset Coverage Test Breach Notice is outstanding and no Covered Bond Guarantee Activation Event has occurred;

(b) when an Asset Coverage Test Breach Notice is outstanding but no Covered Bond Guarantee Activation Event has occurred;

(c) following service of a Notice to Pay on the Guarantor; and

(d) following service of a Guarantor Acceleration Notice and enforcement of the Security.

If the Transaction Account is closed in accordance with the terms of the Account Agreement or no Transaction Account is maintained, any payment to be made to or from the Transaction Account will, as applicable, be made to or from the GIC Account, or no payment shall be made at all if such payment is expressed to be from the GIC Account to the Transaction Account.

Allocation and distribution of Available Revenue Receipts when no Asset Coverage Test Breach Notice is outstanding and no Covered Bond Guarantee Activation Event has occurred

At any time no Asset Coverage Test Breach Notice is outstanding and no Covered Bond Guarantee Activation Event has occurred, Available Revenue Receipts will be allocated and distributed as described below.

The Guarantor (or the Cash Manager on its behalf) will, as of each Calculation Date, calculate:

(i) the amount of Available Revenue Receipts available for distribution on the immediately following Guarantor Payment Date;

(ii) the Reserve Fund Required Amount (if applicable);

(iii) where the Pre-Maturity Test has been breached in respect of a Series of Hard Bullet Covered Bonds, on each Calculation Date falling in the five months prior to the Final Maturity Date of the relevant Series of Hard Bullet Covered Bonds, whether or not the amount standing to the credit of the Pre-Maturity Liquidity Ledger including the principal amount of any Substitute Assets and/or Authorized Investments standing to the credit of the Pre-Maturity Liquidity Ledger at such date is less than the Required Redemption Amount for the relevant Series of Hard Bullet Covered Bonds at such date (together with the Required Redemption Amount of all other Series of Hard Bullet Covered Bonds which mature within 12 months of the date of such calculation).

On each Guarantor Payment Date, the Guarantor (or the Cash Manager on its behalf) will transfer Available Revenue Receipts from the Revenue Ledger to the Payment Ledger, and use Available Revenue Receipts held by the Cash Manager for and on behalf of the Guarantor and, as necessary, transfer Available Revenue Receipts from the GIC Account to the Transaction Account (to the extent maintained), in an amount equal to the lower of (a) the amount required to make the payments or credits described below (taking into account any Available Revenue Receipts held by the Cash Manager for or on behalf of the Guarantor and any Available Revenue Receipts standing to the credit of the Transaction Account), and (b) the amount of Available Revenue Receipts.

Pre-Acceleration Revenue Priority of Payments

At any time no Asset Coverage Test Breach Notice is outstanding and no Covered Bond Guarantee Activation Event has occurred, Available Revenue Receipts will be applied by or on behalf of the Guarantor (or the Cash Manager on its behalf) on each Guarantor Payment Date (except for amounts due to third parties by the Guarantor under paragraph (a) or Third Party Amounts, which will be paid when due) in making the following payments and provisions (the "**Pre-Acceleration Revenue Priority of Payments**") (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

(a) *first*, in or towards satisfaction of any amounts due and payable by the Guarantor to third parties and incurred without breach by the Guarantor of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere in the relevant Priorities of Payments) and to provide for any such amounts expected to become due and payable by the Guarantor in the immediately succeeding Guarantor Payment Period and to pay and discharge any liability of the Guarantor for taxes;

(b) *second*, any amounts in respect of interest due to Caisse centrale in respect of the Demand Loan pursuant to the terms of the Intercompany Loan;

(c) *third*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:

(i) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due or to become due and payable to the Servicer under the provisions of the Servicing Agreement in the immediately succeeding Guarantor Payment Period, together with applicable GST (or other similar taxes) thereon to the extent provided therein;

(ii) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager under the provisions of the Cash Management Agreement in the immediately succeeding Guarantor Payment Period, together with applicable GST (or other similar taxes) thereon to the extent provided therein;

(iii) amounts (if any) due and payable to the Account Depository Institution, including in its capacity as GIC Provider (or, as applicable, the Standby Account Depository Institution, including in its capacity as Standby GIC Provider) (including costs) pursuant to the terms of the Account Agreement and Guaranteed Investment Contract (or, as applicable, the Standby Account Agreement and Standby Guaranteed Investment Contract), together with applicable GST (or other similar taxes) thereon to the extent provided therein; and

(iv) amounts due and payable to the Asset Monitor pursuant to the terms of the Asset Monitor Agreement (other than the amounts referred to in paragraph (h) below), together with applicable GST (or other similar taxes) thereon to the extent provided therein;

(d) *fourth*, in or towards payment on the Guarantor Payment Date of, or to provide for payment on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine any amounts (excluding principal amounts) due or to become due and payable to Caisse centrale in respect of the Guarantee Loan pursuant to the terms of the Intercompany Loan Agreement;

(e) *fifth*, if a Servicer Event of Default has occurred, all remaining Available Revenue Receipts to be credited to the GIC Account (with a corresponding credit to the Revenue Ledger maintained in respect of that account) until such Servicer Event of Default is either remedied by the Servicer or waived by the Bond Trustee or a new servicer is appointed to service the Covered Bond Portfolio (or the relevant part thereof);

(f) *sixth*, in or towards a credit to the GIC Account (with a corresponding credit to the Reserve Ledger) of an amount up to but not exceeding the amount by which the Reserve Fund Required Amount (if applicable) exceeds the existing balance on the Reserve Ledger as calculated on the immediately preceding Calculation Date;

(g) *seventh*, if the Guarantor is required to make a deposit to the Pre-Maturity Liquidity Ledger, towards a credit to the GIC Account (with a corresponding credit to the Pre-Maturity Liquidity Ledger) of an amount up to but not exceeding the difference between:

(i) the Required Redemption Amount as calculated as of the immediately preceding Calculation Date for the relevant Series of Hard Bullet Covered Bonds; and

(ii) any amounts standing to the credit of the Pre-Maturity Liquidity Ledger as of the immediately preceding Calculation Date after deducting from the Pre-Maturity Liquidity Ledger the Required Redemption Amounts of all other Series of Hard Bullet Covered Bonds as calculated as of that Calculation Date which mature within 12 months of the date of such calculation;

(h) *eighth*, in or towards payment *pro rata* and *pari passu* in accordance with the respective amounts thereof of any indemnity amount due to the Asset Monitor pursuant to the Asset Monitor Agreement, and any indemnity amount due to any Partner pursuant to the Limited Partnership Agreement;

(i) *ninth*, in or towards payment of the fee due to the Corporate Services Provider by the Guarantor pursuant to the terms of the Corporate Services Agreement; and

(j) *tenth*, towards such distributions of profit to the Partners as may be payable in accordance with the terms of the Limited Partnership Agreement.

Amounts (if any) held by the Cash Manager for and on behalf of the Guarantor or standing to the credit of the Transaction Account which are not required to be applied in accordance with paragraphs (a) to (j) of the Pre-Acceleration Revenue Priority of Payments or paragraphs (a) to (f) of the Pre-Acceleration Principal Priority of Payments below will, if applicable, be deposited by the Cash Manager and, in each case be credited to the appropriate ledger in the GIC Account on the Guarantor Payment Date.

Allocation and Distribution of Available Principal Receipts when no Asset Coverage Test Breach Notice is outstanding and no Covered Bond Guarantee Activation Event has occurred

At any time no Asset Coverage Test Breach Notice is outstanding and no Covered Bond Guarantee Activation Event has occurred, Available Principal Receipts will be allocated and distributed as described below.

The Guarantor (or the Cash Manager on its behalf) will, as of each Calculation Date, calculate the amount of Available Principal Receipts available for distribution on the immediately following Guarantor Payment Date.

On each Guarantor Payment Date, the Guarantor (or the Cash Manager on its behalf) will transfer Available Principal Receipts from the Principal Ledger to the Payment Ledger, and use Available Principal Receipts held by the Cash Manager for and on behalf of the Guarantor and, as necessary, transfer Available Principal Receipts from the GIC Account to the Transaction Account (to the extent maintained), in an amount equal to the lower of (a) the amount required to make the payments or credits described below (taking into account any Available Principal Receipts held by the Cash Manager for or on behalf of the Guarantor and/or standing to the credit of the Transaction Account), and (b) the amount of Available Principal Receipts.

If a Guarantor Payment Date is the same as an Interest Payment Date, then the distribution of Available Principal Receipts under the Pre-Acceleration Principal Priority of Payments will be delayed until the Issuer has made Scheduled Interest and/or principal payments on that Interest Payment Date unless payment is made by the Guarantor directly to the Bond Trustee (or the Issuing and Paying Agent at the direction of the Bond Trustee).

Pre-Acceleration Principal Priority of Payments

At any time no Asset Coverage Test Breach Notice is outstanding and no Covered Bond Guarantee Activation Event has occurred, Available Principal Receipts (other than Cash Capital Contributions made from time to time by the Seller in its capacity as a Limited Partner) will be applied by or on behalf of the Guarantor on each Guarantor Payment Date in making the following payments and provisions (the "**Pre-Acceleration Principal Priority of Payments**") (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

(a) *first*, if the Pre-Maturity Test has been breached by the Issuer in respect of any Series of Hard Bullet Covered Bonds, towards a credit to the Pre-Maturity Liquidity Ledger in an amount up to but not exceeding the difference between:

  (i) the Required Redemption Amount calculated as of the immediately preceding Calculation Date for the relevant Series of Hard Bullet Covered Bonds; and

  (ii) any amounts standing to the credit of the Pre-Maturity Liquidity Ledger on the immediately preceding Calculation Date after deducting from the Pre-Maturity Liquidity Ledger the Required Redemption Amount of all other Hard Bullet Covered Bonds, as calculated as of that Calculation Date, which mature within 12 months of the date of such calculation;

(b) *second*, to pay amounts in respect of principal outstanding on the Demand Loan pursuant to the terms of the Intercompany Loan Agreement;

(c) *third*, to acquire New Loans and their Related Security offered to the Guarantor, if necessary or prudent to ensure that, taking into account the other resources available to the Guarantor, the Asset Coverage Test is met and thereafter to acquire (in the discretion of the Guarantor (or the Cash Manager on its behalf) Substitute Assets up to the prescribed limit and/or Authorized Investments;

(d) *fourth*, to deposit the remaining Available Principal Receipts in the GIC Account (with a corresponding credit to the Principal Ledger) in an amount sufficient to ensure that taking into account the other resources available to the Guarantor, the Asset Coverage Test is met;

(e) *fifth*, in or towards repayment on the Guarantor Payment Date (or to provide for repayment on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine) of amounts (in respect of principal) due or to become due and payable to the Issuer in respect of the Guarantee Loan; and

(f) *sixth*, subject to complying with the Asset Coverage Test, to make Capital Distributions in accordance with the terms of the Limited Partnership Agreement.

Allocation and distribution of Available Revenue Receipts and Available Principal Receipts when an Asset Coverage Test Breach Notice is outstanding but no Covered Bond Guarantee Activation Event has occurred

At any time an Asset Coverage Test Breach Notice is outstanding but no Covered Bond Guarantee Activation Event has occurred, all Available Revenue Receipts and Available Principal Receipts will continue to be applied in accordance with the Pre-Acceleration Revenue Priority of Payments and the Pre-Acceleration Principal Priority of Payments save that, while any Covered Bonds remain outstanding, no moneys will be applied under paragraphs (b), (d), (h) (to the extent only that such indemnity amounts are payable to a Partner), (i) or (j) of the Pre-Acceleration Revenue Priority of Payments or paragraphs (b), (c), (e) or (f) of the Pre-Acceleration Principal Priority of Payments.

Allocation and distribution of Available Revenue Receipts and Available Principal Receipts following service of a Notice to Pay on the Guarantor

At any time after service of a Notice to Pay on the Guarantor, but prior to service of a Guarantor Acceleration Notice, all Available Revenue Receipts and Available Principal Receipts (other than Third Party Amounts) will be applied as described below under "*Guarantee Priority of Payments*".

On each Guarantor Payment Date, the Guarantor (or the Cash Manager on its behalf) will transfer Available Revenue Receipts and Available Principal Receipts from the Revenue Ledger, the Reserve Ledger, the Principal Ledger or the Capital Account Ledger, as the case may be, to the Payment Ledger, in an amount equal to the lower of (a) the amount required to make the payments set out in the Guarantee Priority of Payments and (b) the amount of all Available Revenue Receipts and Available Principal Receipts standing to the credit of such Ledgers.

The Guarantor will create and maintain ledgers for each Series of Covered Bonds and record amounts allocated to such Series of Covered Bonds in accordance with paragraph (f) of the Guarantee Priority of Payments below, and such amounts, once allocated, will only be available to pay amounts due under the Covered Bond Guarantee and amounts due in respect of the relevant Series of Covered Bonds under the Covered Bond Swap Agreement on the scheduled repayment dates thereof.

Guarantee Priority of Payments

If a Notice to Pay is served on the Guarantor in connection with the Pre-Maturity Test, the Guarantor will on the relevant Final Maturity Date apply all funds standing to the credit of the Pre-Maturity Liquidity Ledger (and transferred to the Transaction Account on the relevant Guarantor Payment Date) to repay the relevant Series of Hard Bullet Covered Bonds. Subject thereto, on each Guarantor Payment Date after the service of a Notice to Pay on the Guarantor (but prior to service of a Guarantor Acceleration Notice), the Guarantor (or the Cash Manager on its behalf) will apply Available Revenue Receipts and Available Principal Receipts to make the following payments, provisions or credits in the following order of priority (the "**Guarantee Priority of Payments**") (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

(a) *first*, to pay any amounts in respect of principal and interest due to Caisse centrale in respect of the Demand Loan pursuant to the terms of the Intercompany Loan Agreement;

(b) *second*, in or towards payment of all amounts due and payable or to become due and payable to the Bond Trustee in the immediately succeeding Guarantor Payment Period under the provisions of the Trust Deed together with interest and applicable GST (or other similar taxes) thereon as provided therein;

(c) *third*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:

   (i) any remuneration then due and payable to the Agents and any costs, charges, liabilities and expenses due or to become due and payable under the provisions of the Agency Agreement together with applicable GST (or other similar taxes) thereon as provided therein; and

   (ii) any amounts then due and payable by the Guarantor to third parties and incurred without breach by the Guarantor of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere) and to provide for any such amounts expected to become due and payable by the

Guarantor in the immediately succeeding Guarantor Payment Period and to pay or discharge any liability of the Guarantor for taxes;

(d) *fourth*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:

(i) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due or to become due and payable to the Servicer in the immediately succeeding Guarantor Payment Period under the provisions of the Servicing Agreement together with applicable GST (or other similar taxes) thereon to the extent provided therein;

(ii) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager in the immediately succeeding Guarantor Payment Period under the provisions of the Cash Management Agreement, together with applicable GST (or other similar taxes) thereon to the extent provided therein;

(iii) amounts (if any) due and payable to the Account Depository Institution, including in its capacity as GIC Provider (or, as applicable, the Standby Account Depository Institution, including in its capacity as Standby GIC Provider) (including costs) pursuant to the terms of the Account Agreement and the Guaranteed Investment Contract (or, as applicable, the Standby Account Agreement and the Standby Guaranteed Investment Contract), together with applicable GST (or other similar taxes) thereon to the extent provided therein; and

(iv) amounts due and payable to the Asset Monitor (other than the amounts referred to in paragraph (k) below) pursuant to the terms of the Asset Monitor Agreement, together with applicable GST (or other similar taxes) thereon as provided therein;

(e) *fifth*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of any amounts due and payable to the Interest Rate Swap Provider (including any termination payment due and payable by the Guarantor under the Interest Rate Swap Agreement but excluding any Excluded Swap Termination Amount) pursuant to the terms of the Interest Rate Swap Agreement;

(f) *sixth*, to pay or provide for *pro rata* and *pari passu* according to the respective amounts thereof:

(i) the amounts due and payable to the Covered Bond Swap Provider (other than in respect of principal) *pro rata* and *pari passu* in respect of each relevant Series of Covered Bonds (including any termination payment (other than in respect of principal) due and payable by the Guarantor under the Covered Bond Swap Agreement but excluding any Excluded Swap Termination Amount) in accordance with the terms of the Covered Bond Swap Agreement; and

(ii) to the Bond Trustee or (if so directed by the Bond Trustee) the Issuing and Paying Agent on behalf of the holders of the Covered Bonds *pro rata* and *pari passu* Scheduled Interest that is Due for Payment (or will become Due for Payment in the immediately succeeding Guarantor Payment Period) under the Covered Bond Guarantee in respect of each Series of Covered Bonds,

provided that if the amount available for distribution under this paragraph (f) (excluding any amounts received from the Covered Bond Swap Provider) would be insufficient to pay the Canadian Dollar Equivalent of the Scheduled Interest that is Due for Payment in respect of each Series of Covered Bonds under (f)(ii) above, the shortfall will be divided amongst all such Series of Covered Bonds on a *pro rata* basis and the amount payable by the Guarantor in respect of each relevant Series of Covered Bonds to the Covered Bond Swap Provider under (f)(i) above will be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

(g) *seventh*, to pay or provide for *pro rata* and *pari passu* according to the respective amounts thereof, of:

(i) the amounts (in respect of principal) due and payable *pro rata* and *pari passu* in respect of each relevant Series of Covered Bonds (including any termination payment (relating solely to principal) due and payable by the Guarantor under the Covered Bond Swap Agreement but excluding any Excluded Swap Termination Amount) to the Covered Bond Swap Provider in accordance with the terms of the relevant Covered Bond Swap Agreement; and

(ii) to the Bond Trustee or (if so directed by the Bond Trustee) the Issuing and Paying Agent on behalf of the holders of the Covered Bonds *pro rata*, and *pari passu* Scheduled Principal that is Due for Payment (or will

become Due for Payment in the immediately succeeding Guarantor Payment Period) under the Covered Bond Guarantee in respect of each Series of Covered Bonds,

provided that if the amount available for distribution under this paragraph (g) (excluding any amounts received from the Covered Bond Swap Provider) in respect of the amounts referred to in (g)(i) above would be insufficient to pay the Canadian Dollar Equivalent of the Scheduled Principal that is Due for Payment in respect of the relevant Series of Covered Bonds under this (g)(ii), the shortfall will be divided amongst all such Series of Covered Bonds on a *pro rata* basis and the amount payable by the Guarantor in respect of each relevant Series of Covered Bonds under (g)(i) to the Covered Bond Swap Provider above will be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

(h) *eighth*, to deposit the remaining moneys into the GIC Account for application on the next following Guarantor Payment Date in accordance with the Priorities of Payment described in paragraphs (a) to (g) (inclusive) above, until the Covered Bonds have been fully repaid or provided for (such that the Required Redemption Amount has been accumulated in respect of each outstanding Series of Covered Bonds);

(i) *ninth*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of any Excluded Swap Termination Amount due and payable by the Guarantor to the relevant Swap Provider under the relevant Swap Agreement;

(j) *tenth*, after the Covered Bonds have been fully repaid or provided for (such that the Required Redemption Amount has been accumulated in respect of each outstanding Series of Covered Bonds), any remaining moneys will be applied in and towards repayment in full of amounts outstanding under the Intercompany Loan Agreement;

(k) *eleventh*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of any indemnity amount due to the Partners pursuant to the Limited Partnership Agreement and certain costs, expenses and indemnity amounts due by the Guarantor to the Asset Monitor pursuant to the Asset Monitor Agreement; and

(l) *twelfth*, thereafter any remaining moneys will be applied in accordance with the Limited Partnership Agreement.

Termination payments received in respect of the Swap Agreements, premiums received in respect of replacement Swap Agreements

If the Guarantor receives any termination payment from a Swap Provider in respect of a Swap Agreement, such termination payment will first be used, to the extent necessary (prior to the occurrence of a Guarantor Event of Default and service of a Guarantor Acceleration Notice) to pay a replacement Swap Provider to enter into a replacement Swap Agreement with the Guarantor, unless a replacement Swap Agreement has already been entered into on behalf of the Guarantor. If the Guarantor receives any premium from a replacement Swap Provider in respect of a replacement Swap Agreement, such premium will first be used to make any termination payment due and payable by the Guarantor with respect to the previous Swap Agreement, unless such termination payment has already been made on behalf of the Guarantor.

Any amounts received by the Guarantor under the Swap Agreements which are not applied to pay a replacement Swap Provider to enter into a replacement Swap Agreement will be credited to the Revenue Ledger and applied as Available Revenue Receipts on the next succeeding Guarantor Payment Date.

Application of moneys received by the Bond Trustee following service of a Guarantor Acceleration Notice and enforcement of the Security

Following service of a Guarantor Acceleration Notice and enforcement of the Security granted under the terms of the Security Agreements, all moneys received or recovered by the Bond Trustee (or a receiver appointed on its behalf) (excluding all amounts due or to become due in respect of any Third Party Amounts) will be applied in the following order of priority (the "**Post-Enforcement Priority of Payments**") (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

(a) *first*, in or towards satisfaction of all amounts due and payable or to become due and payable to the Bond Trustee under the provisions of the Trust Deed together with interest and applicable GST (or other similar taxes) thereon as provided therein;

(b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to respective amounts thereof of any remuneration then due and payable to the Agents and any costs, charges, liabilities and expenses due or to become due and payable under or pursuant to the Agency Agreement together with applicable GST (or other similar taxes) thereon to the extent provided therein;

(c) *third*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof, of:

(i) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due or to become due and payable to the Servicer under the provisions of the Servicing Agreement, together with applicable GST (or other similar taxes) thereon to the extent provided therein;

(ii) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager under the provisions of the Cash Management Agreement, together with applicable GST (or other similar taxes) thereon to the extent provided therein; and

(iii) amounts due to the Account Depository Institution (including in its capacity as GIC Provider) or, as applicable, the Standby Account Depository Institution (including in its capacity as Standby GIC Provider) (including costs) pursuant to the terms of the Account Agreement and the Guaranteed Investment Contract or, as applicable, the Standby Account Agreement and the Standby Guaranteed Investment Contract, together with applicable GST (or other similar taxes) thereon to the extent provided therein;

(d) *fourth*, to pay *pro rata* and *pari passu* according to the respective amounts thereof, of any amounts due and payable to the Interest Rate Swap Provider (including any termination payment (but excluding any Excluded Swap Termination Amounts)) pursuant to the terms of the Interest Rate Swap Agreement;

(e) *fifth*, to pay *pro rata* and *pari passu* according to the respective amounts thereof, of:

(i) the amounts due and payable to the Covered Bond Swap Provider *pro rata* and *pari passu* in respect of each relevant Series of Covered Bonds to the Covered Bond Swap Agreement (including any termination payment due and payable by the Guarantor under the Covered Bond Swap Agreement (but excluding any Excluded Swap Termination Amount)) in accordance with the terms of the Covered Bond Swap Agreement; and

(ii) the amounts due and payable under the Covered Bond Guarantee, to the Bond Trustee on behalf of the holders of the Covered Bonds *pro rata* and *pari passu* in respect of interest and principal due and payable on each Series of Covered Bonds,

provided that if the amount available for distribution under this paragraph (e) (excluding any amounts received from the Covered Bond Swap Provider in respect of amounts referred to in (e)(i) above) would be insufficient to pay the Canadian Dollar Equivalent of the amounts due and payable under the Covered Bond Guarantee in respect of each Series of Covered Bonds under (e)(ii) above, the shortfall will be divided amongst all such Series of Covered Bonds on a *pro rata* basis and the amount payable by the Guarantor in respect of each relevant Series of Covered Bonds under (e)(i) above to the Covered Bond Swap Provider will be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

(f) *sixth*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof, of any Excluded Swap Termination Amounts due and payable by the Guarantor to the relevant Swap Provider under the relevant Swap Agreement;

(g) *seventh*, after the Covered Bonds have been fully repaid, any remaining moneys shall be applied in or towards repayment in full of all amounts outstanding under the Intercompany Loan Agreement;

(h) *eighth*, towards payment of any indemnity amount due to the Partners pursuant to the Limited Partnership Agreement;

(i) *ninth*, in or towards payment of the fee due to the Corporate Services Provider; and

(j) *tenth*, thereafter any remaining moneys will be applied in or towards payment to the Partners pursuant to the Limited Partnership Agreement.

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of the Clearing Systems currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer and the Guarantor believe to be reliable, but none of the Issuer, the Guarantor, the Bond Trustee nor any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer, the Guarantor nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments

made on account of beneficial ownership interests in the Covered Bonds held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Book-entry Systems

DTC

DTC has advised the Issuer that it is a limited purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC holds and provides asset servicing for securities that its participants ("**Direct Participants**") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("**DTCC**"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to the DTC System is also available to others such as securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("**Indirect Participants**"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of DTC Covered Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Covered Bonds on DTC's records. The ownership interest of each actual purchaser of each Covered Bond ("**Beneficial Owner**") is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Covered Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Covered Bonds, except in the event that use of the book-entry system for the DTC Covered Bonds is discontinued. To facilitate subsequent transfers, all DTC Covered Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. The deposit of DTC Covered Bonds with DTC and their registration in the name of Cede &. Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Covered Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Covered Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communication by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the DTC Covered Bonds within Tranche are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Tranche to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to DTC Covered Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Covered Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Covered Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Issuer or the Issuing and Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or its nominee, the Issuing and Paying Agent, the Issuer, the Guarantor, the Bond Trustee or the Dealers, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

Under certain circumstances, DTC will exchange the DTC Covered Bonds for Registered Definitive Covered Bonds, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Covered Bond, will be legended as set forth under "*Subscription and Sale and Transfer and Selling Restrictions*".

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Beneficial Owner desiring to pledge DTC Covered Bonds to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Covered Bonds, will be required to withdraw its Registered Covered Bonds from DTC as described below.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Book-entry Ownership of and Payments in respect of DTC Covered Bonds

The Issuer may apply to DTC in order to have any Tranche of Covered Bonds represented by a Registered Global Covered Bond accepted in its book-entry settlement system. Upon the issue of any such Registered Global Covered Bond, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Covered Bond to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Registered Global Covered Bond will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Global Covered Bond, the respective depositaries of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in a Registered Global Covered Bond accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Registered Global Covered Bond accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Covered Bond. In the case of any payment in a currency other than U.S. dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Registered Global Covered Bond in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' account.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Covered Bonds will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Bond Trustee, the Issuing and Paying Agent, the Registrar, the Issuer, the Guarantor or the Dealers. Payment of principal, premium, if any, and interest, if any, on Covered Bonds to DTC is the responsibility of the Issuer and after a Covered Bond Guarantee Activation Event the Guaranteed Amounts in respect thereof are obligations of the Guarantor under the Covered Bond Guarantee.

Transfers of Covered Bonds Represented by Registered Global Covered Bonds

Transfers of any interests in Covered Bonds represented by a Registered Global Covered Bond within DTC, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Covered Bonds represented by a Registered Global Covered Bond to such persons may depend upon the ability to exchange such Covered Bonds for Covered Bonds in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Covered Bonds represented by a Registered Global Covered Bond accepted by DTC to pledge such Covered Bonds to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Covered Bonds may depend upon the ability to exchange such Covered Bonds for Covered Bonds in definitive form. The ability of any holder of Covered Bonds represented by a Registered Global Covered Bond accepted by DTC to resell, pledge or otherwise transfer such Covered Bonds may be impaired if the proposed transferee of such Covered Bonds is not eligible to hold such Covered Bonds through a direct or indirect participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Covered Bonds described under "*Subscription and Sale and Transfer and Selling Restrictions*", cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Issuing and Paying Agent and any custodian ("**Custodian**") with whom the relevant Registered Global Covered Bonds have been deposited.

On or after the Issue Date for any Series, transfers of Covered Bonds of such Series between accountholders in Clearstream, Luxembourg and Euroclear and transfers of Covered Bonds of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Registered Global Covered Bonds will be effected through the Registrar, the Issuing and Paying Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Covered Bonds among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Bond Trustee, the Issuer, the Guarantor, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Covered Bonds represented by Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial interests.

TAXATION

Canada

The following summary describes the principal Canadian federal income tax considerations under the *Income Tax Act* (Canada) (the "**Act**") and Income Tax Regulations (the "**Regulations**") generally applicable to a holder of Covered Bonds who acquires Covered Bonds pursuant to this Prospectus, and who, for purposes of the Act, at all relevant times, is not resident and is not deemed to be resident in Canada, deals at arm's length with the Issuer and the Guarantor and any Canadian resident (or deemed Canadian resident) to whom the holder disposes of the Covered Bonds, does not use or hold and is not deemed to use or hold Covered Bonds in or in the course of carrying on a business in Canada and is not an insurer carrying on an insurance business in Canada and elsewhere (a "**Non-resident Holder**").

This summary is based upon the provisions of the Act and the Regulations in force on the date hereof, proposed amendments to the Act and the Regulations in the form publicly announced prior to the date hereof by or on behalf of the Minister of Finance (Canada) (included for this purpose in the reference to the Act and Regulations) and the current administrative practices and assessing policies of the Canada Revenue Agency ("**CRA**") published in writing by it prior to the date hereof. No assurance can be given that the proposed amendments will be enacted in the form proposed or at all. This summary is not exhaustive of all Canadian federal income tax considerations relevant to an investment in Covered Bonds and does not take into account or anticipate any other changes in law or any changes in CRA's administrative practices or assessing policies, whether by legislative, governmental or judicial decision, action or interpretation, nor does it take into account other federal or any provincial, territorial or foreign income tax legislation. Subsequent developments could have a material effect on the following description.

Material Canadian federal income tax considerations applicable to Covered Bonds may be described particularly when such Covered Bonds are offered in the Final Terms related thereto if they are not otherwise addressed herein. In that event, the following will be superseded to the extent indicated therein.

Interest paid or credited or deemed to be paid or credited by the Issuer on a Covered Bond (including amounts on account or in lieu of payment of, or in satisfaction of, interest) to a Non-resident Holder will not be subject to Canadian non-resident withholding tax unless all or any portion of such interest (other than on a "prescribed obligation", described below) is contingent or dependent on the use of or production from property in Canada or is computed by reference to revenue, profit, cash flow, commodity price or any other similar criterion or by reference to dividends paid or payable to shareholders of any class or series of shares of the capital stock of a corporation (a "**Participating Debt Interest**"). A "prescribed obligation" is a debt obligation the terms or conditions of which provide for an adjustment to an amount payable in respect of the obligation for a period during which the obligation was outstanding which adjustment is determined by reference to a change in the purchasing power of money and no amount payable in respect thereof, other than an amount determined by reference to a change in the purchasing power of money, is contingent or dependent upon any of the criteria described in the Participating Debt Interest definition.

In the event that a Covered Bond, the interest on which is not exempt from Canadian withholding tax by virtue of its terms, is redeemed, cancelled, repurchased or exchanged pursuant to Condition 6 or 7, as applicable, or purchased by the Issuer or any other person resident or deemed to be resident in Canada from a Non-resident Holder or is otherwise assigned or transferred by a Non-resident Holder to a person resident or deemed to be resident in Canada for an amount which exceeds, generally, the issue price thereof, the excess may be deemed to be interest and may, together with any interest that has accrued on the Covered Bond to that time, be subject to non-resident withholding tax if the Covered Bond is not considered to be an "excluded obligation" for purposes of the Act. A Covered Bond that is not an "indexed debt obligation" (described below) will be an "excluded obligation" for this purpose if it was issued for an amount not less than 97% of its principal amount (as defined), and the yield from which, expressed in terms of an annual rate (determined in accordance with the Act) on the amount for which the Covered Bond was issued, does not exceed 4/3 of the interest stipulated to be payable on the Covered Bond, expressed in terms of an annual rate on the outstanding principal amount from time to time. An "indexed debt obligation" is a debt obligation the terms and conditions of which provide for an adjustment to an amount payable in respect of the obligation, for a period during which the obligation was outstanding, that is determined by reference to a change in the purchasing power of money.

Amounts paid or credited or deemed to be paid or credited on a Covered Bond by the Guarantor to a Non-resident Holder pursuant to the Covered Bond Guarantee will be exempt from Canadian withholding tax to the extent such amounts, if paid or credited by the Issuer to such Non-resident Holder on such Covered Bond would have been exempt.

Generally, there are no other taxes on income (including taxable capital gains) payable by a Non-resident Holder on interest, discount or premium in respect of a Covered Bond or on the proceeds received by a Non-resident Holder on the disposition of a Covered Bond (including on a redemption, cancellation, purchase or repurchase).

The foregoing summary is of a general nature only, and is not intended to be, nor should it be considered to be, legal or tax advice to any particular Non-resident Holder. Non-resident Holders should therefore consult their own tax advisors with respect to their particular circumstances.

UK Information Gathering Powers

Holders of Covered Bonds who are individuals may wish to note that HM Revenue & Customs has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays interest to or receives interest for the benefit of an individual (other than solely by clearing or arranging the clearing of a cheque). These provisions will apply whether or not the interest has been paid subject to withholding or deduction for or on account of United Kingdom income tax and whether or not the holder of a Covered Bond is resident in the United Kingdom for United Kingdom taxation purposes. Any person in the United Kingdom (including any United Kingdom based paying agent) who pays amounts payable on redemption of Covered Bonds which are deeply discounted securities for the purposes of the Income Tax (Trading and other Income) Act 2005 to, or receives such amounts for the benefit of, an individual may also be required by HM Revenue & Customs to provide certain information (which may include the name and address of the beneficial owner of the amount payable on redemption) to HM Revenue & Customs although HM Revenue & Customs published practice for the tax year to 5 April 2011 indicates that HM Revenue & Customs will not exercise this power in respect of such amounts paid in that year. Any information obtained may, in certain circumstances, be exchanged by HM Revenue & Customs with the tax authorities of the jurisdiction in which the Holder of the Covered Bond is resident for tax purposes.

EU Savings Tax Directive

Under the Savings Tax Directive, a Member State is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State. However, for a transitional period (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries), Luxembourg and Austria may instead apply a withholding system in relation to such payments (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld), deducting tax at rates rising over time to 35%. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. A number of non-EU countries, including Switzerland, and certain dependent or associated territories of certain Member States have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Savings Tax Directive, which may, if implemented, amend or broaden the scope of the requirements described above. Such amendments could apply to Covered Bonds that have already been issued at the date of the amendment of the Savings Tax Directive. Investors who are in any doubt as to their position should consult their professional advisers.

United States Federal Income Taxation

The following summary describes certain U.S. federal income tax consequences relevant to the purchase, ownership, and disposition of the Covered Bonds. This summary applies only to holders that acquire their Covered Bonds in this offering for a price equal to the original offering price and hold such Covered Bonds as capital assets within the meaning of Section 1221 of the U.S. Internal Revenue Code of

1986, as amended (the "**Code**"). This discussion is based upon current provisions of the Code, existing and proposed Treasury Regulations thereunder, current administrative rulings, judicial decisions and other applicable authorities. All of the foregoing are subject to change, which change may apply retroactively and could affect the continued validity of this summary. This summary does not describe any tax consequences arising under the laws of any state, locality or taxing jurisdiction other than the U.S. federal government.

This discussion does not purport to deal with all aspects of U.S. federal income taxation that may be relevant to the note holders in light of their personal investment circumstances nor, except for limited discussions of particular topics, to holders subject to special treatment under the U.S. federal income tax laws, including: financial institutions; life insurance companies; securities dealers or traders electing mark-to-market treatment; certain governmental entities; partnerships or any entities treated as partnerships for U.S. federal income tax purposes; non-resident alien individuals and foreign corporations; tax-exempt organizations; persons that hold the Covered Bonds as a position in a "straddle" or as part of a synthetic security or "hedge," "conversion transaction" or other integrated investment; persons that have a "functional currency" other than the U.S. dollar; investors in pass-through entities that hold Covered Bonds; investors liable for the alternative minimum tax; and United States expatriates.

Persons considering the purchase of the Covered Bonds should consult the applicable Final Terms for any additional discussion regarding U.S. federal income taxation and should consult their tax advisers with regard to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction.

The tax treatment of certain Covered Bonds, such as Index Linked Covered Bonds, Equity Linked Covered Bonds, Commodity Linked Covered Bonds, Dual Currency Covered Bonds, Credit Linked Covered Bonds and Covered Bonds that are not principal protected, will be specified in the applicable pricing supplement. Moreover, this summary does not discuss Bearer Covered Bonds. In general, U.S. federal income tax law imposes significant limitations on U.S. holders of Bearer Covered Bonds. U.S. holders should consult their tax advisors regarding the U.S. federal income and other tax consequences of the acquisition, ownership and disposition of Bearer Covered Bonds.

As used in this section, a "**U.S. holder**" is a beneficial owner of a note that is treated for U.S. federal income tax purposes as:

- an individual citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) organized under the laws of the United States or any U.S. State (or the District of Columbia);
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if (1) a U.S. court is able to exercise primary supervision over the trust's administration and any one or more U.S. persons (as defined in Section 7701(a)(30) of the Code (a "**U.S. person**")) are authorized to control all substantial decisions of the trust, or (2) the trust has in effect a valid election to be treated as a U.S. person for U.S. federal income tax purposes.

A "**Non-U.S. holder**" is a beneficial owner of a note that is treated for U.S. federal income tax purposes as:

- a non-resident alien individual;
- a foreign corporation;
- an estate that is not subject to U.S. federal income tax on a net income basis; or
- a trust if (1) no U.S. court can exercise primary supervision over the trust's administration or no U.S. person and no group of such persons is authorized to control all substantial decisions of the trust, and (2) the trust has no election to be treated as a U.S. person in effect.

If a partnership (or an entity treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of a note, the treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A beneficial owner of a note that is a partnership, and partners in such a partnership, should consult with their tax advisors about the U.S. federal income tax consequences of holding and disposing of such note.

Notice pursuant to IRS Circular 230

This discussion is not intended or written by us or our counsel to be used, and cannot be used, by any person for the purpose of avoiding tax penalties that may be imposed under U.S. tax laws. This discussion is provided to support the promotion or marketing by us of the Covered Bonds offered hereby. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor concerning the potential tax consequences, including the federal, state, local and non-U.S. tax consequences, of an investment in the Covered Bonds.

Characterization of the Covered Bonds

No statutory, judicial or administrative authority directly addresses the characterization of the Covered Bonds or instruments similar to the Covered Bonds for U.S. federal income tax purposes. As a result, significant aspects of the U.S. federal income tax consequences of an investment in the Covered Bonds are not certain. Unless otherwise indicated under the applicable Final Terms, the Issuer intends, and each holder, by purchasing the Covered Bonds, agrees, to treat such Covered Bonds as indebtedness for U.S. federal income tax purposes. No opinion of counsel will be issued with respect to the U.S. federal income tax characterization of the Covered Bonds, and no ruling will be sought from the Internal Revenue Service (the "**IRS**") regarding this, or any other, aspect of the U.S. federal income tax treatment of the Covered Bonds. Accordingly, there can be no assurances that the IRS will not contend, and that a court will not ultimately hold, that the Covered Bonds are equity in the Issuer or that any of the other items discussed below are treated differently. If any of the Covered Bonds were treated as equity in the Issuer for U.S. federal income tax purposes, there may be certain adverse tax consequences upon the sale, exchange, or other disposition of, or the receipt of certain types of distributions on, such Covered Bonds by a U.S. Holder. The discussion below assumes that the Covered Bonds will be treated as indebtedness for U.S. federal income tax purposes.

The tax treatment of certain Covered Bonds, such as Index Linked Covered Bonds, Equity Linked Covered Bonds, Dual Currency Covered Bonds, Credit Linked Covered Bonds and Covered Bonds that are not principal protected, will be specified in the applicable Final Terms. Moreover, this summary does not discuss Bearer Covered Bonds. In general, U.S. federal income tax law imposes significant limitations on U.S. holders of Bearer Covered Bonds. U.S. holders should consult their tax advisors regarding the U.S. federal income and other tax consequences of the acquisition, ownership and disposition of Bearer Covered Bonds.

Prospective investors should consult their own tax advisers regarding the appropriate characterization of, and U.S. federal income tax and other tax consequences of investing in, the Covered Bonds.

U.S. Tax Treatment of U.S. Holders of Covered Bonds

Payments of Stated Interest

Interest paid on a Covered Bond will be taxable to a U.S. holder as ordinary interest income at the time it accrues or is received in accordance with the holder's method of accounting for U.S. federal income tax purposes, provided that the interest is "qualified stated interest" (as defined below). Interest income earned by a U.S. holder with respect to a Covered Bond will constitute foreign source income for U.S. federal income tax purposes, which may be relevant in calculating the holder's foreign tax credit limitation. The rules regarding foreign tax credits are complex and prospective investors should consult their tax advisors about the application of such rules to them in their particular circumstances. Special rules governing the treatment of interest paid with respect to original issue discount Covered Bonds (as defined below), exchangeable Covered Bonds and foreign currency Covered Bonds are described under "*Taxation—Original Issue Discoun*t," "*— Contingent Payment Debt Instruments*," "*—Variable Rate Debt Instruments*," and "*—Foreign Currency Covered Bonds*."

Original Issue Discount

A Covered Bond that has an "issue price" that is less than its "stated redemption price at maturity" will be considered to have been issued at an original discount for U.S. federal income tax purposes (and will be referred to as an "**original issue discount Covered Bond**") unless the Covered Bond satisfies a *de minimis* threshold (as described below) or is a short-term Covered Bond (as defined below). The **issue price** of a Covered Bond generally will be the first price at which a substantial amount of the Covered Bonds are sold to the public (which does not include sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The **stated redemption price at maturity** of a Covered Bond generally will equal the sum of all payments required to be made under the Covered Bond other than payments of "qualified stated interest". **Qualified stated interest** is stated interest unconditionally payable (other than in debt instruments of the issuer) at least annually during the entire term of the Covered Bond and equal to the outstanding principal balance of the Covered Bond multiplied by a single fixed rate of interest. In addition, qualified stated interest includes, among other things, stated interest on a "variable rate date instrument" (discussed below) that is unconditionally payable (other than in debt instruments of the issuer) at least annually at a single qualified floating rate of interest or at a rate that is determined at a single fixed formula that is based on objective financial or economic information. A rate is a qualified floating rate if variations in the rate can reasonably be expected to measure contemporaneous fluctuations in the cost of newly borrowed funds in the currency in which the Covered Bond is denominated.

If the difference between a Covered Bond's stated redemption price at maturity and its issue price is less than a *de minimis* amount, *i.e.*, 1/4 of 1 percent of the stated redemption price at maturity multiplied by the number of complete years to maturity, the Covered Bond will not be considered to have original issue discount. U.S. holders of Covered Bonds with a *de minimis* amount of original issue discount will include this original issue discount in income, as capital gain, on a *pro rata* basis as principal payments are made on the Covered Bond.

A U.S. holder of original issue discount Covered Bonds will be required to include any qualified stated interest payments in income in accordance with the holder's method of accounting for U.S. federal income tax purposes. U.S. holders of original issue discount Covered Bonds that mature more than one year from their date of issuance will be required to include original issue discount in income for U.S.

federal tax purposes as it accrues in accordance with a constant yield method based on a compounding of interest, regardless of whether cash attributable to this income is received.

The amount of original issue discount that a U.S. holder must include in gross income for each taxable year is the sum of the "daily portions" of original issue discount with respect to an original issue discount Covered Bond for each day during such taxable year or portion of such taxable year in which the holder held such original issue discount Covered Bond. The **daily portion** is determined by allocating to each day in any "accrual period" a pro rata portion of the original issue discount allocable to that accrual period. The **accrual period** for an original issue discount Covered Bond may be of any length and may vary in length over the term of the original issue discount Covered Bond, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs on the first day or the final day of an accrual period.

The amount of original issue discount allocable to any accrual period other than the final accrual period is an amount equal to the excess, if any, of (i) the original issue discount Covered Bond's "adjusted issue price" at the beginning of the accrual period multiplied by its yield to maturity, determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period, over (ii) the aggregate of all qualified stated interest allocable to the accrual period. The **adjusted issue price** of an original issue discount Covered Bond at the beginning of any accrual period is equal to its issue price increased by the accrued original issue discount for each prior accrual period and decreased by the amount of any payments previously made on the Covered Bond that were not qualified stated interest.

The amount of original issue discount allocable to an initial short accrual period may be computed using any reasonable method if all other accrual periods other than a final short accrual period are of equal length. The amount of original issue discount allocable to the final accrual period is the difference between (i) the amount payable at the maturity of the original issue discount Covered Bond (other than any payment of qualified stated interest) and (ii) the original issue discount Covered Bond's adjusted issue price as of the beginning of the final accrual period.

A U.S. holder may make an election to include in gross income all interest that accrues on any Covered Bond (including stated interest, acquisition discount, original issue discount, *de minimis* original issue discount, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortizable bond premium or acquisition premium) in accordance with a constant yield method based on the compounding of interest for the taxable year in which the holder acquired such Covered Bond, and may revoke such election only with the permission of the IRS (a "**constant yield election**").

A Covered Bond that matures one year or less from its date of issuance (a "**short-term Covered Bond**") will be treated as being issued at a discount and none of the interest paid on the Covered Bond will be treated as qualified stated interest. In general, a cash method U.S. holder of a short-term Covered Bond is not required to accrue the discount for U.S. federal income tax purposes unless it elects to do so. Holders who so elect and certain other holders, including those who report income on the accrual method of accounting for U.S. federal income tax purposes, are required to include the discount in income as it accrues on a straight-line basis, unless another election is made to accrue the discount according to a constant yield method based on daily compounding. In the case of a U.S. holder who is not required and who does not elect to include the discount in income currently, any gain realized on the sale, exchange, or retirement of the short-term Covered Bond will be ordinary income to the extent of the discount accrued on a straight-line basis (or, if elected, according to a constant yield method based on daily compounding) through the date of sale, exchange or retirement. In addition, those U.S. holders will be required to defer deductions for any interest paid on indebtedness incurred to purchase or carry short-term Covered Bonds in an amount not exceeding the accrued discount until the accrued discount is included in income.

The Issuer may have an unconditional option to redeem, or U.S. holders may have an unconditional option to require the Issuer to redeem, a Covered Bond prior to its stated maturity date. Under applicable regulations, if the Issuer has an unconditional option to redeem a Covered Bond prior to its stated maturity date, this option will be presumed to be exercised if, by utilizing any date on which the Covered Bond may be redeemed as the maturity date and the amount payable on that date in accordance with the terms of the Covered Bond as the stated redemption price at maturity, the yield on the Covered Bond would be lower than its yield to maturity. If the U.S. holders have an unconditional option to require the Issuer to redeem a Covered Bond prior to its stated maturity date, this option will be presumed to be exercised if making the same assumptions as those set forth in the previous sentence, the yield on the Covered Bond would be higher than its yield to maturity. If this option is not in fact exercised, the Covered Bond would be treated solely for purposes of calculating original issue discount as if it were redeemed, and a new Covered Bond were issued, on the presumed exercise date for an amount equal to the Covered Bond's adjusted issue price on that date. The adjusted issue price of an original issue discount Covered Bond is defined as the sum of the issue price of the Covered Bond and the aggregate amount of previously accrued original issue discount, less any prior payments other than payments of qualified stated interest.

Market Discount

A U.S. holder who acquires a Covered Bond (other than a short-term Covered Bond) after the initial distribution thereof for an amount that is less than its stated redemption price at maturity or, if the Covered Bond is an original issue discount Covered Bond, an amount that is less than its adjusted issue price (*i.e.*, a discount) will be subject to the "market discount" rules of the Code, unless the amount of such discount is less than a statutorily defined *de minimis* amount.

A U.S. holder will be required to treat any principal payment (or, in the case of an original issue discount Covered Bond, any payment that does not constitute qualified stated interest) on, or any gain on the sale, exchange, retirement or other disposition of a Covered Bond,

including disposition in certain nonrecognition transactions, as ordinary income to the extent of the market discount accrued on the Covered Bond at the time of the payment or disposition unless this market discount has been previously included in income by the U.S. holder pursuant to an election by the holder to include market discount in income as it accrues, or pursuant to a constant yield election by the holder as described under "*Taxation—Original Issue Discount*" above. In addition, the U.S. holder may be required to defer, until the maturity of the Covered Bond or its earlier disposition (including certain nontaxable transactions), the deduction of all or a portion of the interest expense on any indebtedness incurred or maintained to purchase or carry such Covered Bond.

If a U.S. holder makes a constant yield election (as described under "*Taxation—Original Issue Discount*") for a Covered Bond with market discount, such election will result in a deemed election for all market discount bonds acquired by the holder on or after the first day of the first taxable year to which such election applies.

Acquisition Premium and Amortizable Bond Premium

A U.S. holder who purchases a Covered Bond for an amount that is greater than the Covered Bond's adjusted issue price but less than or equal to the sum of all amounts payable on the Covered Bond after the purchase date other than payments of qualified stated interest will be considered to have purchased the Covered Bond at an acquisition premium. Under the acquisition premium rules, the amount of original issue discount that the U.S. holder must include in its gross income with respect to the Covered Bond for any taxable year will be reduced by the portion of acquisition premium properly allocable to that year.

If a U.S. holder purchases a Covered Bond for an amount that is greater than the amount payable at maturity, or on the earlier call date, in the case of a Covered Bond that is redeemable at our option, the holder will be considered to have purchased the Covered Bond with amortizable bond premium equal in amount to the excess of the purchase price over the amount payable at maturity. The holder may elect to amortize this premium, using a constant yield method, over the remaining term of the Covered Bond (where the Covered Bond is not optionally redeemable prior to its maturity date). If the Covered Bond may be optionally redeemed prior to maturity after the holder has acquired it, the amount of amortizable bond premium is determined by substituting the call date for the maturity date and the call price for the amount payable at maturity only if the substitution results in a smaller amount of premium attributable to the period before the redemption date. A holder who elects to amortize bond premium must reduce his tax basis in the Covered Bond by the amount of the premium amortized in any year. An election to amortize bond premium applies to all taxable debt obligations then owned and thereafter acquired by the holder and may be revoked only with the consent of the IRS.

If a U.S. holder makes a constant yield election (as described under "*Taxation—Original Issue Discount*") for a Covered Bond with amortizable bond premium, such election will result in a deemed election to amortize bond premium for all of the holder's debt instruments with amortizable bond premium.

Variable Rate Debt Instruments

A Covered Bond will be a variable rate debt instrument (a "**Variable Rate Bond**") if it:

- has an issue price that does not exceed the total noncontingent principal payments by more than the lesser of (i) the product of (x) the total noncontingent principal payments, (y) the number of complete years to maturity from the issue date and (z) 0.015, or (ii) 15 percent of the total noncontingent principal payments; and

- does not provide for stated interest other than stated interest compounded or paid at least annually at (i) one or more "qualified floating rates", (ii) a single fixed rate and one or more qualified floating rates, (iii) a single "objective rate" or (iv) a single fixed rate and a single objective rate that is a "qualified inverse floating rate".

A qualified floating rate or objective rate in effect at any time during the term of the instrument must be set at a "current value" of that rate. A **current value** of a rate is the value of the rate on any day that is no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day.

A variable rate is a **qualified floating rate** if (i) variations in the value of the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Covered Bond is denominated or (ii) it is equal to the product of such a rate and either (a) a fixed multiple that is greater than 0.65 but not more than 1.35, or (b) a fixed multiple greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate. If a Covered Bond provides for two or more qualified floating rates that (i) are within 0.25 percentage points of each other on the issue date or (ii) can reasonably be expected to have approximately the same values throughout the term of the Covered Bond, the qualified floating rates together constitute a single qualified floating rate. A rate is not a qualified floating rate, however, if the rate is subject to certain restrictions (including caps, floors, governors, or other similar restrictions) unless such restrictions are fixed throughout the term of the Covered Bond or are not reasonably expected to significantly affect the yield on the Covered Bond.

An **objective rate** is a rate, other than a qualified floating rate, that is determined using a single fixed formula and that is based on objective financial or economic information that is not within the control of or unique to the circumstances of the Issuer or a related party

(such as dividends, profits or the value of the Issuer's stock). A variable rate is not an objective rate, however, if it is reasonably expected that the average value of the rate during the first half of the Covered Bond's term will be either significantly less than or significantly greater than the average value of the rate during the final half of the Covered Bond's term. An objective rate is a **qualified inverse floating rate** if (i) the rate is equal to a fixed rate minus a qualified floating rate, and (ii) the variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate.

If interest on a Covered Bond is stated at a fixed rate for an initial period of one year or less followed by either a qualified floating rate or an objective rate for a subsequent period and (i) the fixed rate and the qualified floating rate or objective rate have values on the issue date of the Covered Bond that do not differ by more than 0.25 percentage points or (ii) the value of the qualified floating rate or objective rate is intended to approximate the fixed rate, the fixed rate and the qualified floating rate or the objective rate constitute a single qualified floating rate or objective rate.

In general, if a Variable Rate Bond provides for stated interest at a single qualified floating rate or objective rate, all stated interest on the Covered Bond is qualified stated interest and the amount of original issue discount, if any, is determined under the rules applicable to fixed rate debt instruments by using, in the case of a qualified floating rate or qualified inverse floating rate, the value as of the issue date of the qualified floating rate or qualified inverse floating rate, or, in the case of any other objective rate, a fixed rate that reflects the yield reasonably expected for the Covered Bond.

If a Variable Rate Bond does not provide for stated interest at a single qualified floating rate or a single objective rate and also does not provide for interest payable at a fixed rate (other than at a single fixed rate for an initial period), the amount of interest and original issue discount accruals on the Covered Bond are generally determined by (i) determining a fixed rate substitute for each variable rate provided under the Variable Rate Bond (generally, the value of each variable rate as of the issue date or, in the case of an objective rate that is not a qualified inverse floating rate, a rate that reflects the reasonably expected yield on the Covered Bond), (ii) constructing the equivalent fixed rate debt instrument (using the fixed rate substitutes described above), (iii) determining the amount of qualified stated interest and original issue discount with respect to the equivalent fixed rate debt instrument, and (iv) making the appropriate adjustments for actual variable rates during the applicable accrual period.

If a Variable Rate Bond provides for stated interest either at one or more qualified floating rates or at a qualified inverse floating rate, and in addition provides for stated interest at a single fixed rate (other than at a single fixed rate for an initial period), the amount of interest and original issue discount accruals are determined as in the immediately preceding paragraph with the modification that the Variable Rate Bond is treated, for the purposes of the first three steps of the determination, as if it provided for a qualified floating rate (or a qualified inverse floating rate, as the case may be) rather than the fixed rate. The qualified floating rate (or qualified inverse floating rate) replacing the fixed rate must be such that the fair market value of the Variable Rate Bond as of the issue date would be approximately the same as the fair market value of an otherwise identical debt instrument that provides for the qualified floating rate (or qualified inverse floating rate) rather than the fixed rate.

Prospective purchasers should consult their own tax advisors regarding the applicability and consequences of the variable rate debt instrument rules to any of the Covered Bonds issued under the Programme.

Sale, Exchange or Retirement of the Covered Bonds

Upon the sale, exchange or retirement of a Covered Bond, a U.S. holder will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange or retirement and the holder's adjusted tax basis in the Covered Bond. A U.S. holder's adjusted tax basis in a Covered Bond generally will equal the acquisition cost of the Covered Bond increased by the amount of OID and market discount included in the Holder's gross income and decreased by the amount of any payment received from the Issuer other than a payment of qualified stated interest. Gain or loss, if any, will generally be U.S. source income for purposes of computing a U.S. holder's foreign tax credit limitation. For these purposes, the amount realized does not include any amount attributable to accrued interest on the Covered Bond. Amounts attributable to accrued interest are treated as interest as described under "*Taxation—Payments of Interest*".

Except as described below, gain or loss realized on the sale, exchange or retirement of a Covered Bond will generally be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange or retirement the Covered Bond has been held for more than one year. Exceptions to this general rule apply to the extent of any accrued market discount or, in the case of a short-term Covered Bond, to the extent of any accrued discount not previously included in the holder's taxable income. See "*Taxation— Original Issue Discount*" and "*—Market Discount*". In addition, other exceptions to this general rule apply in the case of foreign currency Covered Bonds, and contingent payment debt instruments. See "*Taxation—Foreign Currency Covered Bonds*" and "*—Contingent Payment Debt Instruments*".

Contingent Payment Debt Instruments

If the terms of the Covered Bonds provide for certain contingencies that affect the timing and amount of payments (including Covered Bonds with a variable rate or rates that do not qualify as variable rate debt instruments for purposes of the original issue discount rules) they will be **contingent payment debt instruments** for U.S. federal income tax purposes. Under the rules that govern the treatment of contingent payment debt instruments, no payment on such Covered Bonds qualifies as qualified stated interest. Rather, a U.S. holder must account for interest for U.S. federal income tax purposes based on a "comparable yield" and the differences between actual payments on

the Covered Bond and the Covered Bond's "projected payment schedule" as described below. The comparable yield is determined by the Issuer at the time of issuance of the Covered Bonds. The comparable yield may be greater than or less than the stated interest, if any, with respect to the Covered Bonds. Solely for the purpose of determining the amount of interest income that a U.S. holder will be required to accrue on a contingent payment debt instrument, the Issuer will be required to construct a "projected payment schedule" that represents a series of payments the amount and timing of which would produce a yield to maturity on the contingent payment debt instrument equal to the comparable yield.

Neither the comparable yield nor the projected payment schedule constitutes a representation by the Issuer regarding the actual amount, if any, that the contingent payment debt instrument will pay.

For U.S. federal income tax purposes, a U.S. holder will be required to use the comparable yield and the projected payment schedule established by the Issuer in determining interest accruals and adjustments in respect of an optionally exchangeable Covered Bond treated as a contingent payment debt instrument, unless the holder timely discloses and justifies the use of a different comparable yield and projected payment schedule to the IRS.

A U.S. holder, regardless of the holder's method of accounting for U.S. federal income tax purposes, will be required to accrue interest income on a contingent payment debt instrument at the comparable yield, adjusted upward or downward to reflect the difference, if any, between the actual and the projected amount of any contingent payments on the contingent payment instrument (as set forth below).

A U.S. holder will be required to recognize interest income equal to the amount of any net positive adjustment, i.e., the excess of actual payments over projected payments, in respect of a contingent payment debt instrument for a taxable year. A net negative adjustment, i.e., the excess of projected payments over actual payments, in respect of a contingent payment debt instrument for a taxable year:

- will first reduce the amount of interest in respect of the contingent payment debt instrument that a holder would otherwise be required to include in income in the taxable year; and
- to the extent of any excess, will give rise to an ordinary loss equal to so much of this excess as does not exceed the excess of:
    - the amount of all previous interest inclusions under the contingent payment debt instrument over
    - the total amount of the U.S. holder's net negative adjustments treated as ordinary loss on the contingent payment debt instrument in prior taxable years.

A net negative adjustment is not subject to the two percent floor limitation imposed on miscellaneous deductions. Any net negative adjustment in excess of the amounts described above will be carried forward to offset future interest income in respect of the contingent payment debt instrument or to reduce the amount realized on a sale, exchange or retirement of the contingent payment debt instrument. Where a U.S. holder purchases a contingent payment debt instrument for a price other than its adjusted issue price, the difference between the purchase price and the adjusted issue price must be reasonably allocated to the daily portions of interest or projected payments with respect to the contingent payment debt instrument over its remaining term and treated as a positive or negative adjustment, as the case may be, with respect to each period to which it is allocated.

Upon a sale, exchange or retirement of a contingent payment debt instrument, a U.S. holder generally will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange or retirement and the holder's adjusted basis in the contingent payment debt instrument. A U.S. holder's adjusted basis in a Covered Bond that is a contingent payment debt instrument generally will be the acquisition cost of the Covered Bond, increased by the interest previously accrued by the U.S. holder on the Covered Bond under these rules, disregarding any net positive and net negative adjustments, and decreased by the amount of any noncontingent payments and the projected amount of any contingent payments previously made on the Covered Bond. A U.S. holder generally will treat any gain as interest income, and any loss as ordinary loss to the extent of the excess of previous interest inclusions in excess of the total net negative adjustments previously taken into account as ordinary losses, and the balance as capital loss. The deductibility of capital losses is subject to limitations. In addition, if a holder recognizes loss above certain thresholds, the holder may be required to file a disclosure statement with the IRS (as described under "*Taxation—Reportable Transactions*").

A U.S. holder will have a tax basis in any property, other than cash, received upon the retirement of a contingent payment debt instrument including in satisfaction of a conversion right or a call right equal to the fair market value of the property, determined at the time of retirement. The holder's holding period for the property will commence on the day immediately following its receipt.

Foreign Currency Covered Bonds

The following discussion summarizes the principal U.S. federal income tax consequences to a U.S. holder of the ownership and disposition of Covered Bonds that are denominated in a specified currency other than the U.S. dollar or the payments of interest or principal on which are payable in a currency other than the U.S. dollar ("**foreign currency Covered Bonds**").

The rules applicable to foreign currency Covered Bonds could require some or all gain or loss on the sale, exchange or other disposition of a foreign currency Covered Bond to be recharacterized as ordinary income or loss. The rules applicable to foreign currency Covered Bonds are complex and may depend on the holder's particular U.S. federal income tax situation. For example, various elections are available under these rules, and whether a holder should make any of these elections may depend on the holder's particular U.S. federal income tax situation. **U.S. holders are urged to consult their own tax advisers regarding the U.S. federal income tax consequences of the ownership and disposition of foreign currency Covered Bonds.**

A U.S. holder who uses the cash method of accounting and who receives a payment of qualified stated interest in a foreign currency with respect to a foreign currency Covered Bond will be required to include in income the U.S. dollar value of the foreign currency payment (determined on the date the payment is received) regardless of whether the payment is in fact converted to U.S. dollars at the time, and this U.S. dollar value will be the U.S. holder's tax basis in the foreign currency. A cash method holder who receives a payment of qualified stated interest in U.S. dollars pursuant to an option available under such foreign currency Covered Bond will be required to include the amount of this payment in income upon receipt.

An accrual method U.S. holder will be required to include in income the U.S. dollar value of the amount of interest income (including original issue discount or market discount, but reduced by acquisition premium and amortizable bond premium, to the extent applicable) that has accrued and is otherwise required to be taken into account with respect to a foreign currency Covered Bond during an accrual period. The U.S. dollar value of the accrued income will be determined by translating the income at the average rate of exchange for the accrual period or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within the taxable year. The U.S. holder will recognize ordinary income or loss with respect to accrued interest income on the date the income is actually received. The amount of ordinary income or loss recognized will equal the difference between the U.S. dollar value of the foreign currency payment received (determined on the date the payment is received) in respect of the accrual period (or, where a holder receives U.S. dollars, the amount of the payment in respect of the accrual period) and the U.S. dollar value of interest income that has accrued during the accrual period (as determined above). Rules similar to these rules apply in the case of a cash method taxpayer required to currently accrue original issue discount or market discount.

An accrual method U.S. holder may elect to translate interest income (including original issue discount) into U.S. dollars at the spot rate on the last day of the interest accrual period (or, in the case of a partial accrual period, the spot rate on the last day of the taxable year) or, if the date of receipt is within five business days of the last day of the interest accrual period, the spot rate on the date of receipt. A U.S. holder that makes this election must apply it consistently to all debt instruments from year to year and cannot change the election without the consent of the IRS.

Original issue discount, market discount, acquisition premium and amortizable bond premium on a foreign currency Covered Bond are to be determined in the relevant foreign currency. Where the taxpayer elects to include market discount in income currently, the amount of market discount will be determined for any accrual period in the relevant foreign currency and then translated into U.S. dollars on the basis of the average rate in effect during the accrual period. Exchange gain or loss realized with respect to such accrued market discount shall be determined in accordance with the rules relating to accrued interest described above.

If an election to amortize bond premium is made, amortizable bond premium taken into account on a current basis shall reduce interest income in units of the relevant foreign currency. Exchange gain or loss is realized on amortized bond premium with respect to any period by treating the bond premium amortized in the period in the same manner as on the sale, exchange or retirement of the foreign currency Covered Bond. Any exchange gain or loss will be ordinary income or loss as described below. If the election is not made, any loss realized on the sale, exchange or retirement of a foreign currency Covered Bond with amortizable bond premium by a US. holder who has not elected to amortize the premium will be a capital loss to the extent of the bond premium.

A U.S. holder's tax basis in a foreign currency Covered Bond, and the amount of any subsequent adjustment to the holder's tax basis, will be the U.S. dollar value amount of the foreign currency amount paid for such foreign currency Covered Bond, or of the foreign currency amount of the adjustment, determined on the date of the purchase or adjustment. A U.S. holder who purchases a foreign currency Covered Bond with previously owned foreign currency will recognize ordinary income or loss in an amount equal to the difference, if any, between such U.S. holder's tax basis in the foreign currency and the U.S. dollar fair market value of the foreign currency Covered Bond on the date of purchase.

Gain or loss realized upon the sale, exchange or retirement of a foreign currency Covered Bond that is attributable to fluctuation in currency exchange rates will be ordinary income or loss which will not be treated as interest income or expense. Gain or loss attributable to fluctuations in exchange rates will equal the difference between (i) the US. dollar value of the foreign currency principal amount of the Covered Bond, determined on the date the payment is received or the Covered Bond is disposed of, and (ii) the U.S. dollar value of the foreign currency principal amount of the Covered Bond, determined on the date the U.S. holder acquired the Covered Bond. Payments received attributable to accrued interest will be treated in accordance with the rules applicable to payments of interest on foreign currency Covered Bonds described above. The foreign currency gain or loss will be recognized only to the extent of the total gain or loss realized by the holder on the sale, exchange or retirement of the foreign currency Covered Bond. The source of the foreign currency gain or loss will be determined by reference to the residence of the holder or the "qualified business unit" of the holder on whose books the foreign currency Covered Bond is properly reflected. Any gain or loss realized by these holders in excess of the foreign currency gain or loss will be capital gain or loss except to the extent of any accrued market discount or, in the case of a short-term foreign currency Covered Bond,

to the extent of any discount not previously included in the holder's income. Holders should consult their own tax advisor with respect to the tax consequences of receiving payments in a currency different from the currency in which payments with respect to such foreign currency Covered Bond accrue.

A U.S. holder will have a tax basis in any foreign currency received on the sale, exchange or retirement of a foreign currency Covered Bond equal to the U.S. dollar value of the foreign currency, determined at the time of sale, exchange or retirement. A cash method taxpayer who buys or sells a foreign currency Covered Bond is required to translate units of foreign currency paid or received into U.S. dollars at the spot rate on the settlement date of the purchase or sale. Accordingly, no exchange gain or loss will result from currency fluctuations between the trade date and the settlement date of the purchase or sale. An accrual method taxpayer may elect the same treatment for all purchases and sales of foreign currency obligations provided that the foreign currency Covered Bonds are traded on an established securities market. This election cannot be changed without the consent of the IRS. Any gain or loss realized by a U.S. holder on a sale or other disposition of foreign currency (including its exchange for U.S. dollars or its use to purchase foreign currency Covered Bonds) will be ordinary income or loss.

Backup Withholding and Information Reporting

Information returns may be filed with the IRS in connection with payments on the Covered Bonds and the proceeds from a sale or other disposition of the Covered Bonds. A U.S. holder may be subject to U.S. backup withholding on these payments if it fails to provide its tax identification number to the paying agent and comply with certain certification procedures or otherwise establish an exemption from backup withholding. The amount of any backup withholding from a payment to a U.S. holder will be allowed as a credit against the holder's U.S. federal income tax liability and may entitle them to a refund, provided that the required information is furnished to the IRS.

Reportable Transactions

A U.S. taxpayer that participates in a "reportable transaction" will be required to disclose its participation to the IRS. The scope and application of these rules is not entirely clear. A U.S. holder may be required to treat a foreign currency exchange loss from the Covered Bonds as a reportable transaction if the loss exceeds certain thresholds in a single taxable year. In the event the acquisition, ownership or disposition of Covered Bonds constitutes participation in a "reportable transaction" for purposes of these rules, a U.S. holder will be required to disclose its investment by filing Form 8886 with the IRS. Prospective purchasers should consult their tax advisers regarding the application of these rules to the acquisition, ownership or disposition of Covered Bonds.

U.S. Tax Treatment of Non-U.S. Holders of Covered Bonds

A Non-U.S. holder that is not a United States person within the meaning of Section 7701(a)(30) of the Code, will be exempt from any United States federal income or withholding taxes with respect to gain derived from the sale, exchange or redemption of, or any distributions received in respect of the Covered Bonds unless such gain or distributions are effectively connected with the conduct of a United States trade or business by the Non-U.S. holder, or in the case of gain, such Non-U.S. holder is a non-resident alien individual who holds Covered Bonds as a capital asset and who is present in the United States for 183 days or more during a taxable year of the disposition, and certain other conditions are satisfied.

Payment of the proceeds from the disposition of Covered Bonds to or through the United States office of a broker is subject to information reporting and backup withholding unless the Non-U.S. holder establishes an exemption from information reporting and backup withholding.

The United States federal income tax discussion set forth above is included for general information only and may not be applicable depending upon a holder's particular situation. Holders should consult their own tax advisors with respect to the tax consequences to them of the ownership and disposition of the Covered Bonds, including the tax consequences under state, local, foreign and other tax laws and the possible effects of changes in U.S. federal or other tax laws.

CERTAIN CONSIDERATIONS FOR ERISA AND OTHER U.S. EMPLOYEE BENEFIT PLANS

The following is a summary of certain considerations associated with the purchase of the Covered Bonds by (i) employee benefit plans that are subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), (ii) plans, individual retirement accounts and other arrangements that are subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), or provisions under any other U.S. or non-U.S. federal, state, local or other laws or regulations that are similar to such provisions of ERISA or the Code (collectively, "**Similar Laws**"), and (iii) entities whose underlying assets are considered to include "plan assets" of any such employee benefit plan, plan, account or arrangement (each, a "**Plan**").

General Fiduciary Matters

ERISA and the Code impose certain duties on persons who are fiduciaries of a Plan subject to Title I of ERISA or Section 4975 of the Code (an "**ERISA Plan**") and prohibit certain transactions involving the assets of an ERISA Plan and its fiduciaries or other interested parties. Under ERISA and the Code, any person who exercises any discretionary authority or control over the administration of such an ERISA Plan or the management or disposition of the assets of such an ERISA Plan, or who renders investment advice for a fee or other compensation to such an ERISA Plan, is generally considered to be a fiduciary of the ERISA Plan.

In considering an investment in the Covered Bonds of a portion of the assets of any Plan, a fiduciary should determine whether the investment is in accordance with the documents and instruments governing the Plan and the applicable provisions of ERISA, the Code or any Similar Law relating to a fiduciary's duties to the Plan including, without limitation, the prudence, diversification, delegation of control and prohibited transaction provisions of ERISA, the Code and any other applicable Similar Laws.

Prohibited Transaction Issues

Section 406 of ERISA and Section 4975 of the Code prohibit ERISA Plans from engaging in specified transactions involving plan assets with persons or entities who are "parties in interest," within the meaning of ERISA, or "disqualified persons," within the meaning of Section 4975 of the Code, unless an exemption is available. A party in interest or disqualified person who engages in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code. In addition, the fiduciary of the ERISA Plan that engages in such a non-exempt prohibited transaction may be subject to penalties and liabilities under ERISA and the Code. The acquisition and/or holding of Covered Bonds by an ERISA Plan with respect to which the Issuer, Guarantor, Servicer, Bond Trustee, Arranger, Dealers or any of their respective affiliates is a party in interest or a disqualified person may constitute or result in a direct or indirect prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code, unless the investment is acquired and is held in accordance with an applicable statutory, class or individual prohibited transaction exemption. In this regard, the U.S. Department of Labor has issued prohibited transaction class exemptions, or "**PTCEs**," that may apply to the acquisition and holding of the Covered Bonds. These class exemptions include, without limitation, PTCE 84-14 respecting transactions determined by independent qualified professional asset managers, PTCE 90-1 respecting insurance company pooled separate accounts, PTCE 91-38 respecting bank collective investment funds, PTCE 95-60 respecting life insurance company general accounts and PTCE 96-23 respecting transactions determined by in-house asset managers. In addition, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code provide limited relief from the prohibited transaction provisions of ERISA and Section 4975 of the Code for certain transactions, provided that neither the issuer of the securities nor any of its affiliates (directly or indirectly) have or exercise any discretionary authority or control or render any investment advice with respect to the assets of any ERISA Plan involved in the transaction and provided further that the ERISA Plan pays no more than adequate consideration in connection with the transaction. There can be no assurance that all of the conditions of any such exemptions will be satisfied with respect to any particular transaction involving the Covered Bonds. Furthermore, fiduciaries of any ERISA Plan considering an investment in the Covered Bonds and the potential prohibited transactions resulting from the acquisition and holding of such Covered Bonds should note that it is unclear if the assets of the Guarantor would be deemed to be plan assets due to the Guarantor's obligations under the Covered Bond Guarantee.

Because of the foregoing, the Covered Bonds should not be acquired or held by any person investing "plan assets" of any Plan, unless such acquisition and holding will not constitute a non-exempt prohibited transaction under ERISA and the Code or a similar violation of any applicable Similar Laws.

Representations

Accordingly, unless otherwise stated in the Final Terms, by acceptance of a Covered Bond, each purchaser and subsequent transferee of a Covered Bond (or any interest therein) will be deemed to have represented and warranted that either (i) it is not and, for so long as it holds a Covered Bond (or any interest therein), will not be a Plan or (ii) the purchase and holding of the Covered Bond (or any interest therein) will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or similar violation under any applicable Similar Laws.

The foregoing discussion is general in nature and is not intended to be all inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries, or other persons considering acquiring the Covered Bonds on behalf of, or with the assets of, any Plan, consult with their counsel regarding the

potential applicability of ERISA, Section 4975 of the Code and any Similar Laws to such investment and whether an exemption would be applicable to the acquisition and holding of the Covered Bonds (or any interest therein).

The sale of Covered Bonds to a Plan is in no respect a representation by the Issuer, Guarantor, Servicer, Bond Trustee, Arranger, Dealers or any of their respective affiliates that such an investment meets all relevant requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

Covered Bonds may be sold from time to time by the Issuer to any one or more of The Royal Bank of Scotland plc and any other dealers appointed from time to time in accordance with the Dealership Agreement, which appointment may be for a specific issue or on an ongoing basis (the "**Dealers**"). Covered Bonds may also be sold by the Issuer directly to institutions who are not Dealers. The arrangements under which Covered Bonds may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers are set out in a dealership agreement dated as of the Programme Establishment Date (as amended, restated, supplemented or replaced from time to time, the "**Dealership Agreement**") and made between the Issuer, the Federation, the Guarantor, the Dealers and the Arranger. Any such agreement will, among other things, make provision for the form and terms and conditions of the relevant Covered Bonds, the price at which such Covered Bonds will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase. The Dealership Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Covered Bonds. The Dealership Agreement will be governed by, and construed in accordance with, the laws of the Province of Ontario and the laws of Canada applicable therein.

Canada

The Covered Bonds have not been and will not be qualified for sale under the securities laws of any province or territory of Canada.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold, distributed or delivered, and that it will not offer, sell, distribute or deliver any Covered Bonds, directly or indirectly, in Canada or to, or for the benefit of any resident thereof in contravention of the securities laws of Canada or any province or territory thereof.

If the applicable Final Terms provide that the Covered Bonds may be offered, sold or distributed in Canada, the issue of the Covered Bonds will be subject to such additional selling restrictions as the Issuer and the relevant Dealer may agree, as specified in the applicable Final Terms. Each Dealer will be required to agree that it will offer, sell and distribute such Covered Bonds only in compliance with such additional Canadian selling restrictions.

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, not to distribute or deliver this Prospectus, or any other offering material relating to the Covered Bonds, in Canada in contravention of the securities laws of Canada or any province or territory thereof.

United States

As a result of the following restrictions, purchasers of Covered Bonds in the United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of Covered Bonds.

Transfer Restrictions

Each purchaser of Registered Covered Bonds (other than a person purchasing an interest in a Registered Global Covered Bond with a view to holding it in the form of an interest in the same Global Covered Bond) or person wishing to transfer an interest from one Registered Global Covered Bond to another or from global to definitive form or vice versa, will be required to acknowledge, represent and agree as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

(a) that either: (i) it is a QIB, purchasing (or holding) the Covered Bonds for its own account or for the account of one or more QIBs and it is aware that any sale to it is being made in reliance on Rule 144A, (ii) it is an Institutional Accredited Investor which has delivered an IAI Investment Letter or (iii) it is outside the United States and is not a U.S. person and is purchasing in compliance with Regulation S;

(b) that the Covered Bonds and the Covered Bond Guarantee are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Covered Bonds and the Covered Bond Guarantee have not been and will not be registered under the Securities Act or any applicable U.S. State securities laws and may not be offered, sold or delivered, directly or indirectly, within the United States or to, or for the account or benefit of, U.S. persons except as set forth in this section;

(c) it agrees that neither the Issuer nor the Guarantor has any obligation to register the Covered Bonds or the Covered Bond Guarantee under the Securities Act;

(d) that, unless it holds an interest in a Regulation S Global Covered Bond and is a person located outside the United States and is not a U.S. person, if in the future it decides to resell, pledge or otherwise transfer the Covered Bonds or any beneficial interests in the Covered Bonds, it will do so, prior to the date which is one year after the later of the last

Issue Date for the Series and the last date on which the Issuer or an affiliate of the Issuer was the owner of such Covered Bonds, only (a) to the Issuer or any affiliate thereof, (b) inside the United States to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (c) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. State securities laws;

(e) it will, and will require each subsequent holder to, notify any purchaser of the Covered Bonds from it of the resale restrictions referred to in paragraph (d) above, if then applicable;

(f) that Covered Bonds initially offered in the United States to QIBs will be represented by one or more Rule 144A Global Covered Bonds, that Covered Bonds offered in the United States to Institutional Accredited Investors will be in the form of Definitive IAI Registered Covered Bonds and that Covered Bonds offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Covered Bonds;

(g) that either (A) it is not and, for so long as it holds a Covered Bond (or any interest therein), will not be (i) an "employee benefit plan" as defined in Section 3(3) of ERISA that is subject to Title I of ERISA, (ii) a "plan" as defined in and subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), (iii) an entity whose underlying assets include the assets of any such employee benefit plan subject to ERISA or other plan subject to Section 4975 the Code, or (iv) a governmental or other benefit plan which is subject to any non-U.S. or U.S. federal, state or local law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code, or (B) its purchase and holding of the Covered Bonds will not result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or, in the case of such a governmental or other employee benefit plan, any such substantially similar non-U.S. or U.S. federal, state or local law for which an exemption is not available;

(h) that the Covered Bonds, other than the Regulation S Global Covered Bonds, will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY AND ANY GUARANTEE IN RESPECT THEREOF HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD OR DELIVERED, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT (1) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THE SECURITY FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS OR (2) IT IS AN INSTITUTIONAL "ACCREDITED INVESTOR" (AS DEFINED IN RULE 501(A)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT) (AN "INSTITUTIONAL ACCREDITED INVESTOR"); (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE SECURITY EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT IN RESPECT OF THIS SECURITY (THE "AGENCY AGREEMENT") AND, PRIOR TO THE DATE WHICH IS ONE YEAR AFTER THE LATER OF THE LAST ISSUE DATE FOR THE SERIES AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH SECURITY, OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING THE SECURITY FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDER OF SUCH SECURITY SENT TO ITS REGISTERED ADDRESS, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE

LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO RESALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).

BY ITS PURCHASE AND HOLDING OF THIS COVERED BOND (OR ANY INTEREST THEREIN), THE PURCHASER OR HOLDER WILL BE DEEMED TO HAVE REPRESENTED AND AGREED THAT EITHER (A) IT IS NOT AND, FOR SO LONG AS IT HOLDS THIS COVERED BOND (OR ANY INTEREST HEREIN), WILL NOT BE (I) AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA") THAT IS SUBJECT TO TITLE I OF ERISA, (II) A "PLAN" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), (III) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN SUBJECT TO ERISA OR OTHER PLAN SUBJECT TO SECTION 4975 OF THE CODE, OR (IV) A GOVERNMENTAL OR OTHER BENEFIT PLAN WHICH IS SUBJECT TO ANY NON-U.S. OR U.S. FEDERAL, STATE OR LOCAL LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE, OR (B) ITS PURCHASE AND HOLDING OF THIS COVERED BOND WILL NOT RESULT IN A PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR, IN THE CASE OF SUCH GOVERNMENTAL OR OTHER EMPLOYEE BENEFIT PLAN, ANY SUCH SUBSTANTIALLY SIMILAR NON-U.S OR U.S. FEDERAL, STATE OR LOCAL LAW FOR WHICH AN EXEMPTION IS NOT AVAILABLE.

PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT THE SELLER OF THIS SECURITY MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A."

(i) if it is outside the United States and is not a U.S. person, that if it should resell or otherwise transfer the Covered Bonds prior to the expiration of the distribution compliance period (defined as 40 days after the later of (i) the date on which the offering of Covered Bonds comprising any Tranche commenced to persons other than distributors in reliance on Regulation S and (ii) the date of issuance of such Covered Bonds, as determined and certified by the relevant Dealer, in the case of a non-syndicated issue, or the Lead Manager, in the case of a syndicated issue), it will do so only (A)(I) outside the United States in compliance with Rule 903 or 904 under the Securities Act or (II) to a QIB in compliance with Rule 144A and (B) in accordance with all applicable U.S. State securities laws; and it acknowledges that the Regulation S Global Covered Bonds will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY AND ANY GUARANTEE IN RESPECT THEREOF HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD OR DELIVERED, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT IN RESPECT OF THIS SECURITY (THE "AGENCY AGREEMENT") AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. UNTIL THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE LATER OF (i) THE DATE ON WHICH THE OFFERING OF THE SECURITY COMMENCED TO PERSONS OTHER THAN DISTRIBUTORS IN RELIANCE ON REGULATION S AND (ii) THE DATE OF ISSUANCE OF SUCH SECURITY, SALES MAY NOT BE MADE IN THE UNITED STATES OR TO U.S. PERSONS UNLESS MADE (I) PURSUANT TO RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT OR (II) TO QUALIFIED INSTITUTIONAL BUYERS AS DEFINED IN, AND IN TRANSACTIONS PURSUANT TO, RULE 144A UNDER THE SECURITIES ACT.

BY ITS PURCHASE AND HOLDING OF THIS COVERED BOND (OR ANY INTEREST THEREIN), THE PURCHASER OR HOLDER WILL BE DEEMED TO HAVE REPRESENTED AND AGREED THAT EITHER (A) IT IS NOT AND, FOR SO LONG AS IT HOLDS THIS COVERED BOND (OR ANY INTEREST HEREIN), WILL NOT BE (I) AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA") THAT IS SUBJECT TO TITLE I OF ERISA, (II) A "PLAN" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), (III) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN SUBJECT TO ERISA OR OTHER PLAN SUBJECT TO SECTION 4975 OF THE CODE, OR (IV) A GOVERNMENTAL OR

OTHER BENEFIT PLAN WHICH IS SUBJECT TO ANY NON-U.S. OR U.S. FEDERAL, STATE OR LOCAL LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE, OR (B) ITS PURCHASE AND HOLDING OF THIS COVERED BOND WILL NOT RESULT IN A PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR, IN THE CASE OF SUCH A GOVERNMENTAL OR OTHER EMPLOYEE BENEFIT PLAN, ANY SUCH SUBSTANTIALLY SIMILAR NON-U.S. OR U.S. FEDERAL, STATE OR LOCAL LAW FOR WHICH AN EXEMPTION IS NOT AVAILABLE; and

(j) that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it will promptly notify the Issuer; and if it is acquiring any Covered Bonds as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Institutional Accredited Investors who purchase Registered Covered Bonds in definitive form offered and sold in the United States in reliance on an exemption from registration under the Securities Act are required to execute and deliver to the Registrar an IAI Investment Letter. Upon execution and delivery of an IAI Investment Letter by an Institutional Accredited Investor, Covered Bonds will be issued in definitive registered form, see "*Form of the Covered Bonds*". The IAI Investment Letter will state, among other things, the following:

(a) that the Institutional Accredited Investor has received a copy of the Prospectus and such other information as it deems necessary in order to make its investment decision;

(b) that the Institutional Accredited Investor understands that the Covered Bonds are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Covered Bonds have not been and will not be registered under the Securities Act or any other applicable U.S. State securities laws and any subsequent transfer of the Covered Bonds is subject to certain restrictions and conditions set forth in the Prospectus and the Covered Bonds (including those set out above) and that it agrees to be bound by, and not to resell, pledge or otherwise transfer the Covered Bonds except in compliance with, such restrictions and conditions and the Securities Act;

(c) that, in the normal course of its business, the Institutional Accredited investor invests in or purchases securities similar to the Covered Bonds;

(d) that the Institutional Accredited Investor is an institution that is an accredited investor within the meaning of Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act and has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment in the Covered Bonds, and it and any accounts for which it is acting are each able to bear the economic risk of its or any such accounts' investment for an indefinite period of time;

(e) that the Institutional Accredited Investor is acquiring the Covered Bonds purchased by it for its own account or for one or more accounts (each of which is an Institutional Accredited Investor) as to each of which it exercises sole investment discretion and not with a view to any distribution of the Covered Bonds, subject, nevertheless, to the understanding that the disposition of its property will at all times be and remain within its control; and

(f) that, in the event that the Institutional Accredited Investor purchases Covered Bonds, it will acquire Covered Bonds having at least the minimum purchase price set forth in the applicable Final Terms.

No sales of Legended Covered Bonds in the United States to any one purchaser will be for less than the minimum purchase price set forth in the applicable Final Terms in respect of the relevant Legended Covered Bonds (which minimum amount may vary for Institutional Accredited Investors). If the purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least an amount equal to the applicable minimum purchase price set forth in the applicable Final Terms in respect of the relevant Legended Covered Bonds.

Dealers may arrange for the resale of Covered Bonds to QIBs pursuant to Rule 144A and each such purchaser of Covered Bonds is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate principal amount of Covered Bonds which may be purchased by a QIB pursuant to Rule 144A will be specified in the applicable Final Terms (or the approximate equivalent in another Specified Currency).

Selling Restrictions

Regulation S, Category 1, TEFRA D Rules apply for Covered Bonds issued in bearer form on or before March 18, 2012, unless TEFRA C Rules are specified as applicable in the applicable Final Terms or unless TEFRA Rules are not applicable. For Covered Bonds issued in bearer form after March 18, 2012, the Final Terms shall specify any requirements applicable to such Covered Bonds to qualify such Covered Bonds as "foreign targeted obligations" that will be exempt from Code Section 4701 under the HIRE Act. Rule 144A eligible or sales to Institutional Accredited Investors who agree to purchase for their own account and not with a view to distribution will be permitted if so specified in the applicable Final Terms.

The Covered Bonds and the Covered Bond Guarantee have not been and will not be registered under the Securities Act or any U.S. state securities laws and may not be offered, sold or delivered, directly or indirectly, within the United States or its territories or possessions or to or for the account or benefit of U.S. persons as defined in Regulation S and the Securities Act except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Covered Bonds in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the Code and regulations thereunder.

In connection with any Covered Bonds which are offered or sold outside the United States in reliance on Regulation S ("**Regulation S Covered Bonds**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver such Regulations S Covered Bonds (i) as part of its distribution at any time or (ii) otherwise until 40 days after the later of (a) the date upon which the offering of Covered Bonds comprising any Tranche commenced to persons other than distributors in reliance on Regulation S and (b) the date of issuance of such Covered Bonds, as determined and certified by the relevant Dealer, in the case of a non-syndicated issue, or the lead manager, in the case of a syndicated issue, and except in either case in accordance with Regulation S under the Securities Act. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Regulation S Covered Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Regulation S Covered Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the later of (i) the date upon which the offering of Covered Bonds comprising any Tranche commenced to persons other than distributors in reliance on Regulation S and (ii) the date of issuance of such Covered Bonds, any offer or sale of Covered Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an exemption from registration under the Securities Act.

Dealers may arrange for the resale of Covered Bonds to QIBs pursuant to Rule 144A and each such purchaser of Covered Bonds is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate principal amount of Covered Bonds which may be purchased by a QIB pursuant to Rule 144A will be specified in the applicable Final Terms in U.S. dollars (or the approximate equivalent in another Specified Currency). Each issuance of Index Linked Covered Bonds or Dual Currency Covered Bonds will be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer(s) may agree as a term of the issuance and purchase of such Covered Bonds, which additional selling restrictions will be set out in the applicable Final Terms.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Covered Bonds which are the subject of the offering contemplated by this Prospectus as completed by the applicable Final Terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of Covered Bonds to the public in that Relevant Member State:

(a) at any time to any legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(b) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(c) at any time to fewer than 100 natural or legal persons (other than qualified investors, as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer(s) nominated by the Issuer for any such offer; or

(d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive;

provided that no such offer of Covered Bonds referred to in (a) to (d) above shall require the Issuer or any Dealer(s) to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Covered Bonds to the public" in relation to any Covered Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Covered Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Selling Restrictions addressing additional United Kingdom Securities Laws

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Covered Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Guarantor or, in the case of the Issuer, would not, if the Issuer was not an authorized person, apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Covered Bonds in, from or otherwise involving the United Kingdom.

Hong Kong

In relation to each Tranche of Covered Bonds issued by the Issuer each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Covered Bonds other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue and will not issue or have in its possession for the purpose of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Covered Bonds which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Covered Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance of Hong Kong and any rules made under that Ordinance.

Republic of France

The Issuer and each Dealer has represented and agreed that it has not offered or sold and will not offer or sell, directly or indirectly, Covered Bonds to the public in France, and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, the Prospectus, the applicable Final Terms or any other offering material relating to the Covered Bonds, and that such offers, sales and distributions have been and will be made in France only to (i) providers of investment services relating to portfolio management for the account of third parties, and/or (ii) qualified investors (*investisseurs qualifiés*), other than individuals, all as defined in, and in accordance with, articles L 411-1, L.411-2 and D.411-1 to D.411-3 of the French *Code monétaire et financier*.

Republic of Italy

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the offering of the Covered Bonds has not been registered pursuant to Italian securities legislation and, accordingly, the Covered Bonds may not be offered, sold or delivered, nor may copies of the Prospectus or of any other document relating to the Covered Bonds be distributed in the Republic of Italy, except:

(a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the "**Financial Services Act**"), and Article 34-ter, first paragraph, letter (b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time ("**Regulation No. 11971**"); or

(b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of Regulation No. 11971.

Furthermore, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that any offer, sale or delivery of the Covered Bonds or distribution of copies of the Prospectus or any other document relating to the Covered Bonds in the Republic of Italy under (a) or (b) above must be:

(i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October 2007 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (the "**Banking Act**"); and

(ii) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and

(iii) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or other Italian authority.

Please note that in accordance with Article 100-bis of the Financial Services Act, where no exemption from the rules on public offerings applies under (i) and (ii) above, the subsequent distribution of the Covered Bonds on the secondary market in Italy must be made in compliance with the public offer and the prospectus requirement rules provided under the Financial Services Act and Regulation No. 11971. Failure to comply with such rules may result in the sale of such Covered Bonds being declared null and void and in the liability of the intermediary transferring the financial instruments for any damages suffered by the investors.

Japan

The Covered Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended) (the "**FIEA**"). Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Covered Bonds in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Control Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

General

No action has been or will be taken in any country or jurisdiction by the Issuer, the Guarantor, the Dealers or the Bond Trustee that would permit a public offering of Covered Bonds, or possession or distribution of any offering material in relation thereto, in such country or jurisdiction where action for that purpose is required and such action has not been taken. The Dealership Agreement provides that each Dealer will (to the best of its knowledge and belief) comply with all applicable securities laws in each jurisdiction in which it purchases, offers, sells or delivers Covered Bonds or has in its possession or distributes offering material, in all cases, at its own expense. Persons into whose hands the Prospectus or any Final Terms comes are required by the Issuer, the Guarantor, the Dealers and the Bond Trustee to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Covered Bonds or have in their possession or distribute such offering material, in all cases at their own expense.

The Dealership Agreement also provides that the Dealers will not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions will, as a result of change(s) or change(s) in official interpretation, after the date hereof, in applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph headed "General" above.

Selling restrictions may be supplemented or modified with the agreement of the Issuer. Any such supplement or modification will be set out in the applicable Final Terms (in the case of a supplement or modification relevant only to a particular Tranche of Covered Bonds) or (in any other case) in a supplement to this Prospectus.

GENERAL INFORMATION

1. The listing of the Covered Bonds on the Official List will be expressed as a percentage of their principal amount (exclusive of accrued interest). Any Tranche of Covered Bonds which is to be listed on the Official List and to trading on the Main Market or the PSM will be admitted separately upon submission of the applicable Final Terms and any other information required, subject to the issue of the relevant Covered Bonds. Prior to official listing, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day after the day of the transaction. The listing of the Programme in respect of the Covered Bonds is expected to be granted on or about March 17, 2011.

   Covered Bonds may be issued pursuant to the Programme which will not be admitted to the Official List or to trading on the Main Market or the PSM or listed on any other stock exchange or which will be listed on such stock exchange as the Issuer and the relevant Dealer(s) or Covered Bondholder(s), as applicable, may agree.

2. The establishment of the Programme and the issue of Covered Bonds has been authorized by the Issuer. The giving of the Covered Bond Guarantee has been duly authorized by resolution of the Managing GP on behalf of the Guarantor dated March 14, 2011. The Issuer and the Guarantor have obtained or will obtain from time to time all necessary consents, approvals and authorizations in connection with the issue and performance of the Covered Bonds and the Covered Bond Guarantee.

3. There are no, nor have there been any, governmental, legal or arbitration proceedings involving the Issuer or any of its subsidiaries or the Guarantor (including any such proceedings which are pending or threatened of which the Issuer or the Guarantor is aware) which may have, or have had during the 12 months prior to the date of this Prospectus, individually or in the aggregate, a significant effect on the financial position or profitability of the Issuer, or of the Issuer and its subsidiaries taken as a whole, or the Guarantor.

4. There has been no significant change in the financial or trading position of the Issuer and its consolidated subsidiaries taken as a whole since 31 December 2010, the last day of the financial period in respect of which the most recent annual published consolidated financial statements of the Issuer have been prepared, or of the Guarantor since March 4, 2011, being the date of its formation. There has been no material adverse change in the prospects of the Issuer and its subsidiaries taken as a whole since 31 December 2010, the last day of the financial period in respect of which the most recent audited published consolidated financial statements of the Issuer have been prepared, or of the Guarantor since March 4, 2011.

5. The auditors of the Issuer and Desjardins Financial Group are PricewaterhouseCoopers LLP ("**PricewaterhouseCoopers**") who are Chartered Accountants. PricewaterhouseCoopers has also been accepted for transitional registration in the Register of Third Country Auditors Maintained by the Professional Oversight Board of the United Kingdom in accordance with the European Commission Decision of 29 July 2008 (2008/627/EC). PricewaterhouseCoopers is independent of the Issuer and of Desjardins Financial Group within the meaning of the Code of Ethics of the *Ordre des comptables agréés du Québec* and has no material interest in either the Issuer or Desjardins Financial Group. The address for PricewaterhouseCoopers is set out on the last page hereof.

6. The consolidated financial statements of the Issuer for the years ended 31 December 2010 and 2009 prepared in accordance with Canadian GAAP, were audited in accordance with Canadian generally accepted auditing standards by PricewaterhouseCoopers. PricewaterhouseCoopers expressed an unmodified opinion thereon in their report dated February 24, 2011.

7. For so long as the Programme remains in effect or any Covered Bonds are outstanding, copies of the following documents may be inspected during normal business hours at the specified offices of the Issuing and Paying Agent, the Registrar and the Issuer, namely:

   (i) an English language version of the Constituent Legislation;

   (ii) an English language version of the Capital Stock Resolution;

   (iii) the constating documents of the Guarantor;

   (iv) the Transaction Documents (including, without limitation, the Trust Deed containing the Covered Bond Guarantee and the Agency Agreement);

   (v) the Annual Reports of the Issuer and of the Desjardins Financial Group for the two most recently completed fiscal years (once such reports have been made publicly available), which reports include audited annual comparative consolidated and combined financial statements respectively and the auditors' reports thereon; the Guarantor is not required to prepare any audited accounts on an annual basis pursuant to applicable Canadian law;

(vi) the most recent quarterly reports of the Issuer and of the Desjardins Financial Group including the unaudited interim consolidated and combined financial statements respectively; the Guarantor is not required to prepare any unaudited interim accounts pursuant to applicable Canadian law;

(vii) each Final Terms for a Tranche of Covered Bonds that is offered to the public or admitted to trading on a regulated market in any Member State of the EEA in circumstances requiring publication of a prospectus in accordance with Directive 2003/71/EC and any relevant implementing measure or admitted to trading on the PSM; and

(viii) a copy of the Prospectus together with any supplementary listing particulars or other supplement to the Prospectus.

8. The Covered Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg which are the entities in charge of keeping the records in respect of the Covered Bonds. The appropriate common code and International Securities Identification Number for the relevant Covered Bonds will be contained in the Final Terms relating thereto. In addition, the Issuer may make an application for any Registered Covered Bonds to be accepted for trading in book-entry form by DTC. The CUSIP and/or CINS numbers for each Tranche of Registered Bonds, together with the relevant ISIN and Common Code, will be specified in the applicable Final Terms. If the Covered Bonds are to clear through an additional or alternative clearing system, the appropriate information (including address) will be specified in the applicable Final Terms. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream is 42 Avenue J. F. Kennedy, L-1855 Luxembourg. The address of DTC is 55 Water Street, New York, New York, 10041-0099, United States of America.

9. The price and amount of Covered Bonds to be issued under the Programme will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

10. Bearer Covered Bonds (other than Temporary Global Covered Bonds) and any Coupon appertaining thereto will bear a legend substantially to the following effect: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code". The sections referred to in such legend provide that a United States person who holds a Bearer Covered Bond or Coupon generally will not be allowed to deduct any loss realized on the sale, exchange or redemption of such Bearer Covered Bond or Coupon and any gain (which might otherwise be characterized as capital gain) recognized on such sale, exchange or redemption will be treated as ordinary income.

11. Settlement arrangements will be agreed between the Issuer, the relevant Dealer(s) of the Covered Bondholder(s), as applicable, and the Issuing and Paying Agent or, as the case may be, the Registrar in relation to each Tranche of Covered Bonds.

12. The Issuer will provide post-issuance information to Holders of Covered Bonds in the form of Investor Reports, which will be available on the Issuer's website at http://www.desjardins.com/en/a_propos/etudes-publications/rapports/index.jsp. Unless otherwise provided in the applicable Final Terms, the Issuer has no intention of providing any other post-issuance information to Holders of Covered Bonds.

13. The Issuer may, on or after the date of this Prospectus, make applications for one or more certificates of approval under Article 18 of the Prospectus Directive, as implemented in the United Kingdom, to be issued by the UK Listing Authority to the competent authority in any Member State.

14. The Trust Deed provides that the Bond Trustee may rely on reports or other information from professional advisers or other experts in accordance with the provisions of the Trust Deed. However, the Bond Trustee will have no recourse to the professional advisers in respect of such certificates or reports unless the professional advisers have agreed to have a duty of care for such certificates or reports to the Bond Trustee pursuant to the terms of the relevant document(s) between the Bond Trustee and such persons.

CONSENT OF AUDITORS OF CAISSE CENTRALE DESJARDINS

In accordance with Canadian Generally Accepted Auditing Standards, Canadian Institute of Chartered Accountants section 7110, *Auditor involvement with Offering Documents of Public and Private Entities*, we consent to the use of our reports dated:

- February 24, 2011 to the Members of Caisse centrale Desjardins ("**Caisse centrale**") on the consolidated balance sheets of Caisse centrale as at December 31, 2010 and 2009 and the consolidated statement of income, members' equity, comprehensive income and cash flows for each of the years then ended; and

- February 25, 2010 to the Members of Caisse centrale on the consolidated balance sheets of Caisse centrale as at December 31, 2009 and 2008 and the consolidated statement of income, members' equity, comprehensive income and cash flows for each of the years then ended

incorporated by reference in the Prospectus relating to the issue from time to time of Covered Bonds by Caisse centrale.

PricewaterhouseCoopers LLP
Chartered Accountants
Montréal, Canada
March 14, 2011

CONSENT OF AUDITORS OF DESJARDINS FINANCIAL GROUP

In accordance with Canadian Generally Accepted Auditing Standards, Canadian Institute of Chartered Accountants section 7110, *Auditor involvement with Offering Documents of Public and Private Entities*, we consent to the use of our report dated February 25, 2010 to the Members of the Fédération des caisses Desjardins du Québec on the combined balance sheets of Desjardins Financial Group as at December 31, 2009 and 2008 and the combined statement of income, changes in equity, comprehensive income and cash flows for each of the years included in the three-year period ended December 31, 2009 appended to the Prospectus relating to the issue from time to time of Covered Bonds by Caisse centrale Desjardins.

PricewaterhouseCoopers LLP
Chartered Accountants
Montréal, Canada
March 14, 2011

GLOSSARY

"2009 Annual Information Form"	The meaning given to it in "*Documents Incorporated by Reference*" on page 38;
"30/360"	The meaning given to it in Condition 5.09 on page 64;
"360/360"	The meaning given to it in Condition 5.09 on page 64;
"30E/360"	The meaning given to it in Condition 5.09 on page 64;
"30E/360 (ISDA)"	The meaning given to it in Condition 5.09 on page 65;
"$", "C$", "CAD" or "Canadian dollars"	The lawful currency for the time being of Canada;
"€' or "euro"	The lawful currency for the time being of the Member States of the European Union that have adopted or may adopt the single currency in accordance with the treaty on the Functioning of the European Union, as amended by the treaty on European Union, as amended;
"£","Sterling" and "Pounds Sterling"	The lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland;
"U.S.$" or "U.S. dollars"	The lawful currency for the time being of the United States of America;
''¥", "Yen" and "Japanese Yen"	The lawful currency for the time being of Japan;
"Account Agreement"	The Account Agreement entered into on the Programme Establishment Date between the Guarantor, the Account Depository Institution, the Cash Manager and the Bond Trustee (as amended and/or restated and/or supplemented from time to time);
"Account Depository Institution"	The Issuer together with any successor Account Depository Institution appointed under the Account Agreement;
"Account Depository Institution Threshold Ratings"	The meaning given to it in "*Summary of the Principal Documents*" on page 138;
"accredited investor"	As defined in Rule 501(a)(1), (2), (3) or (7) of the Securities Act;
"Accrual Period"	The meaning given to it in Condition 5.09 on page 64;
"Accrued Interest"	In respect of a Loan as at any relevant date the aggregate of all interest accrued but not yet due and payable on the Loan from (and including) the Monthly Payment Date immediately preceding the relevant date to (but excluding) the relevant date;
"Act"	The meaning given to it in "*Taxation*" on page 152;
"Act/Act (ICMA)"	The meaning given to it in Condition 5.09 on page 65;
"Actual/360"	The meaning given to it in Condition 5.09 on page 64;
"Actual/365 (Fixed)"	The meaning given to it in Condition 5.09 on page 64;
"Actual/Actual" or "Actual/Actual (ISDA)"	The meaning given to it in Condition 5.09 on page 64;
"Actual/Actual (ICMA)"	The meaning given to it in Condition 5.09 on page 65;
"Additional Loan Advance"	A further drawing (including, but not limited to, Further Advances and Surplus Advances) in respect of Loans sold by the Seller to the Guarantor;

"Adjusted Aggregate Loan Amount"	The meaning given to it in "*Summary of the Principal Documents*" on page 127;
"Adjusted Required Redemption Amount"	The meaning given to it in "*Summary of the Principal Documents*" on page 121;
"Agency Agreement"	The agency agreement (as amended and/or supplemented and/or restated from time to time) dated the Programme Establishment Date and made by and among the Issuer, the Guarantor, the Bond Trustee, the Issuing and Paying Agent and the other Paying Agents, the Exchange Agent, the Registrar and the Transfer Agents;
"Agent"	Each of the Paying Agents, the Registrar, the Exchange Agent and the Transfer Agent;
"Amortization Test"	The test as to whether the Amortization Test Aggregate Loan Amount is in an amount at least equal to the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date;
"Amortization Test Aggregate Loan Amount"	The meaning given to it in "*Summary of the Principal Documents*" on page 129;
"Amortization Test True Balance"	The meaning given to it in "*Summary of the Principal Documents*" on page 130;
"Amortization Yield"	The rate defined by, or determined in accordance with the provisions of, the relevant Final Terms;
"Amortized Face Amount"	The meaning given to it in Condition 6.10 on page 70;
"applicable Final Terms"	The meaning given on page 50;
"Arranger"	The Royal Bank of Scotland plc;
"Arrears of Interest"	As at any date in respect of any Loan, interest (other than Capitalized Interest or Accrued Interest) on that Loan which is currently due and payable and unpaid on that date;
"Asset Coverage Test"	The test as to whether the Adjusted Aggregate Loan Amount is at least equal to the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date and from time to time;
"Asset Coverage Test Breach Notice"	The notice required to be served by the Guarantor (or the Cash Manager on its behalf) if the Asset Coverage Test has not been met on two consecutive Calculation Dates;
"Asset Monitor"	PricewaterhouseCoopers, in its capacity as Asset Monitor under the Asset Monitor Agreement, together with any successor asset monitor appointed from time to time;
"Asset Monitor Agreement"	The asset monitor agreement entered into on the Programme Establishment Date by and among the Asset Monitor, the Guarantor, the Cash Manager, the Issuer and the Bond Trustee (as amended and/or restated and/or supplemented from time to time);
"Asset Monitor Report"	The results of the tests conducted by the Asset Monitor in accordance with the Asset Monitor Agreement to be delivered to the Guarantor, the Cash Manager, the Issuer and the Bond Trustee;
"Asset Percentage"	The meaning given to it in "*Summary of the Principal Documents*" on page 129;
"Asset Percentage Adjusted True Balance"	The meaning given to it in "*Summary of the Principal Documents*" on page 128;
"Authorized Investments"	Investments of a type or class for which Rating Agency Confirmation has been received, including for example, short-term government bonds and money market

securities;

"Available Principal Receipts" .... On a relevant Calculation Date, an amount equal to the aggregate of (without double counting):

(a) the amount of Principal Receipts received during the immediately preceding Calculation Period and credited to the Principal Ledger (but, for the avoidance of doubt, excluding any Principal Receipts received in the Calculation Period beginning in the month in which the relevant Calculation Date falls);

(b) any other amount standing to the credit of the Principal Ledger including (i) the proceeds of any advances under the Intercompany Loan Agreement (where such proceeds have not been applied to acquire additional Covered Bond Portfolios of Loans and their Related Security, refinance an advance under the Intercompany Loan or invest in Substitute Assets and/or Authorized Investments), (ii) any Cash Capital Contributions and (iii) the proceeds from any sale of Loans pursuant to the terms of the Limited Partnership Agreement or the Hypothecary Loan Sale Agreement but excluding any amount of principal received under the Covered Bond Swap Agreement; and

(c) following repayment of any Hard Bullet Covered Bonds by the Issuer and the Guarantor on the Final Maturity Date thereof, any amounts standing to the credit of the Pre-Maturity Liquidity Ledger in respect of such Series of Hard Bullet Covered Bonds (except where the Guarantor has elected to or is required to retain such amounts on the Pre-Maturity Liquidity Ledger);

"Available Revenue Receipts" .... On a relevant Calculation Date, an amount equal to the aggregate of:

(a) the amount of Revenue Receipts received during the previous Calculation Period and credited to the Revenue Ledger (but for the avoidance of doubt, excluding any Revenue Receipts received in the Calculation Period beginning in the month in which the relevant Calculation Date falls);

(b) other net income of the Guarantor including all amounts of interest received on the Guarantor Accounts, the Substitute Assets, the Authorized Investments and in the previous Calculation Period but excluding amounts received by the Guarantor under the Interest Rate Swap Agreement and in respect of interest received by the Guarantor under the Covered Bond Swap Agreement;

(c) prior to the service of a Notice to Pay on the Guarantor amounts standing to the credit of the Reserve Fund in excess of the Reserve Fund Required Amount;

(d) the amount of any termination payment or premium received from a Swap Provider which is not applied to pay a replacement Swap Provider;

(e) any other Revenue Receipts not referred to in paragraphs (a) to (d) (inclusive) above received during the previous Calculation Period and standing to the credit of the Revenue Ledger; and

(f) following the service of a Notice to Pay on the Guarantor, amounts standing to the credit of the Reserve Fund;

less

(f) Third Party Amounts, which shall be paid on receipt in cleared funds to

the Seller;

"Banking Act"	The meaning given to it in "*Subscription and Sale and Transfer and Selling Restrictions*" at page 170;
"Banking Day"	The meaning given to it in Condition 5.09 on page 63;
"Base Prospectus"	The meaning given on page 2;
"Bearer Covered Bonds"	Covered Bonds in bearer form;
"Bearer Definitive Covered Bond"	A Bearer Definitive Covered Bond and/or, as the context may require, a Registered Definitive Covered Bond;
"Bearer Global Covered Bond"	The meaning given to it in "*Form of the Covered Bonds*" on page 50;
"Beneficial Owner"	The meaning given to it in "*Book-Entry Clearance Systems*" on page 150;
"Bond Basis"	The meaning given to it in Condition 5.09 on page 64;
"Bond Trustee"	BNY Trust Company of Canada, in its capacity as bond trustee under the Trust Deed together with any successor bond trustee appointed from time to time;
"Borrower"	In relation to a Loan, the person or persons specified as such in the relevant Hypothec together with the person or persons (if any) from time to time assuming an obligation under such Loan to repay such Loan or any part of it;
"Business Day"	The meaning given to it in Condition 5.09 on page 63;
"Business Day Convention"	The meaning given to it in Condition 5.09 on page 63;
"Caisse"	Any financial services cooperative member of the Federation participating in the Programme;
"Caisse centrale"	The meaning given to it on page 1;
"Caisses Act"	*An Act respecting financial services cooperatives* (Québec);
"Calculation Agent"	In relation to all or any Series of the Covered Bonds, the person initially appointed as calculation agent in relation to such Covered Bonds by the Issuer and the Guarantor pursuant to the Agency Agreement or, if applicable, any successor or separately appointed calculation agent in relation to all or any Series of the Covered Bonds;
"Calculation Amount"	The meaning given to it in the applicable Final Terms;
"Calculation Date"	The meaning given to it in Condition 7.01 on page 72;
"Calculation Period"	The period from, but excluding, the Calculation Date of the previous month to, and including, the Calculation Date of the month and, for greater certainty, references to the "**immediately preceding calculation period**" or the "**previous calculation period**" are references to the Calculation Period ending on the relevant Calculation Date, provided that the first Calculation Period begins on, but excludes, the Programme Establishment Date;
"Call Option"	The meaning given to it in the applicable Final Terms;
"Call Option Date(s)"	The meaning given to it in Condition 6.04 on page 69;
"Call Option Period"	The meaning given to it in Condition 6.04 on page 69;

"Canadian Dollar Equivalent"	In relation to a Covered Bond which is denominated in (i) a currency other than Canadian dollars, the Canadian dollar equivalent of such amount ascertained using the relevant Covered Bond Swap Rate relating to such Covered Bond, and (ii) Canadian dollars, the applicable amount in Canadian dollars;
"Canadian GAAP"	Canadian generally accepted accounting principles consistently applied throughout the periods intended to be covered thereby, as in effect from time to time;
"Capital Account Ledger"	The ledger maintained by the Cash Manager on behalf of the Guarantor in respect of each Partner to record the balance of each Partner's Capital Contributions from time to time;
"Capital Balance"	For a Loan at any date, the principal balance of that Loan to which the Servicer applies the relevant interest rate at which interest on that Loan accrues;
"Capital Contribution"	In relation to each Partner, the aggregate of the capital contributed by or agreed to be contributed by that Partner to the Guarantor from time to time by way of Cash Capital Contributions and Capital Contributions in Kind as determined on each Calculation Date in accordance with the formula set out in the Limited Partnership Agreement;
"Capital Contribution Balance"	The balance of each Partner's Capital Contributions as recorded from time to time in the relevant Partner's Capital Account Ledger;
"Capital Contribution in Kind"	Contributions by a Partner to the Guarantor other than Cash Capital Contributions, including contributions of Substitute Assets (up to the prescribed limit) and/or Authorized Investments (which shall constitute a Capital Contribution equal to the aggregate principal balance of the contributed Substitute Assets or Authorized Investments, as the case may be) and/or contributions pursuant to section 3.5 of the Limited Partnership Agreement;
"Capital Distribution"	Any return on a Partner's Capital Contribution in accordance with the terms of the Limited Partnership Agreement;
"Capital Requirements Directive"	Directive 2006/48/EC of the European Parliament and the Council dated 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (recast) (implementing the Basel II framework) (as the same may be varied, amended or re-enacted from time to time);
"Capitalized Arrears"	For any Loan at any date, interest or other amounts which are overdue in respect of that Loan and which as at that date have been added to the Capital Balance of the Loan in accordance with the Hypothecary Loan Conditions or otherwise by arrangement with the relevant Borrower;
"Capitalized Expenses"	In relation to a Loan, the amount of any expense, charge, fee, premium or payment (excluding, however, any Arrears of Interest) capitalized and added to the Capital Balance of that Loan in accordance with the relevant Hypothecary Loan Conditions;
"Capitalized Interest"	For any Loan at any date, interest which is overdue in respect of that Loan and which as at that date has been added to the Capital Balance of that Loan in accordance with the Hypothecary Loan Conditions or otherwise by arrangement with the relevant Borrower (excluding for the avoidance of doubt any Arrears of Interest which have not been so capitalized on that date);
"Cash Flow Model Calculation Date"	The meaning given to it in "*Summary of the Principal Documents*" on page 129;
"Cash Capital Contributions"	A Capital Contribution made in cash;
"Cash Management Agreement"	The cash management agreement entered into on the Programme Establishment Date between the Guarantor, the Issuer in its capacity as the Cash Manager and the

Bond Trustee (as amended and/or restated and/or supplemented from time to time);

"Cash Manager"	The Issuer, in its capacity as cash manager under the Cash Management Agreement together with any successor cash manager appointed pursuant to the Cash Management Agreement from time to time;
"CCDQ 2009 Annual Report"	The meaning given to it in "*Documents Incorporated by Reference*" on page 38;
"Charged Property"	The property charged by the Guarantor pursuant to the Security Agreements;
"Clearing Systems"	DTC, Euroclear and/or Clearstream, Luxembourg;
"Clearstream, Luxembourg"	Clearstream Banking, *société anonyme*;
"CMHC"	Canada Mortgage and Housing Corporation, a Canadian federal Crown corporation and its successors;
"CMHC Approved Limit"	In respect of a Loan, the specific principal balance limit for which CMHC has agreed to provide CMHC Mortgage Insurance;
"CMHC Insured Hypothec"	A Canadian first ranking or first lien, residential hypothecary or mortgage loan insured as to principal and interest by CMHC pursuant to CMHC Mortgage Insurance, which will be insured in respect of amounts related to the principal balance of the Loan which does not exceed the CMHC Approved Limit;
"CMHC Insured Loan Indebtedness"	Indebtedness arising under a Loan or Further Advance which is insured as to principal and interest by CMHC pursuant to CMHC Mortgage Insurance, which, for greater certainty, shall not include indebtedness arising under a Surplus Advance;
"CMHC Mortgage Insurance"	The hypothec or mortgage loan insurance in respect of a Loan issued to the Seller or the relevant Originator, as the case may be, by CMHC subject, in each case, to the *National Housing Act* (Canada) and the regulations thereunder;
"Code"	U.S. Internal Revenue Code of 1986, as amended;
"Common Depositary"	The common depositary for Euroclear and/or Clearstream, Luxembourg;
"Common Safekeeper"	A common safekeeper for Euroclear and/or Clearstream, Luxembourg;
"Conditions"	Terms and conditions of the Covered Bonds as described under "*Terms and Conditions of the Covered Bonds*";
"Constituent Legislation"	*An Act respecting the Mouvement Desjardins* (Québec);
"Contractual Currency"	The meaning given to it in Condition 16 on page 81;
"Corporate Services Agreement"	The meaning given to it in "*Summary of the Principal Documents*" on page 139;
"Corporate Services Provider"	BNY Trust Company of Canada, a trust company formed under the laws of Canada, as corporate services provider to the Liquidation GP under the Corporate Services Agreement, together with any successor corporate services provider appointed from time to time;
"Couponholders"	The meaning given to it in "*Terms and Conditions of the Covered Bonds*" on page 54;
"Coupons"	The meaning given to it in "*Terms and Conditions of the Covered Bonds*" on page 53;

"Covered Bond"	Each covered bond issued or to be issued pursuant to the Dealership Agreement and which is or is to be constituted under the Trust Deed, which covered bond may be represented by a Global Covered Bond or any Definitive Covered Bond and includes any replacements or a Covered Bond issued pursuant to Condition 6.15 and Condition 12;
"Covered Bond Guarantee"	A direct and, following the occurrence of a Covered Bond Guarantee Activation Event, unconditional and irrevocable guarantee by the Guarantor set forth in the Trust Deed for the payment of Guaranteed Amounts in respect of the Covered Bonds when the same shall become Due for Payment;
"Covered Bond Guarantee Activation Event"	The meaning given to it in "*Terms and Conditions of the Covered Bonds*" on page 59;
"Covered Bond Portfolio"	The Initial Covered Bond Portfolio and each additional Covered Bond Portfolio acquired by the Guarantor;
"Covered Bond Swap Agreement"	The agreement(s) (including any replacement agreements) entered into between the Guarantor and the Covered Bond Swap Provider(s) in the form of an ISDA Master Agreement, as the same may be amended, varied, supplemented, restated or extended from time to time, including a schedule, a credit support annex and confirmations in relation to each Tranche or Series of Covered Bonds;
"Covered Bond Swap Early Termination Event"	The meaning given to it in "*Summary of the Principal Documents*" on page 136;
"Covered Bond Swap Provider"	The provider(s) of the Covered Bond Swap under the Covered Bond Swap Agreement;
"Covered Bond Swap Rate"	In relation to a Covered Bond or Tranche or Series of Covered Bonds, the exchange rate relating to such Covered Bond or Series of Covered Bonds specified in the applicable Final Terms;
"CRA Regulations"	Means Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies;
"Credit Linked Covered Bonds"	Covered Bonds in respect of which payments will be calculated by reference to the creditworthiness of, performance of obligations by, or some other factor relating to, one or more Reference Entities, as set out in the applicable Final Terms;
"Current Balance"	In relation to a Loan at any relevant date, means the aggregate principal balance of the Loan at such date (but avoiding double counting) including the following: (i) the Initial Advance; (ii) Capitalized Expenses; (iii) Capitalized Arrears; and (iv) any increase in the principal amount due under that Loan due to any form of Further Advance, in each case relating to such Loan less any prepayment, repayment or payment of the foregoing made on or prior to the determination date;
"Custodian"	The meaning given to it in "*Book-Entry Clearance Systems*" on page 152;
"Cut off Date"	For a Transfer Date, such date as agreed between the Issuer and the Guarantor or (in the case of a Product Switch or Further Advance) the related Guarantor Payment Date, as the case may be;
"Day Count Fraction"	The meaning given to it in Condition 5.09 on page 64;
"DBRS"	DBRS Limited and any successors to its rating business;
"Dealers"	The meaning given to it in "*Subscription and Sale and Transfer and Selling Restrictions*" on page 164;
"Dealership Agreement"	The meaning given to it in "*Subscription and Sale and Transfer and Selling*

Restrictions" on page 164;

"Default Rate" .... The meaning given to it in Condition 5.06 on page 62;

"Definitive Covered Bond" .... A Bearer Definitive Covered Bond and/or a Registered Definitive Covered Bond , as the context may require;

"Definitive IAI Registered Covered Bond" ...... A Registered Definitive Covered Bond sold to an Institutional Accredited Investor;

"Definitive N Covered Bond" .... A Registered Definitive Covered Bond made out in the name of a specific creditor issued by a Definitive N Covered Bonds Deed;

"Definitive N Covered Bonds Deed" .... The meaning given on page 43;

"Definitive Rule 144A Covered Bond" .... A Registered Definitive Covered Bond sold to QIBs pursuant to Rule 144A;

"Demand Loan" .... The meaning given to it in "*Summary of the Principal Documents*" on page 113;

"Demand Loan Contingent Amount" .... The meaning given to it in "*Summary of the Principal Documents*" on page 113;

"Demand Loan Repayment Event" .... The meaning given to it in "*Summary of the Principal Documents*" on page 113;

"Designated Maturity" .... The meaning given to it in the ISDA Definitions;

"Desjardins Financial Group" .... The Desjardins Financial Group as described in "*Desjardins Financial Group*";

"Determination Date" .... The meaning given to it in the applicable Final Terms;

"Determination Period" .... The meaning given to it in Condition 5.09 on page 65;

"Direct Participants" .... The meaning given to it in "*Book-Entry Clearance Systems*" on page 150;

"Distribution Compliance Period" .... The meaning given to it in Condition 2.08(a) on page 57;

"DTC" .... The Depository Trust Company;

"DTC Covered Bonds" .... Covered Bonds accepted into DTC's book-entry settlement system;

"DTCC" .... The Depository Trust & Clearing Corporation;

"Dual Currency Covered Bonds" .... Covered Bonds in respect of which payments (whether in respect of principal or interest and whether at maturity or otherwise) will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer(s) may agree;

"Due for Payment" .... The requirement by the Guarantor to pay any Guaranteed Amounts following the service of a Notice to Pay on the Guarantor,

(i) prior to the occurrence of a Guarantor Event of Default, on:

(a) the date on which the Scheduled Payment Date in respect of such Guaranteed Amounts is reached, or, if later, the day which is two Business Days following service of a Notice to Pay on the Guarantor in respect of such Guaranteed Amounts or if the applicable Final Terms specify that an Extended Due for Payment Date is applicable to the relevant Series of Covered Bonds, the Interest Payment Date that would have applied if the Final Maturity Date of such Series of Covered Bonds had been the Extended Due for Payment Date (the "**Original Due for Payment Date**"); and

(b) in relation to any Guaranteed Amounts in respect of the Final Redemption Amount payable on the Final Maturity Date for a Series of Covered Bonds only, the Extended Due for Payment Date, but only (x) if in respect of the relevant Series of Covered Bonds the Covered Bond Guarantee is subject to an Extended Due for Payment Date pursuant to the terms of the applicable Final Terms and (y) to the extent that the Guarantor has been served a Notice to Pay no later than the date falling one Business Day prior to the Extension Determination Date and does not pay Guaranteed Amounts equal to the Final Redemption Amount in respect of such Series of Covered Bonds by the Extension Determination Date because the Guarantor has insufficient moneys available under the Guarantee Priority of Payments to pay such Guaranteed Amounts in full on the earlier of (a) the date which falls two Business Days after service of such Notice to Pay on the Guarantor or, if later, the Final Maturity Date (or, in each case, after the expiry of the grace period set out in Condition 7.01(a) or (b) the Extension Determination Date,

or, if, in either case, such day is not a Business Day, the next following Business Day. For the avoidance of doubt, Due for Payment does not refer to any earlier date upon which payment of any Guaranteed Amounts may become due under the guaranteed obligations, by reason of prepayment, acceleration of maturity, mandatory or optional redemption or otherwise save as provided in paragraph (ii) below; or

(ii) following the occurrence of a Guarantor Event of Default, the date on which a Guarantor Acceleration Notice is served on the Issuer and the Guarantor;

"Earliest Maturing Covered Bonds" .... At any time, the Series of the Covered Bonds (other than any Series which is fully collateralized by amounts standing to the credit of the Guarantor in the Guarantor Accounts and/or Authorized Investments or a combination thereof) that has or have the earliest Final Maturity Date as specified in the applicable Final Terms (ignoring any acceleration of amounts due under the Covered Bonds prior to the occurrence of a Guarantor Event of Default);

"Early Redemption Amount" .... The meaning given to it in the relevant Final Terms;

"EEA" or "European Economic Area" .... The meaning given on page 2;

"Eligibility Criteria" .... The meaning given to it in "*Summary of the Principal Documents*" on page 116;

"Equity Linked Covered Bonds" .... Covered Bonds in respect of which payments will be calculated by reference to the price, value, performance or some other factor relating to one or more Reference Assets, as set out in the applicable Final Terms;

"ERISA" .... *U.S. Employee Retirement Income Security Act of 1974*, as amended;

"ERISA Plan" .... The meaning given to it in "*Certain Considerations for ERISA and Other U.S. Employee Benefit Plans*" on page 162;

"EU" .... European Union;

"EU CRA" .... The meaning given to it on page 1;

"EURIBOR" or "EUROLIBOR" .... Euro-zone inter-bank offered rate;

"Eurobond Basis" .... The meaning given to it in Condition 5.09 on page 64;

"Euroclear"	Euroclear Bank S.A./N.V.;
"Eurodollar Convention"	The meaning given to it in Condition 5.09 on page 63;
"European Exchange Agent"	The meaning given to it in "*Terms and Conditions of the Covered Bonds*" on page 53;
"European Registrar"	The meaning given to it in "*Terms and Conditions of the Covered Bonds*" on page 53;
"Eurosystem"	The meaning given to it in "*Risk Factors*" on page 34;
"Eurosystem eligible Covered Bond"	Means a Covered Bond that is intended to be held in a manner that would allow it to constitute eligible collateral for Eurosystem monetary policy and intra day credit operations, as specified in the applicable Final Terms;
"Euro-zone"	The meaning given to it in Condition 5.09 on page 65;
"Excess Proceeds"	Moneys received (following the occurrence of an Issuer Event of Default and delivery of an Issuer Acceleration Notice and a Notice to Pay on the Guarantor) by the Bond Trustee from the Issuer or any administrator, administrative receiver, receiver, liquidator, trustee in sequestration or other similar official appointed in relation to the Issuer;
"Exchange Act"	The *U.S. Securities Exchange Act of 1934*, as amended;
"Exchange Agent"	Collectively, The Bank of New York Mellon and The Bank of New York Mellon, London Branch in their capacity as exchange agent (which expression shall include any successor exchange agent);
"Exchange Date"	The meaning specified in the relevant Final Terms;
"Exchange Event"	The meaning given to it in "*Form of the Covered Bonds*" on page 50;
"Excluded Scheduled Interest Amounts"	The meaning given to it in the definition of "*Scheduled Interest*" below;
"Excluded Scheduled Principal Amounts"	The meaning given to it in the definition of "*Scheduled Principal*" below;
"Excluded Swap Termination Amount"	In relation to a Swap Agreement, an amount equal to the amount of any termination payment due and payable (a) to the relevant Swap Provider as a result of a Swap Provider Default with respect to such Swap Provider or (b) to the relevant Swap Provider following a Swap Provider Downgrade Event with respect to such Swap Provider;
"Existing Covered Bonds"	The Covered Bonds of all Series then outstanding;
"Extended Due for Payment Date"	The meaning given to it in Condition 6.01 on page 67;
"Extension Determination Date"	The meaning given to it in Condition 6.01 on page 68;
"Extraordinary Resolution"	Means (a) a resolution passed at a meeting of the Holders of the Covered Bonds duly convened and held in accordance with the terms of the Trust Deed by a majority consisting of not less than three-quarters of the persons voting thereat upon a show of hands or if a poll is duly demanded by a majority consisting of not less than three-quarters of the votes cast on such poll; or (b) a resolution in writing signed by or on behalf of the Holders of the Covered Bond holding not less than 50 per cent in Principal Amount Outstanding of the Covered Bonds, which resolution in writing may be contained in one document or in several documents in like form each signed by or on behalf of one or more of the Holders of the Covered Bonds;

"Federation"	The Fédération des caisses Desjardins du Québec, a federation governed by the Caisses Act;
"FIEA"	The meaning given to it in "*Subscription and Sale and Transfer and Selling Restrictions*" at page 170;
"Final Maturity Date"	The Interest Payment Date on which each Series of Covered Bonds will be redeemed at their Principal Amount Outstanding in accordance with the Conditions;
"Final Redemption Amount"	The meaning given to it in the relevant Final Terms;
"Final Terms"	A document that sets out the final terms for a Tranche of Covered Bonds and which, with respect to Covered Bonds to be admitted to the Official List and admitted to trading by the London Stock Exchange, will be delivered to the UK Listing Authority and the London Stock Exchange on or before the date of issue of the applicable Series or Tranche of Covered Bonds;
"Financial Centre"	The financial centre or centres specified in the applicable Final Terms;
"Financial Services Act"	The meaning given to it in "*Subscription and Sale and Transfer and Selling Restrictions*" at page 170;
"First Transfer Date"	The Transfer Date (which shall be on or before the first Issue Date) on which the Initial Covered Bond Portfolio is sold by the Issuer to the Guarantor pursuant to the Hypothecary Loan Sale Agreement;
"Fitch"	Fitch, Inc. and any successors to its rating business;
"Fixed Amount Payer"	The meaning given to it in the ISDA Definitions;
"Fixed Amounts"	The meaning specified in the applicable Final Terms;
"Fixed Coupon Amount"	The meaning specified in the applicable Final Terms;
"Fixed Interest Period"	The meaning given to it in Condition 5.02 on page 60;
"Fixed Rate Covered Bonds"	Covered Bonds paying a fixed rate of interest on such date or dates as may be agreed between the Issuer and the relevant Dealer(s) and on redemption calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s);
"Floating Rate"	The meaning given to it in the ISDA Definitions;
"Floating Rate Convention"	The meaning specified in the applicable Final Terms;
"Floating Rate Covered Bonds"	Covered Bonds which bear interest at a rate determined: (a) on the same basis as the floating rate under a notional schedule and confirmations for each Tranche and/or Series of Covered Bonds in the relevant Specified Currency governed by the Interest Rate Swap Agreement incorporating the ISDA Definitions; or (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (c) on such other basis as may be agreed between the Issuer and the relevant Dealer(s), as set out in the applicable Final Terms;
"Floating Rate Option"	The meaning given to it in the ISDA Definitions;

"Following Business Day Convention"	The meaning specified in the applicable Final Terms;
"FRN Convention"	The meaning given to it in Condition 5.09 on page 63;
"FSMA"	*Financial Services and Markets Act 2000*, as amended;
"Further Advance"	In relation to a Loan, any advance of further money to the relevant Borrower following the making of the Initial Advance, which is secured by the same Hypothec as the Initial Advance, excluding the amount of any retention in respect of the Initial Advance; provided that, a Further Advance shall not include any advance of further money to the relevant Borrower which would result in the CMHC Approved Limit being exceeded;
"General Security Agreement"	The general security agreement dated the Programme Establishment Date and made between the Guarantor, the Bond Trustee and certain other Secured Creditors (as amended and/or restated and/or supplemented from time to time);
"GIC Account"	The account in the name of the Guarantor held with the Account Depository Institution and maintained subject to the terms of the Master Definitions and Construction Agreement, the Guaranteed Investment Contract, the Account Agreement and the Security Agreements or such additional or replacement account(s) as may be for the time being be in place with the prior consent of the Bond Trustee;
"GIC Provider"	The Issuer, in its capacity as GIC provider under the Guaranteed Investment Contract together with any successor GIC provider appointed from time to time;
"Global Covered Bond"	A Bearer Global Covered Bond and/or Registered Global Covered Bond, as the context may require;
"GST"	GST means (a) goods and services tax payable under Part IX of the *Excise Tax Act* (Canada), (b) goods and services tax payable pursuant to any similar value added tax legislation applicable that is stated to be harmonized with the foregoing, including for greater certainty, any harmonized sales tax payable, or (c) Québec sales tax imposed pursuant to an *Act respecting the Québec sales tax*;
"Guarantee Loan"	The meaning given to it in "*Summary of the Principal Documents*" on page 113;
"Guarantee Priority of Payments"	The meaning given to it in Condition 6.01 on page 146;
"Guaranteed Amounts"	Prior to the service of a Guarantor Acceleration Notice, with respect to any Original Due for Payment Date or, if applicable, any Extended Due for Payment Date, the sum of Scheduled Interest and Scheduled Principal, in each case, payable on that Original Due for Payment Date or, if applicable, any Extended Due for Payment Date, or after service of a Guarantor Acceleration Notice, an amount equal to the relevant Early Redemption Amount as specified in the Conditions plus all accrued and unpaid interest and all other amounts due and payable in respect of the Covered Bonds, including all Excluded Scheduled Interest Amounts, all Excluded Scheduled Principal Amounts (whenever the same arose) and all amounts payable by the Guarantor under the Trust Deed;
"Guaranteed Investment Contract" or "GIC"	The guaranteed investment contract by and among the Guarantor, the GIC Provider, the Bond Trustee and the Cash Manager dated the Programme Establishment Date (as amended and/or restated and/or supplemented from time to time);
"Guarantor"	CCDQ Covered Bond Guarantor Limited Partnership;
"Guarantor Acceleration Notice"	The meaning given to it in Condition 7.02 on page 73;
"Guarantor Accounts"	The GIC Account, the Transaction Account (to the extent maintained) and any additional or replacement accounts opened in the name of the Guarantor, including

	the Standby GIC Account and the Standby Transaction Account;
"Guarantor Event of Default"	The meaning given to it in Condition 7.02 on page 73;
"Guarantor Payment Date"	The 17th day of each month or if not a Montréal Business Day the next following Montréal Business Day;
"Guarantor Payment Period"	The period from and including a Guarantor Payment Date to but excluding the next following Guarantor Payment Date;
"Hard Bullet Covered Bonds"	The meaning given to it in "*Credit Structure*" on page 140;
"HIRE Act"	The meaning given to it in "*Overview of the Programme*" on page 47;
"Holders of the Covered Bonds" or "Holders" or "Covered Bondholders"	The holders for the time being of the Covered Bonds;
"Hypothec"	In respect of any Loan, each first fixed charge by way of hypothec or mortgage sold, transferred and assigned by the Seller to the Guarantor pursuant to the Hypothecary Loan Sale Agreement, which secures the repayment of the relevant Loan including the Hypothecary Loan Conditions applicable to it and "**Hypothecs**" means more than one Hypothec;
"Hypothecary Loan Conditions"	All the terms and conditions applicable to a Loan, including without limitation those set out in the Desjardins Financial Group's relevant Hypothecary Loan Conditions booklet and the Desjardins Financial Group's relevant general conditions, each as varied from time to time by the relevant Loan agreement between the lender under the Loan and the Borrower, as the same may be amended from time to time, and the relevant Hypothec Deed;
"Hypothec Deed"	In respect of any Hypothec, the deed or charge creating that Hypothec;
"Hypothecary Loan Sale Agreement"	The hypothecary loan sale agreement entered into on the Programme Establishment Date by and among the Seller, the Guarantor and the Bond Trustee (as amended and/or restated and/or supplemented from time to time);
"Hypothec Terms"	The terms of the applicable Hypothec;
"IAI Investment Letter"	A duly executed investment letter from the relevant transferee substantially in the form set out in the Agency Agreement;
"Incorporated Documents"	The meaning given on page 2;
"Index Linked Covered Bonds"	Index Linked Redemption Covered Bonds and Index Linked Interest Covered Bonds, as applicable;
"Index Linked Interest Covered Bonds"	Covered Bonds in respect of which payments of interest will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer(s) may agree;
"Index Linked Redemption Covered Bonds" ..	Covered Bonds in respect of which payments of principal will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer(s) may agree;
"Indirect Participants"	The meaning given to it in "*Book-Entry Clearance Systems*" on page 150;
"Initial Advance"	In respect of any Loan, the original principal amount advanced by the Seller or the relevant Originator, as the case may be, to the relevant Borrower;

"Initial Covered Bond Portfolio" .... The portfolio of Loans and their Related Security, particulars of which will be delivered on the First Transfer Date pursuant to the terms of the Hypothecary Loan Sale Agreement (other than any Loans and their Related Security that have been redeemed in full prior to the First Transfer Date) and all right, title, interest and benefit of the Seller in and to such Loans and their Related Security, including any rights of the Seller thereunder;

"Insolvency Event" .... In respect of the Seller, the Servicer or the Cash Manager or any other person:

(a) an order is made or an effective resolution passed for the winding up of the relevant entity; or

(b) the relevant entity stops or threatens to stop payment to its creditors generally or the relevant entity ceases or threatens to cease to carry on its business or substantially the whole of its business; or

(c) an encumbrancer takes possession or a receiver, administrator, administrative receiver or other similar officer is appointed to (or the *Autorité des marchés financiers* shall have taken control of) the whole or any material part of the undertaking, property and assets of the relevant entity or a distress, diligence or execution is levied or enforced upon or sued out against the whole or any material part of the chattels or property of the relevant entity and, in the case of any of the foregoing events, is not discharged within 30 days; or

(d) the relevant entity is unable to pay its debts as they fall due;

"Instalment Amount" .... The meaning given to it in Condition 1.07 on page 56;

"Instalment Covered Bonds" .... Covered Bonds which will be redeemed in the Instalment Amounts and on the Instalment Dates specified in the applicable Final Terms;

"Instalment Dates" .... The meaning given to it in the applicable Final Terms;

"Institutional Accredited Investor" .... An institution that is an "accredited investor" (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act);

"Intercompany Loan" .... The meaning given to it in "*Summary of the Principal Documents*" on page 113;

"Intercompany Loan Agreement" .... The loan agreement dated the Programme Establishment Date by and among the Issuer, the Guarantor and the Cash Manager (as amended and/or restated and/or supplemented from time to time);

"Intercompany Loan Ledger" .... The ledger of such name maintained by the Cash Manager pursuant to and in accordance with the terms of the Cash Management Agreement;

"Interest Accrual Period" .... The relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date;

"Interest Amount" .... The amount of interest payable on the Floating Rate Covered Bonds or Index Linked Interest Covered Bonds in respect of each Specified Denomination for the relevant Interest Period;

"Interest Basis" .... The meaning given to it in the applicable Final Terms;

"Interest Commencement Date" .... The meaning given to it in Condition 5.09 on page 65;

"Interest Determination Date" .... The meaning given to it in Condition 5.09 on page 66;

"Interest Payment Date"	The meaning given to it in Condition 5.09 on page 66;
"Interest Period"	The meaning given to it in Condition 5.09 on page 66;
"Interest Period End Date"	The meaning given to it in Condition 5.09 on page 66;
"Interest Rate Swap Agreement"	The agreement (including any replacement agreement) entered into between the Guarantor and the Interest Rate Swap Provider(s) in the form of an ISDA Master Agreement, including a schedule, credit support annex and confirmation in relation to the Covered Bond Portfolio (as amended and/or restated and/or supplemented from time to time);
"Interest Rate Swap Early Termination Event"	The meaning given to it in "*Summary of the Principal Documents*" on page 135;
"Interest Rate Swap Provider"	The provider(s) of the Interest Rate Swap under the Interest Rate Swap Agreement;
"Inverse Floating Rate Covered Bonds"	A Covered Bond that has an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR;
"Investor Reports"	The monthly report made available to the Bond Trustee and the Rating Agencies and as otherwise specified in the applicable Final Terms, detailing, *inter alia*, that the Asset Coverage Test is met;
"IRS"	U.S. Internal Revenue Service;
"ISDA"	International Swaps and Derivatives Association, Inc.;
"ISDA Definitions"	The meaning given to it in Condition 5.09 on page 66;
"ISDA Determination"	The meaning specified in the applicable Final Terms;
"ISDA Master Agreement"	The 2002 Master Agreement, as published by ISDA;
"ISDA Rate"	The meaning given to it in Condition 5.04 on page 61;
"Issue Date"	Each date on which the Issuer issues Covered Bonds to purchasers of such Covered Bonds;
"Issue Price"	The meaning specified in the applicable Final Terms;
"Issuer"	La Caisse centrale Desjardins du Québec;
"Issuer Acceleration Notice"	The meaning given to it in Condition 7.01 on page 72;
"Issuer Event of Default"	The meaning given to it in Condition 7.01 on page 72;
"Issuer ICSDs Agreement"	The agreement between the Issuer and Euroclear and Clearstream dated the Programme Establishment Date, in respect of securities to be issued under the Programme, as the same may be amended, varied, supplemented or restated from time to time;
"Issuing and Paying Agent"	The Bank of New York Mellon, London Branch, in its capacity as issuing and paying agent and any successor as such;
"Latest Valuation"	In relation to any Property, the value given to that Property by the most recent valuation addressed to the Seller or an Originator, as applicable, or obtained from an independently maintained valuation model, acceptable to reasonable and prudent institutional mortgage or hypothecary lenders in the Seller's or the applicable Originator's market or the purchase price of that Property or current property tax assessment, as applicable;

"Ledger"	Each of the Revenue Ledger, the Principal Ledger, the Reserve Ledger, the Payment Ledger, the Pre-Maturity Liquidity Ledger, Intercompany Loan Ledger and the Capital Account Ledgers maintained by the Cash Manager in accordance with the terms of the Cash Management Agreement;
"Legended Covered Bonds"	The meaning given to it in Condition 2.08(c) on page 58
"Legislative Exchange"	The meaning given to it in Condition 6.15 on page 71;
"Lending Criteria"	The lending criteria of the Desjardins Financial Group from time to time to which the Originators are bound, or such other criteria as would be acceptable to Reasonable and Prudent Hypothecary Lenders;
"LGP Trust"	The meaning given to it in "*Structure Overview – Ownership Structure of the Liquidation GP*" on page 13;
"LIBOR"	London inter-bank offered rate;
"Limited Partner"	Federation, in its capacity as a limited partner of the Guarantor, individually and together with such other person or persons who may from time to time, become limited partner(s) of the Guarantor pursuant to the terms of the Limited Partnership Agreement;
"Limited Partnership Agreement"	The limited partnership agreement in respect of the Guarantor entered into on the Programme Establishment Date between the Managing GP, the Liquidation GP, the Bond Trustee and the Federation as Limited Partner and any other Parties who accede thereto in accordance with its terms (as amended and/or restated and/or supplemented from time to time);
"Liquidation GP"	7782659 Canada Inc., in its capacity as liquidation general partner of the Guarantor together with any successor liquidation general partner appointed pursuant to the terms of the Limited Partnership Agreement;
"Listing Particulars"	The meaning given on page 2;
"Loan"	Any real estate hypothecary or mortgage loan with the benefit of CMHC Mortgage Insurance up to the CMHC Approved Limit referenced by its loan identifier number and comprising the aggregate of all principal sums, interest, costs, charges, expenses and other moneys (including all Additional Loan Advances) due or owing with respect to that loan under the relevant Hypothecary Loan Conditions by a Borrower on the security of a Hypothec from time to time outstanding, or, as the context may require, the Borrower's obligations in respect of the same;
"Loan Files"	The file or files relating to each Loan and its Related Security (including files kept in microfiche format or similar electronic data retrieval system or the substance of which is transcribed and held on an electronic data retrieval system) containing, among other things, the original fully executed copy of the document(s) evidencing the Loan and its Related Security, including the relevant loan agreement (together with the promissory note, if any, evidencing such Loan or, if applicable, a guarantor of the Borrower), and, if applicable, evidence of the registration thereof or filing of registration forms under the Civil Code or financing statements under the *Personal Property Security Act* (Ontario), and the hypothec or mortgage documentation, Hypothec Deed and other Related Security documents in respect thereof and evidence of paper or electronic registration from the applicable land registry office, land titles office or similar place of public record in which the related Hypothec is registered together with a copy of other evidence, if applicable, of any applicable insurance policies in respect thereof to which the Seller or the Guarantor, as the case may be, is entitled to any benefit, a copy of the policy of title insurance or opinion of counsel regarding title, priority of the Hypothec or other usual matters, in each case, if any, and any and all other documents (including all electronic documents) kept on file by or on behalf of the Seller relating to such

	Loan;
"Loan Offer Notice"	A notice from the Guarantor served on the Seller offering to sell Loans and their Related Security for an offer price equal to the greater of the then fair market value of such Loans and the Adjusted Required Redemption Amount;
"Loan Representations and Warranties"	The loan representations and warranties of the Seller set out in the Hypothecary Loan Sale Agreement;
"Loan Repurchase Notice"	A notice from the Guarantor (or the Cash Manager on its behalf) to the Seller delivered pursuant to the Hypothecary Loan Sale Agreement identifying a Loan or its Related Security in the Covered Bond Portfolio which does not, as at the relevant Transfer Date, materially comply with the Loan Representations and Warranties set out in the Hypothecary Loan Sale Agreement;
"local banking day"	The meaning given to it in Condition 9.11 on page 78;
"London Banking Day"	A day on which commercial banks in London are open for general business;
"London Stock Exchange"	London Stock Exchange plc;
"LTV Adjusted True Balance"	The meaning given to it in "*Summary of the Principal Documents*" on page 127;
"Main Market"	The meaning given on the cover;
"Managing GP"	CCDQ CB Managing GP Inc., in its capacity as managing general partner of the Guarantor together with any successor managing general partner of the Guarantor;
"Margin"	In respect of a Floating Rate Covered Bond, the percentage rate per annum (if any) specified in the applicable Final Terms;
"Markets in Financial Instruments Directive"	The meaning given on the cover;
"Master Definitions and Construction Agreement"	The master definitions and construction agreement made by and among the parties to the Transaction Documents on or about the Programme Establishment Date (as amended and/or restated and/or supplemented from time to time);
"Maximum Redemption Amount"	The meaning specified in the applicable Final Terms;
"Minimum Redemption Amount"	The meaning specified in the applicable Final Terms;
"Modified Following Business Day Convention" or "Modified Business Day Convention"	The meaning specified in Condition 5.09 on page 63;
"Monthly Payment"	The amount which the relevant Hypothec Terms require a Borrower to pay on each Monthly Payment Date in respect of that Borrower's Loan;
"Monthly Payment Date"	In relation to a Loan, the date in each month on which the relevant Borrower is required to make a payment of interest and, if applicable, principal for that Loan, as required by the applicable Hypothecary Loan Conditions;
"Montréal Business Day"	The meaning given to it in Condition 5.09 on page 66;
"Moody's"	Moody's Investors Service Inc., and any successors to its rating business;
"Negative Carry Factor"	The meaning given to it in "*Summary of the Principal Documents*" on page 129;
"New Covered Bonds"	The meaning given to it in Condition 6.15 on page 71;
"New Loan"	Loans, other than the Loans comprised in the Initial Covered Bond Portfolio, which the Seller may assign or transfer to the Guarantor after the First Transfer Date

pursuant to the Hypothecary Loan Sale Agreement and "**New Loans**" means more than one New Loan;

"New Portfolio Asset Type"	(i) A new type of hypothecary or mortgage loan insured as to principal and interest by CMHC Mortgage Insurance (or equivalent insurance provided by CMHC or another insurer whose obligations are guaranteed 100 per cent by the Government of Canada) relating thereto, originated or acquired by the Seller, which the Seller intends to transfer to the Guarantor, the terms and conditions of which are materially different (in the opinion of the Seller, acting reasonably) from the Loans. For the avoidance of doubt, a hypothecary or mortgage loan will not constitute a New Portfolio Asset Type if it differs from the Loans due to it having different interest rates and/or interest periods and/or time periods for which it is subject to a fixed rate, capped rate, tracker rate or any other interest rate or the benefit of any discounts, cash-backs and/or rate guarantees or due to it being originated by a new Originator or (ii) NHA Mortgage-Backed Securities which are fully guaranteed as to timely payment of principal and interest by CMHC pursuant to the *National Housing Act* (Canada);
"New Seller"	Any member of the Issuer's group that accedes to the relevant Transaction Documents and sells Loans or New Loans and their respective Related Security to the Guarantor in the future;
"NGCB"	The meaning given to it in "*Form of the Covered Bonds*" on page 58;
"NHA Mortgage-Backed Securities"	Mortgage-backed securities which are fully guaranteed as to timely payment of principal and interest by CMHC pursuant to the *National Housing Act* (Canada);
"Non-Performing Loan"	Any Loan in the Covered Bond Portfolio which is more than three months in arrears;
"Non-Performing Loans Notice"	A notice from the Cash Manager to the Seller identifying one or more Non-Performing Loans;
"Non-resident Holder"	The meaning given to it in "*Taxation*" on page 152;
"Notice to Pay"	The meaning given to it in Condition 7.01 on page 72;
"NSS"	Means the new safekeeping structure for Covered Bonds in registered form which are intended to be Eurosystem eligible Covered Bonds;
"Official List"	Official list of the UK Listing Authority in accordance with Section 103 of the FSMA;
"Optional Redemption Amount"	The meaning specified in the applicable Final Terms;
"Optional Redemption Date"	The meaning specified in the applicable Final Terms;
"Original Due for Payment Date"	The meaning given to it in paragraph (i)(a) of the definition of "Due for Payment";
"Origination Hypothecary Loan Sale Agreement"	The meaning given to it in "*Structure Overview – Overview of the Desjardins Financial Group*" on page 8;
"Originator"	The meaning given to it in "*Structure Overview – Overview of the Desjardins Financial Group*" on page 8;
"Outstanding Principal Amount"	The meaning given to it in Condition 5.09 on page 66;
"Participant"	A Direct and/or Indirect Participant;
"Participating Debt Interest"	The meaning given to it in "*Taxation*" on page 152;

"Partners"	The Managing GP, the Liquidation GP and the Limited Partner and any other limited partner who may become a limited partner of the Guarantor from time to time, and the successors and assigns thereof;
"Paying Agent"	The meaning given to it in "*Terms and Conditions of the Covered Bonds*" on page 53;
"Payment Day"	The meaning given to it in Condition 9.11 on page 78;
"Payment Ledger"	The ledger of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record payments by or on behalf of the Guarantor in accordance with the terms of the Limited Partnership Agreement;
"Permanent Global Covered Bond"	The meaning given to it in "*Form of the Covered Bonds*" on page 50;
"Post-Enforcement Priority of Payments"	The meaning given to it in "*Cashflows*" on page 148;
"Post Issuer Event of Default Yield Shortfall Test"	The meaning given to it in "*Summary of the Principal Documents*" on page 124;
"Potential Guarantor Event of Default"	The meaning given to it in Condition 13 on page 80;
"Potential Issuer Event of Default"	The meaning given to it in Condition 13 on page 80;
"Pre-Acceleration Principal Priority of Payments"	The meaning given to it in "*Cashflows*" on page 145;
"Pre-Acceleration Revenue Priority of Payments"	The meaning given to it in "*Cashflows*" on page 143;
"Preceding Business Day Convention"	The meaning given to it in Condition 5.09 on page 63;
"Pre-Maturity Liquidity Ledger"	The ledger on the GIC Account established to record the credits and debits of moneys available to repay any Series of Hard Bullet Covered Bonds on the Final Maturity Date thereof if the Pre-Maturity Test has been breached;
"Pre-Maturity Minimum Ratings"	The meaning given to it in "*Credit Structure*" on page 141;
"Pre-Maturity Test"	The meaning given to it in "*Credit Structure*" on page 141;
"Pre-Maturity Test Date"	The meaning given to it in "*Credit Structure*" on page 140;
"PricewaterhouseCoopers"	PricewaterhouseCoopers LLP;
"Price Option"	The meaning specified in the ISDA Definitions;
"Principal Amount Outstanding"	In respect of a Covered Bond the principal amount of that Covered Bond on the relevant Issue Date thereof less all principal amounts received by the relevant holder of the Covered Bonds in respect thereof;
"Principal Ledger"	The ledger of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record the credits and debits of Principal Receipts held by the Cash Manager for and on behalf of the Guarantor and/or in the Guarantor Accounts;
"Principal Receipts"	Receipts in respect of Loans which are not Revenue Receipts including the following (to the extent that such amounts are not Revenue Receipts): (a) principal repayments under the Loans (including payments of arrears, Capitalized Interest, Capitalized Expenses and Capitalized Arrears);

(b) recoveries of principal from defaulting Borrowers under Loans being enforced (including the proceeds of sale of the relevant Property);

(c) any repayments of principal (including payments of arrears, Capitalized Interest, Capitalized Expenses and Capitalized Arrears) received pursuant to any insurance policy in respect of a Property in connection with a Loan in the Covered Bond Portfolio; and

(d) the proceeds of the purchase of any Loan by a Purchaser from the Guarantor, including any amount received by the Guarantor as consideration for a repurchase of a Loan by the Seller (excluding, for the avoidance of doubt, amounts attributable to Accrued Interest and Arrears of Interest thereon as at the relevant purchase date);

"Priorities of Payments" .... The orders of priority for the allocation and distribution of amounts standing to the credit of the Guarantor in different circumstances;

"Product Switch" .... A variation to the financial terms or conditions included in the Hypothecary Loan Conditions applicable to a Loan other than:

(a) any variation agreed with a Borrower to control or manage arrears on a Loan;

(b) any variation in the maturity date of a Loan;

(c) any variation imposed by statute or any variation in the frequency with which the interest payable in respect of the Loan is charged;

(d) any variation to the interest rate as a result of the Borrowers switching to a different rate;

(e) any change to a Borrower under the Loan or the addition of a new Borrower under a Loan; or

(f) any change in the repayment method of the Loan;

"Programme" .... The Issuer's Global Covered Bond Programme as established by, or otherwise contemplated in, the Trust Deed and this Prospectus;

"Programme Establishment Date" .... March 14, 2011;

"Programme Resolution" .... The meaning given to it in Condition 13 on page 79;

"Property" .... Owned, immovable property in the Province of Ontario or Québec, or a freehold, leasehold or commonhold property, in each case which is subject to a Hypothec;

"Prospectus" .... The meaning given on page 2;

"Prospectus Directive" .... Directive 2003/71/EC;

"PSM" .... The meaning given on the cover;

"Purchaser" .... Any third party or the Seller to whom the Guarantor offers to sell Loans and their Related Security;

"Put Notice" .... The meaning given to it in Condition 6.06 on page 69;

"Put Option" .... The meaning given to it in the applicable Final Terms;

"QIB" .... A "qualified institutional buyer" within the meaning of Rule 144A;

"Randomly Selected Loans"	Loans and, if applicable, their Related Security, in the Covered Bond Portfolio, selected in accordance with the terms of the Limited Partnership Agreement on a basis that is not designed to favour the selection of any identifiable class or type or quality of Loans and their Related Security over all the Loans and their Related Security in the Covered Bond Portfolio, except with respect to identifying such Loans and their Related Security as having been acquired by the Guarantor from a particular Seller, if applicable;
"Rating Agency" or "Rating Agencies"	The meaning given to it in Condition 6.01 on page 68;
"Rating Agency Confirmation"	The meaning given to it in Condition 19 on page 82;
"Rate of Interest"	The meaning given to it in Condition 5.09 on page 66;
"Rate Option"	The meaning given to it in the applicable Final Terms or if not specified in the Final Terms, the ISDA Definitions;
"RBS" or "Royal Bank of Scotland"	The Royal Bank of Scotland plc;
"Receiptholders"	The several persons who are for the time being the holders of the Receipts;
"Receipts"	The meaning given to it in Condition 1.07 on page 53;
"Record Date"	The meaning given to it in Condition 9.09 on page 77;
"Redemption Amount"	The meaning given to it in Condition 6.09 on page 70;
"Redemption/Payment Basis"	The meaning given to it in the applicable Final Terms;
"Reference Assets"	In respect of Equity Linked Covered Bonds, shares or other securities, as indicated in the applicable Final Terms;
"Reference Banks"	The meaning given to it in Condition 5.09 on page 66;
"Reference Entities"	In respect of Credit Linked Covered Bonds entities as indicated in the applicable Final Terms;
"Register"	The register of holders of the Registered Covered Bonds maintained by the Registrar;
"Registered Covered Bonds"	Covered Bonds in registered form;
"Registered Definitive Covered Bonds"	The meaning given to it in "*Terms and Conditions of the Covered Bonds*" on page 53;
"Registered Global Covered Bonds"	The Rule 144A Global Covered Bonds together with the Regulation S Global Covered Bonds;
"Registrar" or "Registrars"	The meaning given to it in "*Terms and Conditions of the Covered Bonds*" on page 53;
"Regulation No. 11971"	The meaning given to it in "*Subscription and Sale and Transfer and Selling Restrictions*" at page 170;
"Regulation S"	Regulation S under the Securities Act;
"Regulation S Covered Bonds"	The meaning given to it in "*Subscription and Sale and Transfer and Selling Restrictions*" on page 168;
"Regulation S Global Covered Bond"	The meaning given to it in Condition 2.08(g) on page 58;

"Regulations"	The meaning given to it in "*Taxation*" on page 152;
"Related Security"	In relation to a Loan, the security granted by the Borrower for the repayment of that Loan (including, without limitation, the payment and performance of all obligations under the relevant Hypothec), the right to any amount paid under CMHC Mortgage Insurance relating to a Loan sold to the Guarantor, insurance (other than blanket insurance coverage maintained by the Seller) and any guarantees and any security relating to such guarantees and all other matters applicable thereto acquired as part of the Covered Bond Portfolio and all proceeds of the foregoing;
"Relevant Account Holder"	The meaning given to it in Condition 1.02 on page 55;
"Relevant Banking Day"	The meaning given to it in Condition 2.07 on page 58;
"Relevant Date"	The meaning given to it in Condition 8.02 on page 75;
"Relevant Factor"	The meaning given to it in "*Risk Factors*" on page 33;
"Relevant Implementation Date"	The meaning given to it in "*Subscription and Sale and Transfer and Selling Restrictions*" on page 168;
"Relevant Member State"	The meaning given on page 3;
"Relevant Screen Page"	The meaning given to it in the applicable Final Terms;
"Relevant Time"	The meaning given to it in the applicable Final Terms;
"Replacement Agent"	The meaning given to it in Condition 12 on page 79;
"Requesting Party"	The meaning given to it in Condition 19 on page 83;
"Required Redemption Amount"	The meaning given to it in "*Summary of the Principal Documents*" on page 121;
"Required True Balance Amount"	The meaning given to it in "*Summary of the Principal Documents*" on page 131;
"Reserve Fund"	The reserve fund that the Guarantor will be required to establish in the GIC Account which may be credited with part of an advance from the proceeds of the Intercompany Loan (in the Guarantor's discretion) and the proceeds of Available Revenue Receipts up to an amount equal to the Reserve Fund Required Amount;
"Reserve Fund Required Amount"	Nil, unless the ratings of the Issuer's short-term, unsecured, unsubordinated and unguaranteed debt obligations by the Rating Agencies fall below the ratings specified in the Limited Partnership Agreement and then an amount equal to the Canadian Dollar Equivalent of (a) the greater of (i) the aggregate of the Scheduled Interest due on any of the next three following Interest Payment Dates for each Series and (ii) to the extent that a Covered Bond Swap Agreement has been entered into in relation to any Series, the interest component due by the Guarantor under each such Covered Bond Swap in the next three following Guarantor Payment Periods, for each such Series, all as calculated on each relevant Calculation Date, plus (b) in respect of the items specified in paragraphs (a) to (c) of the Pre-Acceleration Revenue Priority of Payments, the greater of (i) the anticipated aggregate amount payable in the next three following Guarantor Payment Periods and (ii) one quarter of the anticipated aggregate annual amount payable, all as calculated on each relevant Calculation Date;
"Reserve Ledger"	The ledger on the GIC Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement, to record the crediting of Revenue Receipts to the Reserve Fund and the debiting of such Reserve Fund in accordance with the terms of the Limited Partnership Agreement;

"Reset Date" .... The meaning given to it in the ISDA Definitions;

"Reuters Screen" .... The meaning given to it in Condition 5.09 on page 66;

"Revenue Ledger" .... The ledger of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record credits and debits of Revenue Receipts held by the Cash Manager for and on behalf of the Guarantor Accounts;

"Revenue Receipts" .... Receipts of yield on the Loans including the following (to the extent that such amounts represent yield on the Loans):

(a) payments of interest (including Accrued Interest and Arrears of Interest as at the relevant Transfer Date of a Loan) and fees due from time to time under the Loans and other amounts received by the Guarantor in respect of the Loans other than the Principal Receipts;

(b) recoveries of interest from defaulting Borrowers under Loans being enforced; and

(c) recoveries of interest from defaulting Borrowers under Loans in respect of which enforcement procedures have been completed;

"Rule 144A" .... Rule 144A under the Securities Act;

"Rule 144A Global Covered Bond" .... The meaning given to it in Condition 2.08 on page 51;

"Scheduled Interest" .... An amount equal to the amount in respect of interest which would have been due and payable under the Covered Bonds on each Interest Payment Date as specified in Condition 5.03 (but excluding any additional amounts relating to premiums, default interest or interest upon interest ("**Excluded Scheduled Interest Amounts**") payable by the Issuer following an Issuer Event of Default but including such amounts (whenever the same arose) following service of a Guarantor Acceleration Notice) as if the Covered Bonds had not become due and repayable prior to their Final Maturity Date and, if the Final Terms specified that an Extended Due for Payment Date is applicable to the relevant Covered Bonds, as if the maturity date of the Covered Bonds had been the Extended Due for Payment Date (but taking into account any principal repaid in respect of such Covered Bonds or any Guaranteed Amounts paid in respect of such principal prior to the Extended Due for Payment Date), less any additional amounts the Issuer would be obliged to pay as a result of any gross-up in respect of any withholding or deduction made under the circumstances set out in Condition 8.01;

"Scheduled Payment Date" .... In relation to payments under the Covered Bond Guarantee, each Interest Payment Date or the Final Maturity Date as if the Covered Bonds had not become due and repayable prior to their Final Maturity Date;

"Scheduled Principal" .... An amount equal to the amount in respect of principal which would have been due and repayable under the Covered Bonds on each Interest Payment Date or the Final Maturity Date (as the case may be) as specified in the applicable Final Terms (but excluding any additional amounts relating to prepayments, early redemption, broken funding indemnities, penalties, premiums or default interest ("**Excluded Scheduled Principal Amounts**") payable by the Issuer following an Issuer Event of Default but including such amounts (whenever the same arose) following service of a Guarantor Acceleration Notice) as if the Covered Bonds had not become due and repayable prior to their Final Maturity Date and, if the Final Terms specify that an Extended Due for Payment Date is applicable to the relevant Covered Bonds, as if the maturity date of the Covered Bonds had been the Extended Due for Payment Date;

"Secured Creditors" .... The Bond Trustee (in its own capacity and on behalf of the holders of the Covered Bonds), the holders of the Covered Bonds, the Receiptholders, the Couponholders, the Issuer, the Seller, the Servicer, the Account Depository Institution, the GIC

	Provider, the Standby Account Depository Institution, the Standby GIC Provider, the Cash Manager, the Swap Providers, the Corporate Services Provider, the Paying Agents and any other person which becomes a Secured Creditor pursuant to the Security Agreements except, pursuant to the terms of the Limited Partnership Agreement, to the extent and for so long as such person is a Limited Partner;
"Securities Act"	*U.S. Securities Act of 1933*, as amended;
"Security"	The meaning given to it in "*Summary of the Principal Documents*" on page 139;
"Security Agreements"	Collectively, the Deed of Hypothec, the Debenture, the Debenture Pledge Agreement and the General Security Agreement;
"Seller"	Caisse centrale, any New Seller, or other party for whom Rating Agency Confirmation has been received, who may from time to time accede to the Hypothecary Loan Sale Agreement, and sell Loans and their Related Security or New Loans and their Related Security to the Guarantor;
"Seller Arranged Policy"	Any property insurance policy arranged by the Seller for the purposes of the Borrower insuring the Property for an amount equal to the full rebuilding cost of the Property;
"Series"	A Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices;
"Series Reserved Matter"	The meaning given to it in Condition 13 on page 80;
"Servicer"	The Issuer, in its capacity as servicer under the Servicing Agreement together with any successor servicer appointed from time to time;
"Servicer Event of Default"	The meaning given to it in "*Summary of the Principal Documents*" on page 124;
"Servicer Replacement Threshold Ratings"	The threshold ratings Baa2 or F2 (in respect of Moody's or Fitch, respectively) or A(low) and R-1(middle) (in respect of DBRS; for greater certainty, the ratings from DBRS are only required to be at or above one of such ratings), as applicable, of the unsecured, unsubordinated and unguaranteed debt obligations of the Servicer by the Rating Agencies;
"Servicer Termination Event"	The meaning given to it in "*Summary of the Principal Documents*" on page 124;
"Servicing Agreement"	The servicing agreement entered into on the Programme Establishment Date by and among the Issuer, as Seller, Servicer and Cash Manager, the Guarantor and the Bond Trustee (as amended and/or restated and/or supplemented from time to time);
"Specified Currency"	Subject to any applicable legal or regulatory restrictions, euro, Sterling, U.S. dollars, Canadian dollars and such other currency or currencies as may be agreed from time to time by the Issuer, the relevant Dealer(s), the Issuing and Paying Agent and the Bond Trustee and specified in the applicable Final Terms;
"Specified Denomination"	In respect of a Series of Covered Bonds, the denomination or denominations of such Covered Bonds specified in the applicable Final Terms;
"Specified Interest Payment Date"	The meaning given to it in the applicable Final Terms;
"Specified Period"	The meaning given to it in the applicable Final Terms;
"Standardised Approach"	Annex VI (Standardised Approach) to the Capital Requirements Directive (or, after any amendment, variation, enactment or implementation of such Directive, the

corresponding Annex);

“Standby Account Depository Institution” ...... Royal Bank of Canada, in its capacity as Standby Account Depository Institution under the Standby Account Agreement, together with any successor Standby Account Depository Institution;

“Standby Account Depository Institution Notice” .... The meaning given to it in “*Summary of the Principal Documents*” on page 138;

“Standby Account Agreement” .... The meaning given to it in “*Summary of the Principal Documents*” on page 138;

“Standby GIC Account” .... The meaning given to it in “*Summary of the Principal Documents*” on page 138;

“Standby GIC Provider” .... Royal Bank of Canada, in its capacity as Standby GIC Provider under the Standby Guaranteed Investment Contract, together with any successor Standby GIC Provider;

“Standby Guaranteed Investment Contract” .. The meaning given to it in “*Summary of the Principal Documents*” on page 138;

“Standby Transaction Account” .... The meaning given to it in “*Summary of the Principal Documents*” on page 138;

“Subsidiary” .... Any company which is for the time being a subsidiary (within the meaning of the *Securities Act* (Québec);

“Substitute Assets” .... The classes and types of assets from time to time eligible under the Capital Requirements Directive to collateralize covered bonds which, as of the date of this Prospectus, include the following, provided that the total exposure to such Substitute Assets shall not exceed 10 per cent of the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds: (a) exposures to institutions that qualify for a 10 per cent risk weighting under the Standardised Approach; (b) exposures to institutions that qualify for a 20 per cent risk weighting under the Standardised Approach, provided that the total exposure to such institutions shall not exceed 10 per cent of the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds; and (c) Canadian dollar denominated residential mortgage-backed securities provided that such class of investments have received Rating Agency Confirmation;

in each case, provided that:

(i) such exposures will have certain minimum long-term and short-term ratings from the Rating Agencies, as specified by such Rating Agencies from time to time;

(ii) the maximum aggregate total exposures in general to classes of assets with certain ratings by the Ratings Agencies will, if specified by the Rating Agencies, be limited to the maximum percentages specified by such Rating Agencies; and

(iii) in respect of investments of Available Revenue Receipts in such classes and types of assets, the Interest Rate Swap Provider has given its consent to investments in such classes and types of assets;

“Surplus Advance” .... The meaning given to it in “*Risk Factors*” on page 25;

“Swap Agreements” .... The Covered Bond Swap Agreement together with the Interest Swap Agreement, and each a “**Swap Agreement**”;

“Swap Collateral” .... At any time, any asset (including, without limitation, cash and/or securities) which is paid or transferred by a Swap Provider to the Guarantor as credit support to secure the performance by such Swap Provider of its obligations under the relevant Swap Agreement together with any income or distributions received in respect of

such asset and any equivalent of such asset into which such asset is transformed;

"Swap Collateral Excluded Amounts" .... At any time, the amount of Swap Collateral which may not be applied under the terms of the relevant Swap Agreement at that time in satisfaction of the relevant Swap Provider's obligations to the Guarantor including Swap Collateral, which is to be returned to the relevant Swap Provider from time to time in accordance with the terms of the Swap Agreements and ultimately upon termination of the relevant Swap Agreement;

"Swap Provider Default" .... The occurrence of an Event of Default or Termination Event (each as defined in each of the Swap Agreements) where the relevant Swap Provider is the Defaulting Party or the sole Affected Party (each as defined in relevant Swap Agreement), as applicable, other than a Swap Provider Downgrade Event;

"Swap Provider Downgrade Event" .... The occurrence of an Additional Termination Event or an Event of Default (each as defined in the relevant Swap Agreement) following a failure by the Swap Provider to comply with the requirements of the ratings downgrade provisions set out in the relevant Swap Agreement;

"Swap Providers" .... Covered Bond Swap Provider and Interest Rate Swap Provider, and each a "**Swap Provider**";

"Talon" .... The meaning given to it in Condition 1.06 on page 53;

"TARGET Business Day" .... The meaning given to it in Condition 5.09 on page 66;

"TARGET System" .... Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System;

"TEFRA" .... The U.S. *Tax Equity and Fiscal Responsibility Act of 1982*;

"TEFRA C Rules" .... U.S. Treasury Regulation §1.163-5(c)(2)(i)(C);

"TEFRA D Rules" .... U.S. Treasury Regulation § 1.163-5(c)(2)(i)(D);

"Temporary Global Covered Bond" .... The meaning given to it in "*Form of the Covered Bonds*" on page 50;

"Terms and Conditions" .... Terms and conditions of the Covered Bonds as described under "*Terms and Conditions of the Covered Bonds*" on page 53;

"Third Party Amounts" .... Each of:

(a) payments of insurance premiums, if any, due to the Seller in respect of any Seller Arranged Policy to the extent not paid or payable by the Seller (or to the extent such insurance premiums have been paid by the Seller in respect of any Further Advance which is not purchased by the Seller to reimburse the Seller);

(b) amounts under an unpaid direct debit which are repaid by the Seller to the financial institution making such payment if the financial institution is unable to recoup that amount itself from its customer's account;

(c) payments by the Borrower of any fees (including early repayment fees) and other charges which are due to the Seller; and

(d) any amount received from a Borrower for the express purpose of payment being made to a third party for the provision of a service (including giving insurance cover) to any of that Borrower, the relevant Originator, the Seller or the Guarantor;

which amounts may be paid daily from moneys on deposit in the Guarantor Accounts or the proceeds of the sale of Authorized Investments and/or Substitute Assets;

"Total Credit Commitment" .... The combined aggregate amount available to be drawn by the Guarantor under the terms of Intercompany Loan Agreement, subject to increase and decrease in accordance with the terms of the Intercompany Loan Agreement, which amount is initially C$7 billion;

"Tranche" or "Tranches" .... Means all Covered Bonds which are identical in all respects (including as to listing), and shall, where the context so requires, be deemed to refer to a Series of Definitive N Covered Bonds, provided that for greater certainty, Definitive N Covered Bonds are only issuable in Series;

"Transaction Account" .... The account (to the extent maintained) designated as such in the name of the Guarantor held with the Account Depository Institution and maintained subject to the terms of the Account Agreement and the Security Agreements or such other account as may for the time being be in place with the prior consent of the Bond Trustee and designated as such;

"Transaction Documents" .... Means collectively:

(a) Hypothecary Loan Sale Agreement;

(b) each Origination Hypothecary Loan Sale Agreement;

(c) Servicing Agreement;

(d) Subservicing Agreement;

(e) Asset Monitor Agreement;

(f) Intercompany Loan Agreement;

(g) Limited Partnership Agreement;

(h) Cash Management Agreement;

(i) Interest Rate Swap Agreement;

(j) Covered Bond Swap Agreement;

(k) Guaranteed Investment Contract;

(l) Standby Guaranteed Investment Contract;

(m) Account Agreement;

(n) Standby Account Agreement;

(o) Corporate Service Agreement;

(p) Security Agreements (and any documents entered into pursuant to or in connection with the Security Agreements);

(q) Trust Deed;

(r) Agency Agreement;

(s) Dealership Agreement;

(t) each set of Final Terms (as applicable in the case of each Tranche of listed Covered Bonds subscribed pursuant to a subscription agreement);

(u) each subscription agreement (as applicable in the case of each Tranche of listed Covered Bonds subscribed pursuant to a subscription agreement);

(v) each Definitive N Covered Bonds Deed; and

(w) Master Definitions and Construction Agreement;

"Transfer Agent" .... Collectively, The Bank of New York Mellon, London Branch and The Bank of New York Mellon together with any successors;

"Transfer Certificate" .... The meaning given to it in Condition 2.11 on page 58;

"Transfer Date" .... Each of the First Transfer Date and the date of transfer of any New Loans and their Related Security to the Guarantor in accordance with the Hypothecary Loan Sale Agreement;

"True Balance" .... For any Loan as at any given date, the aggregate (but avoiding double counting) of:

(a) the original principal amount advanced to the relevant Borrower and any further amount advanced on or before the given date to the relevant Borrower secured or intended to be secured by the related Hypothec; and

(b) any interest, disbursement, legal expense, fee, charge, rent, service charge, premium or payment which has been properly capitalized in accordance with the relevant Hypothecary Loan Conditions or with the relevant Borrower's consent and added to the amounts secured or intended to be secured by that Loan and its Related Security; and

(c) any other amount (including, for the avoidance of doubt, Accrued Interest and Arrears of Interest) which is due or accrued (whether or not due) and which has not been paid by the relevant Borrower and has not been capitalized in accordance with the relevant Hypothecary Loan Conditions or with the relevant Borrower's consent but which is secured or intended to be secured by that Loan, as at the end of the Montréal Business Day immediately preceding that given date;

minus

(d) any repayment or payment of any of the foregoing made on or before the end of the Montréal Business Day immediately preceding that given date and excluding (i) any retentions made but not released and (ii) any Additional Loan Advances committed to be made but not made by the end of the Montréal Business Day immediately preceding that given date; and

(e) solely for the purposes of calculating the LTV Adjusted True Balance, the Asset Percentage Adjusted True Balance and the Amortization Test Adjusted True Balance, any amounts advanced to the relevant Borrower in excess of the CMHC Approved Limit and any amount related thereto referred to in clause (c) above.

"Trust Deed" .... The meaning given to it in "*Terms and Conditions of the Covered Bonds*" on page 53;

"UK Listing Authority" .... Financial Services Authority in its capacity as competent authority under the

FSMA;

"U.S. Exchange Agent" .... The meaning given to it in "*Terms and Conditions of the Covered Bonds*" on page 53;

"U.S. holder" .... The meaning given to it in "*Taxation*" on page 154;

"U.S. Registrar" .... The meaning given to it in "*Terms and Conditions of the Covered Bonds*" on page 53;

"Variable Rate Bond" .... The meaning given to it in "*Taxation – United States Federal Income Taxation – Variable Rate Debt Instruments*" on page 157;

"Zero Coupon Covered Bonds" .... Covered Bonds which will be offered and sold at a discount to their nominal amount and which will not bear interest.

DESJARDINS FINANCIAL GROUP

APPENDICES

Management's Discussion and Analysis of Desjardins Group

1.0 General review of Desjardins Group

This section presents Desjardins Group and describes the Development Plan set in motion across the organization to achieve its key objectives. It also includes an analysis of financial results.

2.0 Business segments

This section summarizes the new business segments created based on the organizational structure announced in 2009 which will be implemented in 2010. The table shows the profile, the global strategy, the outlook and the 2010 orientations for each of the new business segments according to the 2010-2012 Strategic Plan.

This section also provides information on Desjardins Group's existing business segments. It contains a profile of each segment and achievements in 2009, as well as a description of the industry and an analysis of financial results.

3.0 Analysis of the Combined Financial Statements

This section provides an analysis of the Combined Financial Statements and financial position of Desjardins Group.

4.0 Additional information

This section presents the regulatory context, factors that may influence future results, critical accounting policies and estimates, changes in accounting policies, the business climate, and various statistics, including annual and quarterly statistics, as well as other information.

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Caution concerning forward-looking statements

This Annual Report may contain forward-looking statements concerning Desjardins Group's activities and strategies. These forward-looking statements are typically identified by the words "believe", "expect", "anticipate" 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 these predictions, projections or other forward-looking statements may not materialize or may prove inaccurate because of a number of factors, including current economic and financial conditions. Various material factors could influence the accuracy of the forward-looking statements mentioned in this Annual Report, notably, legislative or regulatory developments, changes in the economic environment, including the impact of the currently volatile capital markets, which are causing a liquidity shortage in some markets, particularly the asset-backed term notes market, fluctuations in interest rates and foreign currencies, monetary and tax policies, consumer spending, demand for credit, individual savings patterns, the unemployment rate, trade between Québec 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 perform and integrate strategic acquisitions and alliances, the effect of possible international conflicts, including terrorism, or natural disasters, the capacity to recruit and maintain key managers and Management's ability to foresee and manage the risks stemming from the preceding factors.

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

Desjardins Group 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 Desjardins Group, except as required under applicable securities legislation. The purpose of the forward-looking statements contained in this report is to help members to understand Desjardins Group's financial position as at the dates indicated or for the periods ended on such dates, as well as Desjardins Group's strategic priorities and objectives, and may not be appropriate for other purposes.

1 General review of Desjardins Group

1.1 Overview

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

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

The Management's Discussion and Analysis (MD&A) section of this Annual Report should be read in conjunction with Desjardins Group's Combined Financial Statements. This MD&A is dated February 25, 2010 and is based on Desjardins Group's Combined Financial Statements prepared for the year ended December 31, 2009. Additional information about Desjardins Group and its components is available on the Desjardins Web site at *www.desjardins.com* and on the SEDAR Web site at *www.sedar.com* under the Capital Desjardins inc. profile, which also contains the annual information form for Capital Desjardins inc.

A glossary of financial terms is provided on pages 146 to 148 of this MD&A.

Profile of Desjardins Group

Desjardins Group is the largest financial institution in Québec, and a cooperative financial group that belongs to its member-owners. When the caisses' financial position allows it, Desjardins returns a significant portion of its surplus earnings to its members in the form of member dividends, in accordance with the democratic governance system and organizational structure that go with being a cooperative.

Desjardins Group provides a vast array of financial products and services to its 5.8 million members and clients, individuals and businesses alike.

Desjardins Group is the leading cooperative financial group in Canada and the sixth largest in the world. It is also the top private employer in Québec. In all, Desjardins Group has 42,273 employees, 6,258 elected officers, 481 caisses, 903 service centres and 2,728 automated teller machines.

Desjardins Group is composed of a network of caisses and business centres in Québec and Ontario as well as subsidiaries, several of which operate across Canada. In May 2009, Desjardins announced a new organizational structure for Desjardins Group, which is described below and comprises four main Business Sectors, namely Personal Services; Business and Institutional Services; Wealth Management and Life and Health Insurance; and Property and Casualty Insurance. Various work was done in the second half of 2009 to make this major restructuring a reality and present financial information as of 2010 based on the new structure. In the note on segmented information in the 2009 Combined Financial Statements, financial information is still presented using the following main business segments: Personal and Commercial; Life and Health Insurance; General Insurance; and Securities Brokerage, Asset Management and Venture Capital, as well as another segment, "Other," that mainly comprises the other components of Desjardins Group, all asset-backed term notes (ABTN) held by Desjardins, as well as balance sheet and income statement consolidation items attributable to all components.

Desjardins Group Development Plan

The Desjardins Group Development Plan, adopted by the Board of Directors in September 2008, gives a far-reaching outlook to the development of Desjardins. Its objective is to enable the organization to grow in accordance with current and future issues, while always upholding its cooperative nature, its mission and its values. The plan is based on five major Desjardins-wide projects, some of which have been completed.

Cooperative values are central to Desjardins Group's actions. The skills, talents and creativity of elected officers, caisse general managers and Desjardins managers and employees have been tapped throughout the work of the task forces related to the projects. Supported by Desjardins Group's wealth of human capital, the projects helped to bring focus to Desjardins Group's future vision of itself as a cooperative financial group.

Desjardins Group Strategic Growth and Development

The aim of the "Desjardins Group Strategic Growth and Development" project is to ensure that Desjardins players set themselves the necessary common goals to help Desjardins move forward, supported by the collective intelligence of its human capital.

In 2009, two large-scale initiatives involving active participation to enable it to reach this common vision, which will be expressed in Desjardins Group's 2010-2012 Strategic Plan.

The first initiative was devoted to reflection. At the beginning of the year, the Prospects Group and ten task forces submitted the culmination of their months of work: 70 growth and development options for Desjardins. The teams were made up of some 200 Desjardins managers, half of whom were caisse general managers. In the spring, an extensive consultation of the caisses and other components (Fédération des caisses Desjardins du Québec [FCDQ] and subsidiaries) was undertaken concerning the options in question.

Building on this strategic reflection exercise and a diagnostic study on major worldwide socio-economic trends and trends in the financial services industry, three themes were identified for Desjardins Group's 20th Congress of Elected Officers, which was the second participatory initiative.

As in the exercise concerning the 70 strategic options, the Congress sought to involve the 6,200 Desjardins caisse officers and many caisse managers in its work, by inviting them to help prepare participants for this important democratic gathering, held every four to five years.

Notable achievements

Strengthening capitalization and sources of financing

A new issue of Desjardins permanent shares was made in 2009 through the Desjardins caisse network for an amount of $654 million.

A number of issues were launched in 2009 by Caisse centrale Desjardins and Capital Desjardins for a total value of $2.8 billion.

Maintained excellent capital ratios, higher than the ratios held by Canadian banks, and excellent credit ratings in a climate of economic uncertainty.

Market shares

Continued to hold a leadership position in Québec with market shares, as at December 31, 2009, of 39.6% in residential mortgage credit, 45.3% in farm credit and 44.2% in personal savings, in spite of the climate of economic fragility and strong competition.

The Life and Health Insurance segment posted sales of personal savings amounting to an impressive $1.1 billion.

Achieved a 9% increase in spontaneous recognition of the Desjardins brand in general insurance in the Ontario market, which pushed up its market share to 10%.

Desjardins investment funds outstanding posted growth of 20.7%, which is higher than the industry average.

Excellent portfolio quality

Achieved excellent loan portfolio quality with a healthy ratio of gross impaired loans to total gross loans of 0.46%.

Major reorganization of entire structure

A new organizational structure was implemented for greater organizational agility and productivity.

Desjardins Group's 20th Congress of Elected Officers, a highlight of democracy at Desjardins, was held in November 2009.

Compliance with best practices

Québec's *Autorité des marchés financiers* gave Desjardins Group its approval to use the advanced internal ratings-based approach, subject to conditions, for credit risk related to personal loan portfolios.

Congresses are at the very foundation of Desjardins Group's distinctive governance, and crucial to its democratic process. The orientations defined by the caisse representatives at the 20th Congress, held at year-end, will guide Desjardins Group's decision-making bodies in performing their duties.

Collaboration, participation and connection with the caisse network

The "Collaboration, Participation and Connection with the Caisse Network" project identified the best ways for Desjardins to fully benefit from the contribution of general managers and capitalize on their expertise, especially since they are in the best position to understand the needs of members and clients.

New processes to promote collaboration have been established with caisse general managers so that they can play an active role in Desjardins Group decisions involving operational strategies and developing solutions adapted to their regional context.

Collaboration in the caisse network relies on five key factors:

- An improved version of the regional meetings of general managers
- Holding regional meetings for other caisse and centre management staff throughout the network
- Systematic use of work groups
- Creating an annual General Managers' Forum
- Forming a Collaboration Committee

Another goal is to optimize officers' involvement in Desjardins Group's development. The second part of this project will take place in 2010, with the goal of equipping them to expand their contribution and influence with regard to Desjardins' strategic orientations. An Elected Officer Advisory Board has been mandated to update the collaboration processes aimed at caisse officers and identify issues and ways to improve the situation. The committee will propose changes to existing methods as well as new processes that will enhance the contribution officers make to the development of Desjardins as well as increase their engagement. The solutions are scheduled for implementation in 2011.

Changing role of the Fédération des caisses Desjardins du Québec (FCDQ) and reorganization of Desjardins Group

The "Changing Role of the FCDQ and Reorganization of Desjardins Group" project seeks to rethink the FCDQ's business model and reframe the mission and objectives of its various units in order to simplify and increase their accountability within a Desjardins-wide perspective.

This project, directly related to all the Development Plan projects, helped Desjardins Group to equip itself with a more streamlined and efficient organizational structure that is closer to the caisses and to the needs of its members.

The new structure, which has been phased in since May 2009, is an important tool for carrying out the recommendations resulting from the work under way and thereby ensuring Desjardins Group's growth and performance. The structure is now broken into three main blocs grouping together support activities for caisses and democratic bodies, the Business Sectors and the Desjardins Group Functions, respectively. It will help the FCDQ and the subsidiaries to get closer to the caisses and their members; it will also streamline the organization, optimize overall performance, foster growth and strengthen financial management and risk management.

These changes will:

- Combine all the strengths and expertise of Desjardins
- Align business segments on member's needs
- Pool functional expertise

Optimization of Desjardins Group's performance

The work of the "Optimization of Desjardins Group's Performance" project is scheduled for 2010. Its aim is to improve the performance of structures, operating methods and processes in order to maintain profitability, the guarantee of Desjardins Group's longevity. By the end of 2010, a culture of continuous improvement (benchmarking approach, performance indicators, Desjardins-wide focus) will be in place and an analysis of technologies and business processes will enhance the competitive positioning of Desjardins in a context of distribution network development and diversification.

Mobilization across Desjardins: Human capital, culture and values

Focused on the strength of human capital at Desjardins Group, the Mobilization project is constantly reflected in the work of the other major Desjardins-wide projects. As its work progresses, this project concentrates on fostering a culture of participation and innovation throughout Desjardins through the mobilization, engagement and involvement of key players—officers, managers and employees. It will lead to:

- The appropriation of new methods and Desjardins Group's future vision by the various stakeholders, as well as an understanding of the transformation under way
- Supporting and mobilizing employees during the transformation of organizational structures, further to the changes resulting from implementation of the new structure
- The creation of formulas for meetings that encourage and promote discussion

Cooperate to shape our destiny

The foundation of these major Desjardins-wide projects is made up of five core values:

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

The reflection exercise initiated in the fall of 2008 has been marked by Desjardins-wide focus, collaboration and innovation, and will continue in the same vein. Above and beyond the functional and structural changes that will result from the Development Plan, the current approach aims to mobilize all of Desjardins. The theme "Cooperate to Shape Our Destiny", expresses the resolve to work throughout Desjardins Group to pool expertise and ideas that will optimize services offered to members and clients.

20th Congress

Desjardins Group's 20th Congress of Elected Officers was held in Québec City, on November 27, 28 and 29, with the theme "Cooperate to Shape Our Destiny". The event brought together more than 1,750 participants, including 1,205 caisse delegates with voting rights. Ninety-two percent of Québec and Ontario caisses were represented.

Aware of their collective responsibilities towards the largest cooperative financial group in Canada, the officers of the caisses made clear and inspiring choices with respect to the future development of Desjardins. They strongly supported the proposed orientations on each of the three main themes dealt with: Desjardins-Wide Focus and Action, Desjardins Group Ambitions for Development, and Desjardins Group Performance and Financial Stability.

Delegates participated in discussions and debates during the various workshops and plenary sessions, which were held to determine some of the parameters under which each orientation should be applied. They also worked from the perspective of the Desjardins cooperative identity as expressed in its mission and values and the caisses' solid roots in their communities.

The Congress presented a cooperative group that is forward-looking and focused on its members and their communities. The choices expressed by the caisses will be reflected in Desjardins Group's 2010-2012 Strategic Plan and will help shape what Desjardins will become in the next 10 to 15 years, in order to remain a leader in a changing world.

Vision and strategy

Based on the results of the Desjardins Group Strategic Growth and Development project and the choices expressed by the caisses at the 20th Congress in November 2009, Desjardins Group formulated a vision that will guide and inspire the organization over the horizon of two strategic plans, until 2015:

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

Desjardins Group's strategic orientations are an integral part of the 2010-2012 Strategic Plan adopted by the Board of Directors of the FCDQ on February 24, 2010. They define the main avenues for achieving this vision, in order to reach Desjardins Group's full business development potential, optimize its financial strength and transform it into a stimulating, distinctive and efficient organization that makes a unique contribution to the evolution of our society. The strategic orientations form the common base that supports the orientations and strategies specific to the four business segments and the caisse network. They are stated as follows:

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

New organizational structure

A number of initiatives were put forward in 2009 under the Desjardins Group Development Plan. One of them constitutes the main focus of the plan, namely, the new organizational structure of Desjardins, announced in May and phased in over the rest of the year.

In concrete terms, the new structure aims to:

- Ensure greater cohesion among the various entities of Desjardins
- Strengthen financial governance and risk management
- Foster greater closeness between Desjardins Group management and the caisses
- Increase the accountability of the different players concerned
- Enhance productivity

Among the many advantages of the restructuring is the pooling of the strengths and expertise of the teams at the FCDQ and the subsidiaries, which are now refocused on working together to develop a more integrated service offer that will even better meet the needs of all client bases.

Today, Desjardins Group's operations are structured based on the needs of members and clients as well as on the markets where Desjardins is present. Its operations are divided into four business segments: Personal Services; Business and Institutional Services; Wealth Management and Life and Health Insurance; and Property and Casualty Insurance.

To ensure greater cohesiveness within Desjardins Group's main Business Sectors, four functions broadened their scope to take in all the activities of the FCDQ and the subsidiaries. These functions, referred to as "Desjardins Group Functions" are Finance and Treasury; Risk Management; People and Culture; and Technology and Shared Services.

To support the caisses in their everyday activities and promote collaboration between the caisse network, the Business Sectors and the Desjardins Group Functions, a caisse network support group was set up. In the same manner, a group to support cooperative development and democratic governance was set up to increase caisse elected officers' participation in cooperative affairs and foster closer ties between them and Desjardins Group management.

In addition, the communication teams of the different Desjardins components were brought together to promote greater consistency in communications within the organization and with its various external audiences.

A sector called Strategy, Performance and Development was also set up to monitor the achievement of the objectives of this organizational transformation while ensuring Desjardins Group's development within the framework of its Development Plan and in line with the Business Sectors and Desjardins Group Functions presented above. This sector will also monitor the earnings and productivity gains resulting from the new structure and from the review of business processes throughout Desjardins; these are estimated at a recurring amount of a minimum of $150 million to $200 million as of 2012.

As a result of the new structure, new management profiles have been defined, and executives have become much more mobile between all the components concerned; the new structure has also attracted new talent from outside Desjardins. In addition, it reduced the number of management levels, which, combined with a broader scope of management, led to a 16% decrease in the number of managers. The result is increased agility in execution and greater closeness between Desjardins Group management and the caisses.

In its Q4 2009 combined results, Desjardins Group recognized $36 million as separation allowances, professional fees, impairment of assets and other, bringing the cumulative amount related to the restructuring to $101 million at year-end. These expenses are presented under "Restructuring expenses" in the Combined Statements of Income.

Strengthening the investment activity and risk frameworks

As a result of financial market turbulence in 2008, management and decision-making bodies within Desjardins Group continued to deploy measures to mitigate risk and optimize risk regulation, especially as regards investment activities:

- Reorganization of the strategic risk management function, which will further strengthen its key role throughout Desjardins Group
- Formation of a dedicated team for monitoring asset-backed term notes (ABTN)
- Revision and adoption of several policies applicable to all of Desjardins Group, specifically to do with management of counterparty and issuer risk, liquidity risk and operational risk
- The system for daily monitoring of market risk and counterparty and issuer risk for portfolios consolidated on Desjardins Group's Combined Balance Sheets
- The new risk and control analysis approach for new complex financial products
- Introduction of the Finance and Risk Management Committee at the beginning of 2009, as described earlier

Committees to support the financial framework

The FCDQ's Board of Directors, with the support of the Desjardins Group Management Committee, oversees Desjardins Group's management. As such, it is responsible for directing, planning and overseeing all of Desjardins Group's financial activities. The Board of Directors receives support from the Audit and Inspection Commission with respect to some specific responsibilities related to financial governance. Additional information on financial governance is available under the "Financial governance" heading in the "General review of Desjardins Group" section. The primary role of the Desjardins Group Bureau of Financial Monitoring is to support the financial governance framework.

Desjardins Group's Management Committee also has a Desjardins-wide Finance and Risk Management Committee. This committee, jointly coordinated by the Finance and Treasury Executive Division and Office of the CFO, and the Risk Management Executive Division, is composed of certain members of senior management. One of its main responsibilities is to take note of transactions that currently have or could potentially have a major financial impact on Desjardins Group and approve such transactions before they go through the management and governance levels of the components and Desjardins Group. Transactions included in the scope of the Committee's mandate include:

- Commitment limits on loans to businesses
- Securities investment activities
- Business acquisition activities
- New financial products using structured instruments or requiring start-up capital

Desjardins Group's Finance and Risk Management Committee is also responsible for reviewing several statutory dashboards presenting several key risk indicators with regard to the activities covered in the scope of the mandate.

Furthermore, the primary mission of the Finance and Treasury Executive Division and Office of the CFO is to monitor the financial framework and financial governance throughout Desjardins, support management and the Audit and Inspection Commission and report to the Board of Directors, the Audit and Inspection Commission and management as part of their management and oversight responsibilities. This strategic function coordinates and serves as a reference for Desjardins Group in matters concerning general treasury, matching and investment management, capital management and relations with credit rating agencies, financial governance, financial performance management support for the caisses and their centres, performance support for the business segments, disclosure of financial reports, accounting standard-setting, economic studies, financial planning and taxation. It also assumes the operational responsibility of Desjardins Group's pension fund.

Financial entities are operating in a context characterized by: (i) a more stringent legal and regulatory framework; (ii) growing market complexity and economic globalization; (iii) more specialized professions; and (iv) an environment that is changing rapidly and extensively. In this increasingly demanding context, coordinating all of the Desjardins stakeholders is crucial to sound balance sheet and capital management. Besides the Finance and Risk Management Committee, coordination throughout Desjardins Group is carried on by other financial committees that are more operational in nature.

Prudent capital management

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

In order to handle the economic and financial problems that marked the financial industry in 2008 and 2009, Desjardins Group advocated prudent management of its capital. Its purpose is to maintain higher capital ratios than those of the Canadian banking industry and its own regulatory requirements. In 2009, this vision translated into $1 billion in issues of subordinated debentures, eligible for regulatory purposes as Tier 2 capital, and by the issue of permanent shares in an amount of $654 million, eligible as Tier 1 capital. These issues brought the Tier 1 and total capital ratios, calculated under the new regulatory framework (Basel II), to 15.86% as at December 31, 2009. As at December 31, 2008, these ratios, calculated under the former regulatory framework (Basel I), were 13.39% and 12.85%, respectively.

The global financial crisis has prompted the industry to place more emphasis on capitalization. Now more than ever, the rating agencies and the market favour the best-capitalized institutions. In addition, the authorities in place announced a worldwide tightening of regulations during the second half of 2009. These factors argue in favour of a general increase in the level and quality of capital issued by financial institutions. It was against this backdrop that Desjardins Group raised its minimum target for Tier 1 capital to 15% for future years as of 2010.

Productivity

Productivity is the ability to generate earnings efficiently and effectively. It is therefore essential to ensure the organization's profitability and thus its longevity. Enhancing productivity is central to Desjardins Group's objectives, because it will help it attain a favourable competitive position and deliver a service offer adapted to its members' changing needs.

As in the case of other major financial Institutions, productivity remains an issue for Desjardins Group. That is why work is continuing in the context of the major Desjardins-wide projects for the Desjardins Group Development Plan, one part of which will generate significant productivity gains through initiatives such as streamlining organizational structures, optimizing processes in the Business Sectors and Functions, and increasing the effectiveness of information technology.

Industry description and trends

In spite of economic upheavals in 2009, the structure of the Canadian financial industry has remained much the same. As in 2008, it included some 13,000 institutions, varying greatly in size, from financial services firms to securities and insurance brokerage firms, and then up to the major banks. The banks consisted of about 70 institutions, divided between Canadian and foreign banks, all providing an extensive range of financial services, with the exception of seven foreign bank branches that offered only loans. The Canadian industry also included approximately 1,000 savings and loan cooperatives, roughly half of which belonged to Desjardins Group.

Also part of this financial services industry were a few independent trust or loan companies, as well as finance companies, investment fund promoters and pension fund managers that handled hundreds of billions of dollars in assets.

Insurance companies form another pillar of the industry, numbering more than 300 in operation in Canada in 2009. More than two-thirds were active in general insurance, with the remaining one-third offering life and health insurance. Only a few companies operated in both branches of insurance.

The Canadian financial industry included 10 major financial groups, including Desjardins, offering a complete range of services. These groups control close to 90% of all financial industry operations in Canada.

During this troubled year, from an economic and financial perspective, the concentration of financial activities was often decried as one of the reasons for the financial meltdown that led to the recession. The Canadian industry presents a high degree of concentration since the six major banks, Desjardins Group and several insurance companies largely dominate the country's financial scene. However, the Canadian financial system has set guidelines in order to avoid undermining itself. Strict standards for lending and liquidity ratios as well as their enforced compliance shielded it from the meltdown. The much-feared domino effect of bank failures did not occur north of the border because the Canadian industry maintained the secure business practices that have kept its institutions robust over the years.

For a second consecutive year, the World Economic Forum and Moody's Services considered the Canadian banking system to be the safest in the world and the most sound from a financial viewpoint.

Nonetheless, 2009 was a difficult year, and in more ways than one. In January 2009, the U.S. economy had already been in recession for a year, while Canada and Québec entered the recession only in fall 2008. The stock market continued to plummet. The first glimmers of hope came in April 2009, after stock market indices hit their low in March and began to move up again. However, despite optimism, it was not until midway through the year that the recession ended in the United States, Canada and Québec.

But the end of the recession did not lift all the uncertainty. The recovery of the North American economy has been very gradual, symptomatic of the fears that continue to hover over the U.S. economy. The real estate market corrections were not finished, and the restructuring of the auto industry, one of the cornerstones of the U.S. economy, had not been completed. This situation, combined with U.S. households' precarious finances, generated more doubt than confidence. All the uncertainty surrounding the economic recovery resulted in a great deal of inertia and immobility, and required governments and central banks to act in order to breathe some vitality into the economy.

Table 1 – Desjardins Group[1]
Selected data for years ended December 31
(in millions of $ and as a %)

	2009	2008	2007
Operating results			
Total income	$ 10,670	$ 8,373[2]	$ 9,671
Provisions for credit losses	271	243	197
Claims, benefits, annuities and changes in insurance provisions	3,758	3,144	3,171
Non-interest expense	5,141	4,800	4,823
Surplus earnings after income taxes and before member dividends	1,077	78[2]	1,101
Provision for member dividends	311	215	592
Key ratios			
Return on equity	10.4 %	0.8 %[2]	12.3 %
Productivity ratio for Desjardins Group[3]	74.4	91.8[2]	74.2
Member dividends/surplus earnings	28.9	275.6	53.8
Tier 1 capital ratio – BIS[4]	15.86	13.39	14.17
Total capital ratio – BIS[4]	15.86	12.85	13.59
Financial position as at December 31			
Total assets	$ 157,203	$ 152,298	$ 144,059
Average assets	158,463	149,676	139,957
Loans	109,995	104,462	95,403
Average equity	10,399	9,570	8,913
Deposits and subordinated debentures	107,455	102,184	96,624

(1) Excluding the caisses and federations in Manitoba and New Brunswick.
(2) Data for 2008 were affected by the financial crisis.
(3) The productivity ratio is Desjardins Group's non-interest expense over total income, net of claims and insurance benefits.
(4) Bank for International Settlements.

That was why the central banks had to take exceptional measures to help keep U.S. financial institutions in business. Similarly, the policy of maintaining key interest rates at virtually nil in the U.S. and Canada helped to reduce friction and facilitated business and personal investment throughout 2009.

Canadian financial institutions are in a better position than their U.S. counterparts. No Canadian bank has declared bankruptcy. The federal government set up a program to purchase insured mortgage loans. A maximum of $125 billion was put at financial institutions' disposal so that they could rely on stable long-term financing and could continue to make loans to Canadian consumers and businesses.

Although the economic situation was not very conducive to business, the Canadian financial industry managed to do well. It even succeeded in increasing business volume in personal financing, but at a slower pace than in 2008. The slowdown in housing activity was one of the main factors behind the slower pace. The resale housing market regained some of its vigour in the second half of 2009, which partly made up for the disappointing first half. In addition, the rapid resurgence of the residential sector showed the strength of the Canadian housing market.

However, the difficult economic climate and the relative scarcity of credit had an impact on business financing. Many businesses temporarily or permanently shelved their development and expansion projects in 2009. Credit demand therefore stagnated, following a significant slowdown during 2008.

The cloud of pessimism did have a silver lining, however. The insecurity created by economic and financial uncertainty favoured the recruitment of savings at deposit-taking institutions, especially in the first few months of 2009. Things changed when the stock market recovery caused the indices to regain more than 50% of their value following their low in spring 2009. Investment funds and equities then returned to favour with investors.

Like financial intermediation institutions, insurance companies had to deal with a changing economic context, punctuated with good news and bad throughout the year. Although conditions were less than ideal for business, the general insurance industry saw premiums written increase slightly over 2008. On the other hand, the sector's profitability was put to the test with an increase in the loss ratio and weak investment income. Even though the industry's profitability has been down since 2006, it has not fallen to the level observed in 2001 and 2002.

The life and health insurance industry posted some notable improvements. Annuities written rose considerably over the year. Also, life and health insurance premiums collected followed the upward trend observed in 2007 and 2008. At the same time, life and health insurers' investment income performed well, which compensated somewhat for the lacklustre results of 2008. All in all, 2009 ended on a brighter note than it began.

Monitoring of priority financial objectives

As part of developing Desjardins Group's 2010-2012 Strategic Plan, a certain number of strategic orientations and initiatives were identified during the work carried out by the Business Sectors. The identification of these orientations and initiatives was supported by the results from the work of the different reflection and consultation groups that led to the review of Desjardins Group's financial indicators.

The objectives are to achieve profitability that reflects the desired balance between cooperative performance and financial performance while providing a foundation for measuring the progress Desjardins has made compared to its priority strategies.

Overall, Desjardins Group posted lower profitability and productivity than its targets in 2009, but was able to boast solid capitalization and excellent balance sheet quality. The changes made to Desjardins Group's structure will have a beneficial effect on achieving these objectives in future years. It is therefore important to mention that these orientations must be viewed from a longer-term perspective.

The table below presents a progress report on 2009 results for the priority financial objectives.

Desjardins Group	Priority financial objectives in 2009	Results of priority objectives in 2009	Priority financial objectives in 2010, according to the 2010-2012 Strategic Plan
Growth and development			
- Growth in operating income[1]	—	**1.2 %**	Greater than 8%
Productivity and profitability			
- Productivity index	—	**74.4 %**	Less than 70% in 2012
- Gap between revenue growth[2] and expense growth	Greater than 1.0%	**25.1 %[3]**	Greater than 2% in 2012
- Growth in surplus earnings after income taxes	Between 5% and 10%	**1,280.8 %[3]**	Between 5% and 10%
- Return on equity	Between 12% and 15%	**10.4 %**	Greater than 9%
Financial stability and risk management			
- Tier 1 capital ratio	Greater than or equal to 13.0% and bank median + 3%	**15.86 %**	Greater than 15%
- Total capital ratio	Greater than or equal to 12.5% and bank median	**15.86 %**	—
- Gross impaired loans/gross loans	Less than 1.0%	**0.46 %**	Less than 1%
- Member dividends (before income taxes)/ Desjardins Group surplus earnings (after income taxes)	Limited to 45%	**28.9 %**	No more than 35% of caisse surplus earnings eligible for dividends

(1) Total income, net of income from available-for-sale securities, trading income and income from other investments.
(2) Total income, net of claims and insurance benefits.
(3) It should be remembered that 2008 financial results were affected by the financial crisis.

However, Desjardins Group's ratio of member dividends over surplus earnings in 2008 was the result of an exceptional, temporary measure taken by the Desjardins Group Board of Directors, which opted for a balanced approach to the sharing of caisse surplus earnings, taking into account both the expectations of members and communities and Desjardins Group's capitalization needs. In October 2009, the Board of Directors suggested that the caisses favour the growth of their capital base and prudent management of their 2009 member dividends and not pay member dividends from their results or reserves in excess of 35% of their surplus earnings before income taxes as calculated in accordance with the standard on distribution of caisse surplus earnings.

Desjardins Group will maintain its financial objectives at a very high level in coming years and is very well positioned to capitalize on opportunities that will help it meet these challenges.

Because of the reality of Desjardins Group's new structure, some of these indicators will be the object of additional work in 2010 so that they are in sync with those of the different business segments, while taking each one's specificities into account.

Financial outlook for 2010

The anticipated financial performance carries forward the financial objectives set out in Desjardins Group's 2010-2012 Strategic Plan and 2010-2012 Financial Plan. It will continue to be subject to the important work begun in 2009 in order to develop and implement this strategic planning over the years ahead.

Thus, in spite of an uncertain economic environment, Desjardins Group expects a satisfactory financial performance based on growth in the caisse network's surplus earnings, supported by the FCDQ's business units, the insurance companies and the other subsidiaries. For this to happen, Desjardins Group must deal with some significant challenges, notably with regard to productivity, achieving its growth objectives and prudent capital management. As a result, the projected work continued, taking into account changes in accounting standards, the finalizing of the Desjardins Group Development Plan, the optimizing of the financial structure and the prioritizing of the various strategic initiatives concerning productivity.

Desjardins Group's 2010-2012 Capitalization Plan underscores the need to strike a balance between capital requirements, growth aspirations and distribution of surplus earnings. Although Desjardins has a solid level of capitalization, the anticipated consequences of the impact of new regulatory requirements have prompted management to adopt a cautious attitude that favours strengthening the capital base, as several Canadian financial institutions have done, which translates into consequent measures for capital management.

The present financial outlook will demand more attention in terms of managing expenses in order to improve Desjardins Group's productivity. The authorities at Desjardins will redouble their vigilance in managing the institution.

How Desjardins is different

Desjardins stands out from other financial institutions because it is structured as a cooperative. The caisses belong to their members and are administered locally by elected officers. They strive to deliver the best possible services to all their members. In this manner, the caisses, which are the pillars of Desjardins Group, contribute to improving the economic and social conditions of their members and communities.

Human capital is our greatest wealth

Human capital is Desjardins Group's most valuable resource. With more than 5.8 million members and clients and some 6,200 elected officers, including young intern officers, Desjardins Group, as a democratic institution, stands out for offering meaningful opportunities for involvement. Rounding out this human capital are the roughly 42,200 employees of Desjardins Group, who make it the largest private employer in Québec and helped it become one of the 50 Best Employers in Canada in 2009. Desjardins is also the financial institution that employs the largest number of financial planners in Québec.

Desjardins Group as an employer also stands out from the rest of the financial industry by maintaining an employee retention rate above 95%.

Active in the Québec economy for close to 110 years
Part of Québec's economic and financial landscape for close to 110 years, Desjardins holds large market shares in the savings and credit sectors. It has a strong presence throughout Québec and offers services across Canada and in the United States.

Desjardins Group is the largest cooperative financial group in Canada and has a financially solid structure, with more than $157 billion in assets and over $11 billion in capital. Desjardins provides its members and clients with a full line of products and services through an extensive distribution network.

Desjardins Group has excellent credit ratings owing to the quality of its financial assets, financial structure, and equity. The already-significant synergies between the Desjardins caisses and subsidiaries are growing from year to year, and will be further increased when the orientation adopted at the 20th Congress, dealing with Desjardins-wide focus and action, is put in place.

The business market has made a substantial contribution to the results of the caisse network and Desjardins as a whole. Desjardins plays an active role with businesses, with more than 1,200 account managers in various locations and a complete service offer and remarkable expertise in the area of small and very small enterprises.

In spring 2009, the first Rendez-vous Meeting of Board of Supervision (Québec) and Audit Committee (Ontario) Chairs was held. The purpose of the event was to review the role and responsibilities of the Chairs. Held in Québec City in April with the theme "Cooperate for Better Governance", the gathering had a special focus on networking, and was an opportunity to discuss the importance of oversight and its impact in terms of ethics, professional conduct and cooperation. It also led to reflection on positive ways to influence leadership and how to get started.

An extensive network
Desjardins maintains a reliable and efficient technological platform that supports its distribution network. Its AccèsD online services and its *desjardins.com* Web site are among the most visited sites in Québec and are used as examples by other financial institutions elsewhere in the world.

The accessibility of Desjardins in Québec, the extent of its distribution channels and its human aspect and cooperative values mean that it is close to the values of most of Québec's cultural communities. To better serve its members, Desjardins Group offers customized services in a number of languages.

Financial governance

Although Desjardins Group is not a reporting issuer or venture issuer under Regulation 52-109 of the *Autorité des marchés financiers* respecting certification of disclosure in issuers' annual and interim filings, management, in conjunction with the President and Chief Executive Officer and the Senior Vice-President, Finance and Treasury and Chief Financial Officer of Desjardins Group, designed or caused to be designed, financial disclosure controls and procedures which are supported in particular by the process for periodic certification and internal sub-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 Desjardins Group Disclosure Committee and of the Audit and Inspection Commission, who play a lead role in overseeing and assessing the appropriateness of financial disclosure controls and procedures.

This rigorous financial governance process, which is comparable to best practices in the industry, provides reasonable assurance to the President and Chief Executive Officer and the Senior Vice-President, Finance and Treasury and Chief Financial Officer of Desjardins Group that important information about Desjardins Group and its components is communicated to them in a timely fashion so that they can disclose complete and reliable information to the public and to Desjardins Group's members and clients. As at December 31, 2009, management has assessed the financial disclosure controls and procedures. This assessment confirmed their effectiveness both in design and operation.

Given the inherent limitations in any control system, management of Desjardins Group acknowledges that disclosure controls and procedures cannot prevent or detect all misstatements, whether caused by error or fraud.

Furthermore, concerned with continuously improving its financial governance rules and practices, Desjardins Group considers it important to uphold a structured internal control environment that allows it to satisfy the expectations of the market and of its members and clients, while at the same time acting in accordance with these structures, the context, and its governance process.

Thus, in accordance with the timetable set by management, in conjunction with the President and Chief Executive Officer and the Senior Vice-President, Finance and Treasury and Chief Financial Officer of Desjardins Group, work continued throughout 2009 to gradually implement financial governance rules and practices that are comparable to those prescribed by the Canadian Securities Administrators, which will permit it to certify the effectiveness of internal control over financial reporting as at December 31, 2011.

As at December 31, 2009, two Desjardins Group components, namely, Caisse centrale Desjardins as reporting issuer and Capital Desjardins inc. as venture issuer, complied with the new requirements under Regulation 52-109. The management of both these issuers therefore assessed the effectiveness of disclosure controls and procedures and internal control over financial reporting, which provide reasonable assurance regarding the reliability of financial reporting and the preparation of Combined Financial Statements for external purposes in accordance with generally accepted accounting principles.

Table 2 – Contribution to combined surplus earnings by business segment
Years ended December 31
(in millions of $)

	2009	2008	2007
Personal and Commercial	$ 740	$ 360	$ 805
Life and Health Insurance[1]	193	40	211
General Insurance	94	36	126
Securities Brokerage, Asset Management and Venture Capital	22	(29)	17
Other	28	(329)	(58)
Surplus earnings after income taxes and before member dividends	**$ 1,077**	$ 78	$ 1,101

(1) This contribution differs from the subsidiary's specific results as it includes consolidation adjustments.

This assessment was carried out using the recognized control framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and confirms the effectiveness of their disclosure controls and procedures and of their internal control over financial reporting.

Various other aspects of governance are examined in more detail on pages 215 to 226 of this Annual Report.

Presentation of financial information

Desjardins Group's Combined Financial Statements are prepared in accordance with Canadian generally accepted accounting principles. All amounts shown in the MD&A are in Canadian dollars, unless otherwise indicated. Exchange rate fluctuations do not have a significant impact on Desjardins Group's results or financial position.

Some figures from prior years have been reclassified to conform to the presentation adopted for 2009.

There were no unusual items that had a significant impact on the results for fiscal 2009, 2008 and 2007, apart from the instability of capital markets in 2008 as well as the ABCP file (which also had an impact on 2007 results) and the direct and indirect impact of ABCP and guaranteed-capital structured products. Financial performance for 2008 was also affected by other specific items arising from strategic decisions, including certain Canada-wide development initiatives and the end of the cheque imaging project following the Canadian Payments Association's decision to terminate this program. Moreover, it should be remembered that financial results for the second half of 2007 were affected by the Visa global restructuring and the partnership with The Ethical Funds Company.

There were no major business acquisitions during these years.

Return on equity provides management with a measure to assess the overall financial performance of Desjardins Group.

Transactions with related parties are discussed in Note 31 to the Combined Financial Statements.

As mentioned earlier, Desjardins Group announced a new organizational structure in May 2009, consisting of four main Business Sectors. Desjardins Group is finalizing the work to implement its restructuring and present its financial information according to the new structure as of 2010.

For 2009, Desjardins Group presents its segmented information according to the former business segments in addition to another segment, labelled "Other." The latter category includes the consolidation adjustments attributable to all components and has since first quarter 2009 presented the companies created specifically to hold the ABCP securities redeemed by Desjardins Group. These companies were formerly included in the Personal and Commercial segment. In addition, since second quarter 2009, all ABCP restructured notes (ABTN) held by Desjardins Group have been recorded in the "Other" segment further to their sale to newly created entities. Prior period data have been reclassified to conform with the new method of presentation.

Personal and Commercial
The segment mainly comprises the caisse network in Québec and Ontario, Caisse centrale Desjardins, Fonds de sécurité Desjardins, Capital Desjardins inc., Desjardins Trust, MM Trust II, the Fédération des caisses populaires de l'Ontario and the Fédération des caisses Desjardins du Québec, which includes the following business units: Desjardins Card Services, Investment Fund Services, Financial Engineering Services, and Desjardins Payroll and Human Resources Services. As mentioned in the previous paragraph, the companies created specifically to hold the ABCP securities bought back by Desjardins Group have been presented in the "Other" segment since first quarter 2009.

Life and Health Insurance
This segment comprises the activities of Desjardins Financial Security.

General Insurance
This segment presents the activities of Desjardins General Insurance Group.

Securities Brokerage, Asset Management and Venture Capital
This segment comprises the activities of Desjardins Securities, Desjardins Asset Management and Desjardins Venture Capital.

A detailed segment-by-segment analysis of activities is presented on pages 74 to 93.

1.2

Analysis of financial results

2009 fourth quarter results

For the fourth quarter of 2009, Desjardins Group posted improved profitability, with combined surplus earnings before member dividends of $244 million versus a deficit of $476 million the previous year. Return on equity was 8.6%, compared to a negative return of 19.3% a year earlier.

The fourth quarter's financial performance was positively affected by a sharp increase in trading income and income from available-for-sale securities despite the drop in interest rates. The low interest rates put pressure on the caisses' net interest income and, in turn, affected their profitability. Insurance activities, particularly those of the life and health insurance subsidiary, as well as securities brokerage activities also posted improved results.

Note that the financial results for the fourth quarter of 2008 had been affected by very difficult conditions on the capital markets, which had a major impact on the subsidiaries' investment portfolio and on other activities directly related to capital markets, including securities, venture capital and investment fund activities.

As for revenues, total income stood at $2,583 million for the fourth quarter of 2009, up $854 million or 49.4% over the same quarter in 2008.

Net interest income totalled $941 million in the fourth quarter of 2009, for an increase of $61 million or 6.9% over the corresponding quarter in 2008. Net premiums totalled $1,082 million, up $55 million or 5.4% from the fourth quarter in 2008, largely because of the surge in annuity premiums.

Other income amounted to $560 million, compared to a loss of $178 million for the same quarter in 2008. This significant improvement was due to an increase of $495 million in trading income and of $200 million in income from available-for-sale securities as a result of improved markets. This higher income is mainly attributable to the Personal and Commercial segment. It should be pointed out that the trading income of the life and health insurance subsidiary recorded a decline that was offset by lower expenses related to claims, benefits, annuities and changes in insurance provisions for this segment.

Desjardins continued to enjoy a high-quality loan portfolio despite a slight rise of 0.46% in the ratio of gross impaired loans to the gross loan portfolio. The provision for credit losses stood at $86 million for the fourth quarter of 2009, versus $88 million in 2008.

Expenses related to claims, benefits, annuities and changes in insurance provisions amounted to $773 million, down $192 million or 19.9% from the fourth quarter in 2008. This decline is largely due to an equivalent decrease in the life and health subsidiary's investment income, as previously mentioned.

Non-interest expense totalled $1,425 million, up $168 million or 13.4% from the corresponding quarter in 2008, mainly because of the increase in salaries and fringe benefits related to the annual indexing of salaries and the incentive plan. Combined income for the fourth quarter of 2009 also included an expense of $36 million arising from the cost of implementing Desjardins Group's Development Plan, which is presented under "Restructuring expenses".

A summary of the results for the last eight quarters is found on pages 142 and 143 of this MD&A.

2009 results

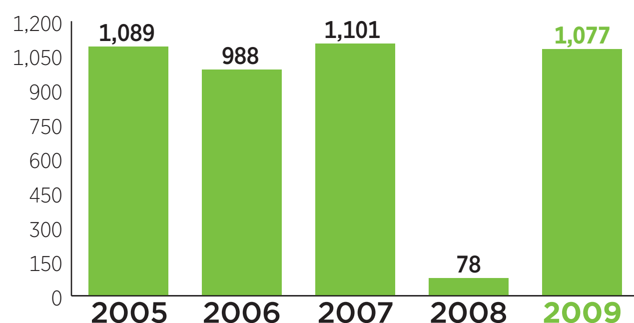
Desjardins Group declared surplus earnings before member dividends of $1,077 million for fiscal 2009, versus $78 million in 2008, in the midst of a severe financial crisis.

Its financial performance for 2009 was positively affected by higher trading income and income from available-for-sale securities as a result of improved market conditions and a smaller write-down of the ABCP (ABTN) restructured note portfolio than that recorded in 2008. In fact, $43 million was recognized in 2009 mainly as a decrease in the fair value of the ABCP restructured note portfolio as a whole and the write-off of an ABCP security excluded from the moratorium under the Montréal Accord, while a write-down of $472 million had been recognized in 2008.

Profitability rose in the insurance and securities brokerage segments. As for the caisse network, its surplus earnings were down by 25.5% from $693 million in 2008 to $516 million in 2009, in particular because of lower interest rates, which had a negative impact on net interest income.

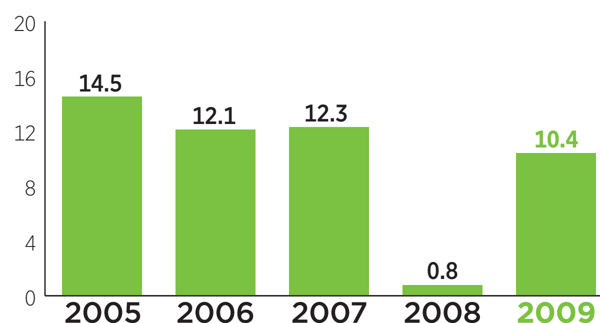
The 2009 Combined Financial Statements include a provision for member dividends of $311 million compared to $215 million in 2008. In addition, $73 million was returned to the community in the form of sponsorships, donations and scholarships. Overall, member dividends and contributions to the community totalled $384 million.

Surplus earnings before member dividends[1]
(in millions of $)



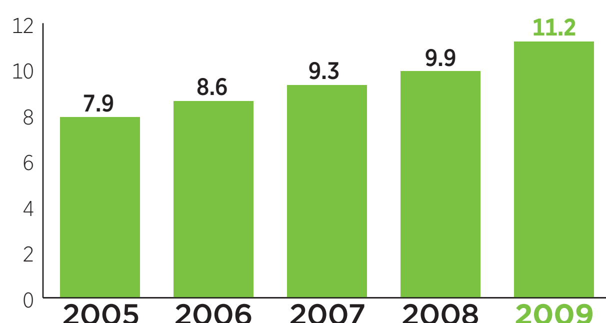
(1) Surplus earnings in 2008 were affected by the financial crisis.

Return on equity[1]
(as a %)

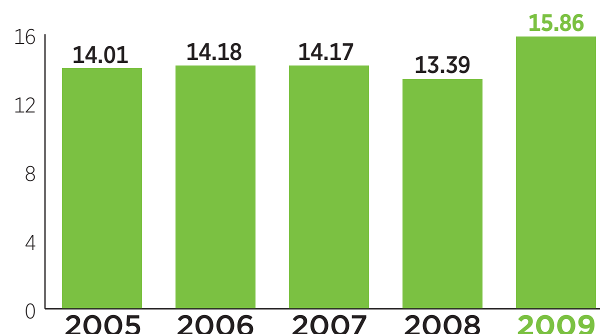


(1) The ratio of 2008 was affected by the financial crisis.

Capitalization of Desjardins Group
(in billions of $)



Tier 1 capital ratio (BIS)
(as a %)



Return on equity amounted to 10.4% from 0.8% in 2008.

Desjardins Group ranks among the best capitalized financial institutions in Canada. Its Tier 1 ratio, evaluated under the new regulatory framework (Basel II), totalled 15.86% as at December 31, 2009, compared to 13.39% in 2008, evaluated under the previous regulatory framework (Basel I), which is higher than its target capitalization rate and one of the best in the industry. As for the total capital ratio, it also stood at 15.86%, evaluated under Basel II, compared to 12.85%, evaluated under Basel I, as at December 31, 2008.

It should be noted that the purpose of the Basel II Accord is to match capital requirements with the risks incurred and to promote the steady growth of risk assessment capabilities in financial institutions. In the first quarter of 2009, Québec's *Autorité des marchés financiers* granted its approval to Desjardins Group to use the internal ratings-based approach, subject to conditions, for credit risk related to retail customer loan portfolios (personal) within the framework of the guideline on standards governing the adequacy of base capital. Other credit exposure and market risk are assessed using a standardized approach, while operating risk is calculated using a "basic indicator" approach. These approaches are used to calculate Desjardins Group's capital ratios, which are still one of the highest among the best capitalized financial institutions in Canada.

In 2009, Desjardins Group made the following issues:

- $1.8 billion in debt securities through Caisse centrale Desjardins
- $1 billion in subordinated debentures through Capital Desjardins
- $654 million in permanent shares through the Desjardins caisse network

As for revenues, Desjardins Group's total income stood at $10,670 million at the end of 2009, up $2,297 million or 27.4% from 2008.

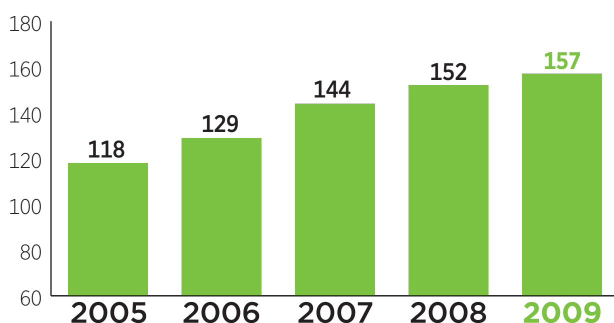
Net interest income totalled $3,522 million, for an increase of $104 million or 3.0% from 2008. Net premiums were up by $116 million or 2.8% as a result of solid growth in both insurance premiums, particularly in life and health insurance, and annuity premiums. Other income grew by $2,077 million because of an increase of $1,667 million in trading income, and $484 million in income from available-for-sale securities resulting from improved markets. The life and health insurance subsidiary contributed $814 million of the increase in trading income, which in turn was offset by an increase of $610 million in expenses related to claims, benefits, annuities and changes in insurance provisions for this segment. It should also be noted that the write-down in the ABCP restructured note portfolio was only $43 million in 2009, compared to $472 million in 2008, thus benefiting "Other income". This item was also positively affected by the growth of $34 million or 8.3% in lending fees and credit card revenues. Income from brokerage, investment fund and trust services, however, was down $36 million or 5.8% chiefly because of market volatility.

Desjardins Group's loan portfolio continued to be of excellent quality even though the provision for credit losses rose slightly to $271 million, compared to $243 million in 2008.

Expenses related to claims, benefits, annuities and changes in insurance provisions totalled $3,758 million at year-end, up $614 million or 19.5% from a year earlier. This increase was largely the result of an equivalent increase in the life and health insurance subsidiary's investment income, as explained earlier.

Total Desjardins Group assets

(in billions of $)



Non-interest expense amounted to $5,141 million, for an increase of $341 million or 7.1% from 2008. More than half of this increase is attributable to higher salaries and fringe benefits because of the annual indexing of salaries and the incentive plan. It should be noted that an expense of $101 million for the cost of implementing the Desjardins Group Development Plan was included in combined income for 2009. It should also be remembered that non-interest expense in 2008 included an asset write-off of $68 million related to strategic decisions.

The productivity ratio is Desjardins Group's non-interest expense to total income, net of expenses related to claims and insurance benefits. This ratio stood at 74.4% at the end of 2009, showing improvement from 91.8% in 2008. Of note are the various initiatives taken to enhance productivity, including the implementation of Desjardins Group's new organizational structure announced in May 2009.

Desjardins Group's total assets stood at $157.2 billion as at December 31, 2009, up $4.9 billion or 3.2% from $152.3 billion on a year-over-year basis. Desjardins Group continued to grow steadily in 2009, despite rather trying economic conditions.

Total assets under Desjardins Group's control as trustee or manager stood at $235.4 billion as at December 31, 2009, up $33.8 billion or 16.8% over 2008. Assets under management totalled $32.0 billion as at December 31, 2009, versus $29.3 billion a year earlier, for an increase of $2.7 billion or 9.4%.

Contribution to surplus earnings by business segment

A brief description of the profitability of Desjardins Group's business segments is found below. A detailed financial analysis is provided in subsequent sections.

The Personal and Commercial segment posted surplus earnings before member dividends of $740 million for 2009, compared to $360 million a year earlier, primarily due to improved market conditions and good performance posted by Caisse centrale Desjardins, which recorded enhanced profitability as a result of the efforts of all the business segments, and particularly of Desjardins Group Treasury, which strongly contributed to this growth with an increase of $147.2 million in gross income over 2008. It should be pointed out, however, that as previously mentioned, the caisse network's results were down from the previous year as a result of low interest rates, which affected its interest margin.

The Personal and Commercial segment recorded higher net interest income and a sharp increase in other income as a result of the growth in trading income and income from available-for-sale securities because of improved market conditions and higher credit card revenues. There was also an increase in non-interest expense in this segment largely as a result of the increase in salaries and fringe benefits due, in particular, to the annual indexing of salaries and the cost of the Desjardins-wide transformation in 2009. Furthermore, an asset write-off of $68 million as a result of strategic decisions was recognized in 2008. The Personal and Commercial segment continued to enjoy a high-quality loan portfolio with a solid ratio of gross impaired loans to the gross loan portfolio.

The Life and Health Insurance segment contributed $193 million to combined results in 2009, compared to $40 million a year earlier. Desjardins Financial Security (DFS) posted net earnings of $194 million compared to $34 million in 2008. Return on shareholder's equity was 25.9%, one of the best in the financial services industry. The recovery of the capital markets, the good track record in insurance business and the savings realized as a result of the tight control over expenses were the main factors accounting for this performance.

The General Insurance segment's contribution to combined results amounted to $94 million in 2009, compared to $36 million in 2008. The return on equity of Desjardins General Insurance Group (DGIG) was 17.5%, versus 8.5% in 2008. The improvement in insurance results was attributable to milder weather conditions in 2009, compared to those in 2008, a year marked by record snowfall and violent storms. In addition, the improved return was due to the increase in investment income. In 2009, declining interest rates and the narrowing of credit spreads pushed up bond values. In addition, a portfolio restructuring in the first quarter of 2009 also helped to realize gains on the disposal of bonds.

The Securities Brokerage, Asset Management and Venture Capital segment posted net earnings of $22 million for 2009, as opposed to a net loss of $29 million in the previous year. This improved profitability resulted from the gradual market recovery, which had a positive effect on securities brokerage and venture capital activities. Of particular note is the markedly improved financial performance of the securities subsidiary, whose net earnings amounted to $20 million in 2009, compared to a net loss of $23 million in 2008, chiefly as a result of the solid performance of the Fixed Income Group. It should, however, be mentioned that the financial results for asset management operations were down. In 2008, a disinvestment program was set up for investments underlying structured products against the backdrop of a financial crisis, and the impact of this program was felt throughout 2009.

Lastly, since the first quarter of 2009, the Other segment has included the deficit of the companies specifically created to hold the ABCP securities purchased by Desjardins Group and which were previously included in the Personal and Commercial segment. Since the second quarter of 2009, all ABCP (ABTN) restructured notes held by Desjardins Group were included in the Other segment, following the sale of these securities to the newly created entities. The Other segment recorded net income of $28 million in 2009, versus a net loss of $329 million in 2008. This increase was favourably affected, in particular, by improved market conditions, such as for ABTN. Results for 2009 include the write-off of an ABCP security excluded from the moratorium period under the Montréal Accord.

Moreover, Desjardins Group's combined results included consolidation adjustments not reflected in the results of the various business segments, including in particular the adjustment to the employee future benefits expense, up $29 million after income taxes from 2008, primarily as a result of updating certain actuarial assumptions.

2 Business segments

2.1 Business segments and summary table

As mentioned in the "Overview" section, in the second quarter of 2009 the Board of Directors of the Fédération des caisses Desjardins du Québec (FCDQ) 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.

Accordingly, Desjardins has established four Business Sectors representing the core markets in which it operates: Personal Services; Business and Institutional Services; Wealth Management and Life and Health Insurance; and Property and Casualty Insurance. Similarly, to ensure greater consistency among Desjardins Group's key business sectors, four Desjardins Group functions have expanded their scope to cover all the activities of FCDQ and the subsidiaries. They are: Finance and Treasury and Office of the CFO; Risk Management; People and Culture; and Technology and Shared Services. A sector called Strategy, Performance and Development will ensure that the objectives of the organizational shift are met without losing sight of Desjardins Group's development as part of the Development Plan.

In order to support the caisses in their daily operations and encourage collaboration between the caisse network, the Business Sectors and the Desjardins Group Functions, a Cooperative Network Support Group has been established. Similarly, Desjardins Group is fostering the participation of elected caisse officers in cooperative life and closer working relationships between them and Desjardins Group's management through a new group responsible for Network and Democratic Governance Support Functions.

In addition, the communications teams of different components have also been grouped together to ensure better consistency in communications, both within the organization and with the general public.

The following summary presents the profiles and overall strategies as well as the 2010 orientations and outlook for the four new Business Sectors in terms of the 2010–2012 Strategic Plan.

Personal Services

Profile

The Personal Services sector is responsible for developing and marketing the mass-market service offer, including financing activities as well as payment and credit cards. The sector supports the caisses and their service centres in product and service distribution by optimizing the performance and profitability of physical and virtual networks.

The sector includes the following legal entities and business units: Card Services, AccèsD, Desjardins Bank, point-of-sale financing centres, Carrefour Desjardins, mortgage financing centres and student services centres.

Overall strategy

The sector aims to make Desjardins known as the best Canadian financial institution serving the mass market. It aims to strengthen Desjardins Group's leading position in financing and transactional services and achieve profitable growth of its market shares in Québec and elsewhere in Canada. To achieve these objectives, it will rely mainly on quality, innovation and profitability in its range of products and services with respect to financing, day-to-day, convenience and card transactions, as well as its high level of accessibility.

2010 outlook and orientations

Implementation of the sector's strategy will mainly involve:

- Achieving the objective of making it simpler and easier for members and clients to do business with Desjardins and have access to all its services according to their expectations and needs and through their preferred channels
- Enhancing sales and administrative processes to improve the quality of the client experience and enhance operational efficiency
- Optimizing physical and virtual distribution
- Developing new markets and new client groups

Business and Institutional Services

Profile

The Business and Institutional Services sector is responsible for manufacturing financial products for businesses and providing support to the caisses and Desjardins business centres in their services for this member category. The sector also offers a range of products and services for mid-sized and large businesses, including financing, securities, venture capital, specialized and advisory services. It provides services to large businesses and to the public, parapublic and institutional sectors.

The Business and Institutional Services sector includes the following legal entities and business units: Caisse centrale Desjardins, Desjardins Securities (business and institutional services), Development Capital and Business Ownership Transfers Division, Capital régional et coopératif Desjardins, Desjardins Asset Management, Desjardins Mid-Market Business Centre, Desjardins Payroll and Human Resources Services, Asset Custody and Trust Services Administrative Department.

Overall strategy

The sector wants to be known in the industry as a dynamic and effective leader that contributes to sustainable economic growth in the businesses and communities it serves. Its strategy is based on establishing trusting relationships with clients and partners and on a philosophy founded on sustainable development. The sector is supported by strong foundations in the regions and a close involvement with and commitment to the socio-economic environment.

2010 outlook and orientations

Implementation of the sector's strategy will mainly involve:

- Strengthening our advisory service approach, expertise and proactiveness in client relations
- Intensifying development activities to accelerate growth in the business sectors, in the regions and among the client segments that offer the greatest potential for Desjardins Group, while applying a sound and prudent approach to risk management
- Enhancing its range of specialized services and deploying a more complete range of products and services that are better suited to target client groups
- Revising its advisory service and service offer processes to improve the quality of the client experience and operational efficiency
- Developing distribution and, in particular, virtual distribution

Wealth Management and Life and Health Insurance

Profile

The Wealth Management and Life and Health Insurance sector is responsible for the manufacturing of specialized savings products and life insurance. It provides support for the integrated distribution of wealth management products and services through the caisse network, and it distributes specific products through complementary channels. The sector oversees Desjardins Group's growth across Canada in wealth management and life and health insurance.

The sector includes the following legal entities and business units: Desjardins Financial Security, Desjardins Securities (services for individuals), Desjardins Trust (services for individuals), Desjardins Private Management, Desjardins Asset Management (including Desjardins Investment Management), the Shared Services Centre for Back-Office Services, and Carrefour Desjardins (wealth management component).

Overall strategy

The sector aims to position Desjardins as the preferred institution for wealth management services and as a national player in life and health insurance. Its objective is to increase Desjardins Group's market share in specialized savings products and services such as mutual funds, securities, guaranteed-capital funds, and life and health insurance product lines by targeting an above-market growth rate.

2010 outlook and orientations

Implementation of the sector's strategy will mainly involve:

- Achieving better coordination of its range of products and services for target client groups by focusing on integrated wealth management and life and health insurance advisory services, which is the main objective behind the creation of this sector
- Perfecting distribution models so that they fully respond to the expectations of clients served and optimize advisory services
- Pursuing growth outside Québec by developing Desjardins Group's reputation and image, reinforcing distribution capacity and seeking new opportunities for external growth
- Making greater investments in back-office services in order to support business growth and improve efficiency
- Motivating employees to develop an integrated team that is dedicated to the full satisfaction of members and clients

Property and Casualty Insurance

Profile

The Property and Casualty (P&C) Insurance sector is responsible for the manufacturing and distribution of P&C insurance products as well as related client services. The sector works with the caisse network, supports product distribution in the caisse network, and ensures the growth of Desjardins Group's P&C insurance activities across Canada.

The sector comprises the following legal entities: Desjardins General Insurance Group, Desjardins General Insurance, The Personal General Insurance, The Personal Insurance Company, Certas Direct Insurance Company, Certas Home and Auto Insurance Company and Desjardins General Insurance Services.

Overall strategy

The sector seeks to confirm its position as the leading insurer in Québec and position Desjardins as the preferred insurer in Ontario's mass market through strong growth in premiums. It is focusing on a model and strategy that are well aligned with market activity and with its skills in risk assessment, direct distribution and claim management. The sector intends to achieve above-market growth by taking full advantage of its partnership with the caisse network, by strengthening its growth culture and by continuing to report healthy profitability.

2010 outlook and orientations

Implementation of the sector's strategy will mainly involve:

- Deploying targeted business initiatives in markets that Desjardins wishes to develop further, particularly in Québec and Ontario
- Motivating employees in order to drive the sector's growth by drawing on its strengths
- Adjusting business practices to regulatory changes in each of the provinces with a view to healthy profitability
- Adjusting and transforming information technologies to support business development and operational efficiency

The following pages present business segments as shown on the note on segmented information in the Combined Financial Statements for 2009.

2.2 Personal and Commercial

Profile

The Personal and Commercial segment comprises a decentralized network in Québec and Ontario consisting of 501 caisses, 51 business centres and one credit union, Desjardins Credit Union. It also encompasses Caisse centrale Desjardins, which acts as financial agent for Desjardins Group, as well as the Fonds de sécurité Desjardins, Capital Desjardins inc., Desjardins Trust, MM Trust II, the Fédération des caisses populaires de l'Ontario and the Fédération des caisses Desjardins du Québec, which includes the following business units: Desjardins Card Services, Investment Fund Services, Financial Engineering Services, and Desjardins Payroll and Human Resources Services.

The Personal and Commercial segment offers a vast array of wholesale and retail financial products and services to its members and clients and conducts business in the following areas: financing, savings recruitment, credit cards, investment funds, trust services and central fund activities.

This segment also offers financial products and services outside Québec and Ontario through the caisse network and the federations of Manitoba and New Brunswick, which are auxiliary members of the Fédération des caisses Desjardins du Québec but which are governed by the laws and regulations of the jurisdiction in which they operate. They are not included in Desjardins Group's Combined Balance Sheets. The main financial results of these auxiliary members, which are also not included in the financial results of the Personal and Commercial segment, are presented on page 214 of this Annual Report.

Industry

The Canadian banking services industry is highly concentrated and fiercely competitive. This has resulted in market saturation, which is why one player's market share gain is another's loss. Most of our competitors focus their efforts on dominating lucrative business segments in order to maximize their bottom line, thereby increasing shareholder satisfaction.

2009 Achievements

Assets grew 2.1% to $126.2 billion as at December 31, 2009, fuelled by an improved economic environment, particularly in the housing market.

Retained a strong presence in Québec with a 39.2% market share in residential mortgage credit, 45.3% in farm credit and 43.2% in personal savings, as at December 31, 2009.

Picked up market share in commercial and industrial credit in Québec: 27.0% as at December 31, 2009, compared to 25.8% a year earlier.

In 2009, Caisse centrale Desjardins issued notes worth €500 million on the European markets, followed later in the year by two issues of medium-term deposit notes totalling $1 billion. The notes were issued under the terms of a short form base shelf prospectus dated March 14, 2008 that allows the issuance of notes in a maximum amount of $5 billion.

Issues in 2009 of subordinated debentures totalling $1 billion through Capital Desjardins, under a base shelf prospectus dated June 30, 2008 that allows the issuance of up to $2 billion in securities.

Issuance in 2009 of permanent shares through the Desjardins caisse network in an amount of $654 million.

Desjardins Card Services (DCS) experienced solid growth of 10.4% in business volume in 2009, to $55 billion at the end of the year. It will be recalled that DCS is the leading credit and debit card issuer in Québec.

Table 3 – Personal and Commercial: Segment results
Selected data for years ended December 31
(in millions of $ and as a %)

	2009	2008	2007
Total income	$ 5,269	$ 4,509[1]	$ 4,919
Provisions for credit losses	270	242	197
Non-interest expense	3,973	3,725	3,599
Surplus earnings after income taxes and before member dividends	**740**	**360[1]**	**805**
Contribution to combined surplus earnings	68.7 %	461.5 %[1]	73.1 %
Provision for member dividends	$ 311	$ 215	$ 592
Average assets	124,929	118,601	109,849
Average loans	105,226	97,939	90,028
Average deposits	105,413	100,104	92,398

(1) Data for 2008 were affected by the financial crisis.

Analysis of financial results

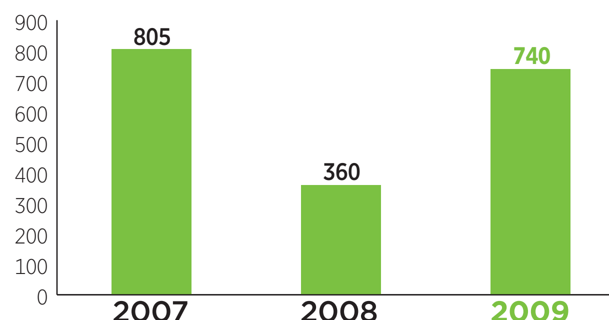
The Personal and Commercial segment recorded $740 million in surplus earnings before member dividends at the end of 2009, up $380 million from the $360 million in surplus earnings recorded for the previous year. The segment's contribution to Desjardins Group's combined results stood at 68.7%, versus 461.5% in 2008. The caisse network, the driving force of Desjardins Group, saw its surplus earnings decline 25.5%, from $693 million in 2008 to $516 million in 2009. Caisse centrale Desjardins (CCD) nevertheless reported a higher level of profitability: its net income stood at $127 million for 2009, $164 million more than a year earlier. Moreover, average business growth was sustained over the last year, resulting in an increase in net interest income of $99 million. In fact, financing activities advanced $5.8 billion or 5.7%, while savings on the balance sheet recorded a similar increase of $4.6 billion or 4.5%.

It should be recalled that since the first quarter of 2009, the companies created specifically to hold the ABCP securities purchased by Desjardins Group and previously included in the Personal and Commercial segment are now presented in the "Other" segment. The information on earlier years has been reclassified to conform to the new presentation.

In 2009, the caisse network recorded a $311 million provision for member dividends, as compared to $215 million a year earlier.

Total income (net interest income plus other income) from the Personal and Commercial segment amounted to $5,269 million, up $760 million or 16.9% over 2008. The net interest margin was $3,565 million, a slight increase of 2.9% over the $3,466 million recorded as at December 31, 2008. This net interest income represents 67.7% of the segment's total income, as compared to 76.9% in 2008. Net interest income, expressed as a percentage of average assets, declined somewhat because of the interest rate situation. This decline was the result of a reduction in the average return on loans, which was not wholly offset by the average cost of deposits. In fact, the net interest margin stood at 2.85%, versus 2.95% as at December 31, 2008. Tables 13 and 14 on page 96 show the change in the Personal and Commercial segment's net interest income.

Personal and Commercial
Contribution to surplus earnings[1]
(in millions of $)



(1) Contribution for 2008 was affected by the financial crisis.

Other income amounted to $1,704 million in 2009, up $661 million or 63.4% as compared to 2008. It benefited from increases of $637 million in trading income and $138 million in income from available-for-sale securities as a result of improved markets. Other income also benefited from an increase of $34 million or 8.2% in income from credit card activities. Growth in other income was, however, reduced, among other things by the $7 million or 2.1% drop in income from brokerage, investment fund and trust services.

CCD's net income totalled $127 million for 2009, an increase of $164 million over 2008. It may be recalled that 2008 results had been affected by the financial crisis on global capital markets. Accordingly, CCD had to recognize an other-than-temporary impairment of approximately $88 million for collateralized debt obligations. Had it not been for this one-time item, net income would still have risen $76 million over the previous year. This outstanding performance was attributable to all business segments, in particular the Desjardins Group Treasury segment, which reported a $147 million increase in income for 2009 compared to 2008, largely due to trading activities as well as asset-liability and liquid asset management. CCD contributed $123 million to the Personal and Commercial segment, versus $(33) million in 2008.

Provisions for credit losses stood at $270 million in 2009, up $28 million or 11.6% over the previous year. Despite this increase, the quality of Desjardins Group's loan portfolio remains excellent, with gross impaired loans accounting for 0.46% of the gross loan portfolio. More specifically, as at December 31, 2009, gross impaired loans outstanding stood at $509 million, an increase of $87 million or 20.6% over 2008. The allowance for credit losses was $846 million, as compared to $826 million a year earlier, broken down as follows: $143 million for specific allowances and $703 million for the general allowance. At the end of 2009, the coverage ratio, i.e. the allowance for credit losses in relation to total gross impaired loans, was 166.2% as against 195.7% the year before.

Non-interest expense totalled $3,973 million, $248 million or 6.7% more than in 2008. This rise resulted mainly from the increase in salaries and fringe benefits, particularly due to the annual indexing of salaries and the increase in the incentive plan as well as costs related to the organizational transformation undertaken by Desjardins Group in 2009. It may be recalled that in 2008, $68 million in assets were written off in relation to strategic decisions.

As at December 31, 2009, the total assets of the Personal and Commercial segment stood at $126.2 billion, as compared to $123.6 billion recorded at the end of 2008, an increase of $2.6 billion or 2.1%. The slow growth is explained by a reduced need for financing among Desjardins Group's members and clients.

As for financing activities, loans outstanding in the Personal and Commercial segment, net of the allowance for credit losses, grew 5.7% or $5.8 billion to total $108.0 billion as at December 31, 2009, as compared to 8.7% or $8.1 billion growth recorded for 2008. This slower growth was as much due to the demand for financing from households as it was to that from businesses.

The slowdown in the housing market in Québec and Ontario, and particularly in new construction, had an impact on the demand for residential mortgage credit in the Personal and Commercial segment. As at December 31, 2009, loans outstanding in this area reached $61.4 billion, up 4.7% or 2.8 billion for the year. This compares with an increase of 7.4% or $4.1 billion recorded on the same date in 2008. It should be mentioned, however, that the Personal and Commercial segment continued to stand out in consumer financing, credit card and other personal loans, mainly due to the great popularity of its home equity line of credit, the Versatile Line of Credit. Outstanding loans in this market grew 14.8% or $2.6 billion to $20.2 billion as at December 31, 2009, compared to growth of 9.2% or $1.5 billion posted one year earlier.

Furthermore, in financing for businesses and governments, the economic and financial environment was clearly not favourable to business development in this area. The drop in business investment in 2009 had a considerable impact on the demand for credit from businesses, and the Personal and Commercial segment did not escape this more difficult reality; outstanding loans in this market grew 1.6% or $424 million, to $27.3 billion, as compared to an increase of 11.0% or $2.7 billion recorded at the end of 2008.

In savings recruitment activities, the Personal and Commercial segment's outstanding deposits totalled $106.6 billion, up 4.5% or $4.6 billion, as compared to an increase of 5.9% or $5.7 billion one year earlier. This decline is explained in part by a slightly more difficult recruiting of deposits from individuals due to greater enthusiasm for off-balance sheet savings products. In fact, the recovery of stock markets had a very favourable impact on investment funds and other securities. Personal deposits, which at the end of 2009 represented 70.8% of the deposit liabilities of the Personal and Commercial segment, were up 4.8% or $3.5 billion for the year, to $75.4 billion as at December 31, 2009. This compares with an increase of 9.4% or $6.2 billion recorded at the end of 2008.

Deposits from government and business posted an annual increase of 8.3% or $1.8 billion, to $23.3 billion as at December 31, 2009. This compares with growth of 3.1% or $654 million in 2008. Other types of deposits outstanding declined 8.0% or $688 million, to $7.9 billion on the same date, as compared to a decline of 12.1% or $1.2 billion recorded at the end of 2008.

Finally, the surge in the Canadian stock market in 2009 was good for the sale of off-balance sheet savings products, such as investment funds and other types of securities. The Personal and Commercial segment profited from this upsurge, as can be seen in the excellent results posted for 2009. Outstanding investment funds and the assets it has in custody in its securities brokerage operations grew 24.0% or $5.4 billion over the year, to a total of $27.8 billion as at December 31, 2009. This compares with a decline of 18.3% or $5.0 billion recorded at the end of 2008.

Main activities

Financing activities
Savings recruitment activities
Credit card activities
Investment fund and trust service activities
Central fund activities

Financing activities

Profile The main financing activities of the Personal and Commercial segment are carried out primarily by the caisses, as well as the Fédération des caisses Desjardins du Québec, including business centres, in the following business segments:

- Residential mortgage credit, in particular loans granted to purchase new or existing homes and for renovation
- Consumer credit, including, among other things, loans for the purchase of durable goods (furniture, home and electronic appliances, automobiles), advances to credit cardholders, personal lines of credit and student loans
- Financing for activities, equipment, buildings or other assets in most commercial, industrial, farm or institutional sectors

Strategy The Personal and Commercial segment seeks to offer a full range of highly competitive credit products and services specially tailored to the growing needs of its members and clients in Québec, Ontario and elsewhere in Canada.

To this end, the following strategies are used:

- Leverage the cooperative difference to boost market share for all products and for all types of clientele
- Optimize its service offering and distribution

Outlook The Personal and Commercial segment plans to continue developing its credit activities among its members and clients, both individuals and businesses, with the same vigour as in the past. Just as it did for savings recruitment, it will work even harder to promote its cooperative difference, its special relationship with its clients and the high quality of its products and services, in order to boost its market share in the various credit categories.

2009 Achievements – Financing activities

Consolidated development tools, such as strengthening strategies for welcoming first time home-buyers, as well as for renewal processes, marketing the Versatile Line of Credit and expanding the team of mortgage representatives.

Launched a new credit insurance solution tailor-made for the Versatile Line of Credit and intended to simplify this product offer for advisors.

For the clientele of newcomers and cultural communities (NC/CC) continued the pilot project for implementing new credit standards for the card, introduced the emergency health services offer by Desjardins Financial Security, installed a function for opening an account from outside Canada via the *desjardins.com* site, forwarded market data for this clientele to the caisses and provided guidance to caisses in outlying areas in elaborating service offers to the NC/CC clientele.

Reduced Financing Services' processing period for mortgage applications.

Trained business centre staff in a wholly new business development approach. Based on both the decision cycle of the member and proactivity, the new approach enhances the ability of the sales force to manage clientele relations.

Continued the Créavenir program for young entrepreneurs between 18 and 35; the caisses, their business centres, and local partners join forces to foster entrepreneurial spirit in young people and support them in job creation.

The AccèsD Affaires telephone support team set up a front-line telephone service for young entrepreneurs at 1-877-ACCESD A.

Continued the activities of the Desjardins Mid-Market Business Centre to develop the market potential of medium businesses through a full range of products and services, particularly for Greater Montréal.

Added an online account consolidation service, LC Express, simplifying the management of international documentary credit transactions.

As part of a call for bids to finance children's daycare centres (CPE), received mandate to finance CPE capital property under the program announced by the Québec *Ministère de la Famille et des Aînés*.

A collaboration agreement was signed with the Caisse de dépôt et de placement du Québec with the objective of enhancing the conventional financing offer for mid-sized businesses.

An agreement was concluded with the federal government to manage a venture capital fund in Québec and another partnership agreement was signed with the Conseil des Montagnais du Lac-Saint-Jean.

The Personal and Commercial segment's share of the credit market in Québec and Ontario in 2009 was as follows:

- Consumer credit (including advances to credit card holders) rose 1.1% in Québec (23.4%) and 0.01% in Ontario (0.3%)
- Residential mortgage credit rose 0.1% in Québec (39.2%) and fell 0.03% in Ontario (0.4%)
- Commercial and industrial credit picked up 1.2% in Québec (27.0%) and up 0.03% in Ontario (0.5%)
- Farm credit was down 0.2% in Québec (45.3%) and stable at 0.5% in Ontario

Savings recruitment activities

Profile The Personal and Commercial segment relies on two broad groups of products to recruit savings. The first encompasses all savings products offered to individuals, businesses and governments that appear as liabilities on the balance sheet, i.e. all forms of deposit. These products constitute the largest source of funding to support its expansion efforts. The second group of savings products offered by the Personal and Commercial segment to its members and clients includes all financial assets administered or managed on their behalf.

More specifically, this group includes investment funds and other types of securities, such as stocks, bonds and Treasury bills. These products do not appear on the balance sheet.

Strategy The Personal and Commercial segment offers a full range of diversified, personalized and competitive savings products and services to its members and clients, who include numerous households, businesses and other private or public organizations in Québec, Ontario and across Canada.

To meet their growing needs, this segment uses the following strategies aimed at making available top-notch savings products and services:

- Increase market shares in targeted sectors by delivering a service offer that changes with, and is adaptable to, the needs of each segment of savers—all the while emphasizing the Desjardins cooperative difference
- Optimize distribution and continue improving the synergy among the sales teams in all Desjardins Group components
- Intensify initiatives boosting savings recruitment among entrepreneurs and businesses

Outlook The Personal and Commercial segment plans to step up business development in the area of investment savings among individuals and businesses in Québec, Ontario and elsewhere in Canada. It intends to promote its cooperative difference and the high quality of its products and services with the goal of boosting its presence among the various categories of savers.

2009 Achievements – Savings recruitment activities

Produced *Feu vert à vos affaires*, a series of 30 webcasts broadcast on *desjardins.com* educating the general public on how to manage their personal finances. The combination of webcasts and a blog was a first in Canada for a financial institution. The objective was to further Desjardins Group's educational mission among its members and clients by dealing with subjects related to their financial concerns at different stages in their lives.

Supported the caisses in making the TFSA available as from January 2009. This savings account enables Desjardins Group members and clients to save while reducing their tax bill, since investment income generated is tax-free. Through its proactivity, Desjardins stood out in this market, as it was among the first to offer this new account.

New personalized approach regarding intergenerational transfers among the member and client donors and the liquidators of an estate, as well as possible heirs, during the various stages of the planning and liquidation process. Desjardins Group reaffirmed the importance of proactivity, acknowledgment and consideration with respect to the needs of its members and clients and their families in terms of managing, protecting and transmitting their financial assets.

The theme of the 2009 Asset Management Forum *Our Key to Success: Proximity, Expertise and Trust*. The Forum, which was held over two days, allowed 1,500 savings professionals from all Desjardins Group components to reflect together. The activity provided an ideal venue for finding a common vision with respect to business issues and the wealth management needs of Desjardins Group members and clients.

Maintained a high profile in print and broadcast media and in specialized journals, both French and English, as well as in media geared to Desjardins members, such as the magazine *Desjardins and Me*. The objective always is to promote awareness and recognition of the Desjardins Group's wealth management expertise among different audiences.

As part of the authorized issue of $150 million for 2009, Capital régional et coopératif Desjardins raised $114.7 million between March and December 2009. This issue enjoyed a 50% tax benefit and a maximum allowable amount of $5,000.

The Personal and Commercial segment's share of the personal savings market in Québec and Ontario in 2009 was as follows:

- On-balance sheet savings (chequing accounts, regular savings and term deposits) slipped 0.2% in Québec (43.2%) and held steady at 0.6% in Ontario
- Despite a shaky start to 2009, off-balance sheet savings were up 0.4% in Québec (9.8%) and remained unchanged at 0.1% in Ontario, more specifically in the following areas:
  - Securities brokerage advanced 0.5% in Québec (8.4%) and held steady at 0.1% in Ontario
  - Investment funds grew 0.2% in Québec (12.6%) and held steady at 0.1% in Ontario
  - Social venture capital funds, such as Capital régional and coopératif Desjardins, fell 0.6% in Québec (10.5%)

Credit card activities

Profile Credit card activities are carried out by Desjardins Card Services (DCS), a business unit of Desjardins Group. It boasts over four million credit card holders and over six million debit card holders in Canada. DCS is the largest issuer of credit and debit cards in Québec. It provides its diverse clientele with a full range of products and services (card payment services for consumers and businesses, client loyalty through the BONUSDOLLARS Reward Program, and payment services to some 48,000 merchants).

DCS offers consumers financing solutions such as Accord D (a separate, second limit on the VISA Desjardins credit card), available from more than 6,500 merchants across Canada and also offered by the Desjardins caisse network when amounts under $50,000 are involved. In addition, DCS offers financing for automobile and durable goods purchases. Business financing is also available through such products as *Business* Freedom Solutions, Accord D Business financing, the *Business* Card, and the Purchasing Card.

Strategy Ensure the profitable development of financing, card and payment solutions for consumers and businesses across Canada.

Contribute, as the partner of choice, to help the Desjardins caisses achieve their business objectives by applying the highest service quality standards to both individual and business clienteles, whether or not they are caisse members.

To this end, the following strategies are used:

- Adapt the credit process to the target markets
- Support Canada-wide development by offering payment and financing solutions to large merchants
- Continue to automate business processes
- Continue to improve online account management services for the benefit of consumer and business clients

Outlook

- Design personalized cards for student clients
- Develop an offer of contactless payments
- Optimize collection systems
- Improve Falcon Credit, the credit card fraud prevention system
- Forge major partnerships with credit unions and merchants across Canada

2009 Achievements – Credit card activities

Contributed $106 million to the surplus earnings of the Personal and Commercial segment, compared with $86 million in 2008.

Business volume grew 10.4% to $55 billion.

Implemented the *Verified by Visa*™ service, developed to make online shopping safer for cardholders and online merchants.

Full deployment of smart card technology throughout the caisse network and gradual deployment to Desjardins merchants.

Implemented the new Phoenix collections system.

Developed business stemming from the agreement with Leon's Furniture Limited to become its main provider of payment and financing solutions in the Canadian market.

Launched the new VISA Desjardins *Business* card to assist large businesses in managing their business expenses.

Inked an agreement with Prospera Credit Union, the fourth largest credit union in British Columbia.

Investment fund and trust service activities

Profile The Investment Funds and Trust Services Executive Division of the Fédération des caisses Desjardins du Québec comprises the following legal entities: Desjardins Trust Inc. and Desjardins Investment Management. A manufacturer, wholesaler and distributor of specialized savings products, it oversees private management services, securities custody and trust services offered by Desjardins Group.

Strategy The Investment Funds and Trust Services Executive Division endeavours to further the development of the caisses by offering them quality, competitive and high-performance products and services.

To this end, the division applies the following strategies:

- Place investors' interests at the heart of every business decision
- Develop and market competitive products and services tailored to the needs of Desjardins members
- Provide Desjardins members with access to the expertise and know-how of some of the best portfolio managers in the world
- Develop investment solutions in the form of predefined portfolios with optimal diversification by asset class, management style and geographic region
- Leverage the strategic alliance between Northwest Mutual Funds and Ethical Funds to penetrate the Canadian market
- Remain the leading institutional custodian in Québec with an offer that meets the highest standards for quality, compliance and rigour
- Continue growing the Immigrant Investor Program in order to provide the business centres with an ongoing revenue stream in the form of subsidies for members of participating caisses from this government program

Outlook

- Step up growth in all our business lines so as to be market leader in Québec and increase our critical mass in the rest of Canada.
- Maintain a leadership position in Québec and the rest of Canada as a provider of socially responsible investment products.
- Actively participate in the asset management of Desjardins members and clients by offering innovative, high-performance products, tailored to each stage of their financial lives, while simultaneously ensuring a fine balance between the risk assumed by holders and the expected yield.
- Skilfully and proactively develop a simplified and integrated savings and investment offer to meet the needs of distribution networks and advisors and financial planners, as well as Desjardins members and clients.
- Strengthen the e-commerce strategy.
- Ensure optimal contribution to the excellence and profitability of the service offer.

2009 Achievements – Investment fund and trust service activities

The economic recovery was confirmed at the end of 2009. The positive spinoffs of this were reflected in the results of Desjardins investment funds as at December 31, 2009.

Desjardins Funds had $11.7 billion in assets under management as at December 31, 2009, up more than 20.7% from the same time last year.

The year 2009 closed with a rise in net sales to stand at $409 million, 10 times more than the total of net sales last year. However, it should be recalled that, because of the financial crisis, 2008 had been the worst year in the history of Desjardins Funds.

Northwest & Ethical Investments L.P. (50% owned by the FCDQ) ended its second year of operations with assets under management of $4.5 billion, a billion more than last year. Furthermore, the company recorded net sales of $91.3 million.

Assets under discretionary portfolio management totalled $2.0 billion as at December 31, 2009, up 22.9% compared with the same period last year.

Desjardins asset custody service administers $174 billion in assets belonging to Québec's largest public, quasi-public and private institutions and companies.

Desjardins asset custody service applied stricter control and compliance measures to conform to the highest industry standards.

The Immigrant Investor Program grew by 20% in 2009 compared with 2008. Thanks to this Program, the caisse and business centre network enabled more than 100 members to take advantage of non-refundable financial contributions.

Central fund activities

Profile Caisse centrale Desjardins (CCD) is a cooperative financial institution owned by the Desjardins caisse network. It acts as Treasurer for Desjardins Group and as its official representative with the Bank of Canada and the Canadian banking system. Concurrently, as a supplier of funds to the caisse network, CCD taps global capital markets to maintain the liquidity levels required for the smooth functioning of Desjardins Group's operations.

CCD offers banking and financial services to Desjardins entities and government institutions, as well as to medium-sized enterprises and large corporations. It also provides international services to its caisse network members. Its operations generate spinoffs for the entire Desjardins Group.

CCD conducts its operations in Canada and abroad in cooperation with the other Desjardins Group components, for which it plays a complementary role.

CCD's operations include:

- Acting as Treasurer for Desjardins Group:
  - Financial settlement and clearing of items through the caisse network across Canada and internationally
  - Obtaining funds on domestic and international capital markets to meet Desjardins Group's liquidity requirements
  - Securitization operations as a source of funds for Desjardins Group
  - Managing statutory liquidity for the caisses
  - Derivative financial instruments and other treasury products (foreign exchange, rate swaps and option)
  - Asset-liability matching
- Acting as a service provider for businesses and institutions, in support of the caisse network:
  - Financing and banking services offered to businesses, and the public and parapublic sectors
  - A comprehensive line of international products and services
  - Banking services to individuals, small enterprises, and business loans in Florida through Desjardins Bank
  - Providing financing to firms with operations in Canada and the United States through Caisse centrale Desjardins U.S. Branch

Thanks to the support of Desjardins Group, the credit ratings assigned to CCD by the main rating agencies are among the best in the financial industry in Canada and the world.

2009 Achievements – Central fund activities

Posted record net income of $127.4 million versus a $36.6 million net loss in 2008.

Issued close to $1.8 billion in debt securities and deposits on Canadian and European markets.

Supplied all of Desjardins Group, in an unstable economic environment, with the required liquidity for carrying on operations and ensuring its development.

Turned in an exceptional performance in the area of arbitrage activities as a result of the high-quality assessment of the economic situation and the accurate and rigorous analysis of market developments.

Increased the margins on business loan portfolios.

Maintained high-quality business loan portfolios despite difficult economic conditions caused by the crisis.

Provided a Web service with forward exchange contracts now available online through AccèsD Affaires.

Strategy

- Continue to promote the value added by CCD in its role as partner to the caisses and business centres by focusing on its expertise in specialized sectors, in supporting expansion into external markets and in international products.
- Maintain competitive liquidity funding costs for Desjardins Group as a whole.
- Continue to develop large corporate and medium-sized enterprise loan portfolios, while applying sound and prudent risk management.
- Consolidate CCD's position as an important player in banking syndicates for large Québec-based corporations.
- Reassess the main elements of the risk policy in order to include a more detailed and more accurate reading of various types of risk exposures.
- Maintain proactive account management to preserve CCD's portfolio quality.
- Help CCD's business clients take full advantage of the recovery that is beginning, and build lasting business relationships.
- In compliance with the major reorganization announced in May 2009, enhance synergies with other Desjardins Group entities, and increase the value added by its activities.

Outlook

- Increase income from the loan portfolio since there was negative growth in outstandings in 2009.
- Set up a bank syndication team to enhance CCD's presence and develop market expertise.
- Develop banking services for the large corporate and medium-sized business sectors in support of the business centres.
- Step up development of the foreign exchange and treasury product offer.
- Extend the duration of Desjardins Group's funding on markets.
- Minimize the impact on profitability if the Bank of Canada decide to gradually withdraw its liquidity facilities.
- Set up the infrastructure required to issue securitized bonds on European markets.

2.3

Life and Health Insurance

Profile

Desjardins Financial Security (DFS) ranks fifth among life and health insurers in Canada and first in Québec. It offers a broad spectrum of tailor-made and innovative life and health insurance products and services, as well as retirement savings plans, to individuals groups and businesses, through a variety of distribution channels, providing peace of mind to more than five million Canadians.

DFS has two main subsidiaries: Desjardins Financial Security Investments Inc., a mutual fund and insurance brokerage firm, and Sigma Assistel Inc., a provider of telephone assistance services.

Industry

In 2008, the life and health insurance industry represented a premium volume of $67.4 billion in life and health insurance revenues and individual and group annuities. The greater part of this volume was concentrated in Ontario with 49% and in Québec with 23.5%[1]. In 2007, traditional networks were responsible for 86.5% of written premiums and alternative networks for 13.5%[2]. Traditional networks include all sales made personally by life and health insurance professionals. Alternative distribution channels exist in direct modes, in particular through intermediaries such as credit institutions, travel agents and auto dealers, as well as through direct distribution centres or mailshots.

The needs of New Canadians will strongly influence demand for financial products and services in the next two decades. Moreover, people currently in the 55 to 64 age bracket and at the peak of their saving cycle offer tremendous potential for business opportunities. Lastly, generations X and Y represent the succession in the area of a business human resources and an important potential market. They have different expectations from previous generations and the industry will have to adapt.

The personal insurance market is highly segmented. The industry will focus on high-end segments. Health protection and living benefits products, particularly critical illness and long-term care insurance, are growing faster than life insurance. These products are being increasingly offered on a complementary basis and represent a growing market. Term life insurance products are primarily aimed at an average income clientele and represent a commodity market.

2009 Achievements

Net earnings of $194 million, up by 461.9% over 2008.

25.9% return on shareholder's equity, one of the best in the financial services industry.

In-force insurance grew by 3.9%.

Net premiums up by 4.0% to $2,983 million.

7.3% growth in insurance sales outside Québec.

Personal insurance sales advanced 11.8%.

Savings sales up 116.6% to $1.5 billion.

6.2% increase in total premium volume for credit life insurance.

Excellent financial strength and solid capitalization.

Insurance for groups and businesses: administrative systems developed for an enhanced e-commerce offering.

Institutional AssurFinance: Loan insurance – Versatile Line of Credit, global and innovative coverage for all financing used under the Versatile Line of Credit.

Personal insurance: Solo disability product range fully revamped, especially designed for self-employed workers, business owners or salaried employees without a group insurance plan; three Desjardins Financial Security Independent Network financial centres opened in British Columbia and Alberta, and distribution agreements entered into with 15 new general life insurance agents.

AssurFinance for individuals: Critical Illness Plus – cost limited until age 100, covers 33 critical illnesses with additional reimbursement options.

Direct insurance: GetWell Insurance, offering unique protection of its kind in providing the insured with a lump-sum benefit on the first diagnosis of cancer.

Individual savings: Guarantee Advantage, a term investment product linked to the market.

Group retirement savings: Foresight (in partnership with Morningstar), a solution for small and medium businesses.

Sigma Assistel: ISO 9001:2001 certification annually renewed and ISO 9001:2008 obtained, including even higher requirements with respect to effectiveness and proactivity.

(1) Sources: CLHIA, *Faits sur les assurances de personnes au Canada 2009*, *Facts & Figures Life and Health Insurance in Ontario 2009* and *Facts & Figures Life and Health Insurance in Québec 2009*, (premium income excluding uninsured income)
(2) Source: CLHIA, *Marché de la distribution alternative au Canada, 2008* (2007 data) and LIMRA

Table 4 – Desjardins Financial Security
Selected data for years ended December 31
(in millions of $ and as a %)

	2009	2008	2007
Insurance and annuity premiums	**$ 2,983**	$ 2,868	$ 2,575
Net investment income	**750**	(101) (1)	514
Expenses attributable to policyholders	**2,767**	2,089	2,215
Operating expenses	**560**	490	473
Income taxes on earnings	**56**	22	71
Net earnings	**194**	34 (1)	217
Net earnings attributable to the shareholder	**193**	40 (1)	211
Return on equity	**25.9 %**	5.9 % (1)	27.5 %
Assets under management – general funds	**$ 14,472**	$ 13,759	$ 15,308
Assets under management – segregated funds	**3,502**	2,051	2,247
Assets under administration (mutual funds)	**4,792**	3,856	5,021

(1) Data for 2008 were affected by the financial crisis.

Furthermore, the impending retirement of baby boomers, as well as market volatility, favour guaranteed investment savings products. An offer combining wealth management with financial security will be extremely important to baby boomers in whatever form: life and health insurance products, capital guarantees, securities, mutual funds and annuities. Insurers active in group retirement savings can tap the potential of clients contacted for disbursement under group plans.

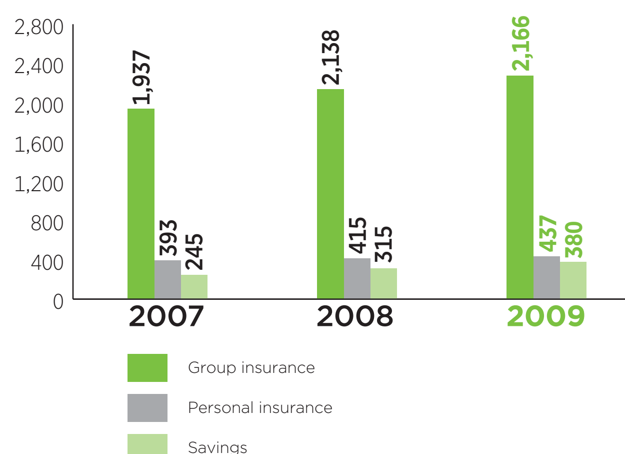
The group insurance industry is highly concentrated and the market is mature. Growth in the area of premiums is attributable mainly to the rise in service and drug costs, as well as to an increase in the use of services by an aging employee population. In this context, businesses are focusing on analyzing and monitoring factors contributing to cost increases, as well as on prevention and early intervention with respect to disability. Moreover, strengthening the social security safety net for employees could prove to be a retention factor for businesses seeking to stabilize their workforce or delay retirements.

In the area of group retirement savings, participants in company retirement savings plans will be more aware of the importance of taking an active part in decisions relating to their investments after the recent market crisis. In the next decade, group retirement savings should continue to be a booming sector. The trend for private businesses to replace defined benefit plans by defined contribution plans has firmed over the last few years. The sector continues to evolve in the direction of ever more sophisticated tools and programs facilitating the creation and follow-up of a retirement savings plan for each employee. This development also provides access to other forms of personalized and advisory services. Here too, the industry will focus on asset retention until disbursement.

Analysis of financial results

Desjardins Financial Security reported growth with net earnings of $194 million for the year ended December 31, 2009, compared to $34 million for the same period in 2008. The recovery of financial markets, the good year experienced by the insurance business and the savings made thanks to tight control of expenditures were the main factors responsible for this performance. The portion of net earnings attributable to the ultimate shareholders, the Desjardins caisses, amounted to $193 million, up $153 million. The return on shareholder equity stood at 25.9%, which was among the best in the financial services industry.

Net premiums
(in millions of $)



With respect to overall business growth, income from insurance and annuity premiums stood at $2,983 million, up $115 million over the same period in 2008.

Net insurance premiums reported an increase of $50 million over 2008, reaching $2,603 million. In Québec, overall growth in premiums across all business segments was 1.5%. In the rest of Canada, the increase was greater and reached 2.9%. Insurance sales totalled $193 million, picking up $13 million over the same period in 2008.

The savings and funds segments continued to pick up with sales totalling $1,814 million, up by $659 million. This growth was the result of the excellent performance of Hélios guaranteed investment funds and group retirement savings as a whole.

Group and business insurance sales reached $144 million, up by $7 million. Total group insurance premiums, including group and business insurance premiums, premiums tied to plans offered by financial institutions, including the Desjardins caisses, and a premium equivalent for administered groups (ASO), totalled $2,277 million, up $57 million over the same period in 2008.

Table 5 – Desjardins Financial Security

Expenses attributable to policyholders for years ended December 31
(in millions of $)

	2009	2008	2007
Insurance and annuity benefits	$ 2,175	$ 2,062	$ 1,953
Changes in actuarial liabilities	467	(117)	162
Policyholder dividends and refunds	118	133	87
Interest on benefits and deposits	7	11	13
	$ 2,767	$ 2,089	$ 2,215

Group insurance premiums by distribution network
(in millions of $)

Personal insurance premiums by distribution network
(in millions of $)

Total personal insurance sales by financial security advisors assigned to Desjardins caisses, the SFL network and Desjardins Financial Security Independent Network financial centres totalled $49 million, compared with $44 million in 2008, an increase of 11.8%.

The volume of personal insurance premiums stood at $437 million, an increase of $22 million over 2008. The volume of premiums sold by the network of financial security advisors assigned to Desjardins caisses grew by 17.7% compared with 2008. This achievement largely stemmed from the rise in the number of in-force Vision contracts and the increase in the savings portion of these policies. After remarkable growth in sales by the SFL network over the last two years, premiums collected by this network rose by 18.8% compared with 2008, representing an increase of $2.6 million. In addition, the volume of premiums tied to products distributed without a representative reached $66 million, an increase of $3 million.

Group retirement savings reached $404 million, up 55.1% compared with December 31, 2008. Individual savings sales reached $1.1 billion, more than double those in 2008. In fact, sales of guaranteed investment fund products reached record highs and stood at $986 million. Mutual fund sales totalled $314 million, down by 32.0% compared with December 31, 2008.

As at December 31, 2009, expenses attributable to policyholders, which include insurance and annuity benefits, policyholder dividends and refunds, interest on benefits and deposits and changes in actuarial liabilities, increased by $678 million to stand at $2,767 million. This rise of 32.5% essentially stems from the increase in the fair value of investments, whose temporary volatility of approximately $110 million was accounted for by the increase in equivalent actuarial liabilities in 2009. In 2008, however, there was a decline in fair value of approximately $500 million. It should also be mentioned that business growth, mainly in disability insurance, increased benefits expenses, which totalled $2,175 million ($2,062 million in 2008).

As at December 31, 2009, total DFS assets under management and under administration stood at $23 billion, compared with $20 billion in 2008, representing an increase of 15.8%.

2.4

General Insurance

Profile

In an industry comprising some 100 insurance groups, Desjardins General Insurance Group (DGIG) is the tenth most important player in the Canadian general (property and casualty) insurance market and the country's seventh largest personal lines insurer. Through its five subsidiaries, DGIG provides its different client segments with coverage for physical assets, as well as coverage for bodily injuries resulting from automobile accidents in provinces not covered by a public plan. Desjardins General Insurance serves individuals and small businesses in Québec through agents located in the Desjardins caisse network and Client Care Centres, as well as through online services. In the individual market, this subsidiary is the top direct P & C insurer in Québec. The Personal distributes its auto and home insurance products in Québec, supported by various sponsor groups (professional associations, employers and unions). It carries out the same activities with groups outside of Québec. The Personal offers its services essentially through call centres and online via the Web. Lastly, two other subsidiaries, Certas Direct Insurance Company and Certas Home and Auto Insurance Company, do business directly with individuals mainly in Ontario and Alberta under the Desjardins General Insurance brand, as well as via white labelling thanks to strategic alliances.

Industry

The property and casualty insurance industry landscape in Canada did not significantly change in 2009. However, general trends, particularly increased market share by direct insurers, wider use of online transactions and an increase in weather-related claims, were maintained. In 2008, the total market premium volume was $38 billion, divided as follows: personal lines accounted for 60.7% of the total market, while commercial lines represented the remaining 39.3%. The 10 largest insurance groups with regard to premiums written accounted for 58% of the industry in Canada. The degree of consolidation remained stable in personal lines, with the top five and top ten insurers respectively representing 45% and 73% of the market. However, consolidation may increase in the coming years.

In the Canadian market, 69.4% of companies sell their products through brokers while 30.6% are direct insurers. This latter group, which is growing steadily, is more active in personal lines, with a 42% market share (59.9% in Québec).

Ontario has the lion's share of premium volume with 31% of the market, followed by Québec with 19.1% and Alberta with 9%. Automobile insurance in Canada is the most important business line, representing 68.7% of all premiums.

2009 Achievements

Net earnings of $94 million for a 17.5% return on shareholder equity, generated by an underwriting profit and investment income higher than last year.

Profitability markedly higher than expected industry average results.

Growth in all business lines.

Partnership agreement with a Canadian financial institution to manufacture and distribute property and casualty insurance products to its clients.

Continued a huge media campaign targeting distribution in Ontario under the Desjardins brand.

Entered into new partnership agreements for the distribution of insurance to groups, representing 120,000 potential clients.

Continued working toward a major IT migration in 2010.

In-depth transformation of the organization's management structure and operating procedures.

Introduction of two new extensions of coverage for automobile insurance, the $0 Deductible Option and Accident-Free Protection.

New simplified and more efficient online tools to provide auto insurance quotes on line.

Launched a management plan to assist policyholders affected by major weather events.

Auto insurance falls under the government in British Columbia, Manitoba and Saskatchewan, whereas in Québec only injuries resulting from automobile accidents are within the government's purview. Moreover, this industry is highly regulated in Alberta, Ontario and the Atlantic provinces.

Throughout Canada, underwriting, segmentation and rates are less strictly regulated in home insurance than in automobile insurance.

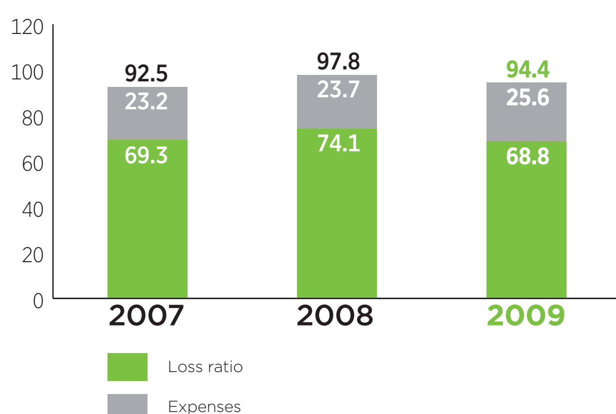
In 2008, industry profitability fell to 6.0% because of inflationary pressures on the cost of claims, severe weather conditions and a lower return on investments in the context of the financial crisis and the recession. Moreover, 2009 industry profitability should fall below the historic 10% average, given the deterioration in the auto insurance market in Ontario and the difficult weather conditions experienced in the rest of Canada.

Table 6 – Desjardins General Insurance Group
Selected data for years ended December 31
(in millions of $ and as a %)

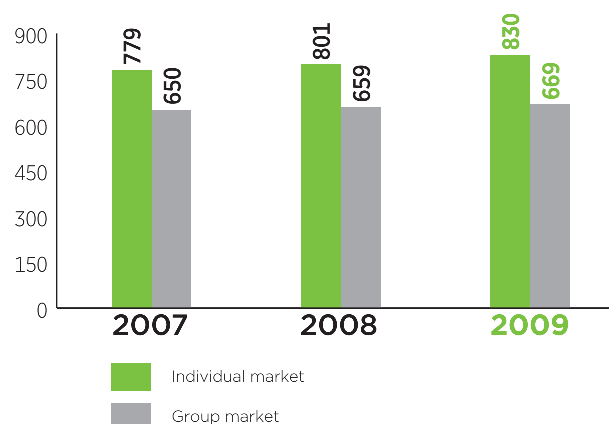
	2009	2008	2007
Gross premiums written	**$ 1,499**	$ 1,460	$ 1,429
Net premiums earned	**1,443**	1,426	1,379
Combined ratio	**94.4 %**	97.8 %	92.5 %
Underwriting profit	**$ 81**	$ 32[1]	$ 103
Investment income	**71**	24[1]	104
Net earnings	**105**	41[1]	140
Net earnings attributable to the shareholder	**94**	36[1]	126
Return on equity	**17.5 %**	8.5 %[1]	26.7 %
Total assets	**$ 3,125**	$ 2,882	$ 3,147

(1) Data for 2008 were affected by the financial crisis.

Combined ratio
(as a % of net premiums earned)



Gross premiums written
(in millions of $)



In November 2009, the Ontario government announced auto insurance reforms as part of its five-year plan. These reforms will have a significant impact on auto insurance product offerings with effect from summer 2010.

Analysis of financial results

For 2009, Desjardins General Insurance Group generated net earnings of $105 million, compared with $41 million in 2008. The portion of these earnings attributable to its shareholder, Desjardins Group, totalled $94 million for a return on equity of 17.5%, compared with $36 million and 8.5% respectively the previous year.

The combined ratio, which corresponds to claims and operating expenses divided by net premiums earned, stood at 94.4%, down 3.4 points over 2008. In 2008, record snowfalls, heavy rain and violent summer storms generated a high number of claims. Much milder weather conditions in 2009 in Québec resulted in a significant drop in the number of major events in comparison with the previous year in both home and automobile insurance.

In addition, rulings in favour of the provincial governments of Alberta and Nova Scotia related to minor injury caps led to a reduction in loss reserves for these claims.

Over the past three years, DGIG has invested additional amounts to increase its growth capacity, product offering and underwriting and ratemaking expertise, as well as its IT development teams. These choices explain its higher operating expense ratio. Some key priorities include additional expenses related to the media campaign in Ontario, the development of e-commerce and changes to underwriting rules. Finally, in 2009, additional expense relating to the implementation of Desjardins Group restructuring projects was incurred. However, this year once again, the ratio compares favourably with the rest of the industry and should continue to hold at this level in the course of the next few years.

The investments market began to rebound in 2009 after a turbulent 2008. This year, falling interest rates and a drop in credit spreads had the effect of increasing the value of DGIG bonds. The portfolio reorganization conducted in the first quarter led to gains on bond dispositions. However, lasting impairment losses on certain securities were recognized.

Gross premiums written advanced 2.7% or $39 million compared with the previous year, the result of growth in home insurance. In the individual market, the growth stemmed from inflation, an increase in general rate levels and the marketing campaign in Ontario under the Desjardins General Insurance (DGI) brand. The latter segment increased by 6.8% in 2009. Moreover, at the end of 2009, a partnership agreement was signed with a Canadian financial institution, which contributed to the increase in premiums written. In the group market, DGIG experienced a 2% growth in volume thanks to new group insurance partnerships and partnership renewals. Premium income from commercial lines in Québec amounted to $59 million.

2.5

Securities Brokerage, Asset Management, Venture Capital and Other

Securities Brokerage, Asset Management and Venture Capital

This business segment brings together various components boasting highly specialized fields of expertise and working in close collaboration with the Desjardins caisse network and Desjardins Group's various subsidiaries.

It consists of securities brokerage activities performed by Desjardins Securities, asset management activities conducted by Desjardins Asset Management and venture capital investing carried out by Desjardins Venture Capital.

Other

The "Other" segment primarily encompasses other Desjardins Group components and consolidation adjustments attributable to components as a whole, as well as, since the first quarter of 2009, the deficit of companies created specifically to hold the ABCPs repurchased by Desjardins Group and previously included in the Personal and Commercial segment. In addition, since the second quarter of 2009, all ABCPs held by Desjardins Group were included in the "Other" segment after they were sold in newly-created components. Information on earlier years has been reclassified to conform to the new presentation.

Table 7 – Summary of results – Securities Brokerage, Asset Management and Venture Capital
Selected data for years ended December 31
(in millions of $)

	2009	2008	2007
Total income	$ 416	$ 355	$ 404
Non-interest expense	388	387	379
Operating earnings (loss)	28	(32)	25
Income tax charged (recovered) on surplus earnings	6	(3)	8
Net earnings (net loss)	$ 22	$ (29)	$ 17

Activities

Securities activities
Asset management activities
Venture capital activities
Other

Securities activities

Profile Desjardins Securities is Desjardins Group's securities brokerage firm. It provides individuals, institutional investors, businesses and governments with the comprehensive line of products and services associated with a fully-integrated brokerage firm. Individuals are served by Full-service brokerage, Online brokerage (Disnat) and Desjardins network service divisions. The needs of businesses, institutions and governments are met by the Corporate Finance, Fixed Income Group and Equity Capital Market divisions. With offices in all regions of Québec, Desjardins Securities also has points of service in Ontario, in Vancouver, British Columbia and in Calgary, Alberta.

Industry In 2009 Desjardins Securities outperformed comparable brokerage firms (group D – source: CIPF) in terms of income. The increase in Desjardins Securities cumulative income (reaching $311 million up to November 30, 2009) is actually up by $69.4 million over the previous year, representing growth of 28.8%, compared with an average decline of 8.0% for group D brokerage firms over the same period. With regard to pre-tax performance, Desjardins Securities surged from a loss of $26.6 million to a profit of $30.0 million up to November 30, 2009. The annualized return on Desjardins Securities equity is 18.8%, as against a negative return of 0.9% for group D firms. Desjardins Securities also increased its market share. Its total share of assets rose from 4.05% to 6.23% among the assets of brokerage firms as a whole and from 44.69% to 49.45% among the assets of group D firms.

Comparison

As at November 30
(as a %)

Change 2009 vs 2008	DS	All Firms	B Firms	D Firms
Commission income	9.4 %	(11.1) %	(8.8) %	(12.0) %
Total income	28.8	14.9	29.5	(8.0)
Expenses	4.3	(2.9)	—	(7.6)

Statistics

As at November 30
(in thousands of $ and as a %)

2009	DS	All Firms	B Firms	D Firms
Income per employee	$ 346	$ 374	$ 466	$ 188
Expenses per employee	289	228	251	172
Earnings before income taxes	29,960	3,412,695	2,856,399	37,821
Return on equity	18.8 %	20.8 %	28.4 %	(0.9) %
Return on capital	13.4	12.8	16.2	1.6

Market shares of DS

(as a %)

	All Firms		D Firms	
	2009	2008	2009	2008
Number of employees	2.24 %	2.30 %	6.55 %	6.75 %
Commission income	2.66	2.16	10.35	8.33
Total income	2.08	1.85	12.09	8.63
Expenses	2.91	2.70	11.32	10.03
Earnings before income taxes	0.90	(1.40)	79.20	88.80
Total assets	6.23	4.05	49.45	44.69
Statutory capital	0.74	0.73	9.10	9.47

Market review Stock markets recovered in 2009. Consequently, North-American stock markets recorded gains of more than 18% over the previous year. More specifically, it should be noted that the S&P/TSX closed 2009 up 30.7%. The Dow Jones, S&P 500 and Nasdaq closed 2009 up 18.8%, 23.5% and 43.9% respectively.

In December 2009, the Dow Jones rose 0.9% to close at 10,428.1 whereas the S&P 500 advanced by 1.9% to 1,115.1. The Nasdaq progressed by 5.9% to 2,269.2, whereas the TSX advanced 2.9% to 11,746.1. Internationally, the NIKKEI 225 dominated with a leap of 12.9%. For the whole of 2009, the TSX recorded a gain of 35.1% while the Dow Jones, the S&P 500 and the Nasdaq climbed by 22.7%, 26.5% and 45.4% respectively. However, gains on the U.S. markets were slashed by the appreciation in the Canadian dollar, thus reducing the indices to gains in Canadian dollars of 5.4%, 8.7% and 24.9% respectively.

Among U.S. sectors, technologies (5.6%), public services (5.5%) and telecommunications (4.6%) climbed, while financials (-2.6%), energy (-2.0%) and consumer staples (-1.3%) eroded market performance. On the Canadian side, technologies (14.8%), public services (7.9%) and industrials (7.2%) advanced, while only materials (-3.6%) declined. In terms of investment style, in December, growth sub-indices dominated their vis-à-vis value everywhere except in Canada. Likewise, over the year as a whole, the same domination was observed everywhere except in Canada, where the returns on value investing were nearly double those on growth investing.

In the bond sector, the DEX index fell 1.4% in December to close the year with a gain of 5.4%. In December, the long-term sector (2.3%) was worse hit than the medium-term (1.9%) and short-term (0.8%) sectors. Companies with AAA ratings were the smart choice, leading with a drop of 0.9%.

2009 Achievements – Securities activities

Personal Services: Trading platform rolled out for investment advisors to facilitate transactions and follow-up; Disnat Mobile implemented, permitting access to the main features of Disnat's Web site via Blackberry and iPhone.

Disnat ranked highest among the seven discount brokerage firms analyzed in the exclusive study *J. D. Power and Associates 2009 Canadian Discount Brokerage Investor Satisfaction Study*SM.

Fixed Income Group: this segment saw its market share grow in 2009. Overall, Desjardins Securities consolidated its ranking as eighth in Canada. Traded client volumes grew over those of competitors, who saw their volumes decline in 2009 in comparison with 2008.

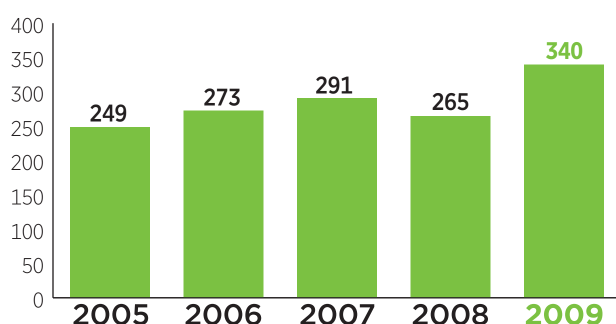
Desjardins Securities participated in 131 new issues on the bond market and in 185 new issues for business financing.

Table 8 – Desjardins Securities

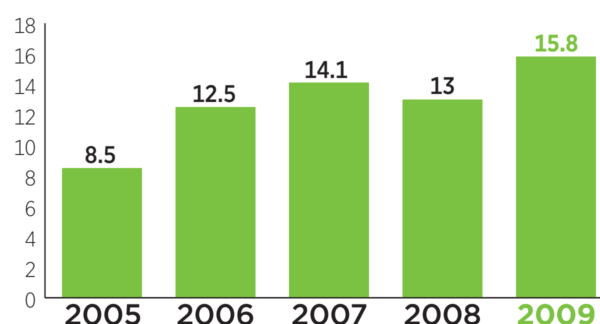
Selected data for years ended December 31
(in millions of $ unless indicated otherwise)

	2009	2008	2007
Assets under administration	$ 21,116	$ 16,309	$ 18,601
Total revenues	340	265	291
Net earnings (net loss)	**19.9**	(23.4)	0.6
Points of service	48	48	44
Total number of employees	975	1,041	1,303
In Québec	831	911	1,164
Outside Québec	144	130	139

Income
(in millions of $)



Contribution to the Desjardins network
(referrals)
(in millions of $)



Analysis of financial results For the year ended December 31, 2009, total income stood at $340 million compared with $265 million in 2008, an increase of 28.3%. This rise is mainly attributable to the results of the Fixed Income Group, which posted an income of $101.6 million in 2009 compared with $39.8 million in 2008.

Desjardins Securities continues, in line with the development strategy adopted in 2001, to invest in order to grow its market presence and penetrate new markets, thus strengthening its position in Québec and improving its positioning in the rest of Canada.

Net earnings for 2009 stood at $19.9 million compared with a net loss of $23.4 million in 2008. The profitability experienced in 2009 was reinforced by market recovery.

Compensation paid to the Desjardins caisse network amounted to $15.8 million in 2009, making a total of $91.3 million paid out since 2000.

As at December 31, 2009, total Desjardins Securities assets under management stood at $21.1 billion, up $4.8 billion over 2008. Equity totalled $66.1 million. Desjardins Securities complies with all the capital-related regulations imposed by regulatory organizations.

Table 9 – Desjardins Asset Management
Selected data for years ended December 31
(in millions of $)

	2009	2008	2007
Fee income	**$ 49**	$ 82	$ 89
Operating expenses	**53**	67	67
Net earnings (net loss)	**(3)**	11	16
Assets under management	**39,428**	38,355	50,773

Asset management activities

Profile Desjardins Asset Management is a group of Desjardins Group investment managers.

Desjardins Asset Management has approximately 240 employees: 188 in its offices in Montréal, Toronto and Vancouver and more than 50 at its subsidiary Desjardins Property Management. Its employees work primarily in three investment areas: securities investments, mortgage investments and institutional financing, as well as real estate investments.

Desjardins Asset Management manages $39.4 billion primarily from the equity of the insurance subsidiaries and from management mandates assigned to it by other Desjardins Group components.

The implementation of the new organizational structure at Desjardins Group led Desjardins Asset Management to redeploy its securities investment and real estate investment activities within the Wealth Management and Life and Health Insurance segment, and its mortgage investment and institutional financing activities within the Business and Institutional Services segment.

Industry Although the economic environment and the capital market situation once again presented their share of challenges in 2009, the advent of the recovery, however modest, eased the tensions weighing on the industry and enabled Desjardins Asset Management to regain some of its fee income.

Managers who quickly jumped back into the markets were able to earn good returns, while those who were overly cautious saw their returns slide.

In terms of real estate, the Canadian market generally weathered the storm better than its U.S. counterpart, since the economy deteriorated less in Canada and the financing provided tended overall to be less risky. In addition, monetary authorities' determination to keep interest rates low helped to support the market.

2009 Achievements – Asset management activities

While prioritizing management of the financial crisis and its repercussions on its partners' and clients' assets, Desjardins Asset Management also capitalized on recovering markets and was thereby able to obtain good investment results, more specifically in bonds, mortgage investments and real estate investments.

In the context of the uncertain market recovery, Desjardins Asset Management focused on risk management in order to protect the interests of its partners and clients, first and foremost, as well as those of Desjardins and its members.

Analysis of financial results In 2008, as the financial crisis spread, Desjardins Asset Management undertook a disinvestment program with respect to the underlying instruments for structured products. The full impact of this program was felt in 2009. For the year ended December 31, 2009, Desjardins Asset Management posted a $3 million net loss, compared to net earnings of $11 million in 2008. In spite of the increase in assets under management, the disinvestment program was largely responsible for the significant decline in management income, which was down $33 million compared to 2008. Nevertheless, prudent expense management helped to partially offset this significant loss of income. While maintaining a targeted development strategy, Desjardins Asset Management reduced its expenses by 21% from 2008.

The implementation of Desjardins Group's new structure has had some repercussions on Desjardins Asset Management. Without affecting the services offered, the new structure has created synergies in certain management positions and in the way institutional services operate. As a result, Desjardins Asset Management recognized $3.5 million of expenses related to the restructuring in 2009. Had it not been for the restructuring, expenses would have been down 26% compared to 2008.

Although continued disinvestment activities contributed to the gradual reduction in assets under management since the beginning of 2009, the gradual market recovery combined with expectations of good returns on the part of the subsidiary's managers led to an increase in securities investments. This increase largely offset the amount lost for the year. As at December 31, 2009, total assets under management were $39.4 billion compared to $38.4 billion a year earlier.

Venture capital activities

Profile Desjardins Venture Capital (DVC) is a venture capital manager specializing in risk capital. As a manager, it has a dual mission: to help individual owners of funds under management realize the expected return on their investments and achieve their specific objectives, and to provide entrepreneurs with the capital and strategic support necessary to expand their businesses.

DVC manages the assets of nine funds, each with its own specific mission for active participation in the economic development of all regions in Québec and Ontario. The funds include the seven Desjardins private funds, as well as Capital régional and coopératif Desjardins (CRCD) and Desjardins – Innovatech S.E.C. Through each of these funds and in tandem with Desjardins business centres, DVC has a presence throughout Québec and supports 329 businesses, cooperatives and funds.

As DVC's main activity is to invest in businesses throughout Québec, it has investment managers in 24 offices, most of which are located in business centres with which they work closely on a regular basis. DVC is thus in a position to offer entrepreneurs in all regions expert support tailored to their needs and their growth potential. Through a blend of its traditional financing and venture capital expertise, Desjardins is able to support entrepreneurs seeking advice and financing for their growth, succession and acquisition projects.

In order to meet the needs of entrepreneurs appropriately and support them effectively in growing their business, DVC has designed a dynamic internal structure based on two business lines: Development capital and Business buyouts and technological innovation.

Industry Venture capital activity in Québec grew in 2009 over 2008 with investments totalling $431 million. These results illustrate the vitality of the Québec economy compared to the rest of North America. Investments for the whole of Canada nosedived by 27%. Ontario was the province most affected by the economic situation with its investments cut by half to close down at $288 million. Increased investment volumes in Québec, in conjunction with the drop observed in the rest of Canada, meant that in 2009 investment activities in Québec represented more than 43% of investments in Canada as a whole.

IT investments in Québec also advanced to reach almost $200 million. The life sciences sector continued its decline of the past few years with investments of $88 million, down 26% over 2008.

With heavy business volume in the first half of the year, investments in more traditional sectors increased by 65% to close 2009 at around $129 million.

Investments in expanding businesses in Québec represented nearly 54% of all activity in 2009. In start-up and early-stage businesses, investment activity continued to progress with growth of 59% over 2008 to reach nearly 46% of all investments in Québec.

American and foreign investors returned in force in 2009. The proportion of their investments in Québec rose by 50% to stand at nearly $125 million.

Montréal again attracted the highest proportion of investments in Québec. However, for the first time in the last five years, this was under 70%, representing about 56% of all investments in Québec. Québec City was responsible for largely changing the investment distribution landscape by attracting over 31% of all investments, compared with only 6% in 2008 and 10% in 2007.

Analysis of financial results DVC's investment and reinvestment activities translated into commitments totalling $100 million in 70 businesses and cooperatives in Québec. Commitments relating to CRCD and Desjardins – Innovatech S.E.C. represented more than 98% of investment activity; financial data for these two funds do not appear on Desjardins Group's books. Capital invested amounted to $420 million, up $53 million over 2008. This increase is mainly attributable to disbursements of approximately $101 million and the disposal of investments totalling $36 million, as well as to investments whose value fell by $12 million. New technology sector securities experienced a difficult year, although improved credit conditions and the growth of stock markets helped to limit the decline.

As at December 31, 2009, the assets of nine funds under DVC management totalled $1,014 million, over $914 million in 2008, representing growth of 10.9% compared with 7.8% in 2008. The growth of assets under management is mainly attributable to CRCD's annual net capital-raising, which reached $76 million in 2009 ($109 million in 2008), as well as to the performance of funds under management that were up over 2008. CRCD's assets now represent 90.2% of total assets under management.

Table 10 – Desjardins Venture Capital – Venture capital activites
Selected data as at December 31
(in millions of $ and as a % unless otherwise indicated)

	2009	2008	2007
Assets under management			
Desjardins Group	$ 74	$ 70	$ 92
Third parties	940	844	756
Total	**$ 1,014**	$ 914	$ 848
Number of business partners	329	313	296
Capital invested	$ 420	$ 367	$ 407
Management fee income for the year	24	27	26
Ratio of operating expenses to average assets under management for the year	2.1 %	2.4 %	2.6 %

Table 11 – Desjardins Group funds under management[1]
Selected data as at December 31
(in millions of $)

	2009	2008	2007
Investments, at book value	$ 41	$ 40	$ 69
Equity	72	70	92
New investments during the year	3	4	8
Proceeds of the disposal of investments during the year	2	7	13
Net earnings (net loss) for the year	3	(22)	(3)

(1) Desjardins Group funds under management include Desjardins Venture Capital L.P., as well as the six regional funds of Desjardins Capital de développement.

CRCD's management fee income declined because the billing rate, in compliance with the management agreement, was reduced from 3.0% to 2.5% as of 2009, since total assets exceeded $750 million in 2008. The lower billing rate was partly offset by the increase in assets under management.

DVC's ratio of operating expenses to average assets under management stood at 2.1% in 2009 (2.4% in 2008), thanks to the maintenance of tight cost controls and the increase in assets under management.

Since spring 2004, the portfolio held by Desjardins Venture Capital L.P. has been in a disinvestment phase. In addition, as of the beginning of 2006, the six regional funds of Desjardins Capital de développement no longer participate systematically with CRCD in new investments. This explains why investments made in 2009 for Desjardins Group funds totalled only $3 million.

Other

This segment reported net income of $28 million at the end of 2009, compared with a net loss of $329 million a year earlier. This increase was due mostly to improved market conditions, including those of the market for restructured ABCP notes. The results for 2009 include the write-off of an ABCP security excluded from the moratorium of the Montréal Accord.

The combined results of Desjardins Group also take into account various consolidation adjustments not reflected in the results of the business segment, including, in particular, the adjustment related to Desjardins Group's employee future benefits expense, up by $29 million after taxes over 2008. This adjustment results primarily from the updating of certain actuarial assumptions.

2009 Achievements – Venture capital activities

Maintained business transfers at the core of DVC activities. In 2009, 14 financing activities were completed. Since 2003, 83 businesses have taken advantage of this support at an important stage in their growth.

Bought out one business, a deal worth nearly $25 million that allowed ownership of the business to remain in its home region.

In line with the cooperative support wing of CRCD's mission, promoted cooperatives of employee shareholders, enabling employees to become co-owners of their company alongside the management and finance team.

Enhanced the contribution of entrepreneurs in residence in the information technology and telecommunication sectors in order to increase the value of portfolio businesses.

Follow-up satisfaction survey for service delivery to business centres.

Follow-up satisfaction surveys for both business centres and cooperative partners (for an average overall index of "Completely satisfied" of 69%, an increase of 8% over 2008).

Made new commitments of $100 million in 70 businesses, bringing the number of portfolio businesses to 329 and helping to maintain or create over 34,000 jobs.

DVC declared a dividend in the amount of $2.3 million.

3 Analysis of Combined Financial Statements

3.1 Review of results

Highlights

Total income up $2,297 million or 27.4%.

Net interest income ahead $104 million or 3.0%.

Net premiums advanced $116 million or 2.8%.

Other income up $2,077 million or 252.1%.

Total Income

For 2009, total income, consisting of net interest income, net premiums and other income, stood at $10,670 million, up $2,297 million or 27.4% over the previous year.

Net interest income reached $3,522 million, up $104 million or 3.0%.

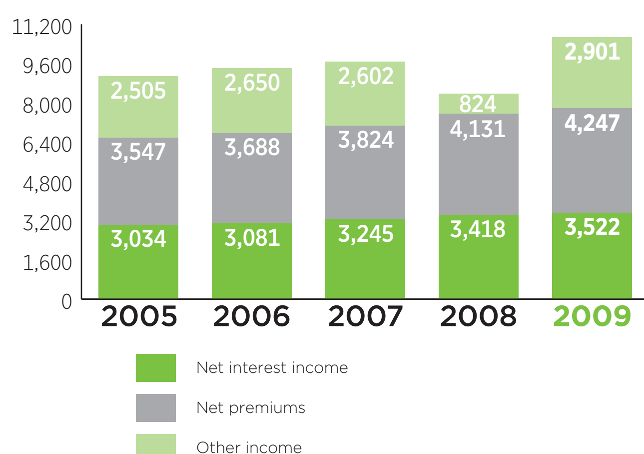
Net premiums, made up of life and health and general insurance premiums, as well as annuities, rose by $116 million or 2.8% to stand at $4,247 million as at December 31, 2009. The rise in net premiums was mainly due to life and health insurance activities conducted by Desjardins Financial Security.

Lastly, other income stood at $2,901 million, an increase of $2,077 million or 252.1% over the previous year. The increase in other income resulted from an increase of $1,667 million in trading income and $484 million in available-for-sale securities income, thanks to recovering markets. With respect to the trading income increase, an amount of $814 million came from the life and health insurance subsidiary and was offset by a $610 million increase in expenses related to claims, benefits, annuities and changes in insurance provisions of this segment. Other income benefited from a smaller write-down of the portfolio of restructured ABCP notes than the one recorded in the same period of 2008. The write-down was only $43 million in 2009, compared with $472 million in 2008. Other income also benefited from the increase of $34 million or 8.3% in lending fees and credit card service revenues. Income from brokerage, investment fund and trust services fell by $36 million or 5.8%. This drop stems primarily from Desjardins Asset Management's disinvestment of assets during 2009 and the decrease in average investment funds outstanding.

Table 12 – Total income
Years ended December 31
(in millions of $ and as a %)

	2009			2008			2007		
Net interest income	$	3,522	33.0 %	$	3,418	40.8 %	$	3,245	33.6 %
Net premiums		4,247	39.8		4,131	49.4		3,824	39.5
Other income		2,901	27.2		824	9.8		2,602	26.9
	$	10,670	100.0 %	$	8,373	100.0 %	$	9,671	100.0 %

Total income[1]
(in millions of $)



(1) Data for 2008 were affected by the financial crisis.

Net interest income

As explained in Note 30 to the Combined Financial Statements, which presents segmented information, net interest income stems primarily from the Personal and Commercial segment. The following analysis and comments therefore cover this segment only.

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

Table 13 show the change in net interest income for the main asset and liability classes of the Personal and Commercial segment, whereas Table 14 details how the profit margin was affected by changes in the volume and interest rates of assets and liabilities.

The Personal and Commercial segment ended 2009 with net interest income of $3,565 million, up $99 million or 2.9%. However, expressed as a percentage of average assets, this financial intermediation net margin fell 10 basis points. Thus, the change in interest rates and its effect on the credit and investment savings products and maturities selected by Desjardins members shaved 89 basis points off the average return on loans. Although the average deposit cost fell 78 basis points, it was not enough to offset the decline in return on assets.

The $99 million or 2.9% gain in net interest income is explained in Table 14 by the sharp increase in average credit volume, which, at $7.2 billion, translates into growth of 7.4%. Overall, the $6.2 billion or 5.6% growth in the average volume of interest-bearing assets boosted interest income by $384 million, while the decline of 76 basis points in the average return on these assets caused interest income to fall by $942 million.

Interest expense stood at $1,986 million, down by $657 million or 24.9% from 2008. The $5.6 billion or 5.5% increase in our capital supply, stemming from deposits, borrowings and subordinated debentures, added $152 million in interest charges, while the decrease of 75 basis points in the average cost of these fund sources pushed the interest expense down by $809 million.

In 2009, demand for credit inched upward. Weak growth was attributable to a drop in consumer and business financing requests. Loans outstanding, net of the allowance for credit losses, increased by 5.7% or $5.8 billion over year-end 2008, to stand at $108.0 billion as at December 31, 2009. A weaker housing market in Québec and Ontario, particularly in new housing construction, sharply affected residential mortgage loans. As at December 31, 2009, the volume of residential mortgage loans outstanding stood at $61.4 billion, up 4.7% or $2.8 billion annually, compared with an increase of 7.4% or $4.1 billion over the same period in 2008. However, it should be emphasized that this segment has continued to stand out in consumer financing, credit cards and other individual loans, mainly because of the highly popular Versatile Line of Credit, a mortgage-secured personal line of credit. Residential mortgages outstanding were up 14.8% or $2.6 billion, totalling $20.2 billion as at December 31, 2009, up by 9.2% or $1.5 billion over 2008.

Admittedly, loans to business and governments did not fare too well in the adverse economic and financial environment. The plunge in business investment considerably cut back on borrowing demand in 2009. The Personal and Commercial segment did not remain unscathed in these tougher times. Loans outstanding in this market rose by 1.6% or $424 million to stand at $27.3 billion, compared with an increase of 11.0% or $2.7 billion reported at year-end 2008.

Table 13 – Net interest income on average assets and liabilities(1)

Personal and Commercial segment
Years ended December 31
(in millions of $ and as a %)

	2009			2008		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate
Assets						
Interest-bearing assets						
Securities, cash and deposits with financial institutions	$ 13,327	$ 432	3.24 %	$ 14,304	$ 462	3.23 %
Loans	105,207	5,119	4.87	97,986	5,647	5.76
Total interest-bearing assets	118,534	5,551	4.68	112,290	6,109	5.44
Other assets	6,568	—	—	5,229	—	—
Total assets	$ 125,102	$ 5,551	4.44 %	$ 117,519	$ 6,109	5.20 %
Liabilities and equity						
Interest-bearing liabilities						
Deposits	$ 105,191	$ 1,922	1.83 %	$ 99,920	$ 2,604	2.61 %
Borrowings and subordinated debentures	1,154	64	5.54	838	39	4.65
Total interest-bearing liabilities	106,345	1,986	1.87	100,758	2,643	2.62
Other liabilities	9,671	—	—	8,646	—	—
Equity	9,086	—	—	8,115	—	—
Total liabilities and equity	$ 125,102	$ 1,986	1.59 %	$ 117,519	$ 2,643	2.25 %
Net interest income(2)		$ 3,565			$ 3,466	
As a percentage of average assets			2.85 %			2.95 %

(1) The difference between the average assets in the Personal and Commercial segment according to Table 3 and the above table is due primarily to the loans and deposits concluded with the entities of the other segments, which have been eliminated from the combined results. As well, the average balance in the Personal and Commercial segment is established by excluding securities lending.
(2) The difference between the total net interest income in the Personal and Commercial segment presented in Table 13 and the net interest income presented in Table 12 pertains to intersegment transactions and the "Other" segment.

Table 14 – Impact of changes in balances and rates on net interest income

Personal and Commercial segment
Years ended December 31
(in millions of $ and as a %)

	2009-2008		Increase (decrease)		
	Change in average volume	Change in average rate	Interest	Average volume	Average rate
Assets					
Securities, cash and deposits with financial institutions	$ (977)	0.01 %	$ (30)	$ (32)	$ 2
Loans	7,221	(0.89)	(528)	416	(944)
Change in interest income			$ (558)	$ 384	$ (942)
Liabilities					
Deposits	$ 5,271	(0.78) %	$ (682)	$ 137	$ (819)
Borrowings and subordinated debentures	316	0.89	25	15	10
Change in interest expense			$ (657)	$ 152	$ (809)
Change in net interest income			$ 99	$ 232	$ (133)

Net premiums

Net premiums for life and health, general insurance and annuities increased by $116 million or 2.8%, to stand at $4,247 million as at December 31, 2009. The advance in net premiums stemmed mainly from the life and health insurance activities of Desjardins Financial Security (DFS).

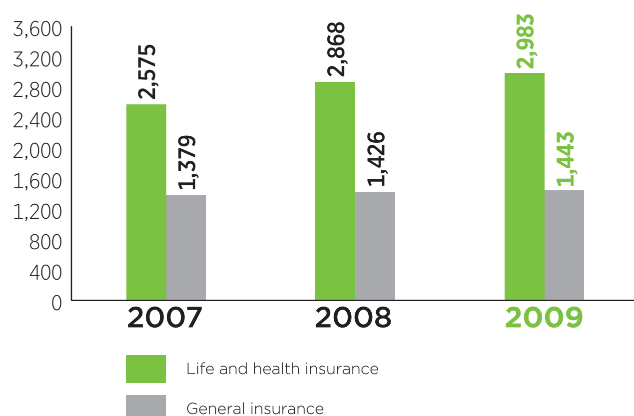
DFS activities generated net premium and annuity income of $2,983 million, compared with $2,868 million as at December 31, 2008, up 4.0%. Net insurance premiums advanced 1.9% over 2009, reaching $2,603 million. In Québec, overall growth in premiums across all business segments was 1.5%. In the rest of Canada, premiums rose by 2.9%. Total, group insurance premiums, including group and business insurance premiums tied to plans offered through financial institutions (including the Desjardins caisses), as well as a premium equivalent for administered groups (ASO), totalled $2,277 million, compared with $2,220 million in 2008.

Table 15 – Other income
Years ended December 31
(in millions of $ and as a %)

	2009	2008	2007
Deposits and payment service charges	$ 513	$ 497	$ 484
Lending fees and credit card service revenues	444	410	381
Brokerage, investment fund and trust services	581	617	738
Income (loss) from available-for-sale securities	79	(405)[1]	141
Trading income (loss)	666	(1,001)[1]	262
Other investment income	275	239	179
Other	343	467	417
	$ 2,901	$ 824	$ 2,602
Increase (decrease) in other income	252.1 %	(68.3) %	(1.8) %
Other income as a percentage of total income	27.2 %	9.8 %	26.9 %

(1) Data for 2008 were affected by the financial crisis.

Net premiums(1)
(in millions of $)



(1) The difference between total results and total business segment results pertains to intersegment transactions.

Premium volume for individual insurance was $437 million, up $22 million over 2008. The volume of premiums and the number of in-force contracts sold by the network of financial security advisors assigned to Desjardins caisses increased by 17.7% and 7.0% respectively over the previous year. After truly remarkable sales growth over the last two years, premiums cashed by the SFL network increased by 18.8% compared with 2008, up $2.6 million. In addition, the volume of premiums for products distributed without a representative was up 4.6%, reaching $66 million. In savings, premiums representing client investments in products other than segregated funds grew by 20.6%, from $315 million in 2008 to $381 million in 2009. These other products meet the needs of clients seeking a predictable return and capital guarantee.

In general insurance, Desjardins General Insurance Group wrote gross premiums of $1,499 million, up 2.7% over 2008. Premiums written by Desjardins caisse members amounted to $720 million, compared with $698 million over last year. Outside Québec, sales in the individual market advanced 6.8%, thanks to distribution efforts for Desjardins products in Ontario and the partnership with a Canadian financial institution. Group insurance premiums in Canada as a whole rose from $659 million in 2008 to $669 million in 2009.

Other income

Other income stood at $2,901 million in 2009, up $2,077 million or 252.1% over 2008. The ratio of other income to total income was 27.2% for 2009, compared with 9.8% in 2008.

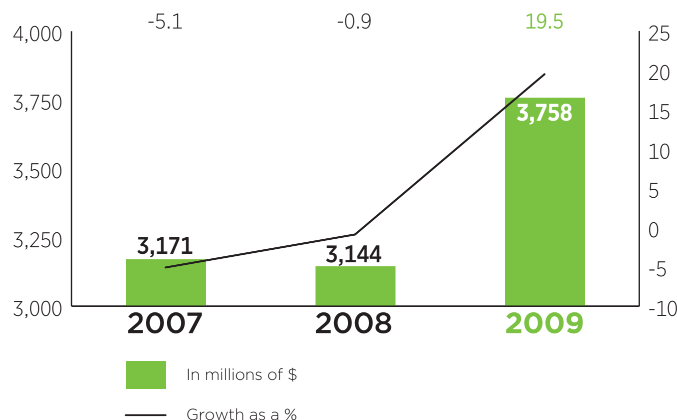
Other income grew by $2,077 million, thanks to the increase of $1,667 million in trading income and $484 million in available-for-sale securities as a result of recovering markets. With respect to the trading income increase, an amount of $814 million stemming from the life and health insurance subsidiary, was offset by an increase of $610 million in claims, benefits, annuities and changes in insurance provisions in this segment. Other income also benefited from a $43 million write-down of the portfolio of restructured ABCP notes, smaller than the $472 million write-down recorded in the same period of 2008.

Income derived from deposit and payment service charges was positively affected by volume growth, moving ahead by $16 million or 3.2%. Income from lending fees and credit card service revenues, consisting mainly of income from payment solutions offered by Desjardins Card Services (DCS), totalled $444 million in 2009, up by 8.3% or $34 million over 2008. This was fuelled by the growth in Visa business volumes. In fact, DCS grew its business volume by 10.4% to stand at $55 billion as at December 31, 2009. DCS provided services to over 4 million credit card holders and over 6 million debit cardholders in Québec and the rest of Canada.

Income derived from brokerage, investment and trust services fell by $36 million or 5.8% over 2008. The main reason for the drop was Desjardins Asset Management's disinvestment of some of its assets in the course of 2009, as well as a decline in the average outstanding of investment funds.

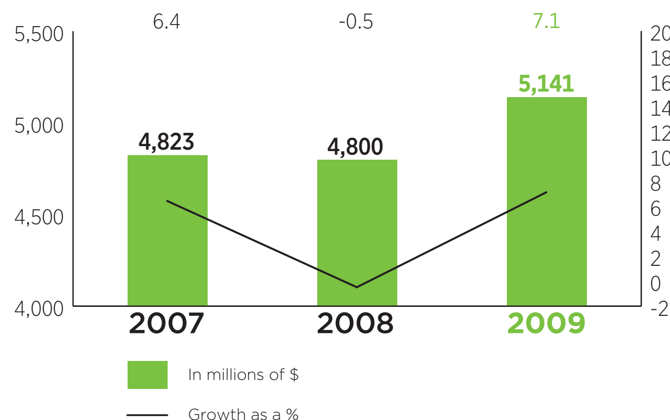
Income in the "Other" item fell by $124 million or 26.6% over 2008, totalling $343 million. The decrease stemmed largely from a drop in income linked to the mortgage securitization program.

Claims, benefits, annuities and changes in insurance provisions[1]
(in millions of $ and as a %)



(1) The difference between total claims, benefits, annuities and changes in insurance provisions and total business segment pertains to intersegment transactions.

Non-interest expense
(in millions of $ and as a %)



Claims, benefits, annuities and changes in insurance provisions

Highlight

Increase of claims, benefits, annuities and changes in insurance provisions to $3,758 million as at December 31, 2009, as compared to $3,144 million as at December 31, 2008.

In life and health insurance, Desjardins Financial Security had expenses of $2,767 million as a result of insurance benefits, annuities, other payments to insured persons and changes in actuarial liabilities. This is $678 million more than the $2,089 million of expenses recorded in 2008. The 32.5% increase stems largely from a higher fair value reported for investment income, whose $110 million of temporary volatility is reflected in an equivalent increase in actuarial liabilities. In 2008, the fair value declined $500 million. It should also be noted that business growth, mainly in disability insurance, pushed up the benefit expense to $2,175 million ($2,062 million in 2008).

In general insurance, Desjardins General Insurance Group posted expenses of $992 million ($1,055 million in 2008), representing loss ratio of 68.8% (74.1% in 2008). This decrease of 5.3 points was in part due to results in home insurance. Fiscal 2009 was marked by more favourable climatic conditions than 2008, which saw record accumulations of snow that caused a significant claims experience due to the damage to swimming pools and structures, as well as violent storms. In automobile insurance, in December 2009 the Supreme Court of Canada refused to hear the appeal of a case that challenged the ceiling set by Alberta on minor personal injuries. The reserves recorded over the last few years for the possible abolition of this ceiling were therefore reversed, which contributed to better results in automobile insurance in 2009 for subsidiaries outside Québec.

Non-interest expense

Highlights

Non-interest expense rose $341 million or 7.1%, to $5,141 million as at December 31, 2009.

Desjardins Group's productivity ratio at 74.4% compared to 91.8% in 2008.

Non-interest expense totalled $5,141 million, as against $4,800 million in 2008, up $341 million or 7.1%. Over 50% of this increase resulted from increased salaries and fringe benefits due in good part to the annual indexation of salaries. Combined results for 2009 include $101 million in restructuring expenses.

The productivity ratio (non-interest expense over total income, net of claims and insurance benefits) was 74.4% for 2009, versus 91.8% for 2008.

Table 16 – Non-interest expense
Years ended December 31
(in millions of $ and as a %)

	2009	2008	2007
Salaries and fringe benefits			
Salaries	$ 2,113	$ 1,911	$ 1,904
Fringe benefits	310	339	434
	2,423	2,250	2,338
Premises, equipment and furniture, including amortization			
Technology	46	43	56
Amortization	160	165	138
Other	209	185	187
	415	393	381
Outsourcing of processing services	371	322	308
Communications	237	252	357
Restructuring expenses	101	–	–
Other			
Business and capital tax and deposit insurance premiums	160	161	159
Donations and sponsorships	73	80	72
Employee training	31	33	30
Deposit-related expenses	50	50	49
Commissions	297	265	291
Other personnel-related expenses	62	67	67
Other	921	927	771
	1,594	1,583	1,439
Total non-interest expense	**$ 5,141**	$ 4,800	$ 4,823
Productivity ratio – Desjardins Group [1]	74.4 %	91.8 %	74.2 %

(1) Established considering non-interest expense over Desjardins Group total income, net of claims expenses and insurance benefits.

Salaries and fringe benefits
Expenses incurred for salaries and fringe benefits rose $173 million or 7.7% to $2,423 million as at December 31, 2009. This increase is mainly attributable to the annual indexation of salaries. This expense item represents 47.1% of Desjardins Group's total non-interest expense, compared to 46.9% in 2008.

For 2009, base compensation stood at $2,113 million, up 10.6% from $1,911 million in 2008. This growth in 2009 was mainly the result of the annual indexation of salaries as well as an increase in remuneration under the incentive plan.

The ratio of fringe benefits to total compensation went from 15.1% in 2008 to 12.8% in 2009. This increase is attributable to the reduced employee future benefit expense that resulted when certain actuarial assumptions were updated. In this regard, Note 25 to the Combined Financial Statements, "Employee future benefits", mentions that the costs associated with the defined benefit pension plans fell approximately $29 million to $103 million in 2009, while the $20 million expense associated with other plans in 2009 was $19 million less than the comparable amount reported a year earlier.

In accordance with the *Act respecting the disclosure of the compensation received by the executive officers of certain legal persons*, Desjardins Group publishes the compensation earned by its five most highly paid senior executives.

Table 17 provides detailed information on the individual remuneration paid to these executives for the year ended December 31, 2009.

Other expenses
At the end of 2009, expenses related to premises, equipment and furniture, including amortization, stood at $415 million, compared to $393 million in 2008. This increase is explained mainly by a higher rent expense.

Fees associated with the outsourcing of processing services grew $49 million, or 15.2%, as compared to last year, to $371 million as at December 31, 2009. This growth was mainly caused by a greater amount of outsourcing and higher costs related to certain service providers.

Communication expenses, which include telephony, advertising, courier and stationery, declined $15 million or 6.0% as compared to last year, to $237 million for 2009. This decrease reflects less advertising by Desjardins in 2009 as compared to 2008, when considerable effort was expended outside Québec.

Restructuring expenses are engendered by the implementation of the new organizational structure, which continued throughout fiscal 2009. As part of this re-organization, Desjardins Group recorded an amount of $101 million in the combined results for 2009 as severance pay, professional fees, impairment of assets and other.

The other expense categories rose $11 million or 0.7% over 2008, to $1,594 million. In this item, commissions grew $32 million or 12.1% from 2008, to $297 million. At $921 million, miscellaneous expenses declined $6 million or 0.6% compared to 2008. Furthermore, donations and sponsorships totalled $73 million, compared to $80 million in 2008.

Table 17 – The five most highly paid senior executives in 2009

Name and main responsibilities	Salary	Incentive plan		Other benefits
		Annual	Long-term	
	$	$	$	$
Monique F. Leroux President and Chief Executive Officer Desjardins Group	851,367	706,234	N/A	N/A
Raymond Laurin Senior Vice-President, Finance and Treasury and Chief Financial Officer Desjardins Group	388,949	152,295	N/A	N/A
Bertrand Laferrière President and Chief Operating Officer Fédération des caisses Desjardins du Québec	602,738	203,632	183,754[1,2]	N/A
Bruno Morin Senior Vice-President and General Manager, Wealth Management and Life and Health Insurance Desjardins Group	550,000	391,373	N/A	N/A
Marc Laplante Senior Executive Vice-President, Strategy, Performance and Development Desjardins Group	499,527	305,018	N/A	N/A

(1) Participant in the integrated management incentive bonus plan, which combines short- and long-term bonuses. The bonus available under the plan is determined at the end of each year based on the extent to which the objectives set at the beginning of the year have been met (annual) and on Desjardins Group's overall performance (long-term). For a given year, 40% or 50% of the available bonus is payable in cash.
(2) The balance of Mr. Laferrière's bonus will be paid to him in May 2010, as he retired in 2009.

Further information regarding the remuneration of the senior executives of Caisse centrale Desjardins and Capital Desjardins is included in the "Statement of Executive Compensation" section of their respective annual information forms.

Income and other taxes

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

Desjardins Group is a decentralized cooperative financial group in which each entity that is a financial services cooperative—primarily the caisses, Caisse centrale Desjardins, the Fédération des caisses Desjardins du Québec, the federation in Ontario and Desjardins Credit Union—is considered a private and independent company. This distinguishes Desjardins Group from most other financial institutions, which are large public corporations. Each caisse is therefore subject to the tax regulations applicable to private companies. Legislation has made these regulations adaptable to enable the caisses to accumulate sufficient general reserve to serve as a base for the protection of members' deposits. When the general reserve reaches the level specified in the legislation, the caisse is subject to the same tax rates as large companies. Furthermore, the caisses are subject to a tax on capital, based on a formula for cooperative financial organizations.

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

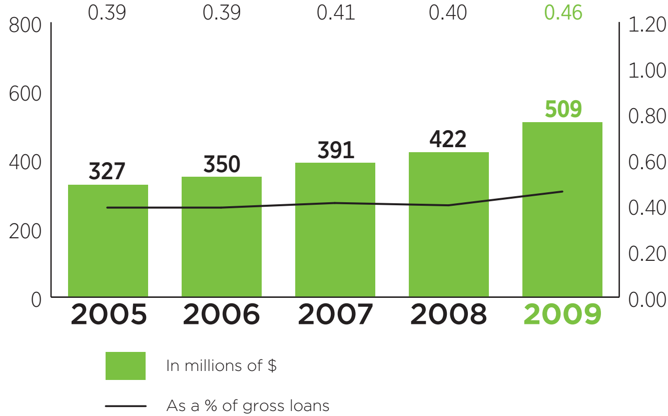
Indirect taxes consist of income taxes and taxes on capital, property and business taxes, taxes on payroll and fringe benefits, the goods and services tax (GST) and sales taxes. Indirect taxes are included as a non-interest expense.

In 2009, the entities of Desjardins Group paid $703 million in direct and indirect taxes.

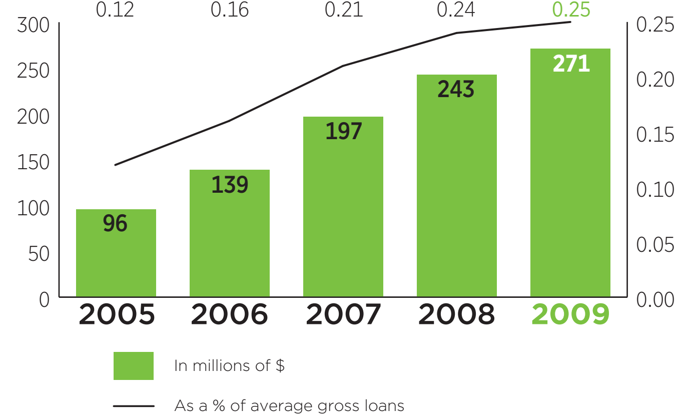
Accrued benefit obligations for retirement plans and post-employment benefits

Desjardins Group offers its employees benefit plans that provide pension benefits and post-retirement benefits to eligible employees. Its defined benefit retirement plans provide benefits based on years of service and average earnings at time of retirement. Post-retirement benefits include health, dental and life insurance coverage. Desjardins funds its defined benefit retirement plans in accordance with provincial regulations. The recent economic environment has had a negative impact on the return on assets in its retirement plans. Desjardins Group has valued its accrued benefit obligations and determined the market and actuarial values of its assets as at September 30, 2009. The accrued benefit liability was measured as at December 31, 2009. The results as at December 31, 2009 show an actuarial loss of $641 million related to benefit obligations and a loss of $529 million related to pension plan assets. Defined benefit liabilities declined to $692 million. Gains and losses beyond the 10% corridor are amortized over average expected service lives, which tempers the volatility of the expenses recorded each year.

Gross impaired loans
(in millions of $ and as a %)



Provisions for credit losses
(in millions of $ and as a %)



Credit quality

Highlights

The provisions for credit losses remain satisfactory after the difficult environment in 2008.

The quality of portfolio has been maintained.

Impaired loans

Loans are considered impaired when Management has reason to believe that the principal or interest cannot be collected. All loans 90 days or more past due fall into this category, unless the loan is fully secured or in the process of collection. Finally, all loans except those fully guaranteed by a government program are considered impaired when they are contractually more than 180 days in arrears. An allowance is recorded for credit card balances when they are 30 days in arrears, and balances are written off in their entirety when no payment has been received after 180 days.

In line with the outlook announced at the beginning of the year, impaired loans increased from $422 million in 2008 to $509 million in 2009. This increase is due to the commercial portfolio and, to a lesser extent, to the residential portfolio. Given the speed with which the economic situation deteriorated in the second half of 2008 and the severity of the downturn, these results are better than expected. This situation is mainly attributable to economic recovery, favourable interest rates, the soundness of the housing market and, finally, the generally acceptable health of businesses.

The net impaired loan balance, equal to the gross amount less the specific allowance, rose $74 million, from $292 million at the end of 2008 to $366 million at the end of 2009. As Table 18 on page 102 shows, net impaired loans now account for 0.33% of the gross loan portfolio. Given the economic environment of last year, the quality of Desjardins Group's portfolio in 2009 is considered quite acceptable.

Provisions for credit losses

When a loan becomes impaired, a reduction in its carrying amount is recorded in the combined results for the period in which the impairment is identified.

In 2009, Desjardins Group recorded $271 million in provisions for credit losses, more than the $243 million recorded a year earlier. This represents 0.25% of average gross loans, versus 0.24% in 2008.

The expense from the credit card portfolio was higher in 2009, offset in part by good performance in the personal loan portfolio and smaller net changes in the general allowance.

Outlook for 2010

Given a certain delay between conditions in the economy and the deterioration of a portfolio, the events of the last two years may still cause additional deterioration in portfolio quality. The scale of such changes will be determined by the strength and depth of the current recovery.

In consumer lending, the labour market was still difficult and the rising personal bankruptcy rate should lead to greater consumer credit losses. The financial health of most households should nevertheless remain acceptable, and these increases will remain limited.

As for residential mortgage finance activities, the stability of the real estate market and the fact that the prices of homes are rising again in Québec should maintain performance at current levels.

As for the business loan portfolio, the risks of a decline will persist for a few quarters, particularly in segments that are more sensitive to macro-economic changes.

Table 18 – Impaired loans by category of borrower

As at December 31
(in millions of $ and as a %)

	2009					2008	2007
	Gross loans	Gross impaired loans		Specific allowances for credit losses	Net impaired loans	Net impaired loans	Net impaired loans
Residential mortgages	$ 63,763	$ 135	0.21 %	$ 13	$ 122	$ 96	$ 72
Consumer, credit card and other personal loans	20,820	85	0.41	33	52	52	53
Business and government	26,258	289	1.10	97	192	144	143
Total	**$ 110,841**	**$ 509**	**—**	**$ 143**	**$ 366**	$ 292	$ 268
As a percentage of gross loans	—	—	0.46 %	—	0.33 %	0.28 %	0.28 %

Table 19 – Specific coverage ratio[1]

As at December 31
(as a %)

	2009	2008	2007
Residential mortgages	9.6 %	10.3 %	11.1 %
Consumer, credit card and other personal loans	38.8	38.1	39.1
Business and government	33.6	37.7	35.9
	28.1 %	30.8 %	31.5 %

(1) The specific coverage ratio is equal to the balance of the specific allowances divided by the total balance of gross impaired loans.

Allowance for credit losses

Based on management's best estimate of potential credit losses and assessment of economic conditions, the allowance for credit losses on the Combined Balance Sheets is sufficient to cover the loan portfolio risks. This allowance is decreased by actual write-offs, net of recoveries, and increased by the provisions for credit losses, which are recorded in the Combined Statements of Income. The allowance for credit losses, which comprises specific allowances and a general allowance, is deducted from the appropriate asset on the Combined Balance Sheets.

Specific allowances

When management identifies a loan as impaired, the loan's carrying value is adjusted to reflect its estimated realizable value and to determine whether a specific allowance should be established.

At the end of fiscal 2009, specific allowances totalled $143 million ($130 million in 2008). This balance represents 28.1% of the impaired loans portfolio, as compared to 30.8% as at December 31, 2008.

General allowance

To determine the required level of the general allowance, Desjardins Group uses an internal model to estimate the potential losses in the loan portfolio, excluding impaired loans. This model provides a risk estimate for each loan category, taking into account changes in the portfolio over time and the impact of the business cycle on credit risk.

As at December 31, 2009, the general allowance stood at $703 million, slightly more than the amount of $696 million recorded one year earlier. The increased allowance at the end of the fiscal year was due to portfolio growth and a deteriorating economic environment, the effect of which was partially offset by a reduction resulting from the reclassification of part of the portfolio.

The general allowance is sufficient to reflect management's best estimate of provisions for credit losses on loans not yet identified as impaired on an individual level.

3.2

Review of financial position

Highlights

Despite a difficult economic environment, Desjardins Group continued to experience sustained growth in 2009.

Desjardins Group continued to play a leading role in residential mortgage financing in Québec, allowing many members and clients to buy homes.

Desjardins Group performed particularly well in recruitment of off-balance sheet savings in 2009, including in investment funds and other securities, and was able to take advantage of improved conditions in the stock markets. However, there was slightly less growth in outstanding deposits.

Balance sheet management

Total assets

As at December 31, 2009, Desjardins Group's total assets stood at $157.2 billion, up $4.9 billion or 3.2% from the end of 2008, compared with an increase of $8.2 billion or 5.7% in fiscal 2008. Desjardins Group experienced sustained growth in 2009, despite the rather difficult economic context. The recession was not the best environment for business development. Desjardins Group's financial intermediation activities, particularly in financing and recruitment of savings, were down slightly.

On the other hand, the financial context improved considerably. Stock markets returned with surprising vigour after hitting bottom in March 2009. This growth was stimulated in part by an easing of financial tensions that was largely due to a variety of economic recovery or rescue plans implemented by monetary and government authorities in many countries around the world. Desjardins Group's securities portfolio benefited form improved market conditions; the amount of outstanding assets grew considerably.

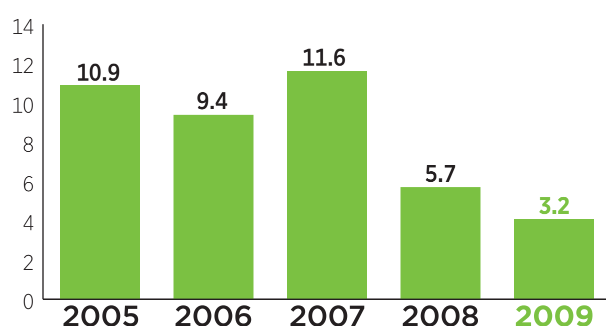
The Canadian economy went into recession in 2009 and the gross domestic product (GDP) shrunk 2.5%. No province was safe, but Quebec fared better than most with an estimated 1.7% drop in GDP, while Ontario posted the worst setback, estimated at 3.6%. It was nevertheless a relatively short recession compared with that of the early 1990s, which lasted almost two years. This latest recession began at the end of 2008 and ended in the third quarter of 2009. In addition to exports, which continued to flounder due to the gloom surrounding the American economy, domestic demand was also hard hit. Consumer spending, spending on housing, and business investments all declined. However, the drop was gentler in household spending and the housing market, where spending surged in the second half of the year.

The Québec labour market suffered in this environment. Job losses grew, but much less markedly than in Ontario, which lost approximately 161,200 jobs in 2009. The setback in Québec in the same period was in the order of 37,500 jobs. Unemployment rates therefore rose in both provinces; from 7.2% to 8.5% in Québec and from 6.5% to 9.0% in Ontario. The greater deterioration in Ontario is clearly related to the problems in its automobile industry.

Table 20 – Condensed balance sheet
As at December 31
(in millions of $ and as a %)

	2009		2008		2007	
Assets						
Cash and deposits with financial institutions	$ 1,086	0.7 %	$ 1,489	1.0 %	$ 1,499	1.0 %
Securities	31,560	20.1	29,222	19.2	31,560	21.9
Securities borrowed or purchased under reverse repurchase agreements	5,055	3.2	6,130	4.0	7,593	5.3
Loans	109,995	70.0	104,462	68.6	95,403	66.2
Other assets	9,507	6.0	10,995	7.2	8,004	5.6
	$ 157,203	100.0 %	$ 152,298	100.0 %	$ 144,059	100.0 %
Liabilities and equity						
Deposits	$ 106,161	67.6 %	$ 101,436	66.6 %	$ 95,766	66.5 %
Other liabilities	38,213	24.3	39,463	25.9	37,169	25.8
Subordinated debentures	1,294	0.8	748	0.5	858	0.6
Non-controlling interests	338	0.2	776	0.5	984	0.7
Equity	11,197	7.1	9,875	6.5	9,282	6.4
	$ 157,203	100.0 %	$ 152,298	100.0 %	$ 144,059	100.0 %

Asset growth
(as a %)



Consumer and business confidence therefore declined, particularly in the first half of the year. Despite low interest rates, demand for credit fell in both Québec and Ontario. Desjardins Group, which can count on strong expertise in the financing of economic activity, nevertheless performed well, particularly in the residential sector, in part due to the popularity of its Versatile Line of Credit and home mortgages.

Desjardins Group was also very active in the personal and business savings in 2009. Trust and wealth management activities grew substantially as compared to 2008 due to the stock market recovery. Despite the fact that savings recruitment that was still quite strong, it did not result in annual growth as strong as in 2008, although it must be said that 2008 was exceptional in this regard due to the severe financial crisis at the time. The crisis drove many more cautious investors to less risky forms of investment.

In terms of market share, Desjardins Group's results for 2009 allowed it to make gains in many of its areas of activity, particularly in Québec. These excellent results bear witness to the superior quality of Desjardins Group's products and services and the confidence shown by its members and clients.

Savings recruitment activities

$4.7 billion growth in deposits

As at December 31, 2009, Desjardins Group's outstanding deposits posted annual growth of $4.7 billion or 4.7%, to $106.2 billion as at December 31, 2009. This compares with a year-over-year increase of $5.7 billion or 5.9% recorded in 2008. The slower growth marks a return to a more moderate growth in savings recruitment, similar to the rates seen in the years before the financial crisis. The uncertainty engendered by this crisis, the worst seen since the Great Depression in the 1930s, provoked a massive transfer of savings from investment funds and other securities toward safer products such as deposits (e.g., personal chequing and deposits payable on demand or upon notice). Therefore it is not surprising to see that most Canadian financial institutions recorded a certain weakness in savings recruitment in the financial environment of 2009.

Despite slower savings recruitment, there have not been significant changes in the mix of Desjardins Group's savings portfolio. Personal deposits and deposits from business and government still represent the primary source of funds supporting Desjardins Group's expansion. As at December 31, 2009, they totalled $98.3 billion, up $4.8 billion or 5.2% for the year. This compares with a $6.4 billion or 7.3% increase in 2008. Such deposits therefore represent 92.6% of Desjardins Group's deposit liabilities, compared with 92.1% recorded on December 31, 2008.

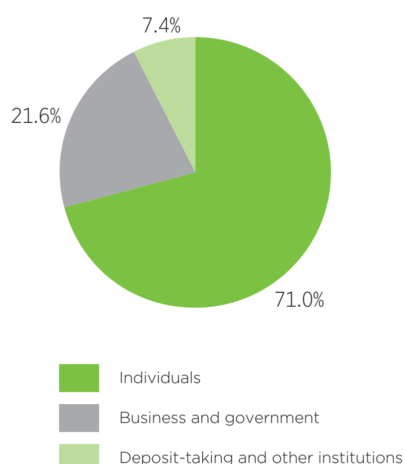
More specifically, deposits from business and government increased $1.4 billion or 6.3% in 2009, reaching $22.9 billion as at December 31, 2009. This compares to a $728 million or 3.5% increase in 2008. It should be mentioned that deposits from business and government represented 21.6% of Desjardins Group's deposit liabilities on the same date, as compared with 21.2% at the end of 2008.

The other sources of funds recorded as deposit liabilities and used by Desjardins Group to support its development involve issuing securities on financial markets. Outstanding securities stood at $7.9 billion as at December 31, 2009, down $101 million or 1.3% from the previous year. This compares with a $697 million or 8.0% decline in 2008. In addition, outstanding securities represented only 7.4% of deposit liabilities at the end of 2009, as compared with 7.9% one year earlier. Additional information on cash position, sources of financing and Desjardins Group's liquidity risk management policies can be found on pages 112, 113 and 122.

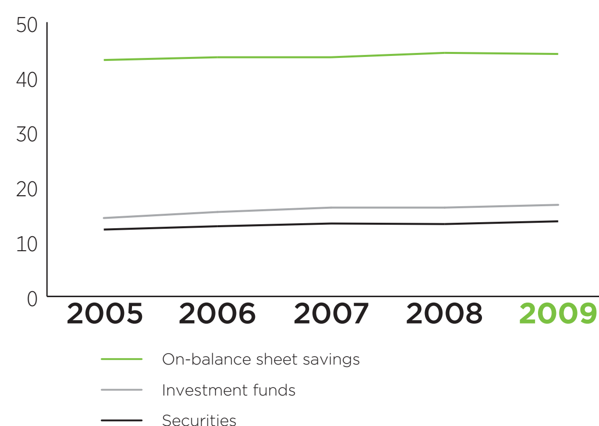
Table 21 – Deposits
As at December 31
(in millions of $ and as a %)

	2009					2008	
	Payable on demand	Payable upon notice	Payable on a fixed date	Total		Total	
Individuals	$ 23,252	$ 3,633	$ 48,535	$ 75,420	71.0 %	$ 71,958	70.9 %
Business and government	11,849	295	10,732	22,876	21.6	21,512	21.2
Deposit-taking and other institutions	40	—	7,825	7,865	7.4	7,966	7.9
	$ 35,141	$ 3,928	$ 67,092	$ 106,161	100.0 %	$ 101,436	100.0 %

Composition of the deposit portfolio
As at December 31, 2009



Québec market share
Personal savings activities
(as a %)



Personal savings represents Desjardins Group's largest source of financing

Personal savings

Personal savings has always been the largest source of financing used to fuel growth at Desjardins Group. They represented a large portion of deposit liabilities as at December 31, 2009 – 71% – similar to that at the end of 2008. Personal savings outstanding totalled $75.4 billion as at December 31, 2009, up $3.5 billion or 4.8% from the previous year, as compared with growth of $5.6 billion or 8.5% recorded on the same date of 2008. It should be noted that, as mentioned above, these lower results for 2009 should be seen in the context of a post-financial crisis period in which people were re-assessing their needs for investment vehicles. The marked improvement seen in the stock markets, combined with low interest rates, was hardly a favourable environment for deposits.

Personal savings are a very popular source of financing for all financial institutions, above all because of its more stable nature, the heterogeneous profile of savers (age, gender, income, occupation and place of residence) as well as the generally low acquisition cost of personal savings. The major stakeholders therefore maintain a highly competitive market in personal savings recruitment.

Of the three broad categories of deposits offered by Desjardins Group, savings payable on a fixed date is undeniably the largest. They represented 64.4% of the total personal savings portfolio as at December 31, 2009, for a total of $48.5 billion in outstanding deposits, down $1.8 billion or 3.5% for the year. This compares with a $3.5 billion or 7.5% increase recorded in 2008. Savings payable on demand and upon notice represented 35.6% of total personal savings on the same date.

It should be mentioned that Desjardins Group is the market leader in personal savings deposits in Québec. As at December 31, 2009, it held 44.2% of the market.

The recovery of the stock market saved off-balance sheet savings in 2009

Canadian stock markets closed 2009 with the best annual performance seen since the end of the 1970s. When trading ended on the Toronto Stock Exchange on December 31, 2009, the S&P/TSX Index posted a 30.7% jump for the year, compared with a 35.0% decline recorded at the end of 2008.

This improvement had a positive impact on off-balance sheet savings products, such as investment funds and other securities, which recovered considerable ground lost in 2008 because of the financial crisis. Desjardins Group benefited from this favourable environment. As at December 31, 2009, outstanding assets in this area (administered and managed for others) grew $8.6 billion or 27.2% for the year, to $40.0 billion. This compares with a $6.4 billion or 17.0% decline recorded at the end of 2008.

Table 22 – Loans by category of borrower
As at December 31
(in millions of $ and as a %)

	2009		2008	
Residential mortgages	$ 63,763	57.5 %	$ 61,081	58.0 %
Consumer, credit card and other personal loans	20,820	18.8	18,121	17.2
Business	24,775	22.4	24,707	23.5
Government	1,483	1.3	1,379	1.3
	110,841	100.0 %	105,288	100.0 %
Allowance for credit losses	(846)	–	(826)	–
	$ 109,995	–	$ 104,462	–
Loans secured by governments and other public and parapublic institutions included above	$ 29,140	–	$ 27,211	–
Loans secured by governments and other public and parapublic institutions as a percentage of total gross loans	26.3 %	–	25.8 %	–
Loans to individuals as a percentage of total gross loans	76.3 %	–	75.2 %	–

Financing activities

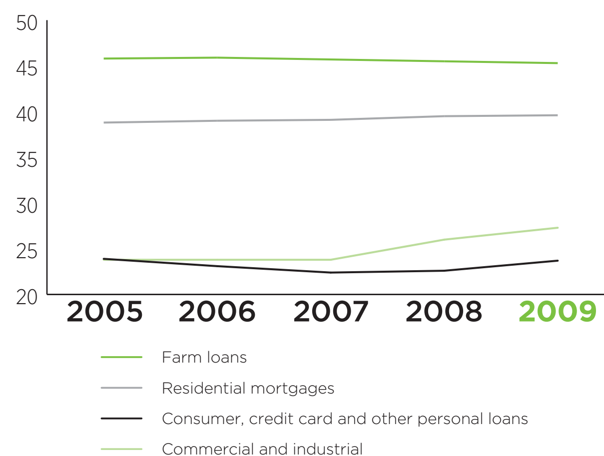
Despite a difficult economic context, Desjardins Group remained very active in financing activities

Desjardins Group can take pride in the important role it plays in financing economic activity in Québec and certain regions of Ontario. It also serves client groups elsewhere in Canada. The scope of its operations is testimony to the interest among individuals and businesses for its highly competitive credit products. Over the decades, Desjardins Group has adapted to the changing needs of its members and clients. In 2009 and despite a difficult economic context, Desjardins Group remained very active in this area.

As at December 31, 2009, Desjardins Group's portfolio of outstanding loans, net of the allowance for credit losses, stood at $110.0 billion, up $5.5 billion or 5.3% for the year, as compared to an increase of $9.1 billion or 9.5% recorded for 2008. The slower growth is not only explained by the setback in the Canadian economy, but also by the Desjardins Group's securitization program. In this respect, it is worth mentioning that issues of NHA-MBS mortgage-backed securities reached $1.7 billion in 2009. It should be recalled that securitization represents another source of funds available for Desjardins Group's expansion.

Table 22 summarizes Desjardins Group's credit activities by main borrower category. It shows that loans to individuals, which comprises residential mortgage credit, consumer loans, credit card loans and other personal loans, stood at $84.6 billion as at December 31, 2009, up $5.4 billion or 6.8%, as compared to the $6.1 billion or 8.3% increase recorded in 2008. This weakness is in part attributable to a setback in the housing market (particularly in residential construction), reduced household expenditures and securitization activities. In addition, personal financing activities represented a sizable portion of the entire loan portfolio at the end of 2009: 76.3% as compared to 75.2% a year earlier. This highlights all Desjardins Group's know-how in this market, where clients have always expressed great confidence.

Québec market share
Financing activities
(as a %)

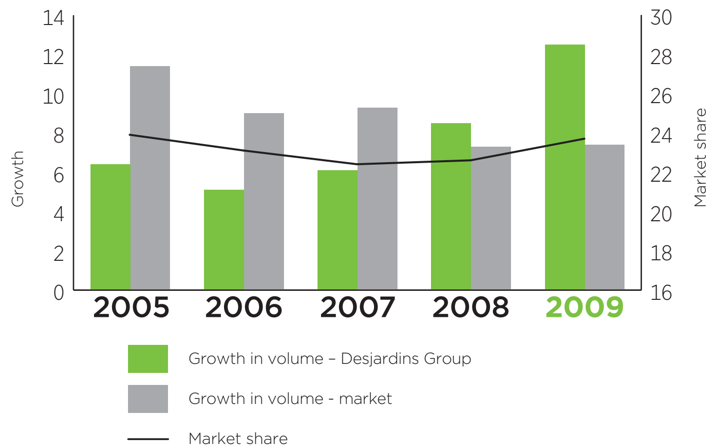


As for business and government financing, the economic and financial environment was not entirely suitable for business development. The decline in business investment considerably reduced the demand for such loans in 2009. Desjardins Group was not spared by this more difficult environment. As at December 31, 2009, business and government loans outstanding were up $172 million or 0.7% to $26.3 billion for the year, compared to growth of $3.0 billion or 13.1% reported for 2008.

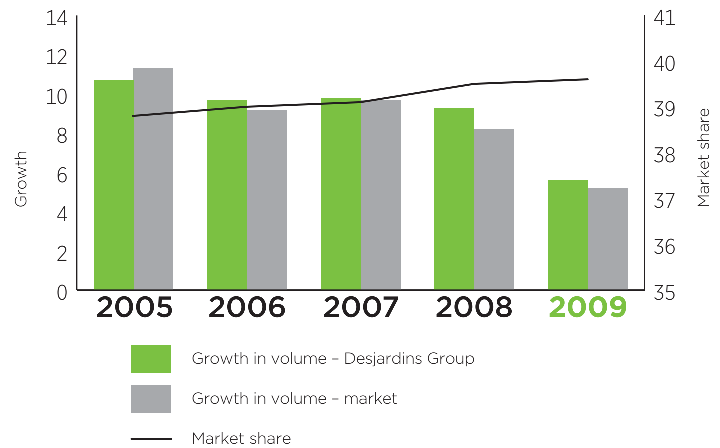
The management of risk, and especially credit risk, is a constant concern for Desjardins Group, as it is for all large financial institutions. The Desjardins Group's financing activities are guided by the most rigorous management practices, which are described in detail in the "Risk management" section on pages 117 to 125.

Finally, the next two pages provide a brief analysis of Desjardins Group's results by main loan category.

Consumer loans in Québec
(as a %)



Residential mortgages in Québec
(as a %)



Desjardins Group still the Québec leader in housing finance

Residential mortgages

Québec experienced a setback in residential construction activities in 2009 that hit all segments except conventional multi-unit residential buildings and semi-detached homes, which posted small gains. For example, housing starts in all municipalities stood at 43,403 units, down 9.4% from the 47,901 units registered in 2008. In Ontario, the drop was more brutal: a total of 50,384 housing starts were recorded, down 32.9% from 2008, when they stood at 75,076 units.

The market for existing homes ended 2009 on a more positive note, after quite a difficult year that defied specialists' predictions of a significant setback. For example, the Interagency system (SIA) recorded 79,290 transactions in Québec, 3.3% more than the 76,762 transactions recorded in 2008. Ontario also experienced a rally in this segment, with 195,840 homes changing hands in 2009 as compared with 181,001 transactions reported in 2008, for an appreciable increase of 8.2%. Furthermore, the average selling price rose approximately 4.7% in both Ontario and Québec.

Despite the rebound in the resale segment, activity in the housing market weakened in 2009 in both these provinces, an environment that was not ideal for Desjardins Group's business development in housing finance. However, it is clear that despite falling slightly below the level observed at the end of 2008, Desjardins Group's performance remained relatively strong. The residential mortgage portfolio grew $2.7 billion or 4.4% for the year, to $63.8 billion as at December 31, 2009, as compared to an increase of $4.4 billion or 7.8% recorded one year earlier. This is a highly admirable rate of growth, particularly since $1.7 billion in MBS mortgage-backed securities were issued in 2009.

Moreover, the residential mortgage market is always very competitive, whether it is contracting or expanding, due to the quality of this type of loan. Financial institutions therefore fight ferociously to expand their presence in this market.

Desjardins Group remains the leading provider of residential mortgages in Québec. As at December 31, 2009, its market share stood at 39.6%, up 0.1% from 2008.

Desjardins Group's Versatile Line of Credit remains as popular as ever

Consumer, credit card and other personal loans

Deteriorating labour markets in Québec and Ontario in 2009, reflected in job losses and a jump in the unemployment rate, clearly had a negative impact on consumer confidence. Consumer spending therefore fell. For example, household spending on durable goods (automobiles, furniture, electronics and appliances) fell 5% in Québec in 2009 and close to 9% in Ontario. On the other hand, the renovation programs developed by the federal and provincial governments proved very popular with individuals and stimulated sales in retail businesses specialized in this area.

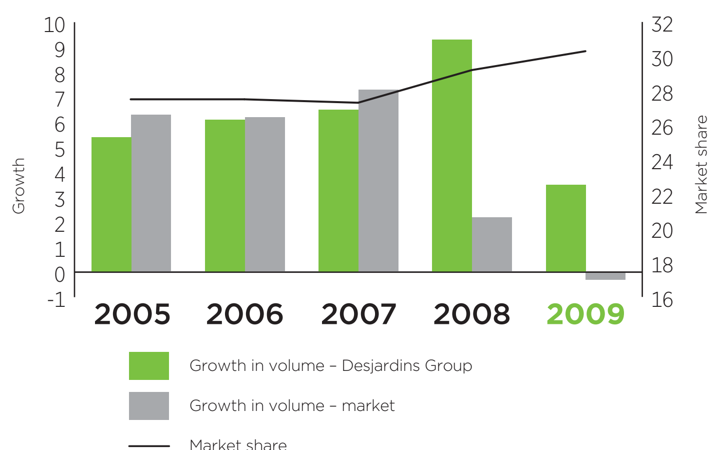
Desjardins Group's growth in the consumer, credit card and other personal loans market continued in 2009 on the heels of several years of impressive expansion in this area. As at December 31, 2009, the amount outstanding for its loan portfolio had jumped $2.7 billion or 14.9%, to $20.8 billion, as compared to growth of $1.7 billion or 10.2% in 2008. This strong growth is due in part to the tremendous success of its Versatile Line of Credit and the popularity of the Accord D financing program. On the strength of these excellent results, the end of 2009 saw a marked improvement in Desjardins Group's market shares in Québec and Ontario, which stood at 23.7% (up 1.1% from 2008) and 0.7% (up 0.2% from 2008), respectively.

Desjardins Group has made a name for itself in business finance

Loans to businesses

In 2009 the world's markets were hit by the first decline in the production of goods and services since the end of the Second World War. However, monetary and government authorities in many regions of the world quickly intervened and, through a variety of rescue and recovery plans, were able to limit the damage. After three quarters of downturn, many industrialized countries, including Canada, had already begun to experience growth. At the same time, the financial tensions gradually began to ease, particularly in the second half of the year, and access to the credit market became easier.

Business loans in Québec
(as a %)



The aftereffects of the drop in economic activity in Canada have nevertheless been felt, and this includes businesses. The depressed environment caused many businesses to abandon or postpone development and expansion projects. For example, the preliminary 2009 data for Québec suggest a significant reduction in non-residential investment, in the order of 10.1% less than 2008. The picture that is emerging for Ontario is slightly worse, with an estimated drop of close to 15% due to problems in its automobile industry. It is not surprising that demand for credit became weaker in both provinces.

To serve its business members and clients, Desjardins Group has an extensive distribution network that includes the caisses and their business centres and Caisse centrale Desjardins. In addition, through a range of products and services it has developed over the years, Desjardins Group can easily meet the financing needs of the great majority of business people, regardless of the size of their operations or their industry. Over the years Desjardins has become a key financial institution serving the needs of small and medium-sized businesses (SMEs) in Quebec, while continuing to expand activities with large businesses under a highly competitive expansion strategy.

Given Desjardins Group's extensive presence across Québec and in many regions of Ontario, its financing activities were affected by the economic problems experienced in these two provinces in 2009. But in contrast to many Canadian financial institutions, its business loan portfolio, which consists of commercial and industrial credit as well as farm loans, did not shrink. Instead, it grew by $67 million or 0.3% over the year to $24.8 billion as at December 31, 2009. This compares to a surge of $2.9 billion or 13.3% recorded in 2008. This performance, which was managed with the strictest credit risk management practices, allowed Desjardins to grow its share of the Québec market by 1.1%, to 30.3%, while it maintained its interests in Ontario (1.0%).

Desjardins Group is also very active in farm credit, particularly in Québec. However, it is important to mention that since 2003 this market has experienced modest growth of under 4% in both Québec and Ontario. Yet the demand for this type of loan grew considerably in the second half of the 1990s and at the start of the new millenium, due in part to the rising value of agricultural land. The poor potential for development over the last few years has therefore exacerbated competition in this market. Desjardins Group has nevertheless done well, holding on to a market share of more than 45% for the entire period.

As at December 31, 2009, Desjardins Group's portfolio of farm loans outstanding grew $148 million or 2.9% for the year, to $5.3 billion. This compares to a gain of $178 million or 3.6% recorded in 2008. It is worth mentioning that the slightly slower growth of Desjardins Group's financing of the dairy industry was offset in part by good results in the hortculture and grain sectors.

Loans to government

Desjardins Group is also very active financing various levels of government, especially municipalities. As at December 31, 2009, loans outstanding to different levels of government totalled $1.5 billion, up $104 million or 7.5% for the year, as compared to a $120 million or 9.5% increase recorded in 2008. It should be noted that, by their very nature, governments' financing needs are rather different from those of businesses. A substantial share of the loans issued in this market consists of lines of credit with balances that may change substantially from one month to the next.

Capital management and credit ratings

Highlights

Implementation of the new regulatory framework (Basel II).

At 15.86%, the ratio of Tier 1 capital remains one of the highest in the Canadian banking industry.

Issue of permanent shares in an amount of $654 million in the second half of 2009.

Issue of subordinated debentures totalling $1 billion in the first half of 2009.

Objective

The goal of Desjardins Group's capital management is to ensure maintenance of sufficient quality capital to supply the leeway necessary for its development, maintain a premium credit rating and uphold the confidence of its depositors and the financial markets.

Policies

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

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

Implementation of Basel II

Starting in fiscal 2009, Desjardins Group's capital ratios have been calculated according to the guideline on adequacy of capital base standards applicable to financial services cooperatives, issued by the *Autorité des marchés financiers du Québec* (AMF). This new regulatory framework is largely based on the revised framework for international convergence of capital measurement and capital standards (Basel II) issued by the Bank for International Settlements (BIS). In this regard, the AMF has allowed Desjardins Group to use the Advanced Internal Ratings Based approach, subject to certain conditions, for credit risk related to retail loan portfolios (Personal). Other credit exposures and market risk are assessed according to a standardized approach, while operational risk is calculated based on the Basic Indicator approach. The new methods have mainly affected the calculation of risk-weighted assets. The calculation of capital, however, has not changed significantly.

Capital management activities

On March 17, 2009, Desjardins Group called the Senior Series D bonds for a face value of $450 million. Pursuant to a purchase and resale agreement entered into on March 30, 2009, Desjardins Group agreed to issue Senior Series E bonds maturing in April 2019 for a consideration of $500 million. Pursuant to a purchase and resale agreement entered into on June 1, 2009, Desjardins Group issued Series F subordinated debentures maturing in June 2021 for a consideration of $500 million. These transactions therefore resulted in a $550 million net increase in subordinate debentures in 2009, which qualifies as Tier 2 capital for regulatory purposes.

During the third and fourth quarters, the Desjardins caisse network issued permanent shares in an amount of $654 million, which qualifies as Tier 1 capital for regulatory purposes.

Analysis of results

Desjardins Group is one of the best capitalized financial institutions in Canada: its Tier 1 and total capital ratios, evaluated under the new regulatory framework (Basel II), both stood at 15.86% as at December 31, 2009. As at December 31, 2008, these ratios stood at 13.39% and 12.85%, respectively as evaluated under the previous regulatory framework (Basel I). Desjardins Group therefore still enjoys excellent capitalization, with a Tier 1 capital ratio above Desjardins Group's 13% objective and at a level that is over 400 basis points higher than the median of the major Canadian banks.

Minimum ratios

The minimum capital ratio recommended to institutions for compliance with the regulatory requirements of BIS to be considered sufficiently capitalized is 8%. In addition, Tier 1 capital must represent at least half of the total ratio. With the new regulatory framework coming in effect, the AMF revised its minimum total capital ratio to 11.5%. At the beginning of the year, the financial goal for the Desjardins Group's total capital ratio was, at Desjardins Group's initiative, set at 13% (the same level as the objective for the Tier 1 capital ratio) to take into account the prevailing global economic context and the implementation, effective in the first quarter of 2009, of Basel II. It is important to note that as part of its work on capitalization, Desjardins Group has raised its target for minimum Tier 1 capital to 15%, starting in 2010.

Table 23 – Credit ratings

Desjardins Group's financial strength is reflected in the premium quality credit ratings of Caisse centrale Desjardins.

	DBRS	Standard & Poor's	Moody's
Short-term debt	R-1 (high)	A-1+	P-1
Medium-term and long-term senior debt	AA	AA-	Aa1

At 15.86%, the Tier 1 and total capital ratios exceed not only the minimum regulatory requirement but also the Desjardins Group's own financial objective. This high level of Tier 1 capital further demonstrates the financial strength of Desjardins Group, even in an economic environment that is more challenging.

In addition to the minimums required for the Tier 1 capital ratio and the total capital ratio, the AMF requires Desjardins Group to maintain an asset/capital ratio that is below 20. This measure allows overall capital adequacy to be measured against the entity's total capital, including certain off-balance sheet items. With a ratio of 13.6 as at December 31, 2009, Desjardins easily meets the requirement set by the AMF.

The improvement in overall profitability of operations has allowed Desjardins Group to increase its provision for member dividends to $311 million, 45% more than in fiscal 2008.

Compliance with requirements

With regard to regulatory capital, the capital composition and adequacy of Desjardins Group as a whole are evaluated according to the guideline issued by the AMF on standards governing the adequacy of base capital. The AMF requires that a minimum amount of capital be maintained on a combined basis by all components and, in particular, the caisses, the FCDQ, Caisse centrale Desjardins (CCD), Fonds de sécurité Desjardins, Capital Desjardins and Desjardins Credit Union. This capital takes into consideration investments made in other components within Desjardins Group. Some of Desjardins Group's subsidiaries are subject to separate requirements with respect to regulatory capital, liquidities and financing, which are set by organizations that regulate banking and securities. Their requirements may be subject to amendments to the regulations and change by activity. The liquidity of our main subsidiaries is assessed on a continuing basis, given the regulatory restrictions imposed by local administrations and the operational, tax, economic and other constraints on the movement of funds between our subsidiaries. In this way Desjardins Group is able to manage and minimize blocked liquidities. It monitors and manages liquidity and capital requirements in these entities in order to ensure an efficient use of capital and continuous compliance, by each of these entities, with regional regulations. Additional details on the guideline issued by the AMF and on the regulatory framework governing the capitalization of each Desjardins entity are presented in Note 29 to the Combined Financial Statements.

All Desjardins Group entities that are subject to minimum capital requirements were in compliance with these requirements as at December 31, 2009, as they were in 2008.

Rating agencies

Desjardins Group's reporting issuers, Caisse centrale Desjardins and Capital Desjardins, enjoy premium credit ratings from rating agencies. In fact, their ratings are among the best of the major banking institutions in Canada.

The reports of the rating agencies deal primarily with Desjardins Group, on a combined basis, since the credit ratings of Caisse centrale Desjardins and Capital Desjardins are based on the strength of the balance sheets of the caisses.

Throughout the last year, the rating agencies maintained the credit ratings of Desjardins Group and once again recognized its very strong capitalization, the stability of its operating surplus earnings, its dominance in the local market and the quality of its assets. However, on March 3, 2009, the rating agency Moody's informed Desjardins Group's management that it was changing its outlook on Caisse centrale Desjardins from "stable" to "negative." The rating, however, was maintained at Aa1. Moody's recognizes Desjardins Group's solid balance sheet, excellent capital base and major Québec market shares. The announcement is part of an overall North American trend resulting from the current crisis in the financial sector.

The high credit ratings reflect the solidity of Desjardins Group and its network of caisses and ensure its credibility and recognition among institutional investors. The borrowing programs set up by CCD provide access to a diverse range of funding sources, including clients, markets, maturities, currencies and regions.

Table 24 – Capital and capital ratios

As at December 31
(in millions of $ and as a %)

	2009	2008
	Under Basel II	Under Basel I
Tier 1 capital		
Eligible capital stock	$ 1,607	$ 917
Reserves	8,149	8,230
Undistributed surplus earnings (deficit)	795	(96)
Non-controlling interests	42	40
Goodwill	(109)	(113)
Other deductions [1]	(244)	—
Total Tier 1 capital	10,240	8,978
Tier 2 capital		
Subordinated debentures	1,300	750
Eligible general allowance	388	581
Other eligible securities	77	69
Unrealized cumulative gains on available-for-sale securities (net of taxes)	5	—
Other deductions [1]	(1,770)	—
Total Tier 2 capital	—	1,400
Investments [2]	—	(1,766)
Total capital	$ 10,240	$ 8,612
Capital ratios		
Tier 1 capital ratio	15.86 %	13.39 %
Total capital ratio	15.86	12.85

(1) Includes the provision deficit related to the Internal Ratings Based approach, unrated securitization exposures and investments in unconsolidated subsidiaries (mainly Desjardins Financial Security and Desjardins General Insurance Group) as well as in affiliated companies.
(2) This amount corresponds to investments in the subsidiaries (mainly Desjardins Financial Security, Desjardins General Insurance Group, Desjardins Securities and Desjardins Trust) accounted for using the equity method and to any other investments held that must be deducted in accordance with the AMF's guideline.

Table 25 – Risk-weighted assets

As at December 31, 2009
(in millions of $ and as a %)

	Internal Ratings Based approach		Standardized approach		Total		
	Exposures[1]	Risk-weighted assets	Exposures[1]	Risk-weighted assets	Exposures[1]	Risk-weighted assets	Average risk-weighted rate
Sovereign borrowers	$ —	$ —	$ 9,820	$ —	$ 9,820	$ —	— %
Financial institutions	—	—	8,413	1,680	8,413	1,680	20
Businesses	—	—	31,029	22,904	31,029	22,904	74
Mortgage loans	41,785	4,662	1,329	201	43,114	4,863	11
Revolving exposures for eligible retail clients	22,568	5,877	—	—	22,568	5,877	26
Other retail client exposures	28,417	3,711	5,011	3,127	33,428	6,838	20
Securitization	—	—	1,595	711	1,595	711	45
Equities	—	—	228	228	228	228	100
Trading portfolio	—	—	1,423	348	1,423	348	24
Other assets[2]	—	—	—	—	10,004	2,845	28
Scaling factor[3]	—	855	—	—	—	855	—
Total credit risk	$ 92,770	$ 15,105	$ 58,848	$ 29,199	$ 161,622	$ 47,149	
Market risk	—	—	—	2,251	—	2,251	
Operational risk[4]	—	—	—	—	—	9,793	
Transitional adjustment for floor[5]	—	—	—	—	—	5,362	
Total risk-weighted assets	$ 92,770	$ 15,105	$ 58,848	$ 31,450	$ 161,622	$ 64,555	

(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 AMF guideline).
(2) Other assets are valued using a method other than the standardized approach or the Internal Ratings Based approach.
(3) The scalar factor is a 6% calibration of risk assets assessed using the advanced approach for credit exposures in accordance with section 1.3 of the AMF guideline.
(4) The Basic Indicator approach was used to assess operational risk.
(5) As prescribed in section 1.6 of the AMF guideline.

Cash position and sources of financing

The wave of optimism over improved economic conditions worldwide that began during the year gained momentum in the last few months of 2009. The return of consumer confidence, an improved real estate market and rising stock markets were strong indicators of the potential for economic recovery. On the other hand, the recovery remains extremely fragile. Credit conditions are still difficult and, in Canada, prolonged strength in the Canadian dollar could seriously affect economic recovery. Good performance in the stock and commodity markets combined with positive trends in the global economy helped keep the Canadian dollar strong in 2009. In the current economic and financial climate, the main central banks have been forced to delay tightening their monetary policies, perhaps until late 2010.

In 2009, short-term and corporate financing spreads narrowed considerably. After rising in the first half of the year, bond rates remained relatively stable through the last months of the year. The volatility we have experienced was progressively tempered over the year, yet markets appear to remain sceptical about the strength of the economic recovery.

Desjardins Group's treasury activities have been integrated with those of Caisse centrale Desjardins (CCD) over the last few years, and 2009 has once again demonstrated the benefits in terms of synergies for strong leadership and greater prosperity. Despite the precarious economic situation, CCD managed to maintain sufficient liquidities to meet all Desjardins Group's needs through the rigour of its treasury policy, solid institutional funding and the contribution made by the caisse network. The rigour of CCD's treasury policy also allowed CCD to solidify its foundations and confidently address a period of global financial stabilization.

The Combined Balance Sheets for the caisses reached their neutral matching target in 2009. Net interest income rose, mainly as a result of higher long-term interest rates and an improvement in the intermediation markets for certain products.

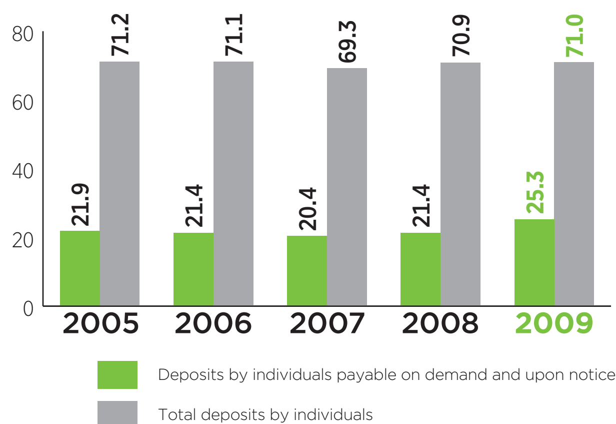
CCD, in line with its strategy of increasing the duration of its institutional funding and under its mission as treasurer to Desjardins Group, launched an issue of debt securities on the European markets worth approximately $800 million in early 2009 in order to meet liquidity needs in the Desjardins network. CCD also launched two issues of medium-term deposits on the Canadian market in September and December 2009, each for $500 million. CCD issued these notes under its short form base shelf prospectus, which allows it to issue up to $5 billion in notes. Despite being issued in a difficult economic environment and without assistance from the federal debt guarantee program, these issues were well received.

In the months of March and May 2009, Capital Desjardins launched two issues of senior notes for $500 million each, redeemable on April 1, 2014 and June 1, 2016, respectively. Increasing the duration of its institutional funding is a beneficial strategy that allows Desjardins to maintain its objectives, even through a period of economic and financial instability.

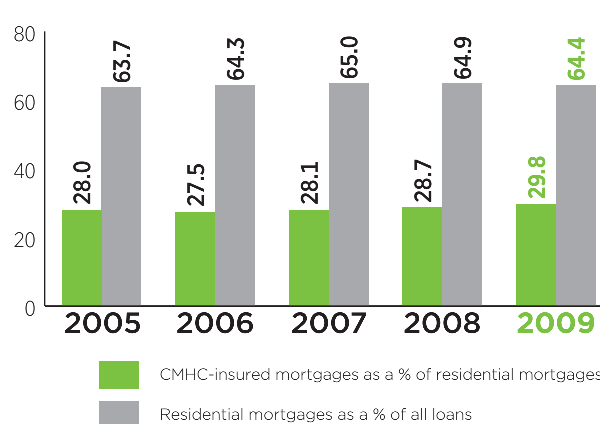
During the second hall of the year of 2009, the Desjardins caisse network issued permanent shares for an amount of $654 million.

Deposits grew 4.7% in 2009, compared to a 5.9% in 2008. In deposits by individuals, the Desjardins caisses maintained a brisk pace. However, because of faster growth in the deposits made by businesses and governments, personal savings grew slightly in relative terms, from 70.9% in 2008 to 71.0% in 2009.

Deposits by individuals as a percentage of total deposits
(as a %)



Residential mortgage loans as a percentage of total loans granted by caisses
(as a %)



CCD maintained a presence in the securitization market for mortgage loans guaranteed by the federal government under the Canada Housing Trust program. It was active in the securitization of mortgages insured by the Canada Mortgage and Housing Corporation (CMHC) and in 2009 participated in new issues under the program in an amount of $500 million. The program's two objectives are to obtain a source of long-term financing at the lowest price available in the market and, by securitizing mortgages, to maximize the return on regulatory capital.

The global financial crisis underscored the importance of our securitization program. Our expertise in this area also allows us to participate in the Government of Canada's reverse mortgage purchase auctions as required. In addition, government authorities have announced that the program will be expanded in 2009, to $50 billion. Residential mortgage loans granted by the caisse network comprised 64.4% of all loans in 2009, 29.8% of which were insured by the CMHC. The primary objective of this program has been to ensure lower-cost funding for the network.

Cash and securities totalled $32.6 billion, or $1.9 billion more than at the end of 2008. The ratio of cash and securities to total assets therefore stood at 20.8% at the end of 2009, compared to 20.2% at the end of 2008. Liquidities, it should be remembered, comprise the aggregate of securities and cash and deposits with financial institutions. These securities were mainly those issued by governments and public bodies with high credit ratings. Such securities can be used in the event of sudden, higher-than expected demand for funding from the caisse network.

Furthermore, on March 3, 2010, CCD announced a deposit note issue of 1 billion euros maturing in 2012. This issue is CCD's first since it renewed its European borrowing program in December 2009, under which it plans to issue deposit notes of a maximum value of 7 billion euros.

Cash and securities as a percentage of total assets
(as a %)

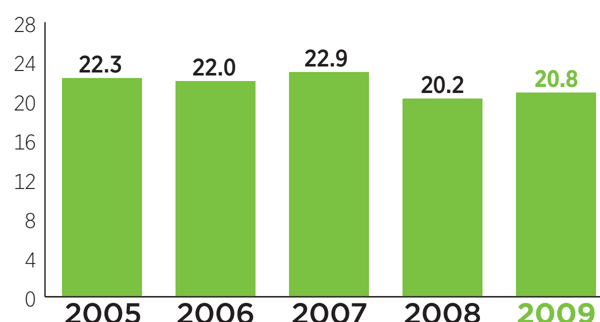


Table 26 – Assets under administration and assets under management
As at December 31
(in millions of $ and as a %)

	2009		2008	
		% change		% change
Assets under administration				
Individual and institutional trust and custodial services	$ 219,776	16.0 %	$ 189,504	(2.9)%
Investment funds[1]	15,672	29.1	12,143	(21.6)
	$ 235,448	16.8 %	$ 201,647	(4.3)%
Assets under management				
Institutions and individuals	$ 16,366	(4.6)%	$ 17,149	(25.7)%
Investment funds[1]	15,672	29.1	12,143	(21.6)
	$ 32,038	9.4 %	$ 29,292	(24.1)%

(1) In 2009, included $11.7 billion in Desjardins Funds, $2.1 billion in Northwest Funds, and $1.8 billion in segregated funds at Desjardins Financial Security.

Off-balance sheet items

Highlight
Assets under administration were up 16.8% to stand at $235.4 billion as at December 31, 2009.

In the normal course of its operations, Desjardins Group makes various off-balance sheet commitments.

This includes assets under administration and management on behalf of its members and clients, credit instruments, derivative financial instruments, and contractual commitments.

Assets under administration and assets under management

As at December 31, 2009, the value of assets administered and managed by Desjardins Group on behalf of its members and clients totalled $235.4 billion, a significant increase of $33.8 billion or 16.8%, compared to a decrease of $9.0 billion or 4.3% in 2008. More specifically, in terms of wealth management, Desjardins Group managed financial assets totalling $32.0 billion as at December 31, 2009, a year-over-year increase of $2.7 billion or 9.4%, compared to a decrease of $9.3 billion or 24.1% in 2008.

The rather spectacular comeback in stock market activity in Canada (the S&P/TSX index jumped 30.7%, versus a 35.0% reduction in 2008) and elsewhere in the world obviously played a role in these results. It enabled major Canadian trustees and wealth managers, including Desjardins, to get back on a growth track.

This improvement had a positive impact on off-balance sheet savings products, which account for a portion of the assets administered or managed by Desjardins Group. In this regard, mention should be made of the $3.5 billion or 29.1% growth in its investment funds, to reach a volume of $15.7 billion as at December 31, 2009.

Assets under administration and management, it should be recalled, are composed chiefly of financial assets in the form of investment funds, securities held in custody, and accrued pension fund assets. As a result, they do not belong to Desjardins Group, but to its members and clients. For this reason, they are not recorded on its Combined Balance Sheets.

Credit instruments and derivative financial instruments

The risks related to these off-balance sheet items are managed using the same strict rules as those applied to on-balance sheet items. In management's opinion, these off-balance sheet items result in no unusual risk.

The calculation of the risk-weighted balance related to these off-balance sheet items, presented in Table 25 on page 111, is consistent with the guideline on capital adequacy requirements issued by the AMF.

Note 26 to the Combined Financial Statements of Desjardins Group explains the accounting policy used to account for derivative financial instruments, which are all recognized at fair value. In addition, Notes 26 and 27 provide detailed information on derivative financial instruments and commitments, respectively.

Table 27 – Credit instruments by term to maturity
As at December 31
(in millions of $)

	2009					2008
	Less than 1 year	From 1 to 3 years	Over 3 to 5 years	Over 5 years	Total	Total
Guarantees and standby letters of credit	$ 589	$ 2	$ —	$ —	$ 591	$ 566
Securities lending	29	124	154	777	1,084	1,334
Credit commitments	48,497	1,946	565	1,223	52,231	38,105
Total credit instruments	**$ 49,115**	**$ 2,072**	**$ 719**	**$ 2,000**	**$ 53,906**	$ 40,005

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

These instruments expose Desjardins Group to credit and liquidity risks. The management of these risks is described on pages 117 to 125 of the Management's Discussion and Analysis. Table 27 presents the contractual amounts of the credit instruments by term to maturity. Since many of these credit instruments expire or terminate without being funded, the contractual amounts do not represent actual future cash requirements.

Derivative financial instruments
Desjardins Group uses derivative financial instruments for asset and liability management and trading purposes. Derivative financial instruments are contracts whose value is notably based on an underlying asset, such as interest rates or exchange rates. The derivative financial instruments used include a broad range of financial contracts, particularly interest rate swaps, foreign exchange swaps, credit swaps, futures and options. These instruments are important risk management tools, mainly to mitigate the risks associated with fluctuations in interest and exchange rates and other market risks. Most contracts are traded by mutual agreement.

Desjardins Group recognizes all its stand-alone derivative financial instruments on the Combined Balance Sheets in accordance with the financial instrument accounting standards of the Canadian Institute of Chartered Accountants (CICA). Under these standards, derivative financial instruments are recognized on the Combined Balance Sheets at fair value, including derivatives designated as hedging items. According to Section 3865 "Hedges" published by the CICA, derivative financial instruments may be designated in a fair value or cash flow hedging relationship. This section covers the eligibility criteria for hedge accounting, as well as the recognition of fair value and cash flow hedging relationships. Note 26 to the Combined Financial Statements presented on page 193 provides details on the accounting policies relating to derivative financial instruments and the effect of these standards on the Combined Statements of Income for the year.

These derivative financial instruments result primarily in a credit and market risk exposure for Desjardins Group. The management of these risks is described on pages 117 to 125 of the Management's Discussion and Analysis.

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

Desjardins Group limits the credit risk associated with derivative financial instruments by doing business with counterparties that have a high credit rating. One of the tables in Note 26 to the Combined Financial Statements of Desjardins Group presents derivative financial instruments according to credit risk rating and the type of counterparty. According to the replacement cost, the table shows that virtually all counterparties have a credit rating ranging from AAA to A. Desjardins also limits credit risk with certain counterparties by entering into master netting agreements which allow, in the event that a counterparty becomes insolvent, for the net settlement of all positions with this counterparty. Credit support annexes (CSA) are also used. By virtue of these CSAs, Desjardins has the right to demand that the counterparty pay or guarantee the current market value of the positions once this value exceeds a certain threshold.

The market risk associated with derivative financial instruments refers to the risk of variation in the market value of these instruments resulting from fluctuations in the parameters affecting this value, notably interest and exchange rates. One of the tables in Note 26 to the Combined Financial Statements of Desjardins Group presents the maturities of the total notional amounts of the derivative financial instruments.

As a general rule, the market risk associated with derivative financial instruments with short-term maturities is less than that associated with derivative financial instruments with longer maturities. As at December 31, 2008, based on the notional amounts, 40.4% of derivative financial instruments had maturities of less than one year.

The risk-weighted balance for all Desjardins Group's derivative financial instruments as at December 31, 2009 amounted to $160 million once all master netting agreements were accounted for ($535 million in 2008). As at December 31, 2009, the amount of security that Desjardins Group would have to provide in the event of a downgrade is marginal because the replacement cost is positive for the majority of the contracts.

Securitization

As part of its liquidity and capital management strategy, Desjardins Group conducts mortgage securitization transactions in the normal course of operations. These transactions involve the use of off-balance sheet arrangements with special purpose entities (SPEs). The SPE used by Desjardins Group is the Canada Housing Trust, which was developed by Canada Mortgage and Housing Corporation (CMHC) under the Canada Mortgage Bonds Program.

In this type of transaction, Desjardins Group transfers mortgages to the SPE in return for money, and the SPE finances these purchases by issuing bonds to investors. The terms of the Canada Mortgage Bonds Program require that swap agreements be made between the Canada Housing Trust and Desjardins Group in order to receive the total cash flows related to the mortgage loans underlying securitized mortgages on a monthly basis and for Desjardins Group to pay quarterly interest to the Canada Housing Trust on the Canada Mortgage Bonds series, as well as the principal at maturity. Securitization operations are accounted for only when Desjardins Group is deemed to have surrendered control of the assets and when it receives a consideration other than the beneficial interests in these assets. At the time of sale of the assets, Desjardins Group retains certain interests regarding excess interest margins, which constitute retained interests, and assumes responsibility for managing the transferred mortgages.

No loss is expected on the mortgage loans because they are guaranteed by CMHC. Desjardins Group periodically reviews the value of these interests and records in combined income any other than temporary declines in value, if applicable. In 2009, the securitized mortgage loans outstanding totalled $4,521 million, compared to $4,074 million in 2008. As at December 31, 2009, $123 million was recorded in the Combined Balance Sheets as retained interests versus $170 million as at December 31, 2008, and $23 million was recorded as servicing liabilities, as opposed to $30 million as at December 31, 2008. Note 7 to the Combined Financial Statements provides detailed information regarding these entities.

Contractual commitments

Desjardins Group has contractual commitments to make future payments on borrowings, subordinated debentures and leases. Borrowings and subordinated debentures are presented in Desjardins Group's Combined Balance Sheets, but leases are not. Notes, 13, 15 and 27 to the Combined Financial Statements contain information on these contractual commitments.

Desjardins Group has undertaken to provide a Margin Funding Facility (MFF) with respect to ABCP holdings. Desjardins Group's share in this credit commitment, totalling $1,193 million under the December 24, 2008 restructuring plan, ranks equal with other MFF participants and expires in July 2017 or earlier if all credit default swap transactions have been settled.

Financial assets received as collateral

Desjardins Group receives financial assets as collateral after trading securities borrowed or purchased under reverse repurchase agreements. Such trading is carried out under normal conditions for these types of transactions. Note 27 to Desjardins Group's Combined Financial Statements provides more information about financial assets received as collateral.

Risk management

Highlights

Risk management governance reinforced by implementation of the new organizational structure; all risk management operations of entire Desjardins Group now under a single Desjardins Group Risk Management Executive Division.

Desjardins-wide implementation or review of frameworks in core risk areas.

Approval granted by the *Autorité des marchés financiers du Québec* to Desjardins Group to use the advanced internal ratings-based approach, subject to conditions, for credit risk related to retail customer loan portfolios.

Management of the financial crisis.

Desjardins Group is exposed to different types of risk in the normal course of operations, including credit risk, liquidity risk, market risk, operational risk, insurance risk and reputation risk. Its objective in risk management is to optimize the risk-return trade-off, within set limits, by applying integrated risk management and control strategies, policies and procedures to all its activities. It also aims to provide a prudent and appropriate management framework that complies with accepted accountability and independence principles.

The FCDQ's Board of Directors is responsible for guiding, planning, coordinating and overseeing all Desjardins Group activities. The Board also has specific risk management responsibilities with respect to Desjardins Group and, in this regard, is supported by the Risk Management Commission, the Audit and Inspection Commission and the Board of Ethics and Professional Conduct. Additional information on these bodies may be found on pages 215 to 226 of the section on corporate governance.

The Board of Directors set up two committees: the Integrated Risk Management Committee and Finance and Risk Management Committee of Desjardins Group, made up of the heads of Desjardins Group's strategic functions and in-house experts to support the Desjardins Group Management Committee, whose role is to ensure that Desjardins Group has an appropriate, effective, ongoing and integrated risk management process.

A risk report containing the key indicators for each risk is prepared periodically for the Integrated Risk Management Committee, the Desjardins Group Management Committee 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 Desjardins Group's risk profile, completes the report.

Desjardins Group's risk management approach is based on principles that promote accountability on the part of entities and units for the results and the quality of risk management. It also confers a pivotal role on the Board of Directors of all Desjardins Group components in monitoring the risks and results of these units and entities. Several procedures are in place to support each component's Board of Directors and management team in the performance of their main risk management responsibilities.

Risk management training sessions were held for board members and management committee members of the FCDQ and its subsidiaries, as well as for Desjardins caisse network officers and general managers. Desjardins Group 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 Integrated Risk Management Committee.

Two independent functional units complete Desjardins Group'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 longevity of Desjardins Group. The executive division aims in particular to support business development by helping Desjardins Group to maintain its competitive position and obtain an appropriate return based on Desjardins Group's risk profile and objectives, to oversee the risk management framework for Desjardins Group, to ensure that risks are managed properly and to report on developments in risks. It also ensures coordination between the FCDQ and Desjardins Group's business segments and components. This Group-wide coordination is ensured by procedures fostering cohesion and organizational 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, as well as the monitoring of the caisse network. As the functional head of the Audit and Inspection Commission, the Desjardins Group Bureau of Financial Monitoring directly supports the Commission in its work.

Desjardins Group's Internal Audit Division is in charge of informing, advising and supporting the board members, 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. The Internal Audit Division's role includes providing independent assessments of risk management, control and corporate governance procedures and making recommendations on how to improve their effectiveness as well as ensure that managers conduct their activities in an effective, efficient, sound and prudent manner.

As required under the *Act respecting financial services cooperatives*, the Desjardins Group Bureau of Financial Monitoring has oversight over the caisse network in Québec. The purpose of such oversight, conducted by applying best practices, is to provide independent opinions on the caisses' management and financial statements. For this purpose, through its audit and inspection work, it evaluates if the risks associated with the caisse network's activities are managed according to sound and prudent risk management practices in compliance with the laws, standards and rules of ethics and professional conduct in effect. In this way, it aims to make early detection of new risks. The Desjardins Group Bureau of Financial Monitoring annually audits the caisses' financial statements according to accepted auditing standards and expresses an opinion on them.

The boards of directors of the caisses and of the FCDQ and its subsidiaries, as well as the Audit and Inspection Commission strictly monitor the reports received from the Desjardins Group Bureau of Financial Monitoring.

Basel II Capital Accord

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

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

In the first quarter of 2009, the AMF granted Desjardins Group its approval to use 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. Other credit exposure and market risk exposure are currently assessed using a standardized approach, while operational risk is calculated using a basic indicator approach. This approach is also used to calculate Desjardins Group's capital ratios, which are still one of the highest among the best capitalized financial institutions in Canada.

As part of its investment activities, Desjardins Group uses four External Credit Assessment Institutions (ECAIs) to determine credit ratings for calculating capital requirements according to the standardized approach. All ECAIs meet the eligibility criteria of Basel II and are authorized by the AMF and the Office of the Superintendent of Financial Institutions (OSFI). The application procedure for credit ratings consists of considering credit ratings for similar issues from each of the four credit rating agencies and to retain the worst ratings.

Again this year, numerous efforts were made throughout Desjardins Group to support the implementation of sound risk management practices. Desjardins Group 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 and the reorganization of the risk management strategic function, it will be possible to better identify and measure risk, and to more closely link regulatory capital requirements to incurred risk. Desjardins Group intends to constantly improve its risk assessment capacity, thus reaffirming its formal commitment to meeting the risk management targets and expectations put forth by the AMF.

Credit risk

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

Desjardins Group is exposed to credit risk first through its direct personal, business and government loans (as at December 31, 2009, loans represented 70.0% of Combined Balance Sheets assets) but also through its various other commitments, including letters of credit, foreign exchange lines and transactions involving derivative financial instruments and securities.

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

In order to provide assistance in this 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 properly structured and monitored throughout Desjardins Group 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 supports the members of the Risk Management Commission in carrying out their responsibilities by analyzing the key elements involved in risk management, as well as the main reports on specific situations and portfolio status.

Desjardins Group has set up a Risk Management Executive Division with four credit risk management divisions. Three of these units share responsibilities based on the main client segments, namely large corporations and capital markets, small and medium-sized businesses, 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. This structure is in turn supported by a division responsible for the main framework elements, and for risk measurement.

Credit risk framework A set of policies and standards govern credit risk management elements for Desjardins Group, such as the responsibilities and powers of the parties involved, the limits imposed by its risk tolerance, the rules governing file assignment and administration and the rules for communicating exposure to credit risks.

Approval and credit risk management units in the three divisions mentioned above assume responsibility for credit granting, management and monitoring specific to their products and operations. These units establish their own policies and practices based on their products and clients while complying with the general policies that govern all credit activities.

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

Credit granting This responsibility is assumed by the various units grouped together in the three divisions, according to their respective client base.

The caisses, their business centres and other business centres in contact with the client base are primarily responsible for approving files. For files in which credit risk is greater, second-level approval can be obtained from Risk Management Executive Division professionals.

These professionals are grouped together according to client type in the three previously mentioned divisions. Their qualifications, their approval level and the depth of the analysis required depend on the product, as well as the complexity and scope of the transaction risk. Larger loans are approved by credit committees that include senior executives. The Executive Committee or the Board of Directors is involved in the approval of loans that exceed policy-defined limits.

Retail clients To assess the risk of credit activities with individuals and smaller businesses, credit scoring systems based on proven statistics are generally used. These systems were developed using a history of behavior among borrowers with a profile or characteristics similar to those of the applicant to determine the transaction risk.

Such systems are used for obtaining initial approval as well as subsequently in cases where the portfolio risk is assessed on an ongoing basis through behavioural ratings calculated on the basis of member borrowers' transactional data. A monthly update is obtained for our existing borrowers' risk level for proactive management of a portfolio's credit risk.

The performance of these systems is continuously analyzed and adjustments are made regularly with a view to determining transaction and borrower risk as accurately as possible.

The units responsible for the development process see to the implementation of adequate controls to ensure the stability and performance of rating systems and internal models. These, in turn, are validated by an independent unit in the development process to ensure that they are conceptually sound and properly take into account all major risks. This validation is performed when the model is initially set up and subsequently on an annual basis, as well as when major changes are made to it. A validation policy determines the events involving validation by an independent unit, the approved rating systems and internal models, and the scope and nature of the validation work.

The use of internal ratings and estimates has been expanded to other risk management and governance activities such as in establishing analysis requirements and file authorization levels, different types of follow-up and the disclosure of portfolio risk quality.

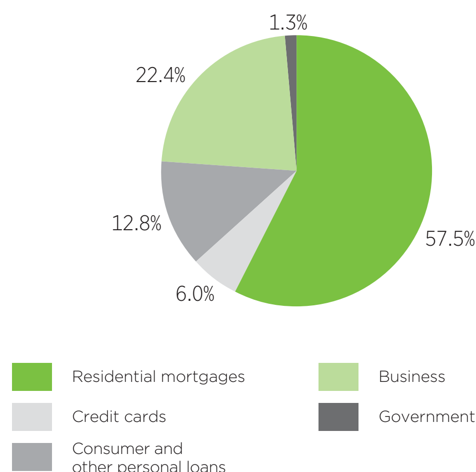
Business loans The granting of credit to businesses is based on an analysis of the various parameters of each file, where each borrower is assigned a risk rating. These ratings are assigned individually following a detailed examination of the financial, market and management characteristics of the business.

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

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

The management of higher-risk loans involves follow-up adapted to their particular circumstances and is supported by specialized 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.

Loan distribution by borrower category
As at December 31, 2009



Counterparty and issuer risk Over 70% of the securities in all the securities portfolios held by Desjardins Group 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 various components based on their investment needs.

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

Where required, Desjardins Group uses mechanisms to share risk with other financial institutions, such as loan syndication.

Lending in Quebec accounts for 95% of total loans, with 4.8% in the rest of Canada, and 0.2% in the United States.

The large number of borrowers, for the most part individuals, but also small and medium-sized businesses from most sectors of the economy, plays a role in the sound diversification of the financing portfolio.

The chart below presents the distribution of loans by borrower category. Over half of the portfolio consists of residential mortgages, for which, statistically, the loss ratio is low. (Desjardins Group is not directly exposed to high-risk subprime mortgages.) Additional information on changes in the loan portfolio, including the distribution of loans to businesses and governments, by industry sector, can be found on pages 106 to 108 of the balance sheet management section.

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

Most derivative financial instrument transactions are over the counter and are governed by master agreements called International Swaps and Derivatives Association agreements ("ISDA agreements"), which define the terms and conditions for the transactions. These agreements are legal contracts binding the counterparties. Most of Desjardins Group's agreements provide for netting to determine the net exposure in the event of default. In addition, a Credit Support Annex can be added to the master agreement in order to request the counterparties to pay or secure the current market value of the positions when such value exceeds a certain threshold.

Securities lending transactions are regulated by participation agreements from the Investment Industry Regulatory Organization of Canada. Desjardins Group also uses netting agreements with its counterparties to mitigate credit risk and requires a percentage of collateralization (a pledge) on the transaction equivalent to industry best practices.

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

Desjardins Group also enters into long hedges through credit derivatives. With these derivative financial instruments (credit default swaps and total return swaps), Desjardins Group can transfer credit risk to a counterparty or hedge itself against different types of risks.

Additional credit risk data

Table 28 – Risk exposure by exposure class

As at December 31, 2009
(in millions of $)

	Exposure used	Unused exposure	Off-balance sheet exposure[1]	Total	Net exposure[2]
Net exposure (exposure at default [EAD]) before credit risk mitigation (CRM)					
Standardized approach					
Sovereign borrowers	$ 9,054	$ 513	$ 1,237	$ 10,804	$ 9,820
Financial institutions	7,382	1,284	3,513	12,179	8,413
Business	28,780	2,189	1,382	32,351	31,029
Mortgages	1,317	12	—	1,329	1,329
Other retail client exposures	4,671	894	111	5,676	5,011
Securitization	1,595	—	—	1,595	1,595
Equities	228	—	—	228	228
Trading portfolio	—	—	12,786	12,786	1,423
Internal ratings-based approach					
Mortgages	37,712	4,073	—	41,785	41,785
Renewable retail client exposures	8,628	13,930	9	22,567	22,568
Other retail client exposures	21,465	6,950	2	28,417	28,417
Total	**$ 120,832**	**$ 29,845**	**$ 19,040**	**$ 169,717**	**$ 151,618**

(1) Including transactions comparable to repurchase agreements, over-the-counter derivatives and other off-balance sheet exposures.
(2) After credit risk mitigation techniques including the use of collateral, guarantees and credit derivatives.

Table 29 – Expositions by exposure class and by risk tranche

Standardized approach
As at December 31, 2009
(in millions of $)

	Risk tranche							
	0%	20%	35%	50%	75%	100%	Others	Total
Exposure classes								
Sovereign borrowers	$ 11,047	$ —	$ —	$ —	$ —	$ —	$ —	$ 11,047
Financial institutions	—	12,316	—	—	—	—	1	12,317
Business	—	1,318	—	—	—	30,742	357	32,417
Mortgages	—	—	1,314	—	—	17	—	1,331
Other exposure on retail customers	—	—	—	—	5,588	38	79	5,705
Securitization	—	189	—	1,296	—	25	84	1,594
Equities	—	—	—	—	—	228	—	228
Trading portfolio	1,006	9,916	—	1	—	1,859	4	12,786
Total	**$ 12,053**	**$ 23,739**	**$ 1,314**	**$ 1,297**	**$ 5,588**	**$ 32,909**	**$ 525**	**$ 77,425**

Table 30 – Interest rate sensitivity (before income taxes)
As at December 31, 2009
(in millions of $)

Impact on the economic value of equity of a 100-basis-point increase in interest rates	$ (42)
Impact on the economic value of equity of a 100-basis-point decrease in interest rates	62

Liquidity risk

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

Managing liquidity risk Desjardins Group manages liquidity risk in order to ensure that it has access, on a timely basis and in a profitable manner, to the funds needed to meet its financial obligations as they become due, in both routine and crisis situations. Managing this risk involves maintaining a minimum level of liquid securities, stable and diversified sources of funding, and an action plan to implement in extraordinary circumstances. Liquidity risk management is a key component in an overall risk management strategy, because it is essential to preserving market and depositor confidence. Thus, Desjardins Group and its components have established policies describing the principles, limits and procedures that apply to liquidity risk management. Desjardins Group has also developed a liquidity contingency plan that includes, inter alia, 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 intervene to minimize disruptions caused by sudden changes in member and client behaviour and potential disruptions in markets or economic conditions. Assets and funding sources in the event of a crisis situation are 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 as to ensure compliance with the Desjardins Group liquidity policy.

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

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

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

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

Market risk

Market risk refers to the risk of changes in the fair value of financial instruments resulting from fluctuations in the parameters affecting this value; in particular, interest rates, exchange rates, credit spreads and their volatility.

Desjardins Group is exposed to market risk primarily through positions taken in the course of its traditional financing and savings recruitment activities. It is also exposed to market risk through its trading activities. Desjardins Group and the components have adopted policies that set out the principles, limits, and procedures to use in managing market risk.

Interest rate risk management Desjardins Group is exposed to interest rate risk, which represents the potential impact of interest rate fluctuations on net interest income and the economic value of equity.

Dynamic and prudent management is applied to achieve the objective of optimizing net interest income while minimizing the negative impact of interest rate movements. The established policies describe the principles, limits and procedures that apply to interest rate risk management. Simulations are used to measure the impact of different variables on changes in net income and the economic value of equity. Assumptions used in the simulations are based on an analysis of historical data and on the impact of different interest rate conditions on changes in the data. These assumptions concern changes in the structure of the Combined Balance Sheets, including non-maturity deposit modelling, member behaviour and pricing. The Desjardins Group Asset/Liability Committee ("Asset/Liability Committee") is responsible for analyzing and approving the global matching strategy on a monthly basis while respecting the parameters defined in interest rate risk management policies.

The above 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. The amounts presented do not include the impact on the financial assets of insurance companies that match actuarial and related liabilities because the effect of interest rate changes is entirely offset by changes in actuarial and related liabilities.

Table 31 – VaR by risk category (trading portfolio)
As at December 31, 2009
(in millions of $)

	As at December 31, 2009	For the year ended December 31, 2009		
		Average	High	Low
Equity	$ 0.7	$ 0.8	$ 1.7	$ 0.4
Foreign exchange	0.1	0.2	0.6	—
Interest rate	3.6	4.0	6.0	2.7
Diversification effect[1]	(0.7)	(1.1)	N/A[2]	N/A[2]
VaR globale	**$ 3.7**	**$ 3.9**	**$ 5.4**	**$ 2.7**

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

The extent of the interest rate risk depends on the gap between cash flows from assets, liabilities and off-balance sheet financial instruments. The situation presented reflects the position on this date only and can change depending on member behaviour, the interest rate environment and the strategies adopted by the Asset/Liability Committee.

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

The main assumptions used are as follows:

Non rate-sensitive instruments Some Combined Balance Sheets items, such as equity investments, non-performing loans, non-interest-bearing deposits, with an interest rate not referenced to a specific rate such as the prime rate, and equity are not sources of interest rate risk. Actuarial and related liabilities are also included in this category.

In the normal course of operations, the life and health insurance subsidiary has developed a policy of matching assets and liabilities that clearly defines acceptable gaps in order to prevent mismatched cash flows. One of the tests addresses the difference between the duration of liabilities and the duration of related assets. Comparing durations makes it possible to measure the sensitivity of the market value of assets and liabilities to changes in the interest rate. The life and health insurance subsidiary monitors the matching situation for all business segments because the matching policy stipulates the targets in this respect. As at December 31, 2009, the duration of the assets and liabilities was equal (they differed from 0.1 year as at December 31, 2008). Since the valuation method already recognizes the impact of possible changes in interest rates, a sudden increase or decrease in these interest rates would not have a material impact on the life and health insurance subsidiary's results.

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

Management of market risk related to trading activities – Value-at-risk The market risk of trading portfolios is managed daily within the framework of a specific policy for that purpose.

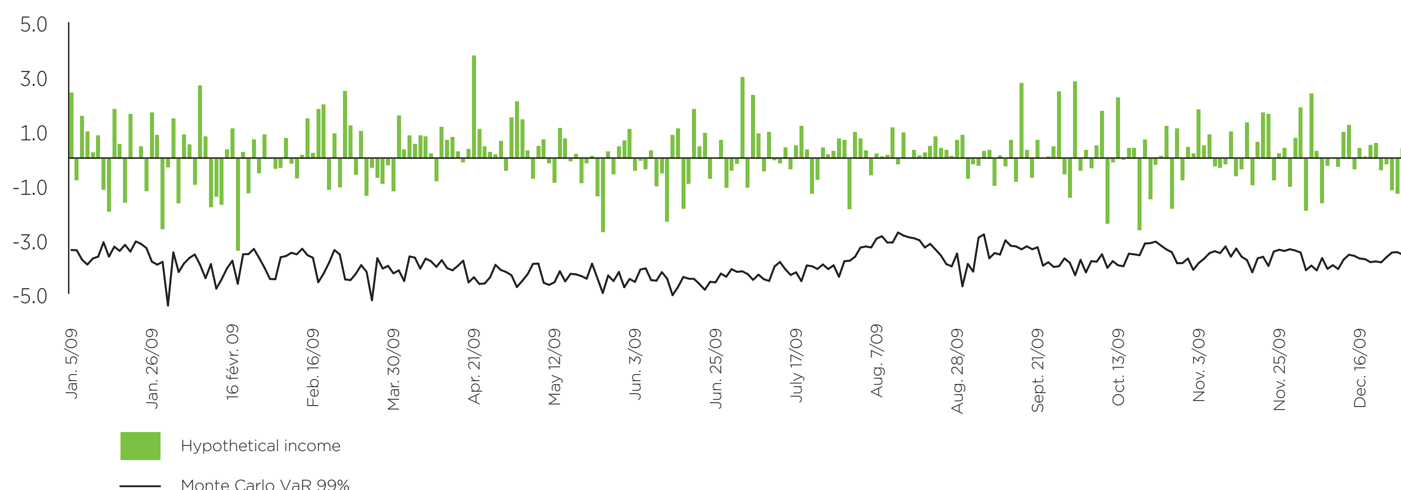
The main tool used to measure the market risk of trading portfolios is "Value-at-Risk" (VaR), which represents an estimate of the potential loss for a certain period of time at a given confidence level.

A Monte Carlo VaR is calculated daily, using a 99% confidence level, on the trading portfolios for a holding horizon of one day. It is therefore reasonable to expect a loss exceeding the VaR figure once every 100 days. The calculation of VaR is based on historical data for a one-year interval.

The above table presents the aggregate VaR of the trading activities of Desjardins Group by risk category as well as the diversification effect, which represents the difference between aggregate VaR and the sum of VaR for the different risk categories. Equity, interest rate and foreign exchange risks are the three risk categories to which Desjardins Group is exposed. The definition of a trading portfolio meets the various criteria defined in the Basel II Capital Accord.

As at December 31, 2009, the aggregate VaR was $3.7 million, the interest rate VaR being the largest component. This aggregate VaR was lower than its annual average of $3.9 million. The risk mitigation related to diversification amounted to $0.7 million as at December 31, 2009.

VaR compared to trading income
(in millions of $)



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

Desjardins Group carries out back testing daily, applying a hypothetical P&L to its trading portfolios. The hypothetical P&L is calculated by determining the difference in value resulting from changes in market conditions between two consecutive days. The portfolio mix between these two days remains static.

The previous chart presents changes in VaR for trading activities as well as income related to these activities. Throughout 2009, losses never exceeded VaR.

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

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

Operational risk

Operational risk is defined as the risk of inadequacy or failure attributable to processes, people, internal systems or external events and resulting in losses, failure to achieve objectives or a negative impact on reputation.

Operational risk is inherent to all business activity, whether performed in-house or outsourced. Losses can mainly arise from fraud, damage to tangible assets, illegal acts, lawsuits, systems failure, or problems in transaction processing or process management.

The overriding objective is to keep operational risk at an acceptable level while ensuring organizational efficiency and quality service to clients of Desjardins Group.

Governance A Desjardins Group framework policy on operational risk management was adopted at the end of 2008. This framework policy provides an official operational risk management framework, establishing the practices and guidelines leading to its implementation, as well as the related roles and responsibilities. This management framework, which Desjardins Group is currently implementing, is based on Desjardins-wide decentralized management where all managers assume management of operational risks.

A centralized operational risk management team has been set up within the Integrated Risk Management Executive Division of Desjardins Group. In addition to developing policies and plans for managing operational risk, it is responsible for monitoring the implementation and ongoing use of operational risk management principles and practices.

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, Desjardins Group 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 Desjardins Group has a database that is used to collect information on the nature, frequency and seriousness of its operational losses. The information collated includes the amount of the losses, the amounts recovered, relevant dates and the risk factors and causes.

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

Risk control Desjardins Group has put into place a number of operational risk management and risk transfer initiatives and programs:

1. Fraud management: Prevention, research and intervention activities for internal and external fraud
2. Business continuity: Planning, preparation and coordination of measures to contend with any business interruption or crisis that may affect the ability to deliver quality service to members and clients
3. Information security: Activities to organize, manage and protect informational assets
4. Regulatory compliance: Efforts to set up a coordinated process to ensure that operations comply with the relevant regulations
5. Outsourcing relations management: Program aimed at providing a Group-wide framework for outsourcing management
6. Internal audit: Independent opinions are given by the Desjardins Group Bureau of Financial Monitoring regarding internal processes and controls under the responsibility of business segments.

Presentation of information Quarterly reports on Desjardins Group's operational risk provide officers and directors with an update on insurable operational losses. Risk and trend indicators are now also included in this periodic reporting.

Regulatory compliance A regulatory compliance function was created at Desjardins Group in 2003. In 2004, the FCDQ's Board of Directors adopted a framework policy specifically for regulatory compliance within Desjardins Group. Since then, a program to monitor regulatory compliance management was developed and is currently deployed at Desjardins Group. Various periodic reports on compliance activities and the disclosure and management of any non-compliant situation are made to various bodies across Desjardins Group.

Insurance risk

Insurance risk includes risks tied to the design and pricing of insurance products as well as risks associated with underwriting and claims settlements.

The risk associated with designing and pricing products is the risk that the initial pricing is or will become insufficient. The risk associated with underwriting and claims settlements pertains to risks arising from risk selection, claims settlement, and contractual clause management.

Insurance risk management Product design and pricing risk arises from potential errors in projections concerning the many factors used to set premiums, including future returns on investments, underwriting experience in terms of claims experience, mortality and morbidity, and administrative expenses. Strict pricing standards and policies are adopted, and the insurance subsidiaries perform spot checks to compare the projections with actual results. Some product pricing may be adjusted depending on the results obtained.

The risk associated with underwriting and claims settlements is managed by establishing appropriate claims payment and risk selection criteria and policies and by limiting potential losses through reinsurance treaties. Such treaties do not, however, release the insurance subsidiaries from their obligations toward clients in the event that reinsurers experience financial difficulties. Consequently, the subsidiaries are also exposed to a credit risk related to the reinsurers. To minimize this risk, the subsidiaries sign reinsurance treaties with stable, financially solid, and duly accredited companies.

The insurance subsidiaries comply with the standards for sound management practices established by the regulatory bodies that govern them and are subject to capital adequacy testing. Various pessimistic scenarios were tested during the year to measure their effect on the capitalization ratio. The capital proved adequate in each case.

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 organization such as Desjardins Group, reputation is of critical importance and cannot be managed separately from the other risks. Consequently, managing reputation risk in all its spheres of activity is a constant concern for Desjardins Group.

Desjardins Group 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 Risk Management Executive Division is responsible for disclosing reputation risk. It provides the Risk Management Commission and the Integrated Risk Management Committee with a report containing information on reputation risk and the key indicators for such risk. In addition, there is a review of the activities of Legal Affairs and Compliance, Cooperative Support and the Secretariat General, and Communications and Public Affairs.

Additional information related to exposure to certain risks

Highlights

Desjardins Group's exposure to consolidated and unconsolidated special purpose entities is 10.9% of the total assets of the special purpose entities, compared to 5.8% as at December 31, 2008.

Desjardins Group does not have any commercial mortgage-backed securities on the U.S. market.

To give external users a better idea of Desjardins Group's exposure to risks related to current market events, Desjardins Group decided to use the best practices promoted by the Financial Stability Board (FSB) following a request from the G7 ministers and central bank governors.

These best practices include enhanced disclosures of risks related to financial instruments which markets consider to be higher risk. It should be noted that some of these disclosures are already made in the MD&A in the following sections:

- Risk management
- Off-balance sheet items
- Fair value of financial instruments (see Note 4 to the Combined Financial Statements)

Desjardins Group used these recommendations as a guideline in making the following disclosures as at December 31, 2009:

Exposure to subprime residential and Alt-A mortgage loans

As part of its operations, Desjardins Group is exposed to credit risks related to subprime residential mortgage loans (defined as loans to borrowers with a high credit risk profile) and Alt-A mortgage loans (defined as loans to borrowers with non-standard income documentation). However, Desjardins Group's exposure to subprime residential mortgage loans was less than $2 million (also less than $2 million in 2008). Only one of these loans is currently in default. Its exposure to Alt-A mortgage loans was $60 million ($83 million in 2008). Subprime residential and Alt-A mortgage loans are recorded on the Combined Balance Sheets as loans measured at amortized cost. As at December 31, 2009, total subprime residential mortgage loans and Alt-A mortgage loans represented less than 0.1% (also less than 0.1% in 2008) of Desjardins Group's total assets.

Leveraged finance loans

Exposure to leveraged finance loans (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 million ($76 million in 2008). This exposure takes the form of disbursed and undisbursed commitments. Leveraged finance loans are generally used to achieve a specific objective, such as making an acquisition, or effecting a takeover or share buy-back. Leveraged finance loans are presented on the Combined Balance Sheets as loans and receivables and totalled less than 0.1% (also less than 0.1% in 2008) of Desjardins Group's total assets.

Collateralized debt obligations

The fair value and notional amount of collateralized debt obligations were $135 million and $151 million, respectively ($144 million and $294 million in 2008). None of the securities held is directly backed by subprime residential mortgage loans. They are presented on the Combined Balance Sheets as available-for-sale securities and securities held for trading.

Commercial mortgage-backed securities

The fair value and principal amount of commercial mortgage-backed securities totalled $329 million and $343 million, respectively ($342 million and $355 million in 2008). Desjardins Group holds only Canadian securities. These securities are presented on the Combined Balance Sheets as securities held for trading.

Financial asset-backed securities

The fair value and notional amount of financial asset-backed securities were $277 million and $310 million, respectively ($288 million and $303 million in 2008). They are presented on the Combined Balance Sheets as available-for-sale securities and securities held for trading.

The table on the following page provides additional details concerning exposure to asset-backed securities.

Table 32 – Fair value of asset-backed securities by credit rating

As at December 31, 2009
(in millions of $)

	Collateralized debt obligations	Commercial mortgage-backed securities	Financial asset-backed securities
Notional amount	$ 151	$ 343	$ 310
Fair value of securities, by rating			
AAA	$ —	$ 324	$ 79
AA	135	5	4
A	—	—	123
BBB	—	—	25
Lower than BBB-	—	—	17
Not rated	—	—	29
Total	$ 135	$ 329	$ 277

Table 33 – Fair value of swaps by maturity

As at December 31, 2009
(in millions of $)

	First-to-default credit default swaps	Credit default swaps(1)	Total return swaps(2)
Notional amount of swaps			
Notional amount of swaps with a positive fair value	$ —	$ —	$ 91
Notional amount of swaps with a negative fair value	21	126	4
Total notional amount	$ 21	$ 126	$ 95
Fair value of swaps with a positive fair value, by maturity			
Less than 1 year	$ —	$ —	$ 1
From 1 to 3 years	—	—	1
Over 3 to 5 years	—	—	—
Over 5 years	—	—	—
Total fair value of swaps with a positive fair value	$ —	$ —	$ 2
Fair value of swaps with a negative fair value, by maturity			
Less than 1 year	$ —	$ (11)	$ (9)
From 1 to 3 years	(4)	(21)	—
Over 3 to 5 years	—	(24)	—
Over 5 years	—	—	—
Total fair value of swaps with a negative fair value	$ (4)	$ (56)	$ (9)
Total fair value	$ (4)	$ (56)	$ (7)

(1) Only on collateralized debt obligations.
(2) Excluding total return swaps entered into in connection with securitization activities.

Credit default swap portfolio

First-to-default credit default swaps and credit default swaps (collateralized debt obligations) were entered into with counterparties. Desjardins Group's commitments and the nature of the underlying assets are presented under "Derivative financial instruments" in Note 27, "Commitments, guarantees and contingencies" to the Combined Financial Statements of Desjardins Group. As at December 31, 2009, the negative fair value and notional amount of these swaps totalled $60 million and $147 million, respectively ($130 million and $196 million in 2008). These swaps are presented on the Combined Balance Sheets as derivative financial instruments.

Total return swap portfolio

The positive and negative fair values of total return swaps, excluding those entered into in connection with securitization activities, were $2 million and $9 million, respectively ($1 million and $59 million in 2008). The notional amount of these swaps was $95 million ($1,779 million in 2008). Total return swaps are presented on the Combined Balance Sheets as derivative financial instruments.

Table 34 – Significant exposure to other special purpose entities
(in millions of $)

	2009		2008	
	Desjardins Group's exposure	Total assets of SPEs(1)	Desjardins Group's exposure	Total assets of SPEs(1)
Unconsolidated SPEs				
Trusts for Canadian non-bank asset-backed commercial paper subject to the Montréal Accord restructuring plan(2)	$ 2,445	$ 16,675	$ 1,436	$ 31,838
Other trusts for bank and non-bank asset-backed commercial paper	131	8,547	12	5,009
Private investment funds related to guaranteed-capital products and other activities(3)	199	532	144	377
Consolidated SPEs				
Private hedge funds related to guaranteed-capital products and other activities(3)	$ 47	$ 105	$ 537	$ 956
Desjardins Credit Union Inc.(4)	156	1,423	175	1,497

(1) The total assets of the SPEs disclosed correspond to the most recent data available to Desjardins Group. For investment funds and hedge funds related to guaranteed-capital structured products, the amount presented corresponds to the entity's net assets.
(2) Please see Note 5 "Securities" to the Combined Financial Statements. The amount in the column "Desjardins Group's exposure" comprises the margin financing facility of $1,193 million (2008: nil) and the fair value of the new notes of $1,252 million (2008: $1,436 million).
(3) For presentation purposes, cross-investments between investment funds and hedge funds have not been eliminated.
(4) See Note 1 "Significant accounting policies" to the Combined Financial Statements.

Assets under administration and assets under management

Desjardins Group is one of the leading wealth managers and trustees in Canada. Assets under administration and assets under management are essentially made up of financial assets in the form of investment funds, mainly from individuals, and securities in custody and assets accumulated by pension funds; they therefore do not belong to Desjardins Group but to its members and clients. These assets are described in detail under "Off-balance sheet items" and in Table 26 "Assets under administration and assets under management".

Securitization

Desjardins Group participates in the Mortgage-Backed Securities program under the *National Housing Act*. These transactions involve the use of off-balance sheet arrangements with special purpose entities (SPEs). The SPE used by Desjardins Group is the Canada Housing Trust, which was set up by Canada Mortgage and Housing Corporation under the Canada Mortgage Bonds Program. These arrangements are described under "Off-balance sheet items" and in Note 7 to the Combined Financial Statements of Desjardins Group.

Special purpose entities

In the normal course of business, Desjardins Group enters into various financial transactions with special purpose entities (SPEs). The entities are usually created for a unique and distinct purpose—they often have a limited life—and are used to legally isolate the financial assets they hold from the transferring organization, which could be one of its clients or the organization itself. SPEs are not operating entities and generally have no employees. Under generally accepted accounting principles, the recognition of SPEs on the Combined Balance Sheets is optional. Please refer to Note 1 "Significant accounting policies" to the Combined Financial Statements of Desjardins Group to learn more about the variable interest entities that have been consolidated (on the Combined Balance Sheets).

Details concerning significant exposure to other SPEs are provided in Table 34 above.

4 Additional information

4.1 Regulatory context

Desjardins Group's operations are governed in particular by the *Act respecting financial services cooperatives*. The *Autorité des marchés financiers* (AMF) is the main government agency that has oversight over and monitors deposit-taking institutions (other than banks) that carry on business in Québec, including the caisses and the FCDQ.

This constitutes a significant difference from the Canadian banks, which are governed by a federal charter. Moreover, Desjardins Group complies with the AMF's guideline on standards governing the adequacy of base capital, adapted to reflect the provisions of the Basel II Accord. It furthermore applies rigorous corporate governance and financial governance practices, which are discussed on page 66 and pages 215 to 226 of this Annual Report.

Other regulations may also apply to some activities of Desjardins Group entities, as for instance, in the area of insurance or securities brokerage.

4.2

Factors that may influence future results

Many factors, several of which are beyond our control, could arise and have a material impact on our financial results and could consequently cause Desjardins Group's actual results to differ from those expected. Given the uncertain nature of these factors, the predictions in the forward-looking statements may not occur. This is explained in the «Caution concerning forward-looking statements» on page 57.

Certain factors are economic in nature or subject to regulation. These include interest rates, the inflation rate, foreign exchange rates, stock indices, monetary and tax policies, consumer spending, the demand for credit, personal savings patterns, the unemployment rate, trade between Québec and the United States and amendments to laws and regulations.

Risk factors also come into play, including credit risk, liquidity risk, market risk, operational risk, insurance risk and reputation risk. These factors, for which Desjardins Group has implemented risk management strategies, are discussed in the «Risk Management» section on pages 117 to 125.

In addition, the critical accounting policies and estimates used by Desjardins Group dictate how it is to present its financial position and results of operations, and may require that management make assumptions on matters that intrinsically involve uncertainties. Any change in such estimates and assumptions could significantly affect Desjardins Group's financial position and results of operations.

The above list of factors likely to influence future results is not exhaustive.

4.3

Critical accounting policies and estimates

A description of the accounting policies used by Desjardins Group is essential to understanding and interpreting the results presented in the Combined Financial Statements as at December 31, 2009. The significant accounting policies are described in Note 1 (pages 158 to 161) or, when possible, in the notes to the Combined Financial Statements to enable the reader to understand these policies. Some of these policies are of particular importance in presenting Desjardins Group's financial position and operating results since they require management to make assumptions and estimates that may involve uncertainties. The following paragraphs summarize the accounting policies.

Allowance for credit losses

The allowance for credit losses reflects management's best estimate of potential credit losses related to a portfolio of both on- and off-balance sheet items and its assessment of economic conditions. The allowance for credit losses is made up of specific allowances and a general allowance. For the loan portfolio, credit risk is assessed regularly, and specific allowances are determined, on a loan-by-loan basis, for all loans considered impaired. In addition, a general allowance is recognized to reflect management's best estimate of probable losses related to the portion of the loan portfolio not yet classified as impaired. The general allowance is first determined by using a statistical model based on changes in losses by loan category. Moreover, an additional amount is considered in order to reflect the impact of economic and other factors.

Certain factors may influence management's assumptions and estimates concerning the allowance for credit losses, including the inherent risk of the loan portfolios, the amount and date of forecasted payments, forecasted loss rates, and economic conditions. Any material change in these factors could result in a change to the currently recognized amount for the allowance for credit losses.

A detailed analysis of the methods that Desjardins Group uses to manage credit risk is provided on pages 118 to 120 of the MD&A.

Financial instruments – Recognition and measurement

Desjardins Group initially recognizes all financial assets and financial liabilities at fair value on the Combined Balance Sheets. Subsequently, financial assets and financial liabilities held for trading as well as available-for-sale financial assets continue to be recorded on the Combined Balance Sheets at fair value. Changes in the fair value of financial assets and financial liabilities held for trading are recognized in combined income under "Other income – Trading income" for the year, while changes in the fair value of available-for-sale financial assets are recorded in combined other comprehensive income until they are derecognized. Equity securities classified as available-for-sale but not quoted on an active market are recorded at cost.

Financial assets held to maturity, loans and receivables and financial liabilities other than held for trading are recognized at amortized cost using the effective interest method. Interest income on these financial assets and liabilities arising from the Personal and Commercial segment are recorded in net interest income, whereas for the rest of the segments, it is recorded under "Other income – Other investment income".

The fair value of a financial instrument is generally the amount of consideration for which the instrument would be exchanged in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of financial instruments are determined on the basis of quoted market prices when an active market exists. Otherwise, Desjardins Group determines fair value by using either the market price of similar financial instruments or by discounting the cash flows, at market interest rates, which are applied to the forecasted amounts until the maturity date. Differences between assumptions made and the actual results may result in different fair values and financial results. These estimates will affect available-for-sale securities, securities held for trading, trading income and combined other comprehensive income items.

Derivative financial instruments and hedging activities

Derivative financial instruments are financial contracts that derive their value from assets, interest rates, foreign exchange and other financial indices. The vast majority of derivative financial instruments are negotiated by mutual agreement between Desjardins Group and the counterparty and include forward exchange contracts, interest rate and currency swaps, total return swaps, forward rate agreements, and interest rate and stock index options.

Derivative financial instruments are used for trading purposes or for asset-liability management purposes. They are used to transfer, modify or reduce actual or expected risks related to market risk. Derivative financial instruments held for trading are used to meet the demand of members and clients as well as to allow Desjardins Group to generate income from its own trading activities. These derivative financial instruments are recognized at fair value on the Combined Balance Sheets, and realized and unrealized gains and losses are recorded under "Other income – Trading income". Derivative financial instruments held for asset-liability management purposes are used to manage the risks related to the interest rates and foreign currency exposure of assets and liabilities on the Combined Balance Sheets, firm commitments and forecasted transactions.

Derivative financial instruments, including embedded derivatives which are required to be accounted for separately, are recorded on the Combined Balance Sheets at fair value. Derivative financial instruments may be designated as part of a fair value hedge or a cash flow hedge. When derivatives are used to manage assets and liabilities, it must be determined whether or not hedge accounting is appropriate for each derivative. In a fair value hedging transaction, the hedging derivative is recognized at fair value, and the carrying value of the hedged item is adjusted by the gain or the loss attributable to the hedged risk. When these changes in fair value do not completely offset each other, the resulting amount is recorded under "Other income – Trading income".

In a cash flow hedging transaction, the gains and losses arising from changes in the fair value of the effective portion of the derivative financial instrument are recognized in combined other comprehensive income until the hedged item is recognized in combined income, at which time such change is recorded under interest income. The ineffective portion of hedging activities is recognized immediately in combined income under "Other income – Trading income". For derivative financial instruments that are not part of a hedging relationship, changes in fair value are recorded under "Other income – Trading income".

The fair value of all derivative financial instruments is determined using pricing models that incorporate the current market prices and the contractual prices of the underlying instruments, the time value of money, yield curves, and volatility factors. The methods, models and assumptions used to set prices and to measure the value of derivative instruments are subjective. Differences between the assumptions made and actual results could lead to different fair values and financial results.

Other than temporary decline in value

Available-for-sale securities and securities held to maturity continue to be reviewed regularly to determine if there has been an other than temporary decline in value. Such impairment losses, if any, are recognized in the Combined Statements of Income either under "Other income – Income from available-for-sale securities" for available-for-sale securities or under "Other income – Income from other investments" for securities held to maturity. In evaluating the decline in value, Desjardins Group takes into account many facts specific to each investment and all the factors that could indicate that there has been a decline in fair value that is other than temporary. Factors considered include, but are not limited to, a significant or prolonged decline in the fair value, significant financial difficulties of the issuer, a breach of contract, the increasing probability of the issuer's bankruptcy or restructuring and the disappearance of an active market for the financial asset concerned.

Actuarial and related liabilities

The calculation of actuarial and other liabilities related to insurance policies for the Life and Health Insurance segment requires that assumptions be made with respect to when a number of factors will come into play such as death, disability, investment income, inflation, policy cancellations, expenses, income taxes, premiums, fees and dividends to policyholders and the amounts they represent. To predict underwriting experience, Desjardins Financial Security uses best estimate assumptions.

Some of these assumptions refer to events that are likely to occur in the distant future and they will eventually be changed.

Securitization

Desjardins Group participates in the *National Housing Act* Mortgage-Backed Securities program. Under this program, Desjardins Group converts mortgage loans into mortgage-backed securities (NHA-MBSs) and transfers them to the Canada Housing Trust.

These securitization transactions are recorded as sales; NHA-MBSs are therefore removed from the Combined Balance Sheets since Desjardins Group has surrendered control over the assets sold and has received consideration other than beneficial interests in these assets.

The gain or loss on the transfer depends on the prior 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 discounted value of expected cash flows and 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 the prepayment rate. No credit losses are expected because the mortgage loans transferred are guaranteed. Any changes to these assumptions and estimates could however have an impact on recorded gains; an analysis of the sensitivity of the fair value of retained interests with respect to unfavourable changes of 10% and 20% in key assumptions is presented in Note 7 to the Combined Financial Statements. In addition, the value of retained interests that must be revalued periodically, the fair value determination methods and the assumptions used could all have an impact on recorded amounts.

Note 7 to the Combined Financial Statements as well as the section on off-balance sheet items in this MD&A provide more detailed information on these transactions.

Employee future benefit plans

Desjardins Group offers most of its employees defined benefit statutory pension plans as well as supplemental plans, which provide pension benefits in excess of statutory limits. Benefits are calculated based on the number of years of membership in the plans and take into consideration the average salary for the employee's five most highly-paid years. Since the plan procedures are such that the future changes in salary levels will have an impact on the amount of future benefits, the cost of benefits is determined through actuarial calculations using the projected benefit method prorated on years of service and management's best estimate assumptions concerning the expected return on plan investments, salary increases, and the retirement ages of employees. Calculation of the expected return on plan assets is based on the value of pension fund assets measured at market-related values. The method used to calculate the market-related value for all asset classes consists of amortizing the difference between the long-term return objective of the plans' investment policies and the pension fund return over a five-year period.

Goodwill and intangible assets

Intangible assets with an indefinite useful life as well as goodwill disclosed in the Combined Balance Sheets of Desjardins Group are not amortized, but are tested for impairment at least once a year. For goodwill, the impairment test consists of a comparison of the fair value and the carrying value of these assets for each operating unit. Fair value is determined by using the discounted value of cash flows or net realizable values, whichever is most appropriate. These methods require management to make assumptions that may affect financial results.

Income taxes on surplus earnings

The process of calculating income taxes on surplus earnings is based on the anticipated tax treatment of transactions recorded in the Combined Statements of Income, the Combined Statements of Changes in Equity and the Combined Statements of Comprehensive Income. To determine the current and future portion of income taxes on surplus earnings, assumptions must be made concerning the dates on which future income tax assets and liabilities reverse. If Desjardins Group's interpretation differs from that of the tax authorities or if the reversal dates do not match the forecasted dates, the provision for income taxes on surplus earnings may increase or decrease in subsequent years.

Provision for member dividends

The 2009 and 2008 provision was estimated on the basis of scenarios and assumptions, taking into account information obtained from a number of caisses. For 2007, the annual provision for member dividends was also established using scenarios from the year's surplus earnings distribution plans for each caisse. The board of directors of each caisse intends to recommend the surplus earnings distribution plan for approval at the general meeting of its members, including the member dividend payment amount. The difference between the amount of member dividends actually paid, in cash or in shares, following the general meetings held by the caisses, and the amount of the estimated provision is charged to combined income of the following fiscal year. The allocation basis for member dividends depends on the interest recorded on loans and deposits, the average Desjardins investment funds outstanding and Accord D loans obtained by members through a caisse, and fees collected from members for the services used. Since 2006, the surplus earnings distribution plan has included a new program allowing members to opt for dividends in the form of shares. As mentioned in the standard, dividends paid in the form of shares carry a premium. The caisses may pay out member dividends when the legal and regulatory requirements have been met.

Provision for contingencies

Desjardins Group was identified in a class action suit to reimburse foreign currency exchange fees on credit cards. On June 11, 2009, the Québec Superior Court allowed the class action by ruling that foreign currency exchange fees are credit fees under the *Consumer Protection Act* (CPA). Desjardins Group decided to appeal the judgment because it is of the opinion that Desjardins Group's practice conforms more to the objectives of the CPA, which does not require that credit card holders who do not use this service pay foreign currency exchange fees. Given the current situation, Desjardins Group is not in a position to determine the outcome of this dispute and, accordingly, it impact on its Consolidated Financial Statements. No amount has been recorded in that respect.

Desjardins Group is also party to various business litigation, lawsuits and possible claims arising in the normal course of business with regard to loan portfolios, investment portfolios, supplier agreements, and its insurance activities, including its insurance product distribution activities. In fact, many of these lawsuits are in connection with measures taken by entities to collect impaired loans and to exercise their rights in respect of assets given as collateral for a loan.

Provisions for possible litigation are recorded when Desjardins Group will likely suffer a loss that can be reasonably estimated. Desjardins Group's management and internal and external experts assess the probability that a future event will confirm that a liability is created on the balance sheet date, and the amount of the contingent loss. New information may result in a different contingency provision. In addition, the actual costs incurred upon settlement of a lawsuit may differ from the provision recorded. For more information, refer to Note 27 to the Combined Financial Statements.

Consolidation of variable interest entities

Desjardins Group's management must use its judgment to determine if the guidance concerning the consolidation principles set out in Accounting Guideline 15 "Consolidation of Variable Interest Entities" (AcG-15) of the Canadian Institute of Chartered Accountants (CICA) indicates that a variable interest entity (VIE) of which Desjardins Group is the primary beneficiary must be consolidated. A final decision in the matter would require that contracts be analyzed, that an assessment be made to determine if the entities meet the conditions set out in AcG-15, and that the variable interests be identified.

4.4

Changes in accounting policies

New accounting standards adopted in 2009

Goodwill and intangible assets

On January 1, 2009, Desjardins Group retrospectively adopted the new CICA standard entitled "Goodwill and Intangible Assets" (Section 3064). This standard reinforces an approach based on principles and criteria to recognize costs as assets and clarifies the application of the matching principle in order to eliminate the practice of recognizing as assets items that do not meet the definition of an asset nor the criteria for asset recognition. The adoption of this standard had no impact on its Combined Financial Statements.

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
- Level 3 – Valuation techniques not based primarily on observable market data

Desjardins Group applied the amendments to this standard for the first time to its 2009 annual financial statements. For this first year of application, it does not need to provide comparative information for the disclosures required by the amendments. Since these amendments specifically concern disclosures, they had no impact on Desjardins Group'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. Desjardins Group has applied the new guidance to reclassifications made on or after July 1, 2009. This amendment had no significant impact on Desjardins Group's Combined Financial Statements.

Impairment of financial assets

In August 2009, the CICA amended Section 3855, "Financial Instruments – Recognition and Measurement" in order to change the categories in 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 Desjardins Group 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

Desjardins Group applied the amendments to this standard retrospectively as at January 1, 2009 in its financial statements as at December 31, 2009. The adoption of this standard had no impact on Desjardins Group's Combined Financial Statements.

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

On January 1, 2009, Desjardins Group retrospectively adopted the new abstract issued by the CICA Emerging Issues Committee (EIC) entitled "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" (EIC-173). This EIC abstract 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 significant impact on the valuation models used to determine the fair value of financial instruments or on Desjardins Group's results and financial position.

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. Desjardins Group 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 Combined Financial Statements.

International Financial Reporting Standards

Background

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to apply International Financial Reporting Standards (IFRS) in 2011.

For Desjardins Group, the changeover date for Canadian GAAP to IFRS was therefore set at January 1, 2011.

In order to comply with this timeline, Desjardins Group set up an IFRS conversion program as early as 2007 and prepared a detailed conversion plan with three main phases.

Work completed to date

During the year ended December 31, 2009, Desjardins Group completed the Identification and Feasibility phase of its plan as well as several activities of Phase II. It expects to complete its work in fiscal 2010.

The impact on information systems, processes and controls reported during Phase I of the plan has been taken into account in various projects. A change management plan, including a personnel training program, was also prepared and is currently being deployed.

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

Main implications of transition to IFRS on Desjardins Group's current accounting policies

A conceptual framework similar to that for Canadian GAAP is used by IFRS, but IFRS 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 exemptions and mandatory exceptions provided for in IFRS 1 (revised), "First-time Adoption of International Financial Reporting Standards".

The choices that Desjardins Group expects to make in compliance with IFRS 1 (revised) and the changes in significant accounting policies that it has identified under its IFRS conversion program are described below. This information is based on the IFRS as published by the International Accounting Standards Board (IASB) on December 31, 2009.

During the year ended December 31, 2009, Desjardins Group continued to analyze the implications of the conversion to IFRS regarding its Combined Balance Sheets and its combined income. Given, however, developments in certain standards, the unavailability of certain market data and the timetable for completing certain solutions, Desjardins Group is unable to comment at this stage on the financial implications of the IFRS transition regarding its Combined Balance Sheets and its combined income.

Governance of the IFRS program

Governance of the IFRS conversion program has been set up as follows:

The **Audit and Inspection Commission** approves the accounting treatment choices and monitors the progress of the work

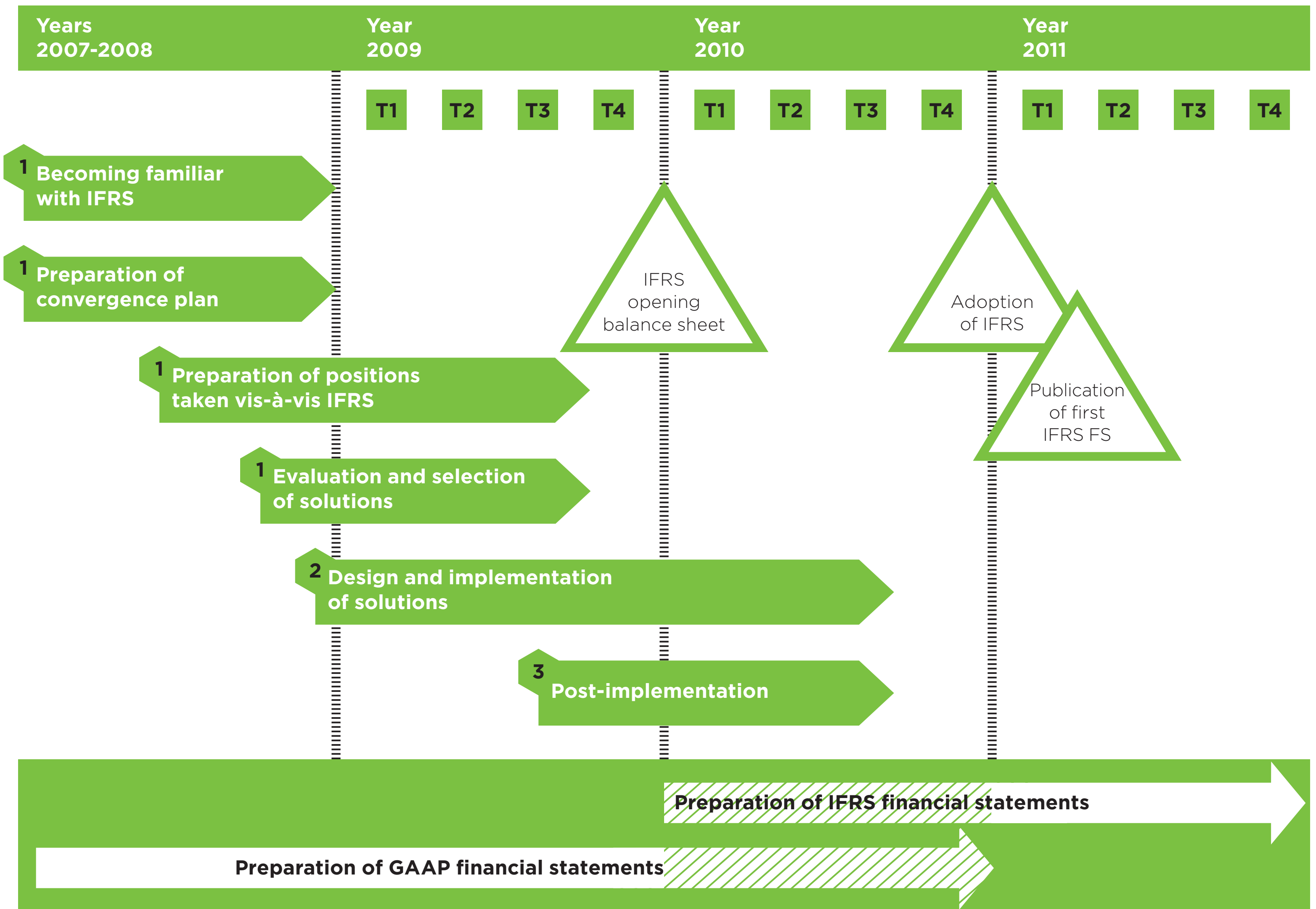
The **Steering Committee** establishes the program orientations and priorities. In addition, it ratifies the accounting treatments recommended by the User Committee

The **Program 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 the stated priorities

The role of the **User Committee** is to ensure the quality of the accounting choices and their seamless implementation within all Desjardins Group components

A structured and integrated **training** plan by target client base has been prepared. The progress made in deploying this plan is reviewed periodically and adjusted, if necessary

IFRS conversion timeline



Phases of conversion plan

Phase 1 – Initiative: Identification and Feasability

During this phase, Desjardins Group thoroughly assessed the areas in which IFRS implementation would have the most repercussions. It also prepared a detailed project plan showing the order of priority of the items to be dealt with and chose the solutions to be implemented.

Phase 2 – Project: Design – Realization – Deployment

The purpose of this phase is to set up the conversion plans for all the standards identified during the Identification stage. This phase includes establishing communication and training strategies for the various stakeholders. It also includes making the required changes to information systems and business processes, and formally finalizing the authorizations required to approve accounting policy changes.

Phase 3 – Operation: Post-implementation

The objective at this stage is to set up a procedure to maintain operations and update knowledge within Desjardins Group.

Accounting policies affected

Employee future benefits
Derecognition of financial assets
Provisions for credit losses
Insurance contracts
Consolidation
Hedge accounting
Business combinations
Member dividends (patronage allocations)
Property, plant and equipment
Investment property
Income taxes

Employee future benefits

Optional exemptions and mandatory exceptions allowed upon first-time adoption of IFRS IFRS 1 (revised) offers an optional exemption permitting a first-time adopter of IFRS to charge all unamortized cumulative net actuarial gains and losses to undistributed surplus earnings at the transition date to IFRS, even if a 'corridor' approach is used for actuarial gains and losses subsequent to the transition date. The alternative solution would be to apply IAS 19, "Employee Benefits", retrospectively, since the creation of the pension plans.

Desjardins Group decided to charge all actuarial gains and losses to undistributed surplus earnings at the transition date.

Significant changes in accounting policies

Measurement date According to Desjardins Group's current accounting policies, the accrued benefit obligation and the fair value of plan assets are measured as at September 30, or three months before the date of the Combined Financial Statements.

According to IFRS, the defined benefit obligation and the plan assets will be measured at the date of the financial statements.

Fair value of plan assets According to Desjardins Group's current accounting policies, plan assets are measured according to the market-related value method, where changes in the fair value of plan assets are recorded over a five-year period.

According to IFRS, plan assets and the expected return on plan assets will be measured using fair value at the date of the financial statements.

Derecognition of financial assets

Optional exemptions and mandatory exceptions allowed upon first-time adoption of IFRS According to IFRS 1 (revised), at the date of transition to IFRS, an enterprise must apply the transitional provisions in IAS 39, "Financial Instruments: Recognition and Measurement", which provide for prospective treatment of the provisions stated in the standard for transactions occurring on or after January 1, 2004.

For Desjardins Group, 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 Combined Balance Sheets at the date of transition to IFRS.

Significant changes in accounting policies According to Desjardins Group's current accounting policies, the derecognition model for a financial asset is based on control, or more specifically, on the surrender of control.

According to the provisions of 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.

Desjardins Group transfers mortgage loans to Canada Housing Trust. Even though these securitization transactions are recognized as transfers of receivables under GAAP, they do not meet derecognition requirements under IFRS.

Provisions for credit losses

Significant changes in accounting policies

General allowance According to Desjardins Group'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 by using a statistical model based on changes in losses by loan category. Moreover, an additional amount is considered in order to reflect the impact of economic and other factors.

Under 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, Desjardins Group 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.

Specific allowances According to Desjardins Group's current accounting policy, it establishes specific allowances separately for each of the loans identified as impaired.

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 profit or loss.

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.

Impairment of loans, whether or not significant, will be measured by taking the present value of estimated future cash flows discounted at the original loan interest rate. The difference between this valuation and the loan balance will constitute the allowance. Any change in the provision for credit losses attributable to the passage of time will be recognized under "Interest income", while revised estimated cash receipts will be recognized in the Combined Statements of Income under "Provisions for credit losses".

Insurance contracts

Optional exemptions and mandatory exceptions allowed upon first-time adoption of IFRS According to the provisions of IFRS 4, "Insurance Contracts", entities may maintain their existing accounting policies with regard to the recognition of actuarial liabilities for insurance and investment contracts. They may, however, change their accounting policies if, and only if, the changes make their financial statements more relevant and allow reliable information to be provided.

Significant changes in accounting policies

Classification of insurance contracts According to Desjardins Group's current accounting policies, all contracts entered into between the insurer and the policyholder constitute insurance contracts.

IFRS 4 defines insurance contracts more restrictively than GAAP and excludes the recognition of investment contracts without significant insurance risk. Contracts failing to meet this definition as well as investment contracts should rather be treated as financial instruments under IAS 39 or as service contracts under IAS 18, "Revenue".

Desjardins Group has found a type of investment contract without significant insurance risk which should now be recognized in accordance with IAS 39 recommendations, namely annuity certain contracts.

Presentation of reinsurance operations According to Desjardins Group's current accounting policies, actuarial liabilities for life and health insurance are presented net of the reinsurance amounts, while actuarial liabilities for general insurance are presented on a gross basis, with a receivable from the reinsurers for the amounts reinsured.

Under IFRS, actuarial liabilities must all be presented gross of the reinsurance amounts.

Consolidation

Significant changes in accounting policies

Segregated accounts According to Desjardins Group's current accounting policies, segregated accounts are not consolidated but rather are presented separately on the balance sheet in accordance with the provisions of CICA Handbook Section 4211, "Life Insurance Enterprises – Specific Items".

According to the provisions of IAS 27, "Consolidated and Separate Financial Statements", Desjardins Group should consolidate the segregated accounts of its life and health insurance subsidiary.

Hedge accounting

Significant changes in accounting policies

Measuring the ineffectiveness of hedging relationships Under its current accounting policy, Desjardins Group uses the change in variable cash flow method and the shortcut method to measure the ineffectiveness of hedging relationships in certain circumstances.

IAS 39 does not permit the use of the change in variable cash flow method or the shortcut method to measure the ineffectiveness of hedging relationships.

In order to comply with these new requirements, Desjardins Group has developed substitute methods for the methods currently used. These changes will increase the volatility of Desjardins Group's future results. Management, however, is unable for the time being to estimate the resulting financial implications.

Business combinations

Optional exemptions and mandatory exceptions allowed upon first-time adoption of IFRS Under IFRS 1 (revised), business combinations occurring prior to the date of transition to IFRS need not be restated. In the case where an entity does not use this optional exemption, it must then retrospectively restate its business combinations in accordance with the provisions of IFRS 3 (revised), "Business Combinations".

Desjardins Group decided to take advantage of this optional exemption and therefore, not to restate the business combinations prior to its date of transition to IFRS, namely January 1, 2010.

Member dividends (patronage allocations)

Significant changes in accounting policies According to Desjardins Group's current accounting policies, member dividends are recognized quarterly in the Combined Statements of Income pursuant to the provisions of EIC-68, "Patronage Allocations".

Under IFRS, patronage allocations paid to members constitute remuneration of capital stock and will therefore be recognized directly in equity. Patronage allocations will be recognized in the fiscal year in which the general meeting of the members of each of the caisses in Québec approves the previous year's surplus earnings distribution plan and in the fiscal year in which the board of directors so decides for caisses in Ontario.

Property, plant and equipment

Optional exemptions and mandatory exceptions allowed upon first-time adoption of IFRS Under IFRS 1 (revised), an election may be made to measure property, plant and equipment at their fair value at the date of transition, which will then be the deemed cost according to IFRS, or to restate the GAAP historical cost according to the directives in IAS 16, "Property, Plant and Equipment", and use this new value as the deemed cost. This election may be made for each individual asset.

Desjardins Group expects to make this election; certain property, plant and equipment (i.e. buildings) will therefore be remeasured at fair value while the historical cost of others will be restated.

Significant changes in accounting policies

Measurement model According to Desjardins Group's current accounting policies, property, plant and equipment are recognized at depreciated cost.

IFRS allow property, plant and equipment to be recognized at depreciated cost or according to the revaluation model at the date of the financial statements. Desjardins Group elected to recognize its property, plant and equipment after the date of transition at depreciated cost.

Component approach IFRS require that the main components of property, plant and equipment be identified when they have significantly different useful lives. Desjardins Group revised its recognition and capitalization policies to ensure compliance with this specific IFRS requirement.

Depreciation According to Desjardins Group's current accounting policies, property, plant and equipment are depreciated on the basis of their estimated useful lives using the straight-line or declining balance depreciation method.

Under IFRS, property, plant and equipment will be depreciated so as to reflect the rate at which the enterprise expects to consume the future economic benefits related to the assets. The declining balance depreciation method therefore does not meet this requirement. Desjardins Group's property, plant and equipment will therefore be depreciated on a straight-line basis depending on their estimated useful life.

Investment property

Optional exemptions and mandatory exceptions allowed upon first-time adoption of IFRS Under IFRS 1 (revised), an election may be made to measure investment property at fair value at the date of transition, which will then be the deemed cost under IFRS, or to restate the GAAP historical cost according to the directives provided in IAS 40, "Investment Property" and use this new value as the deemed cost. This election may be made for each individual investment property.

Desjardins Group expects to make this election; some investment properties will therefore be remeasured at fair value while the historical cost of others will be restated.

Significant changes in accounting policies

Measurement model According to Desjardins Group's current accounting policies, property held by the life and health insurance subsidiary is recognized according to the moving average market method. Since the accounting treatment for other investment property is not different from that for property, plant and equipment, other investment property is recognized at depreciated cost.

IFRS allows investment property to be measured at depreciated cost or according to the fair value model at the date of the financial statements. After the transition date, Desjardins Group has elected to recognize all its investment property at depreciated cost.

Income taxes

Significant changes in accounting policies

Current income taxes According to Desjardins Group's current accounting policies, current income taxes in respect of items recognized directly in equity are recorded in the Combined Statements of Income.

Under IFRS, current income taxes in respect of items recognized directly in equity will be recognized in equity.

Deferred (or future) income taxes – Intercompany transactions

According to Desjardins Group's current accounting policies, no deferred income tax is recognized for temporary differences arising from intercompany transactions.

Under IFRS, deferred income taxes will be recognized for taxable or deductible temporary differences arising from an intercompany transfer.

Main implications for financial statement presentation

Desjardins Group has completed the analysis of the new disclosure requirements arising from the adoption of IFRS. A draft template for the Combined Financial Statements has been completed.

Other implications

Analyses are also being conducted to determine the impacts of adopting IFRS for Desjardins Group's capital ratios. This work is performed jointly by Desjardins Group's multidisciplinary teams. Management has already initiated discussions with regulators to raise their awareness of these impacts. In order to finalize the analyses being conducted, Desjardins Group must however wait until the regulators decide on the treatment for the differences generated by major accounting changes during and after the transition.

4.5 Business climate

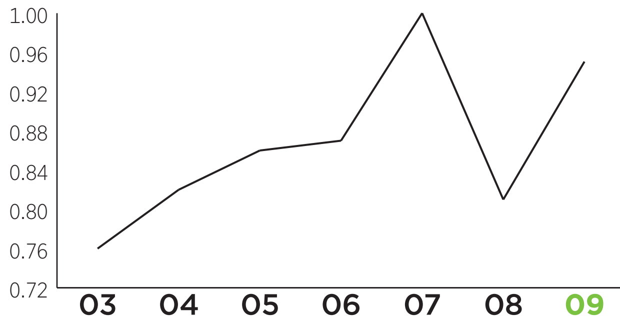
The year 2009 was ushered in amid economic and financial turmoil. The mortgage credit and liquidity crunch had a devastating impact on the global economy, which experienced its worst recession since World War II. The strong measures taken by central banks, which lowered their key interest rates to unheard of levels while injecting massive amounts of liquidity, gradually alleviated the tension on capital markets. The ambitious recovery plans of governments all over the world also helped to get the economy back on track. By the end of 2009, most industrialized countries had therefore returned to a growth path, leaving the recession behind them.

The beginning of 2009 was particularly trying for stock markets. The meltdown that started in 2008 gathered momentum in the U.S. and Canadian stock exchanges, which hit cyclical lows in March 2009. The ensuing recovery was spectacular, with the S&P 500 up 23.5% at year-end. In Canada, the S&P/TSX index advanced solidly by 30.7% in 2009.

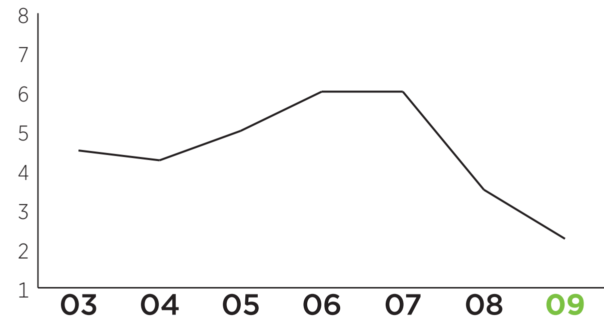
Commodity prices finished the year significantly higher after starting to plummet in the third quarter of 2008. Oil prices hit US$80 a barrel at the end of December, after hovering around US$30 a barrel at the beginning of the year. This increase buoyed up the Canadian dollar, which also benefited from 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.

The Obama administration's stimulus plan and a federal funds rate held at a floor of 0.25% worked as expected, and the U.S. economy entered into a recovery phase this past summer. Household spending was stimulated by various government programs, in particular by the Cash for Clunkers program and the tax credit for homebuyers.

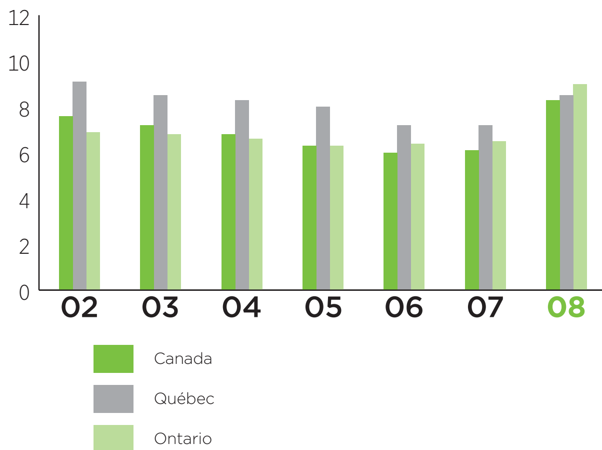
Canadian dollar
(C$/US$)



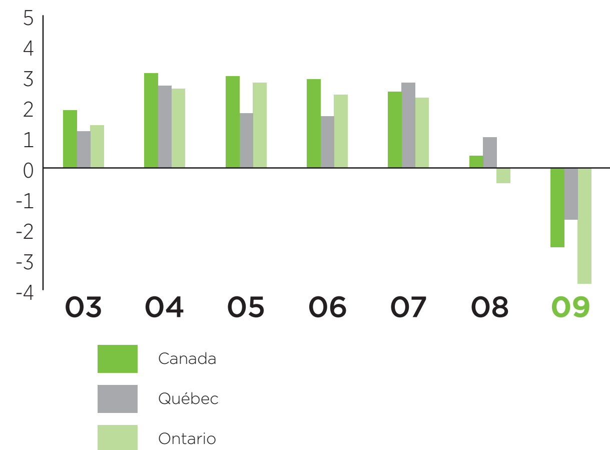
Prime rate
(as a %)



Unemployment rate
(as a %)



GDP growth
(as a %)



The recession which started in early 2008 has nonetheless left deep scars. More than seven million jobs were lost, the largest decline ever recorded for a recession. Given the circumstances, the real estate market is slow to show any improvement, especially since households' financial position has deteriorated significantly and credit conditions are still quite tight.

In Canada, the economy shrank much less than in the United States. The real estate market was shaken to a lesser degree because of the more stringent credit practices on this side of the border. Housing prices have even already recovered any lost ground since the financial crisis erupted, and residential construction has started to expand again. For businesses, credit conditions have started to ease and capital spending is on the rise. Exports, however, are still affected by a stronger loonie.

Outlook for 2010

The economic recovery now under way in most industrialized countries will continue throughout the year. In view of the many structural problems, the recovery will be gradual and will continue to rely on government stimulus plans. The U.S. job market should improve, thereby reinforcing the recovery. The Obama administration's drive will make up for the weakness of the private sector.

After experiencing a period of extreme turbulence, capital markets will be consolidating their recovery during the year. The Federal Reserve should keep its key interest rates unchanged throughout 2010 so as to avoid stifling the recovery, while the Bank of Canada will do likewise until the fall. Even if the federal government's recovery plan will continue to have an impact this year, Canada's economic rebound will be modest. Domestic demand will continue to grow, but exports will be hard-pressed to improve because of the stronger loonie. Although Québec and Ontario will be handicapped on that score, Western Canada will benefit from higher oil prices and the positive spinoffs of the Winter Olympic Games.

4.6

Five-year statistical review

Combined Balance Sheets
As at December 31
(in millions of $)

	2009	2008	2007	2006	2005
Assets					
Cash and deposits with financial institutions	$ 1,086	$ 1,489	$ 1,499	$ 1,334	$ 1,278
Securities					
Investment securities	—	—	—	23,099	22,036
Available-for-sale securities	12,064	11,338	10,315	—	—
Securities held for trading(1)	19,349	17,746	21,127	3,906	3,045
Securities held to maturity(1)	18	19	—	—	—
Equity method securities	129	119	118	38	—
	31,560	29,222	31,560	27,043	25,081
Securities borrowed or purchased under reverse repurchase agreements	5,055	6,130	7,593	4,147	2,389
Loans					
Residential mortgages	63,763	61,081	56,662	52,461	48,505
Consumer, credit card and other personal loans	20,820	18,121	16,440	15,377	14,411
Business and government	26,258	26,086	23,063	21,532	20,278
	110,841	105,288	96,165	89,370	83,194
Allowance for credit losses	(846)	(826)	(762)	(724)	(722)
	109,995	104,462	95,403	88,646	82,472
Other assets	9,507	10,995	8,004	7,970	6,873
Total assets	$ 157,203	$ 152,298	$ 144,059	$ 129,140	$ 118,093
Liabilities and equity					
Liabilities					
Deposits					
Individuals	$ 75,420	$ 71,958	$ 66,319	$ 62,650	$ 59,291
Business and government	22,876	21,512	20,784	16,282	16,428
Deposit-taking and other institutions	7,865	7,966	8,663	9,211	7,568
	106,161	101,436	95,766	88,143	83,287
Actuarial and related liabilities	13,453	12,874	12,831	11,135	10,500
Borrowings	71	338	69	163	345
Subordinated debentures	1,294	748	858	1,367	1,355
Other liabilities	25,027	27,027	25,253	19,779	14,701
	39,845	40,987	39,011	32,444	26,901
Equity					
Capital stock	1,650	955	894	856	845
Share capital	71	69	67	66	64
Undistributed surplus earnings (deficit)	805	(96)	795	634	729
Accumulated other comprehensive income	489	685	50	—	—
Reserves	8,182	8,262	7,476	6,997	6,267
	11,197	9,875	9,282	8,553	7,905
Total liabilities and equity	$ 157,203	$ 152,298	$ 144,059	$ 129,140	$ 118,093

(1) Data restated to reflect the presentation adopted in 2009.

Primary financial measures

As at December 31
(in millions of $ and as a %)

	2009	2008	2007	2006	2005
Tier 1 capital ratio – BIS	**15.86 %**	13.39 %	14.17 %	14.18 %	14.01 %
Total capital ratio	**15.86**	12.85	13.59	14.33	14.05
Return on equity	**10.4**	0.8	12.3	12.1	14.5
Productivity ratio[(1)]	**74.4**	91.8	74.2	74.6	72.4
Impaired loans coverage ratio	**166.2**	195.7	194.9	206.9	220.8
Gross impaired loans as a percentage of gross loans	**0.46**	0.40	0.41	0.39	0.39
Average assets	**$ 158,463**	$ 149,676	$ 139,957	$ 123,563	$ 112,692
Average loans	**106,999**	99,705	91,832	85,419	78,803
Average deposits	**104,584**	99,288	92,042	85,485	79,889

(1) The productivity ratio is Desjardins Group's non-interest expense to total income, net of expenses related to claims and insurance benefits.

Combined Statements of Income

Years ended December 31
(in millions of $)

	2009	2008	2007	2006	2005
Interest income					
Loans	**$ 5,068**	$ 5,573	$ 5,438	$ 4,971	$ 4,522
Securities	**438**	474	447	386	332
	5,506	6,047	5,885	5,357	4,854
Interest expense					
Deposits	**1,920**	2,590	2,578	2,206	1,739
Subordinated debentures and borrowings	**64**	39	62	70	81
	1,984	2,629	2,640	2,276	1,820
Net interest income	**3,522**	3,418	3,245	3,081	3,034
Net premiums	**4,247**	4,131	3,824	3,688	3,547
Other income					
Deposit and payment service charges	**513**	497	484	447	417
Lending fees and credit card service revenues	**444**	410	381	326	263
Brokerage, investment fund and trust services	**581**	617	738	625	525
Investment and trading income	**—**	—	—	878	965
Income (loss) from available-for-sale securities	**79**	(405)	141	—	—
Trading income (loss)	**666**	(1,001)	262	—	—
Other investment income	**275**	239	179	—	—
Other	**343**	467	417	374	335
	2,901	824	2,602	2,650	2,505
Total income	**10,670**	8,373	9,671	9,419	9,086
Provisions for credit losses	**271**	243	197	139	96
Claims, benefits, annuities and changes in insurance provisions	**3,758**	3,144	3,171	3,342	3,252
Non-interest expense					
Salaries and fringe benefits	**2,423**	2,250	2,338	2,271	2,104
Premises, equipment and furniture, including amortization	**415**	393	381	373	369
Outsourcing of processing services	**371**	322	308	315	315
Communications[(1)]	**237**	252	357	237	228
Restructuring fees	**101**	—	—	—	—
Other	**1,594**	1,583	1,439	1,338	1,206
	5,141	4,800	4,823	4,534	4,222
Operating surplus earnings	**1,500**	186	1,480	1,404	1,516
Income taxes on surplus earnings	**406**	109	358	398	403
Operating surplus earnings before non-controlling interests and member dividends	**1,094**	77	1,122	1,006	1,113
Non-controlling interests	**17**	(1)	21	18	24
Surplus earnings before member dividends	**1,077**	78	1,101	988	1,089
Provision for member dividends	**311**	215	592	483	408
Tax recovery on the provision for member dividends	**(98)**	(62)	(174)	(148)	(120)
Surplus earnings (deficits) for the year after member dividends	**$ 864**	$ (75)	$ 683	$ 653	$ 801

(1) Data restated to reflect the presentation adopted in 2009.

4.7

Summary of quarterly information

Combined Statements of Income
(unaudited, by quarter and in millions of $)

	2009				2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net interest income	$ 941	$ 958	$ 828	$ 795	$ 880	$ 882	$ 847	$ 809
Net premiums	1,082	1,102	1,057	1,006	1,027	1,111	997	996
Other income (losses)	560	1,010	887	444	(178)	17	608	377
Total income	2,583	3,070	2,772	2,245	1,729	2,010	2,452	2,182
Provisions for credit losses	86	80	45	60	88	65	46	44
Claims, benefits, annuities and changes in insurance provisions	773	1,216	980	789	965	579	777	823
Non-interest expense	1,425	1,220	1,275	1,221	1,257	1,145	1,176	1,222
Operating surplus earnings (deficit)	299	554	472	175	(581)	221	453	93
Income tax (recovered) on surplus earnings (deficit)	55	167	128	56	(96)	73	107	25
Non-controlling interests	—	9	6	2	(9)	(1)	8	1
Surplus earnings (deficit) before member dividends	244	378	338	117	(476)	149	338	67
Provision for member dividends, net of income taxes recovered	50	95	29	39	(63)	7	123	86
Surplus earnings (deficit) for the period after member dividends	$ 194	$ 283	$ 309	$ 78	$ (413)	$ 142	$ 215	$ (19)

Combined Balance Sheets

(unaudited, at the end of the quarter and in millions of $)

	2009				2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Assets								
Cash and deposits with financial institutions	$ 1,086	$ 1,020	$ 1,358	$ 1,212	$ 1,489	$ 1,144	$ 1,230	$ 1,280
Securities - Available-for-sale securities	12,064	11,368	10,340	10,516	11,338	11,100	11,579	11,064
Securities - Securities held for trading[1]	19,349	22,469	20,715	20,839	17,746	19,278	21,596	21,579
Securities - Securities held to maturity[1]	18	18	18	18	19	19	19	—
Securities - Equity method securities	129	117	115	117	119	120	118	119
Securities borrowed or purchased under reverse repurchase agreements	5,055	9,727	10,239	10,674	6,130	7,127	8,766	8,400
Residential mortgages	63,763	63,472	62,574	61,035	61,081	60,104	58,989	56,945
Consumer, credit card and other personal loans	20,820	20,194	19,456	18,583	18,121	17,740	17,163	16,717
Loans to business and government	26,258	25,661	25,300	26,757	26,086	25,173	23,968	24,207
Allowance for credit losses	(846)	(833)	(818)	(845)	(826)	(795)	(777)	(773)
Other assets	9,507	10,000	10,570	10,828	10,995	9,311	9,289	10,222
Total assets	**$ 157,203**	**$ 163,213**	**$ 159,867**	**$ 159,734**	$ 152,298	$ 150,321	$ 151,940	$ 149,760
Liabilities and equity								
Deposits by individuals	$ 75,420	$ 74,336	$ 74,169	$ 72,870	$ 71,958	$ 69,344	$ 69,233	$ 66,908
Deposits by business and government	22,876	23,540	23,078	20,812	21,512	22,551	22,637	20,256
Deposits by deposit-taking and other institutions	7,865	8,010	9,431	9,075	7,966	8,859	9,199	10,252
Actuarial and related liabilities	13,453	13,474	13,046	12,812	12,874	12,678	12,854	12,833
Subordinated debentures and borrowings	1,365	1,365	1,367	886	1,086	837	850	816
Other liabilities	25,027	31,754	28,642	33,225	27,027	26,329	27,604	29,290
Equity	11,197	10,734	10,134	10,054	9,875	9,723	9,563	9,405
Total liabilities and equity	**$ 157,203**	**$ 163,213**	**$ 159,867**	**$ 159,734**	$ 152,298	$ 150,321	$ 151,940	$ 149,760

(1) Data restated to reflect the presentation adopted as at December 31, 2009.

Primary financial measures

(unaudited, by quarter or at the end of the quarter, as a % and in millions of $)

	2009				2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Return on equity	8.6 %	14.4 %	13.4 %	4.8 %	(19.3)%	6.2 %	14.3 %	2.9 %
Productivity ratio[1]	78.7	65.8	71.1	83.9	164.5	80.0	70.2	89.9
Impaired loans coverage ratio	166.2	166.9	166.6	181.3	195.7	194.6	199.2	198.2
Gross impaired loans as a percentage of gross loans	0.46	0.46	0.46	0.44	0.40	0.40	0.39	0.40
Average assets	$ 160,208	$ 161,540	$ 159,801	$ 156,016	$ 151,310	$ 151,131	$ 150,850	$ 146,910
Average loans	109,245	107,503	106,021	104,996	103,342	100,783	98,220	96,250
Average deposits	106,024	106,282	104,718	102,097	101,095	100,912	99,243	96,591

(1) The productivity ratio is Desjardins Group's non-interest expense to total income, net of expenses related to claims and insurance benefits.

4.8

Selected statistics by business segment

Personal and Commercial

As at December 31
(unaudited, in millions of $)

	2009	2008	2007	2006	2005
Caisses and federations					
Assets	**$ 116,010**	$ 110,433	$ 100,565	$ 94,759	$ 87,725
Securities	**9,943**	10,137	9,770	8,686	8,029
Loans	**100,137**	93,378	86,581	80,906	75,725
Deposits	**92,755**	88,200	81,670	76,307	71,302
Equity	**11,110**	9,944	9,142	8,282	7,553
Surplus earnings before member dividends	**495**	978	1,195	672	775
Provision for member dividends	**311**	215	592	483	408
Caisse centrale Desjardins					
Assets	**$ 22,597**	$ 25,335	$ 20,431	$ 17,597	$ 15,757
Securities	**5,100**	4,572	3,722	3,805	3,349
Loans	**13,080**	14,781	13,688	10,924	10,286
Deposits	**14,836**	16,310	16,038	13,431	11,949
Net income (net loss)	**127**	(37)	63	54	49
Fonds de sécurité Desjardins					
Assets	**$ 628**	$ 727	$ 1,331	$ 742	$ 797
Net fund value	**623**	593	593	574	550
Net surplus earnings (net deficit)	**32**	(8)	20	25	27
Capital Desjardins					
Assets	**$ 1,313**	$ 760	$ 761	$ 1,265	$ 1,266
Senior bonds	**1,294**	749	748	1,250	1,250
Investment funds and trust services[1]					
Income from brokerage, investment fund and trust fund services	**$ 230**	$ 230	$ 275	$ 219	$ 130
Investment funds outstanding	**13,832**	11,410	14,769	12,716	10,247
Assets under administration	**213,553**	186,688	191,048	208,234	203,398

(1) Includes Desjardins Financial Services Firm, Desjardins Trust, Northwest Asset Management and Desjardins Investment Management.

Life and Health Insurance

As at December 31
(unaudited, in millions of $ and as a %)

	2009	2008	2007	2006	2005
Desjardins Financial Security					
Insurance and annuity premiums	**$ 2,983**	$ 2,868	$ 2,575	$ 2,438	$ 2,300
In-force life insurance (insured capital)	**190,699**	183,491	171,009	151,192	137,118
In-force annuity contracts (funds held)	**4,088**	3,976	4,200	3,895	3,786
Return on equity	**25.9 %**	5.9 %	27.5 %	20.7 %	24.9 %
Assets under management and under administration	**$ 22,766**	$ 19,666	$ 22,576	$ 19,944	$ 20,384

General Insurance

As at December 31
(unaudited, in millions of $ and as a %)

	2009	2008	2007	2006	2005
Desjardins General Insurance Group					
Gross premiums written	**$ 1,499**	$ 1,460	$ 1,429	$ 1,412	$ 1,405
Growth in number of in-force policies	**0.8 %**	0.3 %	0.4 %	1.2 %	2.7 %
Combined ratio	**94.4**	97.8	92.5	91.9	92.0
Return on equity	**17.5**	8.5	26.7	25.2	24.7

Securities Brokerage, Asset Management and Venture Capital

As at December 31
(unaudited, in millions of $ and as a %, unless otherwise stated)

	2009	2008	2007	2006	2005
Desjardins Securities					
Total revenues	**$ 340**	$ 265	$ 291	$ 273	$ 249
Number of clients (in thousands)	**206**	198	198	205	239
Return on equity	**35.1 %**	(40.2) %	0.9 %	(10.9) %	(23.5) %
Assets under administration	**$ 21,116**	$ 16,309	$ 18,601	$ 17,603	$ 15,583
Desjardins Asset Management					
Fee income	**$ 49**	$ 82	$ 89	$ 87	$ 68
Assets under management	**39,428**	38,355	50,773	46,671	35,754
Desjardins Venture Capital					
Management fee income	**$ 24**	$ 27	$ 26	$ 23	$ 23
Assets under management	**1,014**	914	848	778	750
Investments, on the books (Desjardins Group funds)[1]	**41**	40	69	70	108
Net earnings (loss) (Desjardins Group funds)[1]	**3**	(22)	(3)	2	—

(1) Desjardins Group funds include Desjardins Venture Capital, L.P., as well as the six regional Desjardins Capital de développement funds.

4.9

Glossary of financial terms

Acceptance
Short-term debt security that can be traded in the money market, which a financial institution guarantees for a borrower in exchange for a stamping fee.

Allowance for credit losses
Amount deemed sufficient by management to cover the anticipated credit losses related to the loan portfolio and other on- and off-balance sheet financial assets. The allowance for credit losses is increased by specific and general allowances and decreased by write-offs, net of recoveries.

Alt-a mortgage loan
Loan to a borrower with non-standard income documentation.

Annuity premium
Amount invested by the policyowner in order to receive annuity payments, immediately or after an accumulation period.

Appointed actuary
Actuary appointed by an insurance company's board of directors, in accordance with the federal and provincial laws governing insurance.

Assets under administration and assets under management
Assets administered or managed by a financial institution that are beneficially owned by members and clients and are therefore not reported on the financial institution's balance sheet. The services provided in respect of assets under administration are administrative in nature, such as custodial services, collection of investment income and settlement of buy and sell transactions, while the services provided in respect of assets under management include selecting investments and offering investment advice. These assets may also be administered by the financial institution. Assets under administration and management exclude the impact of securitization.

Autorité des marchés financiers
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. On February 1, 2004, it replaced the following supervisory institutions: the Commission des valeurs mobilières du Québec, the *Bureau des services financiers*, the *Régie de l'assurance-dépôts du Québec*, and the *Fonds d'indemnisation des services financiers*. The AMF also replaced the Inspector General of Financial Institutions for the supervision of the financial industry.

Basis point
Unit of measure equal to one one-hundredth of a percent.

Beneficiary
Person, other than the policyowner, designated to receive benefits under an insurance or annuity contract.

Benefit
Amount paid by the insurer under a life, salary or accident-health insurance policy. The benefit is paid to the policyowner, the insured person or the beneficiary, as the case may be. In a pension plan, this term refers to the vested rights of a member under the plan.

Bond
Certificate evidencing a debt under which the issuer promises to pay the holder a specified amount of interest for a specified period of time, and to repay the borrowing at maturity. Generally, assets are pledged as security for the borrowing, except in the case of government or corporate bonds, aside from debentures. This term is often used to describe any debt security.

Collateralized debt obligation
Security resulting from a securitization transaction, issued in representation of loans secured by a real property mortgage; the cash flows representing principal and interest payments on the underlying mortgage loans are tranched for purposes of passing them through to the securityholders.

Combined ratio
In property and casualty insurance, total claims and operating expenses expressed as a percentage of net premiums earned.

Commercial mortgage-backed security
Security created through the securitization of commercial mortgage loans.

Company subject to significant influence
Company whose strategic operating, investing and financing policies are subject to the significant influence of Desjardins Group, but that is not controlled by Desjardins Group. The percentage of share capital of this type of company owned by Desjardins Group is usually between 20% and 50%.

Credit instrument
Credit facility offered to members and clients in the form of loans and other financing vehicles reported on the balance sheet, or in the form of off-balance sheet products such as guarantees, letters of credit and securities lending.

Defined benefit pension plan
Pension plan that guarantees each participant a defined level of retirement income, often based on a formula set by the plan in terms of the participant's salary and number of years of service.

Derivative financial instrument
Financial contract whose value fluctuates based on an underlying asset without having to hold or deliver such underlying asset. Derivative financial instruments are used to transfer, modify or reduce current or expected risks, including risks related to interest and exchange rates and other financial indices.

Effective interest rate
Rate determined by discounting total future cash flows, including fees paid or received, premiums and discounts and transaction costs.

Financial asset-backed security
Security created through the securitization of a pool of financial assets.

Forward exchange contract
Commitment to buy or sell a fixed amount of foreign currency on a specified future date and at a specified exchange rate.

Gross premiums written
In property and casualty insurance, total premiums charged for insurance contracts during the year.

Guarantee and standby letter of credit
Essentially, irrevocable commitment by a financial institution to make payments in the event that a member or client cannot meet its financial obligations to third parties.

Hedging
Transaction carried out to reduce or offset Desjardins Group's exposure to one or several financial risks. The transaction involves taking a position exposed to effects that are equivalent, but of opposite direction, to the effects of market fluctuations on an existing or forecasted position.

Hedging relationship
A relationship established by management between a hedged item and a hedging item that satisfies all the conditions stated in the relevant accounting standard issued by the Canadian Institute of Chartered Accountants. A hedging item (generally a derivative instrument) is used to offset an identified risk associated with interest rates, foreign currencies and other financial indices to which a hedged item (generally an on-balance sheet asset or liability) exposes Desjardins Group.

Impaired loan
A loan, except a credit card balance, is considered impaired when, in management's opinion, there is reasonable doubt that the principal or the interest will be collected on scheduled dates, or when the interest or principal payment is contractually 90 days or more past due, unless the loan is fully secured. All loans are considered impaired when they are more than 180 days in arrears.

Insurance premium
Payment that the policyowner is required to make to maintain the insurance contract in force. This payment represents the cost of the insurance policy and can sometimes include a savings component. The premium is directly proportional to the amount of risk underwritten by the insurer.

Insured person
Person whose life or health is insured under an insurance policy. See also participant.

Investment security
Security held with the intention of holding it to maturity or until the market offers more attractive investment opportunities.

Leveraged finance loan
Loan to large corporations and finance companies whose credit rating is between BB+ and D and whose level of debt is very high compared to other companies in the same industry.

Loss ratio
In property and casualty insurance, total claims expressed as a percentage of net premiums earned. Net premiums earned represent premiums earned for a given period, net of reinsurance premiums.

Matching
Process of adjusting asset, liability and off-balance sheet item maturities in order to minimize risks related to interest rates, currency, and other financial indices. Matching is used in asset-liability management.

Member dividend
Allocation of surplus earnings to members on the basis of their volume of business with their caisse.

Morbidity rate
Probability that a person of a given age will suffer from an illness or a disability. The health insurance premium that a person belonging to a particular age group pays is based on this group's morbidity rate.

Mortality rate
Rate of death in a particular group of persons. The life insurance premium that a person belonging to a particular age group pays is based on this group's mortality rate.

Mutual fund
Fund made up of amounts pooled together by investors for purposes of a collective investment. A third party manages the fund and must, on request, redeem the units at their net asset value (or at their redemption value).

Net interest income
Difference between what a financial institution receives on assets such as loans and securities and what it pays out on liabilities such as deposits and subordinated debentures.

Net premiums earned
In property and casualty insurance, premiums earned for a given period, net of reinsurance premiums.

Notional amount
Reference amount used to calculate payments for instruments like forward rate agreements and interest rate swaps. It is called "notional" because it does not change hands.

Off-balance sheet financial instruments
A wide range of products offered to members and clients related to credit instruments, which offer members and clients liquidity protection.

Option
Contractual agreement that grants the right (and not the obligation) to sell (put option) or to buy (call option) a specified amount of a financial instrument at a predetermined price (the exercise or strike price) on or before a specified date.

Participant
Person who participates in a group insurance plan through its employer, an association or a group.

Pension plan
Contract under which the participant receives retirement benefits under certain terms starting at a given age. A pension plan is funded through contributions made by either the employer alone, or by the employer and the participant.

Permanent share
Equity security offered to caisse members.

Policy
Written document that evidences the existence of an insurance or annuity contract and that sets out the terms and conditions.

Policyowner
Individual or corporation that takes out an insurance or annuity contract. Also referred to as policyholder in individual insurance. In group savings and insurance, the policyowner is the organization that takes out a pension plan or an insurance plan.

Provision for credit losses
Amount charged to income and added to the allowance for credit losses. Specific allowances are established to reduce the carrying value of some assets (especially impaired loans) to an estimated realizable value. The general allowance is established for expected losses on total unimpaired loans, particularly in industries where loan losses may not yet be estimated on an individual basis.

Reinsurance treaty
Agreement whereby one insurer assumes all or part of a risk undertaken by another insurer. Despite the treaty, the original insurer remains fully liable to policyholders for the insurance obligations.

Reporting unit
Component of a unit engaged in separate and relatively significant activities. A reporting unit usually corresponds to a business segment or a subsidiary.

Risk-weighted off-balance sheet assets and financial instruments
An integral part of calculating risk-based capital ratios. The face value of low-risk assets is discounted using risk-weighting factors in order to reflect a comparable risk among all types of assets. The inherent risk of off-balance sheet financial instruments is also taken into consideration, first by adjusting the notional amount to balance sheet (or credit) equivalents, and then by applying the appropriate risk-weighting factors.

Securitization
Process by which financial assets, such as mortgage loans, are converted into asset-backed securities; these securities are then transferred to a trust.

Security held for trading
Security held on a short term basis for arbitrage purposes.

Segregated fund
Type of fund offered by insurance companies through variable capital contracts that provides purchasers with a number of guarantees, such as principal repayment upon death. Segregated funds feature various investment objectives and securities categories.

Subordinated debenture
Unsecured bond subordinated in right of payment in the event of liquidation to the claims of depositors and certain other creditors.

Subprime residential mortgage loan
Loan to a borrower with a high credit risk profile.

Subsidiary
Company in which Desjardins Group holds a majority interest.

Swap
Derivative financial instrument under which two parties agree to exchange interest rates or currencies for a specified period according to predetermined rules.

Underwriting experience
In life and health insurance, the difference between the actual results and the actuarial assumptions used to determine the premium or the actuarial liabilities, as applicable.

Underwriting profit
In property and casualty insurance, profit earned from insurance operations before investment income.

Valuation at fair value; mark-to-market
Valuation whose objective is to determine the approximate value at which financial instruments could be traded in a current transaction between willing parties.

Variable interest entity (VIE)
Entity whose equity at risk is not sufficient to finance its activities without additional subordinated financial support or whose holders of equity investment at risk lack the characteristics of a controlling financial interest.

Combined Financial Statements of Desjardins Group

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Reports

Annual report by the Audit and Inspection Commission

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

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

The Commission ensures that management has designed and implemented an effective internal control system with respect to financial reporting, asset protection, fraud detection and regulatory compliance. It also ensures that management has implemented systems to manage the main risks that may influence the financial results of the caisse network and Desjardins Group. The Commission reviews the information resulting from this financial governance process on a quarterly and on a yearly basis.

Also examined are files that document the caisse network's growth, including the financial position of the caisses, particular situations detected in the caisses, any follow-ups made, credit losses and how certain accounting policies and practices, such as the management method for the general allowance, are applied. With respect to the Desjardins Group Bureau of Financial Monitoring, the Commission ensures that the action plan for caisse audits and inspections is carried out and also reviews comment letters, inspection reports with adjustments and any follow-up performed. At the end of the fiscal year, the Commission reviews the annual report issued by the Desjardins Group Bureau of Financial Monitoring, which presents the results of the year's oversight activities as well as the highlights of the fiscal year.

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

The Commission ensures and preserves the independence of Desjardins Group's internal audit service. It analyzes the annual internal audit strategy as well as the internal audit team's 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 at Desjardins Group to discuss any important matters submitted to management. With respect to relations with the *Autorité des marchés financiers* (AMF), the Commission reviews and follows up on the inspection report issued by this organization, as well as the financial reports that are submitted each quarter to the AMF.

The Commission meets privately with external auditors, management, the head of Internal Audit at Desjardins Group, the Desjardins Group Bureau of Financial Monitoring and representatives from the AMF. Every quarter, it reports to the Board of Directors and, if necessary, makes recommendations. Lastly, to comply with sound corporate governance practices, the Commission annually reviews the degree of efficiency and effectiveness with which it has performed the tasks set out in its charter.

The Commission is made up of five independent directors. Desjardins Group does not remunerate any of the Commission's members, either directly or indirectly, for services other than those rendered as a member of the Board of Directors of the FCDQ or other Desjardins Group entity, or a member of a committee of the FCDQ or other Desjardins Group entity.

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. With significant new accounting requirements related to financial accounting and disclosure on the horizon, the members of the Commission attended several presentations over the course of the year, in particular on the new International Financial Reporting Standards (IFRS), which will take effect in 2011.

The Commission met on 17 occasions and held two training sessions in fiscal 2009. Serge Tourangeau and Benoît Turcotte left the Commission during the year, and Annie P. Bélanger and Pierre Levasseur became members. As at December 31, the members of the Audit and Inspection Commission were Andrée Lafortune, FCA, Annie P. Bélanger, Pierre Leblanc, FCA, Thomas Blais and Pierre Levasseur.

Andrée Lafortune, FCA
Chair

Management's responsibility for financial reporting

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

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

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

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

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

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

Monique F. Leroux, FCA, FCMA
President and Chief Executive Officer
Desjardins Group

Lévis, February 25, 2010

Raymond Laurin, CA
Senior Vice-President, Finance and Treasury
and Chief Financial Officer
Desjardins Group

Auditors' report

To the members of the Fédération des caisses Desjardins du Québec

We have audited the combined balance sheets of Desjardins Group as at December 31, 2009 and 2008 and the combined statements of income, changes in equity, comprehensive income and cash flows for each of the years included in the three-year period ended December 31, 2009. These combined financial statements are the responsibility of the management of the Fédération des caisses Desjardins du Québec. Our responsibility is to express an opinion on these financial statements based on our audits.

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 combined financial statements present fairly, in all material respects, the financial position of Desjardins Group as at December 31, 2009 and 2008 and the results of its operations and its cash flows for each of the years included in the three-year period ended on December 31, 2009 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP[1]
[1]Chartered accountant auditor permit No. 14043
Montréal, February 25, 2010

Combined Financial Statements

Combined Balance Sheets

As at December 31
(in millions of $)

	2009	2008
Assets		
Cash and deposits with financial institutions	$ 1,086	$ 1,489
Securities (Note 5)		
Available-for-sale securities	12,064	11,338
Securities held for trading	19,349	17,746
Securities held to maturity	18	19
Equity method securities	129	119
	31,560	29,222
Securities borrowed or purchased under reverse repurchase agreements	5,055	6,130
Loans (Notes 6 and 7)		
Residential mortgages	63,763	61,081
Consumer, credit card and other personal loans	20,820	18,121
Business and government	26,258	26,086
	110,841	105,288
Allowance for credit losses (Note 6)	(846)	(826)
	109,995	104,462
Other assets		
Land, buildings and equipment (Note 8)	1,008	1,025
Interest receivable	469	520
Derivative financial instruments (Note 26)	2,647	4,588
Clients' liability under acceptances	751	428
Amounts receivable from clients, brokers and financial institutions	453	659
Other (Note 9)	4,179	3,775
	9,507	10,995
Total assets	$ 157,203	$ 152,298

	2009	2008
Liabilities and equity		
Liabilities		
Deposits (Note 11)		
Individuals	**$ 75,420**	$ 71,958
Business and government	**22,876**	21,512
Deposit-taking and other institutions	**7,865**	7,966
	106,161	101,436
Other liabilities		
Actuarial and related liabilities (Note 12)	**13,453**	12,874
Borrowings (Note 13)	**71**	338
Interest payable	**884**	916
Derivative financial instruments (Note 26)	**1,852**	2,773
Acceptances	**751**	428
Commitments related to securities lent or sold under repurchase agreements	**10,080**	11,905
Commitments related to securities sold short	**5,038**	4,112
Amounts payable to clients, brokers and financial institutions	**2,355**	2,798
Other (Note 14)	**3,729**	3,319
	38,213	39,463
Subordinated debentures (Note 15)	**1,294**	748
Non-controlling interests (Note 16)	**338**	776
Equity		
Capital stock (Note 17)	**1,650**	955
Share capital (Note 18)	**71**	69
Undistributed surplus earnings (deficit)	**805**	(96)
Accumulated other comprehensive income (Note 19)	**489**	685
Reserves (Note 20)	**8,182**	8,262
	11,197	9,875
Total liabilities and equity	**$ 157,203**	$ 152,298

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

On behalf of the Board of Directors of the Fédération des caisses Desjardins du Québec,

Monique F. Leroux, FCA, FCMA
Chair of the Board

Denis Paré, LL.L., D.D.N.
Vice-Chair of the Board

Combined Statements of Income

Years ended December 31
(in millions of $)

	2009	2008	2007
Interest income			
Loans	$ 5,068	$ 5,573	$ 5,438
Securities	438	474	447
	5,506	6,047	5,885
Interest expense			
Deposits	1,920	2,590	2,578
Subordinated debentures and borrowings	64	39	62
	1,984	2,629	2,640
Net interest income	3,522	3,418	3,245
Net premiums	4,247	4,131	3,824
Other income			
Deposit and payment service charges	513	497	484
Lending fees and credit card service revenues	444	410	381
Brokerage, investment fund and trust services	581	617	738
Income (loss) from available-for-sale securities	79	(405)	141
Trading income (loss) (Note 21)	666	(1,001)	262
Other investment income	275	239	179
Other	343	467	417
	2,901	824	2,602
Total income	10,670	8,373	9,671
Provisions for credit losses	271	243	197
Claims, benefits, annuities and changes in insurance provisions	3,758	3,144	3,171
Non-interest expense			
Salaries and fringe benefits	2,423	2,250	2,338
Premises, equipment and furniture, including amortization	415	393	381
Outsourcing of processing services	371	322	308
Communications	237	252	357
Restructuring expenses (Note 22)	101	—	—
Other	1,594	1,583	1,439
	5,141	4,800	4,823
Operating surplus earnings	1,500	186	1,480
Income taxes on surplus earnings (Note 23)	406	109	358
Surplus earnings before non-controlling interests and member dividends	1,094	77	1,122
Non-controlling interests (Note 16)	17	(1)	21
Surplus earnings before member dividends	1,077	78	1,101
Provision for member dividends (Note 24)	311	215	592
Tax recovery on provision for member dividends (Note 23)	(98)	(62)	(174)
Surplus earnings (deficit) for the year after member dividends	$ 864	$ (75)	$ 683

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

Combined Statements of Changes in Equity

Years ended December 31
(in millions of $)

	2009	2008	2007
Capital stock			
Balance at beginning of year	$ 955	$ 894	$ 856
Net change during the year	695	61	38
Balance at end of year (Note 17)	$ 1,650	$ 955	$ 894
Share capital			
Balance at beginning of year	$ 69	$ 67	$ 66
Issuance of preferred shares	2	2	2
Redemption of preferred shares	—	—	(1)
Balance at end of year (Note 18)	$ 71	$ 69	$ 67
Undistributed surplus earnings (deficit)[1]			
Balance at beginning of year	$ (96)	$ 795	$ 634
Impact of the adoption of new accounting standards and other restatements	—	—	(16)
Surplus earnings (deficit) for the year after member dividends	864	(75)	683
Remuneration on permanent shares, net of income tax recovery	(41)	(26)	(24)
Dividends on preferred shares	(2)	(4)	(3)
Transfer to the stabilization reserve	(4)	(3)	—
Transfer to the reserve for future member dividends	(81)	(141)	(68)
Transfer from (to) the general reserve	165	(642)	(411)
Balance at end of year	$ 805	$ (96)	$ 795
Accumulated other comprehensive income[1]			
Balance at beginning of year	$ 685	$ 50	$ —
Impact of the adoption of new accounting standards	—	—	113
Other comprehensive income for the year	(196)	635	(63)
Balance at end of year (Note 19)	$ 489	$ 685	$ 50
Reserves			
Stabilization reserve			
Balance at beginning of year	$ 278	$ 275	$ 275
Transfer from undistributed surplus earnings	4	3	—
Balance at end of year	$ 282	$ 278	$ 275
Reserve for future member dividends			
Balance at beginning of year	$ 350	$ 209	$ 141
Transfer from undistributed surplus earnings	81	141	68
Balance at end of year	$ 431	$ 350	$ 209
General reserve			
Balance at beginning of year	$ 7,634	$ 6,992	$ 6,581
Transfer from (to) undistributed surplus earnings	(165)	642	411
Balance at end of year	$ 7,469	$ 7,634	$ 6,992
Total reserves	$ 8,182	$ 8,262	$ 7,476
Total equity	$ 11,197	$ 9,875	$ 9,282

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

(1) The sum of undistributed surplus earnings and accumulated other comprehensive income is $1,294 million ($589 million in 2008 and $845 million in 2007).

Combined Statements of Comprehensive Income

Years ended December 31
(in millions of $)

		2009		2008		2007
Surplus earnings (deficit) for the year after member dividends	**$**	**864**	$	(75)	$	683
Other comprehensive income, net of income taxes						
Net unrealized gains (losses) on available-for-sale securities(1)		**180**		(182)		(42)
Reclassification to the Combined Statements of Income of losses (gains) on available-for-sale securities(2)		**(6)**		56		(35)
		174		(126)		(77)
Gains (losses) on derivative financial instruments designated as cash flow hedges(3)		**(305)**		767		14
Reclassification to the Combined Statements of Income of gains on derivative financial instruments designated as cash flow hedges(4)		**(63)**		(8)		–
		(368)		759		14
Net unrealized exchange gains (losses) on the translation of the financial statements of self-sustaining foreign operations, net of hedging transactions		**(2)**		2		–
Total other comprehensive income		**(196)**		635		(63)
Comprehensive income	**$**	**668**	$	560	$	620

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

(1) Net of income tax expense of $53 million (benefit of $42 million in 2008 and $16 million in 2007).
(2) Net of income tax expense of $2 million (benefit of $11 million in 2008 and expense of $11 million in 2007).
(3) Net of income tax benefit of $88 million (expense of $244 million in 2008 and $5 million in 2007).
(4) Net of income tax expense of $22 million (expense of $3 million in 2008 and nil in 2007).

Combined Statements of Cash Flows

Years ended December 31
(in millions of $)

	2009	2008	2007
Cash flows from (used in) operating activities			
Surplus earnings (deficit) for the year after member dividends	$ 864	$ (75)	$ 683
Adjustments for:			
Amortization of buildings and equipment	160	165	141
Amortization of intangible assets with finite useful lives	39	35	36
(Increase in value) write-down of venture capital investments	(19)	28	5
Net change in actuarial and related liabilities	579	43	278
Future income taxes	131	(269)	(62)
Provisions for credit losses	271	243	197
Goodwill impairment	13	31	—
Write-off of deferred charges	—	25	—
Non-controlling interests	17	(1)	21
Net (gains) losses realized on available-for-sale securities	(11)	446	87
Net change in equity method securities	(10)	(1)	(80)
Change in operating assets and liabilities			
Interest receivable	51	8	(42)
Interest payable	(32)	9	60
Securities required to be classified as held for trading	1,990	2,342	(7,660)
Securities designated as held for trading under the fair value option	(2,880)	1,011	(8,756)
Securities held to maturity	1	(19)	—
Net change in fair value of derivative financial instruments	572	(930)	251
Other	(266)	1,132	70
	1,470	4,223	(14,771)
Cash flows from (used in) financing activities			
Net change in deposits	4,725	5,670	7,623
Issuance of debt securities and subordinated debentures	995	276	—
Repayment of debt securities and subordinated debentures	(713)	(117)	(596)
Net change in capital stock	695	23	21
Issuance of preferred shares	2	2	—
Redemption of preferred shares	—	—	(1)
Net change in non-controlling interests	(455)	(207)	374
Remuneration on permanent shares, net of income tax recovery	(41)	(26)	(24)
Dividends on preferred shares	(2)	(2)	(1)
Commitments related to securities lent or sold under repurchase agreements	(1,825)	2,450	2,500
Net change in commitments related to securities sold short	926	(2,763)	2,774
	4,307	5,306	12,670
Cash flows from (used in) investing activities			
Net change in loans	(6,879)	(11,407)	(8,524)
Proceeds from securitization of mortgage loans	1,075	2,105	1,570
Net change in investment securities[1]	—	—	12,405
Purchase of available-for-sale securities	(19,194)	(25,147)	(24,559)
Proceeds from disposals of available-for-sale securities	12,621	11,677	17,865
Proceeds from maturities of available-for-sale securities	5,265	11,991	7,093
Securities borrowed or purchased under reverse repurchase agreements	1,075	1,463	(3,446)
Net acquisitions of land, buildings and equipment	(143)	(221)	(138)
	(6,180)	(9,539)	2,266
Net increase (decrease) in cash and cash equivalents	(403)	(10)	165
Cash and cash equivalents at beginning of year	1,489	1,499	1,334
Cash and cash equivalents at end of year	$ 1,086	$ 1,489	$ 1,499
Composition of cash and cash equivalents			
Cash	$ 823	$ 885	$ 849
Deposits with financial institutions and the Bank of Canada	160	398	214
Cheques and other items in transit (net amount)	103	206	436
	$ 1,086	$ 1,489	$ 1,499
Supplemental cash flow information			
Interest paid during the year	$ 2,016	$ 2,620	$ 2,580
Income taxes on surplus earnings paid during the year	125	221	208

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

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

Notes to the Combined Financial Statements

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

Desjardins Group is made up of the Fédération des caisses Desjardins du Québec (FCDQ), its member caisses and its subsidiaries, the Fédération des caisses populaires de l'Ontario and its member caisses, and the Fonds de sécurité Desjardins. Desjardins Group, a cooperative financial group, is a leading player in the economic and social development of the communities it serves.

Note 1
Significant accounting policies

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

Combined Financial Statements

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

Significant changes in accounting policies

Goodwill and intangible assets

On January 1, 2009, Desjardins Group retroactively 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 its Combined Financial Statements.

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 reported 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.
Level 3 – Valuation techniques not based primarily on observable market data.

Desjardins Group applied for the first time the amendments to this standard to its 2009 Annual 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 Desjardins Group's combined results and financial position.

Recognition and measurement

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

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

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

Embedded derivatives

In June 2009, the AcSB amended CICA Handbook Section 3855, "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. Desjardins Group has applied the new guidance to reclassifications made on or after July 1, 2009. This amendment had no material impact on its Combined Financial Statements.

Impairment of financial assets

In addition, in August 2009, the CICA amended Section 3855, "Financial Instruments – Recognition and Measurement", 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 will be assessed using the incurred credit loss model;
- Loans and receivables that Desjardins Group 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.

Desjardins Group applied the amendments to this standard retroactively as at January 1, 2009 to its financial statements as at December 31, 2009. The adoption of this standard had no impact on Desjardins Group's Combined Financial Statements.

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

On January 1, 2009, Desjardins Group retroactively adopted the new abstract issued by the CICA's Emerging Issues Committee (EIC) entitled "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" (EIC-173). This EIC states that an entity's own credit risk and the credit risk of the counterparty must be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of this EIC had no significant impact on the fair value measurement models for financial instruments nor on the results and financial position of Desjardins Group.

Financial instruments – Recognition and measurement

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

Financial assets held to maturity, loans and receivables and financial liabilities other than held for trading are recognized at amortized cost using the effective interest method. Interest income and expenses on these financial assets and liabilities arising from the Personal and Commercial segment are recorded in net interest income, whereas those that are arising from other segments are recognized in "Other income – Other investment income".

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

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

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

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

Note 1

Significant accounting policies (continued)

Financial instruments – Recognition and measurement (continued)

Reclassification of financial assets

Since November 1, 2008, Desjardins Group 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. Desjardins Group did not reclassify any financial assets as of December 31, 2009 and 2008.

Derivative financial instruments and hedging activities

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

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

Derivative financial instruments can be designated as part of a fair value hedge or a cash flow hedge. Designation of hedging relationships as cash flow hedges or fair value hedges did not change with the adoption of the new accounting standards. Note 26 to the Combined Financial Statements, “Derivative financial instruments and hedging activities”, describes financial instruments eligible for hedge accounting, the risk management policy relative to derivative financial instruments and the accounting policies with respect to hedging.

Comprehensive income

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

Offsetting of financial assets and liabilities

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

Consolidation of variable interest entities

Desjardins Group consolidates VIEs of which it is the primary beneficiary in accordance with the CICA Accounting Guideline AcG-15, “Consolidation of Variable Interest Entities”. Desjardins Group consolidates VIEs that are investment companies of which the primary beneficiary is a component of Desjardins Group.

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

Securities borrowed or purchased under reverse repurchase agreements and securities lent or sold under repurchase agreements

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

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

Acceptances and clients’ liability under acceptances

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

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

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

Foreign currency translation
Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate prevailing on the Combined Balance Sheet date, and non-monetary assets and liabilities are translated at historical rates. Income and expenses are translated at the average exchange rate in effect during the year. The resulting gains and losses, realized or unrealized, are included in "Other income – Other", except for unrealized gains and losses on available-for-sale financial instruments and gains and losses on derivatives designated as cash flow hedges, which are reported in other comprehensive income. All assets and liabilities of self-sustaining foreign operations denominated in foreign currencies are translated at rates prevailing on the Combined Balance Sheet date, while income and expenses of these foreign operations are translated at the average rate for the period. Exchange gains and losses resulting from the translation of the financial statements of these operations, including the related effects of hedging and taxes, are recorded in combined other comprehensive income. An appropriate portion of these accumulated gains or losses is reclassified to "Other income – Other" in the Combined Statements of Income upon reduction of the net investment.

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

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

The significant accounting policies are presented in the following notes:

Note number	Note title	Accounting policies
5	Securities	Securities
6	Loans and allowance for credit losses	Loans, allowance for credit losses
7	Securitization of mortgage loans	Securitization of mortgage loans
8	Land, buildings and equipment	Land, buildings and equipment
9	Other assets – Other	Real estate investments, goodwill and other intangible assets
12	Actuarial and related liabilities	Net premiums and reinsurance
23	Income taxes on surplus earnings	Income taxes on surplus earnings
24	Provision for member dividends	Provision for member dividends
25	Employee future benefit plans	Employee future benefit plans
26	Derivative financial instruments and hedging activities	Derivative financial instruments Fair value and cash flow hedges

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

Note 2
Future accounting changes

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

International financial reporting standards
The AcSB announced that Canadian GAAP, which apply to publicly accountable enterprises, would be replaced by International Financial Reporting Standards (IFRS) in 2011. Consequently, Desjardins Group initiated its IFRS conversion project in the summer of 2007.

Since Desjardins Group 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 not be applied by Desjardins Group.

Note 3

Carrying value of financial instruments

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

2009

	Held for trading	Designated as held for trading under the fair value option	Available for sale	Held to maturity	Loans and receivables, and financial liabilities other than held for trading	Total
Financial assets						
Cash and deposits with financial institutions	$ 1,086	$ —	$ —	$ —	$ —	$ 1,086
Securities						
Available-for-sale securities	—	—	12,064	—	—	12,064
Securities held for trading	8,724	10,625	—	—	—	19,349
Securities held to maturity	—	—	—	18	—	18
Securities borrowed or purchased under reverse repurchase agreements	—	—	—	—	5,055	5,055
Loans	—	—	—	—	109,995	109,995
Other financial assets						
Interest receivable	—	—	—	—	469	469
Derivative financial instruments[1]	2,647	—	—	—	—	2,647
Clients' liability under acceptances	—	—	—	—	751	751
Amounts receivable from clients, brokers and financial institutions	—	—	—	—	453	453
Other	—	—	18	—	1,212	1,230
Total financial assets	**$ 12,457**	**$ 10,625**	**$ 12,082**	**$ 18**	**$ 117,935**	**$ 153,117**
Financial liabilities						
Deposits	$ —	$ —	$ —	$ —	$ 106,161	$ 106,161
Other financial liabilities						
Borrowings	—	—	—	—	71	71
Interest payable	—	—	—	—	884	884
Derivative financial instruments[1]	1,852	—	—	—	—	1,852
Acceptances	—	—	—	—	751	751
Commitments related to securities lent or sold under repurchase agreements	—	—	—	—	10,080	10,080
Commitments related to securities sold short	5,038	—	—	—	—	5,038
Amounts payable to clients, brokers and financial institutions	—	—	—	—	2,355	2,355
Other	—	—	—	—	2,054	2,054
Subordinated debentures	—	—	—	—	1,294	1,294
Total financial liabilities	**$ 6,890**	**$ —**	**$ —**	**$ —**	**$ 123,650**	**$ 130,540**

(1) Include derivative financial instruments related to fair value and cash flow hedging activities amounting to $1,116 million in assets and $267 million in liabilities.

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

2008

	Held for trading	Designated as held for trading under the fair value option	Available for sale	Held to maturity	Loans and receivables, and financial liabilities other than held for trading	Total
Financial assets						
Cash and deposits with financial institutions	$ 1,489	$ —	$ —	$ —	$ —	$ 1,489
Securities						
Available-for-sale securities	—	—	11,338	—	—	11,338
Securities held for trading	10,001	7,745	—	—	—	17,746
Securities held to maturity	—	—	—	19	—	19
Securities borrowed or purchased under reverse repurchase agreements	—	—	—	—	6,130	6,130
Loans	—	—	—	—	104,462	104,462
Other financial assets						
Interest receivable	—	—	—	—	520	520
Derivative financial instruments(1)	4,588	—	—	—	—	4,588
Clients' liability under acceptances	—	—	—	—	428	428
Amounts receivable from clients, brokers and financial institutions	—	—	—	—	659	659
Other	—	—	15	—	1,525	1,540
Total financial assets	**$ 16,078**	**$ 7,745**	**$ 11,353**	**$ 19**	**$ 113,724**	**$ 148,919**
Financial liabilities						
Deposits	$ —	$ —	$ —	$ —	$ 101,436	$ 101,436
Other financial liabilities						
Borrowings	—	—	—	—	338	338
Interest payable	—	—	—	—	916	916
Derivative financial instruments(1)	2,773	—	—	—	—	2,773
Acceptances	—	—	—	—	428	428
Commitments related to securities lent or sold under repurchase agreements	—	—	—	—	11,905	11,905
Commitments related to securities sold short	4,112	—	—	—	—	4,112
Amounts payable to clients, brokers and financial institutions	—	—	—	—	2,798	2,798
Other	—	—	—	—	2,656	2,656
Subordinated debentures	—	—	—	—	748	748
Total financial liabilities	**$ 6,885**	**$ —**	**$ —**	**$ —**	**$ 121,225**	**$ 128,110**

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

Note 4

Fair value of financial instruments

Financial instruments

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

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

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

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

Securities

The fair value of securities and the valuation methods used are disclosed in Note 5, "Securities".

Loans

Changes in interest rates and in the creditworthiness of borrowers are the main causes of changes in the fair value of loans held by Desjardins Group, which result in a favourable or unfavourable difference compared to their carrying value. The fair value of loans is estimated by discounting expected cash flows using market interest rates currently charged for similar new loans as at December 31. For impaired loans, the fair value is assumed to be equal to their carrying value in accordance with the valuation techniques described in Note 6, "Loans and allowance for credit losses".

Deposits

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

Subordinated debentures and borrowings

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

Derivative financial instruments

The fair value of derivative financial instruments is determined using pricing models that incorporate the current market prices and the contractual prices of the underlying instruments, the time value of money, yield curves and volatility factors. The fair value of derivative financial instruments is presented without taking into account the impact of legally binding master netting agreements. Note 26, "Derivative financial instruments and hedging activities", specifies the nature of derivative financial instruments held by Desjardins Group.

The following table compares the fair value of financial instruments with their carrying value.

	2009			2008		
	Fair value	Carrying value	Favourable (unfavourable) difference	Fair value	Carrying value	Favourable (unfavourable) difference
Assets						
Cash and deposits with financial institutions	**$ 1,086**	**$ 1,086**	**$ —**	$ 1,489	$ 1,489	$ —
Securities	**31,449**	**31,431**	**18**	29,105	29,103	2
Securities borrowed or purchased under reverse repurchase agreements	**5,055**	**5,055**	**—**	6,130	6,130	—
Loans	**111,255**	**109,995**	**1,260**	105,072	104,462	610
Other financial assets						
Interest receivable	**469**	**469**	**—**	520	520	—
Derivative financial instruments	**2,647**	**2,647**	**—**	4,588	4,588	—
Clients' liability under acceptances	**751**	**751**	**—**	428	428	—
Amounts receivable from clients, brokers and financial institutions	**453**	**453**	**—**	659	659	—
Other	**1,230**	**1,230**	**—**	1,518	1,540	(22)
Liabilities						
Deposits	**108,067**	**106,161**	**(1,906)**	102,723	101,436	(1,287)
Other financial liabilities						
Borrowings	**69**	**71**	**2**	336	338	2
Interest payable	**884**	**884**	**—**	916	916	—
Derivative financial instruments	**1,852**	**1,852**	**—**	2,773	2,773	—
Acceptances	**751**	**751**	**—**	428	428	—
Commitments related to securities lent or sold under repurchase agreements	**10,080**	**10,080**	**—**	11,905	11,905	—
Commitments related to securities sold short	**5,038**	**5,038**	**—**	4,112	4,112	—
Amounts payable to clients, brokers and financial institutions	**2,355**	**2,355**	**—**	2,798	2,798	—
Other	**2,058**	**2,054**	**(4)**	2,656	2,656	—
Subordinated debentures	**1,405**	**1,294**	**(111)**	759	748	(11)

Note 4

Fair value of financial instruments (continued)

The measurement of financial instruments recognized at fair value on the 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.
- Level 3 – Valuation techniques not based primarily on observable market data.

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

2009

	Level 1	Level 2	Level 3	Total
Assets				
Financial instruments required to be classified as held for trading				
Cash and deposits with financial institutions	$ 1,086	$ —	$ —	$ 1,086
Securities held for trading				
Securities issued or guaranteed by				
Canada	4,661	408	—	5,069
Provinces and municipal corporations in Canada	2,177	595	—	2,772
School or public corporations in Canada	—	56	—	56
Foreign public administrations	—	48	—	48
Other securities				
Financial institutions	387	54	—	441
Other issuers	—	101	99	200
Shares	138	—	—	138
Derivative financial instruments	1	2,646	—	2,647
Securities designated as held for trading under the fair value option				
Securities issued or guaranteed by				
Canada	53	1,500	—	1,553
Provinces and municipal corporations in Canada	5,245	263	—	5,508
School or public corporations in Canada	—	133	—	133
Foreign public administrations	23	3	—	26
Other securities				
Financial institutions	43	450	12	505
Other issuers	—	725	1,749	2,474
Shares	404	—	22	426
Total financial instruments – securities held for trading	14,218	6,982	1,882	23,082
Financial instruments classified as available for sale				
Available-for-sale securities[(1)]				
Securities issued or guaranteed by				
Canada	1,521	2,348	—	3,869
Provinces and municipal corporations in Canada	3,606	825	—	4,431
School or public corporations in Canada	—	75	—	75
Foreign public administrations	4	11	—	15
Other securities				
Financial institutions	5	2,565	—	2,570
Other issuers	—	24	262	286
Shares	775	8	5	788
Total financial instruments – available-for-sale securities	5,911	5,856	267	12,034
Total	**$ 20,129**	**$ 12,838**	**$ 2,149**	**$ 35,116**
Liabilities				
Financial instruments required to be classified as held for trading				
Derivative financial instruments	$ 3	$ 1,837	$ 12	$ 1,852
Commitments related to securities sold short	4,965	73	—	5,038
Total	**$ 4,968**	**$ 1,910**	**$ 12**	**$ 6,890**

(1) Desjardins Group holds available-for-sale securities accounted for at cost since they are not quoted on an active market. Available-for-sale securities recorded at cost on the Combined Balance Sheets and not included in this table total $30 million.

Significant transfers between Level 1 and Level 2 during fiscal 2009

No transfers were made between fair value measurement hierarchy levels during the year.

Changes in fair value of financial instruments classified in Level 3

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

2009

	Beginning balance	Realized losses recognized in net income[1]	Unrealized gains (losses) recognized in net income[2]	Unrealized gains recognized in other comprehensive income[3]	Purchases/ issuances	Sales/ settlements	Ending balance
Assets							
Financial instruments required to be classified as held for trading							
Securities held for trading							
Other securities							
Other issuers	$ 1,102	$ (2)	$ —	$ —	$ —	$ (1,001)	$ 99
Derivative financial instruments	—	(1)	—	—	15	(14)	—
Securities designated as held for trading under the fair value option							
Other securities							
Financial institutions	12	—	—	—	—	—	12
Other issuers	677	(23)	3	—	1,489	(397)	1,749
Shares	77	—	(1)	—	—	(54)	22
Financial instruments classified as available for sale							
Available-for-sale securities[1]							
Other securities							
Other issuers	936	(21)	(28)	34	2,122	(2,781)	262
Shares	5	—	—	—	—	—	5
Liabilities							
Financial instruments required to be classified as held for trading							
Derivative financial instruments	$ 56	$ (32)	$ —	$ —	$ —	$ (12)	$ 12

(1) Realized losses on financial assets held for trading and designated as held for trading under the fair value option are presented under "Other income – Trading income (loss)". Realized gains or losses on available-for-sale financial assets are recognized under "Other income – Income (loss) from available-for-sale securities".
(2) Unrealized gains or losses on financial assets held for trading and designated as held for trading under the fair value option are presented under "Other income – Trading income (loss)".
(3) Unrealized gains on available-for-sale financial assets are recognized under "Net unrealized gains (losses) on available-for-sale securities".

Desjardins Group performs sensitivity analyses for the fair value measurements of financial instruments classified in Level 3. Changing unobservable inputs to one or more reasonably possible alternative assumptions does not significantly change the fair value of financial instruments classified in Level 3, except for asset-backed term notes, for which a sensitivity analysis is provided in the "Securities – Asset-backed commercial paper/ Asset-backed term notes" section of Note 5.

Note 5
Securities

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

Available-for-sale securities

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

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

Note 5

Securities (continued)

Available-for-sale securities (continued)

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

Securities held for trading

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

Securities held by investment companies

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

Securities held to maturity

Securities held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity, other that those initially designated as securities held for trading, available-for-sale securities and loans and receivables. Interest is recognized using the effective interest method under "Other income – Other" and amounted to $1 million ($1 million in 2008).

Equity method securities

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

The following table presents an analysis of the maturities of Desjardins Group's securities.

	Contractual maturity						2009	2008
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Over 10 years	No specific maturity	Total	Total
Available-for-sale securities								
Securities issued or guaranteed by								
Canada	$ 103	$ 1,531	$ 2,055	$ 179	$ 1	$ —	$ 3,869	$ 2,378
Provinces and municipal corporations in Canada	663	1,288	1,316	855	312	—	4,434	3,544
School or public corporations in Canada	74	—	—	1	—	—	75	4
Foreign public administrations	5	3	—	—	7	—	15	11
Other securities in Canada								
Financial institutions	564	1,290	709	6	—	1	2,570	3,411
Other issuers[1]	136	141	4	5	—	1	287	1,430
Shares	88	47	91	2	—	259	487	321
Securities from foreign issuers								
Financial institutions	—	—	—	—	—	—	—	4
Shares	—	—	1	—	—	326	327	235
Total available-for-sale securities	1,633	4,300	4,176	1,048	320	587	12,064	11,338
Securities required to be classified as held for trading								
Securities issued or guaranteed by								
Canada	809	1,076	1,845	957	382	—	5,069	6,073
Provinces and municipal corporations in Canada	853	315	622	455	527	—	2,772	1,733
School or public corporations in Canada	50	4	2	—	—	—	56	93
Foreign public administrations	4	—	—	25	19	—	48	125
Other securities in Canada								
Financial institutions	390	15	—	3	3	1	412	228
Other issuers[2]	13	29	29	26	5	—	102	658
Shares	—	—	—	—	—	49	49	58
Securities from foreign issuers								
Financial institutions	29	—	—	—	—	—	29	30
Other issuers	—	—	—	—	—	98	98	904
Shares	—	—	—	—	—	89	89	99
Total securities required to be classified as held for trading	2,148	1,439	2,498	1,466	936	237	8,724	10,001
Subtotal of available-for-sale securities and securities required to be classified as held for trading	$ 3,781	$ 5,739	$ 6,674	$ 2,514	$ 1,256	$ 824	$ 20,788	$ 21,339

	Contractual maturity						2009	2008
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Over 10 years	No specific maturity	Total	Total
Subtotal of available-for-sale securities and securities required to be classified as held for trading (brought forward)	$ 3,781	$ 5,739	$ 6,674	$ 2,514	$ 1,256	$ 824	$ 20,788	$ 21,339
Securities designated as held for trading under the fair value option								
Securities issued or guaranteed by								
Canada	107	154	1,230	35	27	—	1,553	56
Provinces and municipal corporations in Canada	593	661	493	741	3,020	—	5,508	4,905
School or public corporations in Canada	—	—	14	—	119	—	133	128
Foreign public administrations	—	—	—	—	26	—	26	33
Other securities in Canada								
Financial institutions	154	154	39	39	30	—	416	588
Other issuers[3]	86	91	268	537	1,444	—	2,426	1,592
Shares	7	2	27	8	2	281	327	199
Securities from foreign issuers								
Financial institutions	—	—	11	34	44	—	89	87
Other issuers	1	21	15	—	11	—	48	57
Shares	—	—	—	—	—	99	99	100
Total securities designated as held for trading under the fair value option	948	1,083	2,097	1,394	4,723	380	10,625	7 745
Securities held to maturity								
Securities issued or guaranteed by								
Canada	1	—	—	—	—	—	1	1
Provinces and municipal corporations in Canada	1	15	—	—	—	—	16	17
Other securities in Canada								
Financial institutions	1	—	—	—	—	—	1	1
Total securities held to maturity	3	15	—	—	—	—	18	19
Equity method securities	—	—	—	—	—	129	129	119
	$ 4,732	$ 6,837	$ 8,771	$ 3,908	$ 5,979	$ 1,333	$31,560	$29,222

(1) Includes no asset-backed term notes (ABTN) as at December 31, 2009 (as at December 31, 2008, this category included ABCP securities with a fair value of $751 million). For more details on the Montréal Accord restructuring, please refer to the "Securities – Asset-backed commercial paper / Asset-backed term notes" section of this note.
(2) Includes no ABTN as at December 31, 2009 (as at December 31, 2008, this category included ABCP securities with a fair value of $437 million).
(3) Includes ABTN with a fair value of $1,252 million (as at December 31, 2008, this category included ABCP securities with a fair value of $248 million).

Total securities include securities denominated in foreign currencies in the amount of C$1,216 million ($1,664 million in 2008), of which C$1,080 million (C$1,439 million in 2008) is denominated in U.S. dollars.

The securities of the investment companies included unrealized declines in value of $36 million (decline in value of $41 million in 2008 and $32 million in 2007) and were recorded under "Other income – Trading income (loss)". Realized declines in value amounted to $5 million ($19 million in 2008 and nil in 2007) and were recorded under "Other income – Trading income (loss)".

Note 5

Securities (continued)

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

2009

	Amortized cost(1)	Unrealized gross gains	Unrealized gross losses	Carrying value(1)
Securities issued or guaranteed by				
Canada	$ 3,829	$ 49	$ 9	$ 3,869
Provinces and municipal corporations in Canada	4,371	76	13	4,434
School or public corporations in Canada	75	—	—	75
Foreign public administrations	15	—	—	15
Other securities in Canada				
Financial institutions	2,511	60	1	2,570
Other issuers(2)	306	—	19	287
Shares	490	24	27	487
Securities from foreign issuers				
Financial institutions	—	—	—	—
Shares	344	13	30	327
	$ 11,941	$ 222	$ 99	$ 12,064

2008

	Amortized cost(1)	Unrealized gross gains	Unrealized gross losses	Carrying value(1)
Securities issued or guaranteed by				
Canada	$ 2,286	$ 98	$ 6	$ 2,378
Provinces and municipal corporations in Canada	3,496	87	39	3,544
School or public corporations in Canada	4	—	—	4
Foreign public administrations	12	—	1	11
Other securities in Canada				
Financial institutions	3,425	33	47	3,411
Other issuers(2)	1,478	6	54	1,430
Shares	407	1	87	321
Securities from foreign issuers				
Financial institutions	4	—	—	4
Shares	298	—	63	235
	$ 11,410	$ 225	$ 297	$ 11,338

(1) Desjardins Group holds available-for-sale securities accounted for at cost since they are not quoted on an active market. Available-for-sale securities recorded at cost on the Combined Balance Sheets total $30 million ($40 million in 2008), and that cost is presented in the "Carrying value" column in the above table. The fair value of some of these securities can be estimated and represents an immaterial loss.
(2) ABTN did not sustain any decline in value that is other than temporary (as at December 31, 2008, ABCP securities had sustained a decline in value that is other than temporary and had an amortized cost of $1,401 million). ABTN have sustained a decline in value of $30 million as at December 31, 2009 (as at December 31, 2008, ABCP securities were written-down by $619 million).

As of December 31, 2009, the gross unrealized losses on available-for-sale securities amounted to $99 million ($297 million in 2008) and resulted from fluctuations in market prices as well as changes in interest and exchange rates. Declines in value of available-for-sale securities are monitored regularly by management. Desjardins Group has the ability and intent to hold these securities for a period of time sufficient to allow for recovery in fair value. It has concluded that the unrealized gross losses were temporary in nature.

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

Desjardins Group held investments on the non-bank asset-backed commercial paper (ABCP) market, although it never issued this type of financial product to its clients. It should be noted that, to safeguard its members and clients, Desjardins Group repurchased in September 2007 and, to a lesser extent in 2008, ABCP assets in the money market mutual funds managed by it and in the securities lending operations of Desjardins Trust clients for which it had not originally assumed the risk.

The implementation of the ABCP Restructuring Plan under the Montréal Accord was completed on January 21, 2009. This restructuring plan led, among other things, to the replacement of ABCP by long-term floating rate asset-backed term notes (ABTN) having a maturity similar to that of the underlying assets.

The main features of the ABCP Restructuring Plan are as follows:

- Creation of three new trusts, called "Master Asset Vehicles" (MAV):
  - MAV 1 and MAV 2 are made exclusively up of synthetic asset transactions, being a combination of assets pledged as collateral and credit default swaps contracts, or of hybrid asset transactions, being a combination of synthetic assets and traditional assets. They also include the so-called ineligible (subprime and other) assets of these series.
  - MAV 3 is exclusively made up of ineligible (subprime) asset and traditional asset transactions.
- Creation of five classes of ABTN for MAV 1 and MAV 2 (A-1, A-2, B, C and IA) and of two classes for MAV 3 (TA and IA). The IA and TA ABTN are divided into multiple series of tracking notes that reflect the cash flows of the original underlying assets.
- Establishment of funding facilities in support of MAV 1 and MAV 2 to fund collateral calls that may occur with respect to the underlying credit default swaps.
- Establishment of an initial 18-month moratorium period during which no additional collateral calls may be made for the vast majority of underlying credit default swaps.
- Widening of certain "spread-loss" triggers, which will apply again at the expiration of the moratorium period, thereby reducing the likelihood of additional collateral calls.

Desjardins Group participates in the MAV 1 and MAV 3 trusts.

In addition to the assets already pledged as collateral by the trusts for credit default swaps, the plan stipulates that MAV 1 and MAV 2 must each have a margin funding facility (MFF) intended to cover any potential collateral calls from swap counterparties. Desjardins Group has chosen to self-finance its portion of the margin funding facility, which explains its participation in MAV 1.

Desjardins Group's share of this credit commitment, totalling $1,193 million, ranks equal to that of the other participants in the MFF and matures in July 2017 or earlier if all credit default swap transactions have been settled. Desjardins Group will not receive any fees from MAV 1 for this credit commitment. Advances made under this funding facility will bear interest at a rate based on the bankers' acceptance rate or prime rate. Any advance under the margin funding facility will rank senior to amounts payable under the notes issued by MAV 1. Should Desjardins Group fail to honour its commitment to provide funds for its share of the margin funding facility, a proportionate share of the MAV 1 notes held by Desjardins Group will be subordinated to the notes held by the other participants. Caisse centrale Desjardins, as the MFF signatory for Desjardins Group, must maintain a credit rating equivalent to A (low) with at least two of the four rating agencies (DBRS, S&P, Fitch and Moody's), failing which it must provide collateral or another form of credit support to MAV 1 or have another entity with a sufficiently high credit rating assume its obligations. As at December 31, 2009, no amount had been drawn on the MFF.

Under a separate agreement, Desjardins Group purchased a $400 million protection for its MFF commitments from one of the participants in MAV 1 in exchange for an annual commitment fee of 1.2%, which is the same rate as the third-party institutions that have contributed to the equivalent MFF of MAV 2. This participation will automatically end upon the maturity of MAV 1's MFF.

In the event that the MAV 1 margin funding facility and the equivalent MAV 2 facility are not sufficient to meet the collateral calls of the vehicle in question, a senior funding facility has been put in place to provide access to additional liquidities. This funding facility has been provided by the governments of Canada, Québec, Alberta and Ontario and by one of the MAV 1 participants. MAV 1 can draw on an amount of $1,772 million under this facility and will pay an annual commitment fee of 1.19% until December 2016. This facility matures one month after the end of the moratorium on collateral calls, namely July 2010, unless an amount has been drawn and has not been paid as at that date. In such case, all the liquidities available for reimbursement in MAV 1 will be used to pay the interest and the principal of the senior funding facility before the MAV 1 margin funding facility and the notes issued by MAV 1. Advances that can be made under this funding facility will bear interest at a rate based on the bankers' acceptance rate or prime rate.

Upon the restructuring on January 21, 2009, Desjardins Group derecognized the carrying value of its ABCP holdings and recognized the ABTN at fair value. These ABTN were classified as "designated as held for trading under the fair value option". Before the restructuring, the negative value of the margin funding facilities, which amounted to $98 million as at December 31, 2008, was included in the calculation of the fair value of ABCP. Since the restructuring, deferred income related to the MFF has been recognized under "Other liabilities – Other". As at December 31, 2009, this deferred income amounted to $68 million.

In 2009, principal and interest payments on the ABTN, totalling $169 million and $14 million respectively, were received by Desjardins Group. As a result of measurement uncertainties, Desjardins Group recorded interest income only on the MAV 1 A-1 and A-2 notes that rank senior to other notes with respect to interest and principal.

In 2009, an amount of $121 million, net of Desjardins Group's estimated share in restructuring fees assumed by the Pan Canadian Committee, was paid to Desjardins Group as accrued interest on ABCP holdings for the period from August 20, 2007 to January 21, 2009. As at December 31, 2008, Desjardins Group had recognized net interest income on ABCP holdings in the fair value of the securities.

On April 1, 2009, Desjardins Group bought back the ABTN held by the Desjardins Group Pension Plan, at their fair value of $48 million. The effect of this purchase was to increase the face value of the ABTN held by Desjardins Group by $86 million. The purchase had no impact on Desjardins Group's combined income.

Note 5

Securities (continued)

Securities – Asset-backed commercial paper/Asset-backed term notes (continued)

As at December 31, 2009, Desjardins Group held ABTN of which the face value is allocated among the various following vehicles:

2009

	Face value	Fair value
MAV 1		
Class A-1	$ 905	$ 637
Class A-2	820	496
Class B	140	16
Class C	57	—
Class IA – Ineligible (subprime) assets	146	—
Class IA – Ineligible (other) assets	18	14
Total MAV 1	2,086	1,163
MAV 3		
Class IA – Ineligible (subprime) assets	49	—
Class TA – Traditional assets	101	89
Total MAV 3	150	89
Total MAV 1 and MAV 3	$ 2,236	$ 1,252

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

2008

	Amortized cost	Cumulative write-down	Fair value
ABCP			
Synthetic and hybrid assets	$ 1,962	$ 772	$ 1,190
Traditional assets	255	11	244
Ineligible (subprime) assets	229	227	2
Total	$ 2,446	$ 1,010	$ 1,436

2008

		Cumulative write-down		
	Amortized cost	Income	Deposit liabilities and actuarial liabilities	Fair value
Available-for-sale securities	$ 1 257	$ 506	$ —	$ 751
Securities held for trading	1,189	243	261	685
Total	$ 2,446	$ 749	$ 261	$ 1,436

The following table presents the main features of ABTN:

	Coupon	Legal maturity date	Ranking	Rating
MAV 1 A-1(1)	Bankers' acceptance rate + 30 basis points(2)	July 15, 2056(3)	Ranking senior to MAV 1 A-2 notes with respect to interest and to MAV 1 B and C notes with respect to principal and interest	A
MAV 1 A-2(1)	Bankers' acceptance rate + 30 basis points(2)	July 15, 2056(3)	Interest ranks senior to the principal of MAV 1 A-1 notes Subordinated to MAV A-1 notes with respect to principal	A(4)
MAV 1 B(1)	Bankers' acceptance rate + 30 basis points(2) Interest payable at maturity, cumulative	July 15, 2056(3)	Subordinated to MAV 1 A-2 notes with respect to principal and interest	None
MAV 1 C(1)	Bankers' acceptance rate + 20% Interest payable at maturity	July 15, 2056(3)	Subordinated to MAV 1 B notes with respect to principal and interest	None
MAV 1 IA notes and all MAV 3 notes	Floating based on the yield of the underlying assets	Between September 19, 2012 and July 15, 2056	Certain notes rank senior with respect to interest	No rating for the MAV 1 IA notes and all MAV 3 notes, except for 6 series of MAV 3 notes which were assigned ratings ranging from A (low) to AAA

(1) No obligation to pay interest before January 22, 2019.
(2) The interest rate is LIBOR + 30 basis points for U.S. dollar notes.
(3) The expected payment maturity date is January 22, 2017.
(4) For more details, please refer to the section "Subsequent event – Credit rating of MAV 1 A-2 notes".

The trading of MAV 1 notes is subject to considerable restrictions, since MAV 1 A-1, A-2, B and C noteholders may only transfer the notes to a third party if such transfer is made on a prorata basis of each of the classes held by the seller and if the buyer assumes an equivalent share of the commitments related to the MFF, either directly or through another entity, as long as the party assuming the share of the MFF has a sufficiently high credit rating.

ABCP and ABTN valuation methodology

Since there is no active market for these securities, Desjardins Group's management estimated the fair value of its holdings and the resulting changes in value by using a valuation technique. At the time these financial statements were prepared, no active market existed yet for the various restructured notes. In addition, the trading of MAV 1 notes is subject to considerable restrictions, as previously described.

The fair value of ABTN taking the form of MAV 1 A-1, A-2, B and C notes, i.e. synthetic assets and hybrid assets, is based on a financial model incorporating uncertainties regarding return, credit spreads, the nature and credit risk of underlying assets, the amounts and timing of cash inflows, the maturity dates and the liquidity restrictions of the new notes in order to provide a fair value reflecting market conditions as at December 31, 2009. The expected cash flows from the A-1, A-2 and B notes were discounted using the bankers' acceptance rate plus a premium ranging from 586 to 2,319 basis points over periods ending on the expected due date for the payment of the notes. As a result of the significant uncertainty surrounding the cash flows to be received from the C notes, the fair value of these notes was considered to be nil.

The fair value of tracking notes backed by traditional and ineligible (other) assets was determined using benchmark indices selected based on the assets underlying each tracking note since the cash flows generated by these notes stem directly from the cash flows generated by the underlying assets. As for tracking notes comprising exclusively ineligible (subprime) assets, given the nature of the underlying assets and their marked deterioration in the current economic environment, their fair value was determined to be nil as at December 31, 2009.

Assumptions used are based as much as possible on observable market data such as interest rates, credit spreads and benchmark indices for similar assets. They also reflect, if necessary, any specific features of the restructuring, and are partially based on assumptions not supported by observable market prices or rates for similar assets. Discount rates used take into account the maturity, the credit rating and the market and liquidity risks of each note.

Impact on income

A loss of $30 million related to ABTN was recognized in Desjardins Group's combined income for the year ended December 31, 2009. This loss, which mainly results from the $34 million write-off of a security excluded from the moratorium under the Montréal Accord, is offset by a gain of $13 million related to principal repayments, mostly on entirely written-off securities. The reclassification of accrued interest on ABCP securities and the reclassification of the MFF, previously recognized in securities, had no impact on combined income. The phased recognition of income related to the MFF during fiscal 2009 amounted to $5 million.

Note 5

Securities (continued)

Securities – Asset-backed commercial paper/Asset-backed term notes (continued)

For the year ended December 31, 2008, Desjardins Group had recognized in combined income a decline in value of $502 million with respect to ABCP securities subject to the Montréal Accord; of this amount, $326 million was due to decline in value considered to be other than temporary in accordance with accounting standards for available-for-sale securities. A portion of ABCP held by Desjardins Group as at December 31, 2008 was still held as part of investment operations associated with certain guaranteed-capital savings products. Given the extreme volatility that has prevailed on markets since the third quarter of 2008, the decline in value of ABCP for the fourth quarter could not be offset by an equivalent reduction in deposit liabilities and actuarial liabilities. Consequently, the decline in value recorded for fiscal 2008 included a $76 million loss for the portion of the decline in value of ABCP that was no longer offset. During the restructuring that occurred in January 2009, the replacement securities were withdrawn from the activities involving guaranteed-capital savings products and are now included in Desjardins Group's regular securities portfolio.

The above estimated fair value may not be indicative of the ultimate net realizable value or the future fair value. While management believes that its valuation technique is appropriate in the circumstances, changes in significant assumptions, especially those relating to the determination of the return, the credit spreads for the underlying assets, and the quality of assets given as collateral by the trusts, which are incorporated in the discount rate, could significantly affect the value ascribed to the replacement notes in the future. A 1% increase in the estimated discount rates would reduce the estimated fair value of the replacement note portfolio now held by Desjardins Group by approximately $74 million, which would reduce Tier 1 capital by $52 million or 0.5% as at December 31, 2009. However, a 1% decrease in the estimated discount rates would increase the estimated fair value of the replacement note portfolio now held by Desjardins Group by approximately $79 million, which would increase Tier 1 capital by $56 million or 0.6% as at December 31, 2009. The discount rate could change as a result of changes to the assumptions used by management regarding the non-marketability premium or the relevant credit spreads. For more details on capital, refer to Note 29, "Capital management".

Some uncertainties remain regarding the value of underlying assets, the amount and timing of cash flows, the development of a secondary market for the replacement notes and the liquidity of such market, which could further change the value of Desjardins Group's investment in replacement notes. Economic conditions resulted in a decrease in the floating interest rates of the underlying assets. Therefore, the mismatch between the floating interest rates and payment dates of the underlying assets and the cost of the senior funding facility and the interest payment period of MAV 1 leads to measurement uncertainties.

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

As at December 31, 2009, Desjardins Group held other restructured securities having a face value of $105 million and a fair value of $70 million. It should be noted that, in 2008, Desjardins Group participated in the restructuring of other Canadian bank and non-bank ABCP securities for which it assumes the risk. As part of the restructuring, Desjardins Group held securities totalling $159 million before write-down, and it received in exchange liquidities and securities having a fair value of $87 million in 2008. The valuation technique used for these securities as at December 31, 2008 was similar to that used for synthetic securities subject to the Montréal Accord.

Variable interest entities (VIE)

Desjardins Group participates in MAV 1, which is a VIE with assets totalling approximately $15,631 million and no equity and is composed mainly of synthetic asset transactions for which investors are committed to contributing to a margin funding facility. Since Desjardins Group does not absorb a majority of MAV 1's expected losses and does not receive a majority of its expected residual returns, it has not consolidated MAV 1. Furthermore, Desjardins Group holds significant interests in this vehicle, namely the margin funding facility of $1,193 million and the investment in new MAV 1 notes having a fair value of $1,163 million, the total of which represents the maximum risk of loss for Desjardins Group.

Subsequent event – Credit rating of the MAV 1 A-2 notes

On February 9, 2010, the DBRS rating agency issued a press release confirming the credit rating of MAV 1 A-2 notes at A. DBRS therefore stated that it had removed the rating from under review with negative implications, where it was placed on August 11, 2009, for the following reasons: the passage of time and the stability of the credit environment.

Securities – Collateralized debt obligations

As at December 31, 2009, the review of some of these securities, having a face value of $150 million ($294 million in 2008), showed objective evidence of impairment leading to an other than temporary decline in fair value. The cumulative decline of $15 million ($113 million in 2008) in the fair value of these securities, which had been recorded in comprehensive income, was recorded in net income even if the assets in question were not derecognized. The fair value of these securities is based on a model that takes into account changes in the credit spreads of the underlying securities and their correlations.

Securities – Interest in Visa

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

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

The balance of the Class C shares of Visa Inc. held by Desjardins Group are subject to sales restrictions, which will expire in 2011. Given the nature of these restrictions and the accounting standards currently in effect, temporary fluctuations in value do not result in adjustments to the carrying value of the investment in restricted shares. On April 24, 2009, the Board of Directors of Visa Inc. approved a program under which the holders of Class C shares may cancel the transfer restrictions on 30% of their Class C shares during the period from July 1, 2009 to September 30, 2009. Desjardins Group decided to avail itself of the program by releasing 30% of its Class C shares on September 21, 2009. These shares are therefore recorded at fair value and are classified as available for sale.

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

Note 6

Loans and allowance for credit losses

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

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

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

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

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

The allowance for credit losses comprises specific allowances and a general allowance. With respect to the loan portfolio, credit risk is assessed regularly, and specific allowances are determined, on a loan-by-loan basis, for all loans considered impaired. Impaired loans are valued by discounting expected future cash flows at the rate of interest inherent in the loan. The allowance is equal to the difference between this value and the balance of the loan. Any change in the allowance for credit losses due either to the passage of time or a revision of expected payments is recorded in combined income under "Provision for credit losses". Credit card balances are written off completely when no payment has been received at the end of a period of 180 days. In addition, a general allowance is recognized to reflect Management's best estimate of probable losses related to the portion of the loan portfolio not yet classified as impaired. The general allowance is determined by using a statistical model based on changes in losses by loan category. Moreover, an additional amount is taken into account in order to reflect the impact of economic and other factors. The general allowance does not represent future losses nor replace specific allowances.

Note 6

Loans and allowance for credit losses (continued)

Allowance for credit losses (continued)

Loans are written off when all attempts at restructuring or collection have been made and the likelihood of future recovery is remote. When a portion of an impaired loan is written-off and the balance is restructured, interest is recorded again using the accrual method when there is no reasonable doubt as to the collection of principal and interest and payments have not been in arrears for 90 days.

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

The following table presents the credit quality of loans.

	2009						2008					
	Gross loans neither past due nor impaired	Gross loans past due but not impaired	Gross impaired loans	Specific allowances	General allowance	Net impaired loans	Gross loans neither past due nor impaired	Gross loans past due but not impaired	Gross impaired loans	Specific allowances	General allowance	Net impaired loans
Residential mortgages	**$ 63,375**	**$ 253**	**$ 135**	**$ 13**	**$ —**	**$ 122**	$ 60,786	$ 188	$ 107	$ 11	$ —	$ 96
Consumer, credit card and other personal loans	**18,883**	**1,852**	**85**	**33**	**—**	**52**	16,259	1,778	84	32	—	52
Business and government	**25,503**	**466**	**289**	**97**	**—**	**192**	25,444	411	231	87	—	144
General allowance	**—**	**—**	**—**	**—**	**703**	**(703)**	—	—	—	—	696	(696)
	$107,761	**$ 2,571**	**$ 509**	**$ 143**	**$ 703**	**$ (337)**	$102,489	$ 2,377	$ 422	$ 130	$ 696	$ (404)

The carrying value of loans that would be past due or impaired, but whose terms have been renegotiated during the year amounted to $153 million as at December 31, 2009 ($140 million in 2008).

The following tables present gross loans that are past due but not impaired.

2009

	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	**$ 200**	**$ 24**	**$ 10**	**$ 19**	**$ 253**
Consumer, credit card and other personal loans	**1,413**	**239**	**83**	**117**	**1,852**
Business and government	**254**	**72**	**45**	**95**	**466**
	$ 1,867	**$ 335**	**$ 138**	**$ 231**	**$ 2,571**

2008

	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	$ 150	$ 21	$ 10	$ 7	$ 188
Consumer, credit card and other personal loans	1,369	219	91	99	1,778
Business and government	244	55	41	71	411
	$ 1,763	$ 295	$ 142	$ 177	$ 2,377

The following tables present the allowance for credit losses.

2009

	Balance at beginning of year	Provision for credit losses	Write-offs and recoveries	Balance at end of year
Residential mortgages	**$ 11**	**$ 6**	**$ (4)**	**$ 13**
Consumer, credit card and other personal loans	**32**	**39**	**(38)**	**33**
Business and government	**87**	**54**	**(44)**	**97**
General allowance	**696**	**172**	**(165)**	**703**
	$ 826	**$ 271**	**$ (251)**	**$ 846**

2008

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

Note 7

Securitization of mortgage loans

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

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

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

At the time of transfer, Desjardins Group recognizes the gain or loss on the transfer in combined income under "Other income – Other", net of transaction expenses. The gain or loss on the transfer depends on the prior carrying value of the 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 expected cash flows and 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 the prepayment rate.

The following table summarizes the impact of our mortgage loan securitization activities on sales for 2009 and 2008.

	2009	**2008**
Mortgage loans securitized	**$ 1,707**	$ 2,228
Net cash proceeds received	**1,075**	2,105
Retained interests	**42**	128
Assumed servicing liabilities	**9**	20
Gain on sale, net of transaction expenses	**53**	90

As at December 31, 2009, Desjardins Group had recorded retained interests of $123 million ($170 million in 2008) and assumed servicing liabilities of $23 million ($30 million in 2008) on its Combined Balance Sheets. An amount of $823 million ($202 million in 2008) representing mortgage-backed securities created and retained was recorded in securities held for trading as at December 31, 2009.

In 2009, cash flows from retained interests were $67 million ($49 million in 2008) and the impact of the amortization of servicing liabilities on the Combined Statements of Income was $16 million ($10 million in 2008).

Total mortgage loans securitized outstanding amounts to $4,521 million ($4,074 million in 2008).

The key assumptions used in determining the initial fair value of the retained interests as at the date of sale are 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 loans	**29 months**	33 months

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

Note 7

Securitization of mortgage loans (continued)

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	**$ (4)**	$ (5)
Impact of 20% adverse change	**(8)**	(10)
Discount rate	**2.49 %**	3.49 %
Impact of 10% adverse change	**(1)**	n.s.[1]
Impact of 20% adverse change	**(2)**	(1)

(1) Not significant.

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

Note 8

Land, buildings and equipment

Land is recorded at cost. Buildings, equipment, furniture and leasehold improvements are recorded at cost less accumulated amortization and are amortized over their estimated useful lives using the straight-line or declining balance method. Gains and losses on disposals are recorded in combined income under "Other income – Other" in the year in which they are realized.

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

2009

	Cost	Accumulated amortization	Net carrying value
Land	**$ 96**	**$ —**	**$ 96**
Buildings	**948**	**483**	**465**
Computer equipment	**464**	**340**	**124**
Furniture, fixtures and other	**590**	**434**	**156**
Leasehold improvements	**318**	**151**	**167**
	$ 2,416	**$ 1,408**	**$ 1,008**

2008

	Cost	Accumulated amortization	Net carrying value
Land	$ 96	$ —	$ 96
Buildings	896	465	431
Computer equipment	496	347	149
Furniture, fixtures and other	611	427	184
Leasehold improvements	315	150	165
	$ 2,414	$ 1,389	$ 1,025

Note 9

Other assets – Other

Real estate investments

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

Goodwill and other intangible assets

Business acquisitions are recorded using the purchase method. Therefore, goodwill is the excess of the cost of the purchase of a business over the fair value of net assets acquired. Goodwill as well as intangible assets with indefinite useful lives are not amortized but are tested for impairment at least once a year. For goodwill, the impairment test consists of a comparison, by reporting unit, of the fair value of the assets and their carrying value. Any excess of the carrying value over fair value is charged to combined income during the period in which the impairment is determined under "Non-interest expense – Other". Following the annual impairment test, the following reductions in the value of goodwill were recognized in combined income in fiscal 2009: $2 million for Desjardins Securities (nil in 2008), $11 million for Desjardins Asset Management (nil in 2008) and nil for Desjardins Credit Union Inc. ($31 million in 2008).

Desjardins Group's intangible assets with finite lives mainly include software and are presented at their net carrying value. They are amortized using the straight-line method over their estimated useful lives, which do not exceed ten years.

The following table presents the breakdown of "Other assets – Other".

	2009	2008
Real estate investments (Note 30)	**$ 972**	$ 896
Goodwill	**109**	122
Intangible assets	**112**	126
Premiums receivable	**730**	702
Future income tax assets (Note 23)	**665**	671
Accrued benefit asset (Note 25)	**90**	9
Accounts receivable	**468**	293
Other	**1,033**	956
Total	**$ 4,179**	$ 3,775

The fair value of real estate investments was $1,325 million ($1,278 million en 2008). Income of $85 million ($81 million in 2008) from real estate investments is presented net of the operating expenses.

Goodwill comprises the following: $100 million ($111 million in 2008) from the Desjardins Financial Corporation subsidiary, mainly for its general insurance subsidiary; $6 million from Desjardins Securities Inc. ($8 million in 2008); and $3 million from the FCDQ ($3 million in 2008).

The gross carrying value of software amounted to $252 million ($202 million in 2008) and the accumulated amortization amounted to $159 million ($116 million in 2008). The gross carrying value of the other intangible assets amounted to $57 million ($90 million in 2008) and the accumulated amortization amounted to $38 million ($51 million in 2008). Amortization for fiscal 2009 totalled $39 million ($35 million in 2008).

Note 10

Financial assets transferred but not derecognized

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

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

	2009	2008
Securities sold under repurchase agreements	**$ 8,964**	$ 10,668
Securities lent	**200**	417

Note 11

Deposits

Deposits payable on demand are interest-bearing or non-interest-bearing deposits, usually accounts with chequing privileges, for which Desjardins Group does not have the right to require notice prior to withdrawal. Deposits payable upon notice are interest-bearing deposits, usually savings accounts, for which Desjardins Group has the legal right to require notice prior to withdrawal. Term deposits are interest-bearing deposits, usually deposits payable on a fixed date, guaranteed investment certificates or other similar instruments, with a term that generally varies from one day to 10 years and mature on a predetermined date. Deposits are recognized at cost on the Combined Balance Sheets.

The following table presents the breakdown of deposits:

	2009	2008	2009	2008	2009	2008	2009	2008
	Payable on demand		Payable upon notice		Payable on a fixed date		Total	
Individuals	**$ 23,252**	$ 18,327	**$ 3,633**	$ 3,338	**$ 48,535**	$ 50,293	**$ 75,420**	$ 71,958
Business and government	**11,849**	10,594	**295**	276	**10,732**	10,642	**22,876**	21,512
Deposit-taking and other institutions	**40**	23	**—**	—	**7,825**	7,943	**7,865**	7,966
	$ 35,141	$ 28,944	**$ 3,928**	$ 3,614	**$ 67,092**	$ 68,878	**$ 106,161**	$ 101,436

Note 12

Actuarial and related liabilities

Actuarial and related liabilities are as follows:

	2009	2008
Actuarial liabilities	**$ 10,573**	$ 10,114
Claims and adjustment expenses	**1,397**	1,371
Unearned premiums	**734**	713
Policyholder deposits	**435**	420
Provisions for participating policyholders' dividends and experience refunds	**314**	256
	$ 13,453	$ 12,874

Actuarial liabilities

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

Under the Canadian Asset Liability Method, the determination of actuarial liabilities is based on an explicit projection of cash flows using current best estimate assumptions for each cash flow component and each significant contingency. Investment returns are based on projected investment income using the current asset portfolios and projected reinvestment strategies. Each non-economic assumption is adjusted by a margin for adverse deviation. With respect to investment returns, the provision for adverse deviation is established by scenario testing. Scenario testing is generally performed on a deterministic basis that includes testing prescribed by Canadian actuarial standards. The provision for minimum guarantees on segregated fund products is established using stochastic modeling.

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

Net premiums

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

Reinsurance

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

Composition of actuarial liabilities

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

2009

	Group insurance	Individual insurance	Savings	Total
Gross actuarial liabilities				
Non-participating policies	$ 2,345	$ 2,888	$ 3,966	$ 9,199
Participating policies	25	1,692	134	1,851
Amounts transferred under reinsurance treaties	(180)	(285)	(12)	(477)
Net actuarial liabilities	$ 2,190	$ 4,295	$ 4,088	$ 10,573
Composition of assets backing actuarial liabilities				
Bonds	$ 1,211	$ 2,861	$ 1,894	$ 5,966
Mortgage loans	771	478	1,834	3,083
Real estate	—	356	—	356
Shares	33	342	—	375
Other	175	258	360	793
	$ 2,190	$ 4,295	$ 4,088	$ 10,573

2008

	Group insurance	Individual insurance	Savings	Total
Gross actuarial liabilities				
Non-participating policies	$ 2,214	$ 2,725	$ 3,841	$ 8,780
Participating policies	23	1,611	148	1,782
Amounts transferred under reinsurance treaties	(168)	(267)	(13)	(448)
Net actuarial liabilities	$ 2,069	$ 4,069	$ 3,976	$ 10,114
Composition of assets backing actuarial liabilities				
Bonds	$ 1,064	$ 2,724	$ 1,845	$ 5,633
Mortgage loans	745	532	1,897	3,174
Real estate	—	346	—	346
Shares	30	191	—	221
Other	230	276	234	740
	$ 2,069	$ 4,069	$ 3,976	$ 10,114

The fair value of assets backing actuarial liabilities is $10,729 million ($10,318 million in 2008).

Actuarial assumptions and sensitivity of assumptions to changes

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

Mortality and morbidity

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

In terms of annuities, the life and health insurance subsidiary also proceeds with a study of its experience, which provides an adequate level of credibility upon which assumptions would be based. Contrary to insurance, an improvement in mortality claims is predicted in the coming years. A decrease of 1% in the best estimate assumption would lead to an increase in actuarial liabilities of approximately $10.3 million.

With respect to the morbidity assumption, which relates to the occurrence of accidental deaths, mutilation, illness, and disability as well as the duration of these disabilities, the life and health insurance subsidiary uses industry-developed morbidity tables and has adapted them according to current underwriting experience studies for itself and for the industry. For products on which morbidity has a significant effect, an increase of 1% in the best estimate assumption would lead to an increase in actuarial liabilities of approximately $11 million.

Policy cancellation rates

Policyholders can cancel their policy before the expiration of their contractual coverage period by discontinuing premium payment. For some insurance products with surrender value, an increase in policy cancellation rates will be unfavourable to the life and health insurance subsidiary if the actuarial liabilities are less than the surrender values of the policies. For other products with little or no surrender value, such as Term-to-100 life insurance, a decrease in policy cancellation rates will have the effect of increasing the number of future death benefits, and the benefits will be lower than expected. Estimates of future policy cancellation rates are based on previous experience for each block of policies and take into account industry trends and studies. A negative change of 10% in the best estimate assumption for policy cancellations would lead to an increase in actuarial liabilities of approximately $83.6 million.

Note 12

Actuarial and related liabilities (continued)

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

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

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

The establishment of actuarial liabilities takes into account the uncertainty related to the forecasted interest rates on the reinvestment of future cash flows with respect to the mismatch of cash flows when a series of adverse economic scenarios is considered.

As at December 31, 2009, the durations of assets and liabilities were equal. In 2008, they differed by 0.1 year. Since the valuation method already recognizes the impact of possible changes in interest rates, a sudden increase or decrease in these interest rates would not have a material impact on the results of the life and health insurance subsidiary.

The extent of credit losses has an impact on future investment income. In addition to the provisions for non-performing investments recorded through a reduction of the carrying value of the assets, the life and health insurance subsidiary took into account, in its forecasted net investment income, a $305 million provision ($297 million in 2008) to protect itself against the risk of insufficient return on assets.

Non-interest expense
Amounts are included in actuarial liabilities to provide for the costs of administering policies in force, including the cost of premium collection, claim processing and adjudication, periodic actuarial valuations, preparation and mailing of policy statements, related indirect expenses, and an appropriate share of overhead. The process of forecasting expenses requires estimates to be made of such factors as inflation, rates for salary increases, productivity changes, new business volumes, and premium tax rates. Estimates of future policy administration costs are based on current per unit costs of the life and health insurance subsidiary, adjusted for the expected rate of inflation. An increase of 5% in the best estimate assumption for unit costs would lead to an increase in actuarial liabilities of approximately $29.6 million.

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

Changes in actuarial liabilities

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

	2009	2008
Balance at beginning of year	$ 10,114	$ 10,208
Normal change due to updates to actuarial assumptions[(1)]	31	2
Normal change due to the passage of time	436	(120)
Other changes	(8)	24
Balance at end of year	**$ 10,573**	$ 10,114

(1) In 2009, the main changes to the actuarial assumptions involved mortality rates, interest and forfeitures, whereas in 2008 they involved operating expenses, mortality rates and forfeitures.

Claims and adjustment expenses

The amounts related to reported claims are uncertain since all of the information is not available at the reporting date, and, consequently, the claims cost could increase or decrease thereafter. Moreover, since certain claims are not reported upon occurrence, the value of incurred but unreported claims is estimated at the end of the year. Consequently, individual loss estimates are provided for each reported claim. In order to adequately establish the provision, the general insurance subsidiary uses assumptions based on characteristics of the business segments, settlement history, and other relevant factors. The provision for claims and adjustment expenses is reported on a discounted basis using the underlying asset rate, with a margin for adverse deviations. According to management, the estimating methods used produce reasonable results given currently known data.

Reinsurance

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

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

Unearned premiums

The general insurance subsidiary's premium income is distributed equally over the term of the insurance policies using the monthly expiry method. The portion of the premium corresponding to the time remaining at the end of the year is included in unearned premiums. The subsidiary is exposed to pricing risk to the extent that unearned premiums could be insufficient to cover future costs related to policies. Future claim costs, related cost, investment income and expected income related to unearned premiums are regularly assessed. Premiums receivable are recorded at the amount due, less any provision for doubtful accounts.

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

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

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

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

	2009		2008	
	Gross amount	Ceded amount	Gross amount	Ceded amount
Property	$ 266	$ 15	$ 241	$ 16
Automobile	1,096	20	1,096	28
Other	35	—	34	—
	$ 1,397	$ 35	$ 1,371	$ 44

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

		2009	2008
Balance at beginning of year			
Gross provision for claims and adjustment expenses		$ 1,371	$ 1,263
Less:	Share of reinsurers	(44)	(37)
	Salvage and subrogation	(67)	(65)
Net provision for claims and adjustment expenses		1,260	1,161
Plus claims incurred:	Current year	1,076	1,141
	Previous years	(84)	(85)
Less claims paid:	Current year	(615)	(665)
	Previous years	(350)	(292)
Balance at end of year			
Net provision for claims and adjustment expenses		1,287	1,260
Plus:	Share of reinsurers	35	44
	Salvage and subrogation	75	67
Gross provision for claims and adjustment expenses		$ 1,397	$ 1,371

Interest rate sensitivity

Since the time value of money is taken into account to establish the provision for claims and adjustment expenses, an increase or decrease in the discount rate would cause a decrease or increase, respectively, in the expense for claims and adjustment expenses. Consequently, a 1% change in the discount rate would have an impact of $36 million on the provision for claims and adjustment expenses as at December 31, 2009 ($31 million in 2008).

Structured settlements

Desjardins Group purchased certain annuities as part of claim settlement. These annuities were purchased from approved Canadian life insurance companies having the highest claim settlement capacity ratings from independent rating companies. Desjardins Group is exposed to credit risk should the insurers default, but the likelihood of loss is considered low. As at December 31, 2009, the fair value of the annuities was approximately $40 million ($34 million in 2008).

Note 13

Borrowings

Borrowings are recognized at amortized cost on the Combined Balance Sheets and comprise the following items:

	2009	2008
Mortgage debt bearing interest at rates ranging from 5.14 % to 11.00% (weighted average rate of 6.34% at December 31, 2009; 6.37% as at December 31, 2008), maturing on various dates through 2017	$ 59	$ 61
Borrowings, face value of US$166.8 million and C$1.1 million, repaid in 2009	–	204
Borrowings, face value of US$37.2 million and C$0.1 million, repaid in 2009	–	46
Obligation under a capital lease, bearing interest at a rate of 4.31%, maturing in May 2010	12	26
Other borrowings repaid in 2009	–	1
	$ 71	$ 338

The annual principal repayments on borrowings for the next five years are as follows: $14 million in 2010, $3 million in 2011 and $3 million in 2012, 2013 and 2014.

Note 14

Other liabilities – Other

The following table presents the breakdown of "Other liabilities – Other".

	2009	2008
Cooperative shares and preferred shares	$ 28	$ 32
Deferred net gains realized on disposal of investments	40	46
Future income tax liabilities (Note 23)	303	273
Accrued benefit liability (Note 25)	782	775
Accounts payable	1,681	1,834
Other	895	359
	$ 3,729	$ 3,319

Note 15

Subordinated debentures

Debentures are bonds subordinated in right of payment to claims of depositors and certain other creditors, and are included in regulatory capital. Redemption and cancellation of subordinated debentures are subject to the consent and approval of the various regulatory authorities. Debentures are recognized at amortized cost on the Combined Balance Sheets and comprise the following items:

	2009	2008
Senior Series C bonds (par value of $300 million), maturing in June 2017, bearing interest at an annual rate of 6.322% for the first ten years, and for the following five years, at an annual rate equal to the 90-day bankers' acceptance rate plus 1%, redeemable at the option of Desjardins Group.	$ 299	$ 299
Senior Series D bonds (par value of $450 million), redeemed in 2009.	–	449
Senior Series E bonds (par value of $500 million), maturing in April 2019, bearing interest at an annual rate of 5.756% for the first five years, and for the following five years, at an annual rate equal to the 90-day bankers' acceptance rate plus 4.97%, redeemable at the option of Desjardins Group.	498	–
Senior Series F bonds (par value of $500 million), maturing in June 2021, bearing interest at an annual rate of 5.541% for the first seven years, and for the following five years, at an annual rate equal to the 90-day bankers' acceptance rate plus 3.88%, redeemable at the option of Desjardins Group.	497	–
	$ 1,294	$ 748

Note 16

Non-controlling interests

Non-controlling interests include:

	2009	2008
Participating policies of the life and health insurance subsidiary	$ 197	$ 189
Common shares of subsidiaries	73	62
Units of mutual funds combined in accordance with AcG-15	68	525
	$ 338	$ 776

Earnings (loss) attributable to non-controlling interests comprise the following:

	2009	2008	2007
Earnings (loss) attributable to participating policyholders of the life and health insurance subsidiary	$ 1	$ (6)	$ 6
Earnings attributable to common shareholders of subsidiaries and holders of capital shares	16	5	15
	$ 17	$ (1)	$ 21

Note 17

Capital stock

Authorized

The capital stock comprises the following qualifying shares, capital shares, permanent shares and surplus shares.

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

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

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

Issued and paid capital stock is as follows:

	2009	2008
Qualifying shares	$ 42	$ 38
Capital shares	42	40
Permanent shares	1,502	828
Surplus shares	64	49
	$ 1,650	$ 955

Note 18

Share capital

Authorized

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

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

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

	Number of shares	2009	Number of shares	2008
Issued and paid				
Class A preferred shares	**618,000**	**$ 6**	629,000	$ 6
Class B preferred shares – Series 2000	**50,000**	**1**	50,000	1
Class B preferred shares – Series 2002	**338,000**	**3**	338,000	3
Class B preferred shares – Series 2003	**642,000**	**6**	647,000	6
Class C preferred shares – Series 1996	**2,141,000**	**22**	2,052,000	21
Class C preferred shares – Series 2002	**3,340,000**	**33**	3,205,000	32
	7,129,000	**$ 71**	6,921,000	$ 69

Dividends were paid in the form of preferred shares as follows: $1 million for Class C – Series 1996 ($1 million in 2008) and $1 million for Class C – Series 2002 ($1 million in 2008).

Specific characteristics of classes B and C preferred shares issued and paid

Class B preferred shares – Series 2000, 2002 and 2003

The dividend rate will be equal to the higher of the average interest rate for the year on non-redeemable term deposits of five years plus 0.50% or 6.00% – Series 2000, 1.00% or 5.25% – Series 2002 and 1.00% or 4.00% – Series 2003, i.e., the minimum rate. In case the issuer cannot pay the dividend in full, a partial dividend may be declared. The dividend may be declared every time the issuer's surplus earnings allow it and that all regulatory requirements in terms of funding and cash have been met. The issuer may redeem, upon the holder's request and the board of directors' approval, up to a maximum of 10% of the issued and outstanding shares of the prior year. These shares have been redeemable at the option of the issuer since September 30, 2005 for Series 2000; since July 1, 2007 for Series 2002; and since March 1, 2008 for Series 2003. Redemption of shares can be made only if the issuer does not or will not violate Section 84 of the *Credit Union and Caisses Populaires Act* (1994), regarding capital adequacy.

Class C preferred shares – Series 1996 and 2002

The dividend rate will be equal to the higher of the following rates: the average interest rate for the year on non-redeemable term deposits of five years plus 0.50% or 5.75% – Series 1996, and 5.25% – Series 2002, i.e., the minimum rate. In case the issuer cannot pay the dividend in full, a partial dividend may be declared. The dividend may be declared every time the issuer's surplus earnings allow it and that all regulatory requirements in terms of funding and cash have been met. The issuer may redeem, upon the holder's request and the board of directors' approval, up to a maximum of 10% of the issued and outstanding shares of the prior year. These shares have been redeemable since May 1, 2003 for Series 2000 and since May 1, 2008 for Series 2002. Redemption of shares can be made only if the issuer does not or will not violate Section 84 of the *Credit Union and Caisses Populaires Act* (1994), regarding capital adequacy.

Note 19

Accumulated other comprehensive income

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

	2009	2008
Unrealized gains (losses) on available-for-sale securities	**$ 87**	$ (87)
Gains on derivative financial instruments designated as cash flow hedges	**402**	770
Net unrealized exchange gain on the translation of the financial statements of self-sustaining foreign operations	**—**	2
Accumulated other comprehensive income	**$ 489**	$ 685

Note 20

Reserves

Reserves included in equity comprise the following elements:

The stabilization reserve of $282 million ($278 million in 2008) comprises amounts appropriated by the caisses and the FCDQ from their annual surplus earnings. Amounts appropriated to the stabilization reserve are essentially used for the payment of interest on permanent shares when the surplus earnings of a caisse are not sufficient.

The reserve for future member dividends of $431 million ($350 million in 2008) comprises amounts appropriated by the caisses from their annual surplus earnings. This reserve allows them to manage over time the impact of changes in annual surplus earnings on the payment of member dividends.

The general reserve of $7,469 million ($7,634 million in 2008) is essentially made up of amounts appropriated by the caisses, the FCDQ, Fonds de sécurité Desjardins and Caisse centrale Desjardins. It is also made up of a portion of the components' surplus earnings since their inception. This reserve can only be used to eliminate a deficit and cannot be divided amongst members nor used to pay a member dividend.

Note 21

Net income from financial instruments held for trading

Financial instruments required to be classified as held for trading

The following table presents the impact of net income from financial instruments required to be classified as held for trading on the Combined Statements of Income.

	2009	2008	2007
Income			
Net interest income	**$ 69**	$ 45	$ 52
Trading income (loss)	**331**	(901)	64

Financial instruments designated as held for trading under the fair value option

Financial instruments designated as held for trading under the fair value option are composed of: (i) certain investments in derivative instruments not designated in hedging relationships, thereby significantly reducing accounting disparities; (ii) securities whose underlying security is composed of hedge funds that are managed using a supported investment strategy aimed at taking advantage of short-term market volatility; (iii) securities backing actuarial liabilities in life and health insurance for life insurance and other contracts, as well as provisions for general insurance claims for which the option is used to significantly reduce a recording disparity that would otherwise occur, because assets or liabilities would be recorded differently; (iv) securities including embedded derivatives for which Desjardins Group is unable to measure the fair value of the embedded derivative separately either at acquisition or at a subsequent date; (v) securities that do not include embedded securities and that are managed under the fair value option using a supported investment strategy that is communicated to the key officers, and whose portfolio performance is measured based on fair value to more adequately reflect its substance.

The following table presents the impact of net income from financial instruments designated as held for trading under the fair value option on the Combined Statements of Income:

	2009	2008	2007
Income			
Net interest income	**$ 34**	$ 18	$ 11
Trading income (loss)	**335**	(100)	198

Note 22
Restructuring expenses

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

As part of this restructuring, Desjardins Group recognized $101 million in severance benefits, professional fees, asset impairments and other expenses in combined income for 2009.

The impact of asset impairment is mainly attributable to the Personal and Commercial segment and is reflected in the following:

- Goodwill and intangible assets related, among other things, to a demand deposit portfolio and a distribution network.
- Leasehold improvements.

The fair value of impaired assets was determined using a cash flow discounting technique. Desjardins Group does not expect to recover these assets due to the reorganization of certain activities as part of the restructuring.

These charges are presented under “Restructuring expenses” in the Combined Statements of Income.

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

As at December 31, 2009
(in millions of $)

	Severance benefits	Professional fees	Other	Total amounts payable	Asset impairment	Total restructuring expenses
Restructuring expenses	$ 45	$ 15	$ 11	$ 71	$ 30	$ 101
Payments	(5)	(15)	(9)	(29)	N/A [1]	N/A [1]
Balance at end of year	$ 40	$ —	$ 2	$ 42	N/A [1]	N/A [1]

(1) Not applicable.

Note 23
Income taxes on surplus earnings

Income taxes on surplus earnings are accounted for using the tax liability method. Under this method, the income tax expense on surplus earnings comprises current and future income taxes. Future income taxes reflect the expected future tax effects of temporary differences between the value of assets and liabilities for accounting and tax purposes. Future income tax assets or liabilities are measured based on the tax rates expected to apply when the assets are realized and the liabilities are settled. A valuation allowance is created, if necessary, to reduce the value of future income tax assets to the estimated amount that is more likely than not to be realized. Future income tax assets and liabilities are presented under “Other assets – Other” and “Other liabilities – Other”.

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

	2009	2008	2007
Combined Statements of Income			
Income taxes on surplus earnings	$ 406	$ 109	$ 358
Tax recovery on provision for member dividends	(98)	(62)	(174)
Income tax expense after member dividends	308	47	184
Combined Statements of Changes in Equity			
Impact of the adoption of new accounting standards	—	—	14
Other comprehensive income	(59)	210	(22)
Tax recovery following payment of remuneration on permanent shares	(15)	(10)	(10)
	$ 234	$ 247	$ 166

The income tax expense for the year comprises the following:

	2009	2008	2007
Current income taxes	$ 191	$ 312	$ 236
Future income taxes	43	(65)	(70)
	$ 234	$ 247	$ 166

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

	2009	2008	2007
Income taxes at the statutory rate	$ 361	$ (8)	$ 279
Eligible small business deduction	(60)	(38)	(29)
Non-taxable investment income and other items	(29)	(22)	(80)
Valuation allowance	6	17	7
Difference between statutory rates and future rates	12	70	(7)
Non-deductible expenses and other	18	28	14
	$ 308	$ 47	$ 184

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

	2009	2008
Future income tax assets		
Buildings and equipment	$ 11	$ 35
Actuarial and related liabilities	274	543
Allowance for credit losses	157	154
Accrued benefit liability	179	194
Tax losses[(1)]	235	220
Valuation allowance	(24)	(23)
	$ 832	$ 1,123
Future income tax liabilities		
Securities and other financial instruments	322	609
Accrued benefit asset	23	3
Interests in a limited partnership	9	9
Other	116	104
	$ 470	$ 725
Net future income tax assets	$ 362	$ 398
Future income tax assets	665	671
Future income tax liabilities	303	273
	$ 362	$ 398

(1) As at December 31, 2009, certain components of Desjardins Group had accumulated non-capital losses amounting to $826 million ($815 million in 2008). These losses can be used to reduce the taxable income of these components in future years and expire at the latest in 2029.

Note 24

Provision for member dividends

Desjardins Group recorded a provision for dividends to caisse members for an amount of $311 million ($215 million in 2008 and $592 million in 2007) before recovery of related taxes. The amount of the 2009 and 2008 provision was estimated using scenarios and assumptions while taking information obtained from a number of caisses into account. For fiscal 2007, the provision for annual member dividends was also determined using scenarios stemming from the surplus earnings distribution plan for each caisse.

The board of directors of each caisse intends to recommend the surplus earnings distribution plan for approval at the general meeting for their caisse. The amount of member dividends to be paid is part of this plan. The difference between the amounts of member dividends actually paid, in cash or in shares, following the general meetings held by the caisses, and the estimated amount of the provision, is charged to combined income during the following year. The allocation basis of member dividends depends on the interest recorded on loans and deposits, the average outstanding amount of Desjardins Funds and Accord D loans purchased or obtained by the member through the caisse, and the various service charges collected from the member depending on the services used. Since 2006, the surplus earnings distribution plan takes into account a new program under which members may elect to receive their dividends in the form of shares. Member dividends paid in shares are increased, as mentioned in the standard. The caisses can pay out member dividends when the legal and regulatory requirements have been met.

Note 25

Employee future benefit plans

Pension plans

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

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

Defined benefit costs primarily correspond to the aggregate of: (a) current service cost, computed using an actuarial method; (b) interest cost on accrued benefit obligation; (c) actual return on plan assets; (d) actuarial gains and losses; (e) plan amendments; (f) curtailment and settlement gains; and (g) adjustments to recognize the long-term nature of employee future benefit costs. Actuarial gains (losses) result from the difference between the long-term actual return on plan assets and the expected return, the changes made to the actuarial assumptions used to determine the accrued benefit obligation and the experience gains or losses on this obligation. The excess of any net actuarial gains or any net actuarial losses over 10% of the greater of the accrued benefit obligation balance and the market-related value of plan assets at the beginning of the year is amortized over the average remaining service period of the employees. The cumulative excess of pension fund contributions over the amounts recorded as defined benefit costs is reported under "Other assets – Other". If such amount is negative, it is accounted for under "Other liabilities – Other".

Other plans

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

The following table contains information on these plans.

	2009		2008	
	Pension plans[1]	Other plans[2]	Pension plans[1]	Other plans[2]
Change in accrued benefit obligation				
Accrued benefit obligation at beginning of year	**$ 5,423**	**$ 453**	$ 5,710	$ 538
Current service cost	**135**	**13**	184	19
Interest cost	**361**	**30**	338	32
Participants' contributions	**103**	**—**	95	—
Benefits paid	**(206)**	**(16)**	(196)	(15)
Transfers from other plans	**4**	**—**	5	—
Transfers to other plans	**(2)**	**—**	(2)	—
Actuarial losses (gains)[3]	**622**	**19**	(711)	(75)
Plan amendments	**—**	**—**	—	(46)
Other changes	**1**	**1**	—	—
Accrued benefit obligation at measurement date	**$ 6,441**	**$ 500**	$ 5,423	$ 453
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	**$ 4,960**	**$ —**	$ 5,679	$ —
Actual return on plan assets	**(138)**	**—**	(798)	—
Employers' contributions	**188**	**—**	180	—
Participants' contributions	**103**	**—**	95	—
Benefits paid	**(201)**	**—**	(192)	—
Transfers from other plans	**4**	**—**	5	—
Transfers to other plans	**(2)**	**—**	(2)	—
Other changes	**(7)**	**—**	(7)	—
Fair value of plan assets at measurement date	**$ 4,907**	**$ —**	$ 4,960	$ —
Funding status				
Funding at end of year	**$ (1,534)**	**$ (500)**	$ (463)	$ (453)
Unamortized net losses (gains)	**1,505**	**(205)**	349	(242)
Employers' contributions after measurement date	**42**	**—**	43	—
Accrued benefit asset (liability) at end of year[4]	**$ 13**	**$ (705)**	$ (71)	$ (695)
Main actuarial assumptions				
Discount rate for the obligation	**6.00 %**	**6.00 %**	6.50 %	6.50 %
Discount rate for the expense	**6.50**	**6.50**	5.75	5.75
Expected rate of return on plan assets	**7.25**	**—**	7.25	—
Rate of increase in future compensation	**3.50**	**3.50**	3.50	3.50

(1) For non-funded pension plans, the accrued benefit obligation amounted to $123 million in 2009 ($103 million in 2008).
(2) Medical, dental and life insurance plans.
(3) Gains and losses on the obligation stem from the addition of experience gains and losses realized during the year and gains and losses on changes in assumptions since the last measurement.
(4) An amount of $90 million in 2009 ($9 million in 2008) related to Desjardins Group's main pension plan was recorded under 'Other assets – Other" and an amount of $782 million in 2009 ($775 million in 2008) was recorded under "Other liabilities – Other".

A preliminary actuarial valuation of Desjardins Group's main pension plan was performed as of December 31, 2009 in order to start covering, from the beginning of 2010, the significant solvency deficiency through special payments. The funding deficiency and the solvency deficiency are estimated at $527 million and $1,918 million, 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 $1,918 million deficiency as at December 31, 2009, special payments are required from January 1, 2010 to December 31, 2016 or until a subsequent actuarial valuation shows that the plan no longer has a funding or solvency deficiency. The next actuarial valuation for funding purposes will be required no later than December 31, 2010.

For financial reporting purposes, the accrued benefit obligation and the pension plan assets were measured as at September 30, 2009 for the main plan and between November 1, 2009 (projection) and December 31, 2009 for the supplemental plans and the other plans of certain components of Desjardins Group.

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

(as a %)

	2009	2008
Main asset categories		
Shares	**44.0 %**	44.0 %
Bonds	**26.7**	24.8
Real estate	**13.2**	15.4
Other	**16.1**	15.8

As at December 31, 2009, the plans held investments totalling $94 million ($59 million in 2008) in Desjardins Group's entities.

Note 25

Employee future benefit plans (continued)

The following table presents the defined benefit costs recognized in the year.

	2009		2008		2007	
	Pension plans	Other plans[1]	Pension plans	Other plans[1]	Pension plans	Other plans[1]
Current service cost	**$ 135**	**$ 7**	$ 184	$ 14	$ 228	$ 15
Interest cost	**362**	**30**	338	32	317	29
Actual return on assets	**138**	**—**	798	—	(638)	—
Actuarial losses (gains)	**606**	**19**	(702)	(76)	(568)	(48)
Plan amendments	**—**	**—**	—	(46)	—	—
Elements of employee future benefit costs before adjustments to recognize the long-term nature of these costs	**1,241**	**56**	618	(76)	(661)	(4)
Adjustments to recognize the long-term nature of employee future benefit costs:						
Difference between expected return and actual return of plan assets	**(529)**	**—**	(1,190)	—	292	—
Difference between actuarial loss (gain) recognized for the year and the actual actuarial loss (gain) on accrued benefit obligation for the year	**(607)**	**(29)**	702	72	601	48
Difference between amortization of past service costs for the year and actual plan amendments for the year	**(2)**	**(7)**	2	43	9	(3)
Defined benefit costs recognized	**$ 103**	**$ 20**	$ 132	$ 39	$ 241	$ 41

(1) Medical, dental and life insurance plans.

Total cash payments

Total cash payments on employee future benefits for 2009, which comprise contributions from Desjardins Group to funded pension plans and amounts paid directly to employees, to their beneficiaries or their estate with respect to other non-funded plans totalled $200 million ($196 million in 2008).

Sensitivity of key assumptions in 2009

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

	Change in obligation	Change in defined benefit costs
Pension plans		
Discount rate		
1% increase	(923)	(90)
1% decrease	1,218	160
Rate of increase in future compensation		
1% increase	321	73
1% decrease	(259)	(58)
Long-term rate of return on plan assets		
1% increase	—	(54)
1% decrease	—	54
Other plans		
Discount rate		
1% increase	(64)	(8)
1% decrease	81	10
Rate of increase in future compensation		
1% increase	6	2
1% decrease	(5)	(1)
Health care costs		
1% increase	46	9
1% decrease	(38)	(8)

As at December 31, 2010, it was expected that the rate of increase in health care costs, which is a weighted average rate of increase in health care and dental benefits covered, would be 9.1%, and would decrease to 4.8% by fiscal 2014 to remain at that level for all participants.

Note 26

Derivative financial instruments and hedging activities

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

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

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

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

Options are contractual agreements under which the seller grants the purchaser the right but not the obligation to buy (call option) or sell (put option) a specified amount of a financial instrument at a predetermined price, on or before a specified date. The seller receives a premium from the purchaser in exchange for this right. Desjardins Group enters into these contracts primarily to meet its clients’ needs and to manage its own asset-liability exposures.

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

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

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

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

Hedging activities

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

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

Note 26

Derivative financial instruments and hedging activities (continued)

Fair value hedges

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

In a fair value hedging transaction, the hedging derivative is recognized at fair value, and the carrying value of the hedged item is adjusted by the gain or the loss attributable to the hedged risk. When these changes in fair value do not completely offset each other, the resulting amount is recorded under "Other income – Trading income (loss)". For the year ended December 31, 2009, a loss of $1 million ($1 million in 2008) related to the ineffectiveness of fair value hedging activities was recorded under "Other income – Trading income (loss)" in the Combined Statements of Income.

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

Cash flow hedges

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

In a cash flow hedging transaction, the gains and losses arising from changes in the fair value of the effective portion of the derivative financial instrument are recognized in other comprehensive income until the hedged item is recognized in combined income, at which time such change is recorded under interest income. The ineffective portion of hedging activities is recognized immediately in combined income under "Other income – Trading income (loss)". For the year ended December 31, 2009, a loss of $2 million ($2 million in 2008) related to the ineffectiveness of cash flow hedging activities was recorded under "Other income – Trading income (loss)" in the Combined Statements of Income. In the next twelve months, a net income of $58 million from the Combined Statements of Comprehensive Income as at December 31, 2009 should be reclassified to the Combined Statements of Income. The remaining balance of accumulated other comprehensive income related to cash flow hedges will be reclassified to the Combined Statements of Income over the next nine years.

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

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

The "Derivative financial instruments – Credit risk" table gives an overview of the derivative financial instruments portfolio of Desjardins Group and the related credit risk, before and after the impact of master netting agreements.

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

Derivative financial instruments – Credit risk

	2009					2008		
	Notional amount	Replacement cost	Future credit exposure	Credit risk equivalent	Risk-weighted balance	Replacement cost	Credit risk equivalent	Risk-weighted balance
Interest rate contracts								
Swaps	$ 90,153	$ 1,857	$ 375	$ 2,233	$ 456	$ 2,990	$ 3,317	$ 673
Forward rate agreements	17,106	5	6	11	2	11	23	5
Futures	17,917	4	—	4	—	2	—	—
Options purchased	248	—	1	1	—	3	4	1
Options written	248	—	—	—	—	—	—	—
	125,672	1,866	382	2,249	458	3,006	3,344	679
Foreign exchange contracts								
Forward contracts	6,498	62	71	133	32	355	467	107
Swaps	5,876	307	200	507	112	958	1,266	273
Options purchased	272	9	3	11	3	42	53	16
Options written	311	—	—	—	—	—	—	—
	12,957	378	274	651	147	1,355	1,786	396
Other contracts								
Swaps	3,922	18	462	480	13	59	994	126
Futures	158	—	—	—	—	—	—	—
Options purchased	4,778	385	391	776	155	168	451	100
Options written	4,670	—	—	—	—	—	—	—
	13,528	403	853	1,256	168	227	1,445	226
Total derivative financial instruments	$ 152,157	$ 2,647	$ 1,509	$ 4,156	$ 773	$ 4,588	$ 6,575	$ 1,301
Impact of master netting agreements[1]		2,391			613	3,813		766
Total derivative financial instruments after master netting agreements		$ 256			$ 160	$ 775		$ 535

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

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

	Maturity				2009			2008
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years	Total contracts	Classified as held for trading	Designated as hedging items	Total
Interest rate contracts								
Swaps	$ 17,067	$ 38,206	$ 32,203	$ 2,677	$ 90,153	$ 61,567	$ 28,586	$ 77,187
Forward rate agreements	15,876	1,230	—	—	17,106	17,106	—	10,849
Futures	17,627	290	—	—	17,917	17,917	—	5,924
Options purchased	98	100	50	—	248	248	—	312
Options written	98	100	50	—	248	248	—	312
	50,766	39,926	32,303	2,677	125,672	97,086	28,586	94,584
Foreign exchange contracts								
Forward contracts	6,335	163	—	—	6,498	6,290	208	10,037
Swaps	2,344	2,649	874	9	5,876	712	5,164	7,405
Options purchased	270	2	—	—	272	272	—	653
Options written	309	2	—	—	311	311	—	760
	9,258	2,816	874	9	12,957	7,585	5,372	18,855
Other contracts[1]								
Swaps	157	1,734	2,030	1	3,922	3,922	—	8,690
Futures	158	—	—	—	158	158	—	—
Options purchased	564	1,753	2,150	311	4,778	4,778	—	3,472
Options written	572	1,752	2,104	242	4,670	4,670	—	3,476
	1,451	5,239	6,284	554	13,528	13,528	—	15,638
Total derivative financial instruments	$ 61,475	$ 47,981	$ 39,461	$ 3,240	$ 152,157	$ 118,199	$ 33,958	$ 129,077

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

Note 26

Derivative financial instruments and hedging activities (continued)

Derivative financial instruments – Credit risk (continued)

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

As at December 31

	2009		2008	
	Replacement cost	Risk-weighted balance	Replacement cost	Risk-weighted balance
Credit risk rating[1]				
AAA, AA+, AA, AA-	$ 1,295	$ 376	$ 2,288	$ 638
A+, A, A-	1,285	362	1,707	487
BBB, B, BB-, BBB-	17	12	9	7
Not rated	50	23	584	169
Total	2,647	773	4,588	1,301
Impact of master netting agreements[2]	2,391	613	3,813	766
Total after master netting agreements	**$ 256**	**$ 160**	$ 775	$ 535
Type of counterparty				
Financial institutions	$ 2,496	$ 710	$ 4,331	$ 1,233
Other	151	63	257	68
Total	2,647	773	4,588	1,301
Impact of master netting agreements[2]	2,391	613	3,813	766
Total after master netting agreements	**$ 256**	**$ 160**	$ 775	$ 535

(1) Credit risk ratings are established by recognized credit agencies. Non-rated counterparties are mainly members or clients of Desjardins Group.
(2) Impact of offsetting credit exposure when Desjardins Group holds master netting agreements without the intent of settling on a net basis or simultaneously.

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

	2009			2008		
	Positive value	Negative value	Net amount	Positive value	Negative value	Net amount
Classified as held for trading						
Interest rate contracts						
Swaps	$ 1,017	$ 859	$ 158	$ 1,481	$ 1,477	$ 4
Forward rate agreements	5	6	(1)	11	10	1
Futures	4	12	(8)	2	32	(30)
Options purchased	—	—	—	3	—	3
Options written	—	—	—	—	3	(3)
Foreign exchange contracts						
Forward contracts	57	77	(20)	353	393	(40)
Swaps	36	10	26	33	100	(67)
Options purchased	9	—	9	42	—	42
Options written	—	11	(11)	—	38	(38)
Other contracts						
Swaps	18	223	(205)	59	378	(319)
Futures	—	2	(2)	—	—	—
Options purchased	385	—	385	168	—	168
Options written	—	385	(385)	—	168	(168)
	1,531	1,585	(54)	2,152	2,599	(447)
Designated as hedging items						
Interest rate contracts						
Swaps	840	243	597	1,509	139	1,370
Foreign exchange contracts						
Forward contracts	5	—	5	2	—	2
Swaps	271	24	247	925	35	890
	1,116	267	849	2,436	174	2,262
Designated as fair value hedges	504	91	413	1,302	52	1,250
Designated as cash flow hedges	612	176	436	1,134	122	1,012
	1,116	267	849	2,436	174	2,262
Total gross fair values before master netting agreements	2,647	1,852	795	4,588	2,773	1,815
Impact of master netting agreements[1]	2,391	2,391	—	3,813	3,813	—
Total derivative financial instruments after master netting agreements	$ 256	$ (539)	$ 795	$ 775	$ (1,040)	$ 1,815

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

Note 27

Commitments, guarantees and contingencies

Commitments

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

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

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

	2009	2008
Guarantees and standby letters of credit	$ 591	$ 566
Securities lending[1]	1,084	1,334
Credit commitments		
Original term of one year or less	46,503	33,853
Original term of over one year	5,728	4,252
	$ 53,906	$ 40,005

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

Guarantees and standby letters of credit

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

Securities lending

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

In securities lending transactions, the loans must at all times be secured by the borrower (secured by marketable securities generally issued by the federal and provincial governments). There is a risk of loss if the borrower defaults on its commitments and the value of the collateral is not adequate to cover the amount of the loan. The credit risk related to these transactions is considered to be minimal since Desjardins Group deals only with reputable stock brokerage firms and financial institutions. Furthermore, the borrower pledges securities of a value at least equivalent to the amount of the loan adjusted on a daily basis. The securities lending transactions for which securities were received as collateral are included in the table above whereas the securities lending transactions of $12.3 billion ($11.9 billion in 2008) for which cash was received as collateral are excluded from the table above because they are recorded in the Combined Balance Sheets as commitments related to securities lent or sold under repurchase agreements.

Credit commitments

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

Commitments under leases and service contracts

The minimum future commitments as at December 31, 2009 under leases for premises and material as well as service contracts are detailed as follows:

	Premises and equipment	Information technology and telecommunications
2010	$ 105	$ 350
2011	88	193
2012	77	120
2013	66	122
2014	57	121
2015 and thereafter	191	—
	$ 584	$ 906

Building lease expenses, net of rental income, included in non-interest expense for the year ended December 31, 2009 were $92 million ($79 million in 2008 and $75 million in 2007).

Additional information on commitments is provided under "Securities – Asset-backed commercial paper / Asset-backed term notes" in Note 5, "Securities".

Commitment to purchase savings and credit portfolios

On December 21, 2009, Desjardins Group and Groupe Promutuel Federation of general insurance mutual associations ("Groupe Promutuel") signed an agreement-in-principle towards the implementation of a business partnership regarding the distribution of financial products and services, such as mortgage loans and savings products. In that context, Desjardins Group is committed, under conditions that will have to be met during a stated time period, to acquire certain deposit and loan portfolios from Promutuel Capital, société de fiducie inc. by May 14, 2010. The purchase price for the acquired assets and assumed liabilities will be determined on the transaction's closing date. As at December 31, 2009, the fair value of the deposits and the personal and business loans subject to the agreement-in-principle amounted to approximately $300 million and $270 million, respectively.

Guarantees

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

Maximum potential amount of future payments

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

	2009	2008
Guarantees and standby letters of credit	$ **591**	$ 566
Derivative financial instruments	**445**	752
Guarantee for securities lending with indemnification	**2,474**	2,548

Guarantees and standby letters of credit

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

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

Derivative financial instruments

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

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

The underlying assets for the swaps are corporate bonds or tranches within high-quality securitization structures. All underlying securities are rated by rating agencies and their rating was at least A- as at December 31, 2009. The swaps mature on various dates through December 2014.

Guarantee for securities lending with indemnification

As part of its custodial activities, Desjardins Group entered into securities lending agreements with members and clients under which Desjardins Group obtains guarantees in order to protect itself against any potential losses. The guarantee for securities lending with indemnification represents the contractual amount of members' and clients' securities for which Desjardins Group is the custodian. As at December 31, 2009, commitments related to securities lent or sold under repurchase agreements of $12.3 billion ($11.9 billion in 2008) included securities lending with indemnification for which a cash amount of $1.6 billion ($1.6 billion in 2008) was received as a guarantee. An additional amount of $0.9 billion ($0.9 billion in 2008) received as securities was included in the "Maximum potential amount of future payments" table.

Note 27

Commitments, guarantees and contingencies (continued)

Guarantees (continued)

Other indemnification agreements

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

Financial assets pledged as collateral

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

	2009	2008
Financial assets pledged as collateral to the following counterparties:		
Bank of Canada	**$ 1,739**	$ 2,472
Clearing systems, payment systems and depositories[(1)]	**6,911**	6,106
Financial assets pledged as collateral for the following transactions:		
Transactions on derivative financial instruments	**259**	670
Securities borrowing	**159**	167
Commitments related to securities lent or sold under repurchase agreements	**8,533**	9,124
Other	**18**	19
	$ 17,619	$ 18,558

(1) In the normal course of its operations, Desjardins Group must pledge collateral to the Bank of Canada for the use of the Large Value Transfer System. In 2008, the Bank of Canada allowed Desjardins Group to pledge as collateral assets other than securities. Therefore, Desjardins Group used credit card receivables having a carrying value of $6,686 million as at December 31, 2009 ($5,878 million in 2008).

Financial assets held as collateral

As at December 31, 2009, the fair value of the financial assets held as collateral that Desjardins Group is permitted to sell or repledge in the absence of default totalled $7,031 million ($6,478 million in 2008). The fair value of financial assets accepted as collateral which have been sold or repledged amounted to $120 million ($958 million in 2008).

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

Contingencies

Desjardins was identified in a class action suit to reimburse foreign currency exchange fees on credit cards. On June 11, 2009, the Québec Superior Court allowed the class action by ruling that foreign currency exchange fees are credit fees under the *Consumer Protection Act* (CPA). Desjardins Group decided to appeal the judgment because it is of the opinion that Desjardins Group's practice conforms more to the objectives of the CPA, which does not require that credit cardholders who do not use this service pay foreign currency exchange fees. Given the current situation, Desjardins is not in a position to determine the outcome of this dispute and, accordingly, its impact on its Combined Financial Statements. No amount has been recorded in that respect.

Desjardins Group is also party to various business litigation matters, lawsuits and potential claims arising in the course of normal business activities and relating, among other things, to loan portfolios, investment portfolios, supplier agreements, its insurance operations and insurance product distribution. Many of these lawsuits are in connection with measures taken by entities to collect impaired loans and to exercise their rights in respect of assets given as collateral for a loan. In Management's opinion, the total amount of contingent liability resulting from these lawsuits will not have a material impact on the financial position of Desjardins Group.

Note 28

Financial instrument risk management

Desjardins Group is exposed to different types of risk in the normal course of operations, including credit risk, liquidity risk, market risk and insurance risk. Desjardins Group's objective in risk management is to optimize the risk-return trade-off, within the tolerance limits set for Desjardins Group, 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 framework that complies with accepted accountability and independence principles.

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

Credit risk

Credit risk represents the risk of losses if a borrower or a counterparty fails to honour its contractual obligations, whether or not this obligation appears on the Combined Balance Sheets.

Credit risk management

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

To assist them 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 Desjardins Group 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 supports the members of the Risk Management Commission in carrying out their responsibilities by analyzing the key elements involved in risk management, as well as the 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 entreprises 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. This structure is in turn supported by a division responsible for the main framework elements and for risk measurement.

Credit risk framework

The credit risk framework is made up of policies and standards that govern the credit risk management elements for Desjardins Group, such as the responsibilities and the powers of the parties involved, the limits dictated to each party by their risk tolerance, the rules governing file allocation and administration and the rules for communicating its exposures to credit risks.

Approval and credit risk management units within the three above-mentioned divisions assume the responsibilities for credit granting, management and monitoring specific to their products and activities. 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.

Note 28

Financial instrument risk management (continued)

Credit risk (continued)

Credit granting

This responsibility is assumed by the various units under the three divisions according to their respective client base.

The responsibility for file approval first rests with the caisses, their business centres and other client-facing business centres. For files for which the extent of credit risk is higher, a second-stage approval is obtained from professionals of the Risk Management Executive Division.

These professionals are grouped within the three above-mentioned divisions based on the client types corresponding to the files. The qualifications of the professional involved, their approval level and the depth of analysis required depend on the product and the complexity and extent of the transaction risk. The largest loans are approved by credit committees that include senior executives. Lastly, the Executive Committee or the Board of Directors participates in the approval of loans that exceed policy-defined limits.

Retail clients

To assess the risk of credit activities with individuals and smaller businesses, credit scoring systems based on proven statistics are generally used. These systems were developed using a history of borrower behaviour with a profile or characteristics similar to those of the applicant to determine the transaction risk.

These systems are used during the initial approval and also subsequently, when portfolio risk is assessed on an ongoing basis using behavioural scores calculated on the basis of transactional data on borrowing members. The risk level of our existing borrowers is updated monthly, which allows for a proactive credit risk management of the portfolio.

The performance of these systems is analyzed on an ongoing basis and adjustments are made regularly with a view to assessing transaction and borrower risks as accurately as possible.

The units responsible for the development process ensure that adequate controls that maintain the stability and the performance of the credit scoring systems and internal models are implemented. These systems and models are validated by a unit that is independent from the development process in order to preserve their conceptual integrity and to ensure they appropriately reflect all important risks. This validation is performed when the model is initially implemented and once a year afterwards, as well as when significant changes are made to them. A validation policy specifies the events that trigger a validation by the independent unit, the scoring systems and the internal models subject to validation, and the extent and nature of validation work.

The use of internal scoring and estimates extends to other risk management and governance activities, such as the determination of analysis requirements and file approval levels, various types of follow-up and the disclosure of the quality of portfolio risks.

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 financial, market and management characteristics of the business.

For the main commercial portfolios, the scoring system comprises 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 specifics of the borrower's economic sector and the performance of comparable businesses. These analyses are performed using systems that can make quantitative comparisons, and are supplemented by the professional judgment of the personnel involved with the file. Real estate and agricultural portfolios are analyzed using different scoring methods adapted to their specific characteristics.

File monitoring and management of higher risks

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

The management of higher-risk loans involves follow-up adapted to their specific 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 limit losses.

Counterparty and issuer risk

A large proportion of the securities portfolios held by Desjardins Group comprises securities issued or guaranteed by public or parapublic entities. The portfolios are concentrated with very high quality Canadian issuers and counterparties.

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

Credit risk mitigation

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

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

The large number of borrowers, for the most part individuals, but also small and medium-sized enterprises from most sectors of the economy, plays a role in the sound diversification of the financing portfolio.

In its derivative financial instrument and securities lending transactions, Desjardins Group 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 of the transactions. These agreements are legal contracts binding the counterparties. The majority of agreements entered into by Desjardins Group 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.

Securities lending transactions are governed by Investment Industry Regulatory Organization of Canada participation agreements. Desjardins Group also uses netting agreements with its counterparties to mitigate credit risk and requires a percentage of collateralization (a pledge) on these transactions equivalent to the industry's best practices.

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

Desjardins Group enters into long hedges through credit derivatives. With these instruments (credit default swaps and total return swaps), Desjardins Group can transfer credit risk to a counterparty or hedge against different types of risk.

Maximum credit risk exposure

	2009	2008
Recognized on the Combined Balance Sheets		
Deposits with financial institutions	**$ 110**	$ 282
Securities		
Available-for-sale debt securities	**11,250**	10,782
Debt securities designated as held for trading under the fair value option	**10,199**	7,446
Debt securities held for trading	**8,586**	9,844
Debt securities held to maturity	**18**	19
Securities borrowed or purchased under reverse repurchase agreements	**5,055**	6,130
Loans		
Residential mortgages	**63,750**	61,070
Consumer, credit card and other personal loans	**20,787**	18,089
Business and government	**26,161**	25,999
Interest receivable	**469**	520
Derivative financial instruments	**2,647**	4,588
Clients' liability under acceptances	**751**	428
Amounts receivable from clients, brokers and financial institutions	**453**	659
Other assets	**1,230**	1,540
Total recognized on the Combined Balance Sheets	**$ 151,466**	$ 147,396
Off-balance sheet		
Guarantees and standby letters of credit	**591**	566
Credit commitments[1]	**52,231**	38,105
Total off-balance sheet	**$ 52,822**	$ 38,671

(1) Includes the funding facility related to the restructuring plan of the Montréal Accord. Additional information is provided in Note 5, "Securities".

Additional information on credit risk is provided in Notes 26, "Derivative financial instruments and hedging activities", and 27, "Commitments, guarantees and contingencies".

Note 28

Financial instrument risk management (continued)

Liquidity risk

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

Desjardins Group manages liquidity risk in order to ensure that it has access, on a timely basis and in a profitable manner, to the funds needed to meet their financial obligations as they become due, in both routine and in crisis situations. Managing this risk involves maintaining a minimum level of liquid securities, stable and diversified sources of funding, and an action plan to implement in extraordinary circumstances. Liquidity risk management is a key component in an overall risk management strategy, because it is essential to preserving market and depositor confidence. The components and Desjardins Group have established policies describing the principles, limits and procedures that apply to liquidity risk management. Desjardins Group has also developed a liquidity contingency plan by 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 intervene to minimize disruptions caused by sudden changes in member and client behaviour and potential disruptions in markets or economic conditions. Assets and funding sources in crisis situations are monitored weekly and a report is filed with the appropriate bodies in order to measure the coverage ratio in relation to hypothetical crisis scenarios and to ensure compliance with the Desjardins Group liquidity policy.

Desjardins Group's liquidity management is consolidated so that limits can be implemented 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 the caisse network, the FCDQ and Caisse centrale Desjardins must maintain. This minimum liquidity level is centrally managed by the Desjardins Group Treasury and is monitored on a daily basis. Eligible securities must meet high safety and negotiability standards. The liquid securities portfolio comprises mostly securities issued by governments, public bodies and private companies with high credit ratings, i.e., AA- or better.

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

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

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

The following tables present financial liabilities and other obligations by remaining contractual maturity. Amounts presented include principal and interest, if any.

2009

	Payable on demand	Under 1 year	1 to 5 years	Over 5 years	Total
Deposits	$ 37,770	$ 32,248	$ 39,648	$ 22	$ 109,688
Borrowings	—	17	42	26	85
Interest payable	1	109	—	—	110
Acceptances	—	751	—	—	751
Commitments related to securities lent or sold under repurchase agreements	54	10,026	—	—	10,080
Commitments related to securities sold short	4,732	139	125	42	5,038
Subordinated debentures	—	—	1,294	—	1,294
Other financial liabilities	1,362	2,874	48	75	4,359
Guarantees and standby letters of credit	359	230	2	—	591
Loan commitments	16,610	31,887	2,511	1,223	52,231
Derivative financial instruments with gross settlement[1]	—	8,545	3,868	8	12,421
Derivative financial instruments with net settlement	—	632	927	47	1,606

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

2008

	Payable on demand	Under 1 year	1 to 5 years	Over 5 years	Total
Deposits	$ 32,648	$ 35,788	$ 37,370	$ 1,491	$ 107,297
Borrowings	—	270	61	26	357
Interest payable	—	8	—	—	8
Acceptances	—	428	—	—	428
Commitments related to securities lent or sold under repurchase agreements	151	11,127	—	—	11,278
Commitments related to securities sold short	3,622	495	—	—	4,117
Subordinated debentures	—	449	—	299	748
Other financial liabilities	1,863	3,889	131	59	5,942
Guarantees and standby letters of credit	—	514	51	1	566
Loan commitments	—	33,853	4,193	59	38,105
Derivative financial instruments with gross settlement[1]	—	10,792	5,439	72	16,303
Derivative financial instruments with net settlement	—	2,267	2,826	72	5,165

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

Market risk

Market risk refers to the risk of changes in the fair value of financial instruments resulting from fluctuations in parameters affecting this value; in particular interest rates, exchange rates, credit spreads and their volatility.

Desjardins Group is exposed to market risk primarily through positions taken as part of its traditional financing and savings recruitment activities. It is also exposed to market risk through its trading activities. Desjardins Group and its components have adopted policies that set out the principles, limits and procedures to use in managing market risk.

Interest rate risk management

Desjardins Group is exposed to interest rate risk, which represents the potential impact of interest rate fluctuations on net interest income and the economic value of equity.

Dynamic and prudent management is applied to achieve the objective of optimizing net interest income while minimizing the negative impact of interest rate movements. The established policies describe the principles, limits and procedures that apply to interest rate risk management. Simulations are used to measure the impact of different variables on changes in net income and the economic value of equity. Assumptions used in the simulations are based on an analysis of historical data and on the impact of different interest rate conditions on changes to the data. These assumptions concern changes in the structure of the Combined Balance Sheets, including the modelling of non-maturity deposits and operating expenses, member behaviour and pricing. Desjardins Group's asset and liability management committee (the Asset/Liability Committee) is responsible for analyzing and adopting monthly the global matching strategy while respecting the parameters defined in the interest rate risk management policies.

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. Amounts presented do not include the impact of interest rates of the financial assets of the life and health insurance subsidiary that back the actuarial and related liabilities, as the effect of changes in interest rates is entirely offset by changes in actuarial and related liabilities.

Interest rate sensitivity (before income taxes)

	2009	2008
Impact on the economic value of equity of a 100-basis-point increase in interest rates	**$ (42)**	$ (21)
Impact on the economic value of equity of a 100-basis-point decrease in interest rates	**62**	23

The extent of the interest rate risk depends on the gap between cash flows from assets, liabilities and off-balance sheet financial instruments. The position presented reflects the position as at that date only and may change depending on member behaviour, the interest rate environment and the strategies adopted by the Asset/Liability Committee.

Note 28

Financial instrument risk management (continued)

Interest rate sensitivity and maturity matching table

2009

	Floating rate	Under 3 months	From 3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Non-interest-rate sensitive and provisions	Total
Assets								
Cash and deposits with financial institutions	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,086	$ 1,086
Securities	285	4,449	826	1,711	13,858	8,621	1,810	31,560
Effective interest rate		*0.78 %*	*0.95 %*	*1.76 %*	*2.91 %*	*5.02 %*		
Securities borrowed or purchased under reverse repurchase agreements	—	564	—	—	—	—	4,491	5,055
Effective interest rate		*0.20 %*						
Loans	35,427	17,037	6,980	12,513	35,246	3,012	(220)	109,995
Effective interest rate		*6.12 %*	*4.51 %*	*4.52 %*	*4.54 %*	*5.33 %*		
Other assets	—	(987)	45	9	1,099	—	9,341	9,507
Total	$ 35,712	$ 21,063	$ 7,851	$ 14,233	$ 50,203	$ 11,633	$ 16,508	$ 157,203
Liabilities and equity								
Deposits	$ 11,722	$ 13,760	$ 3,935	$ 12,552	$ 36,983	$ 1,471	$ 25,738	$ 106,161
Effective interest rate		*1.85 %*	*2.26 %*	*1.73 %*	*1.93 %*	*3.00 %*		
Subordinated debentures and borrowings	—	—	12	—	1,324	29	—	1,365
Effective interest rate			*4.31 %*		*4.45 %*	*5.24 %*		
Commitments related to securities lent or sold under repurchase agreements	54	3,260	—	—	—	—	6,766	10,080
Effective interest rate		*0.30 %*						
Commitments related to securities sold short	—	139	13	144	3,082	1,645	15	5,038
Effective interest rate		*2.92 %*	*0.25 %*	*0.69 %*	*2.41 %*	*4.08 %*		
Actuarial and related liabilities	—	—	—	—	—	—	13,453	13,453
Other liabilities	—	(6)	—	—	(27)	—	9,942	9,909
Equity	—	—	—	—	—	—	11,197	11,197
Total	$ 11,776	$ 17,153	$ 3,960	$ 12,696	$ 41,362	$ 3,145	$ 67,111	$ 157,203
Sensitivity gap – Combined Balance Sheet items	23,936	3,910	3,891	1,537	8,841	8,488	(50,603)	—
Sensitivity gap – Derivative financial instruments, based on notional amounts	122	(11,914)	340	(2,313)	12,772	993	—	—
Total interest rate sensitivity gap	**$ 24,058**	**$ (8,004)**	**$ 4,231**	**$ (776)**	**$ 21,613**	**$ 9,481**	**$ (50,603)**	**$ —**

2008

	Floating rate	Under 3 months	From 3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Non-interest-rate sensitive and provisions	Total
Total assets	$ 34,243	$ 23,788	$ 7,934	$ 11,526	$ 45,128	$ 10,857	$ 18,822	$ 152,298
Total liabilities and equity	9,330	22,330	5,713	16,585	32,790	3,055	62,495	152,298
Sensitivity gap – Combined Balance Sheet items	24,913	1,458	2,221	(5,059)	12,338	7,802	(43,673)	—
Sensitivity gap – Derivative financial instruments, based on notional amounts	—	(4,429)	(513)	(4,420)	9,279	83	—	—
Total interest rate sensitivity gap	$ 24,913	$ (2,971)	$ 1,708	$ (9,479)	$ 21,617	$ 7,885	$ (43,673)	$ —

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

The main assumptions used are the following:

Non rate-sensitive instruments

Some Combined Balance Sheet items, such as equity investments, non-performing loans, non-interest-bearing deposits, non-maturity deposits with an interest rate not referenced to a specific rate, such as the prime rate, and equity are not sources of interest rate risk. Actuarial and related liabilities are also included in this category.

In the normal course of operations, the life and health insurance subsidiary has developed a policy of matching assets and liabilities that clearly defines acceptable gaps in order to prevent mismatched cash flows. One of the tests addresses the difference between the duration of liabilities and the duration of the related assets. Comparing durations makes it possible to measure the sensitivity of the market value of assets and liabilities to changes in interest rates. This test is performed for all business segments globally, because the matching policies stipulate the targets in this respect. As at December 31, 2009, the durations of assets and liabilities were equal (0.1 year as at December 31, 2008). Since the valuation method already recognizes the impact of possible changes in interest rates, a sudden increase or decrease in these interest rates would not have a material impact on the life and health insurance subsidiary.

Foreign exchange risk management

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

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

The market risk related to trading portfolios is managed daily using a specific policy.

The main tool used to measure the trading portfolios' market risk is the "Value-at-Risk" (VaR), which represents an estimate of the potential loss for a certain period of time at a given confidence level.

A Monte Carlo VaR is calculated daily, using a 99% confidence level, on the trading portfolios for a holding horizon of one day. It is therefore reasonable to expect a loss exceeding the VaR figure once every 100 days. The calculation of VaR is based on historical data for a one-year interval.

The following tables present the aggregate VaR of the trading activities of Desjardins Group by risk category as well as the diversification effect, which represents the difference between aggregate VaR and the sum of VaR for the different risk categories. Equity, interest rate and foreign exchange risks are the three risk categories to which Desjardins Group is exposed. The definition of trading portfolio meets the various criteria set out in the Basel Accord.

VaR by risk category (Trading portfolio)

	As at December 31, 2009	For the year ended December 31, 2009		
		Average	High	Low
Equity	$ **0.7**	$ **0.8**	$ **1.7**	$ **0.4**
Foreign exchange	**0.1**	**0.2**	**0.6**	**—**
Interest rate	**3.6**	**4.0**	**6.0**	**2.7**
Diversification effect[1]	**(0.7)**	**(1.1)**	**N/A[2]**	**N/A[2]**
Aggregate VaR	$ **3.7**	$ **3.9**	$ **5.4**	$ **2.7**

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

	As at December 31, 2008	For the year ended December 31, 2008		
		Average	High	Low
Equity	$ 0.7	$ 1.3	$ 2.5	$ 0.7
Foreign exchange	0.2	0.1	0.7	—
Interest rate	3.2	2.9	4.4	2.1
Diversification effect[1]	(1)	(1.5)	N/A[2]	N/A[2]
Aggregate VaR	$ 3.1	$ 2.8	$ 4.1	$ 2.2

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

As at December 31, 2009, the aggregate VaR was $3.7 million ($3.1 million in 2008), the interest rate VaR being the largest component. This aggregate VaR was lower than its quarterly average of $3.9 million ($2.8 million in 2008). The risk mitigation related to diversification amounted to $0.7 million as at December 31, 2009 ($1 million in 2008).

Note 28

Financial instrument risk management (continued)

Back testing

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

Desjardins Group carries out back testing daily, applying a hypothetical P&L on its trading portfolios. The hypothetical P&L is calculated by determining the difference in value resulting from changes in market conditions between two consecutive days. The portfolio mix between these two days remains static.

Stress testing

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

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

Insurance risk

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

The insurance subsidiaries enter into reinsurance treaties for, in particular, policies with coverage in excess of certain maximum amounts that vary in relation to business activities. They also took out catastrophe insurance. This protection include, among other things, coverage related to terrorism.

In order to reduce the risk related to reinsurance, the insurance subsidiaries deal with many different reinsurers, the majority of which are registered, who meet stringent credit standards and are subject to the same regulatory authorities as the subsidiaries. These reinsurance treaties do not release the insurance subsidiaries from their obligations to policyholders.

The detailed impact of reinsurance on premiums and benefits for the life and health insurance subsidiary is as follows:

	2009	2008
Premiums ceded under reinsurance treaties	**$ 157**	$ 149
Benefits settled by reinsurers	**102**	84

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

Note 29

Capital management

Desjardins Group's capital ratios are calculated according to the guideline on adequacy of capital base standards applicable to financial services cooperatives, issued by the AMF. This new regulatory framework, which applies since the first quarter of 2009, is largely based on the revised framework for international convergence of capital measurement and capital standards (Basel II) issued by the Bank for International Settlements (BIS). In this regard, the AMF recently allowed Desjardins Group to use the Advanced Internal Ratings Based approach for credit risk related to retail loan portfolios (Personal). Other credit exposures and market risk are assessed according to a standardized approach, while operational risk is calculated based on the 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.

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

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

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

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

Tier 1 capital, which includes more permanent capital items than Tier 2 capital. It consists of eligible capital stock, reserves, undistributed surplus earnings and non-controlling interests. Goodwill is deducted from that amount. Tier 2 capital consists of subordinated debentures, eligible preferred and qualifying shares and the eligible portion of the general allowance for credit losses. As prescribed by the current AMF guidelines, investments in insurance companies and affiliated companies as well as unrated securitization exposures are not combined for purposes of computing risk assets but are deducted from Tier 2 capital up to the amount of Tier 2 capital. Any excess is deducted from Tier 1 capital.

The minimum total capital ratio recommended to institutions to conform to the regulatory requirements of the BIS and be considered as adequately capitalized is 8%. In addition, Tier 1 capital must represent at least half of the total ratio. With the coming into effect of the new regulatory framework, the AMF revised to 11.5% its minimum requirement for the total capital ratio. At the beginning of the year, the financial goal for Desjardins Group's total capital ratio was set at 13% (the same level as the goal for the Tier 1 capital ratio), at Desjardins Group's initiative, to take into account the prevailing global economic context and the implementation, effective in the first quarter of 2009, of the new framework established by the AMF guideline on adequacy of capital base standards. Previously, this target was established at 12.5%.

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

Note 29

Capital management (continued)

The following table presents the composition of Desjardins Group's regulatory capital for the years ended December 31.

(in millions of $)

	2009	2008
	Under Basel II	Under Basel I
Tier 1 capital		
Eligible capital stock	**$ 1,607**	$ 917
Reserves	**8,149**	8,230
Undistributed surplus earnings (deficit)	**795**	(96)
Non-controlling interests	**42**	40
Goodwill	**(109)**	(113)
Other deductions[1]	**(244)**	–
Total Tier 1 capital	**10,240**	8,978
Tier 2 capital		
Subordinated debentures	**1,300**	750
Eligible general allowance	**388**	581
Other eligible securities	**77**	69
Unrealized cumulative gains on available-for-sale securities (net of taxes)	**5**	–
Other deductions[1]	**(1,770)**	–
Total Tier 2 capital	**–**	1,400
Investments[2]	**–**	(1,766)
Total capital	**$ 10,240**	$ 8,612

(1) Includes the provision deficit related to the Internal Ratings Based approach, unrated securitization exposures and investments in unconsolidated subsidiaries (mainly Desjardins Financial Security and Desjardins General Insurance Group) and in affiliated companies.
(2) This amount corresponds to investment in subsidiaries (mainly Desjardins Financial Security, Desjardins General Insurance Group, Desjardins Securities and Desjardins Trust) accounted for using the equity method and to any other investment held that must be deducted in accordance with the AMF's guideline.

Desjardins Group's total capital amounted to $10.2 billion at the end of 2009, up $1.6 billion compared to the end of 2008. As a result of changes made to the regulatory framework under Basel II, certain capital items cannot be directly compared with the corresponding amounts for 2008.

On March 17, 2009, Desjardins Group called the Series D subordinated debentures for a face value of $450 million. Pursuant to a purchase and resale agreement entered into on March 30, 2009, Desjardins Group agreed to issue for a consideration of $500 million (carrying value of $498 million as at December 31, 2009) Series E subordinated debentures maturing in April 2019. These debentures bear interest at an annual rate of 5.756% for the first five years, and for the following five years, at an annual rate equal to the 90-day bankers' acceptance rate plus 4.970%, and are redeemable at the option of Desjardins Group. Pursuant to a purchase and resale agreement entered into on June 1, 2009, Desjardins Group issued for a consideration of $500 million (carrying value of $497 million as at December 31, 2009) Series F subordinated debentures maturing in June 2021. These debentures bear interest at an annual rate of 5.541% for the first seven years and for the following five years, at an annual rate equal to the 90-day bankers' acceptance rate plus 3.880%, and are redeemable at the option of Desjardins Group. These transactions resulted in a net increase of $550 million in subordinated debentures, which qualify as Tier 2 capital for regulatory purposes.

During the second half of the year, the Desjardins caisse network issued permanent shares for an amount of $654 million. These shares qualify as Tier 1 capital for regulatory purposes.

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

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

The general insurance subsidiary is subject to the following regulatory requirements: to support their solvency, general insurance subsidiaries in Québec must comply with the AMF's capital adequacy requirements through the Minimum Capital Test (MCT), while subsidiaries outside Québec must comply with the MCT requirements issued by the Office of the Superintendent of Financial Institutions Canada.

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

Desjardins Group, as well as all its components subject to regulatory requirements with respect to minimum capital, are in compliance with those as of December 31, 2009, as they were in the prior year.

Note 30

Segmented information

Desjardins Group is a cooperative financial group. The FCDQ, under the authority of the Board of Directors, manages the components operating in the Personal and Commercial segment, as well as the subsidiaries.

The Personal and Commercial segment comprises all activities related to financial intermediation, investment funds and trust services. The network of subsidiaries comprises activities related to the Life and Health Insurance segment, the General Insurance segment and the Securities Brokerage, Asset Management and Venture Capital segment. The last segment, labelled Other, includes different consolidation adjustments attributable to all of Desjardins Group's components.

Since the first quarter of 2009, the activities related to 9186-8034 Québec inc., a subsidiary, and its own subsidiaries, which held ABCP securities repurchased in the money market mutual funds and in the securities lending operations of Desjardins Trust clients for which it had not assumed the risk, have been transferred from the Personal and Commercial segment to the Other segment for segmented information purposes. Corresponding prior period figures were revised to reflect this reclassification.

The activities of the Personal and Commercial segment and those of the subsidiaries complement each other. Intersegment transactions are carried out in the normal course of business and are valued at the exchange amount, which corresponds to the amount of consideration established and agreed to by the components. The results of the main segments reflect internal financial reporting systems and are consistent with the rules used in preparing the Combined Financial Statements of Desjardins Group.

Note 30

Segmented information (continued)

2009

	Personal and Commercial	Life and Health Insurance	General Insurance	Securities Brokerage, Asset Management and Venture Capital	Other	Eliminations	Combined
Net interest income	$ 3,565	$ —	$ —	$ —	$ 5	$ (48)	$ 3,522
Net premiums	—	2,983	1,443	—	—	(179)	4,247
Income (loss) from available-for-sale securities	11	39	29	—	1	(1)	79
Trading income	72	435	40	102	17	—	666
Other investment income (loss)	(6)	311	(1)	(7)	(12)	(10)	275
Other income (expenses)	1,627	131	(3)	321	39	(234)	1,881
Total income	5,269	3,899	1,508	416	50	(472)	10,670
Provisions for credit losses	270	1	—	—	—	—	271
Claims, benefits, annuities and changes in insurance provisions	—	2,767	992	—	—	(1)	3,758
Non-interest expense	3,973	880	369	388	3	(472)	5,141
Operating surplus earnings	1,026	251	147	28	47	1	1,500
Income taxes on surplus earnings	281	56	42	6	19	2	406
Non-controlling interests	5	2	11	—	—	(1)	17
Surplus earnings before member dividends	740	193	94	22	28	—	1,077
Provision for member dividends, net of income tax recovery	213	—	—	—	—	—	213
Surplus earnings for the year after member dividends	$ 527	$ 193	$ 94	$ 22	$ 28	$ —	$ 864
Segment assets	$ 126,211	$ 14,122	$ 3,069	$ 12,066	$ 1,735	$ —	$ 157,203

2008

	Personal and Commercial	Life and Health Insurance	General Insurance	Securities Brokerage, Asset Management and Venture Capital	Other	Eliminations	Combined
Net interest income	$ 3,466	$ —	$ —	$ —	$ —	$ (48)	$ 3,418
Net premiums	—	2,868	1,426	—	—	(163)	4,131
Income (loss) from available-for-sale securities	(127)	16	(12)	—	(274)	(8)	(405)
Trading income (loss)	(565)	(379)	36	50	(135)	(8)	(1,001)
Other investment income (loss)	(11)	304	(7)	(33)	(31)	17	239
Other income (expenses)	1,746	112	(2)	338	22	(225)	1,991
Total income	4,509	2,921	1,441	355	(418)	(435)	8,373
Provisions for credit losses	242	1	—	—	—	—	243
Claims, benefits, annuities and changes in insurance provisions	—	2,089	1,055	—	—	—	3,144
Non-interest expense	3,725	774	338	387	11	(435)	4,800
Operating surplus earnings (deficit)	542	57	48	(32)	(429)	—	186
Income tax charged (recovered) on surplus earnings	183	22	7	(3)	(100)	—	109
Non-controlling interests	(1)	(5)	5	—	—	—	(1)
Surplus earnings (deficit) before member dividends	360	40	36	(29)	(329)	—	78
Provision for member dividends, net of income tax recovery	153	—	—	—	—	—	153
Surplus earnings (deficit) for the year after member dividends	$ 207	$ 40	$ 36	$ (29)	$ (329)	$ —	$ (75)
Segment assets	$ 123,647	$ 13,281	$ 2,808	$ 11,242	$ 1,320	$ —	$ 152,298

2007

	Personal and Commercial	Life and Health Insurance	General Insurance	Securities Brokerage, Asset Management and Venture Capital	Other	Eliminations	Combined
Net interest income	$ 3,271	$ —	$ —	$ —	$ —	$ (26)	$ 3,245
Net premiums	—	2,575	1,379	—	—	(130)	3,824
Income (loss) from available-for-sale securities	58	57	58	12	(47)	3	141
Trading income (loss)	(39)	274	46	46	(10)	(55)	262
Other investment income (loss)	(20)	226	(10)	(15)	(1)	(1)	179
Other income	1,649	120	—	361	22	(132)	2,020
Total income	4,919	3,252	1,473	404	(36)	(341)	9,671
Provisions for credit losses	197	—	—	—	—	—	197
Claims, benefits, annuities and changes in insurance provisions	—	2,215	956	—	—	—	3,171
Non-interest expense	3,599	748	321	379	117	(341)	4,823
Operating surplus earnings (deficit)	1,123	289	196	25	(153)	—	1,480
Income tax charged (recovered) on surplus earnings	318	71	56	8	(95)	—	358
Non-controlling interests	—	7	14	—	—	—	21
Surplus earnings (deficit) before member dividends	805	211	126	17	(58)	—	1,101
Provision for member dividends, net of income tax recovery	418	—	—	—	—	—	418
Surplus earnings (deficit) for the year after member dividends	$ 387	$ 211	$ 126	$ 17	$ (58)	$ —	$ 683
Segment assets	$ 113,554	$ 14,592	$ 3,129	$ 11,139	$ 1,645	$ —	$ 144,059

As part of the restructuring of the holding and management of some Desjardins Group's properties carried out during 2007, properties of the FCDQ and its subsidiaries were combined into a single component of Desjardins Group, namely Desjardins Financial Security. Accordingly, a property was transferred from the Other segment to the Life and Health Insurance segment, where it is now recorded as a real estate investment. The net carrying value of the property transferred was $295 million on the transaction date. In addition, properties with a net carrying value of $21 million were transferred from the Personal and Commercial segment to the Life and Health Insurance segment. Finally, properties with a net carrying value of $29 million were transferred from the General Insurance segment to the Life and Health Insurance segment. These properties remain in the "Land, buildings and equipment" category.

Note 31

Related party transactions

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

Transactions with these entities generated income of $248 million in 2008 ($285 million in 2008 and $279 million in 2007) and expenses of $38 million ($45 million in 2008 and $38 million in 2007), whereas the Combined Balance Sheets include assets of $53 million ($45 million in 2008) as well as liabilities of $178 million ($117 million in 2008).

Desjardins

Third Quarter
2010

Desjardins Group ends its third quarter with surplus earnings of $464 million, up 22.8%, and posts combined surplus earnings of $1,253 million, up 50.4% after nine months

All the caisses and business segments are experiencing excellent growth, and Desjardins Group continues to strengthen its capitalization.

Financial Highlights

SUMMARY OF FINANCIAL DATA

RESULTS

	For the three months ended September 30			For the nine months ended September 30		
(in millions of $ and as a %)	**2010**	2009	Change	**2010**	2009	Change
Total income	**$ 3,275**	$ 3,070	6.7 %	**$ 9,016**	$ 8,087	11.5 %
Combined surplus earnings before member dividends	**464**	378	22.8	**1,253**	833	50.4
Return on equity	**14.5** %	14.4 %	--- %	**13.9** %	10.9 %	---

BALANCE SHEET AND RATIOS

	As at September 30, 2010	As at December 31, 2009
Assets	**$ 175,503**	$ 157,203
Equity	**13,042**	11,197
Tier I capital ratio	**17.6** %	15.9 %
Total capital ratio	**18.2**	15.9
Gross impaired loans ratio	**0.45** %	0.46 %

Message from Senior Management

For the third quarter ended September 30, 2010, Desjardins Group, the largest cooperative financial group in Canada, posted combined surplus earnings before member dividends of $464 million, up nearly 23% from $378 million a year earlier. Return on equity was 14.5%, versus 14.4% for the corresponding quarter in 2009. The Tier 1 capital ratio stood at 17.6%, up from 15.9% as at December 31, 2009.

This quarter's results reflect the major contribution of $287 million by the Personal Services and Business and Institutional Services' segment. This contribution is a reflection of the higher volume of outstanding loans to consumers and businesses in the caisse network, as well as the growth in credit card and point-of-sale financing operations. The Wealth Management and Life and Health Insurance segment as well as Property and Casualty Insurance segment contributed $76 million and $15 million, respectively. The Other segment's contribution totalled $86 million, primarily due to treasury activities.

Desjardins Group's Development Plan, which extends until 2012, has as its objective to evolve based on current and future issues, while remaining mindful of Desjardins' cooperative nature, its mission and its values. Within this context, medium-term financial objectives aimed at reflecting a balance between cooperative performance and financial performance have been set under the 2010-2012 Strategic Plan. Desjardins Group has once again delivered an overall performance, as at September 30, 2010 that exceeded target objectives. As a result of the sustained growth in operating income, Desjardins Group significantly exceeded its financial objectives for profitability and productivity. In addition, Desjardins is solidly capitalized, with a balance sheet of excellent quality. As a result, with a Tier 1 capital ratio of 17.6%, Desjardins Group remains a leader in the industry.

The following table shows the Group's financial performance for the first nine months of 2010 in relation to its 2012 major financial objectives.

MONITORING OF MAIN OBJECTIVES SET IN THE 2010-2012 STRATEGIC PLAN

(as a %)	**2012 target**	**Combined results as at September 30, 2010**
Growth and development		
Growth in operating income [1]	Greater than 8%	**6.4%**
Profitability and productivity		
Productivity index	Less than 70%	**67.7**
Gap between income growth [2] and expense growth	Greater than 2%	**8.0**
Growth in surplus earnings after income taxes	Between 5% and 10%	**50.4**
Return on equity	Greater than 9%	**13.9**
Financial stability and risk management		
Tier 1 capital ratio	Greater than 15%	**17.6**
Gross impaired loans/gross loans	Less than 1%	**0.45**

(1) Total income, net of income from available-for-sale securities, trading income and other investment income.
(2) Total income, net of expenses related to claims and insurance benefits.

MATERIAL EVENT

In connection with its capital management strategy, Desjardins Group issued US$1 billion in fixed-rate, medium-term deposit notes on the U.S. market on September 8, 2010 through Caisse centrale Desjardins. Desjardins Group is the first Canadian cooperative financial institution to issue senior debt on the U.S. market.

Monique F. Leroux, FCA, FCMA
President and Chief Executive Officer
Desjardins Group

Raymond Laurin, CA
Senior Vice-President, Finance and Treasury
and Chief Financial Officer
Desjardins Group

November 10, 2010

Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A), dated November 10, 2010, presents the results of the analysis of the main items and changes in the financial position of Desjardins Group for the period ended September 30, 2010, in comparison with corresponding periods in 2009. This MD&A should be read in conjunction with Desjardins Group's Unaudited Quarterly Combined Financial Statements (including the notes thereto) as at September 30, 2010, and Desjardins Group's Annual Report including the 2009 Audited Financial Statements, which were prepared in accordance with Canadian generally accepted accounting principles (GAAP). This report was also prepared in accordance with the regulations in force respecting continuous disclosure obligations of the Canadian Securities Administrators. Unaudited figures are presented in Canadian dollars ($), and certain prior period data have been reclassified to reflect the presentation adopted in 2010.

Additional information about Desjardins Group is available on the SEDAR Web site at www.sedar.com (under the Capital Desjardins Inc. profile), where the Annual Information Form of Capital Desjardins Inc. and of Caisse centrale Desjardins can also be found.

Caution Concerning Forward-Looking Statements

Desjardins Group's public communications often include oral or written forward-looking statements. Such forward-looking statements concerning Desjardins Group's activities and strategies may be contained in this MD&A, and may be incorporated in other filings with Canadian regulators or in any other communications. Forward-looking statements may include comments with respect to Desjardins Group's objectives, strategies to achieve those objectives, expected financial results (including those in the area of risk management), and the outlook for Desjardins Group's operations and the Canadian and Quebec economies. Such statements are typically identified by words or phrases such as "believe", "expect", "anticipate", "intend", "estimate", "plan", and "may"; words and expressions of similar import, and future and conditional verbs.

By their very nature, such statements involve assumptions, inherent risks and uncertainties, both general and specific. It is therefore possible that the predictions, projections or other forward-looking statements may not materialize or may prove to be inaccurate because of a number of factors and that actual results may differ materially. A number of factors beyond our control could influence the accuracy of the forward-looking statements in this MD&A. These factors include legislative or regulatory developments in Quebec, Canada or globally, such as changes in fiscal and monetary policies; new reporting guidance and liquidity regulatory guidance, or interpretations of such guidance; and amendments to risk-based capital guidelines. There are also factors linked to changes in economic and financial conditions in Quebec, Canada or globally, including the unemployment rate, changes in interest rates and exchange rates; significant capital market volatility and interruptions, which are causing a liquidity shortage in various markets, particularly the asset-backed commercial paper market (new notes); trade between Quebec and the United States; the ability of third parties to comply with their obligations to Desjardins Group; consumer spending; credit demand; the effects of increased competition in a market open to globalization; competition from new entrants and established competitors; fraud, including the use of new technologies in unprecedented ways against Desjardins Group, its members or its clients; legal or regulatory procedures; consumer saving habits; and the effect of possible international conflicts, including terrorism, or natural disasters.

Lastly, there are operational risk factors, such as risk management models with intrinsic limitations; technological changes; the development and timely marketing of new products and services; the ability to collect accurate and complete information on clients and counterparties; the ability to form and integrate strategic alliances and acquisitions; changes in accounting policies and methods that Desjardins Group uses to report its financial position and results of operations, including uncertainties associated with the significant accounting assumptions and estimates; the effect of applying future accounting changes; the ability to attract and retain key officers; and management's ability to foresee and manage the risks associated with the preceding factors.

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

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

Overview of Combined Results

RESULTS AND KEY RATIOS

(in millions of $ and as a %)	For the three months ended September 30			For the nine months ended September 30		
	2010	2009	Change	**2010**	2009	Change
Results						
Total income	**$ 3,275**	$ 3,070	6.7 %	**$ 9,016**	$ 8,087	11.5 %
Provisions for credit losses	**56**	80	(30)	**164**	185	(11.4)
Claims, benefits, annuities and changes in insurance provisions	**1,320**	1,216	8.6	**3,253**	2,985	9.0
Non-interest expense	**1,279**	1,220	4.8	**3,900**	3,716	5.0
Surplus earnings after income taxes and before member dividends	**$ 464**	$ 378	22.8 %	**$ 1,253**	$ 833	50.4 %
Provision for member dividends	**66**	133	(50.4)	**213**	239	(10.9)
Key ratios						
Return on equity	**14.5 %**	14.4 %	0.1 %	**13.9 %**	10.9 %	3.0 %
Productivity ratio for Desjardins Group [1]	**65.4**	65.8	(0.4)	**67.7**	72.8	(5.1)
Tier 1 capital ratio	**---**	---	---	**17.6**	14.9	---
Total capital ratio	**---**	---	---	**18.2**	14.9	---
Contribution to combined surplus earnings by segment [2]						
Personal Services and Business and Institutional Services	**$ 287**	$ 250	14.8 %	**$ 723**	$ 526	37.5 %
Wealth Management and Life and Health Insurance	**76**	84	(9.5)	**236**	177	33.3
Property and Casualty Insurance	**15**	32	(53.1)	**93**	67	38.8
Other	**86**	12	616.7	**201**	63	219.0
Surplus earnings after income taxes and before member dividends	**$ 464**	$ 378	22.8 %	**$ 1,253**	$ 833	50.4 %

(1) The productivity ratio is Desjardins Group's non-interest expense to total income, net of claims, benefits, annuities and changes in insurance provisions. A reduced ratio indicates improved productivity.
(2) Information about each segment is provided in Note 19 to Desjardins Group's Unaudited Quarterly Combined Financial Statements.

DESJARDINS GROUP PROFILE

Desjardins Group is the largest financial institution in Quebec, the leading cooperative financial group in Canada and the sixth largest in the world, with assets of more than $175.5 billion. It brings together 450 caisses in Quebec and Ontario, the Fédération des caisses Desjardins du Québec and its subsidiaries, the Fédération des caisses populaires de l'Ontario and its member caisses as well as the Fonds de sécurité Desjardins. A number of its subsidiaries are active across Canada. Its "Personal Services and Business and Institutional Services", "Wealth Management and Life and Health Insurance", and "Property and Casualty Insurance" business segments offer a full range of financial products and services to 5.8 million members and clients, providing a customized response to their needs, regardless of their assets. As one of the largest employers in the country, Desjardins Group capitalizes on the skills of its 42,200 employees and the commitment of close to 5,900 elected officers.

COMPARATIVE ANALYSIS OF RESULTS FOR THE THIRD QUARTERS OF 2010 AND 2009

For the third quarter ended September 30, 2010, Desjardins Group posted combined surplus earnings before member dividends of $464 million, up 22.8% from $378 million a year earlier.

This solid performance resulted from a higher volume of loans outstanding, credit card and point-of-sale financing activities, as well as the performance of the insurance companies.

Return on equity, the result of surplus earnings before member dividends over average equity, was 14.5%, compared to 14.4% for the same quarter in 2009.

Every quarter, Desjardins Group establishes the most accurate possible estimate of the amount to be recorded for payment of caisse member dividends at the end of the fiscal year. A $66 million provision for member dividends was therefore recognized for the third quarter of 2010, versus $133 million for the same period in 2009.

Total income

Desjardins Group’s total income stood at $3,275 million for the third quarter of 2010, up $205 million or 6.7%. Net interest income grew by 4.4% to $1 billion, primarily as a result of the increase in personal loans outstanding compared to the same quarter of a year earlier.

Other income totalled $1,194 million for the third quarter, up $184 million or 18.2% from $1,010 million for the corresponding quarter in 2009. This increase was mainly attributable to the trading income of the life and health insurance subsidiary and treasury activities. Trading income, however, was largely offset by the growth in actuarial liabilities.

Non-interest expense and other items

Non-interest expense amounted to $1,279 million, up $59 million or 4.8% from the third quarter of 2009, mainly as a result of the increase in salaries and fringe benefits due to the annual indexing.

Provisions for credit losses amounted to $56 million for the third quarter of 2010, down $24 million from the corresponding period in 2009. This decline was mainly due to smaller losses on the Desjardins Card Services portfolio as well as on the business loan portfolio of Caisse centrale Desjardins.

Expenses related to claims, benefits, annuities and changes in insurance provisions totalled $1,320 million, for an increase of $104 million or 8.6% over the same quarter of 2009. This increase was primarily due to the deteriorating automobile loss ratio in Ontario and to higher actuarial liabilities in life and health insurance operations related to the growth in trading income.

The productivity ratio, i.e., Desjardins Group’s non-interest expense to total income, net of expenses related to claims, annuities and changes in insurance provisions, was 65.4% for the third quarter, compared to 65.8% for the corresponding quarter of 2009.

COMPARATIVE ANALYSIS OF RESULTS FOR THE FIRST NINE MONTHS OF 2010 AND 2009

For the nine months ended September 30, 2010, Desjardins Group posted combined surplus earnings before member dividends of $1,253 million, up sharply by $420 million or 50.4% from $833 million a year earlier. Return on equity was 13.9%, versus 10.9% the previous year. The provision for member dividends stood at $213 million, compared to $239 million on a year-over-year basis.

This strong performance was the result of business volume growth in the caisse network and in credit card and point-of-sale financing activities, good performances from the insurance companies, and an increase in the fair value of the ABCP (ABTN) restructured term note portfolio.

Total income

Desjardins Group’s total income was $9,016 million for the first nine months of 2010, up $929 million or 11.5% compared to the corresponding period in 2009. Net interest income amounted to $2,907 million, up $326 million from the same period in 2009. This increase was primarily due to growth in the caisse network’s loans outstanding as well as credit card and point-of-sale financing activities. In a highly competitive environment, net premiums nevertheless grew by 0.6% to $3,185 million.

Other income totalled $2,924 million, up $583 million or 24.9% from the corresponding period in the previous year. This increase is due to trading income, as well as income from available-for-sale securities and from brokerage, investment fund and trust services. In addition, trading income was largely offset by an increase in actuarial liabilities applicable to life and health insurance activities.

Non-interest expense and other items

Non-interest expense for the first three quarters of 2010 totalled $3,900 million, up $184 million or 5.0% from the same period a year earlier. More than half of this increase resulted from the increase in salaries and fringe benefits due notably to the annual indexing of salaries and to expenses related to pay equity agreements.

Expenses related to claims, benefits, annuities and changes in insurance provisions totalled $3,253 million for the first nine months of 2010, up $268 million or 9.0% from a year earlier. This increase was largely due to the actuarial liabilities related to life and health insurance activities, which were higher due to the increase in the fair value of matched investments.

As a result of the growth in income and Group-wide productivity initiatives, the productivity ratio improved significantly to 67.7% for the first nine months of 2010, versus 72.8% for the corresponding period in 2009.

SEGMENT RESULTS

Since the beginning of 2010 and based on the new organizational structure, Desjardins Group's operating activities have been divided into the following segments: "Personal Services and Business and Institutional Services", "Wealth Management and Life and Health Insurance", "Property and Casualty Insurance" and "Other". Financial reporting is based on accounting by operations structured according to the needs of members and clients, as well as the markets in which Desjardins operates, and no longer by legal component as was the case previously, thereby reflecting the prevailing internal management method at Desjardins Group. Segmented information for the corresponding period in 2009 has been reclassified to conform to the new basis of presentation.

Personal Services and Business and Institutional Services segment

This segment includes "Personal Services", namely all caisse network savings and financing operations, and all development, marketing and distribution activities relating to the service offering to individuals, as well as credit and payment card services. This segment also includes "Business and Institutional Services" provided primarily through the caisse network, which ensures an integrated offering to small and medium-sized businesses and large corporations, including financing, securities, venture capital, and specialized and advisory services. The activities related to Capital Desjardins Inc. and Fonds de sécurité Desjardins were transferred to the "Other" segment in the second quarter of 2010.

PERSONAL SERVICES AND BUSINESS AND INSTITUTIONAL SERVICES – SEGMENT RESULTS

	For the three months ended September 30			**For the nine months ended September 30**		
(in millions of $ and as a %)	**2010**	2009	Change	**2010**	2009	Change
Net interest income	**$ 1,008**	$ 884	14.0 %	**$ 2,761**	$ 2,364	16.8 %
Other income	**433**	466	(7.1)	**1,350**	1,335	1.1
Total income	**1,441**	1,350	6.7	**4,111**	3,699	11.1
Provisions for credit losses	**55**	80	(31.3)	**164**	184	(10.9)
Non-interest expense	**1,003**	933	7.5	**2,979**	2,793	6.7
Surplus earnings before member dividends	**$ 287**	$ 250	14.8 %	**$ 723**	$ 526	37.5 %

Comparison between the third quarters of 2010 and 2009

The Personal Services and Business and Institutional Services' segment closed the third quarter of 2010 with surplus earnings before member dividends of $287 million, up 14.8% or $37 million from the same period a year earlier. This increase was attributable to the higher volume of personal and business loans outstanding generated by Desjardins' caisse network, and by the growth in surplus earnings related to credit card and point-of-sale financing activities.

Total income for the segment stood at $1,441 million for the third quarter of 2010, up 6.7% or $91 million from the same quarter in 2009. This increase was primarily due to the $124 million or 14.0% increase in net interest income, as a result of growth in personal and business loans outstanding and credit card and point-of-sale financing activities. Other income was down by 7.1% or $33 million from the same period in 2009.

Provisions for credit losses decreased by $25 million mainly due to the good performance of the Desjardins Card Services portfolio as well as fewer impaired loans and a reduction in the Caisse centrale Desjardins business loan portfolio.

Non-interest expenses rose by 7.5% or $70 million in comparison to the same quarter of 2009, mainly due to increases in salaries and fringe benefits.

Comparison between the first nine months of 2010 and 2009

The segment's surplus earnings before member dividends totalled $723 million, for the first nine months of 2010, up 37.5% or $197 million from the same period of 2009.

Total income for this segment amounted to $4.1 billion, up $412 million or 11.1%. Net interest income was also up $397 million or 16.8%. The caisse network contributed significantly to this increase through a higher volume of mortgages and business loans outstanding. More specifically, the robust $4.2 billion growth in personal mortgages outstanding during the first nine months should be mentioned. This performance reflects the strong momentum in housing starts and the resale market, and the average price of properties, in a context where interest rates have remained favourable to buyers. In addition, consumer spending was beneficial to credit card and point-of-sale financing activities, and contributed to the increase in net interest income.

Other income was up 1.1% or $15 million from the corresponding period in 2009 essentially as a result of the increased volume of transactions generating additional service charges.

Provisions for credit losses declined $20 million or 10.9% from the first nine months of 2009. This was due to proactive risk management in the loan portfolio and in credit card and point-of-sale financing activities.

Non-interest expense was up by $186 million or 6.7% mainly because of the increase in salaries and fringe benefits resulting, in particular, from annual indexing and pay equity agreements.

Wealth Management and Life and Health Insurance segment

This segment is responsible for designing and distributing specialized savings and life and health insurance products. It supports the integrated distribution of wealth management products and services through the caisse network, and it provides specific products through complementary channels. It also contributes to Desjardins' growth across Canada in Wealth Management and Life and Health Insurance.

WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE – SEGMENT RESULTS

	For the three months ended September 30			For the nine months ended September 30		
(in millions of $ and as a %)	**2010**	2009	Change	**2010**	2009	Change
Net premiums	**$ 739**	$ 780	(5.3) %	**$ 2,199**	$ 2,215	(0.7) %
Other income	**743**	618	20.2	**1,730**	1,242	39.3
Total income	**1,484**	1,399	6.1	**3,932**	3,459	13.7
Claims, benefits, annuities and changes in insurance provisions	**1,022**	961	6.3	**2,494**	2,216	12.5
Non-interest expense	**362**	323	12.1	**1,118**	991	12.8
Surplus earnings before member dividends	**$ 76**	$ 84	(9.5) %	**$ 236**	$ 177	33.3 %

Comparison between the third quarters of 2010 and 2009

For the third quarter of 2010, the Wealth Management and Life and Health Insurance segment recorded surplus earnings before member dividends of $76 million, down 9.5% or $8 million compared to the same period in 2009. This decline was largely the result of online brokerage activities whose transaction volume fell because of the stock market slowdown in July and August of 2010, compared to the same quarter in 2009.

The segment's total income amounted to $1,484 million, up $85 million or 6.1% from the same period in 2009, primarily because of life and health insurance activities, whose investment income increased by $99 million. Net insurance premiums increased by $42 million, while net annuity premiums were down by $83 million. The $125 million or 20.2% growth in other income was primarily attributable to higher investment income which had no direct impact on surplus earnings, since it was offset by an equivalent increase in actuarial liabilities.

Expenses related to claims, benefits, annuities and changes in insurance provisions were up $61 million or 6.3% mainly due to an increase in actuarial liabilities to take into account the higher fair value of matched investments, as mentioned above.

Non-interest expense, composed of commissions, remuneration paid to Desjardins caisses and overhead expenses, grew by $39 million or 12.1%, basically as a result of the higher remuneration paid to the caisses and the increase in salaries and fringe benefits.

Comparison between the first nine months of 2010 and 2009

For the first three quarters of 2010, surplus earnings before member dividends from this segment totalled $236 million, up 33.3% from $177 million for the same period a year earlier, mainly due to strong business in insurance and annuities as well as the increase in assets under management.

The segment's total income was $3,932 million, up $473 million or 13.7% from the same period in 2009. The growth in other income of $488 million or 39.3% was attributable primarily to the $365 million increase in investment income. Since this increase was offset by an equivalent change in actuarial liabilities included under Claims, benefits, annuities and changes in insurance provisions, there was no impact on surplus earnings. Furthermore, a $125 million increase was recorded in income from fees earned on asset management, the distribution of savings products, brokerage services and private management.

The $278 million increase in expenditures associated with expenses related to claims, benefits, annuities and changes in insurance provisions was mainly due to higher actuarial liabilities arising from the increase in the fair value of matched investments.

Non-interest expense was up $127 million or 12.8%, basically as a result of higher commissions on sales of savings products as well as an increase in remuneration paid to the caisses, and in salaries and fringe benefits.

Property and Casualty Insurance

This segment is responsible for designing and distributing of property and casualty insurance products and for providing the related customer service. It works in conjunction with the caisse network, providing support in the distribution of products, and contributes to the growth of Desjardins Group's property and casualty insurance operations across Canada.

PROPERTY AND CASUALTY INSURANCE – SEGMENT RESULTS

	For the three months ended September 30			For the nine months ended September 30		
(in millions of $ and as a %)	**2010**	2009	Change	**2010**	2009	Change
Net premiums	**$ 387**	$ 365	6.0 %	**$ 1,120**	$ 1,077	4.0 %
Other income	**32**	26	23.1	**64**	65	(1.5)
Total income	**419**	391	7.2	**1,184**	1,142	3.7
Claims, benefits, annuities and changes in insurance provisions	**298**	254	17.3	**759**	769	(1.3)
Non-interest expense	**93**	84	10.7	**276**	269	2.6
Surplus earnings before non-controlling interests and member dividends	**17**	35	(51.4)	**104**	74	40.5
Surplus earnings before member dividends	**$ 15**	$ 32	(53.1) %	**$ 93**	$ 67	38.8 %

Comparison between the third quarters of 2010 and 2009

The Property and Casualty Insurance segment contributed $15 million to Desjardins Group's combined surplus earnings before member dividends in the quarter or $17 million less than in the same quarter of 2009.

The segment's surplus earnings before non-controlling interests and member dividends were $17 million for the third quarter of 2010, down by $18 million compared to the same quarter a year ago.

Total income for the segment was $419 million, a $28 million or 7.2% increase compared to the third quarter of 2009. This was due to higher net premium income as a result of a larger number of policies issued and a higher average premium. This increase in policies stemmed from growth initiatives in Greater Montreal, the contribution from insured groups, the visibility of the Desjardins General Insurance advertising campaign in Ontario and our private label partnership with a financial institution. Furthermore, the Desjardins caisse network contributed $20 million in gross premiums written in the third quarter of 2010, which was slightly more than the amount recorded one year earlier. Finally, the increase in other income was essentially due to lower interest rates on the markets, which helped drive up the fair value of bonds.

Expenses related to claims increased by $44 million from the corresponding quarter in 2009 because of the deteriorating automobile loss ratio in Ontario with regard to injury claims. This in turn resulted in an increase in actuarial reserves during the quarter.

The increase in non-interest expense was due to a higher salaries expense, the result of having more employees to support business growth, and an increase in fringe benefits.

Comparison between the first nine months of 2010 and 2009

At the end of the first nine months of the year, the segment's surplus earnings before non-controlling interests and member dividends had grown to $104 million, up $30 million or 40.5% from the same period of 2009. This increase was primarily due to a decline in expenses related to claims and an increase in net premiums. The better claims experience was mainly due to milder weather conditions in the first six months. This growth in surplus earnings before non-controlling interests was partly offset by a $15 million increase in income taxes.

The segment's total income stood at $1,184 million, up $42 million or 3.7% from the same period of 2009. In the nine months ended September 30, 2010, the caisse network contributed $57 million in gross premiums written, which was slightly more than the amount recorded for the first nine months of 2009.

Other segment

The Other segment primarily includes treasury activities related to Caisse centrale Desjardins' operations. All Desjardins Group's ABTN holdings and consolidation adjustments attributable to all Desjardins Group components are also included in this segment. The operations of Capital Desjardins Inc. and Fonds de sécurité Desjardins, previously reported in the Personal Services and Business and Institutional Services segment, have been included in this segment since the second quarter of 2010.

OTHER – SEGMENT RESULTS

	For the three months ended September 30			For the nine months ended September 30		
(in millions of $ and as a %)	**2010**	2009	Change	**2010**	2009	Change
Net interest income	**$ 149**	$ 197	(24.4) %	**$ 507**	$ 481	5.4 %
Other income	**18**	(85)	121.2	**(46)**	(149)	69.1
Total income	**167**	112	49.1	**461**	332	38.9
Non-interest expense	**57**	63	(9.5)	**199**	208	(4.3)
Surplus earnings before member dividends	**$ 86**	$ 12	616.7 %	**$ 201**	$ 63	219.0 %

Comparison between the third quarters of 2010 and 2009

The Other segment recorded surplus earnings before member dividends of $86 million for the third quarter of 2010, up $74 million or 616.7% from the corresponding quarter a year earlier, mainly as a result of treasury activities and adjustments related to employee future benefits.

Comparison between the first nine months of 2010 and 2009

The Other segment posted surplus earnings of $201 million for the first three quarters of 2010, up $138 million or 219.0% from the same nine-month period in 2009. This increase was largely due to a net positive change of $68 million in all items related to the ABCP (ABTN) restructured term note portfolio, treasury activities and the adjustment to employee future benefits, which generated a favourable variance in contributions in relation to the actuarial expense.

Balance Sheet and Off-Balance Sheet Item Management

COMBINED BALANCE SHEET

BALANCE SHEET AND OTHER INFORMATION

(in millions of $ and as a %)	**As at September 30, 2010**	As at December 31, 2009	Change
Assets	**$ 175,503**	$ 157,203	11.6%
Average assets	**174,502**	158,463	10.1
Loans	**115,645**	109,995	5.1
Equity	**13,042**	11,197	16.5
Average equity	**12,085**	10,399	16.2
Deposits and subordinated debentures	**114,453**	107,455	6.5

Assets

As at September 30, 2010, Desjardins Group had $175.5 billion in total assets, compared to $157.2 billion at the end of 2009. This represents growth of $18.3 billion, or 11.6%. The Group's performance was due to growth in loans outstanding and an increase in the value of securities in the same period.

Loans

Despite the economic slowdown in Quebec and Ontario in the third quarter, consumer and business credit demand was relatively unchanged, fostering business development. Desjardins Group's loan portfolio, net of the allowance for credit losses, grew 5.1% or $5.7 billion since the end of 2009, to $115.6 billion as at September 30, 2010.

Desjardins continued to excel in residential financing, particularly in Quebec where it is a key player. Despite signs in both the construction and home resale sectors that residential activity was slowing in the third quarter of 2010, demand at the caisses for residential mortgages remained strong. As at September 30, 2010, Desjardins had $71.9 billion in residential mortgages outstanding, up 6.3% or $4.2 billion since the end of 2009. This portfolio represented 61.7% of the total loan portfolio as at September 30, 2010.

LOANS BY CATEGORY OF BORROWER

(in millions of $ and as a %)	**As at September 30, 2010**		As at December 31, 2009	
Residential mortgages	**$ 71,903**	**61.7 %**	$ 67,667	61.0 %
Consumer, credit card and other personal loans	**17,318**	**14.9**	16,915	15.3
Business and government	**27,272**	**23.4**	26,259	23.7
	$ 116,493	**100.0 %**	$ 110,841	100.0 %
Allowance for credit losses	**(848)**	**---**	(846)	---
	$ 115,645	**--- %**	$ 109,995	--- %
Loans guaranteed by governments and other public and parapublic institutions included above	**$ 31,060**	**--- %**	$ 29,140	--- %

Desjardins Group's share of the consumer, credit card and other personal loans market grew 2.4% or $403 million since the end of 2009. As at September 30, 2010, the amount of consumer, credit card and other personal loans outstanding was $17.3 billion. Desjardins Group is also very active in businesses and governments financing; outstanding loans to businesses and governments grew 3,9% or $1.0 billion over the same period, to $27.3 billion for the third quarter.

Deposits

As at September 30, 2010, outstanding deposits totalled $112.3 billion, up 5.8% or $6.2 billion since the end of 2009. Personal savings, which constitutes the main source of financing, grew by 2.7% or $2.0 billion to $77.5 billion. It accounted for 69.0% of the total savings portfolio as at September 30, 2010.

Desjardins Group is also very active in savings recruitment from businesses and governments. The amounts outstanding for this type of deposit stood at $25.5 billion as at September 30, 2010, up 11.5% or $2.6 billion since December 31, 2009. Savings from deposit-taking institutions and other sources such as securities issues on capital markets grew by 19.1% or $1.5 billion during the same period to reach a volume of $9.4 billion.

DEPOSITS BY CATEGORY OF INVESTOR

(in millions of $ and as a %)	**As at September 30, 2010**		As at December 31, 2009	
Individuals	**$ 77,456**	**69.0 %**	$ 75,420	71.0 %
Businesses and governments	**25,516**	**2.7**	22,876	21.6
Deposit-taking institutions and other	**9,366**	**8.3**	7,865	7.4
	$ 112,338	**100.0 %**	$ 106,161	100.0 %

OFF-BALANCE SHEET ITEMS

Savings products

An upswing in Canadian stock market activity in the third quarter of 2010, reflected in a 9.5% jump in the Toronto S&P/TSX index, was good for the market for off-balance sheet savings products, and Desjardins Group took full advantage of this positive environment. Assets under administration or under management, comprised of investment funds and securities grew 9.0% or $3.8 billion since the end of 2009.

Other items

In the normal course of its operations, Desjardins Group makes various off-balance sheet commitments. These include assets under administration and under management for members and clients, credit instruments, securitization, contractual obligations and financial assets received as collateral, which are described on pages 114 to 116 of the 2009 Annual Report. There were no material changes to these off-balance sheet items as at September 30, 2010, other than those disclosed in Note 17, “Commitment”, to the financial statements.

Credit Quality

As at September 30, 2010, gross impaired loans outstanding stood at $529 million, up $20 million since December 31, 2009. The gross impaired loans ratio, as a percentage of the total gross loan portfolio, was 0.45% at the end of the third quarter, virtually the same ratio as at December 31, 2009. This makes Desjardins Group's ratio one of the best in the Canadian banking industry.

The provision for credit losses totalled $56 million for the third quarter, down $24 million from the same quarter in 2009. Provisions for credit losses for the first nine months of 2010 stood at $164 million, down $21 million from the same period of 2009.

Specific allowances for credit losses totalling $155 million provided a total specific coverage ratio of 29.3% as at September 30, 2010, which is an improvement over the rate of 28.1% as at December 31, 2009. The general allowance amounted to $693 million as at September 30, 2010, down from the $703 million recorded as at December 31, 2009.

Information on credit risk management is presented in "Risk Management" below.

IMPAIRED LOANS BY CATEGORY OF BORROWER

	As at September 30, 2010				As at December 31, 2009
(in millions of $ and as a %)	**Gross loans**	**Gross impaired loans**	**Specific allowances for credit losses**	**Net impaired loans**	Net impaired loans
Residential mortgages [1]	**$ 71,903**	**$ 144**	**$ 9**	**$ 135**	$ 124
Consumer, credit card and other personal loans	**17,318**	**80**	**34**	**46**	50
Business and government	**27,272**	**305**	**112**	**193**	192
Total	**$ 116,493**	**$ 529**	**$ 155**	**$ 374**	$ 366
As a percentage of gross loans		**0.45 %**		**0.32 %**	0.33 %
Specific coverage ratio broken down as follows [2]					
Residential mortgages [1]				**6.3 %**	9.6 %
Consumer, credit card and other personal loans				**42.5 %**	38.8 %
Business and government				**36.7 %**	33.6 %
Total specific coverage ratio				**29.3 %**	28.1 %

(1) Residential mortgages include a reclassification of home equity lines of credit in the first quarter of 2009.
(2) The specific coverage ratio is the sum of the specific allowances for each impaired loan, divided by the total balance of gross impaired loans.

Capital Management and Credit Ratings

CAPITAL MANAGEMENT

CAPITAL AND CAPITAL RATIOS

(in millions of $ and as a %)	**As at September 30, 2010**	As at December 31, 2009
Tier 1 capital		
Eligible capital stock	**$ 2,134**	$ 1,607
Reserves	**8,983**	8,149
Undistributed surplus earnings	**1,013**	795
Non-controlling interests	**53**	42
Goodwill	**(109)**	(109)
Other deductions [1]	**(169)**	(244)
Total Tier 1 capital	**$ 11,905**	$ 10,240
Tier 2 capital		
Subordinated debentures	**2,125**	1,300
Eligible general allowance	**403**	388
Other eligible securities	**70**	77
Unrealized cumulative gains on available-for-sale securities (net of income taxes)	**3**	5
Other deductions [1]	**(2,208)**	(1,770)
Total Tier 2 capital	**$ 393**	$ ----
Total capital	**$ 12,298**	$ 10,240
Capital ratios		
Tier 1 capital ratios	**17.6%**	15.9%
Total capital ratios	**18.2**	15.9

(1) Include the provision deficit related to the Internal Ratings Based approach as well as investments in unconsolidated subsidiaries and in affiliated companies.

Desjardins Group's capital ratios are calculated according to the guideline on adequacy of capital base standards applicable to financial services cooperatives, issued by the Autorité des marchés financiers du Québec (AMF). This regulatory framework, which has been in effect since the first quarter of 2009, is largely based on the revised framework for international convergence of capital measurement and capital standards (Basel II) issued by the Bank for International Settlements (BIS). In this regard, the AMF recently allowed Desjardins Group to use the Advanced Internal Ratings Based approach for credit risk related to retail loan portfolios (Personal Services). Other credit exposures and market risk are assessed according to a standardized approach, while operational risk is calculated based on the Basic Indicator approach. The new methods have mainly affected the calculation of risk-weighted assets. However, no material change has been made in the calculation of capital.

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

Desjardins Group ranks among the best capitalized financial institutions in Canada: its Tier 1 and total capital ratios, determined under the new regulatory framework (Basel II), stood at 17.6% and 18.2%, respectively, as at September 30, 2010. A year earlier, these ratios both stood at 14.9%, and they were 15.9% as at December 31, 2009. Desjardins Group therefore still enjoys excellent capitalization, with a Tier I capital ratio above its 15% objective and at a level more than 450 basis points higher than the median of the major Canadian banks. In the context of developing the 2010-2012 Strategic Plan, the financial objective for Desjardins Group's Tier 1 capital ratio was raised to a minimum of 15%, thereby taking prevailing global economic conditions into account as well as the implementation of the AMF's new guideline on adequacy of capital base standards. The previous target was set at 13%.

The following table presents risk-weighted assets according to the Internal Ratings Based and standardized approaches.

RISK-WEIGHTED ASSETS

As at September 30, 2010	Internal Ratings Based approach		Standardized approach		TOTAL As at September 30, 2010			As at December 31, 2009
(in millions of $ and as a %)	Exposure [1]	Risk-weighted assets	Exposure [1]	Risk-weighted assets	Exposure [1]	Risk-weighted assets	Average risk-weighting rate	Risk-weighted assets
Sovereign borrowers	$ ---	$ ---	$ 11,637	$ ---	$ 11,637	$ ---	--	$ ---
Financial institutions	---	---	7,896	1,575	7,896	1,575	20 %	1,680
Businesses	---	---	34,150	24,584	34,150	24,58 4	72	22,904
Mortgages	44,636	4,158	1,085	224	45,721	4,382	10	4,863
Revolving exposures for eligible retail clients	24,702	7,220	---	----	24,702	7,220	29	5,877
Other retail exposures	30,129	3,247	3,895	2,383	34,024	5,630	17	6,838
Securitization	---	---	1,443	637	1,443	637	44	711
Equities	---	---	173	173	173	173	100	228
Trading portfolio	---	---	1,954	443	1,954	443	23	348
Other assets [2]	---	---	---	---	12,263	3,328	27	2,845
Scaling factor [3]	---	878	---	---	---	878	---	855
Total credit risk	$ 99,467	$ 15,503	$ 62,233	$ 30,019	$ 173,963	$ 48,85 0	---	$ 47,149
Market risk	---	---	---	1,858	---	1,858	---	2,251
Operational risk [4]	---	---	---	---	---	10,24 3	---	9,793
Transitional adjustment for floor [5]	---	---	---	---	---	6,543	---	5,362
Total risk-weighted assets	$ 99,467	$ 15,503	$ 62,233	$ 31,877	$ 173,963	$ 67,49 4	---%	$ 64,555

(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 AMF guideline).
(2) Other assets are valued using a method other than the standardized approach or the Internal Ratings Based approach.
(3) The scaling factor is a 6% calibration of risk assets assessed using the advanced approach for credit exposures in accordance with Section 1.3 of the AMF guideline.
(4) The Basic Indicator approach was used to assess operational risk.
(5) As prescribed in Section 1.6 of the AMF guideline.

CREDIT RATINGS

During the first nine months of 2010, the credit ratings of Caisse centrale Desjardins, attesting to the financial soundness of Desjardins Group and its caisse network, did not change from those stated on page 110 of Desjardins Group's 2009 Annual Report. These ratings illustrate Desjardins Group's ability to access markets for institutional financing at competitive rates.

CREDIT RATINGS

	Short-term	*Medium- and long-term*	*Subordinated debt*
Standard & Poor's	A-1+	AA-	A+
Moody's	P-1 *	Aa1 *	Aa2 *
DBRS	R-1 (high)	AA	AA (low)

*Negative outlook

Cash Position and Sources of Financing

CASH POSITION

Desjardins Group's management framework for its cash position and sources of financing is addressed on pages 112 and 113 of the 2009 Annual Report. No material change was made to the management framework in 2010. In management's opinion, the cash and financing position remains appropriate for Desjardins Group's business strategies and its liquidity risk tolerance.

As at September 30, 2010, Desjardins Group's cash and securities totalled $39.7 billion, which is $7.1 billion more than at the end of 2009. The ratio of cash and securities to total assets therefore stood at 22.6% at the end of the third quarter, compared to 20.8% as at December 31, 2009. This ratio considerably exceeded regulatory requirements. Liquidities, it should be remembered, are comprised of the aggregate of securities, and cash and deposits with financial institutions. Securities consist largely of instruments issued by governments and public bodies.

Bond rates have continued to fall in recent months to historic or close to historic lows. It seems more and more likely that the U.S. Federal Reserve will buy more U.S. government bonds, thereby raising demand. Because of the shaky economic conditions and a possible return of financial tensions, a significant increase in bond rates is not anticipated in the short term, unless the marked move by the Federal Reserve is less than predicted.

The combined balance sheets for the caisses are still meeting the neutral matching target. Projected net interest income per $100 of assets for the next twelve months is relatively stable in the caisse network, in spite of the lower bond rates mentioned above.

In terms of mix, 69% of Desjardins Group's deposits came from the retail market (Personal Services) while 23% came from businesses and governments. Desjardins Group also raises financing on institutional capital markets through Capital Desjardins Inc. for subordinated debentures and through Caisse centrale Desjardins for money market instruments, commercial paper, medium-term deposit notes and securitization of the caisse network's mortgage loans. In addition, Desjardins Group is eligible for the federal program to support large Canadian lending institutions, which places Desjardins in the same league as the major financial institutions in Canada and enables it to benefit from the same tools and prerogatives.

Of the total of $25.7 billion in financing that came from institutional capital markets, deposit note and subordinated debenture issues accounted for 61%, or $15.7 billion. Of this amount, 35% was attributable to international markets and 65% to the Canadian market.

Comparison between the third quarters of 2010 and 2009

For the quarter ended September 30, 2010, cash flows from operating activities totalled $1,099 million, compared to $(34) million a year earlier. This $1,133 million difference stems mainly from increases of $1,162 million in instruments designated as held for trading and $388 million of changes in the "Other" item. These increases were offset by decreases of $(715) million in changes in the fair value of financial instruments and $(128) million from interest receivable.

Cash flows from financing activities were $(374) million for the third quarter of 2010, compared to $2,126 million a year earlier. This $(2,500) million reduction was particularly attributable to a $(1,609) million decrease resulting from changes in commitments related to securities lent or sold under repurchase agreements and a net negative change of $(1,572) million in commitments related to securities sold short. These changes were however offset by an $895 million increase due to net change in deposits.

Cash flows used in investing activities totalled $(1,012) million for the third quarter of 2010, compared to $(2,430) million for the corresponding quarter of 2009. This $1,418 million change was mainly attributable to the $3,888 million increase arising from changes in proceeds from disposals of available-for-sale securities. These changes were offset, however, by a $(1,628) million change in purchases of available-for-sale securities, as well as a $(532) million decrease arising from the net change in loans.

Comparison between the first nine months of 2010 and 2009

For the first nine months of 2010, cash flows from operating activities totalled $(2,060) million, compared to $(781) million for the corresponding period of 2009. This $(1,279) million difference stems mainly from negative changes of $(1,747) million in securities required to be classified as held for trading and $(2,263) million under the "Other" item. This reduction in cash flows was offset, however, by increases of $2,343 million resulting from changes in securities designated as held for trading under the fair value option and of $314 million resulting from net changes in actuarial and related liabilities.

Cash flows from financing activities were $14,048 million for the first nine months of 2010, compared to $8,767 million for the corresponding period of 2009. This $5,281 million increase stems mainly from positive changes of $1,750 million in commitments related to securities lent or sold under repurchase agreements, $1,727 million in net change in deposits, $764 million related to the decrease in repayments of debt securities and subordinated debentures, $673 million related to the net change in commitments related to securities sold short, $393 million in net change in non-controlling interests and $235 million resulting from the net change in capital stock. The increases in cash flows were offset, however, by a $(166) million reduction in issuance of debt securities and subordinated debentures.

Cash flows used in investing activities totalled $(11,879) million for the first nine months of 2010, compared to $(8,455) million for the same period in 2009, a difference of $(3,424) million owing to a negative change of $(3,981) million related to the increase in purchases of available-for-sale securities, a negative change of $(3,659) million in proceeds from maturities of available-for-sale securities and a $(1,748) million decrease related to net change in loans. These changes were offset by positive changes of $5,548 million in proceeds from disposals of available-for-sale securities.

SOURCES OF FUNDING

To ensure stable and diversified sources of funding, the Desjardins Group has secured various funding sources on institutional capital markets. It regularly conducts transactions on the Canadian money market and, from time to time, makes public and private issues of term notes or subordinated debt.

In an effort to even better diversify the sources of financing of Desjardins Group as well as to extend their average term, Caisse centrale Desjardins successfully issued fixed-rate, medium-term deposit notes in the amount of US$1 billion in the United States on September 8, 2010, making Desjardins Group the first Canadian cooperative financial institution to issue senior debt on the U.S. market.

This public issue of deposit notes is the fourth that Caisse centrale Desjardins has made since the beginning of 2010. In order to broaden the investor base, Desjardins Group has issued CA$4.2 billion of various securities since the start of the year on the Canadian, European and U.S. markets. Like the major Canadian banks, Desjardins Group has benefited from the popularity of the Canadian banking industry with institutional investors.

During the third quarter, Caisse centrale Desjardins took part in the Canada Mortgage and Housing Corporation (CMHC) securitization program for an amount of $363 million. Capital Desjardins Inc., for its part, renewed its Canadian borrowing program on July 30 for a period of 25 months.

Finally, caisse members also participated in the capitalization of their financial cooperative by purchasing permanent shares. Sales during the first nine months of the year totalled $482 million. Since September 2009, the amount of sales totalled $1.1 billion.

Risk Management

Desjardins Group is exposed to different types of risks in the normal course of business, including credit risk, liquidity risk, market risk, operational risk and reputation risk. Desjardins Group's objective in risk management is to optimize the risk-return trade-off, within set limits, by applying integrated risk management and control strategies, policies and procedures throughout the organization's functions. During the first nine months of 2010, Desjardins Group's risk management policies and practices did not change from those stated on pages 117 to 125 of the 2009 Annual Report.

Desjardins Group's risk management approach is based on principles promoting the accountability of business segments and entities with respect to combined results and risk management quality and the leading role played by the Board of Directors of all Desjardins Group subsidiaries in risk and result monitoring. Many committees support the Board of Directors and management of each subsidiary in discharging their risk management responsibilities.

Credit risk

Credit risk is the risk of losses resulting from a borrower's or counterparty's failure to honour its contractual obligations, whether or not this obligation appears on the balance sheet.

Desjardins Group is exposed to credit risk first through its direct personal, business and government loans, but also through its various other commitments, including letters of credit, foreign exchange lines and transactions involving derivative financial instruments and securities.

Supplementary credit risk information

NET EXPOSURE (exposure at default [EAD]) before credit risk mitigation (CRM)

	Exposure classes as at September 30, 2010				
(in millions of $)	Exposure used	Unused exposure	Off-balance sheet exposure (1)	Total	Net exposure (2)
Standardized approach					
Sovereign borrowers	$ 10,625	$ 529	$ 1,683	$ 12,837	$ 11,637
Financial institutions	6,370	1,815	3,392	11,577	7,896
Businesses	31,791	2,397	1,370	35,558	34,150
Mortgages	1,074	11	---	1,085	1,085
Other retail exposures	3,862	750	32	4,644	3,895
Securitization	1,443	---	---	1,443	1,443
Equities	173	---	---	173	173
Trading portfolio	---	---	20,188	20,188	1,954
Internal Ratings Based approach					
Mortgages	39,837	4,799	---	44,636	44,636
Revolving exposures for retail clients	8,979	15,714	9	24,702	24,702
Other retail exposures	23,393	6,734	2	30,129	30,129
Total	$ 127,547	$ 32,749	$ 26,676	$ 186,972	$ 161,700

(1) Including repo-style transactions, over-the-counter derivatives and other off-balance sheet exposures.
(2) After impact of credit risk mitigation (CRM) techniques, including use of collateral, guarantees and credit derivatives.

EXPOSURE BY CLASS AND RISK WEIGHTS (STANDARDIZED APPROACH)

Exposure class	Risk weights as at September 30, 2010							
(in millions of $)	0%	20%	35%	50%	75%	100%	Other	Total
Sovereign borrowers	$ 12,837	$ ---	$ ---	$ ---	$ ---	$ ---	$ ---	$ 12,837
Financial institutions	---	11,725	---	---	---	---	---	11,725
Businesses	---	1,387	---	---	---	33,862	396	35,645
Mortgages	---	---	1,071	---	---	15	---	1,086
Other retail exposures	---	---	---	---	4,587	31	50	4,668
Securitization	---	171	---	1,203	---	---	69	1,443
Equities	---	---	---	---	---	173	---	173
Trading portfolio	1,944	16,901	---	64	---	1,279	---	20,188
Total	$ 14,781	$ 30,184	$ 1,071	$ 1,267	$ 4,587	$ 35,360	$ 515	$ 87,765

Counterparty and issuer risk

Of the securities held in all securities portfolios by Desjardins Group, approximately 70% are issued or guaranteed by public or parapublic entities. The portfolios are concentrated with Canadian issuers and counterparties of very 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. These limits are then allocated to the various components based on their needs.

Market risk

Market risk refers to the risk of changes in the fair value of financial instruments resulting from fluctuations in the parameters affecting this value, in particular, interest rates, exchange rates and their volatility.

Desjardins Group is primarily exposed to market risk through positions related to its traditional financing and savings recruitment activities. It is also exposed to market risk through its trading activities. Desjardins Group and its components have adopted policies that set out the principles, limits and procedures to use in managing market risk.

Interest rate risk management

Desjardins Group is exposed to interest rate risk, which represents the potential impact of interest rate fluctuations on net interest income and on the economic value of equity.

Dynamic and prudent management is applied to achieve the objective of optimizing net interest income while minimizing the negative impact of interest rate movements. Desjardins Group's policies describe the principles, limits and procedures used to manage this risk. Simulations are run to measure the impact of different variables on net interest income and the economic value of equity. The assumptions used in the simulations are based on an analysis of historical data and the impact of different interest rate conditions on the data, and concern changes in the structure of the Combined Balance Sheets, including the modelling of non-maturity deposits, member behaviour and pricing. Desjardins Group's asset and liability management committee (the Asset/Liability Committee) is responsible for analyzing and adopting on a monthly basis the global matching strategy while respecting the parameters defined in interest rate risk management policies.

The following table presents the potential impact on the non-trading portfolio of a sudden and sustained 100-basis-point increase or decrease in interest rates on the economic value of equity.

INTEREST RATE SENSITIVITY (before income taxes)

(in millions of $)	**As at September 30, 2010**	As at June 30, 2010	As at September 30, 2009
Impact on the economic value of equity of a 100-basis-point increase in interest rates	**$(48)**	$(34)	$(40)
Impact on the economic value of equity of a 100-basis-point decrease in interest rates	**50**	40	64

The extent of the interest rate risk depends on the gap between cash flows from assets, liabilities and off-balance sheet instruments. The position presented reflects the position as at that date, and may change depending on members' behaviour, the interest rate environment and the strategies adopted by the Asset/Liability Committee.

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

Market risk management for trading portfolios is done on a daily basis and is governed by a specific policy.

The main tool used to measure the market risk of trading portfolios is the "Value-at-Risk" (VaR), which represents an estimate of the potential loss for a certain period of time at a given confidence level.

A Monte Carlo VaR is calculated daily, using a 99% confidence level, on the trading portfolios for a holding horizon of one day. It is therefore reasonable to expect a loss exceeding the VaR figure once every 100 days. The calculation of VaR is based on historical data for a one-year interval.

The following table presents the aggregate VaR of the trading activities of Desjardins Group by risk category as well as the diversification effect, which represents the difference between aggregate VaR and the sum of VaR for the different risk categories. Equity, interest rate and foreign exchange risks are the three risk categories to which Desjardins Group is exposed. The definition of trading portfolio meets the various criteria set out in the Basel Accord.

VaR BY RISK CATEGORY (TRADING PORTFOLIO)

(in millions of $)	**As at September 30, 2010**	**For the three months ended September 30, 2010**			As at June 30, 2010	For the three months ended June 30, 2010
		Average	**High**	**Low**		Average
Equities	**$0.5**	**$0.2**	**$0.5**	**$0.1**	$0.2	$0.5
Foreign exchange	**0.1**	**0.1**	**0.3**	**0.1**	0.1	0.1
Interest rate	**5.8**	**4.8**	**6.0**	**3.6**	5.0	5.4
Diversification effect [1]	**(0.6)**	**(0.3)**	**N/A [2]**	**N/A [2]**	(0.3)	(0.6)
Aggregate VaR	**$5.8**	**$4.8**	**$6.0**	**$3.6**	$5.0	$5.4

(1) Risk reduction related to diversification, namely the difference between the sum of the VaR for the various market risks and the aggregate VaR.

(2) Not applicable; the highs and lows of the various market risk categories can refer to different dates.

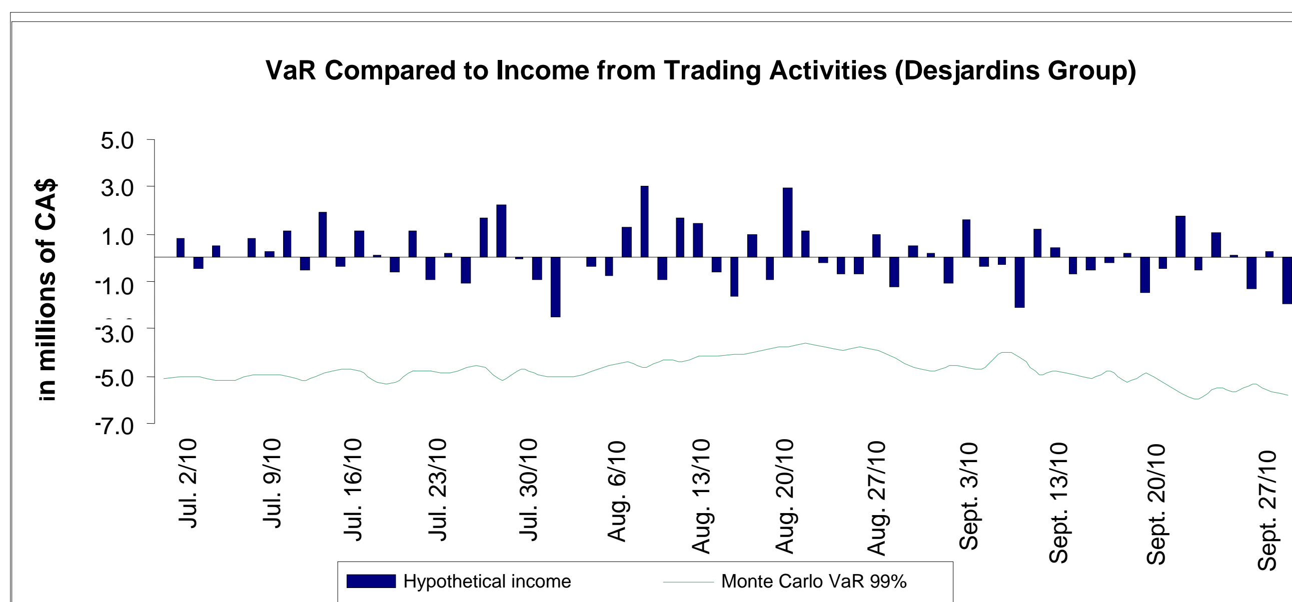
As at September 30, 2010, aggregate VaR was $5.8 million, the interest rate VaR being the largest component. The aggregate VaR was higher than its quarterly average of $4.8 million and also higher than its June 30, 2010 level of $5.0 million. The risk mitigation related to diversification amounted to $0.6 million as at September 30, 2010.

Back testing

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

Desjardins Group carries out back testing daily, applying a hypothetical P&L on its trading portfolios. The hypothetical P&L is calculated by determining the difference in value resulting from changes in market conditions between two consecutive days. The portfolio mix between these two days remains static.

The following chart presents changes in VaR for trading activities as well as income related to these activities. During the third quarter of 2010, losses never exceeded VaR.



ADDITIONAL INFORMATION RELATED TO EXPOSURE TO CERTAIN RISKS

In order to give external users a better idea of its exposure to risk related to current market events, Desjardins Group decided to use as a guideline the best practices promoted and issued by the Financial Stability Board (FSB), formerly known as the Financial Stability Forum (FSF). The Forum was founded in 1999 by G7 finance ministers and central bank governors to promote international financial stability through information exchange and international cooperation in the supervision of capital markets and the surveillance of financial institutions. In March 2009, the FSF decided to expand membership to include all G20 countries, in addition to Spain and the European Commission. Since then, it has been called the Financial Stability Board (FSB).

These best practices include enhanced disclosure of risks related to financial instruments which markets consider to be of higher risk. Some of these disclosures are already included in this Management's Discussion and Analysis under "Risk Management" and "Off-Balance Sheet Items".

Desjardins Group used these recommendations as a guideline in making the additional disclosures below as at September 30, 2010:

Exposure to subprime residential and Alt-A mortgage loans

As part of its operations, Desjardins Group is exposed to credit risks related to subprime residential mortgage loans (defined as loans to borrowers with a high credit risk profile) and Alt-A mortgage loans (defined as loans to borrowers with non-standard income documentation). However, Desjardins Group's exposure to subprime residential mortgage loans was $1 million (less than $2 million as at December 31, 2009). Only one loan is currently in default. Exposure to Alt-A mortgage loans was $52 million ($60 million as at December 31, 2009). Subprime residential and Alt-A mortgage loans are recorded on the Combined Balance Sheets as loans measured at amortized cost. As at September 30, 2010, total subprime residential mortgage loans and Alt-A mortgage loans represented less than 0.1% (also less than 0.1% as at December 31, 2009) of Desjardins Group's total assets.

Leveraged finance loans

Exposure to leveraged finance loans (defined as loans to large corporations and finance companies whose credit rating is between BB+ and D and whose debt level is very high compared to other active companies in the same industry) was $81 million ($111 million as at December 31, 2009), 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. Leveraged finance loans are recorded on the Combined Balance Sheets as loans and receivables, and represented less than 0.1% (also less than 0.1% in 2009) of Desjardins Group's total assets.

Collateralized debt obligations

The fair value and notional amount of collateralized debt obligations were both $141 million ($135 million and $151 million, respectively, in 2009). None of the securities held is directly backed by subprime residential mortgages. Collateralized debt obligations are presented in the Combined Balance Sheets as available-for-sale securities and securities held for trading.

Commercial mortgage-backed securities

For commercial mortgage-backed securities, the fair value and principal amount were $308 million and $298 million, respectively ($329 million and $343 million in 2009). It should be noted that Desjardins Group holds only Canadian securities. These securities are presented in the Combined Balance Sheets as securities held for trading.

Financial asset-backed securities

For financial asset-backed securities, the fair value and notional amount were $86 million and $98 million, respectively ($277 million and $310 million in 2009). These securities are presented in the Combined Balance Sheets as available-for-sale securities and securities held for trading.

Credit default swap portfolio

First-to-default credit default swaps and credit default swaps (collateralized debt obligations) were entered into with counterparties. As at September 30, 2010, the negative fair value and notional amount of these credit default swaps amounted to $29 million and $82 million, respectively ($60 million and $147 million in 2009). These swaps are presented in the Combined Balance Sheets as derivative financial instruments.

Total return swap portfolio

The positive and negative fair values of total return swaps, excluding those carried out in connection with securitization activities, were less than $1 million and $7 million, respectively ($2 million and $9 million in 2009). The notional amount of these swaps amounted to $56 million ($95 million in 2009). Total return swaps are presented in the Combined Balance Sheets as derivative financial instruments.

Assets under administration and under management

Desjardins Group is one of Canada's leading wealth managers and trustees. Assets under administration and under management are essentially comprised of financial assets in the form of investment funds held mainly by individuals, securities in custody and assets accumulated by pension funds; they therefore do not belong to Desjardins Group, but to its members and clients. These assets are described in detail under "Off-Balance Sheet Items".

Securitization

Desjardins Group participates in the Canada Mortgage-Backed Securities Program under the *National Housing Act*. Transactions involve the use of off-balance sheet arrangements with special purpose entities. The special purpose entity used by Desjardins Group is Canada Housing Trust, set up by the Canada Mortgage and Housing Corporation under the Canada Mortgage Bonds Program. These arrangements are described under "Off-Balance Sheet Items" and in Note 8, "Securitization of Mortgage Loans", to the Quarterly Combined Financial Statements.

Special purpose entities

In the normal course of business, Desjardins Group enters into various financial transactions with special purpose entities, or SPEs. The entities are usually created for a unique and distinct purpose; they often have a limited life; and they are used to legally isolate the financial assets they hold from the transferring organization, which could be a client or Desjardins Group itself. SPEs are not operating entities and generally have no employees. In accordance with generally accepted accounting principles, special purpose entities can be recognized or not recognized on the Combined Balance Sheets.

Details concerning significant exposure to SPEs are provided in the table below:

SIGNIFICANT EXPOSURE TO SPECIAL PURPOSE ENTITIES

	As at September 30, 2010	
(in millions of $)	**Exposure of Desjardins Group**	**Total assets of special purpose entities [1]**
Unconsolidated special purpose entities		
Trusts for Canadian non-bank asset-backed term notes subject to the Montréal Accord restructuring plan [2]	$ 2,469	$ 16,437
Private investment funds related to guaranteed-capital products and other activities [3]	212	577
Consolidated special purpose entities		
Private hedge funds related to guaranteed-capital products and other activities [3]	21	52
Desjardins Credit Union	$ 147	$ 1,417

(1) The total assets of special purpose entities disclosed correspond to the most recent data obtained by Desjardins Group's management. For the investment funds and hedge funds related to guaranteed-capital structured products, the amount presented corresponds to the SPE's net assets.

(2) See Note 6, "Securities", to the Quarterly Combined Financial Statements. The amount indicated comprises the margin funding facility of $1,193 million and the fair value of the new notes of $1,276 million.

(3) For presentation purposes, cross-investments between investment funds and hedge funds have not been eliminated.

End of moratorium

July 2010 marked the end of the 18-month moratorium period on additional collateral calls for the vast majority of underlying credit default swaps under the Montréal Accord on asset-backed term notes (ABTN). The lifting of the moratorium had no impact on the market value of the ABTNs since the necessary triggers for the calculations leading to margin calls are very far from the current levels of the indices.

Subsequent events

Since September 30, there have been three credit index transactions for hedging purposes. The object of these transactions was to reduce the risk of Desjardins' exposure to ABTNs.

Additional Information

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies used by Desjardins Group are described in Note 1 to the 2009 Annual Report, on pages 158 to 161 or, when appropriate, in the notes to the financial statements to enable the reader to understand these policies. Some of these policies are of particular importance to the presentation of Desjardins Group's financial position and results of operations since they require management to make assumptions and estimates, some of which may involve uncertainties. Pages 130 to 132 of the 2009 Annual Report summarize these accounting policies. No significant changes were made to these assumptions and estimates during the first nine months of 2010.

CHANGES IN ACCOUNTING POLICIES

A description of the new accounting standards adopted in 2010 and future changes in accounting policies may be found in Notes 2 and 3 to the Unaudited Quarterly Combined Financial Statements of Desjardins Group.

Desjardins Group and its publicly accountable legal entities will adopt the International Financial Reporting Standards (IFRS) as of January 1, 2011 as the accounting framework for the preparation of its interim and annual financial statements. Desjardins Group will adopt the IFRS on January 1, 2011 and will release its first IFRS quarterly combined financial statements for the first quarter ending March 31, 2011, as well as comparative information, an opening statement of financial position as at January 1, 2010, and transitional reconciliations.

On pages 136 and following of its 2009 Annual Report, Desjardins Group published a summary of the main implications of the IFRS changeover for current accounting policies that may have an impact on its results, its financial position or its operations. These main differences reflect the most recent assumptions, estimates and expectations of Desjardins Group's management. However, developments in certain standards, the unavailability of certain market data and the schedule for completing certain solutions, Desjardins Group is unable, at this stage, to provide a reasonable estimate of the financial implications of the entire IFRS transition with regard to its results and financial position. The impact of the IFRS conversion will depend on accounting options elected, general economic conditions and the conditions prevailing in the financial sector on the transition date.

During the period ended September 30, 2010, Desjardins Group continued its conversion to IFRS and the updating of its information systems, processes and internal controls. It also continued to accumulate financial information in order to prepare its opening statement of financial position and its first quarter financial statements. Finally, it continued to make changes to its model Combined Financial Statements and Notes in order to identify additional disclosure requirements during first-time adoption and thereafter.

The Autorité des marchés financiers issued a notice to allow an irrevocable election to be made on the IFRS changeover date in order to mitigate the impact of the adoption of these standards. As a result of this election, retained earnings and the reserve can be adjusted quarterly on a straight-line basis from the IFRS changeover date to December 31, 2012 for the purpose of calculating regulatory capital ratios. Desjardins Group plans to make this election as of the IFRS adoption date.

As part of its change management plan, Desjardins Group has held training sessions for members of its Board of Directors and Management Committee as well as members of its Audit and Inspection Commission, finance department staff and the personnel of certain areas particularly affected by the IFRS transition, such as credit service employees. A training plan has also been developed for the officers of the caisses and the components. The purpose of the training, which will take place over the next few months, will be to transfer the knowledge acquired in the IFRS transition program to operating activities. Raising IFRS awareness throughout Desjardins Group will be a priority until the December 31, 2011. Desjardins Group will complete its communication plan with regard to members and investors by the end of the year.

Among other things, Desjardins Group will finalize the implementation of its new processes and internal controls over financial reporting and business activities resulting from the adoption of the IFRS or generally accepted accounting principles for private enterprises by members and clients. It will also upgrade its performance measures, variable compensation programs, and its planning and budget processes. Internal and external auditors, as well as the governance team, support the Desjardins Group by reviewing the mechanisms put in place as well as the accounting positions pertaining to IFRS.

Until December 31, 2011, Desjardins Group will continue to monitor IFRS developments, adjusting its transition plan if necessary. The progress made to date is in line with the established schedule and is reported on a regular basis to management as well as to Desjardins Group's Audit and Inspection Commission. Desjardins Group will report the quantitative impact of IFRS adoption on the financial statements when the final decisions have been made.

For more information on Desjardins Group's IFRS transition program, the reader is referred to page 134 of Desjardins Group's 2009 Annual Report, which lists the key components of its transition plan.

ECONOMIC OUTLOOK

The global recovery is still cause for great concern, particularly in the United States. Private sector job creation south of the border remains sluggish, the real estate market is still in serious trouble and the trade balance is continuing to deteriorate. Economic growth should be roughly 2.6% this year and 2.4% next year, a relatively low post-recession rate. As for the eurozone, its ability to overcome the sovereign debt crisis and the resilience of consumer confidence have been surprising. Since the European Central Bank is not planning to put any new measures in place, the euro quickly shot upward. This indicates that growth is likely to taper off soon in this zone, partly because of the foreign sector. China continues to dominate worldwide economic growth. The recent increase in its key interest rates confirms concerns about the economy overheating, especially the real estate market.

Volatile capital markets are still on the menu. The recovery has not yet proven that it is solid, and investors are still reluctant to take risks. In spite of very low interest rates, the global economy has not taken off again. The situation is all the more difficult because governments would like to pull out of the economy in order to improve their fiscal balance. With core inflation under 1% and unemployment running at above 9.5%, the Federal Reserve is uncomfortable with its objectives. It is therefore considering new quantitative easing measures with the goals of stimulating demand and fighting low inflation. Expectations in this regard have caused the greenback to fall against other currencies, which could be a boon to U.S. foreign trade.

The Canadian economy is also showing signs of losing steam. Annualized growth in real GDP slowed to 2.0% in the second quarter and could drop further in the third quarter. Employment deteriorated in September, and the residential housing market is losing some of its vigour. As long as the economy of our neighbour to the south struggles, Canada’s external sector will be at risk. Under the circumstances, the Bank of Canada acted prudently by stopping the rise in its key rates on October 19. The break could continue until at least next spring.

Quebec’s economic growth has slowed considerably since the beginning of the year, and there is no indication of it picking up again in the fall. Apart from the labour market, which continues to be astonishingly vigorous, most economic statistics continue to be disappointing. International exports fell again in July, and the situation will not improve for good until next year. Annualized growth in real GDP could therefore slow down at a less sustained pace than the second quarter rate of 2.0%. Ontario’s economy is also losing strength, and the rise in unemployment from 8.3% in June to 8.8% in September is a sign of the difficulties in which it finds itself.

SUMMARY OF QUARTERLY COMBINED RESULTS

The following table presents a summary of the results of Desjardins Group for the last eight quarters.

	2010			2009				2008
(in millions of $ and as a %)	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**
Total income	**$ 3,275**	$ 2,943	$ 2,798	$ 2,583	$ 3,070	$ 2,772	$ 2,245	$ 1,729
Surplus earnings before member dividends	**$ 464**	$ 408	$ 381	$ 244	$ 378	$ 338	$ 117	$ (476)
Provision for member dividends, net of income taxes	**66**	51	53	50	95	29	39	(63)
Surplus earnings (deficit) for the period after member dividends	**415**	357	328	194	283	309	78	(413)
Total assets	**175,503**	173,500	165,571	157,203	163,213	159,867	159,734	152,298
Return on equity	**14.5 %**	13.6 %	13.5 %	8.8 %	14.4 %	13.4 %	4.8 %	(19.3) %
Tier 1 capital ratio	**17.6**	16.7	16.1	15.9	14.9	14.7	13.7	13.4
Total capital ratio	**18.2**	17.5	16.1	15.9	14.9	14.7	13.7	12.9

COMBINED BALANCE SHEET
(unaudited)

(in millions of $)	**September 30, 2010**	December 31, 2009
ASSETS		
Cash and deposits with financial institutions	**$ 1,195**	$ 1,086
Securities (Note 6)		
Available-for-sale securities	**14,906**	12,064
Securities held for trading	**23,476**	19,349
Securities held to maturity	**17**	18
Equity method securities	**134**	129
	38,533	31,560
Securities borrowed or purchased under reverse repurchase agreements	**8,415**	5,055
Loans (Notes 7 and 8)		
Residential mortgages	**71,903**	67,667
Consumer, credit card and other personal loans	**17,318**	16,915
Business and government	**27,272**	26,259
	116,493	110,841
Allowance for credit losses	**(848)**	(846)
	115,645	109,995
Other assets		
Land, buildings and equipment	**976**	1,008
Interest receivable	**612**	469
Derivative financial instruments (Note 13)	**2,408**	2,647
Clients' liabilities under acceptances	**260**	751
Amounts receivable from clients, brokers and financial institutions	**3,270**	453
Other (Note 9)	**4,189**	4,179
	11,715	9,507
Total assets	**$ 175,503**	$ 157,203
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits		
Individuals	**$ 77,456**	$ 75,420
Business and government	**25,516**	22,876
Deposit-taking and other institutions	**9,366**	7,865
	112,338	106,161
Other liabilities		
Actuarial and related liabilities	**14,367**	13,453
Borrowings	**58**	71
Interest payable	**979**	884
Derivative financial instruments (Note 13)	**1,693**	1,852
Acceptances	**260**	751
Commitments related to securities lent or sold under repurchase agreements	**12,997**	10,080
Commitments related to securities sold short	**8,735**	5,038
Amounts payable to clients, brokers and financial institutions	**4,669**	2,355
Other (Note 10)	**3,925**	3,729
	47,683	38,213
Subordinated debentures	**2,115**	1,294
Non-controlling interests	**325**	338
EQUITY		
Capital stock	**2,179**	1,650
Share capital	**71**	71
Undistributed surplus earnings	**1,025**	805
Accumulated other comprehensive income (Note 14)	**750**	489
Reserves	**9,017**	8,182
	13,042	11,197
Total liabilities and equity	**$ 175,503**	$ 157,203

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

On behalf of the Board of Directors of the Fédération des caisses Desjardins du Québec,

Monique F. Leroux, FCA, FCMA
Chair of the Board

Denis Paré, LL.L., D.D.N.
Vice-Chair of the Board

COMBINED STATEMENT OF INCOME

(unaudited)

(in millions of $)	For the three months ended September 30 **2010**	2009	For the nine months ended September 30 **2010**	2009
Interest income				
Loans	**$ 1,338**	$ 1,316	**$ 3,871**	$ 3,784
Securities	**116**	114	**336**	336
	1,454	1,430	**4,207**	4,120
Interest expense				
Deposits	**427**	453	**1,227**	1,496
Subordinated debentures and borrowings	**27**	19	**73**	43
	454	472	**1,300**	1,539
Net interest income	**1,000**	958	**2,907**	2,581
Net premiums	**1,081**	1,102	**3,185**	3,165
Other income				
Deposit and payment service charges	**137**	136	**401**	380
Lending fees and credit card service revenues	**117**	115	**342**	326
Brokerage, investment fund and trust services	**158**	154	**483**	417
Income from available-for-sale securities	**41**	23	**117**	57
Trading income (Note 11)	**563**	494	**1,108**	707
Other investment income	**71**	71	**214**	204
Other	**107**	17	**259**	250
	1,194	1,010	**2,924**	2,341
Total income	**3,275**	3,070	**9,016**	8,087
Provisions for credit losses	**56**	80	**164**	185
Claims, benefits, annuities and changes in insurance provisions	**1,320**	1,216	**3,253**	2,985
Non-interest expense				
Salaries and fringe benefits	**590**	562	**1,923**	1,791
Premises, equipment and furniture, including amortization	**97**	102	**290**	307
Outsourcing of processing services	**85**	105	**258**	276
Communications	**56**	52	**184**	176
Restructuring expenses (Note 12)	**21**	37	**39**	65
Other	**430**	362	**1,206**	1,101
	1,279	1,220	**3,900**	3,716
Operating surplus earnings	**620**	554	**1,699**	1,201
Income taxes on surplus earnings	**153**	167	**432**	351
Surplus earnings before non-controlling interests and member dividends	**467**	387	**1,267**	850
Non-controlling interests	**3**	9	**14**	17
Surplus earnings before member dividends	**464**	378	**1,253**	833
Provision for member dividends	**66**	133	**213**	239
Tax recovery on provision for member dividends	**(17)**	(38)	**(60)**	(76)
Surplus earnings for the period after member dividends	**$ 415**	$ 283	**$ 1,100**	$ 670

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

COMBINED STATEMENT OF CHANGES IN EQUITY

(unaudited)

(in millions of $)	For the three months ended September 30 **2010**	For the three months ended September 30 2009	For the nine months ended September 30 **2010**	For the nine months ended September 30 2009
Capital stock				
Balance at beginning of period	**$ 2,157**	$ 995	**$ 1,650**	$ 955
Net change during the period	**22**	255	**529**	295
Balance at end of period	**$ 2,179**	$ 1,250	**$ 2,179**	$ 1,250
Share capital				
Balance at beginning of period	**$ 72**	$ 67	**$ 71**	$ 67
Net change during the period	**(1)**	2	**-**	2
Balance at end of period	**$ 71**	$ 69	**$ 71**	$ 69
Undistributed surplus earnings (deficit) [(1)]				
Balance at beginning of period	**$ 643**	$ 337	**$ 805**	$ (96)
Surplus earnings for the period after member dividends	**415**	283	**1,100**	670
Remuneration on permanent shares, net of income tax recovery	**(16)**	(11)	**(43)**	(23)
Dividends on preferred shares	**-**	(1)	**(2)**	(2)
Transfer to the stabilization reserve	**(4)**	-	**(136)**	(4)
Transfer to the reserve for future member dividends	**-**	(4)	**(14)**	(82)
Transfer from (to) general reserve	**(13)**	(39)	**(685)**	102
Balance at end of period	**$ 1,025**	$ 565	**$ 1,025**	$ 565
Accumulated other comprehensive income [(1)]				
Balance at beginning of period	**$ 523**	$ 532	**$ 489**	$ 685
Other comprehensive income for the period	**227**	72	**261**	(81)
Balance at end of period (Note 14)	**$ 750**	$ 604	**$ 750**	$ 604
Reserves				
Stabilization reserve				
Balance at beginning of period	**$ 414**	$ 282	**$ 282**	$ 278
Transfer from undistributed surplus earnings	**4**	-	**136**	4
Balance at end of period	**$ 418**	$ 282	**$ 418**	$ 282
Reserve for future member dividends				
Balance at beginning of period	**$ 445**	$ 428	**$ 431**	$ 350
Transfer from undistributed surplus earnings	**-**	4	**14**	82
Balance at end of period	**$ 445**	$ 432	**$ 445**	$ 432
General reserve				
Balance at beginning of period	**$ 8,141**	$ 7,493	**$ 7,469**	$ 7,634
Transfer from (to) undistributed surplus earnings	**13**	39	**685**	(102)
Balance at end of period	**$ 8,154**	$ 7,532	**$ 8,154**	$ 7,532
Total reserves	**$ 9,017**	$ 8,246	**$ 9,017**	$ 8,246
Total equity	**$ 13,042**	$ 10,734	**$ 13,042**	$ 10,734

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

(1) The sum of undistributed surplus earnings and accumulated other comprehensive income is $1,775 million ($1,169 million in 2009).

COMBINED STATEMENT OF COMPREHENSIVE INCOME

(unaudited)

(in millions of $)	For the three months ended September 30 2010	2009	For the nine months ended September 30 2010	2009
Surplus earnings for the period after member dividends	**$ 415**	$ 283	**$ 1,100**	$ 670
Other comprehensive income, net of income taxes on surplus earnings (Note 15)				
Net unrealized gains on available-for-sale securities	**154**	107	**172**	216
Reclassification to the Combined Statements of Income of net gains on available-for-sale securities	**(14)**	(7)	**(35)**	(6)
	140	100	**137**	210
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**110**	(14)	**186**	(243)
Reclassification to the Combined Statements of Income of net gains on derivative financial instruments designated as cash flow hedges	**(23)**	(14)	**(62)**	(47)
	87	(28)	**124**	(290)
Net unrealized exchange losses on translation of financial statements of self-sustaining foreign operations, net of hedging transactions	**-**	-	**-**	(1)
Total other comprehensive income	**227**	72	**261**	(81)
Comprehensive income	**$ 642**	$ 355	**$ 1,361**	$ 589

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

COMBINED STATEMENT OF CASH FLOWS
(unaudited)

(in millions of $)	For the three months ended September 30 **2010**	2009	For the nine months ended September 30 **2010**	2009
Cash flows from (used in) operating activities				
Surplus earnings for the period after member dividends	**$ 415**	$ 283	**$ 1,100**	$ 670
Adjustments for:				
Amortization of buildings and equipment	**36**	39	**110**	117
Amortization of intangible assets with finite useful lives	**9**	9	**27**	26
Write-down of investment companies' investments	**-**	(3)	**-**	(1)
Net change in actuarial and related liabilities	**553**	428	**914**	600
Future income taxes	**34**	45	**107**	69
Provisions for credit losses	**56**	80	**164**	185
Asset impairment	**-**	30	**-**	30
Non-controlling interests	**3**	9	**14**	17
Net gains realized on available-for-sale securities	**(19)**	(14)	**(48)**	(14)
Net change in equity method securities	**(4)**	2	**(5)**	2
Change in operating assets and liabilities				
Interest receivable	**(141)**	(13)	**(143)**	23
Interest payable	**125**	1	**95**	47
Securities required to be classified as held for trading	**174**	(988)	**(3,553)**	(1,806)
Securities designated as held for trading under the fair value option	**(639)**	(766)	**(574)**	(2,917)
Net change in fair value of derivative financial instruments	**(429)**	286	**208**	384
Other	**926**	538	**(476)**	1,787
	1,099	(34)	**(2,060)**	(781)
Cash flows from (used in) financing activities				
Net change in deposits	**103**	(792)	**6,177**	4,450
Issuance of debt securities and subordinated debentures	**9**	68	**897**	1,063
Sale (purchase) of debt securities and subordinated debentures to (from) third parties	**30**	-	**(72)**	-
Repayment of debt securities and subordinated debentures	**(1)**	(67)	**(17)**	(781)
Net change in capital stock	**22**	269	**529**	294
Net change in non-controlling interests	**2**	(2)	**(35)**	(428)
Remuneration on permanent shares, net of income tax recovery	**(16)**	(11)	**(43)**	(23)
Issuance of preferred shares	**(1)**	2	**-**	2
Dividends on preferred shares	**-**	-	**(2)**	(1)
Commitments related to securities lent or sold under repurchase agreements	**(149)**	1,460	**2,917**	1,167
Net change in commitments related to securities sold short	**(373)**	1,199	**3,697**	3,024
	(374)	2,126	**14,048**	8,767
Cash flows from (used in) investing activities				
Net change in loans	**(2,678)**	(2,146)	**(6,632)**	(4,884)
Change in securities held to maturity	**-**	(4)	**1**	-
Proceeds from securitization of mortgage loans	**614**	84	**818**	667
Purchase of available-for-sale securities	**(5,188)**	(3,560)	**(19,023)**	(15,042)
Proceeds from disposals of available-for-sale securities	**5,734**	1,846	**15,634**	10,086
Proceeds from maturities of available-for-sale securities	**306**	867	**761**	4,420
Securities borrowed or purchased under reverse repurchase agreements	**228**	512	**(3,360)**	(3,597)
Net acquisitions of land, building and equipment	**(28)**	(29)	**(78)**	(105)
	(1,012)	(2,430)	**(11,879)**	(8,455)
Net increase (decrease) in cash and cash equivalents	**(287)**	(338)	**109**	(469)
Cash and cash equivalents at beginning of period	**1,482**	1,358	**1,086**	1,489
Cash and cash equivalents at end of period	**$ 1,195**	$ 1,020	**$ 1,195**	$ 1,020
Composition of cash and cash equivalents				
Cash	**$ 704**	$ 788	**$ 704**	$ 788
Deposits with financial institutions and Bank of Canada	**208**	80	**208**	80
Cheques and other items in transit (net amount)	**283**	152	**283**	152
	$ 1,195	$ 1,020	**$ 1,195**	$ 1,020
Supplemental cash flow information				
Interest paid during the period	**$ 329**	$ 470	**$ 1,205**	$ 1,492
Income taxes on surplus earnings paid during the period	**40**	25	**281**	116

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

NOTES TO THE QUARTERLY COMBINED FINANCIAL STATEMENTS

(unaudited)
As at September 30, 2010

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

1. ACCOUNTING POLICIES

The Unaudited Quarterly Combined Financial Statements of Desjardins Group have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and the accounting requirements of the Autorité des marchés financiers of Quebec (AMF), which do not differ from GAAP, applied in the same manner as in the most recent audited financial statements, except for the accounting changes described in Note 2. These Unaudited Quarterly Combined Financial Statements should be read in conjunction with the Audited Combined Financial Statements for the year ended December 31, 2009.

The preparation of unaudited quarterly combined financial statements requires management to make certain estimates and assumptions that have an impact on assets and liabilities and the disclosures of contingent assets and liabilities in the unaudited quarterly combined financial statements, as well as income and expenses for the reporting periods. In the opinion of management, the necessary adjustments have been made to these Unaudited Quarterly Combined Financial Statements to ensure that they present fairly the results of the periods presented.

Actual results may differ from those estimates, and the results of the interim periods presented are not necessarily representative of anticipated results for the full year.

Certain comparative figures have been reclassified to conform to the presentation adopted for fiscal 2010.

2. NEW ACCOUNTING POLICY

EFFECTIVE INTEREST METHOD

In June 2009, the Canadian Accounting Standards Board (AcSB) issued an amendment to the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855, “Financial Instruments – Recognition and Measurement”, in order to clarify the interest calculation method for a financial asset not classified as "loans and receivables", after recognition of an impairment loss. Desjardins Group adopted this amendment retroactively for its fiscal year beginning on January 1, 2010. The adoption of this amendment had no impact on its Combined Financial Statements as at September 30, 2010.

3. FUTURE ACCOUNTING CHANGE

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The AcSB announced that Canadian GAAP, which apply to publicly accountable enterprises, would be replaced by International Financial Reporting Standards (IFRS) in 2011. Consequently, Desjardins Group initiated its IFRS conversion project in the summer of 2007.

Since Desjardins Group 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 not be applied by Desjardins Group.

4. CARRYING VALUE OF FINANCIAL INSTRUMENTS

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

As at September 30, 2010	Held for trading	Designated as held for trading under the fair value option	Available for sale	Held to maturity	Loans and receivables, and financial liabilities other than held for trading	Total
FINANCIAL ASSETS						
Cash and deposits with financial institutions	$ 1,195	$ ---	$ ---	$ ---	$ ---	$ 1,195
Securities	12,277	11,199	14,906	17	---	38,399
Securities borrowed or purchased under reverse repurchase agreements	---	---	---	---	8,415	8,415
Loans	---	---	---	---	115,645	115,645
Other financial assets						
Interest receivable	---	---	---	---	612	612
Derivative financial instruments[(1)]	2,408	---	---	---	---	2,408
Clients' liability under acceptances	---	---	---	---	260	260
Amounts receivable from clients, brokers and financial institutions	---	---	---	---	3,270	3,270
Other	---	---	19	---	1,352	1,371
TOTAL FINANCIAL ASSETS	$ 15,880	$ 11,199	$ 14,925	$ 17	$ 129,554	$ 171,575
FINANCIAL LIABILITIES						
Deposits	$ ---	$ ---	$ ---	$ ---	$ 112,338	$ 112,338
Other financial liabilities						
Borrowings	---	---	---	---	58	58
Interest payable	---	---	---	---	979	979
Derivative financial instruments[(1)]	1,693	---	---	---	---	1,693
Acceptances	---	---	---	---	260	260
Commitments related to securities lent or sold under repurchase agreements	---	---	---	---	12,997	12,997
Commitments related to securities sold short	8,735	---	---	---	---	8,735
Amounts payable to clients, brokers and financial institutions	---	---	---	---	4,669	4,669
Other	---	---	---	---	2,169	2,169
Subordinated debentures	---	---	---	---	2,115	2,115
TOTAL FINANCIAL LIABILITIES	$ 10,428	$ ---	$ ---	$ ---	$ 135,585	$ 146,013

(1) Include derivative financial instruments related to fair value and cash flow hedging activities amounting to $1,058 million in assets and $254 million in liabilities.

4. CARRYING VALUE OF FINANCIAL INSTRUMENTS (cont'd)

As at December 31, 2009	Held for trading	Designated as held for trading under the fair value option	Available for sale	Held to maturity	Loans and receivables, and financial liabilities other than held for trading	Total
FINANCIAL ASSETS						
Cash and deposits with financial institutions	$ 1,086	$ ---	$ ---	$ ---	$ ---	$ 1,086
Securities	8,724	10,625	12,064	18	---	31,431
Securities borrowed or purchased under reverse repurchase agreements	---	---	---	---	5,055	5,055
Loans	---	---	---	---	109,995	109,995
Other financial assets						
Interest receivable	---	---	---	---	469	469
Derivative financial instruments[1]	2,647	---	---	---	---	2,647
Clients' liability under acceptances	---	---	---	---	751	751
Amounts receivable from clients, brokers and financial institutions	---	---	---	---	453	453
Other	---	---	18	---	1,212	1,230
TOTAL FINANCIAL ASSETS	$ 12,457	$ 10,625	$ 12,082	$ 18	$ 117,935	$ 153,117
FINANCIAL LIABILITIES						
Deposits	$ ---	$ ---	$ ---	$ ---	$ 106,161	$ 106,161
Other financial liabilities						
Borrowings	---	---	---	---	71	71
Interest payable	---	---	---	---	884	884
Derivative financial instruments[1]	1,852	---	---	---	---	1,852
Acceptances	---	---	---	---	751	751
Commitments related to securities lent or sold under repurchase agreements	---	---	---	---	10,080	10,080
Commitments related to securities sold short	5,038	---	---	---	---	5,038
Amounts payable to clients, brokers and financial institutions	---	---	---	---	2,355	2,355
Other	---	---	---	---	2,054	2,054
Subordinated debentures	---	---	---	---	1,294	1,294
TOTAL FINANCIAL LIABILITIES	$ 6,890	$ ---	$ ---	$ ---	$ 123,650	$ 130,540

(1) Include derivative financial instruments related to fair value and cash flow hedging activities amounting to $1,116 million in assets and $267 million in liabilities.

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the breakdown of fair value measurements of financial instruments recognized at fair value in the Combined Balance Sheets based on the hierarchy described in Note 4 to the Combined Financial Statements for the year ended December 31, 2009.

As at September 30, 2010	Level 1	Level 2	Level 3	Total
Assets				
Financial instruments required to be classified as held for trading				
Cash and deposits with financial institutions	$ 1,195	$ ---	$ ---	$ 1,195
Securities held for trading				
Securities issued or guaranteed by				
Canada	7,807	467	---	8,274
Provinces and municipal corporations in Canada	2,626	249	---	2,875
School or public corporations in Canada	---	15	---	15
Foreign public administrations	---	178	---	178
Other securities				
Financial institutions	494	149	---	643
Other issuers	4	138	46	188
Shares	104	---	---	104
Derivative financial instruments	2	2,406	---	2,408
Financial instruments designated as held for trading under the fair value option				
Securities designated as held for trading under the fair value option				
Securities issued or guaranteed by				
Canada	67	1,383	---	1,450
Provinces and municipal corporations in Canada	5,576	326	---	5,902
School or public corporations in Canada	---	138	---	138
Foreign public administrations	19	---	---	19
Other securities				
Financial institutions	56	532	58	646
Other issuers	---	807	1,701	2,508
Shares	485	35	16	536
Total financial instruments – securities held for trading	18,435	6,823	1,821	27,079
Financial instruments classified as available for sale				
Available-for-sale securities				
Securities issued or guaranteed by				
Canada	2,060	4,244	---	6,304
Provinces and municipal corporations in Canada	4,159	1,003	---	5,162
School or public corporations in Canada	---	52	---	52
Foreign public administrations	3	10	---	13
Other securities				
Financial institutions	---	2,256	---	2,256
Other issuers	---	86	140	226
Shares	686	181	6	873
Total financial instruments – available-for-sale securities	6,908	7,832	146	14,886
Total	$ 25,343	$ 14,655	$ 1,967	$ 41,965
Liabilities				
Financial instruments required to be classified as held for trading				
Derivative financial instruments	$ 5	$ 1,672	$ 16	$ 1,693
Commitments related to securities sold short	8,735	---	---	8,735
Total	$ 8,740	$ 1,672	$ 16	$ 10,428

No significant transfers were made between fair value measurement hierarchy levels during the nine-month period ended September 30, 2010.

5. FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)

As at December 31, 2009		Level 1		Level 2		Level 3		Total
Assets								
Financial instruments required to be classified as held for trading								
Cash and deposits with financial institutions	$	1,086	$	---	$	---	$	1,086
Securities held for trading								
Securities issued or guaranteed by								
Canada		4,661		408		---		5,069
Provinces and municipal corporations in Canada		2,177		595		---		2,772
School or public corporations in Canada		---		56		---		56
Foreign public administrations		---		48		---		48
Other securities								
Financial institutions		387		54		---		441
Other issuers		---		101		99		200
Shares		138		---		---		138
Derivative financial instruments		1		2,646		---		2,647
Financial instruments designated as held for trading under the fair value option								
Securities designated as held for trading under the fair value option								
Securities issued or guaranteed by								
Canada		53		1,500		---		1,553
Provinces and municipal corporations in Canada		5,245		263		---		5,508
School or public corporations in Canada		---		133		---		133
Foreign public administrations		23		3		---		26
Other securities								
Financial institutions		43		450		12		505
Other issuers		---		725		1,749		2,474
Shares		404		---		22		426
Total financial instruments – securities held for trading		14,218		6,982		1,882		23,082
Financial instruments classified as available for sale								
Available-for-sale securities								
Securities issued or guaranteed by								
Canada		1,521		2,348		---		3,869
Provinces and municipal corporations in Canada		3,606		825		---		4,431
School or public corporations in Canada		---		75		---		75
Foreign public administrations		4		11		---		15
Other securities								
Financial institutions		5		2,565		---		2,570
Other issuers		---		24		262		286
Shares		775		8		5		788
Total financial instruments – available-for-sale securities		5,911		5,856		267		12,034
Total	$	20,129	$	12,838	$	2,149	$	35,116
Liabilities								
Financial instruments required to be classified as held for trading								
Derivative financial instruments	$	3	$	1,837	$	12	$	1,852
Commitments related to securities sold short		4,965		73		---		5,038
Total	$	4,968	$	1,910	$	12	$	6,890

No significant transfers were made between fair value measurement hierarchy levels during fiscal 2009.

6. SECURITIES

UNREALIZED GAINS AND LOSSES ON AVAILABLE-FOR-SALE SECURITIES

	As at September 30, 2010			
	Amortized cost (1)	**Unrealized gross gains**	**Unrealized gross losses**	**Carrying value (1)**
SECURITIES ISSUED OR GUARANTEED BY				
Canada	**$ 6,200**	**$ 104**	**$ ---**	**$ 6,304**
Provinces and municipal corporations in Canada	**4,983**	**182**	**1**	**5,164**
School or public corporations in Canada	**52**	**---**	**---**	**52**
Foreign public administrations	**13**	**---**	**---**	**13**
OTHER SECURITIES IN CANADA				
Financial institutions	**2,196**	**62**	**---**	**2,258**
Other issuers (2)	**227**	**1**	**1**	**227**
Shares	**529**	**36**	**23**	**542**
SECURITIES FROM FOREIGN ISSUERS				
Shares	**353**	**14**	**21**	**346**
	$ 14,553	**$ 399**	**$ 46**	**$ 14,906**

	As at December 31, 2009			
	Amortized cost (1)	Unrealized gross gains	Unrealized gross losses	Carrying value (1)
SECURITIES ISSUED OR GUARANTEED BY				
Canada	$ 3,829	$ 49	$ 9	$ 3,869
Provinces and municipal corporations in Canada	4,371	76	13	4,434
School or public corporations in Canada	75	---	---	75
Foreign public administrations	15	---	---	15
OTHER SECURITIES IN CANADA				
Financial institutions	2,511	60	1	2,570
Other issuers (2)	306	---	19	287
Shares	490	24	27	487
SECURITIES FROM FOREIGN ISSUERS				
Shares	344	13	30	327
	$ 11,941	$ 222	$ 99	$ 12,064

(1) Desjardins Group holds available-for-sale securities accounted for at cost since they are not quoted on an active market. Available-for-sale securities recorded at cost on the Combined Balance Sheets total $20 million ($30 million as at December 31, 2009), and that cost is presented in the “Carrying value” column in the above table. The fair value of some of these securities can be estimated and represents an immaterial gain (immaterial loss as at December 31, 2009).

(2) During fiscal 2009, ABTNs were classified in securities held for trading. It is not necessary to recognize declines in value that are other than temporary and write-downs in 2010. As at December 31, 2009, there were no declines in value that were other than temporary, and a write-down of $30 million had been recognized.

As at September 30, 2010, the gross unrealized losses on available-for-sale securities amounted to $46 million ($99 million in 2009) and resulted from fluctuations in market prices as well as changes in interest and exchange rates. Declines in value of available-for-sale securities are monitored regularly by management. Desjardins Group has the ability and intent to hold these securities for a period of time sufficient to allow for recovery in fair value. It has concluded that the unrealized gross losses were temporary in nature.

6. SECURITIES (cont'd)

SECURITIES – ASSET-BACKED TERM NOTES

Desjardins Group held investments on the non-bank asset-backed commercial paper (ABCP) market, although it never issued this type of financial product to its clients. It should be noted that, to safeguard its members and clients, Desjardins Group repurchased in September 2007 and, to a lesser extent in 2008, ABCP assets in the money market mutual funds managed by it and in the securities lending operations of Desjardins Trust clients for which it had not originally assumed the risk.

Upon the restructuring on January 21, 2009, Desjardins Group derecognized the carrying value of its ABCP holdings and recognized the asset-backed term notes (ABTN) at fair value. These ABTNs were classified as "designated as held for trading under the fair value option". In addition, the participants in MAV 1 had agreed to establish an 18-month moratorium period during which no additional collateral calls could be made for the vast majority of underlying credit default swaps. This moratorium period ended on July 16, 2010. Since the restructuring, deferred income related to the margin funding facility (MFF) has been recognized under "Other liabilities". As at September 30, 2010, this deferred income amounted to $61 million ($68 million as at December 31, 2009). Before the restructuring, the negative value of the commitment related to the MFF was included in the calculation of the fair value of ABCP.

In connection with the restructuring plan, Desjardins Group participated, for an amount of $1,193 million, in the MFF intended to cover any potential collateral calls from the counterparties to Master Asset Vehicle (MAV) 1's swaps. Desjardins Group's share of this credit commitment ranks equal to that of the other participants in the MFF and matures in July 2017 or earlier if all credit default swap transactions have been settled. As at September 30, 2010, no amount had been drawn on the MFF. Desjardins Group purchased a $400 million protection for its MFF commitments from one of the participants in MAV 1 in exchange for an annual commitment fee of 1.2%, which is the same rate as the third-party institutions that have contributed to the equivalent MFF of MAV 2. This protection will automatically end upon the maturity of MAV 1's MFF.

On September 21, 2010, the DBRS rating agency issued a press release announcing it had upgraded the credit rating of MAV 1 A-1 notes from A to A (high) and removed MAV 1 A-1 notes from Under Review with Positive Implications, where it had been placed since June 22, 2010. In addition, DBRS reconfirmed the credit rating of MAV 1 A-2 notes at A.

As at September 30, 2010 and December 31, 2009, Desjardins Group held ABTNs of which the face value is allocated among the various following vehicles:

	As at September 30, 2010		As at December 31, 2009	
	Face value	**Fair value**	Face value	Fair value
MAV 1				
Class A-1	**$ 903**	**$ 658**	$ 905	$ 637
Class A-2	**820**	**518**	820	496
Class B	**140**	**19**	140	16
Class C	**57**	**---**	57	---
Class IA – Ineligible (subprime) assets	**112**	**---**	146	---
Class IA – Ineligible (other) assets	**18**	**15**	18	14
Total MAV 1	**2,050**	**1,210**	2,086	1,163
MAV 3				
Class IA – Ineligible (subprime) assets	**44**	**---**	49	---
Class TA – Traditional assets	**72**	**66**	101	89
Total MAV 3	**116**	**66**	150	89
Total MAV 1 and MAV 3	**$ 2,166**	**$ 1,276**	$ 2,236	$ 1,252

The valuation of ABTNs requires the use of estimates, and, accordingly, a level of uncertainty is associated with their fair value. As there are several possible assumptions regarding the valuation of the notes, Desjardins Group determined a range of reasonably possible fair values for ABTNs. The carrying value used as at September 30, 2010 is within that range.

ABTN valuation methodology

Since there is no active market for these securities, Desjardins Group's management estimated the fair value of its holdings and the resulting changes in value by using a valuation technique. At the time these financial statements were prepared, no active market existed yet for the various restructured notes. In addition, the trading of MAV 1 notes is subject to significant restrictions, since MAV 1 A-1, A-2, B and C ABTNs holders may only transfer the notes to a third party if such transfer is made on a pro rata basis of each of the classes held by the seller and if the buyer assumes an equivalent share of the commitments related to the MFF, either directly or through another entity, as long as the party assuming the share of the MFF has a sufficiently high credit rating.

6. SECURITIES (cont'd)

SECURITIES – ASSET-BACKED TERM NOTES (cont'd)

The fair value of ABTNs taking the form of MAV 1 A-1, A-2, B and C notes, i.e. synthetic assets and hybrid assets, is based on a financial model incorporating uncertainties regarding return, credit spreads, the nature and credit risk of underlying assets, the amounts and timing of cash inflows, the maturity dates and the liquidity restrictions of the new notes reflecting market conditions as at September 30, 2010. The expected cash flows from the A-1, A-2 and B notes were discounted using the bankers' acceptance rate plus premiums over periods ending on the expected due date for the payment of the notes. As a result of the significant uncertainty surrounding the cash flows to be received from the C notes, the fair value of these notes was considered to be nil.

The fair value of tracking notes backed by traditional and ineligible (other) assets was determined using benchmark indices selected based on the assets underlying each tracking note since the cash flows generated by these notes stem directly from the cash flows generated by the underlying assets. As for tracking notes comprised exclusively of ineligible (subprime) assets, given the nature of the underlying assets and their marked deterioration in the current economic environment, their fair value was determined to be nil as at September 30, 2010.

Assumptions used are based as much as possible on observable market data such as interest rates, credit spreads and benchmark indices for similar assets. They also reflect, if necessary, any specific features of the restructuring, and are partially based on assumptions not supported by observable market prices or rates for similar assets. Discount rates used take into account the maturity, the credit rating and the market and liquidity risks of each note.

Impact on income

A gain of $19 million related to ABTNs was recognized in Desjardins Group's combined income for the three-month period ended September 30, 2010 ($59 million for the nine-month period ended September 30, 2010). In addition, the phased recognition of income related to the MFF during the three-month period ended September 30, 2010 amounted to $3 million ($7 million for the nine-month period ended September 30, 2010).

The positive impact on Desjardins Group's combined income before taxes for the three months ended September 30, 2009 amounted to $14 million. This impact was comprised of unrealized gains of $7 million, attributable to the net improvement during the quarter in credit spreads, exchange rates and other benchmark indices, a realized gain of $4 million related to ineligible assets for which principal repayments were collected, and income of $3 million from the phased recognition of deferred income related to the credit facility. The net negative impact of $50 million for the nine months ended September 30, 2009 on Desjardins Group's combined income before income taxes resulted from unrealized losses of $31 million caused by the previously mentioned factors and the restructuring of ABCP holdings, from realized gains of $12 million on ineligible assets, from the $34 million write-off of a security excluded from the moratorium period under the Montréal Accord, and from income of $3 million arising from the phased recognition of deferred income related to the credit facility. The MFF, which had been previously recognized in securities, has been recorded as deferred income under "Other liabilities – Other" since the restructuring on January 21, 2009. This reclassification had no impact on combined income.

During 2009, an amount of $90 million, net of Desjardins Group's estimated share in the restructuring fees of $19 million assumed by the Pan-Canadian Committee, was paid to Desjardins Group as accrued interest on ABCP holdings for the period from August 20, 2007 to January 21, 2009. Desjardins Group had recognized as at December 31, 2008 net interest income on ABCP holdings in the fair value of the securities.

The above estimated fair value may not be indicative of the ultimate net realizable value or the future fair value. While management is of the opinion that its valuation technique is appropriate in the circumstances, changes in significant assumptions, especially those relating to the determination of the return, the credit spreads for the underlying assets, and the quality of assets given as collateral by the trusts, which are incorporated in the discount rate, could significantly affect the value ascribed to the MAV 1 A-1, A-2, B and C notes in the future. The sensitivity of the estimated fair value of the MAV 1 A-1, A-2, B and C note portfolio and Tier 1 capital to changes in the key assumptions is as follows:

As at September 30, 2010	**Fair value of MAV 1 A-1, A-2, B and C notes**	**Tier 1 capital**	
Discount rate			
1% increase	**$ (79)**	**$ (55)**	**(0.46)%**
1% decrease	**84**	**59**	**0.50**
Rating [(1)]			
Increase in credit rating by one notch	**23**	**11**	**0.09**
Decrease in credit rating by one notch	**(31)**	**(16)**	**(0.13)**

(1) Only the MAV 1 A-1 and A-2 notes are rated by DBRS.

6. SECURITIES (cont'd)

The discount rate could change as a result of changes to the assumptions used by management regarding the non-marketability premium or the relevant credit spreads. For more details on capital, refer to Note 29, "Capital management", to the most recent Annual Combined Financial Statements of Desjardins Group.

Some uncertainties remain regarding the value of underlying assets, the amount and timing of cash flows, the development of a secondary market for the replacement notes and the liquidity of such market, which could further change the value of Desjardins Group's investment in replacement notes. Economic conditions resulted in a decrease in the floating interest rates of the underlying assets. Therefore, the mismatch between the floating interest rates and payment dates of the underlying assets and the cost of the senior funding facility and the interest payment period of MAV 1 leads to measurement uncertainties.

Desjardins Group holds or has access to the necessary funds to meet all of its financial, operating or regulatory obligations, and it does not expect that any liquidity risks related to the ABTNs would have a material adverse impact on its financial soundness, its credit rating and its capital ratios.

7. LOANS AND ALLOWANCE FOR CREDIT LOSSES

LOANS AND IMPAIRED LOANS

	As at September 30, 2010						As at December 31, 2009
	Gross loans neither past due nor impaired	**Gross loans past due but not impaired**	**Gross impaired loans**	**Specific allowances**	**General allowance**	**Net impaired loans**	Net impaired loans
Residential mortgages	**$ 71,508**	**$ 251**	**$ 144**	**$ 9**	**$ ---**	**$ 135**	$ 124
Consumer, credit card and other personal loans	**15,500**	**1,738**	**80**	**34**	**---**	**46**	50
Business and government	**26,368**	**599**	**305**	**112**	**---**	**193**	192
General allowance	**---**	**---**	**---**	**---**	**693**	**(693)**	(703)
	$ 113,376	**$ 2,588**	**$ 529**	**$ 155**	**$ 693**	**$ (319)**	$ (337)

The carrying value of loans that would be past due or impaired, but whose terms have been renegotiated as at September 30, 2010, amounted to $147 million ($153 million as at December 31, 2009).

GROSS LOANS PAST DUE BUT NOT IMPAIRED

A loan is considered past due when the borrower has failed to make a payment when contractually due. The following tables present the ageing of loans past due that are not classified as impaired loans as at September 30, 2010 and December 31, 2009.

As at September 30, 2010

	1 to 29 days	**30 to 59 days**	**60 to 89 days**	**90 days or more**	**Total**
Residential mortgages	**$ 211**	**$ 21**	**$ 11**	**$ 8**	**$ 251**
Consumer, credit card and other personal loans	**1,370**	**179**	**86**	**103**	**1,738**
Business and government	**288**	**37**	**43**	**231**	**599**
	$ 1,869	**$ 237**	**$ 140**	**$ 342**	**$ 2,588**

7. LOANS AND ALLOWANCE FOR CREDIT LOSSES (cont'd)

GROSS LOANS PAST DUE BUT NOT IMPAIRED (cont'd)

As at December 31, 2009

	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	$ 213	$ 24	$ 10	$ 19	$ 266
Consumer, credit card and other personal loans	1,413	239	83	117	1,852
Business and government	254	72	45	95	466
	$ 1,880	$ 335	$ 138	$ 231	$ 2,584

ALLOWANCE FOR CREDIT LOSSES

	As at September 30, 2010				As at December 31, 2009
	Balance at beginning of period	**Provision for credit losses**	**Write-offs and recoveries**	**Balance at end of period**	Balance at end of period
Residential mortgages	**$ 13**	**$ 3**	**$ (7)**	**$ 9**	$ 13
Consumer, credit card and other personal loans	**33**	**22**	**(21)**	**34**	33
Business and government	**97**	**35**	**(20)**	**112**	97
General allowance	**703**	**104**	**(114)**	**693**	703
	$ 846	**$ 164**	**$ (162)**	**$ 848**	$ 846

8. SECURITIZATION OF MORTGAGE LOANS

Under the *National Housing Act* Mortgage-Backed Securities Program of Canada, Desjardins Group securitized residential mortgage loans guaranteed by the Canada Mortgage and Housing Corporation through the creation of NHA-MBSs.

The following table summarizes the impact of these new mortgage loan securitization activities during the three-month and nine-month periods ended September 30.

	For the three months ended September 30		**For the nine months ended September 30**	
	2010	2009	**2010**	2009
Mortgage loans securitized	**$ 588**	$ 213	**$ 798**	$ 837
Net cash proceeds received	**614**	84	**818**	667
Retained interests	**22**	2	**26**	27
Assumed servicing liabilities	**4**	1	**6**	5
Gain on sale, net of transaction expenses	**33**	2	**37**	36

As at September 30, 2010, Desjardins Group had recorded retained interests of $106 million ($123 million as at December 31, 2009), and assumed servicing liabilities of $19 million ($23 million as at December 31, 2009) on its Combined Balance Sheets. An amount of $722 million ($823 million as at December 31, 2009) representing mortgage-backed securities created and retained was recorded in securities held for trading as at September 30, 2010.

Total mortgage loans securitized outstanding amounts to $4,313 million as at September 30, 2010 ($4,521 million as at December 31, 2009).

8. SECURITIZATION OF MORTGAGE LOANS (cont'd)

The following table shows certain other cash flows from securitization activities.

	For the three months ended September 30		For the nine months ended September 30	
	2010	2009	**2010**	2009
Cash flows from retained interests	**$ 15**	$ 16	**$ 47**	$ 51

In addition, amortization of the servicing liabilities amounted to $3 million for the three-month period ended September 30, 2010 and $10 million for the nine-month period ended September 30, 2010 ($4 million and $13 million in 2009).

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

	For the three months ended September 30		For the nine months ended September 30	
	2010	2009	**2010**	2009
Discount rate	**1.95%**	2.78%	**2.04%**	2.45%
Prepayment rate for fixed rate and floating rate mortgage loans, respectively	**23% and 33%**	15% and 25%	**23% and 33%**	15% and 25%
Weighted average life of loans	**24 months**	33 months	**25 months**	30 months

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

9. OTHER ASSETS – OTHER

The following table presents the breakdown of "Other assets – Other".

	September 30, 2010	December 31, 2009
Real estate investments	**$ 1,000**	$ 972
Goodwill	**109**	109
Intangible assets	**112**	112
Premiums receivable	**810**	730
Future income tax assets	**444**	665
Accrued benefit asset	**133**	90
Accounts receivable	**256**	468
Prepaid expenses	**387**	372
Other	**938**	661
Total	**$ 4,189**	$ 4,179

10. OTHER LIABILITIES – OTHER

The following table presents the breakdown of "Other liabilities – Other".

	September 30, 2010	December 31, 2009
Cooperative shares and preferred shares	**$ 27**	$ 28
Deferred net gains realized on disposal of investments	**39**	40
Future income tax liabilities	**261**	303
Accrued benefit liability	**794**	782
Accounts payable	**1,312**	1,401
Member dividends payable	**224**	285
Other	**1,268**	890
Total	**$ 3,925**	$ 3,729

11. NET INCOME FROM FINANCIAL INSTRUMENTS HELD FOR TRADING

Financial instruments required to be classified as held for trading

The following table presents the impact of net income from financial instruments required to be classified as held for trading on the Combined Statements of Income.

	For the three months ended September 30		For the nine months ended September 30	
	2010	2009	**2010**	2009
Income				
Net interest income	**$ 2**	$ 15	**$ 18**	$ 58
Trading income	**82**	125	**195**	313

Financial instruments designated as held for trading under the fair value option

Financial instruments designated as held for trading under the fair value option are composed of: (i) certain investments in derivative instruments not designated in hedging relationships, thereby significantly reducing accounting disparities; (ii) securities whose underlying security is composed of hedge funds that are managed using a supported investment strategy aimed at taking advantage of short-term market volatility; (iii) securities backing actuarial liabilities in life and health insurance for life insurance and other contracts, as well as provisions for general insurance claims for which the option is used to significantly reduce a recording disparity that would otherwise occur, because assets or liabilities would be recorded differently; (iv) securities including embedded derivatives for which Desjardins Group is unable to measure the fair value of the embedded derivative separately, either at acquisition or at a subsequent date; (v) securities that do not include embedded securities and managed under the fair value option using a supported investment strategy that is communicated to the key officers, and whose portfolio performance is measured based on the fair value to more adequately reflect its substance.

The following table presents the impact of net income from financial instruments designated as held for trading under the fair value option on the Combined Statements of Income.

	For the three months ended September 30		For the nine months ended September 30	
	2010	2009	**2010**	2009
Income				
Net interest income	**$ 12**	$ 12	**$ 37**	$ 22
Trading income	**481**	369	**913**	394

12. RESTRUCTURING EXPENSES

In the second quarter of fiscal 2009, the Board of Directors of the Fédération des caisses Desjardins du Québec (FCDQ) approved the implementation of a new organizational structure for Desjardins Group. This restructuring is part of the Desjardins Group Development Plan proposed in the fall of 2008. This restructuring continued in 2010.

As part of this restructuring, Desjardins Group recognized in combined income $21 million for the three months ended September 30, 2010 and $39 million for the nine months ended September 30, 2010 for severance benefits, professional fees and other expenses ($37 million and $65 million, respectively, for the three months and nine months ended September 30, 2009).

These charges are presented under “Restructuring expenses” in the Combined Statements of Income.

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

	As at September 30, 2010				As at December 31, 2009
	Severance benefits	**Professional fees**	**Other**	**Total amounts payable**	Total amounts payable
Balance at beginning of period	**$ 40**	**$ ---**	**$ 2**	**$ 42**	$ ---
Restructuring expenses (1)	**2**	**15**	**22**	**39**	71
Payments	**(18)**	**(15)**	**(15)**	**(48)**	(29)
Balance at end of period	**$ 24**	**$ ---**	**$ 9**	**$ 33**	$ 42

(1) Other than asset impairments.

13. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

	As at September 30, 2010			As at December 31, 2009		
	Notional amount	Carrying value		Notional amount	Carrying value	
		Positive	Negative		Positive	Negative
Fair value hedges	$ 20,258	$ 498	$ 144	$ 12,857	$ 504	$ 91
Cash flow hedges	20,328	560	110	20,993	612	176

A gain of $12 million ($3 million in 2009) related to the ineffectiveness of fair value hedging activities and a gain of $20 million (loss of $2 million in 2009) related to the ineffectiveness of cash flow hedging activities were recorded under “Trading income” in the Combined Statement of Income for the nine months ended September 30, 2010.

With respect to cash flow hedge relationships, a net gain of $94 million ($60 million in 2009) from the Combined Statement of Comprehensive Income as at September 30, 2010 will be reclassified to the Combined Statement of Income in the next twelve months. The remaining balance of accumulated other comprehensive income related to cash flow hedges will be reclassified to the Combined Statement of Income over the next nine years.

14. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	September 30, 2010	December 31, 2009
Unrealized net gains on available-for-sale securities	$ 224	$ 87
Net gains on derivative financial instruments designated as cash flow hedges	526	402
Accumulated other comprehensive income	$ 750	$ 489

15. INCOME TAXES ON SURPLUS EARNINGS RELATED TO OTHER COMPREHENSIVE INCOME

The following table details income taxes on surplus earnings related to other comprehensive income.

	For the three months ended September 30		For the nine months ended September 30	
	2010	2009	2010	2009
Unrealized net gains on available-for-sale securities	$ 43	$ 28	$ 54	$ 56
Reclassification to the Combined Statements of Income of unrealized net gains on available-for-sale securities	(3)	(3)	(10)	(2)
Net gains (losses) on derivative financial instruments designated as cash flow hedges	33	(42)	60	(110)
Reclassification to the Combined Statements of Income of net gains on derivative financial instruments designated as cash flow hedges	(4)	(1)	(17)	(11)
Total income tax expense (benefit)	$ 69	$ (18)	$ 87	$ (67)

16. EMPLOYEE FUTURE BENEFIT PLANS

	For the three months ended September 30		For the nine months ended September 30	
	2010	2009	2010	2009
Costs recognized for defined benefit pension plans	$ 61	$ 29	$ 171	$ 87
Costs recognized for other defined benefit plans	6	5	17	15

The main commitments related to employee benefit plans are described in Note 25 to the Audited Combined Financial Statements for the year ended December 31, 2009.

17. COMMITMENT

During the second quarter of 2010, Desjardins Group entered into two agreements for various computer processing services. Under the terms of these agreements, Desjardins Group is committed to disburse approximately $311 million over the next six years, including $46 million over the next twelve months.

18. CAPITAL MANAGEMENT

Desjardins Group's capital ratios are calculated according to the guideline on adequacy of capital base standards applicable to financial services cooperatives, issued by the AMF. This regulatory framework is largely based on the revised framework for international convergence of capital measurement and capital standards (Basel II) issued by the Bank for International Settlements (BIS). In this regard, the AMF allowed Desjardins Group to use the Advanced Internal Ratings Based approach for credit risk related to retail loan portfolios (Personal). Other credit exposures and market risk are assessed according to a standardized approach, while operational risk is calculated based on the basic indicator approach. The AMF's minimum requirement has been set at a total capital ratio of 11.5%. The new methods have mainly affected the calculation of risk-weighted assets. The calculation of capital, however, has not been significantly changed.

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

In the context of developing the 2010-2012 Strategic Plan, the financial objective for Desjardins Group's Tier 1 capital ratio was raised to a minimum of 15%, thereby taking prevailing global economic conditions into account as well as the implementation of the AMF's new guideline on adequacy of capital base standards. The previous target was set at 13%.

During the year, Desjardins Group issued $897 million of series G subordinated debentures bearing interest at 5.187% and maturing in 2020.

19. SEGMENTED INFORMATION

Since the implementation of the new organizational structure, Desjardins Group has been comprised of the following business segments: "Personal Services and Business and Institutional Services", "Wealth Management and Life and Health Insurance", "Property and Casualty Insurance" and "Other". These business segments have been structured according to the needs of members and clients as well as the markets in which Desjardins operates. Segmented information for the corresponding period in 2009 has been reclassified to conform to this new basis of presentation.

The "Personal Services and Business and Institutional Services" segment is responsible for developing, marketing and distributing the service offer to individuals and businesses and provides support to the caisse network. In addition, it is responsible for distributing financial products and services, including the caisse network financing and savings, payment cards, securities, venture capital and specialized and advisory services.

The "Wealth Management and Life and Health Insurance" segment is responsible for designing and distributing specialized savings products and life insurance. It provides support for the integrated distribution of wealth management products and services through the caisse network, and it distributes specific products through complementary channels. In addition, this segment is responsible for portfolio management and treasury activities related to securities operations and activities associated with the management of movable and immovable assets. It is also responsible for Desjardins' growth across Canada in wealth management and life and health insurance.

The "Property and Casualty Insurance" segment is responsible for designing and distributing Property and Casualty (P&C) insurance products as well as for providing the related customer service. It works in conjunction with the caisse network, supports product distribution throughout the network and is responsible for the growth of Desjardins Group's P&C insurance operations across Canada.

Finally, the "Other" segment primarily includes treasury activities related to Caisse centrale Desjardins' operations. All ABTN securities held by Desjardins Group and consolidation adjustments attributable to all Desjardins Group components are also included in this segment.

Intersegment transactions are carried out in the normal course of business and are valued at the exchange amount, which corresponds to the amount of consideration established and agreed to by the various legal entities and business units. The results of the main segments reflect internal financial reporting systems and are consistent with the policies used in preparing the Combined Financial Statements of Desjardins Group.

19. SEGMENTED INFORMATION (cont'd)

The following table provides a summary of Desjardins Group's financial results by business segments for the three months ended September 30.

For the three months ended September 30	Personal Services and Business and Institutional Services		Wealth Management and Life and Health Insurance		Property and Casualty Insurance		Other		Eliminations		Combined	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Net interest income	**$ 1,008**	$ 884	**$ 2**	$ 1	**$ ---**	$ ---	**$ 149**	$ 197	**$ (159)**	$ (124)	**$ 1,000**	$ 958
Net premiums	**---**	---	**739**	780	**387**	365	**---**	---	**(45)**	(43)	**1,081**	1,102
Other income	**433**	466	**743**	618	**32**	26	**18**	(85)	**(32)**	(15)	**1,194**	1,010
Total income	**1,441**	1,350	**1,484**	1,399	**419**	391	**167**	112	**(236)**	(182)	**3,275**	3,070
Provisions for credit losses	**55**	80	**1**	---	**---**	---	**---**	---	**---**	---	**56**	80
Claims, benefits, annuities and changes in insurance provisions	**---**	---	**1,022**	961	**298**	254	**---**	---	**---**	1	**1,320**	1,216
Non-interest expense	**1,003**	933	**362**	323	**93**	84	**57**	63	**(236)**	(183)	**1,279**	1,220
Operating surplus earnings	**383**	337	**99**	115	**28**	53	**110**	49	**---**	---	**620**	554
Income taxes on surplus earnings	**96**	86	**23**	28	**11**	18	**23**	35	**---**	---	**153**	167
Non-controlling interests	**---**	1	**---**	3	**2**	3	**1**	2	**---**	---	**3**	9
Surplus earnings before member dividends	**287**	250	**76**	84	**15**	32	**86**	12	**---**	---	**464**	378
Provision for member dividends, net of income tax recovery	**49**	95	**---**	---	**---**	---	**---**	---	**---**	---	**49**	95
Surplus earnings for the period after member dividends	**$ 238**	$ 155	**$ 76**	$ 84	**$ 15**	$ 32	**$ 86**	$ 12	**$ ---**	$ ---	**$ 415**	$ 283
Segment assets	**$ 149,031**	$ 139,667	**$ 18,362**	$ 16,219	**$ 3,389**	$ 3,134	**$ 33,532**	$ 28,553	**$ (28,811)**	$ (24,360)	**$ 175,503**	$ 163,213

19. SEGMENTED INFORMATION (cont'd)

The following table provides a summary of Desjardins Group's financial results by business segments for the nine months ended September 30.

For the nine months ended September 30	Personal Services and Business and Institutional Services		Wealth Management and Life and Health Insurance		Property and Casualty Insurance		Other		Eliminations		Combined	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Net interest income	**$ 2,761**	$ 2,364	**$ 3**	$ 2	**$ ---**	$ ---	**$ 507**	$ 481	**$ (364)**	$ (266)	**$ 2,907**	$ 2,581
Net premiums	**---**	---	**2,199**	2,215	**1,120**	1,077	**---**	---	**(134)**	(127)	**3,185**	3,165
Other income	**1,350**	1,335	**1,730**	1,242	**64**	65	**(46)**	(149)	**(174)**	(152)	**2,924**	2,341
Total income	**4,111**	3,699	**3,932**	3,459	**1,184**	1,142	**461**	332	**(672)**	(545)	**9,016**	8,087
Provisions for credit losses	**164**	184	**---**	1	**---**	---	**---**	---	**---**	---	**164**	185
Claims, benefits, annuities and changes in insurance provisions	**---**	---	**2,494**	2,216	**759**	769	**---**	---	**---**	---	**3,253**	2,985
Non-interest expense	**2,979**	2,793	**1,118**	991	**276**	269	**199**	208	**(672)**	(545)	**3,900**	3,716
Operating surplus earnings	**968**	722	**320**	251	**149**	104	**262**	124	**---**	---	**1,699**	1,201
Income taxes on surplus earnings	**244**	195	**85**	69	**45**	30	**58**	57	**---**	---	**432**	351
Non-controlling interests	**1**	1	**(1)**	5	**11**	7	**3**	4	**---**	---	**14**	17
Surplus earnings before member dividends	**723**	526	**236**	177	**93**	67	**201**	63	**---**	---	**1,253**	833
Provision for member dividends, net of income tax recovery	**153**	163	**---**	---	**---**	---	**---**	---	**---**	---	**153**	163
Surplus earnings for the period after member dividends	**$ 570**	$ 363	**$ 236**	$ 177	**$ 93**	$ 67	**$ 201**	$ 63	**$ ---**	$ ---	**$ 1,100**	$ 670
Segment assets	**$ 149,031**	$ 139,667	**$ 18,362**	$ 16,219	**$ 3,389**	$ 3,134	**$ 33,532**	$ 28,553	**$ (28,811)**	$ (24,360)	**$ 175,503**	$ 163,213

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Desjardins

PRESS RELEASE

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Desjardins Group surplus earnings increase a historic 34% or $1,437 million for 2010

Desjardins Group's caisse network and business sectors experienced strong growth.
Its capitalization ratio among the best in the industry.
Desjardins won national and international recognitions for its cooperative and financial performance.

Financial highlights

- *Total income of $11.7 billion, up by close to 10% at the end of fiscal 2010*
- *Strong balance sheet supported by a capitalization of over $13 billion, up 15.1% since December 31, 2009*
- *Total capital funding of $2.1 billion: $1.6 billion from Canadian institutional investors and $0.5 million from members*
- *Tier 1 capital ratio of 17.7%*
- *Assets of over $172 billion, up 9.4% from one year earlier*
- *Quality loan portfolio, with a gross impaired loans ratio of 0.44%, one of the best in the Canadian banking industry*
- *Deposit growth of $6.8 billion, evidence of a dynamic caisse network*
- *Named "Bank of the Year 2010" in Canada by* The Banker*, a London-based British magazine*
- *Winner in the social responsibility category of the* Prix québécois de l'entreprise citoyenne - *Québec corporate citizenship award, presented by* L'actualité *magazine and Korn Ferry/International*
- *One of the Canada's 10 Most Admired Corporate Cultures of 2010 Program™*
- *7th place among the 50 Best Corporate Citizens in Canada, as awarded by* Corporate Knights' Magazine
- *Take-over bid on the shares in Western Financial Group aimed at continuing Desjardins Group's business development in the rest of Canada*
- *Successful launch of Desjardins mobile services, with close to 3 million transactions in the first 3 months*

Key financial data

RESULTS

(Unaudited, in millions of $ and as a %)	**For the year ended December 31**			**For the quarter ended December 31**		
	2010	2009*	Change	**2010**	2009*	Change
Total income	**$11,685**	$10,670	9.5%	**$2,669**	$2,583	3.3%
Combined surplus earnings before member dividends	**$1,437**	$1,074	33.8%	**$181**	$267	(32.2%)
Return on equity	**11.6%**	10.2%	---	**5.5%**	9.5%	---

BALANCE SHEET AND RATIOS

In millions of $ and as a %	**As at December 31, 2010**	As at December 31, 2009*
Assets	**$172,275**	$157,442
Equity	**$13,063**	$11,346
Tier 1 capital ratio	**17.7%**	15.8%
Total capital ratio	**18.7%**	15.8%
Gross impaired loans ratio	**0.44%**	0.46%

* 2009 figures have been restated

Lévis (Québec), February 25, 2011 — For the fiscal year ended December 31, 2010, Desjardins Group, the largest cooperative financial group in Canada, announces surplus earnings before member dividends of $1,437 million, an increase of $363 million or 33.8% from the previous year. Return on equity was 11.6%, compared to 10.2% for 2009.

“We owe these exceptional results to our dynamic caisse network and all our business sectors,” said Ms. Monique F. Leroux, Chair of the Board, President and CEO. “These results clearly demonstrate the relevance of the cooperative financial model. Now more than ever, Desjardins Group is viewed as an industry leader, here in Canada and around the world. This is particularly true given the recent accolades that we received this past year. I would like to thank our members and clients for the trust they have shown us. I would also like to thank our 6,000 elected officers and 42,000 employees for their ongoing commitment that contributed to our success. In conclusion, this success was achieved by remaining a solid and effective cooperative financial group at work for the benefit of its members and communities. Through these efforts, we're building a foundation of sustainable prosperity from which future generations will benefit."

Total income was $11,685 million, up $1,015 million or 9.5% compared to the previous year. Net interest income was $3,886 million, a $364 million or 10.3% increase over 2010, mainly due to the strong performance by the caisses in the mortgage and business loan markets. More specifically, there was substantial growth in outstanding mortgages to individuals, which were up $5.2 billion at the end of 2010. This was due to strong momentum in housing starts and the resale market, an average selling price for houses and a rate environment that continued to favour buyers. In addition, consumer spending boosted credit card and point-of-sale financing activities, which further enhanced net interest income. Despite strong competition in the insurance industry, net premiums, which consist of life and health insurance and property and casualty insurance premiums as well as annuity premiums, rose $121 million or 2.8%, to $4,368 million as at December 31, 2010.

Other income stood at $3,431 million, up $530 million or 18.3%. This increase was due to transaction income and income from available-for-sale securities and brokerage, investment fund and trust services. This increase was largely offset by higher actuarial liabilities related to life and health insurance activities.

Non-interest expense grew $254 million or 4.9% from fiscal 2009, to $5,403 million as at December 31, 2010. This increase was mainly due to higher salaries and fringe benefits, partly as a result of the annual indexing of salaries and expenses related to pension plans.

Expenses related to claims, benefits, annuities and changes in insurance provisions totalled $4,168 million in 2010, up $410 million or 10.9% from 2009. A large part of this increase was due to actuarial liabilities related to life and health insurance activities, which were higher because of an increase in the fair value of matched investments.

Desjardins Group's productivity ratio improved by 2.6 points in 2010, from 71.9% for 2010 compared to 74.5% for the previous year as a result of income growth and ongoing Group-wide efforts to improve productivity. The Group's productivity index is calculated as non-interest expense to total income, net of expenses related to claims, benefits and annuities, and changes in insurance provisions.

Desjardins Group's approach allows it to distribute surplus earnings and achieve a healthy balance between development, capitalization and sustainability. At the end of fiscal 2010, in a context of prudent management that has accounted for the impact of new accounting standards (International Financial Reporting Standards, or IFRS) on the capital ratios of financial institutions, the provision for member dividends, which is calculated on the basis of the surplus earnings of the caisse network, was $305 million, compared to $282 million distributed in 2009. In addition, an amount of $80 million was returned to the community in the form of sponsorships, donations and bursaries. In all, member dividends and contributions to the community totalled $385 million.

Quality loan portfolio

The quality of Desjardins Group's loan portfolio remains excellent. At the end of fiscal 2010, provisions for credit losses had declined $63 million from one year earlier, to $197 million.

Gross impaired loans outstanding stood at $512 million, up $3 million since December 31, 2009. The ratio of gross impaired loans to the total gross loan portfolio was 0.44% at the end of 2010, or approximately the same as in 2009. Desjardins Group continues to have one of the best ratios in the Canadian banking industry.

Assets over $172 billion, up 9.4%

Desjardins Group had $172.3 billion in total assets at the end of 2010, up $14.8 billion or 9.4% from $157.4 billion recorded one year earlier. This increase was essentially due to increases in residential mortgages outstanding and the value of the Group's securities portfolio.

Deposits grow $6.8 billion

As at December 31, 2010, Desjardins Group's outstanding deposits had grown $6.8 billion or 6.4% over the year, to $112.9 billion. This compares to a growth of $4.7 billion or 4.7% recorded in 2009.

Personal savings, which is the main source of financing, grew 4.4% or $3.3 billion, to $78.8 billion. At the end of fiscal 2010, personal savings represented 69.7% of the total savings portfolio.

Desjardins Group was also very active in savings recruitment from business and government. As at December 31, 2010, outstanding deposits by businesses and governments stood at $23.4 billion, up 7.1% or $1.5 billion since December 31, 2009.

Savings from deposit-taking institutions and other sources, such as securities issued on capital markets, grew 21.5% or $1.9 billion during the same period, to $10.8 billion.

Sustained growth in off-balance sheet savings in 2010

Despite a few turbulent periods in 2010 due to concerns over the strength of the global economic recovery and the debt problems of some European countries, the Canadian stock market experienced strong growth. The S&P/TSX index of the Toronto stock exchange rose 14.4% for the year, compared to the 30.7% jump recorded in 2009.

This was a good environment for sales of off-balance sheet savings products, such as investment funds and other securities, which recaptured the interest of investors. Desjardins Group was very active in this area; outstanding assets administered or managed for members and clients grew $6.1 billion, or 14.4% for the year, to $48.5 billion. This compares with a $8.6 billion or 27.2% jump recorded at the end of fiscal 2009.

A strong capital base

Desjardins Group's Tier 1 capital ratio, determined under the regulatory framework of Basel II, was 17.7% as at December 31, 2010, compared to 15.8% as at December 31, 2009. This was above the Group's capitalization target of 15.0% and remains one of the best ratios in the industry. The total capital ratio was 18.7%, compared to 15.8% as at December 31, 2009.

Funding and capital supply

In fiscal 2010, Caisse centrale Desjardins (CCD) launched several issues of debt securities in different markets in order to achieve even better diversification of the Group's sources of financing and further extend the average term.

Caisse centrale Desjardins floated three issues on the Canadian market – one in February, one in June and one in October – for $400 million, $500 million and $600 million, respectively. As in previous years, CCD also floated an issue in the European market, for an amount of $1.7 billion. Finally, on September 8, 2010, it successfully floated an issue of fixed-rate, medium-term deposit notes in the United States for $1 billion. This made Desjardins Group the first Canadian cooperative financial institution to issue senior debt on the U.S. market.

Furthermore, Capital Desjardins inc. launched two issues of senior notes in May and November 2010 worth $900 million and $700 million, respectively.

Finally, caisse members also participated in the capitalization of their financial cooperative by purchasing $506 million worth of permanent shares in 2010.

Senior management appointments

In the interest of fully realizing the potential of the new structure implemented almost two years ago, continuing to pursue Desjardins Group's strategic and cooperative development, and strengthening its market position, Ms. Monique F. Leroux, Chair of the Board, President and CEO, has made some changes and appointments to several senior management positions.

Ms. Leroux wants to focus more on the promotion of cooperation within the Group and communities, organizational strategy and development, governance and the engagement of the Group's elected officers and employees. To this end, Marc Laplante, the current Senior Executive Vice-President, Strategy, Performance and Development for Desjardins Group, will take on an expanded role and responsibilities, becoming Senior Executive Vice-President for both the Group and the Fédération. He will manage operational files for the Group and the Fédération. He will also coordinate the Group's main strategic and organization-wide projects, as well as Desjardins Group's various senior management support committees.

Réal Bellemare, currently Vice-President, Corporate Banking and Capital Market Risk and Special Assignments, has been promoted to the position of Executive Vice-President, Risk Management, and will report to Mr. Laplante. An MBA graduate of HEC Montréal, Mr. Bellemare has many years of risk management experience. He will sit on Desjardins Group's Senior Management Committee.

Ms. Leroux also announced the appointment of Louis-Daniel Gauvin, currently Senior Vice-President and Chief Risk Officer, to the position of Senior Vice-President and General Manager, Caisse centrale Desjardins (CCD) and Capital Desjardins Inc. Mr. Gauvin will be responsible for investor relations at a time when the Group plans to grow its presence in national and international financial markets. He will also be responsible for the Group's compliance activities and regulatory relations. Mr. Gauvin will continue to sit on Desjardins Group's Management Committee.

Finally, Ms. Leroux announced the retirement of Bruno Morin, General Manager of CCD and Capital Desjardins Inc., and expressed her appreciation for his contributions to the success of the Group and CCD. Mr. Morin will continue as General Manager of Capital régional et coopérative Desjardins (CRCD) and will remain on the boards of some of the Group's components.

These appointments take effect on February 25, 2011.

Results by business segment

Personal Services and Business and Institutional Services

The Personal Services and Business and Institutional Services segment offers the members and clients of Desjardins Group a broad range of standard financial services and products that are mainly distributed by the caisse network. Its products are also available through complementary networks.

For fiscal 2010, surplus earnings before member dividends attributable to the Personal Services and Business and Institutional Services segment were $840 million, up 32.9% or $208 million compared to 2009.

The segment reported total income of $5.4 billion, up $466 million or 9.4%. These results include a $486 million or 15.3% increase in net interest income. The dynamic caisse network made a major contribution to this increase through greater mortgage and business loans outstanding. More specifically, by the end of 2010 residential mortgage loans outstanding had grown by a substantial $5.3 billion. This performance takes into account strong growth in housing starts, the resale market and the average selling price for properties, all in an interest rate environment that continued to favour buyers. In addition, consumer spending boosted credit card and point-of-sale financing activities, which further enhanced net interest income.

Investment income for fiscal 2010 totalled $109 million, or $64 million less than in 2009, which was an exceptional year for investments.

Other income grew $44 million, or 2.7%, compared to fiscal 2009. This increase was mainly due to growth in activities that generated additional service charges and lending fees and credit card service revenues.

As a result of proactive management of the loan portfolio and credit card and point-of-sale financing activities, provisions for credit losses declined $61 million or 23.6% compared to 2009.

Non-interest expense grew $263 million or 6.9%. This was mainly due to higher salaries and fringe benefits due to the annual indexation of salaries and expenses related to pension plans.

Wealth Management and Life and Health Insurance

The Wealth Management and Life and Health Insurance segment offers the members and clients of Desjardins Group a range of advisory services and products tailored to individuals' changing needs for asset management and financial security. These products are distributed by the caisse network and through complementary networks.

This segment posted $279 million in surplus earnings before member dividends for 2010, 18.7% more than the $235 million reported for the previous year. This growth was mainly the result of strong business in insurance and annuities and increased assets under management.

Total income for the segment stood at $4,958 million, up $532 million or 12.0%, compared to 2009. This growth came mainly from a $347 million increase in transaction income, most of which was offset by a change in actuarial liabilities, which appear under the heading Claims, benefits, annuities and changes in insurance provisions. Furthermore, a $124 million increase was recorded in income from fees earned on asset management, the distribution of savings products, brokerage services and private management.

Total sales of personal insurance, in particular by financial security advisors assigned to Desjardins caisses, the SFL network and Desjardins Financial Security Independent Network financial centres, were $55 million for the year. This was 12.2% more than the $49 million reported for 2009.

Premium volume for personal insurance was $467 million, up $30 million compared to 2009. Premium volume generated by the network of financial security advisors assigned to Desjardins caisses grew 15.8% in 2010. Due to remarkable sales growth over the last few years in the different distribution networks, premiums cashed increased by 3.4% or $12.1 million from fiscal 2009. In addition, premiums for products distributed without a representative totalled $76 million, representing an increase of $10 million from 2009.

Sales of group retirement savings reached $372 million and sales of individual savings stood at $959 million. Sales of mutual funds totalled $477 million, up 51.7% compared to 2009.

Expenditures associated with expenses related to claims, benefits, annuities and changes in insurance provisions increased by $346 million, primarily due to higher actuarial liabilities as a result of an increase in the fair value of matched investments.

Non-interest expense grew $139 million, or 10.3%. This increase was mainly due to growth in commissions on sales of savings products, in remuneration paid to caisses, and in salaries and fringe benefits.

Property and Casualty Insurance

The Property and Casualty Insurance segment offers the members and clients of Desjardins Group a range of auto and home insurance products for individuals and businesses. In addition to being sold through the caisse network, these products are distributed by many call centres, over the Internet and, for some, through an intelligent telephone service.

The Property and Casualty Insurance segment's surplus earnings before member dividends were $103 million for 2010, up $9 million or 9.6% from the previous year. This growth, which was due to increased net premiums and other income, was partly offset by a greater auto loss ratio related to injury claims in Ontario.

Total income for the segment was $1,606 million, up $97 million or 6.4% from fiscal 2009 due to growth in premiums and other income. The increase in other income resulted from gains realized in the portfolio of fixed income securities and stock market performance.

The greater number of policies resulted in a $147 million or 9.8% increase in gross premiums written compared to 2009. The caisse network contributed $26 million to this growth. In the individual insurance market, the increase stemmed from successful growth initiatives in the Greater Montreal area and in Ontario as well as from the private label partnership signed in 2009 with a Canadian financial institution.

In group insurance, adding new partners and renewing existing agreements allowed the segment to post a 6.9% growth. In commercial lines, gross premiums written in Québec grew 10.5% compared to fiscal 2009.

The combined ratio, which corresponds to claims and operating expenses divided by net premiums earned, stood at 94.7%, up 0.3 point over 2009.

The winter of 2010 was characterized by particularly mild weather, which led to few claims in the first six months of 2010 in both property and auto insurance. However, the auto claims experience in Ontario related to personal injuries (particularly in the Greater Toronto area) deteriorated in the second half of 2010, leading to a significant increase in provisions for claims.

The increase in non-interest expense was due to a higher salaries expense, the result of having more employees and advertising. These initiatives that were undertaken to support business growth.

Other

The "Other" heading consists mainly of treasury activities related to the operations of Caisse centrale Desjardins. The segment is also responsible for all ABTN securities held by Desjardins Group, and records consolidation adjustments for all the components of Desjardins Group.

Combined surplus earnings under the "Other" heading stood at $215 million for 2010, up $102 million or 90.3% from fiscal 2009. This increase was due in part to a net positive change of $64 million in all items related to the restructured term notes (ABTN) portfolio, including the implementation of hedges, as well as the change in the fair value of derivatives and the application of hedge accounting, up $41 million after income taxes compared to the previous year.

As at December 31, 2010, treasury activities had contributed $88 million to net surplus earnings, $20 million less than for fiscal 2009 when market conditions were particularly favourable.

Finally, Desjardins Group's combined results included consolidation adjustments such as the adjustment to employee future benefits, which declined $12 million from 2009.

2010 Fourth Quarter Results

For the fourth quarter ended December 31, 2010, Desjardins Group recorded surplus earnings before member dividends of $181 million. This was $267 million or 32.2% less than the surplus earnings recorded for the same quarter of 2009. The decline was due in part to a $142 million increase in claims, benefits, annuities and changes in insurance provisions, write-offs of certain assets and an increase in provisions related to agreements with suppliers and the investment portfolio.

The return on equity for the quarter was 5.5%, compared with 9.5% for the fourth quarter of 2009. The Tier 1 capital ratio was 17.7%, compared to 15.8% one year earlier.

Non-interest expense grew $75 million, or 5.3%, largely due to adjustments related to salaries and fringe benefits.

Rise of total income

Desjardins Group's total income for the fourth quarter was $2,669 million, up $86 million or 3.3% compared to the same quarter of 2009. Net interest income grew $38 million or 4.0% compared to the same quarter of 2009, to $979 million. This growth stemmed mainly from increased personal loans outstanding and the credit card and point-of-sale financing activities of the Personal Services and Business and Institutional Services segment.

Other income for the fourth quarter declined $53 million or 9.5%, to $507 million. This compares to $560 million for the same period of 2009, which was particularly favourable. This difference was also due to less transaction income.

Moderate growth in non-interest expense

Non-interest expense for the fourth quarter of 2010 totalled $1,499 million, up $75 million or 5.3% from the same period of last year, mainly due to increased salaries and fringe benefits as a result of the annual indexing of salaries. Provisions for credit losses for the fourth quarter of 2010 were $41 million or $16 million less than for the same period of last year. This was mainly due to a good return on the credit portfolio of Desjardins Card Services, improved portfolio quality and shorter terms on the business loans made by Caisse centrale Desjardins. As mentioned above, expenses related to claims, benefits, annuities and changes in insurance provisions totalled $915 million, up $142 million or 18.4% from the same quarter of 2009.

Results by business segment

Personal Services and Business and Institutional Services

The Personal Services and Business and Institutional Services segment ended the fourth quarter of 2010 with $152 million in surplus earnings before member dividends. This represents an 11.1% or $19 million decline from the same period of last year. The difference stemmed mainly from the fact that transaction income and income from available-for-sale securities was higher in the fourth quarter of 2009 than it was in the same period of 2010.

The segment's total income for the fourth quarter of 2010 was $1,366 million, up 4.4% or $57 million from the same period of 2009. Other income declined 4.4% or $19 million compared to the same quarter of 2009.

Wealth Management and Life and Health Insurance

For the fourth quarter of 2010, the Wealth Management and Life and Health Insurance segment posted $43 million in surplus earnings before member dividends, a $15 million or 25.9% decline from the same period of 2009. The difference was largely due to the reversal of a temporary gain resulting from the management of interest rate risk in the market-linked temporary investments (MLTI) program in a net amount of $10.6 million.

The segment's total income was $1,026 million, up $59 million or 6.1% from the same period of 2009. This increase was mainly due to activities related to life and health insurance, where net premiums increased $67 million.

Property and Casualty Insurance

In the fourth quarter of 2010, the Property and Casualty Insurance segment contributed $10 million to Desjardins Group's combined surplus earnings. This was $17 million less than its contribution for the same period of 2009.

Other

The Other heading posted a $24 million deficit before member dividends for the fourth quarter, a $35 million decline from the same quarter of 2009. This was due to write-offs of certain assets, an increase in provisions related to agreements with suppliers and the investment portfolio and the adjustment to the pension cost.

Desjardins Group, the leading cooperative financial group in Canada, inspires trust around the world through the commitment of its people, its financial strength and its contribution to sustainable prosperity. Desjardins Group's mission is to contribute to the improved economic and social well-being of people and communities. For more information, visit www.desjardins.com.

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