

Auditors' Report

To the members of Caisse d'économie solidaire Desjardins,

Pursuant to section 139 of the Act respecting Financial Services Cooperatives, we have audited the balance sheet of Caisse d'économie solidaire Desjardins (the "Caisse") as at December 31, 2009, and the statements of income and of distributable surplus earnings, of distribution, of comprehensive income and accumulated other comprehensive income, of reserves, and of cash flows for the year then ended. These financial statements are the responsibility of the Caisse's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 financial statements present fairly, in all material respects, the financial position of the Caisse as at December 31, 2009, and the results of its operations and its cash flow for the year then ended in accordance with Canadian generally accepted accounting principles.

*Audit Department*¹

¹Chartered accountant auditor permit No. 11211

Lévis (Québec), March 10, 2010

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Caisse d'économie solidaire Desjardins

Balance Sheet

as at December 31

	Note	2009	2008
Assets			
Liquid assets and investments	5	\$101,760,104	\$91,488,423
Loans	6		
Personal		107,008,518	98,765,552
Business		331,623,912	284,385,978
		438,632,430	383,151,530
Allowance for credit losses		4,167,937	4,264,218
		434,464,493	378,887,312
Other assets			
Premises and equipment	7	1,864,828	2,102,352
Accrued interest and other		7,126,006	7,797,613
		8,990,834	9,899,965
Total assets		\$545,215,431	\$480,275,700
Liabilities			
Deposits			
Term savings		\$279,023,215	\$260,660,548
Other		210,452,538	176,409,652
		489,475,753	437,070,200
Other liabilities			
Borrowings	8	12,673,726	3,316,276
Accrued interest and other		7,855,922	11,494,968
		20,529,648	14,811,244
		510,005,401	451,881,444
Equity			
Capital stock	9	9,777,955	6,753,660
Distributable surplus earnings	10	1,197,089	2,491,259
Accumulated other comprehensive income	11	112,540	(141,163)
Reserves		24,122,446	19,290,500
		35,210,030	28,394,256
Total liabilities and equity		\$545,215,431	\$480,275,700

Signed for the Board of Directors

_____, Director

_____, Director

Caisse d'économie solidaire Desjardins

Statements of Income and of Distributable Surplus Earnings

for the year ended December 31

	Note	2009	2008
Results			
Interest income		\$19,635,881	\$23,556,167
Interest expense		7,526,057	10,653,109
Net interest income		12,109,824	12,903,058
Provision and loan losses		306,684	971,977
Net interest income after provision and loan losses		11,803,140	11,931,081
Other income	12	2,682,314	2,421,023
Other expenses			
Personnel	13	6,243,191	5,957,825
Donations			
• From the community development fund		504,578	1,107,150
• Other		154,435	192,363
Assessments paid to Desjardins components		1,250,262	1,250,096
Premises		685,287	674,803
General expenses	14	3,901,537	3,530,456
		12,739,290	12,712,693
Surplus earnings before fair value, investments in Desjardins subsidiary companies, taxes and member dividends		1,746,164	1,639,411
Income (losses) related to fair value of derivative instruments		1,916,400	(3,452,462)
Income (losses) related to investments in Desjardins subsidiary companies	5	833,824	(1,790,009)
Surplus earnings (deficit) before taxes		4,496,388	(3,603,060)
Income taxes	15	865,077	(464,957)
Surplus earnings (deficit) for the year		3,631,311	(3,138,103)
Distributable surplus earnings			
Transfer from (allocation to) appreciation reserve:			
• Investments in Desjardins subsidiary companies		(806,800)	1,814,613
• Derivative instruments		(1,952,260)	3,088,286
Transfer from community development fund		389,030	839,663
Interest on investment shares, net of related income taxes		(55,204)	(113,200)
Permanent share issuance costs, net of income taxes		(8,988)	-
Distributable surplus earnings	10	\$1,197,089	\$2,491,259

Caisse d'économie solidaire Desjardins

Statement of Distribution

for the year ended December 31

	2009	2008
Distributable surplus earnings from previous year	\$2,491,259	\$2,999,849
Distribution by members:		
• Interest on permanent shares	(86,162)	(106,023)
• General reserve	(2,009,269)	(2,048,273)
• Stabilization reserve	(15,321)	(14,253)
• Community development fund	(400,000)	(856,950)
Income tax savings relative to interest paid on permanent shares and on surplus shares	19,493	25,650
Balance after distribution	\$-	\$-

Caisse d'économie solidaire Desjardins

Statements of Comprehensive Income and Accumulated Other Comprehensive Income

for the year ended December 31

	Note	2009	2008
Comprehensive income			
Surplus earnings (deficit) for the year		\$3,631,311	\$(3,138,103)
Other comprehensive income			
Reclassification to the statement of income following amortization of gains on derivative instruments related to cash flow hedges discontinued in previous years, net of income taxes		(8,478)	530
Share in other comprehensive income of Desjardins subsidiary companies for which the Caisse's investment is accounted for under the equity method		259,152	(458,468)
Reclassification to the statement of income relative to the share in other comprehensive income of Desjardins subsidiary companies for which the Caisse's investment is accounted for under the equity method		3,029	225,040
		262,181	(233,428)
Total other comprehensive income		253,703	(232,898)
Comprehensive income		\$3,885,014	\$(3,371,001)
Accumulated other comprehensive income			
Balance at beginning of year		\$(141,163)	\$91,735
Other comprehensive income for the year		253,703	(232,898)
Balance at end of year	11	\$112,540	\$(141,163)

Caisse d'économie solidaire Desjardins

Statement of Reserves

for the year ended December 31

	2009	2008
Appreciation reserve (total)		
Appreciation reserve – investments in Desjardins subsidiary companies		
Balance at beginning of year	\$161,673	\$1,973,078
Transactions in owners' equity by Desjardins subsidiary companies in which the Caisse's share is accounted for under the equity method	37,326	3,208
Increase from statement of distributable surplus earnings as a result of statutory provisions	806,800	-
Allocation to statement of distributable surplus earnings as a result of statutory provisions	-	(1,814,613)
Balance at end of year	\$1,005,799	\$161,673
Appreciation reserve – derivative instruments		
Balance at beginning of year	\$(3,384,236)	\$(295,950)
Increase from statement of distributable surplus earnings as result of statutory provisions	1,952,260	-
Allocation to statement of distributable surplus earnings as a result of statutory provisions	-	(3,088,286)
Balance at end of year	\$(1,431,976)	\$(3,384,236)
Appreciation reserve (total)	\$(426,177)	\$(3,222,563)
General reserve		
Balance at beginning of year	\$21,603,409	\$19,555,136
Increase resulting from distribution by members	2,009,269	2,048,273
Balance at end of year	\$23,612,678	\$21,603,409

Caisse d'économie solidaire Desjardins

Statement of Reserves (continued)

for the year ended December 31

	2009	2008
Stabilization reserve		
Balance at beginning of year	\$717,832	\$703,579
Increase resulting from distribution by members	15,321	14,253
Balance at end of year	\$733,153	\$717,832
Community development fund		
Balance at beginning of year	\$191,822	\$174,535
Increase resulting from distribution by members	400,000	856,950
Amounts used:		
• For mission development among our members, notably in cultural sectors	(92,500)	(273,350)
• For business issues	(23,578)	(39,000)
• To encourage the development of structuring projects in the Caisse's networks (union, cooperative, associative and cultural)	(388,500)	(794,800)
	(504,578)	(1,107,150)
Related income taxes	115,548	267,487
Allocation to statement of distributable surplus earnings of amounts used during the year	(389,030)	(839,663)
Balance at end of year	\$202,792	\$191,822
Total reserves	\$24,122,446	\$19,290,500

Caisse d'économie solidaire Desjardins

Statement of Cash Flows

for the year ended December 31

	2009	2008
Operating activities		
Surplus earnings (deficit) for the year	\$3,631,311	\$(3,138,103)
Adjustments to determine cash flows		
Provision and loan losses	306,684	971,977
Amortization of premises and equipment	345,529	357,847
Net change in accrued interest receivable and payable	(1,695,130)	(148,304)
Losses (income) related to investments in Desjardins subsidiary companies	(806,800)	1,814,613
Losses (income) related to fair value of derivative instruments	(1,916,400)	3,452,462
Other	1,059,055	(1,149,254)
Cash flows from operating activities	924,249	2,161,238
Financing activities		
Net change in member deposits	51,990,588	58,171,168
Transactions related to borrowings		
Increase in term loans	11,462,087	-
Term loans repaid	(2,104,637)	-
New issue of permanent shares and investment shares	2,982,520	-
Other net change in capital stock	32,787	59,355
Interest on permanent shares and investment shares, net of income tax savings	(121,873)	(193,573)
Cash flows from financing activities	64,241,472	58,036,950
Investing activities		
Net change in loans	(55,883,865)	(18,346,858)
Net change in investments	(15,639,669)	(42,425,690)
Net change in premises and equipment	(108,005)	(119,583)
Cash flows from investing activities	(71,631,539)	(60,892,131)
Decrease in cash	(6,465,818)	(693,943)
Cash at beginning of year	20,627,557	21,321,500
Cash at end of year	\$14,161,739	\$20,627,557
Other cash flow information		
Amount of interest paid	\$8,589,413	\$11,055,447
Amount of income taxes paid during the year	302,531	506,534

Caisse d'économie solidaire Desjardins

Notes to the Financial Statements

for the year ended December 31, 2009

Note 1. Applicable Legislation and Operations Carried on by the Caisse

The Caisse is a cooperative whose object is to receive the savings of its members and to invest them profitably, to extend credit and supply other financial products and services to its members, to foster cooperation and to promote economic, social and cooperative education. It is governed by the Act respecting Financial Services Cooperatives (the "Act").

The Caisse is listed with the Autorité des marchés financiers. It is also a member of Fonds de sécurité Desjardins, whose main object is to establish and administer a security, liquidity or mutual benefit fund for the benefit of the Desjardins caisses in Québec.

Note 2. New Accounting Standards

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

On January 1, 2009, the Caisse retrospectively adopted the new abstract of the Emerging Issues Committee (EIC) of the Canadian Institute of Chartered Accountants (CICA) entitled "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" (EIC-173). This new 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 instruments. The adoption of EIC-173 did not have any significant impact on the valuation models used to determine the fair value of financial instruments or on the Caisse's results or financial position.

Treatment of embedded derivatives upon reclassification of a financial asset

In June 2009, the Accounting Standards Board (AcSB) amended CICA Handbook Section 3855 "Financial Instruments – Recognition and Measurement" by adding guidance concerning the assessment of embedded derivatives upon reclassification of a financial asset out of the held-for-trading category. The Caisse has applied this new guidance to reclassifications made since July 1, 2009. This amendment did not have any impact on its financial statements.

Improvement to disclosure requirements about financial instruments

In June 2009, the 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 consists of 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.

The Caisse has applied the amendments to this standard to its financial statements as at December 31, 2009. For this first year of application, it will not be required to provide comparative information for the disclosures required by the amendments. Since these amendments specifically concern disclosures, they will not have any impact on the Caisse's results or financial position.

Caisse d'économie solidaire Desjardins

Notes to the Financial Statements

for the year ended December 31, 2009

Note 2. New Accounting Standards (continued)

Impairment of Financial Assets

In August 2009, the CICA amended CICA Handbook Section 3855 "Financial Instruments – Recognition and Measurement" 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 the Caisse intends to sell immediately or in the near term must be classified as held for trading, while 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.

The Caisse is applying the amendments to this standard retrospectively as at January 1, 2009. These amendments have not had any impact on the Caisse's financial statements.

Note 3. Accounting Policies

In preparing the financial statements according to Canadian generally accepted accounting principles, management is required to make certain estimates and assumptions that have an impact on the amounts reported in the financial statements and the Notes. These estimates, reviewed periodically, are based on circumstances and available information as at the data of the financial statements, thus representing management's best estimate. Items for which management had to make estimates include mainly the allowance for credit losses. Actual results may therefore differ from these estimates.

Financial Instruments

The Caisse has accounted for its financial instruments according to the CICA accounting standards entitled "Financial Instruments – Recognition and Measurement" (Section 3855), "Hedges" (Section 3865) and "Comprehensive Income" (Section 1530). The main requirements of these standards are set out hereinafter.

Since January 1, 2008, the Caisse has adopted the new CICA accounting standards entitled "Capital Disclosures" (Section 1535), "Financial Instruments – Disclosures" (Section 3862), and "Financial Instruments – Presentation" (Section 3863).

The purpose of Section 1535 is to require the disclosure of information that enables financial statement users to evaluate the Caisse's objectives, policies and processes for managing capital. The disclosures required by this new standard are presented in Note 21.

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Notes to the Financial Statements

for the year ended December 31, 2009

Note 3. Accounting Policies (continued)

It should be noted that Sections 3862 and 3863 supersede Section 3861 "Financial Instruments – Disclosure and Presentation". Section 3863 carries forward unchanged the presentation standards contained in Section 3861. The purpose of Section 3862 is to inform users in order to enhance their understanding and evaluation of the significance of financial instruments for the Caisse's financial position and performance, as well as to help them better evaluate the nature and extent of risks arising from financial instruments and how they are managed.

Financial instruments – Recognition and measurement

Financial assets should be classified as one of the following: held for trading, available for sale, held to maturity, or loans and receivables. Financial liabilities should be classified as held for trading, or other. Financial assets and liabilities are initially recognized at fair value.

Financial instruments held for trading by the Caisse are comprised exclusively of derivative instruments for the reasons mentioned below. Available-for-sale financial assets are equity securities that are not traded on an active market and are therefore recorded at cost. The held to maturity category is not used. Finally, loans and receivables and financial liabilities not held for trading are recorded at cost after amortization, using the effective interest rate method. Interest income and expense on these assets and liabilities are recorded with net interest income. Transaction costs related to financial instruments are basically attributable to loans and receivables and are capitalized and amortized over the life of the instrument, according to the effective interest rate method.

Derivative instruments and hedges

The Caisse uses swaps and options to manage the risks inherent in its financial assets and liabilities. As provided for in Canadian generally accepted accounting principles, the Caisse elected not to adopt hedge accounting for these derivatives in light of the complexity of the new requirements for documenting hedging relationships.

The Caisse recognizes its derivative instruments at fair value, whether they are stand-alone or embedded. Stand-alone derivative instruments are recorded on the balance sheet as other assets and liabilities while embedded derivative instruments are presented with their host contract according to their nature, under "Term savings" or "Other assets". Any change in the fair value of stand-alone derivatives is recognized in the statement of income under "Income (losses) related to the fair value of derivative instruments", except for any change in relation to term savings linked to the market, which is recognized under "Interest expense". Moreover, any change in the fair value of embedded derivatives is recorded as an interest expense adjustment.

Comprehensive income

Other comprehensive income includes amortization of the balance related to cash flow hedges discontinued in previous years and the share in other comprehensive income of Desjardins Group subsidiary companies for which the Caisse's investment is accounted for under the equity method. The financial statements include a statement of comprehensive income. Accumulated other comprehensive income is presented as an equity item on the balance sheet.

Other accounting policies

To facilitate understanding of these financial statements, the significant accounting policies other than the foregoing have been integrated into the Notes.

Caisse d'économie solidaire Desjardins

Notes to the Financial Statements

for the year ended December 31, 2009

Note 4. 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. The Caisse 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 financial statements.

International Financial Reporting Standards

In February 2008, the AcSB issued a news release confirming that publicly accountable enterprises, which includes the Caisse, will be required to apply International Financial Reporting Standards (IFRS) in 2011. The Caisse, through the Fédération des caisses Desjardins du Québec (the FCDQ), is taking part in the Desjardins Group IFRS conversion project, which began in summer 2007. The Caisse will adopt IFRS on January 1, 2011.

Note 5. Liquid Assets and Investments

	2009	2008
Cash	\$14,161,739	\$20,627,557
Investments in Desjardins Group subsidiary companies	7,424,841	6,004,404
Term deposits	50,050,000	37,075,000
Investments in liquidity fund under management	30,123,524	27,781,462
	<u>\$101,760,104</u>	<u>\$91,488,423</u>

Cash includes cash and other sums used in current operations. Investments in Desjardins Group subsidiary companies are accounted for under the equity method. Term deposit investments are classified as loans and receivables.

So that the Caisse can manage liquidity risk, it keeps the amounts necessary to maintain a minimum level of liquidity in a fund under management designed specifically for this purpose. The amounts paid into this fund by all the caisses are invested in a portfolio of securities that must satisfy high safety and negotiability standards so that, if the need arises, these could be cashed without incurring a material loss on their value. The amounts paid into this fund are excluded from cash because regulations do not permit them to be used for current operations. The investment in this fund is recorded at cost and classified as available for sale.

At year-end 2009 and 2008, no write-down was required to reflect a permanent impairment in value under investments.

Note 6. Loans

Loans are recorded at amortized cost, using the effective interest rate method, net of the allowance for credit losses, which reflects management's best estimate of potential losses on the loan portfolio. This allowance is made up of specific allowances and a general allowance.

Caisse d'économie solidaire Desjardins

Notes to the Financial Statements

for the year ended December 31, 2009

Note 6. Loans (continued)

Specific allowances are determined for all loans considered to be impaired. A loan is considered impaired when one of the following situations arises: in the opinion of management, there is reasonable doubt as to the ultimate collectibility of principal and interest; the loan is more than 180 days in arrears; or the interest or principal repayment is 90 days or more past due, unless the loan is fully secured. The value of impaired loans is adjusted by discounting the expected future cash flows from these loans, and the allowance is equal to the difference between this valuation and the balance of the loan. Any variation in the allowance for credit losses due either to the passage of time or to a revision of expected payments is recorded under "Provision and loan losses" in the statement of income. The Caisse ceases to record interest as soon as a loan is considered impaired. When there is no longer any reasonable doubt concerning the collectibility of principal and interest on an impaired loan, it is restored to current status. Interest on this loan is once again accounted for under the accrual method, and the related allowances are reversed to income.

The general allowance is intended to evaluate loan losses that cannot be determined on an individual basis, and is notably based on the profile of the loan portfolio as at the date of the balance sheet.

Loans by category of borrower

	2009	2008
Personal		
Mortgages	\$86,322,059	\$79,969,533
Consumer and other	20,686,459	18,796,019
Business		
Commercial and industrial	311,293,800	268,168,704
Agriculture, forestry and fishing	-	-
Government and public institutions	20,330,112	16,217,274
	<u>\$438,632,430</u>	<u>\$383,151,530</u>

Loans and provision

	2009			
	Personal	Business	General allowance	Total
Loans, neither past due nor impaired, gross amount	\$101,963,563	\$330,084,373	\$-	\$432,047,936
Loans, past due but not impaired, gross amount	4,726,314	691,630	-	5,417,944
Gross impaired loans	318,641	847,909	-	1,166,550
Total gross loans	<u>107,008,518</u>	<u>331,623,912</u>	<u>-</u>	<u>438,632,430</u>
Specific allowances	(98,934)	(609,165)	-	(708,099)
General allowance	-	-	(3,459,838)	(3,459,838)
Total net loans	<u>\$106,909,584</u>	<u>\$331,014,747</u>	<u>\$(3,459,838)</u>	<u>\$434,664,493</u>

Caisse d'économie solidaire Desjardins

Notes to the Financial Statements

for the year ended December 31, 2009

Note 6. Loans (continued)

	2008			
	Personal	Business	General allowance	Total
Loans, neither past due nor impaired, gross amount	\$94,975,183	\$279,308,900	\$-	\$374,284,083
Loans, past due but not impaired, gross amount	3,696,385	2,222,211	-	5,918,596
Gross impaired loans	93,984	2,854,867	-	2,948,851
Total gross loans	98,765,552	284,385,978	-	383,151,530
Specific allowances	(84,226)	(925,464)	-	(1,009,690)
General allowance	-	-	(3,254,528)	(3,254,528)
Total net loans	\$98,681,326	\$283,460,514	\$(3,254,528)	\$378,887,312

The carrying value of loans that would otherwise be past due or impaired, but whose terms were renegotiated during the year, amounted to \$202,000 (2008: none).

Past due loans are loans on which the counterparty has failed to make a payment when contractually due.

Loans past due but not impaired

	2009				
	1 to 29 days	30 to 59 days	60 to 89 days	90 days and more	Total
Personal	\$3,603,697	\$1,013,352	\$22,299	\$86,966	\$4,726,314
Business	554,963	96,667	40,000	-	691,630
	\$4,158,660	\$1,110,019	\$62,299	\$86,966	\$5,417,944

	2008				
	1 to 29 days	30 to 59 days	60 to 89 days	90 days and more	Total
Personal	\$3,031,263	\$176,983	\$245,094	\$243,045	\$3,696,385
Business	1,875,300	236,578	110,333	-	2,222,211
	\$4,906,563	\$413,561	\$355,427	\$243,045	\$5,918,596

Caisse d'économie solidaire Desjardins

Notes to the Financial Statements

for the year ended December 31, 2009

Note 6. Loans (continued)

Changes in the provision

	2009			
	Specific allowances	Specific allowances	General allowance	Total
	Personal	Business		
Balance at beginning of year	\$84,226	\$925,464	\$3,254,528	\$4,264,218
Provision and loan losses shown in the statement of income	88,264	13,110	205,310	306,684
Write-offs and other	(73,556)	(329,409)	-	(402,965)
Balance at end of year	\$98,934	\$609,165	\$3,459,838	\$4,167,937

	2008			
	Specific allowances	Specific allowances	General allowance	Total
	Personal	Business		
Balance at beginning of year	\$117,883	\$602,783	\$2,885,547	\$3,606,213
Provision and loan losses shown in the statement of income	33,192	569,804	368,981	971,977
Write-offs and other	(66,849)	(247,123)	-	(313,972)
Balance at end of year	\$84,226	\$925,464	\$3,254,528	\$4,264,218

Note 7. Premises and Equipment

	Useful Life (years)	2009			2008
		Cost	Accumulated Depreciation	Net Amount	Net Amount
Building	10 to 40	\$1,420,336	\$559,185	\$861,151	\$878,632
Equipment	2 to 20	1,727,292	1,311,532	415,760	480,298
Leasehold improvements	10	1,422,071	834,154	587,917	743,422
		\$4,569,699	\$2,704,871	\$1,864,828	\$2,102,352

Premises and equipment are amortized according to the straight line method, based on their useful life. The amount of depreciation charged to income for the year totalled \$345,529 (2008: \$357,847).

Caisse d'économie solidaire Desjardins

Notes to the Financial Statements

for the year ended December 31, 2009

Note 8. Borrowings

			2009	2008
Term loan with an interest rate of 4.73% variable, repayable periodically, maturing in December 2013				
			\$1,439,315	\$-
Term loans bearing interest at fixed rates or rates renegotiable quarterly, some of which loans have a prepayment before maturity clause ⁽¹⁾				
Fixed Rate	Maturing	Repayable		
3.89%	March 2014	March 2009	-	2,104,637
6.50	June 2017	June 2012	1,211,639	1,211,639
6.01	April 2019	April 2014	2,321,577	-
5.79	June 2021	June 2016	2,338,286	-
Rate renegotiable	Maturing	Repayable		
4.64%	April 2014	n.a.	1,392,010	-
3.59	June 2016	n.a.	3,970,899	-
			\$12,673,726	\$3,316,276

(1) Term borrowings include subordinated securities with a related company, redeemable at the option of the holder under certain conditions and for specified purposes.

Note 9. Capital Stock

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

The Caisse is authorized to issue an unlimited number of qualifying shares with a par value of \$5, which are redeemable at the Caisse's option under certain circumstances provided for in the Act. Members have only one vote each, no matter how many qualifying shares they own.

The Act authorizes the issue of an unlimited number of permanent shares with a par value of \$10. These shares do not carry any voting rights and cannot be redeemed except under certain circumstances provided for in the Act. Their interest rate is determined at the general meeting of the Caisse.

In addition to this interest, the Caisse issued new permanent shares for \$2,332,520 during the year.

The Caisse's by-law authorizes the issue of 125,000 investment shares with a par value of \$50. These shares do not confer any voting rights and are redeemable at the Caisse's option when certain conditions stipulated in the Act are met. Their interest rate is determined by the Board of Directors of the Caisse.

The Caisse issued new investment shares for \$650,000 during the year.

Issued and fully paid capital stock is as follows:

	2009	2008
Qualifying shares	\$67,265	\$59,820
Permanent shares	4,810,690	2,443,840
Investment shares	4,900,000	4,250,000
	\$9,777,955	\$6,753,660

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Note 10. Distributable Surplus Earnings

Distribution comes under the jurisdiction of the general meeting. However, according to the standards of the FCDQ, distributable surplus earnings must be applied first for the purpose of ensuring the payment of interest on the permanent shares, as well as for the purpose of establishing or maintaining the required level of capitalization through transfers to the stabilization reserve and the general reserve.

Note 11. Accumulated Other Comprehensive Income

The following table describes the key items included in accumulated other comprehensive income, net of income taxes:

	2009	2008
Gain on derivative instruments related to cash flow hedges discontinued in previous years	\$25,664	\$34,142
Share in other comprehensive income of Desjardins subsidiary companies for which the Caisse's investment is accounted for under the equity method	86,876	(175,305)
	\$112,540	\$(141,163)

Over the next three years, the balance of the accumulated other comprehensive income from cash flow hedges will be reclassified to the statement of income, including \$11,230 in income within the next twelve months.

Note 12. Other Income

	2009	2008
Accrued mainly from deposit administration	\$1,412,200	\$1,198,986
Accrued from administration of other services	646,868	667,585
Accrued from distribution of Desjardins products and services	623,246	554,452
	\$2,682,314	\$2,421,023

Income accrued from deposit administration consisted mainly of service charges and charges related to payment orders issued without sufficient funds and to service charges, while income accrued from the administration of other services was made up of charges relating to collections made on behalf of various organizations, and of income accrued from intercaisse transactions.

Income accrued from the distribution of Desjardins products and services comprises fees for the financial activities carried on by Desjardins subsidiary companies through the Caisse.

Note 13. Employee Future Benefits

The Caisse participates in the Desjardins Group defined benefit multi-employer pension plan which guarantees the payment of pension benefits. Benefits are calculated based on the number of years of participation in the plan, and the employee's salary.

In addition, the Caisse provides life and health insurance coverage to its active and retired employees and their dependents, also through Desjardins Group.

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Notes to the Financial Statements

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Note 13. Employee Future Benefits (continued)

These plans are accounted for under the provisions for defined benefit plans. The cost of these plans recognized during the year is presented under "Personnel" in the income statement and is broken down as follows:

	2009	2008
Pension plan	\$448,240	\$426,226
Group insurance plan	287,426	252,765

Note 14. General Expenses

	2009	2008
Computer services	\$1,043,697	\$954,240
Office supplies and communications expenses	319,675	349,839
Intercaisse transactions	608,244	646,506
Expenses related to deposits and services	447,259	416,258
Other	1,482,662	1,163,613
	\$3,901,537	\$3,530,456

Note 15. Income Taxes

The income taxes are as follows:

	Taxes (savings)	
	2009	2008
Current taxes	\$510,427	\$612,664
Future taxes	354,650	(1,077,621)
	\$865,077	\$(464,957)

The difference between the income tax expense of \$1,393,880 (2008: income tax savings of \$1,116,949), calculated at the basic federal and provincial tax rate, and the income tax expense of \$865,077 (2008: income tax savings of \$464,957) presented in the statement of income is mainly attributable to the small business deduction, the non-taxable portion of transactions related to investments in Desjardins Group subsidiary companies, and the revaluation of future income taxes.

Note 16. Related Party Transactions

The Caisse is a member of the FCDQ, which provides the Caisse with various services of a technical, financial and administrative nature. The FCDQ is a cooperative which is the majority owner of the other Desjardins components.

In the ordinary course of business, the Caisse carries out transactions with other Desjardins components. It also carries out financial transactions with its officer members. Transactions with related parties are accounted for at the exchange value, which represents the amount agreed upon by the parties. Conditions are similar to those offered on financial markets.

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Note 16. Related Party Transactions (continued)

The table below shows the main transactions other than those specifically identified elsewhere in the financial statements.

	Balance sheet		Income	
	2009	2008	2009	2008
Liquid assets and investments	\$101,760,104	\$91,488,423	\$3,618,421	\$946,556
Other assets	1,701,947	1,257,113	-	-
Income from other sources	n.a.	n.a.	2,510,842	663,442
Borrowings	12,673,726	3,316,276	326,261	180,200
Other liabilities	2,488,696	4,406,204	-	-
Other charges	n.a.	n.a.	4,370,284	6,353,696

Income from other sources is derived chiefly from intercaisse transactions, swaps and fees related to the distribution of Desjardins products and services, while other charges relate mainly to swaps, data processing services, intercaisse transactions and insurance services.

Note 17. Fair Value of Financial Instruments

The following table shows the fair value of financial instruments carried or not carried on the Caisse's balance sheet. Interest rate sensitivity is the main cause of fluctuation in the fair value of the Caisse's financial instruments. The carrying value of financial instruments other than derivatives is not adjusted to take into account increases or reductions in fair value as a result of interest rate fluctuations.

The fair value of financial instruments is as follows:

	2009		2008	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Assets				
Liquid assets and investments	\$101,760,104	\$103,515,632	\$91,488,423	\$92,023,427
Loans	434,464,493	441,987,967	378,887,312	378,771,973
Other financial assets	3,715,825	3,715,825	2,663,035	2,663,035
Liabilities				
Deposits	489,475,753	492,479,466	437,070,200	440,875,257
Borrowings	12,673,726	13,754,735	3,316,276	3,494,302
Other financial liabilities	3,104,642	3,104,642	4,048,099	4,048,099

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Note 17. Fair Value of Financial Instruments (continued)

	2009		2008	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Derivative instruments				
Debit position	\$139,063	\$139,063	\$308,472	\$308,472
Credit position	2,036,882	2,036,882	4,111,076	4,111,076

The fair value of financial instruments is based on the following estimation methods and assumptions:

- The fair value of financial assets and liabilities is determined based on a discounted cash flow method that uses market interest rates for similar financial assets and liabilities.
- The fair value of derivative instruments is calculated based on the net present value of expected cash flows at the market interest rates currently charged for instruments with similar features and maturities. The Caisse deals exclusively with Caisse centrale Desjardins as the counterparty for all its derivative instruments. Derivative instruments consist of interest rate swaps, options and forward exchange contracts. At year-end, the notional amount of all the derivative instruments totalled \$70,637,012.

Finally, the fair value of items not considered financial instruments, such as premises and equipment, is not included in the preceding table.

For financial instruments recognized at fair value on the balance sheet, their measurements were established according to the following hierarchy:

- Level 1 – Quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs rather than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 – Inputs for the asset or liability that are not based on observable market data.

The table below classifies fair value measurements according to the three levels:

	2009			Total
	Level 1	Level 2	Level 3	
Assets				
Cash	\$14,161,739	\$-	\$-	\$14,161,739
Derivative Instruments				
Debit position	-	139,063	-	139,063
Credit position	-	2,036,882	-	2,036,882

During the year, no significant transfer was made between the levels of the fair value hierarchy.

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Note 18. Guarantees

Significant guarantees that the Caisse has given to third parties are described below.

Letters of guarantee

Letters of guarantee are an irrevocable commitment by the Caisse to make payments in the event that a member cannot meet its obligations to third parties. These letters are generally collateralized in accordance with the same policy the Caisse has with respect to loans. The term of these letters does not extend past March 2012. At year-end, the maximum potential amount of future payments relative to these letters represented an amount of \$5,315,991.

The Caisse did not deem it necessary to record a provision in the balance sheet for these guarantees.

Note 19. Commitments

At year-end, minimum future commitments under leases for premises and equipment are as follows:

2010	\$226,788
2011	149,460
2012	152,521
2013	154,034
2014	66,267
2015 and thereafter	3,100
	<hr/>
	\$752,170

The Caisse carries out operations with another cooperative and has undertaken to assume its share of any deficit.

In addition, commitments related to service contracts extending until 2014 represented a total of \$259,412.

Credit commitments

The Caisse's credit commitments represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit and guarantee. The Maximum Credit Risk Exposure table in Note 21 presents these credit commitments as at year-end.

Note 20. Financial Instrument Risk Management

The Caisse is exposed to different types of risk in the normal course of operations, including credit risk, liquidity risk and market risk. The Caisse enjoys a risk management framework supplied by the FCDQ, whose objective is to optimize the risk/return trade-off.

It is within this context that the members of the Caisse's Board of Directors, working together with general management and the FCDQ, must define, adopt, implement, monitor and control a management framework that will identify and measure all significant risks to which the Caisse is exposed, and take corrective action in a timely manner.

To provide benchmarks for sound and prudent management, the Caisse's Board of Directors relies on laws and regulations, the Code of Ethics and Professional Conduct – Cooperative Network, standards, FCDQ policies and its own policies. This risk management approach is based on principles that encourage the Caisse to take responsibility for the quality of risk management.

Credit risk

Credit risk represents the risk of losses if a borrower or a counterparty fails to honour its contractual obligations, appearing or not on the balance sheet.

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Note 20. Financial Instrument Risk Management (continued)

Credit risk management

The Caisse is responsible for the credit risk inherent in its lending activities. For this purpose, the Caisse has an approval limit assigned by the FCDQ as well as a management framework and tools.

Framework

Standards for credit management define the framework within which lending operations and other transactions that feature a credit risk are to be carried out, as well as the controls required in their regard.

For this purpose, they define, among other things:

- The minimum framework for credit risk management and control. This framework is rounded out by the credit practices of the FCDQ and the Caisse's credit policy.
- The roles and responsibilities of the main parties involved in credit.

The credit practices of the FCDQ designate the credit practices applicable to the caisses and adopted by the FCDQ. They set out the guidelines for credit risk management and control at the Caisse and the financing terms and conditions applicable to borrowers.

The Caisse adopts a credit policy and reviews it annually to confirm that the Caisse is applying the credit practices of the FCDQ.

All these structures and policies define the responsibilities of the parties involved, specify the level of risk that the Caisse is willing to assume, establish concentration limits, and set out risk management and control guidelines.

Credit granting

To assess the risk of credit activities with individuals and smaller businesses, credit rating systems developed by the FCDQ, based on proven statistics, are 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 risk. The performance of these systems is analyzed on an ongoing basis and adjustments are made regularly with a view to assessing borrower risk as accurately as possible.

With respect to business loans, credit granting is based on an analysis of the different parameters for each file, in which each borrower is assigned a rating that represents his level of risk, among other things.

The depth of the analysis and the approval level required depend on the complexity and extent of the transaction risk; larger loans are approved by the FCDQ.

Mitigating credit risk

In its lending operations, the Caisse obtains collateral in line with credit practices. Collateral normally takes the form of an asset such as cash, receivables, inventory, movables or capital assets. For some portfolios, programs offered by organizations like the Canada Mortgage and Housing Corporation and La Financière agricole du Québec are used in addition to customary collateral.

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Notes to the Financial Statements

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Note 20. Financial Instrument Risk Management (continued)

The large number of borrowers, for the most part consumers, but also small and medium-sized enterprises from many sectors of the economy, helps promote sound diversification of the financing portfolio. Note 6 to the financial statements presents the breakdown of loans by category of borrower. When required, the Caisse uses mechanisms to share risk, notably selling loans to other components, mainly caisses or certain Desjardins subsidiary companies.

File monitoring and management of higher risks

The loan portfolio is monitored using credit practices that set out the degree of thoroughness and frequency of review based on the quality and extent of the risk to which the Caisse is exposed. Certain loans that present irregularities or increased risk, compared to what was accepted at the time of approval, are reported to the FCDQ. Changes in the portfolio of large, higher-risk loans are monitored, and a report is presented quarterly to the Board of Directors. Management of higher-risk loans involves more frequent monitoring and the Caisse may be supported by teams from the FCDQ's Special Accounts and Irregular Loans Follow-up Department to help manage more difficult situations.

Maximum credit risk exposure

	2009	2008
Recognized on the balance sheet		
Liquid assets and investments ⁽¹⁾	\$93,900,546	\$85,095,938
Loans:		
• Personal	106,909,584	98,681,326
• Business	331,014,747	283,460,514
• General allowance	(3,459,838)	(3,254,528)
Other financial assets	5,534,126	5,719,930
	<u>\$533,899,165</u>	<u>\$469,703,180</u>

(1) Liquid assets and investments exposed to credit risk exclude, in particular, investments in Desjardins Group subsidiary companies.

At year-end, the maximum credit risk exposure for loan commitments and for letters of credit and guarantee was \$111,794,395 and \$6,037,583, respectively.

Liquidity risk

Liquidity risk refers to the Caisse'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 balance sheet, on the date it is due or otherwise.

The purpose of liquidity risk management is to ensure access, on a timely basis and in a profitable manner, to the funds needed to meet the Caisse's financial obligations as they become due, both under normal circumstances and in a crisis situation. 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.

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Notes to the Financial Statements

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Note 20. Financial Instrument Risk Management (continued)

Policies have been established describing the principles, limits and procedures that apply to liquidity risk management. Desjardins Group has also developed a liquidity contingency plan that includes setting up a liquidity crisis committee vested with special decision-making powers to deal with a crisis situation. This plan permits quick and effective intervention in order to minimize disruptions caused by sudden changes in member and client behaviour and potential disruptions in markets or economic conditions.

A specific framework sets out the minimum level of liquidity that the Caisse 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 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 is also in place.

The following table presents financial liabilities, deposits and borrowings, by remaining contractual maturity:

	2009			Total
	Under 1 year	1 to 5 years	Over 5 years	
Deposits	\$441,153,182	\$57,047,188	\$-	\$498,200,370
Borrowings ⁽¹⁾	10,367,651	2,987,014	-	13,354,665
Other financial liabilities	1,741,987	-	-	1,741,987
Loan commitments	111,794,395	-	-	111,794,395
Letters of credit and guarantee	6,037,583	-	-	6,037,583
Derivative instruments with net settlement ⁽²⁾	1,377,579	1,033,265	67,474	2,478,318
Derivative instruments with wholesale settlement ⁽³⁾	143,978	-	-	143,978

(1) Borrowings include subordinated securities with a related company, redeemable at the option of the holder under certain conditions and for specified purposes. This clause implies that all borrowings are included in the "Under 1 year" category. Their maturity dates range from June 1, 2017 to June 1, 2021.

(2) Cash disbursements on derivative instruments with net settlement could be accompanied by related cash receipts before maturity, thereby representing total financial liabilities for derivative instruments with net settlement.

(3) Derivative instruments with wholesale settlement include FX contracts for which the Caisse will receive a related cash flow of \$143,978.

Market risk

Market risk refers to the risk of changes in the fair value of financial instruments as a result of changes in parameters affecting this value such as interest rates, exchange rates, credit spreads and their volatility.

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Notes to the Financial Statements

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Note 20. Financial Instrument Risk Management (continued)

Interest rate risk management

The Caisse is mainly exposed to interest rate risk through positions taken in the course of its traditional financing and savings recruitment activities. Interest rate risk refers to the potential impact of interest rate fluctuations on the economic value of equity. This impact depends on a number of factors including asset/liability matching and the interest yield curve. Dynamic and prudent management is applied to optimize net interest income while minimizing the negative impact of interest rate movements. Interest rate risk is managed globally for the caisse network as well as individually for the Caisse.

Caisse network risk management

The policies developed by the FCDQ describe the principles, limits and mechanisms used to manage this risk. Simulations are run at the caisse network level to measure the impact of different variables on net interest income and the economic value of equity (present value of estimated cash flows from assets less liabilities) for all the caisses. 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 balance sheet, member behaviour and pricing. Desjardins Group's Asset/Liability Committee is responsible for analyzing and adopting the global matching strategy while respecting the parameters defined in risk management policies.

Risk management at the Caisse

The Caisse's interest rate risk is managed in compliance with this strategy, in particular by setting targets and action to be taken when the Caisse goes beyond the guidelines fixed for the caisses as a whole.

The following table presents the potential impact at year-end of a sudden and sustained 100-basis-point increase or decrease in interest rates (before income taxes) on the economic value of the Caisse's equity:

	2009	2008
Impact of an increase	\$264,367	\$366,776
Impact of a decrease	(95,533)	(348,893)

The extent of the interest rate risk depends on the gap between assets, liabilities and off-balance sheet instruments. The position presented reflects the position at year-end, and may change depending on members' behaviour, the interest rate environment and the strategies adopted by the Asset/Liability Committee.

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Note 20. Financial Instrument Risk Management (continued)

The table below succinctly shows the Caisse's asset/liability matching at year-end. The information is from an internal report provided to Caisse officers on interest rate risk management needs.

	2009		
	Net on-balance sheet gap position	Impact of derivative instruments	Total gap position
Non-interest sensitive assets and liabilities	\$(139,294,631)	\$-	\$(139,294,631)
Interest-sensitive assets and liabilities			
Floating rate	67,587,562	-	67,587,562
Fixed rate – 0 to 12 mos.	(19,352,929)	1,403,900	(17,949,029)
Fixed rate – 1 to 5 yrs.	110,301,136	(3,742,186)	106,558,950
Fixed rate – Over 5 yrs.	2,166,212	2,338,286	4,504,498
	2008		
	Net on-balance sheet gap position	Impact of derivative instruments	Total gap position
Non-interest sensitive assets and liabilities	\$(102,825,542)	\$-	\$(102,825,542)
Interest-sensitive assets and liabilities			
Floating rate	31,580,003	-	31,580,003
Fixed rate – 0 to 12 mos.	(38,076,457)	33,219,295	(4,857,162)
Fixed rate – 1 to 5 yrs.	125,255,287	(33,219,295)	92,035,992
Fixed rate – Over 5 yrs.	1,850,975	-	1,850,975

The net on-balance sheet gap position is based on the earlier of the repricing or maturity dates of fixed-rate assets and liabilities. The net on-balance sheet gap position represents the difference between total assets and liabilities and equity for a given period.

The above table shows year-end balances, except in the case of non-interest sensitive assets and liabilities for which the average monthly balance is provided because it is used for managing sharply fluctuating daily balances.

The impact of derivative instruments includes the impact of interest rate swaps in which the Caisse participates, and the effect of derivatives on interest rates contracted in the caisse network through liquidity funds under management.

A total positive matching gap position for a given period means that steadily rising interest rates would increase the Caisse's net interest income while a drop in interest rates would reduce net interest income. The reverse is true if the total matching gap position is negative.

Note 21. Capital Management

The goal of the Caisse's capital management is to ensure maintenance of adequate base capital for sound and prudent management.

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Notes to the Financial Statements

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Note 21. Capital Management (continued)

The capital adequacy of the Québec caisses is defined by a standard established by the FCDQ concerning the adequacy of capital, its components and their relative proportions. To a certain extent, this standard was based on a guideline for standards governing capital adequacy issued by the Autorité des marchés financiers. The guideline requires that a minimum amount of capital be maintained on a cumulative basis for a number of Desjardins Group components, including the caisses. Capital management is the responsibility of the Caisse's Board of Directors.

The Caisse's regulatory capital, which constitutes equity, differs from the equity disclosed on the balance sheet.

Capital is comprised of eligible permanent shares, surplus shares and qualifying shares, the general reserve, the eligible appreciation reserve, the stabilization reserve, the future member dividends reserve, eligible surplus earnings and the eligible portion of the general allowance for credit losses.

Capital also includes certain eligible borrowings as well as eligible shares in investments, and is reduced by certain investments. If necessary, the total is reduced by onerous surplus equity.

As prescribed by the current provisions of the FCDQ standard, the Caisse's total capital is reduced, among other things, by certain investments made in Desjardins Group subsidiary companies.

The Caisse's expansion assets comprise its on-balance sheet assets and its off-balance sheet commitments, reduced by its investments in Desjardins Group subsidiary companies at their equity value.

The Caisse's risk assets are determined by the weighting of on-balance sheet and off-balance sheet items according to the risk associated with each of these items, in accordance with the FCDQ standard.

The Caisse must maintain minimum capital corresponding to 6.75% of its expansion assets and 10.80% of its risk assets.

The following table shows the composition of the Caisse's regulatory capital:

	2009	2008
Capital		
Eligible permanent shares, surplus shares and qualifying shares	\$4,864,417	\$2,480,180
Eligible reserves	24,545,454	24,297,524
Eligible surplus earnings	2,576,599	2,649,407
Eligible general allowance	2,646,784	2,607,125
Investment shares	4,900,000	4,250,000
Eligible borrowings	11,972,176	2,614,726
	51,505,430	38,898,962
Investments ⁽¹⁾	(5,011,816)	(4,883,876)
	\$46,493,614	\$34,015,086

(1) This amount corresponds to investments in Desjardins Group subsidiary companies at equity value.

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Notes to the Financial Statements

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Note 21. Capital Management (continued)

At year-end, the Caisse's capitalization ratios were higher than required by the standard.

Note 22. Comparative Figures

Certain figures from the previous year have been reclassified to conform with the current year's presentation.