

 **Desjardins**
Caisse centrale

Money working for people

A PRESENT WITH A FUTURE

A PRESENT WITH A FUTURE

"A present with a future": That's the idea that best expresses Desjardins Group's desire, as formulated at the Congress of 2003, to promote the social, professional and financial integration of young people between 15 and 30. With this goal in mind, the Desjardins Youth Focus program was created in 2004. It maintained its cruising speed in 2005, with many caisses and subsidiaries adopting action plans or initiating projects. These initiatives fall under four main areas: commercial practices; democracy; knowledge and information; and employment .

To support this commitment to youth, and to pronounce it loud and clear, in fall 2005 we launched the Desjardins: *Turbocharging a Generation* advertising campaign. This campaign, which is continuing in 2006, clearly portrays Desjardins as a modern, committed, reliable financial institution, which, most importantly, has faith in young people.

A RESPONSIBLE, LASTING ENTERPRISE

"A present with a future" also calls to mind the permanent nature of Desjardins Group. By adopting the cooperative formula, Alphonse Desjardins aspired to ensure the longevity of his *caisse populaire* project. Today, it is reassuring to think that, thanks to its founder's foresight and because it is owned by all its members, Desjardins Group has become a collective, undeniable part of our heritage.

That's why there is nothing surprising about Desjardins' commitment to sustainable development. As early as the late 1980s, as part of the *Desjardins Environmental Option*, all of our components were invited to become more actively involved in efforts to protect the environment. Recently, in October 2005, we heightened this commitment by adopting a policy that encourages caisses and subsidiaries to gradually broaden, over the years to come, their support for sustainable development.

Longevity was a vital condition of Alphonse Desjardins' vision. While wanting to meet the needs of his time, the founder also wanted future generations to benefit from his initiative. One hundred and five years later, through its commitment to sustainable development, Desjardins has remained true to its nature and its roots.

¹ Many of these initiatives are described in Desjardins Group's 2005 Social Responsibility Report.



**TURBOCHARGING
A GENERATION**

THE LARGEST COOPERATIVE FINANCIAL GROUP IN CANADA

WE ARE ITS REPRESENTATIVE ON CAPITAL MARKETS

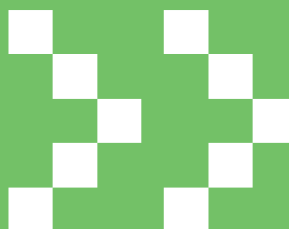
Caisse centrale Desjardins (“Caisse centrale”) is a key player within the Desjardins extended family. As a cooperative owned by the Desjardins caisses and auxiliary federations, Caisse centrale operates on both Canadian and international markets, working together with the other Desjardins Group entities and complementing their activities.

Caisse centrale therefore generates attractive financial benefits for Desjardins Group as a whole.

Like Desjardins Group, Caisse centrale receives first class credit ratings from the main rating agencies. These ratings rank among the best in the entire financial industry, not only in Canada, but also internationally, in the cooperative financial sector.

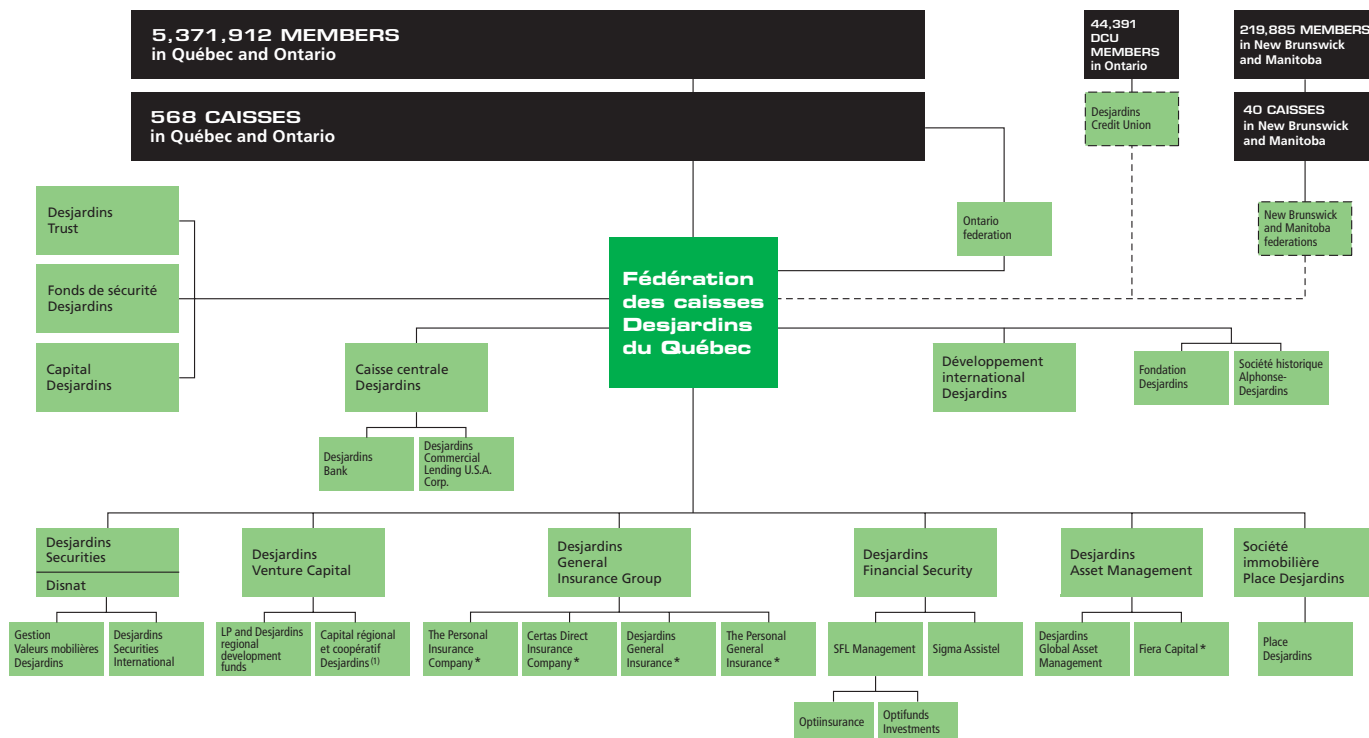
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AN INTEGRATED COOPERATIVE FINANCIAL GROUP

ORGANIZATION CHART OF DESJARDINS GROUP



OTHER INFORMATION

As at December 31

	2005			2004		
	Group ⁽¹⁾	Manitoba and New Brunswick ⁽²⁾	Total Group	Group ⁽¹⁾	Manitoba and New Brunswick ⁽²⁾	Total Group
Number of employees ⁽³⁾	39,294	1,303	40,597	38,048	1,299	39,347
Number of members	5,416,303	219,885	5,636,188	5,364,497	219,026	5,583,523
Number of elected officers	7,184	410	7,594	7,210	450	7,660
Number of member caisses	568	40	608	572	40	612
Number of service centres	921	73	994	911	74	985
Number of automated teller machines	2,802	130	2,932	2,799	123	2,922

(1) Excluding the federations and caisses of Manitoba and New Brunswick, but including Desjardins Credit Union (DCU) in 2005.

(2) Federations and caisses of Manitoba and New Brunswick.

(3) Includes the employees who work among subsidiaries that have activities outside the province of Québec.

AREAS OF ACTIVITY

CAISSE CENTRALE'S OPERATIONS INCLUDE:

ACTING AS DESJARDINS GROUP'S TREASURER:

- ✦ Financial settlement and clearing of items through the caisse network across Canada and internationally
- ✦ Supply of funds from Canadian and international capital markets
- ✦ Securitization operations as a source of funds for Desjardins Group
- ✦ Liquidity management
- ✦ Derivatives and other treasury products
- ✦ Management of asset/liability matching
- ✦ Treasury management for Desjardins Credit Union

ACTING AS A SERVICE PROVIDER TO BUSINESSES AND INSTITUTIONS:

FINANCING

Caisse centrale is a team of specialists that can add to the service offering of Desjardins Business Centres by providing customized financing to medium-sized businesses and large corporations:

- ✦ Operating loans
- ✦ Term loans
- ✦ Letters of credit and guarantee
- ✦ Banking syndicates

In addition, Caisse centrale has two Florida-based subsidiaries:

- ✦ Desjardins Bank and
- ✦ Desjardins Commercial Lending U.S.A. Corp.

These subsidiaries support businesses with U.S. operations, by providing them with financing or other services in the United States.

Caisse centrale focuses on the services and manufacturing sectors, with many of its resources specializing in:

- ✦ Agrifood
- ✦ Forest products
- ✦ High technology and communications
- ✦ Steel and transportation
- ✦ Energy resources

BANKING SERVICES

Caisse centrale also offers financial and treasury services:

- ✦ Account collection and direct payment (POS terminals)
- ✦ Reconciliation/consignment
- ✦ Cheque issue and deposit
- ✦ Balance aggregation
- ✦ Direct deposits/withdrawals
- ✦ Electronic cash command services
- ✦ Derivatives, etc.

INTERNATIONAL SERVICES

The Desjardins International Service Centre, managed by Caisse centrale, offers the following services to import and export businesses:

- ✦ Foreign exchange contracts and direct access to traders
- ✦ Import/export letters of credit
- ✦ Factoring
- ✦ Inter-currency transfers
- ✦ U.S. lock boxes
- ✦ Foreign currency accounts
- ✦ Money orders and drafts
- ✦ Desjardins Global Treasury Management

In addition to financing, Desjardins Bank offers a variety of products and services including:

- ✦ Online financial services
- ✦ Business accounts
- ✦ U.S. merchant number for Canadian and American businesses

2005 HIGHLIGHTS

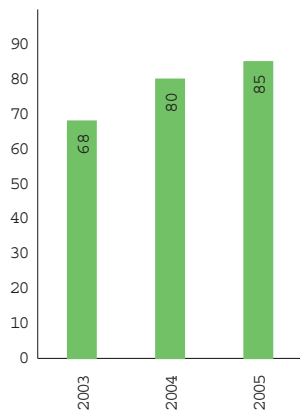
RECORD FINANCIAL RESULTS

Caisse centrale is active on Canadian and international markets as Desjardins Group's Treasurer and a service provider to businesses and institutions. This year again, all business segments were instrumental in achieving record financial results.

- Record contribution of \$85 million
- Strong growth in the corporate sector
- Significant headway in Canada-wide development and cross-border lending
- Integration of the Group's treasury operations
- Introduction of a securitization process for mortgages from the caisses
- Unprecedented volume of foreign exchange transactions
- High satisfaction rate among members and customers
- Ongoing support for cooperative development

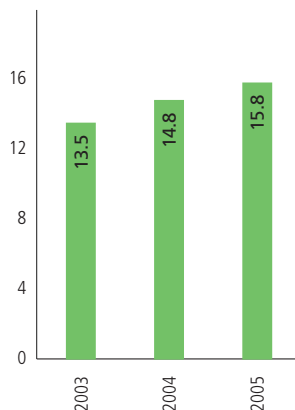
CONTRIBUTION TO NETWORK¹

(in \$M)



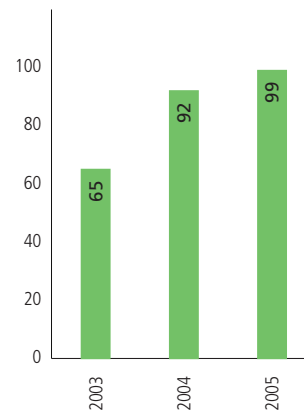
ASSETS

(in \$B)



DERIVATIVES

(in \$B)



(1) Restated to conform with the presentation adopted in 2005.

FINANCIAL POSITION

As at December 31

(in millions of dollars and percentages)

	2005	2004	2003
Total assets	\$ 15,757	\$ 14,770	\$ 13,518
Average assets	13,969	12,885	10,692
Securities	3,349	2,843	3,619
Total			
Caisse network	3,129	2,706	1,350
Other	7,157	7,481	6,772
Total loans	10,286	10,187	8,122
Deposits and subordinated debenture	12,054	11,366	10,246
Members' equity	688	687	687
Off-balance sheet financial instruments	107,993	105,404	79,546
Total capital ratio	13.9%	15.5%	16.4%

RESULTS OF OPERATIONS¹

For the years ended December 31

(in millions of dollars)

	2005	2004	2003
Gross income	\$ 162	\$ 153	\$ 131
Provision for credit losses	15	15	16
Net income	49	44	40
Total contribution to network	85	80	68

(1) Restated to conform with the presentation adopted in 2005.

CREDIT RATINGS

	Short term	Medium and long term
Standard and Poor's	A-1 +	AA -
Moody's	P-1	Aa3
Dominion Bond Rating Service	R-1M	AA (low)

**ALBAN D'AMOURS**Chairman of the Board and
Chief Executive Officer**JEAN-GUY LANGELIER**President and
Chief Operating Officer

It is with great pride and satisfaction that we present the results of Caisse centrale, which once again has distinguished itself by scaling new heights.

In keeping with the results of the past few years, our contribution to our members reached an all-time high of \$85.2 million, up 6% from \$80.4 million for the previous year and representing a 13% return on our members' share capital. Maintaining the prosperous momentum of recent years, this performance resulted from the contribution of all the core business development areas on which we have been focusing.

DESJARDINS GROUP'S TREASURER

Under the program to reinforce Desjardins Group's strategic management structure, which was introduced in 2004, Caisse centrale became the Group's Treasurer. In this capacity, it is responsible for the disciplined and sophisticated overall management of asset/liability matching, as well as management of funds and off-balance sheet financial instruments. In addition, Caisse centrale ensures access to sources of funding for the Group, based on its needs and opportunities on Canadian and international markets.

In implementing this Group-wide function, a number of initiatives were taken and completed in 2005, including the reduction of the caisse network's required liquidity reserves by more than a third of their previous size. This initiative was based on a study showing the great stability of the caisse network's deposits and following consultation with the regulatory authority and rating agencies. Financial synergies are already being generated for the entire Group as a result of this reduction.

In tandem with the reduction in liquidities, great strides were made in 2005 in the use of securitization by Desjardins Group as an alternate solution to funding. Under the supervision of Caisse centrale, a number of caisses successfully turned mortgages into mortgage-backed securities through Canada Mortgage and Housing Corporation. This initial success is due especially to an innovation that simplifies the process, whose use could even be extended to the entire banking industry in Québec.

BUSINESSES AND INSTITUTIONS: A YEAR OF ROBUST GROWTH

Given the number of projected corporate mergers and acquisitions in the marketplace, business development was particularly brisk in 2005. The results were very satisfactory and augur well for the future. New business approved was, in fact, at a record high for Caisse centrale in the business financing segment. This performance was the result of focused implementation of our business strategies.

We now have to play a greater part in banking syndicates, in line with our capabilities, by increasingly obtaining the prominent role of agent or coagent. We will also support our customers as they expand across Canada and into the United States, while pursuing geographic diversification outside Québec, as initiated in 2004, and building on our specialized sectors, which are very highly regarded by our clients.

In the mid-size business market, we have set up teams specifically dedicated to this segment, in partnership with the Desjardins Business Centres, and have made timely adjustments to our service offering. Our international products and services have continued to grow steadily in this market, in particular because of our intensive development drive in recent years.

SUPPORT FOR COOPERATIVE DEVELOPMENT

Our penetration of new markets is also at a record level. Apart from financing Canada-wide businesses, as already mentioned, or doing business in the United States, we have continued to back the Canadian cooperative movement, even increasing our support in this area. In addition to extending further credit to new credit unions in British Columbia, we have also developed new business ties with financial cooperatives in Alberta and Ontario.

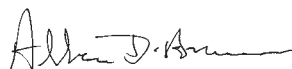
A NEW THREE-YEAR STRATEGIC PLAN

In 2005, Caisse centrale was fully involved in the preparation of a completely integrated three-year Group-wide strategic plan for 2006-2008. Our strategic orientations over the next three years therefore perfectly reflect those of the Group and are in line with our core business development areas of recent years.

These orientations include completing the integration of the Group's treasury operations, which will lead to an even more optimal management of its liquidities and asset/liability matching. In addition, we will step up the securitization program.

We will also ensure that Desjardins Group continues to expand its presence on corporate markets by strengthening our partnership with Desjardins Business Centres. We will further broaden our service offering to businesses operating on both sides of the border by opening a Caisse centrale branch in the United States, among other things. We will also further expand our international service offering in order to better support Desjardins members and clients around the world. Lastly, we will continue to support the Group in achieving its objective of becoming a recognized partner in the development of the cooperative financial sector.

As a result of its team's commitment and the support of all its partners, Caisse centrale is well positioned to build on the momentum it has established and reach new heights in the years ahead as the representative on capital markets of the largest cooperative financial group in Canada.



Alban D'Amours
Chairman of the Board and
Chief Executive Officer



Jean-Guy Langelier
President and
Chief Operating Officer

FINANCIAL MARKETS

DESJARDINS GROUP'S TREASURER

Under the program to reinforce the Desjardins Group strategic management structure, which was initiated in 2004, Caisse centrale became the Group's Treasurer. In this capacity, it is responsible for integrating and optimizing all the Group's treasury operations, in particular its asset/liability matching, liquidity management, funding, and its offering of various treasury products.

IMPLEMENTATION OF A PLAN TO REDUCE LIQUIDITIES

Following a thorough study of liquidity requirements, based on a number of scenarios, Caisse centrale designed and implemented a plan to reduce the required liquidity reserves for the Group. In July 2005, after consulting with the Autorité des marchés financiers, the regulatory authority, and with rating agencies, Desjardins was able to reduce the required liquidity reserves for the caisse network by \$1.5 billion. This reduction resulted in significant financial synergies for the entire Group.

Despite this initiative and the reduction of excess preventive liquidities by Caisse centrale in 2004, Desjardins Group is still a financial institution with high liquidity reserves. In fact, they accounted for 22.6% of its aggregate assets at the end of 2005, compared with 20.6% in 2004. These cash resources are primarily composed of government securities.

SECURITIZATION: A PROMISING START

In conjunction with the Fédération des caisses Desjardins du Québec, in 2005, Caisse centrale set up a series of procedures allowing the Group to sell some of its assets on financial markets. Securitization of mortgages insured by Canada Mortgage and Housing Corporation was the vehicle used because of the availability of this type of asset within the Group. Moreover, this source of funding is by far the most attractive for Desjardins since the market is already well established in Canada.

Securitization transactions involving over \$120 million in assets were thus successfully completed by caisses. In the years ahead, the volume of mortgage-backed securities should be much larger, and will effectively help achieve Desjardins Group's strategic objectives.



A CONTINUING PRESENCE ON MARKETS

By implementing its plan to reduce required liquidity reserves (\$1.5 billion), Caisse centrale did not need to issue medium-term securities on capital markets in 2005. However, the significant increase in the network’s business volume and the resulting funding requirements forced the Group’s Treasurer to continue its activities as a provider of institutional funds.

Caisse centrale was very active in this area on the short-term money market, where it generally aimed to meet one-time needs of the Group’s entities. It also continued to maintain close relations with institutional investors. With this in mind, Caisse centrale held investment roadshows in several European countries in December 2005, highlighting the merits of Desjardins Group as a solid and profitable investment.

Following these roadshows, Caisse centrale launched an issue of 500 million euros on the European market at the very beginning of 2006, matching the record amount of its 2003 and 2004 issues. This issue was highly successful as orders totalling close to 2 billion euros were received from some 80 investors in 15 countries in just a few hours. In fact, the 500 million euro issue was sold in less than an hour.

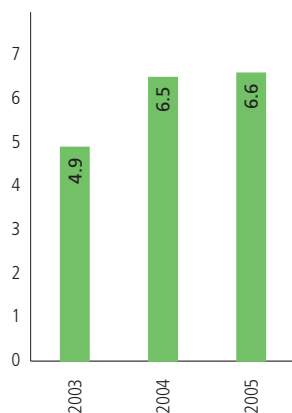
As Desjardins Group’s Treasurer, Caisse centrale also uses derivatives to manage asset/liability matching for itself and the Group, to provide savings products to the caisse network and to meet the needs of Desjardins’ business and institutional clients.

Over the years, Caisse centrale has developed its own expertise and has become a major player on capital markets. In charting its progress in recent years, its derivatives outstanding totalled close to \$100 billion at the end of 2005.

TREASURY PRODUCTS: EASIER ACCESS IS AN ASSET

At Desjardins, the availability of products and services is another major asset. A concrete application of this cooperative principle, which also provides a competitive edge, is Caisse centrale’s treasury product offering.

LOANS TO DESJARDINS ENTITIES
(in \$B)

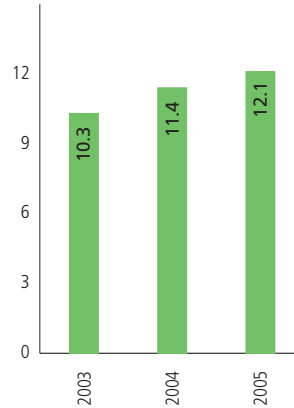


Caisse centrale strives to make sophisticated treasury products normally reserved for larger companies more accessible to small and medium-sized businesses (SMEs). A case in point is its direct access to traders allowing SMEs that are caisse members to deal directly with our trading room specialists, to develop a strategy best suited to their needs and execute the required trades. Similarly, such SMEs have access to our full line of derivatives that meet their interest and exchange rate risk-management needs. It should be pointed out that minimum trading volume definitely makes Desjardins stand out from the competition.

In 2005, many SMEs that were concerned about currency risk and wanted to implement effective strategies turned to foreign exchange options. These options were a new tool in addition to the forward exchange contracts already offered by Caisse centrale to business members of the caisse network.

In fact, since a team specializing in business development was set up in 2004, the service offering has been expanded even further. In 2005, Caisse centrale therefore pursued its treasury product offensive directed at corporate and institutional clients. The volume of derivatives sold showed strong growth on this fiercely competitive market, where Caisse centrale attempted to set itself apart by offering a high level of expertise and advisory services. In addition, it particularly strengthened its business relationships with major provincial agencies, credit unions and large corporations.

DEPOSIT LIABILITIES AND DEBENTURE
(in \$B)



CORPORATE AND INSTITUTIONAL MARKET

EXPERTISE, ACCESS AND FLEXIBILITY

For many years, Caisse centrale has been developing an extensive line of products and services for medium-sized businesses and large corporations, as well as for public and parapublic institutions. In addition to the financing on which its offering is based, Caisse centrale proposes banking services, international services and treasury products to its clients. The expertise that it has developed on these markets complements perfectly that of other Desjardins Group components.

PUBLIC AND PARAPUBLIC SECTORS

In 2005, Caisse centrale helped to consolidate Desjardins' pre-eminence on the Québec public and parapublic sector market by increasing financing to large institutions in Québec such as governments, government corporations, municipalities, hospitals, school boards and universities. Caisse centrale offers, in particular, financing and treasury products as well as banking services, some of which have grown at an average annual rate of over 25% in the past two years.

The service offering is also being made in partnership with the Desjardins caisses and Business Centres. Caisse centrale has, in fact, opened close to 60 new files, in conjunction with the Desjardins network, for total commitments of over \$200 million. About 38% of its outstandings are in partnership with the cooperative network.

Caisse centrale has started to position itself on two high-potential markets in which it will be able to make the most of its expertise. The first one is the institutional market in Ontario, where it will capitalize on the growing Desjardins presence, together with Desjardins Credit Union and the Fédération des caisses populaires de l'Ontario, in particular. The second is the public/private partnerships sector, a promising market segment, whose developments it will monitor.



BUSINESS FINANCING: A YEAR OF VIGOROUS EXPANSION

Buoyed by a sustained business development drive in 2005, Caisse centrale’s business financing operations expanded dramatically. New business grew sharply to nearly \$1.7 billion, up more than 50% over 2004, setting an all-time record high.

This robust growth is not just luck, but the result of well thought out and fully documented strategies as part of our strategic planning. The implementation of these strategic orientations went smoothly in 2005, while business loans outstanding at year-end posted a 15% annual growth.

MID-SIZE BUSINESSES: SPECIALIZED TEAMS

In order to better serve the mid-size business market (businesses with sales between \$10 and \$100 million), Caisse centrale created two divisions, one in Montréal and one in Québec City, exclusively dedicated to this segment. These divisions are now focused on supporting the Desjardins Business Centre network in developing this market. Caisse centrale’s authorized credits in this segment totalled \$0.7 billion.

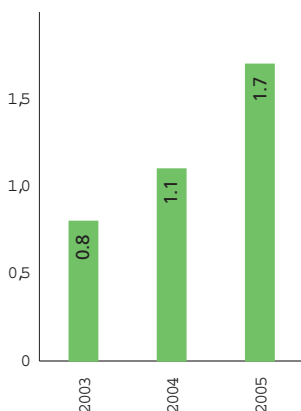
In addition to financing, Desjardins Business Centres and mid-size businesses can find other products and services tailored to their needs at Caisse centrale: banking, international and treasury services, and client support across Canada and the United States. More than ever, efforts to develop this strategic market for Desjardins, which is highly coveted by the competition, will be stepped up in 2006, in close cooperation with Desjardins Business Centres. This partnership will enable Desjardins Group to provide premier quality service and grow its market share.

CORPORATE MARKET

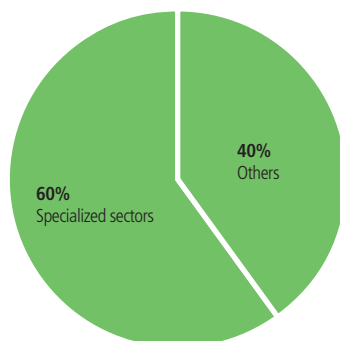
With some \$600 million in credit facilities already in place, Caisse centrale has assigned a team to the market segment for emerging large corporations with sales between \$100 and \$250 million.

As for the market for large corporations with sales of more than \$250 million, Caisse centrale’s very aggressive business development is based on three major strategies: accentuating its roles as agent and coagent; sector diversification by relying on its specialized sectors, and arranging financing that specifically meets its clients’ needs.

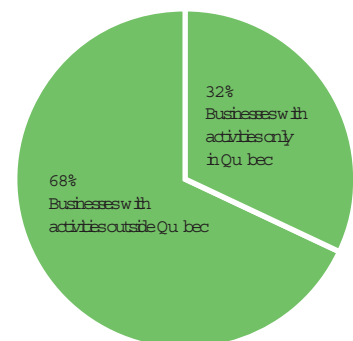
NEW BUSINESS
(in \$B)



DISTRIBUTION OF NEW BUSINESS BETWEEN SPECIALIZED SECTORS
(in %)



DISTRIBUTION OF NEW BUSINESS
(in %)



TAKING ITS RIGHTFUL PLACE IN BANKING SYNDICATES

The close ties that have existed for many years between Caisse centrale and most large Québec corporations make it a key player in the banking syndicate market in Québec. In order to strengthen its position, it aims to improve its standing among banking syndicates by focusing more on the roles of agent or coagent. This approach allows it, among other things, to offer all of Desjardins Group’s products and services to large corporate clients.

In 2005, Caisse centrale considerably improved its position in a large number of banking syndicates. It is also noteworthy that it renewed or obtained a position as coagent while substantially enhancing its standing in various banking syndicates of large corporations in the agrifood, forest product and energy resource sectors.

OUR SPECIALIZED SECTORS: A PRICELESS ASSET

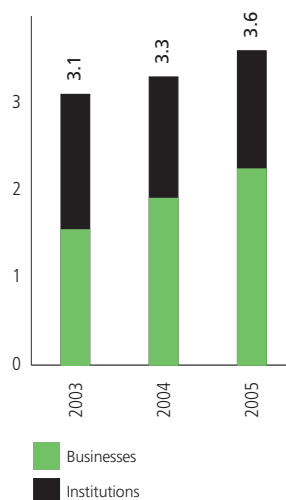
In order to achieve its sector diversification objectives, Caisse centrale relies on the expertise it has developed over the years in certain industrial and services sectors, namely the agrifood, forest product, communications, energy resource, steel and transportation sectors. These are sectors in which Caisse centrale knows all about the risk exposure involved. Moreover, it has attained a critical mass, allowing it to act as a major player among banking syndicates.

In 2005, close to 60% of Caisse centrale’s new business was obtained thanks to this priceless asset, highlighting the resounding success of this approach. Caisse centrale also consolidated its most recently developed sector, energy resources, which alone accounted for about 20% of all authorized credits in 2005.

GEOGRAPHIC DIVERSIFICATION IN BUSINESS DEVELOPMENT

Caisse centrale also supported its business clients in their expansion across Canada and the United States. At the same time, in pursuing its strategic orientations, it continued to cultivate a greater presence among Canadian banking syndicates. In order to achieve its geographic expansion objectives, Caisse centrale relied on Desjardins Commercial Lending U.S.A. Corp., its U.S. financing subsidiary. In fact, close to two-thirds of its new business in 2005 was generated by Québec companies operating on both sides of the border, as well as by Canadian companies headquartered outside Québec.

OUTSTANDING LOANS
(in \$B)



DEVELOPING NEW MARKETS

SUPPORTING DESJARDINS MEMBERS, CUSTOMERS AND PARTNERS

Caisse centrale's Canadian operations are firmly entrenched as a result of its activities as Desjardins Group's financial agent and Treasurer. For some years now, it has been implementing an ambitious development strategy on the Canadian market from its centre in the heart of Toronto's financial district. In 2005, it continued to grow in this market.

FINANCING: ROBUST CANADA-WIDE GROWTH

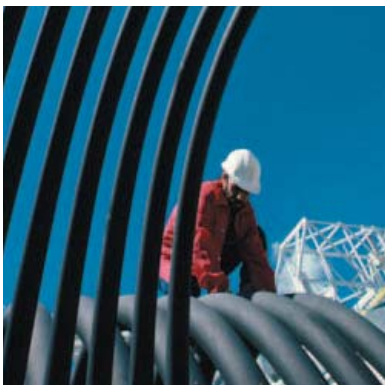
Caisse centrale's business financing operations, already very well established in Québec, experienced new growth across Canada in 2005. New business with Canadian companies headquartered outside Québec totalled \$440 million, or close to one-quarter of the authorized credits for the year, representing a very substantial increase of nearly 70% over 2004.

Caisse centrale relied in particular on its specialized sectors to build this strong Canada-wide growth on a solid foundation. These sectors, in fact, accounted for 35% of its new business.

INCREASED SUPPORT FOR THE CANADIAN COOPERATIVE MOVEMENT

Development of the Canadian market reflects Desjardins Group's intention to strengthen the position of the entire Canadian cooperative sector. The action taken by Caisse centrale regarding Canadian credit unions is fully in line with this objective.

In 2005, Caisse centrale accentuated its role as the reference financier for Canadian credit unions by granting them \$140 million in new credits. Consequently, the financing it has arranged as an agent for cooperative financing syndicates since 2002 has risen to more than \$400 million. This year, Caisse centrale further extended its geographic reach to the whole of Canada. In fact, its very first business relations had been forged with credit unions of British Columbia. In 2005, significant financing arrangements were also made for financial cooperatives in Alberta and Ontario.



However, its business relationships with Canadian credit unions are not restricted to financing. Financial cooperatives also take advantage of Caisse centrale's expertise in derivatives by turning to Caisse centrale's financial markets team for interest rate swaps as a means of managing their asset/liability matching. They thus benefit from the expertise acquired by Caisse centrale as the Group's Treasurer.

In addition, certain credit unions have access to index options allowing them to offer their members Desjardins' stock-market indexed savings products under their own label.

A PROFITABLE PRESENCE FOR ALL DESJARDINS COMPONENTS

For many years, Caisse centrale has proven to be a major lender to numerous school boards in Ontario's Francophone community, thus supporting Ontario caisses populaires in their market development drive. In 2005, Desjardins Asset Management, Desjardins Group's asset management arm, benefited from this long-standing relationship by arranging long-term financing worth \$200 million. During the year, Caisse centrale also participated, in conjunction with Desjardins Securities, in business development initiatives in some other Canadian provinces.

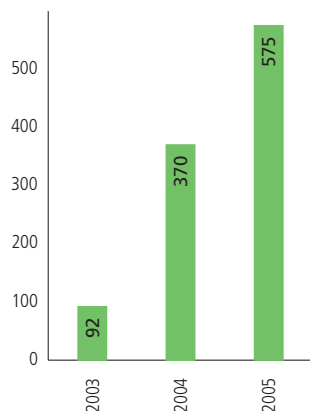
DESJARDINS COMMERCIAL LENDING IN NEW MARKETS

An increasing number of Québec companies are focusing on the U.S. market, the largest global market, for their development, and deciding to set up their businesses directly in this market by establishing points of service, plants, warehouses or distribution centres, or even through acquisitions. Business development in the United States necessarily means obtaining U.S. financing. In order to support these vibrant businesses, Caisse centrale created Desjardins Commercial Lending U.S.A. Corp. in July 2004. This subsidiary specializes in cross-border financing anywhere in the United States, particularly for American businesses owned to any extent by Canadian companies.

Since Desjardins Commercial Lending U.S.A. Corp. was established, many financing arrangements have been made. In 2005, its authorized new business totalled close to US\$200 million, and consisted mainly of cross-border financing for Caisse centrale clients. In addition, a large number of Desjardins Bank clients, which are fast-growing businesses, also capitalized on the larger financing capability of Desjardins Commercial Lending U.S.A. Corp. Thus, in its first full year of operations, it posted income before income taxes of almost US\$1 million.

In 2006, Caisse centrale intends to broaden its service offering to Canadian businesses with U.S. operations. The initiatives launched to establish a Caisse centrale branch in the United States are expected to be completed early in 2006.

NEW BUSINESS ON NEW MARKETS
(in \$M)



INTERNATIONAL MARKET

SUPPORTING DESJARDINS MEMBERS AND CUSTOMERS IN THE UNITED STATES AND AROUND THE WORLD

A globalized economy is becoming more and more of a reality each day for both individuals and businesses, as well as for organizations. It is inescapable; and it is both a threat and an opportunity. Caisse centrale has fully risen to this challenge, aiming to support the Desjardins caisse members, as well as its own clients, anywhere in the world. In addition, it attempts to raise their awareness of economic globalization by giving them the means to succeed in it while realizing their full potential.



FLORIDA-BASED DEVELOPMENT

Desjardins Bank, the Florida-based retail subsidiary, is doing quite well, as shown by its record profits in 2005. Loans and deposits were up respectively by 15% and 14% over 2004.

In addition, a study was carried out to determine a third point of service for Desjardins Bank, and Lauderhill was selected. This city is much favoured by Canadians, and its business market has solid potential. The Lauderhill branch will therefore open its doors in early 2006 and offer its services to both individuals and businesses.

STEADY GROWTH IN INTERNATIONAL PRODUCTS AND SERVICES

In line with its core business development areas targeted in recent years, the products and services managed by the Desjardins International Service Centre of Caisse centrale continued to grow.

This year again, the accessibility of its service offering was recognized and much appreciated. Its foreign exchange services, direct access to currency traders, and Priority Foreign Exchange Services became even more popular. The number of members who signed up for these services grew by 18% and 42% respectively.

The volume of currency transactions for the caisse network was up by 7% as a result of sustained business development efforts and transaction automation. Inter-currency transfers, which were automated in 2004, came into their own in 2005. Since this service is so user-friendly, businesses of all sizes used it extensively. In fact, Caisse centrale recorded over 25,000 transactions, for a total volume of close to \$650 million.

Apart from foreign exchange, international products and services such as funds transfers (+34 %) and letters of credit and guarantee (+72 %) also grew substantially in 2005. In addition, volumes discounted by clients using the Factoring – ExportD service almost doubled as a result of a service offering that is constantly being fine-tuned to reflect the needs of Desjardins business clients.

DESJARDINS GLOBAL TREASURY MANAGEMENT: A CUTTING-EDGE INTERNATIONAL TREASURY MANAGEMENT PRODUCT

In a context of market globalization, treasury activities become major strategic issues for businesses, which increasingly centrally manage their treasury on a domestic or international basis. In order to meet businesses’ needs, Caisse centrale, with the support of the Fédération des caisses Desjardins du Québec, designed the new Desjardins Global Treasury Management product. It was developed to meet the needs of clients operating on four continents. Now all Desjardins clients can benefit from a single worldwide liquidity management platform, access to centralized information and reduced banking fees.

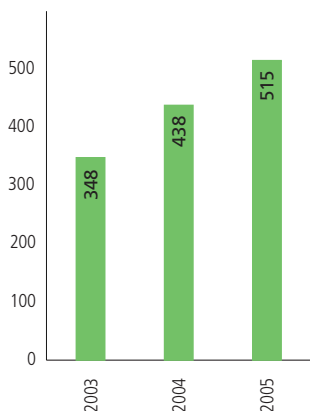
DESJARDINS’ TRADE MISSION TO EUROPE: A FIRST... TO BE REPEATED

Even though Québec companies are already doing well in the United States, globalization requires that they do not limit themselves to this market because Europe is also a particularly promising area. Since Caisse centrale is staunchly committed to developing the full potential of Desjardins members and clients, it has launched a far-reaching initiative to help them penetrate this market. In cooperation with the Kamouraska-Chaudière-Appalaches Group, the Desjardins Business Centre – Chaudière-Sud and the Caisse Desjardins Saint-Georges de Beauce, the Desjardins International Service Centre of Caisse centrale organized a trade mission to Paris. About 20 Québec businesses from the housing sector participated.

These businesses were able to attend, in particular, the International Building Exhibition, BATIMAT, which is recognized internationally in this sector. They especially benefited from personalized service from Desjardins, which organized business meetings for them with previously identified European businesses so they could establish initial contacts and explore the possibility of collaboration in the future, namely through partnerships, import/export, etc. Businesses also participated in industrial visits and tours of construction sites, and were able to become familiar with financing methods in France in order to be able to draw a parallel with the approach in Québec.

In keeping with its cooperative principles, Desjardins was able to provide international business opportunities to its SME members.

SMES – DIRECT ACCESS TO CURRENCY TRADERS
(number)



THE COOPERATIVE DIFFERENCE

CAISSE CENTRALE DISTINGUISHES ITSELF

Caisse centrale is a cooperative institution whose members are the Desjardins caisses and auxiliary federations. The cooperative difference is therefore central to its business practices and orientations. Concrete results show that Caisse centrale has clearly fulfilled its ambitious mission, and that it has distinguished itself once again this year.

RECORD CONTRIBUTION

First, Caisse centrale's contribution to the Desjardins caisse network reached an unprecedented high in 2005. Once again, it set a new record with a \$85.2 million contribution, up 6% over 2004 and representing a 13% return on share capital. These results, achieved through a very ambitious business development drive, reflect a high-calibre performance built on a sound foundation of prudent risk management and full compliance with our cooperative values.

The very profitable growth of our operations has put some pressure on our capital ratios. Even though the capital ratio calculated according to the Bank for International Settlements standards rose to 13.9% as at December 31, 2005, while the standard is 8%, the equity to assets ratio was 5.51%, versus the standard of 5.5%.

Given its members' satisfaction with the returns it has generated and the need to raise the equity to assets ratio, Caisse centrale will receive a major capital infusion in 2006. The Board of Directors of the Fédération des caisses Desjardins du Québec has authorized an additional \$121 million contribution to Caisse centrale's capital from the caisses, which will ratify this contribution at the Annual General Meeting in the first quarter of 2006. With this investment, Caisse centrale will be able to pursue its ambitious development drive and continue to stand out in its markets.

QUALITY OF SERVICE

This year again, the quality of service at Caisse centrale and its subsidiary Desjardins Bank was widely recognized. In fact, their services were rated as excellent (some 90% satisfied or very satisfied) by Desjardins Business Centres and institutional clients, as well as by individuals and businesses. It is therefore not surprising that the retention rate for business and institutional clients is virtually perfect.



A WORTHY REPRESENTATIVE OF DESJARDINS GROUP ON CAPITAL MARKETS

As Desjardins’ representative on international capital markets, Caisse centrale highlights the Group’s merits and assets with the financial community, including financial analysts, institutional investors, brokers and rating agencies. One of the strengths that Caisse centrale is committed to promoting at all times is the great stability of the Group’s co-operative model.

It is also noteworthy that the issue of 500 million euros early in 2006 reinforced Desjardins’ relationship with the international financial cooperative movement. In fact, Desjardins joined forces for the first time with three European financial cooperatives as joint lead managers of the issue.

COMMITTED TO THE DEVELOPMENT OF COOPERATIVES

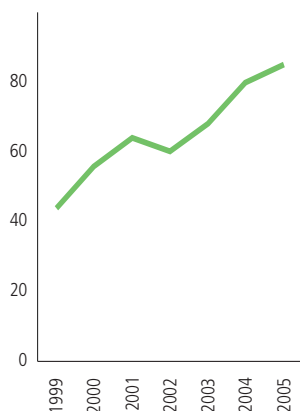
Caisse centrale contributes to the Canada-wide development of cooperatives through its financing activities, as shown by its work with Canadian credit unions and many agrifood and forest product cooperatives. The total authorized credits that it extended to the Canadian cooperative sector were in the order of \$700 million.

In addition to providing this substantial financial support, Caisse centrale continues to play an oversight role in the development of Desjardins Credit Union in Ontario. Desjardins Credit Union made a number of breakthroughs during the year, in particular by setting up a branch at the University of Western Ontario, and opening a new branch in Mississauga and a Business Centre in London.

CONCERN FOR ACCESSIBILITY

In line with its cooperative values, Caisse centrale has strived for many years to improve small and medium-sized businesses’ access to sophisticated products and services normally reserved for larger businesses. Take, for example, its direct access to currency traders, whereby SMEs that are caisse members, but whose trading volume is very small, deal directly with trading room specialists, develop a strategy tailored to their needs and execute the required trades.

5-YEAR CONTRIBUTION TO NETWORK⁽¹⁾
(in \$M)



(1) Restated to conform with the presentation adopted in 2005.

SOLIDARITY

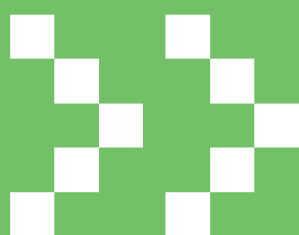
Like Desjardins Group, another aspect of the cooperative difference which characterizes Caisse centrale is its commitment to the community. In fact, every year it supports more than 350 social, cultural, scientific, and educational organizations through donations, sponsorships or benefit activities.

In 2005, it continued to support the Youth Profit program launched by Desjardins, among others, by providing internships and temporary employment to numerous students. In addition, it also granted some \$140,000 to organizations promoting youth development, including Fondation Desjardins, the Fondation Marie-Vincent and the Fondation de l'athlète d'excellence du Québec. Caisse centrale also initiated a closer relationship with ethnic communities through various organizations such as the Centre social aide aux immigrants, the Centre culturel vietnamien Hông Duc and international organizations like Médecins du Monde and Oxfam-Québec. Organizations in the health care and research sector were also favoured, including the Fondation Docteur Maurice Bertrand for the benefit of the Association d'Entraide Ville-Marie, the Fondation hospitalière Maisonneuve-Rosemont, and the Fondation Hôpital Charles-LeMoine.

In addition, Caisse centrale sponsored a number of events organized by economic organizations such as the Board of Trade of Metropolitan Montréal, The International Finance Club of Montréal and the Salon International de l'Alimentation [International Food Beverage, Wine and Spirits Exhibition] – SIAL Montréal.

In closing, it is noteworthy that the 10th annual Desjardins golf tournament was a great success, raising \$100,000 in the spring of 2005 through the participation of a number of Desjardins' clients and business partners. More than a dozen organizations, dedicated primarily to helping children in need, have benefited from this activity since it was launched.





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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) compares the financial condition and results of operations of Caisse centrale Desjardins ("Caisse centrale") for the years ended December 31, 2005 and 2004, prepared in accordance with Canadian generally accepted accounting principles. This MD&A is dated February 10, 2006 and unless otherwise indicated, all stated figures are in Canadian dollars. It also discusses forecasts and risk management. To assist the reader, we have added a glossary of financial terms at the end of the Annual Report on page 100. Additional information on Caisse centrale, notably its Annual Information Form, is also available on the SEDAR website (www.sedar.com).

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This report may contain forward-looking statements regarding the activities, objectives and strategies of Caisse centrale. By their very nature, these forward-looking statements are based on assumptions and necessarily involve both general and specific risks and uncertainties. Risks exist that the express or implied projections in these statements will not materialize or that they will be inaccurate. A number of factors could cause future results, conditions, measurements or events to differ materially from the objectives, expectations, estimates or intentions expressed in such statements. These variances may be the result of factors, many of which are beyond the control of Caisse centrale, such as changes affecting legislative and regulatory developments, competition, technological advancements, international capital market activities, interest rates and Canadian, North American and global economic conditions. These factors and other variables should be carefully analyzed, and readers should not place undue reliance on the forward-looking statements of Caisse centrale.

RISK FACTORS THAT MAY AFFECT FUTURE RESULTS

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

INDUSTRY RISK FACTORS

General economic and business conditions in regions where Caisse centrale conducts business General economic and business conditions in the regions in which Caisse centrale operates may significantly affect its revenues. These conditions include short and long-term interest rates, inflation, capital market fluctuations, foreign exchange rates, the strength of the economy, terrorist threats and the volume of business conducted by Caisse centrale in a given region.

Monetary policy The monetary policies of the Bank of Canada and the Federal Reserve Board in the United States, as well as other interventions in capital markets, have an impact on the revenues of Caisse centrale. Changes in the money supply and the general level of interest rates may affect the profitability of Caisse centrale. 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 Caisse centrale's net interest income. Caisse centrale has no control over changes in monetary policies or capital market conditions, and consequently, it cannot forecast or anticipate them.

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

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

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

RISK FACTORS SPECIFIC TO CAISSE CENTRALE

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

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

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

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

OTHER FACTORS

Other risk factors such as strategic, credit, market, liquidity, interest rate and operational risks, to name a few, are presented in the "Risk Management" section starting on page 39 of the report.

Caisse centrale cautions the reader that factors other than the foregoing could affect future results. When investors and other stakeholders rely on forward-looking statements to make decisions with respect to Caisse centrale, they should carefully consider these factors as well as other uncertainties, potential events, and industry factors or factors specific to Caisse centrale, which could adversely impact its future results. Caisse centrale will not update any forward-looking statements, whether written or oral, that may be made from time to time by it or on its behalf.

FINANCIAL REPORTING CONTROLS AND PROCEDURES

Controls and procedures During 2005, the management of Caisse centrale evaluated the effectiveness of the disclosure controls and procedures of Caisse centrale pursuant to Multilateral Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings) of the Canadian Securities Administrators. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer of Caisse centrale concluded that the design and operation of these disclosure controls and procedures were effective.

Changes in internal control over financial reporting During the year ended December 31, 2005, there was no change in Caisse centrale's internal control over financial reporting that materially affected, or was reasonably likely to materially affect, its internal control over financial reporting.

ANALYSIS OF CONSOLIDATED FINANCIAL STATEMENTS AND CRITICAL ACCOUNTING POLICIES

This section contains the analysis of the financial results of Caisse centrale, which focuses on the statement of income and the balance sheet in the consolidated financial statements starting on page 56 of the Annual Report. Note 2 to the consolidated financial statements presents a summary of the significant accounting policies used in preparing the consolidated financial statements of Caisse centrale. Some of the accounting policies are considered critical because they are key to understanding the financial condition and results of operations of Caisse centrale; they require Management to make difficult, subjective and complex estimates and assumptions since they concern essentially uncertain issues. Any change in these estimates and assumptions could have a material impact on the consolidated financial statements of Caisse centrale. Critical accounting policies concern the allowance for credit losses, financial instruments measured at fair value, the valuation of investment account securities, securitization and income taxes.

ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses is an estimate of probable credit losses related to financial instruments, whether or not presented in the consolidated balance sheets of Caisse centrale, including loans, off-balance sheet commitments, acceptances and derivative instruments. This allowance comprises a general provision for credit losses and specific provisions. A number of factors affect the estimates for the allowance for credit losses, including risk assessment, default probability, loss in the event of default, valuation of security, economic conditions and borrowers' specific situations. Any change in the estimates can lead to modifications of the allowance for credit losses. Note 4 to the consolidated financial statements provides more details on the allowance for credit losses.

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

Caisse centrale measures securities held for trading purposes and derivative financial instruments at their fair value. Fair value represents the estimated amounts at which these instruments could actually be exchanged in a current transaction between willing parties. The fair values of a number of financial instruments are based on market prices. If market prices are unavailable, fair values are estimated by using various valuation techniques or the prices of similar securities. Valuation techniques used include the discounted cash flow method and option pricing models. The methods to determine fair value and the assumptions used in the valuation models can affect fair value and the corresponding gains and losses. Other information on the methods used to determine fair values by Caisse centrale is provided in notes 2 and 13 to the consolidated financial statements.

VALUATION OF INVESTMENT ACCOUNT SECURITIES

Under Canadian generally accepted accounting principles, investment account equity securities are stated at cost, while debt securities are carried at amortized cost. If there is a loss in value of an investment account security that is other than a temporary decline, its carrying amount must be written down to its net realizable value. Determining whether there has been a loss in value that is other than a temporary decline and establishing the net realizable value require subjective judgment and estimates. Management reviews the value of investment account securities on an ongoing basis in order to determine if there has been a loss in value that is other than a temporary decline. This review includes an analysis of the specific facts of each investment and an assessment of expected future returns.

As part of this exercise, Management assesses a series of factors that could indicate a loss in value that is other than a temporary decline. Such factors include the type of investment, how long fair value was less than the carrying amount and the significance of this difference, the issuer's financial condition and short-term prospects, as well as Caisse centrale's intention and ability to hold the investment for a sufficiently long period so that its value would rebound. When Management has determined that there has been a loss in value of a security that is other than a temporary decline, it must form a judgment as to the estimated net realizable value.

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

Caisse centrale presents the estimated fair value of investment account securities in note 3 to the consolidated financial statements. In Management's opinion, gross unrealized losses on investment account securities are not a loss in value that is other than a temporary decline. Further information on recording investment account securities is presented in note 2 to the consolidated financial statements.

SECURITIZATION

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

These transactions are recorded as sales because Caisse centrale surrenders control over the assets sold and receives consideration other than beneficial interests in these assets. As a result, the mortgages transferred are removed from the consolidated balance sheets.

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

Further information on these transactions can be found in note 5 to the consolidated financial statements as well as in the section of this Management's Discussion and Analysis on off-balance sheet arrangements.

INCOME TAXES

The income tax provision is established on the basis of the expected tax treatment of transactions recorded in the consolidated statements of income or the consolidated statements of members' equity. In order to determine the current and future portions of the income tax provision, analyses and assumptions are established concerning the tax laws and the dates on which future tax assets and liabilities will reverse. If the interpretation concerning tax laws differs from the one established by tax authorities or if the reversal dates of future tax assets and liabilities differ from the ones estimated, the income tax provision could increase or decrease over subsequent periods.

ACCOUNTING CHANGES

2005

Variable Interest Entities On January 1, 2005, Caisse centrale adopted Accounting Guideline 15 "Consolidation of Variable Interest Entities" (AcG-15) of the Canadian Institute of Chartered Accountants (CICA). AcG-15 is harmonized with the new FASB Interpretation FIN46R, "Consolidation of Variable Interest Entities," and provides guidance on the application of the principles provided in Section 1590, "Subsidiaries." A variable interest entity (VIE) is an entity whose equity is insufficient to permit it to finance its activities without additional subordinated financial support provided by a third party, or an entity whose equity holders do not have, as a group, the ability to make decisions, the obligation to absorb expected losses or the right to receive residual returns, if any. AcG-15 provides for the consolidation of a VIE by its primary beneficiary, namely the enterprise that absorbs a majority of the expected losses and/or has the possibility of receiving the majority of residual returns.

At the close of the year ended December 31, 2005, Caisse centrale was not the primary beneficiary of any VIE nor did it have a significant interest in any VIE. The implementation of AcG-15 did not have any impact on the financial disclosure of Caisse centrale as at December 31, 2005.

2004

Hedging Relationships On January 1, 2004, Caisse centrale adopted Accounting Guideline 13, "Hedging relationships," (AcG-13) issued by the CICA and Emerging Issues Committee Abstract 128, "Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments" (EIC 128). This accounting guideline addresses identification, designation, documentation and effectiveness of hedging relationships and deals with the circumstances leading to discontinuance of hedge accounting. Pursuant to EIC-128, any derivative instrument that does not qualify for hedge accounting should be recognized as an asset or a liability on the balance sheet and measured at fair value, with changes in fair value recognized in income.

Caisse centrale has revised its existing hedging relationships and has discontinued the use of hedge accounting for those hedging relationships that did not meet all required conditions. Pursuant to the transitional provisions of AcG-13, the difference between the fair value and the carrying value of derivative financial instruments from cancelled hedging relationships has been deferred and is amortized over the life of such derivatives.

Furthermore, as part of the adoption of the accounting guideline on January 1, 2004, Caisse centrale revised its accounting policies to recognize all derivative financial instruments on the balance sheet at fair value, while previously only those used for trading purposes were accounted for in such manner.

Generally Accepted Accounting Principles On January 1, 2004, Caisse centrale adopted, on a prospective basis, the requirements of Section 1100, "Generally Accepted Accounting Principles," issued by the CICA. This section establishes standards for financial reporting in accordance with GAAP and provides guidance on sources to consult when selecting accounting policies and determining appropriate disclosures, when a matter is not dealt with specifically in the primary sources of GAAP. This standard eliminates the application of certain practices that could be used in specific industries.

Further to the adoption of this section, net amounts receivable from financial institutions arising from the clearing and settlement system are now presented in assets while net amounts payable to financial institutions are included in liabilities.

FUTURE ACCOUNTING CHANGES

Implicit Variable Interests In October 2005, the Emerging Issues Committee issued Abstract no. 157, "Implicit Variable Interests Under AcG-15" (EIC-157). This abstract clarifies that implicit variable interests are implied financial interests in an entity which vary in accordance with changes in the fair value of the entity's net assets, exclusive of variable interests. An implicit variable interest is similar to an explicit variable interest except that it involves the absorbing and/or the receiving of variability indirectly from the entity. The determination of whether an implicit variable interest exists is a matter of judgment that depends on the relevant facts and circumstances. EIC-157 will be effective for Caisse centrale in the first quarter of 2006. Its adoption is not expected to have a material impact on its financial statements.

Financial Instruments In January 2005, the CICA issued new accounting standards entitled "Financial Instruments - Recognition and Measurement" (Section 3855), "Hedges" (Section 3865) and "Comprehensive Income" (Section 1530) which will apply to Caisse centrale effective January 1, 2007. The main guidelines for the recognition and measurement of financial instruments and for the accounting of hedging transactions are described below. The impact of these accounting standards on the consolidated financial statements of Caisse centrale cannot yet be determined as it is dependent on outstanding positions and their fair value at the time of transition as well as on Caisse centrale's hedging strategies.

Financial Instruments - Recognition and Measurement Financial assets will have to be classified in one of the following four categories: held for trading, available for sale, held to maturity, and loans and receivables. Financial liabilities will be classified as held for trading or other. Financial assets and financial liabilities held for trading as well as financial assets available for sale will be recorded on the balance sheet at fair value. Changes in the fair value of instruments held for trading will be recognized in consolidated net income for the period, while changes in instruments available for sale will be recognized in consolidated other comprehensive income until realized, unless they become impaired and the decline in their fair value is other than temporary. Financial assets held to maturity, loans and receivables, and financial liabilities not held for trading will be recognized at their amortized cost.

Hedges Derivative instruments will have to be recorded on the balance sheet at fair value. Those that will not be designated as being part of a hedging relationship will be classified as held for trading. Those that will be recorded in a hedging relationship will be designated as part of a fair value hedge or a cash flow hedge. In a fair value hedge, gains and losses resulting from the revaluation of the fair value of the derivative and the designated risk of the hedged item will be recognized in consolidated net income, regardless of the category of the hedged item. In a cash flow hedge, gains or losses resulting from changes in the fair value of the effective portion of the derivative will be recorded in consolidated other comprehensive income until the hedged item is recognized in net income. The ineffective portion will be recognized immediately in consolidated net income.

Comprehensive Income The new financial statement "Statement of Comprehensive Income" will be added to the consolidated financial statements of Caisse centrale. In particular, it will include unrealized gains and losses on financial assets available for sale and the change in the effective portion of the cash flow hedge transaction.

STRATEGY OF CAISSE CENTRALE

Capital Market Under the program for strengthening Desjardins Group's strategic direction, Caisse centrale has taken on the role of the Desjardins Group's treasurer.

Caisse centrale's strategy is being shaped by strong growth in the Desjardins network's funding requirements, combined with sustained business development, and by the resolve to ensure optimal liquidity management.

Desjardins Group's funding requirements will continue to expand during the next few years, mainly as a result of strong asset growth in the caisse network. Over and above amounts borrowed on the Canadian money market, for which the implementation of a program is not required, Caisse centrale will make use of all Desjardins funding programs, up to the authorized ceiling of approximately \$12 billion.

Caisse centrale is therefore constantly striving to broaden its access to capital markets. It has recourse to all its funding programs on a regular basis. As the representative of Desjardins Group, Caisse centrale enjoys excellent credit ratings.

In light of the network's considerable funding requirements, and in order to diversify its own funding sources, Caisse centrale has also implemented a strategy for the securitization of receivables. The mechanisms for substantial recourse to this funding method were set up during the year. Over \$100 million of mortgages were sold in the last few months of 2005.

Caisse centrale continued to manage its liquidities rigorously. With broader access to funding on the Canadian market and its securitization capabilities, liquidity management can be optimized, thus generating financial synergies. In addition, Caisse centrale designed and implemented a plan to reduce the Desjardins Group's required reserves of liquidity by \$1.5 billion.

Caisse centrale also continued to pursue its deposit maturity staggering strategy in order to avoid a concentration of issues during a given period and to reduce dependency on short-term maturities.

In the area of business development, Caisse centrale intends to continue its efforts to offer sophisticated treasury products to its corporate and institutional clients as well as to all the Desjardins clientele, thereby growing its revenues while standing out for service accessibility. Caisse centrale will also continue to approach provincial governments and credit unions across Canada with the aim of offering them its treasury products.

Corporate Service Offering Caisse centrale seeks to support Desjardins Group in its strategy to become a major player in all business-related markets. Its goal is to be recognized for its specific knowledge and its service quality, as well as its client support capabilities in Canada and the United States.

Caisse centrale represents Desjardins Group in most of the banking syndicates for large corporations in Québec and it aims to enhance its position in order to act as agent or coagent. Thus, for a number of years, it has been forging very close ties with its clients, as reflected by a very high customer satisfaction rate and a retention rate of close to 100%. Caisse centrale can offer its clients an increasingly broad and integrated line of products and services.

Clients also appreciate the expertise of account managers in various industrial sectors. Caisse centrale's service is flexible and customized to meet each client's specific needs.

Geographic diversification of its loan portfolio is already well under way, as evidenced by the new business authorized in new markets, which was in excess of \$575 million in 2005. In addition, with the launch of its new subsidiary, Desjardins Commercial Lending U.S.A. Corp. in the United States, Caisse centrale is even better positioned to provide support to clients with U.S. operations.

As part of Desjardins Group's three-year strategic plan, Caisse centrale will focus its development efforts in 2006 more specifically on the new team set up to serve businesses with revenues of between \$100 million and \$250 million.

The geographic diversification of the financing sector in Canada will continue, in particular by reinforcing direct relations with businesses and lead arrangers of banking syndicates. Caisse centrale will build on its specialized sectors, including the newly-created natural resources team, a significant economic sector in Western Canada.

The groundwork was also laid-out for the opening of a Caisse centrale branch in the United States in 2006 in order to broaden the service offering for businesses with activities south of the border.

International operations In line with its service offering, Caisse centrale's International Service Centre looks after management of international trade and payments. The team is gradually expanding its service offering in order to meet the needs of Desjardins clients around the world and to support Desjardins Group's corporate sector.

ECONOMIC REVIEW

This section briefly summarizes the economic conditions in 2005 and includes our forecasts for 2006.

In 2005, the Canadian economy continued to expand, with the production of goods and services increasing at close to 3%, the same annual rate as in 2004, fuelled by strong growth in corporate investments and a solid contribution from household spending. Corporations took advantage of the large gain in the Canadian dollar to buy new machinery and equipment, particularly in the oil and natural resource industries, which largely benefited from the surge in oil, gas and commodity prices on international markets. Households, for their part, relied on higher pay increases and continued accommodating interest rates, in spite of the monetary tightening initiated by the Bank of Canada in 2004 and pursued in fall 2005.

The rise in consumer prices, accelerated in mid-year as a result of the jump in gasoline and natural gas prices, did not spread out to the overall goods, and as a result consumer confidence remained strong. As confirmed by 232,000 housing projects which started in 2005, consumer optimism shows no sign of waning.

However, the Canadian economy's solid performance covered up some significant regional disparities. The development of oil and gas resources in Western Canada and their exports to the U.S. propelled the Canadian dollar past the US\$0.87 mark, further eroding the export capacity of manufacturing industries located in Central and Eastern Canada. In addition, the growing problems of North American auto makers continued to weigh heavily on Ontario's economic environment.

In 2005, credit demand was down somewhat from 2004, especially among businesses, which were able to improve their cash flows because of high earnings. Growth in consumer loans, at an annual rate exceeding 10%, continued to be strong, sustained by a very brisk real estate market and high retail sales.

The economy should continue to run at close to its potential in 2006, with its potential being defined as annual growth of 3%. The Bank of Canada is likely to continue to moderate its loosened monetary policy, raising the overnight rate to close to 4%. On the other hand, longer term interest rates probably will not follow suit, because the pressure on prices will lessen and the continuing vigour of the Canadian dollar will limit the possibility of interest rate hikes.

The annual inflation rate should fall to about 2% and the Canadian dollar could rise to US\$0.90 if the energy environment remains tense. According to forecasts, the economic scenario for 2006 is likely to be a repeat of 2005, against the backdrop of a solid performance from the U.S. economy, in spite of its threat to international equilibrium from high deficits in public accounts and foreign trade.

ANALYSIS OF CONSOLIDATED RESULTS

NET INCOME AND CONTRIBUTION TO NETWORK

Caisse centrale's contribution to the caisse network in 2005 reached \$85.2 million, up 6% from 2004 and representing a 13% return on capital stock. This steady increase is attributable to the development strategies adopted in recent years in all business segments.

The gross income of Caisse centrale stood at \$161.6 million, up \$8.9 million or 6% from 2004, primarily as a result of an increase in other income, which rose \$11.6 million from a year earlier. Net income totalled \$48.5 million, compared to \$44.1 million in 2004, for a 10% growth. The following sections provide a detailed analysis of income and expenses.

NET INTEREST INCOME

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

Table I presents the changes in net interest income by major asset and liability class. The last three columns in the table show the relative contribution of rate and volume changes to assets and liabilities. The impact is broken down into its volume and rate components.

In 2005, net interest income was down slightly by \$2.6 million or 2% from 2004, closing the year at \$102.4 million, mainly because of a \$4.3 million reduction in Capital Market segment net interest income, which totalled \$43.7 million in 2005. This segment's net interest margin was affected by the decrease in

the average rate for securities in 2005 versus the average rate in 2004, in spite of higher interest rates. The decrease can be attributed to the investment account: some \$350 million in provincial bonds bearing interest at an average rate of over 5.0% were sold off or matured. The securities purchased in 2005, mainly from banks and financial institutions, were generally for shorter terms and had lower returns of close to 3%. It should be noted, however, that the composition of Capital Market segment income can vary considerably depending on market conditions. The drop in net interest income was more than offset by the gains on disposal recorded under "Other income." As shown in Table III below, other income in fact posted a sharp increase of 29% in 2005 (see the following section) and Capital Market segment revenue was up by \$2.9 million overall in 2005.

Acting as treasurer for Desjardins Group, Caisse centrale promptly met liquidity needs arising from the strong growth of the caisses following their success in their markets. Average loans made to the Fédération des caisses Desjardins du Québec for this purpose therefore rose from \$1.7 billion to \$2.6 billion, up very substantially by \$0.9 billion or 53%. Since these advances were made under more favourable conditions than those granted to unrelated third parties, namely without a margin, this significant increase in average assets adversely affected net interest margin expressed as a percentage of average assets.

The Financing segment generated a \$1.5 million increase in net interest income, even though certain businesses elected to obtain financing using Desjardins Acceptances rather than traditional loans. Although this decision adversely affected net interest income, it was offset by higher commissions on Desjardins Acceptances (see "Other income" section).

Overall, the net interest margin went from 0.81% to 0.73% by the end of fiscal 2005.

OUTLOOK

Caisse centrale expects net interest income to grow in 2006.

Table I NET INTEREST INCOME ON AVERAGE ASSETS AND LIABILITIES

For the years ended December 31

	2005			2004			2005/2004		
	Average volume	Interest	Average rate	Average volume ¹	Interest ¹	Average rate	Volume gap	Rate gap	Income gap
ASSETS									
Cash and securities	\$ 2,722,527	\$ 104,786	3.85%	\$ 2,885,845	\$ 118,165	4.09%	\$ (6,286)	\$ (7,093)	\$ (13,379)
Loans									
Securities purchased under resale agreements	99,914	3,882	3.89	65,997	690	1.05	1,318	1,874	3,192
Day to day	185,266	4,881	2.63	224,129	5,221	2.33	(1,024)	684	(340)
Fédération									
- treasury activities	2,627,897	77,118	2.93	1,695,643	49,543	2.92	27,358	217	27,575
- financing activities	2,559,179	80,518	3.15	2,266,935	56,359	2.49	9,195	14,965	24,160
Other entities included in the scope of consolidation of Desjardins Group	888,957	43,000	4.84	1,083,904	36,038	3.32	(9,430)	16,392	6,962
Public and parapublic institutions	1,236,445	53,529	4.33	1,458,556	47,993	3.29	(9,616)	15,151	5,535
Private sector ²	1,930,601	96,288	4.99	1,601,499	68,515	4.28	16,414	11,359	27,773
	9,528,259	359,216	3.77	8,396,663	264,359	3.15	42,661	52,196	94,857
Total interest-earning assets	12,250,786	464,002	3.79	11,282,508	382,524	3.39	36,674	44,804	81,478
Other assets	1,717,778	—	—	1,602,040	—	—	—	—	—
TOTAL ASSETS	\$ 13,968,564	\$ 464,002	3.32%	\$ 12,884,548	\$ 382,524	2.97%	\$ 36,008	\$ 45,470	\$ 81,478
LIABILITIES AND MEMBERS' EQUITY									
Deposits									
Payable on demand	\$ 906,157	\$ 22,419	2.47%	\$ 590,808	\$ 12,046	2.04%	\$ 7,802	\$ 2,571	\$ 10,373
Payable on a fixed date	9,432,713	332,933	3.53	9,081,607	258,753	2.85	12,392	61,788	74,180
Subordinated debenture	114,049	6,286	5.51	122,831	6,774	5.51	(484)	(4)	(488)
Total interest-bearing liabilities	10,452,919	361,638	3.46	9,795,246	277,573	2.83	22,753	61,312	84,065
Other liabilities	2,853,396	—	—	2,431,617	—	—	—	—	—
Members' equity	662,249	—	—	657,685	—	—	—	—	—
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 13,968,564	\$ 361,638	2.59%	\$ 12,884,548	\$ 277,573	2.15%	\$ 28,065	\$ 56,000	\$ 84,065
NET INTEREST INCOME	\$ 13,968,564	\$ 102,364	0.73%	\$ 12,884,548	\$ 104,951	0.81%	\$ 7,943	\$ (10,530)	\$ (2,587)

¹ Reclassified to conform to the current year's presentation.

² Average impaired loans, net of specific provisions, are included in this caption.

Table II **OTHER INCOME**

For the years ended December 31

(in thousands of dollars)

	2005	2004 ¹	Change \$
Service charges on chequing and deposit accounts	\$ 13,724	\$ 12,326	\$ 1,398
Foreign exchange revenue	23,242	21,403	1,839
Trading activities	(639)	(2,312)	1,673
Investment activities	8,196	4,958	3,238
Commissions on "Desjardins Acceptances"	8,120	6,289	1,831
Credit fees	3,019	2,477	542
Other	3,599	2,602	997
TOTAL	\$ 59,261	\$ 47,743	\$ 11,518

¹ Reclassified to conform to the current year's presentation.

OTHER INCOME

Other income includes all income that is not interest income.

Other income, which accounted for 37% of Caisse centrale's gross income, against 31% in 2004, amounted to \$59.3 million, versus \$47.7 million a year earlier, for an increase of \$11.6 million or 24%. This growth was reflected in all the components of other income.

With the investment strategies adopted as a result of the market opportunities explained in the previous section and the use of derivatives for asset/liability management purposes, whose revenue was recorded under investment activities, it was possible to limit the impact of low interest rates on net interest income from Capital Market segment activities. Revenue from investment activities was up 65% to \$8.2 million in 2005.

As mentioned in the previous section, the decision of certain businesses to obtain financing using Desjardins Acceptances rather than loans accounts for the substantial increase in commissions on Desjardins Acceptances.

Foreign exchange activities, one of the core business development areas favoured by Caisse centrale in recent years, continued to grow at a steady pace.

Foreign exchange revenue posted an increase of 9% over the previous year as a result of the success of our direct access service to foreign exchange traders and our preferred access service, thereby improving our market share. As at December 31, 2005, more than 500 business members had signed up for the direct access service, one of the most flexible in the industry. All international services also performed very well in 2005.

Reflecting the considerable headway made with new clients, service charges on chequing and deposit accounts transactions climbed 27% within the past two years.

OUTLOOK

Caisse centrale expects an increase in its other income in the coming year by capitalizing on its competitive advantages.

SEGMENT ANALYSIS

All segments contributed to the growth in total income in 2005.

Capital market Low interest rates were mirrored in net interest income from Capital Market segment activities, in particular income from liquid assets. As shown in Table III, net interest income from this segment was down \$4.3 million to stand at \$43.7 million by year-end. Derivatives were used and certain investments were disposed of in order to modify the terms of the assets and benefit from market opportunities. Gains on the disposal of investments and revenue from derivatives used for asset/liability management purposes are presented under investment activities in the "Other Income" section (Table II). Therefore, despite low interest rates, aggregate results obtained by the Capital Market segment surpassed the exceptional performance recorded in 2004.

It should be noted that the breakdown of income from Capital Market segment activities (interest income or other income) may vary significantly based on market opportunities. Overall, for all of its activities, including foreign exchange activities and trading activities presented under "Other income," the Capital Market segment generated total income of about \$76.1 million, up \$2.9 million or 4% from a year earlier.

Table III COMPONENTS OF NET INTEREST INCOME AND OTHER INCOME BY BUSINESS SEGMENT

For the years ended December 31

(in thousands of dollars)

	2005	2004 ¹	Change \$
CAPITAL MARKET			
Net interest income	\$ 43,709	\$ 48,051	\$ (4,342)
Other income	32,417	25,203	7,214
	76,126	73,254	2,872
FINANCING			
Net interest income	52,508	50,990	1,518
Other income	19,536	16,868	2,667
	72,044	67,858	4,185
OTHER			
Net interest income	6,147	5,911	237
Other income	7,308	5,671	1,637
	13,455	11,582	1,874
Total - Net interest income	102,364	104,951	(2,587)
Total - Other income	59,261	47,743	11,518
TOTAL	\$ 161,625	\$ 152,694	\$ 8,931

¹ Reclassified to conform to the current year's presentation.

Financing As also shown in Table III, growth in the volume of private sector loans resulted in a \$1.5 million increase in the net interest margin for the Financing segment. In 2005, owing to the strategies it implemented in previous years, Caisse centrale was able to make significant progress in banking syndicates and in new markets, including credit unions. Caisse centrale also used its subsidiary Desjardins Commercial Lending U.S.A. Corp. to participate in cross-border banking syndicates. In 2005 as well, some public and parapublic institutions and business units of the Fédération des caisses Desjardins du Québec opted to finance their activities through Desjardins Acceptances rather than through loans, whereas the opposite was true a year earlier. This accounts for the increase in fees on Desjardins Acceptances recorded under "Other income" and the reverse effect on net interest income in 2005. Overall, if net interest income and other income are taken into account, total income from the Financing segment grew by \$4.2 million or 6.2%.

Other The "Other" segment posted a 16% increase in 2005, mainly from international activities and the results of the subsidiary Desjardins Bank N.A.

OUTLOOK

In 2006, all segments are expected to record an increase in their income.

PROVISION FOR CREDIT LOSSES

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

In 2005, the provision for credit losses charged to income amounted to \$15.2 million, an amount similar to the previous year in spite of a 15% increase in private sector loans. This situation is attributable to the improvement in the quality of the loan portfolio in 2005.

A more detailed analysis of the specific provisions for credit losses is provided on page 42.

OUTLOOK

Even though Caisse centrale expects the overall provision for credit losses in 2006 to be comparable to the one in 2005, there may be a certain amount of volatility from one quarter to another.

Table IV **NON-INTEREST EXPENSES**

For the years ended December 31

(in thousands of dollars)

	2005	2004	Change \$
SALARIES AND BENEFITS	\$ 28,151	\$ 26,391	\$ 1,760
PREMISES, EQUIPMENT AND FURNITURE, INCLUDING DEPRECIATION			
Rent and taxes	2,440	2,170	270
Depreciation of fixed and intangible assets	2,520	2,656	(136)
Subcontracting	8,391	5,937	2,454
Other	2,428	2,087	341
	15,779	12,850	2,929
OTHER FEES			
Communications and external relations	5,554	4,969	585
Professional fees	5,510	5,544	(34)
Other	4,859	4,940	(81)
	15,923	15,453	470
TOTAL	\$ 59,853	\$ 54,694	\$ 5,159

NON-INTEREST EXPENSES

Non-interest expenses include salaries and benefits, premises, equipment and furniture and other operating expenses.

Table IV above shows the breakdown of non-interest expenses by category. Non-interest expenses totalled \$59.9 million in 2005, compared to \$54.7 million in 2004. This increase in expenses results primarily from a higher volume of activity.

Personnel salaries and benefits accounted for almost half of all non-interest expenses. Hiring predominantly temporary employees and overtime were required to absorb the surplus volume and maintain the growth rate for activities. This growth in activities accounts for much of the \$1.8 million increase in salaries and benefits. As at December 31, 2005, the number of employees (on a full-time equivalent basis) working for Caisse centrale and its U.S. subsidiaries was 319 in 2005, compared to 284 in 2004.

The \$2.5 million increase in subcontracting expenses also stems primarily from the much higher transaction volume. This increase has resulted in supplementary revenue from service charges billed to our clients.

Professional fees remained stable compared to 2004. The increase in professional fees related to initiatives undertaken to comply with tighter regulatory requirements was offset by a decline in professional fees attributable to technology investments.

Also noteworthy is that Caisse centrale has carried on with the management applications and systems re-engineering project to be completed in 2006. This project aims to design a system solution to support banking and loan management activities, support services for treasury operations, payment functions, accounting functions and management information.

OUTLOOK

Due to the amortization of the new management applications and systems, non-interest expenses are expected to rise slightly in 2006. Caisse centrale intends to continue to rigorously manage its non-interest expenses, with a view to enhancing its financial performance.

OTHER PAYMENTS TO THE DESJARDINS NETWORK

In cooperation with the Desjardins network, Caisse centrale offers a broad spectrum of banking and financing services and treasury products to Canadian private and public entities. Of the total fees collected, \$24.4 million was redistributed to the Desjardins network, including patronage allocations paid on interest margins on participating loans and foreign exchange transactions, for a 2% increase from December 31, 2004.

OUTLOOK

Caisse centrale expects that its other payments will continue to grow over the next year.

INCOME TAXES AND OTHER TAXES

In his April 21, 2005 budget, the Québec Minister of Finance announced a gradual 3% increase in the corporate tax rate from 2006 to 2009.

The decrease in income taxes charged to the consolidated statements of income resulted essentially from this rate change, which led to the recording of additional future tax assets of approximately \$1.9 million.

It should be noted that Caisse centrale can recover a substantial portion of the income taxes when it declares remuneration of capital stock. Accordingly, a \$13.4 million income tax recovery was recorded in the statement of retained earnings as a result of the remuneration of capital stock in 2005.

OUTLOOK

Because of the increase in the amount of capital stock anticipated in 2006, Caisse centrale expects a slight increase in the federal large corporations tax.

REMUNERATION OF CAPITAL STOCK

Under An Act respecting the Mouvement Desjardins (the "Constituent Legislation"), the Board of Directors of Caisse centrale may declare interest on capital shares; it then determines the terms of payment thereof. In 2005, the Board of Directors of Caisse centrale applied the principle of declaring, as remuneration of capital stock, an amount corresponding to its non-consolidated net income, including recovery of related income taxes. However, given the capital requirements for the forthcoming years, the Board of Directors also accepted the principle of suspending the quarterly payment of the remuneration on capital stock, notably for the purpose of retaining amounts that could be quickly made available to Caisse centrale when needed. At the beginning of 2005, an amount of \$66.8 million was paid as remuneration of capital stock, basically corresponding to the remuneration earned in 2002 and 2003. For the year ended December 31, 2005, interest of \$60.8 million was declared on subscribed and paid-up capital shares. An amount of \$117.4 million was recorded on the consolidated balance sheets as remuneration of capital stock payable.

Overall, amounts paid to the Desjardins network, including other payments to members, amounted to \$85.2 million, up \$4.8 million or 6% from \$80.4 million in 2004. This represents a return on capital stock of 13% compared to 12% in 2004.

OUTLOOK

Caisse centrale expects its remuneration of capital stock and its total contribution to the network to be similar in 2006.

ANALYSIS OF QUARTERLY TRENDS

In the past two years, Caisse centrale's quarterly results have been significantly influenced by macroeconomic and regulatory changes in both Canada and the rest of the world. Macroeconomic changes may include the interest rate situation, monetary policies and economic growth. The main quarterly financial information is presented on page 55.

In 2005 as in 2004, the quarterly change in results can be explained primarily by fluctuating income from the Capital Market segment, and in particular income from trading activities, which are, by their very nature, more volatile.

The terms and conditions offered to our customers, which are among the most flexible in the industry, explain why foreign exchange revenue soared in 2005.

PROVISION FOR CREDIT LOSSES

Caisse centrale recorded a provision for credit losses of \$3.7 million, versus \$3.1 million in 2004. In 2005, the provision remained the same as in 2004, despite the growth in the loan portfolio.

NON-INTEREST EXPENSES

Despite a higher volume of activity, non-interest expenses stood at \$16.3 million in the fourth quarter, similar to a year earlier, as a result of strict management.

OTHER PAYMENTS TO THE DESJARDINS NETWORK

Amounts redistributed to the Desjardins network totalled \$5.9 million in the fourth quarter, down slightly by \$0.3 million from 2004.

ANALYSIS OF FOURTH QUARTER RESULTS

NET INTEREST INCOME

Net interest income for the three-month period ended December 31, 2005 totalled \$23.2 million, down \$4.8 million from the fourth quarter of 2004.

As previously explained, net interest income for the Capital Market segment was down from 2004. The composition of revenues in this segment may, however, vary significantly from one quarter to the next. The increase in other income more than offsets the lower net interest income so that overall, the performance of the Capital Market segment in the fourth quarter of 2005 improved 13% over 2004.

OTHER INCOME

Other income stood at \$18 million in the fourth quarter of 2005, versus \$10.2 million from the corresponding quarter in 2004. This increase was due essentially to the strong surge in investment activity revenues.

Table V **ASSET MIX**

As at December 31 (in millions of dollars)	2005		2004		2003		2002		2001	
Cash and securities	\$ 3,500	22%	\$ 2,967	20%	\$ 3,731	28%	\$ 3,935	36%	\$ 3,323	32%
Loans	10,286	65	10,187	69	8,122	60	5,087	47	5,501	53
Other	1,971	13	1,616	11	1,665	12	1,777	17	1,533	15
TOTAL	\$ 15,757	100%	\$ 14,770	100%	\$ 13,518	100%	\$ 10,799	100%	\$ 10,357	100%
Average assets	\$ 13,969		\$ 12,885		\$ 10,692		\$ 10,722		\$ 10,257	

COMMENTS ON ASSETS

Total assets on the consolidated balance sheet of Caisse centrale amounted to \$15.8 billion as at December 31, 2005, up almost \$1 billion from the end of 2004. Average assets increased by \$1.1 billion or 8% over 2004 to \$14.0 billion in 2005.

Cash and securities totalled \$3.5 billion at the end of 2005, compared to \$3.0 billion as at December 31, 2004. Major one-time investments made at year-end accounted for this increase. The liquidity ratio, consisting of cash and securities to total assets, was 22% at year-end, up from 20% at the close of the year in 2004. It should be borne in mind that the purpose of Caisse centrale's liquidities is essentially to meet regulatory requirements.

It is also worth mentioning that 84% of securities held were securities issued or guaranteed by the federal and provincial governments, municipal, school or public corporations, as well as by Canadian banks. Note 3 to the consolidated financial statements presents a detailed analysis of the securities portfolio.

At the end of 2005, the loan portfolio stood at \$10.3 billion, relatively unchanged from the previous year. As was expected, funding requirements for the Desjardins network grew during the year. In fact, loans granted for treasury purposes to the caisse network totalled \$3.1 billion as at December 31, 2005, versus \$2.7 billion at the close of fiscal 2004. Funds requirements of the caisse network should reach \$4.5 billion in 2006.

Loans for financing activities decreased by \$294 million. As previously mentioned, some business units financed their activities through Desjardins Acceptances rather than through loans, contrary to the situation a year earlier. Loans to other entities included in the scope of consolidation of Desjardins Group remained relatively stable and ended the year at \$955 million.

Caisse centrale concluded a number of financing transactions in the form of loans and Desjardins Acceptances with member businesses or other entities included in the scope of consolidation of Desjardins Group. For more information about the entities concerned, please refer to the Desjardins Group organization chart. As mentioned in note 17 to the consolidated financial statements, transactions with the Fédération des caisses Desjardins du Québec for the benefit of its member caisses are concluded under more favourable conditions than those granted to unrelated third parties. Moreover, transactions concluded with the Fédération for its own financing needs and with other entities included in the scope of consolidation of Desjardins Group are carried out under conditions similar to those negotiated with unrelated third parties.

Reflecting increased business development activities, the private sector loan portfolio recorded a 15% increase in outstandings. This increase was attributable, in particular, to the breakthroughs that Caisse centrale made as coagent of banking syndicates for Québec companies on new markets, whether in Canada-wide financings or cross-border financings in the United States through our subsidiary, Desjardins Commercial Lending U.S.A. Corp. The growth in the loans of our subsidiary, Desjardins Bank N.A., is also noteworthy.

In addition to these results, "Publi-privilege" securities and Desjardins Acceptances were issued, with combined average outstandings of \$1.0 billion for 2005. These instruments give public entities access to low-cost money market financing. Note that the "Publi-privilege" program does not appear on the balance sheet of Caisse centrale. This program is guaranteed by Caisse centrale, whose commitment is presented under "Guarantees and standby letters of credit" in Note 16 to the consolidated financial statements.

Other assets amounted to \$2.0 billion in 2005, up 22% over the previous year, mainly as a result of customers' liabilities under acceptances.

OUTLOOK

Caisse centrale expects to grow its balance sheet in 2006.

Table VI **LOAN PORTFOLIO**
Net of allowance for credit losses

As at December 31 (in millions of dollars)	2005	2004	2003	2002	2001
COMPOSITION					
Securities purchased under resale agreements	\$ —	\$ 96	\$ 15	\$ 6	\$ 2
Day, call and short-term loans					
to investment dealers and brokers	205	446	218	159	38
Public and parapublic institutions	1,477	1,455	1,523	918	1,188
Members					
Fédération					
- treasury activities	3,129	2,706	1,350	179	413
- financing activities	2,443	2,737	2,370	1,875	1,503
Other	73	44	—	—	—
Other entities included in the scope					
of consolidation of Desjardins Group	955	961	1,032	291	223
Loans purchased from Desjardins Group	5	—	134	206	328
Private sector	2,071	1,803	1,570	1,532	1,865
Allowance for credit losses	(72)	(61)	(90)	(79)	(59)
TOTAL	\$ 10,286	\$ 10,187	\$ 8,122	\$ 5,087	\$ 5,501
GEOGRAPHIC DISTRIBUTION (AS PER HEAD OFFICE ADDRESS)					
Quebec	\$ 8,817	\$ 8,939	\$ 7,068	\$ 4,676	\$ 5,020
Other Canadian provinces	1,261	1,077	939	265	377
International	208	171	115	146	104
TOTAL	\$ 10,286	\$ 10,187	\$ 8,122	\$ 5,087	\$ 5,501
Average loans	\$ 9,528	\$ 8,397	\$ 5,949	\$ 4,948	\$ 5,484

OFF-BALANCE SHEET ARRANGEMENTS

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

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

Securitization transactions are recorded as sales of assets only if Caisse centrale is deemed to have surrendered control over the assets and has received consideration other than beneficial interests in these assets. At the time of the sale of the assets, Caisse centrale retains certain rights to excess interest spreads which constitute retained interests and assumes servicing of the transferred mortgages. No loss is expected on the mortgages because they are guaranteed by CMHC. Caisse centrale periodically reviews the value of these interests and records any decline in value that is other than temporary in income, where applicable. As at December 31, 2005, total outstanding securitized mortgages amounted to \$123.3 million. Note 5 to the consolidated financial statements provides more detailed information on these transactions.

RISK MANAGEMENT REVIEW

OVERVIEW

The risk management objective of Caisse centrale is to optimize the risk/return trade-off by applying integrated management and control strategies, policies and processes to all functions of the organization.

Caisse centrale's policies and processes aim to proactively identify, measure and assess potential risks, and ensure their sound and prudent management, in particular by specifying the controls to be applied and the reporting responsibilities to officers.

In June 2004, the Basel Committee on Banking Supervision approved a new accord (Basel II) intended to emphasize capital and promote the ongoing development of risk assessment capabilities in financial institutions by closely associating capital requirements with modern risk management methods. Caisse

centrale, in conjunction with Desjardins Group, is committed to applying best practices in the area of risk management. During the year, it continued to implement its Integrated Risk Management and Basel Accord program (IRMBAs). Such integrated management will promote risk identification and measurement as well as optimal allocation of capital, and will become integrated with strategic planning and performance evaluation. Extensive work on credit, liquidity, market and operational risks will be continued in 2006 and in coming years in order to finetune our global vision of risk and its integration into the overall management of the Desjardins Group's activities.

In addition to the ongoing risk monitoring performed by the management and business unit managers of Caisse centrale, the integrated risk management framework is the responsibility of the Board of Directors, the risk management, credit and investment, and audit commissions, the board of ethics, and the management committees of Caisse centrale.

COMMITTEES AND COMMISSIONS OF THE BOARD OF DIRECTORS OF CAISSE CENTRALE¹

Board of Directors

- Ensures that Caisse centrale has an adequate strategic management process that includes risk assessment.

Corporate Governance Commission

- Supervises the program to evaluate Board effectiveness.
- Recommends the orientation and professional development program for Board members.
- Examines the roles of the Board of Directors and its committees.

Human Resources Commission

- Ensures that the compensation plan is compatible with the realization of objectives and the prudent management of activities and risks.

Risk Management Commission

- Assesses actions taken and organization set up to manage risks to which Caisse centrale may be exposed.
- Recommends oversight, approval limits, and rules and techniques for risk management.
- Is informed of changes made to risk management methods and limits.
- Examines reports from Management on material risks and on compliance with risk management limits, and ensures the implementation and monitoring of the required measures for improvement.
- Examines key risk management findings from independent supervisory functions.

Credit and Investment Commission

- Determines the credits to be granted by Caisse centrale as well as investments and loans and other financial commitments, and accordingly exercises the necessary authority under the general policies adopted by the Board of Directors.

Audit Commission

- Ensures that Caisse centrale has an ongoing, adequate and effective risk management process and that its major risk management practices are complied with.
- Ensures, in keeping with the Risk Management Commission, that risks that could affect financial reporting are properly managed and controlled.
- Obtains the opinion of the Group's internal auditor and external auditors on the financial reporting risks of Caisse centrale.
- Ensures that the risk management activities of Caisse centrale are reviewed periodically.

Board of Ethics

- Ensures compliance with rules of professional conduct regarding, among other matters, conflicts of interest and self-dealings.

¹ Please refer to the Corporate Governance section of the Annual Report for a more detailed description of the roles and responsibilities of the committees and commissions of the Board of Directors of Caisse centrale.

MANAGEMENT COMMITTEES OF CAISSE CENTRALE

Management Committee

- Determines the mandate and composition of the management committees of Caisse centrale.
- Specifies the strategic orientations, performance objectives and risk limits for Caisse centrale.
- Approves delegation powers and limits for the management committees of Caisse centrale.

Risk Management Committee

- Evaluates and revises risk management policies.
- Ensures that risks are managed in accordance with established policies.
- Reviews risk assessment program results.
- Ensures the implementation of and compliance with control procedures.
- Examines the impacts of framework and management method developments from the activities of Caisse centrale.

Internal Credit Committee

- Defines parameters for granting credit and monitors their application.
- Authorizes loans within its limits.
- Reviews impaired loans and loans on the watch list.
- Reviews loan delinquency and credit losses.

Assets/Liabilities Committee

- Ensures compliance with operational limits concerning liquidity and investment management, interest rate risk and foreign exchange risk.
- Evaluates hedging strategies to maintain the level of risk within the limits approved by the Board of Directors.
- Evaluates positioning strategies for loan, liquidity or derivative portfolios to adapt to market changes.
- Examines financial management and treasury policies.

Disclosure Committee

- Supervises the appropriate cutoff and reliability of financial information in annual and interim disclosures.
- Ensures that the financial information disclosed does not omit any material facts or does not contain any misrepresentations or misleading information regarding such facts.
- Verifies that the financial information in annual and interim filings presents fairly the financial condition of Caisse centrale and the results of its operations and its cash flows.

CREDIT RISK

Credit risk is the risk of credit losses that can occur if a borrower or a counterparty fails to honour its contractual obligations, whether or not presented in the balance sheet.

CREDIT RISK MANAGEMENT

Diversification is a key part of risk management. To improve the quality of its credit portfolio, Caisse centrale has made a commitment to reduce its exposure by diversifying risk among categories of borrowers, industries, types of financing and geographic regions.

Credit losses can occur if a borrower or counterparty does not fully honour its contractual obligations to Caisse centrale. These obligations can involve loans, commitments, guarantees and derivative contracts with positive replacement values.

Managing credit risk has both quantitative and qualitative aspects. Experienced credit officers evaluate the credit quality of counterparties and assign internal credit ratings based on this evaluation. These officers, who have direct knowledge of clients and their industry sectors, are responsible for credit screening and monitoring credit risks, which are reviewed by an independent department. Credit concentration limits for various industries, products and geographic regions are set by the Internal Credit Committee and approved by the Board of Directors. This committee also sets credit limits for clients and counterparties which are also approved by the Board of Directors. Members of the Risk Management Commission of the Board of Directors periodically review the authorized limits and their monitoring.

The quantitative aspect of examining credit risk consists of measuring Caisse centrale's credit exposure to each counterparty. The Internal Credit Committee is responsible for monitoring the policies and practices to measure such risk. Credit exposure is measured in terms of both current and potential credit exposure. Current credit exposure is represented by the notional or principal value for on-balance sheet financial instruments and by the replacement value for derivative instruments. Caisse centrale also estimates potential credit exposure by considering its sensitivity to market changes.

These elements are subject to review, as are products and client-credit risks requiring strict follow-up. These risks are examined regularly by the Internal Credit Committee. This Committee evaluates the adequacy of the provisions for credit losses and informs the members of the commissions that support the Board of Directors regarding risk management of the credit amounts that should be written off and the amount of any provision for credit losses.

CREDIT POLICIES

Throughout the years, Caisse centrale has developed and adopted credit policies and practices to react rapidly and take appropriate measures to mitigate or minimize file exposures. The general credit policy regarding borrowers and the policy on issuers and foreign correspondents are revised annually. During the year, significant effort was made to enhance the quality of the loan portfolio. Whenever required, collection or turnaround of higher risk files is transferred to specialized teams.

Follow-up procedures are designed to ensure detection of deteriorating loan risk in order to manage the risk or act on it immediately. Loans can then be classified as impaired loans, and covered by a specific provision at the appropriate time. The adequacy of the specific provision is reassessed on a quarterly basis.

The general credit policy sets forth the principles and limits within which financing transactions involving a credit risk must be conducted as well as their requisite authorizations. The policy enhances control and diversification of the commitments portfolio while favouring orderly business development. It defines borrowers' eligibility criteria and establishes the credit risk assessment mechanisms and the types of financing available. It also establishes the monetary, sector-related, geographic, risk and term limits in order to ensure the desired level of diversification of the loan portfolio. Finally, the policy establishes the levels of authorization and delegations of authority required for the approval and management of credit commitments.

Borrower limits are based on a customer's risk rating and the maximum commitment determined by the Desjardins Group's credit management framework. Credit commitment limits for each sector of activity in the private portfolio cannot exceed 15% of the aggregate of the credit commitments in this sector without the prior authorization of the Credit and Investment Commission. At year-end, all sectors of activity were in compliance with this limit.

Caisse centrale also negotiates with foreign correspondents. International transactions involving credit risk are governed by the international services credit policy. More specifically, this policy ensures sound apportionment of Caisse centrale's foreign risks by setting out eligibility criteria for countries and correspondents, monetary limits by country and correspondent, and term limits.

The loan portfolio of Caisse centrale is very diversified. Business segment loans from all sectors of the economy account for approximately 20% of outstanding loans (Table VII). Caisse centrale monitors the economic sectors in which it is involved on an ongoing basis.

Table VII PRIVATE SECTOR

Outstandings as at December 31

(in millions of dollars)

	2005		2004 ¹	
Primary industries	\$ 35	2%	\$ 73	4%
Manufacturing industries				
Food and tobacco	150	7	182	10
Textiles, rubber and plastics	28	1	22	1
Wood and furniture	64	3	83	5
Pulp and paper	159	8	119	7
Metal products	58	3	34	2
Other	57	3	65	4
Construction	23	1	11	—
Transportation and warehousing	75	4	70	4
Communications	12	1	11	—
Public services	73	3	29	2
Retail and wholesale trade	221	11	172	9
Financial intermediaries	297	14	288	16
Real estate	158	8	63	3
Public administration, education and health services	77	4	104	6
Lodging, restaurants and entertainment	92	4	87	5
Other services and associations	94	4	106	6
Other	398	19	284	16
TOTAL	\$ 2,071	100%	\$ 1,803	100%

¹ Reclassified to conform to current year's presentation.

IMPAIRED LOANS

A loan is considered to be impaired and the interest thereon ceases to be recorded when (a) there is reason to believe that a portion of the principal or interest cannot be collected or (b) the interest or principal is contractually 90 days in arrears, except where the loan is fully guaranteed or is in collection. Further details on the accounting policies used are provided in note 2 to the consolidated financial statements.

The quality of the loan portfolio continues to be excellent. Gross impaired loans amounted to \$10.3 million at year-end, compared to \$19.9 million in 2004, and their coverage by specific provisions reached 37% as at December 31, 2005. It is worth noting that these loans represent only 0.1% of net aggregate loans in a \$10.4 billion portfolio.

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

ALLOWANCE FOR CREDIT LOSSES

As demonstrated in the foregoing sections, Caisse centrale will continue to rigorously manage its loan portfolio. The quality

of the loan portfolio improved in 2005, as evidenced by the low proportion of impaired loans.

The provisions specifically related to particular elements of the loan portfolio were down in comparison to 2004. Consequently, these provisions amounted to \$3.8 million, compared to \$7.9 million at the same date in 2004. Table VIII provides the breakdown of specific provisions by industry. The general provision for credit losses was increased to \$68.3 million as at December 31, 2005, from \$53.2 million a year earlier. It is determined by the credit rating, maturity dates, default probabilities, volatility, the type of security, and the expected collection. It also takes into account the economic cycle as well as the diversification of the counterparties and the economic and geographic sectors of activity of the credit portfolio. This assessment is reviewed where conditions indicate that initial assumptions will not apply to actual results. Further details on our accounting policies are provided in note 2 to the consolidated financial statements.

Consequently, at the close of 2005, the specific and general provisions amounted overall to \$72.1 million. This amount represented 3.5% of the private sector loan portfolio and 0.7% of the total portfolio.

Table VIII BREAKDOWN OF SPECIFIC PROVISIONS

As at December 31

(in thousands of dollars)

	2005	2004	2003	2002	2001
Manufacturing industries – Other	\$ 3,500	\$ 7,610	\$ 11,800	\$ 1,650	\$ 2,600
Transportation and warehousing	250	250	250	250	2,000
Other service corporations	—	—	—	—	2,016
Telecommunications	—	—	34,500	34,500	—
Other	—	19	5	—	—
TOTAL	\$ 3,750	\$ 7,879	\$ 46,555	\$ 36,400	\$ 6,616

LIQUIDITY RISK MANAGEMENT

Caisse centrale's liquidity management forms an integral part of Capital Market segment activities. Its purpose is to ensure that the organization is not trapped by precipitous cash outflows or unexpected drawdowns on lines of credit. Even in adverse conditions, Caisse centrale must be in a position to honour its commitments and meet its customers' requirements, while avoiding having to pay excessive rates on deposits.

Caisse centrale must be prudent in cash management in view of its obligations as a direct clearer of the Canadian Payments Association and as a member of The Canadian Depository for Securities Limited. In addition, as a wholesale purveyor of funds to the caisse network in Québec and in other provinces, it maintains higher liquidities than it would require for its own commitments.

Caisse centrale maintains a liquidity level in compliance with the regulation approved by the Autorité des marchés financiers, which stipulates that Caisse centrale must at all times have liquid assets corresponding to 20% of its deposits with a maturity of 100 days or less.

Over the years, management practices have been instituted to ensure that liquidities are available in sufficient quantity. In the very short term, the Capital Market team strives to achieve an optimal combination of cash flows generated by all financial transactions conducted by Desjardins component entities and their main clients. This requires day-to-day monitoring and scenario projections. In the longer term, in order to meet foreseeable needs, liquidity management is defined by a sufficient quantity of prime quality liquidity from stable and diversified funding sources.

Regulatory liquidities, essential to Caisse centrale's operations and qualified as permanent, are managed actively with a specific return objective set at the beginning of the year.

In 2005, following an analysis of Desjardins Group's operations as a whole, the Fédération and Caisse centrale came to the conclusion that the required liquidity level could be reduced while maintaining a financially sound balance sheet. Simulation analyses indicated very stable funding obtained from individuals, and financial stress tests adapted easily to a lower required liquidity level for the caisses and a reduction in the Caisse centrale's securities. In addition, as an alternative to traditional financing and in order to offset the drop in liquidities, the caisse network undertook to securitize insured residential mortgages to restore the balance sheet equilibrium. Thus, after consulting with the regulatory authority and credit rating agencies, the required liquidity reserves of Desjardins caisses were lowered by \$1.5 billion.

In 2005, Caisse centrale therefore did not need to issue medium-term borrowings on institutional markets, and the average liquidity level was lowered to a floor of \$2.7 billion on completion of a rationalization strategy initiated three years earlier.

By year-end, securities had temporarily increased to \$3.3 billion, compared to \$2.8 billion the previous year.

Table IX **CASH AND SECURITIES**

As at December 31
(in millions of dollars)

	2005	2004	2003	2002	2001
Cash and deposits with Bank of Canada	\$ 151	\$ 124	\$ 112	\$ 67	\$ 191
Securities	3,349	2,843	3,619	3,868	3,132
TOTAL	\$ 3,500	\$ 2,967	\$ 3,731	\$ 3,935	\$ 3,323
Average liquidity	\$ 2,723	\$ 2,886	\$ 3,272	\$ 4,231	\$ 3,616

Table X **BREAKDOWN OF THE SECURITIES PORTFOLIO**

As at December 31

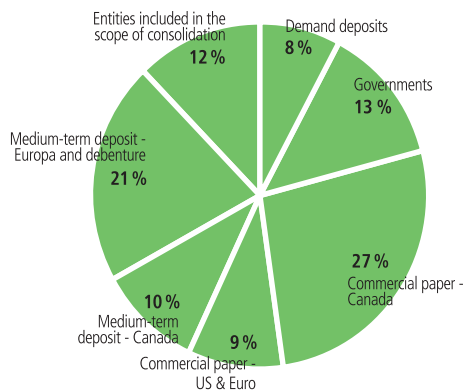
(in millions of dollars)

	2005	2004	2003	2002	2001
Canada	\$ 444	\$ 422	\$ 681	\$ 531	\$ 309
Provinces and municipal corporations in Canada	944	1,293	1,375	1,431	1,524
School and public corporations in Canada	—	—	30	80	116
Other entities included in the scope of consolidation of Desjardins Group	—	25	28	84	56
Other Canadian issuers	1,927	1,066	1,447	1,616	931
Foreign issuers	34	37	58	126	196
TOTAL	\$ 3,349	\$ 2,843	\$ 3,619	\$ 3,868	\$ 3,132
Average securities	\$ 2,682	\$ 2,840	\$ 3,230	\$ 4,028	\$ 3,541

SOURCES OF FUNDS

One component of Caisse centrale’s mission is to assume the strategic role of supplier of funds to the Desjardins network. Over the years, Caisse centrale has built national- and international-scale funding sources by varying the markets, financial instruments, maturity dates and currencies of its deposits. Table XI and Chart I present deposits as at December 31, 2005 by maturity and by funding source.

Chart I
DEPOSITS AND DEBENTURE BY COUNTERPARTY TYPE –
As at December 31, 2005



Once again in 2005, as has been the case for many years, Caisse centrale was assigned high credit ratings by credit rating agencies, thus giving it access to attractive funding sources. In addition to resorting to the Canadian money market, Caisse centrale intervenes on capital markets using the following instruments:

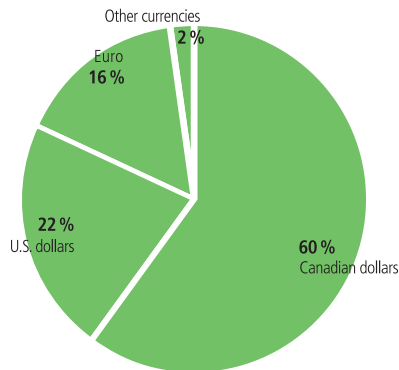
On the Canadian market:

- a medium-term deposit note program of \$5 billion, allowing a public offering of the deposits issued.

On the international market:

- a short-term European commercial paper program of US\$600 million;
- a short-term American commercial paper program of US\$1 billion;
- a European multi-currency medium-term deposit note program of US\$5 billion.

Chart II
DEPOSITS AND DEBENTURE BY CURRENCY -
As at December 31, 2005



In 2005, Caisse centrale did not issue medium-term deposits to meet the needs of the caisse network. Instead, the caisses voluntarily lowered their required liquidity level and participated as approved sellers in the Canada Mortgage Bond Program so that Caisse centrale could avoid raising funds on the medium-term capital markets.

At the end of 2005, however, the funds advanced by Caisse centrale to the caisse network totalled \$3.1 billion, up \$423 million over the previous year.

Given the very low interest rates and Desjardins’ solid credit record, the cost of financing the institutional debt continued to decrease in relation to benchmark bonds, reflecting investors’ strong demand for high-quality debt securities. The cost of Desjardins’ debt issues currently compares favourably with the ones of its main Canadian competitors.

Table XI DEPOSITS BY MATURITY

As at December 31 <small>(in millions of dollars)</small>	Payable on a fixed date					Total 2005	Total 2004
	Payable on demand	Within 3 months	Over 3 to 12 months	Over 1 to 5 years	Over 5 years		
Canada	\$ 1	\$ 421	\$ —	\$ —	\$ —	\$ 422	\$ 199
Provinces	97	494	—	—	—	591	177
Banks and financial institutions	9	753	54	41	—	857	799
Members							
Fédération	125	466	82	204	—	877	1,071
Other	40	10	8	6	—	64	198
Other entities included in the scope of consolidation of Desjardins Group	238	404	108	73	—	823	572
Other	387	4,046	1,122	2,751	9	8,315	8,226
TOTAL	\$ 897	\$ 6,594	\$ 1,374	\$ 3,075	\$ 9	\$ 11,949	\$ 11,242

As at December 31, 2005, outstanding deposits and subordinated debenture (Table XII) totalled \$12.1 billion, up \$688 million from the \$11.4 billion posted the previous year. Deposits payable on demand totalled \$897 million while deposits payable on a fixed date amounted to \$11.1 billion, up \$865 million from the previous year.

As at December 31, 2005, 40% of the deposits and subordinated debenture were denominated in foreign currencies and hedged in order to eliminate foreign exchange risk. Reduced funding from abroad is due to Caisse centrale's decision to remain temporarily on the Canadian money market in anticipation of a major issue

on the European market. This also resulted in a smaller ratio of term deposits with a term of more than one year, at about 26% at the end of 2005 compared to 41% a year earlier.

In 2006, the balance is expected to be restored between international and Canadian funding sources, and the average term of deposits should be lengthened in line with the lending strategy initiated several years ago. It should also be pointed out that the profile of funding sources on the domestic market could change if, as planned, Desjardins Group participates very actively in the Canada Mortgage Bonds Program as an approved seller.

Table XII DEPOSITS AND SUBORDINATED DEBENTURE

As at December 31 <small>(in millions of dollars)</small>	2005	2004	2003	2002	2001
Canada	\$ 422	\$ 199	\$ 101	\$ 15	\$ 165
Provinces	591	177	301	344	347
Banks and financial institutions	857	799	932	166	207
Members					
Fédération	877	1,071	1,033	1,951	1,553
Other	64	198	206	274	228
Other entities included in the scope of consolidation of Desjardins Group	823	572	707	507	281
Other	8,315	8,226	6,842	4,531	4,724
	11,949	11,242	10,122	7,788	7,505
Subordinated debenture	105	124	124	126	160
TOTAL	\$ 12,054	\$ 11,366	\$ 10,246	\$ 7,914	\$ 7,665
Average liabilities	\$ 10,453	\$ 9,795	\$ 7,977	\$ 8,004	\$ 8,046

GEOGRAPHIC DISTRIBUTION

	2005		2004		2003		2002		2001	
Canada	\$ 7,609	63%	\$ 7,048	62%	\$ 6,489	63%	\$ 4,519	57%	\$ 3,628	47%
International	4,445	37	4,318	38	3,757	37	3,395	43	4,037	53
TOTAL	\$ 12,054	100%	\$ 11,366	100%	\$ 10,246	100%	\$ 7,914	100%	\$ 7,665	100%

MARKET RISK MANAGEMENT

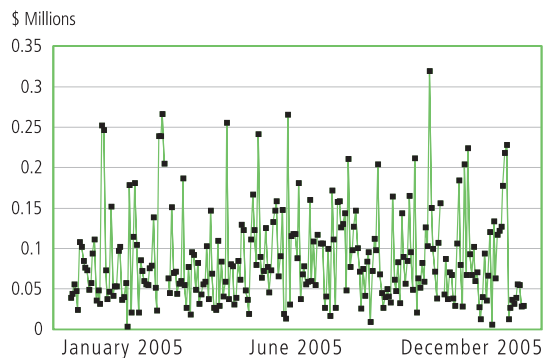
Market risk is the risk that results from changes in the market value of financial instruments due to a fluctuation in the parameters affecting this value; notably interest and foreign exchange rates and their volatility. The risk of losses related to interest rate and foreign exchange rate volatility is the main component of market risk to which Caisse centrale is exposed. The estimation of potential losses is a key element of managing risk.

The integrated risk management group, which is independent from the sectors initiating transactions, is responsible for examining market risk exposure on a daily basis. It ensures that risks remain within the set limits and that only authorized activities are undertaken, and develops and implements risk assessment models. It reports daily to senior management on profits and losses, value-at-risk (VAR) and compliance with maximum limits with respect to losses resulting from a one-basis point change in interest rates on unmatched positions. The independent risk management unit is responsible for periodically examining models and assessments.

VAR is a generally accepted risk measurement concept that uses statistical models and information on historical market prices to calculate, within a given confidence level, the maximum loss in market value that Caisse centrale would sustain in its asset/liability management portfolios from adverse movements in market rates and prices in a single day. Caisse centrale's VAR is based on a 99% and 95% confidence level and represents an estimate of the maximum loss that Caisse centrale could sustain in its portfolios. Management recognizes that VAR is not an absolute measurement of market risk and that its use is limited, since it is based solely on historical information. Management therefore uses various measures and information to help it assess and control the market risks to which its products and portfolios will be exposed. In 2005, Caisse centrale introduced a new VAR calculation system.

Chart III presents the daily changes in the overall VAR of Caisse centrale's asset/liability management portfolios in Canadian dollars during 2005. Based on a 99% confidence level, the average VAR amounted to \$88,000 in 2005.

Chart III
2005 VALUE-AT-RISK



INTEREST RATE RISK MANAGEMENT

Interest rate risk is the sensitivity of Caisse centrale's financial condition to interest rate movements. The magnitude and direction of the effect depend on the components of assets and liabilities which are subject to interest rate changes in a given period.

Caisse centrale can lower or eliminate this risk by changing the mix of assets and liabilities or the use of derivative instruments. A new policy on the VAR limit for interest rate portfolios was implemented in 2005.

Exposure to interest rate risk is reviewed on a regular basis by the Assets/Liabilities Committee. This committee establishes Caisse centrale's position in view of anticipated interest rate changes and recommends hedging any undesired or unexpected interest rate risk.

Note 14 to the consolidated financial statements shows Caisse centrale's position with regard to interest rate sensitivity as at December 31, 2005, in accordance with the provisions of Section 3860 of the Canadian Institute of Chartered Accountants Handbook, "Financial Instruments – Disclosure and Presentation." Balance sheet and off-balance sheet assets and liabilities are presented in the table based on the earlier of the maturity date or the contractual repricing date. This is the position at that particular date, but could have subsequently changed, taking into account forecasted interest rates and clients' preferences for products and terms.

Caisse centrale is very prudent with regard to interest rate sensitivity. Various means are used to monitor and manage interest rate risk. In addition, Caisse centrale has established policies describing risk management principles and procedures, and periodic reports are reviewed by the Risk Management Commission.

Table XIII OFF-BALANCE CREDIT INSTRUMENTS

Notional Amount Maturities						
As at December 31	Less than	1 to 3	Over 3 to	Over	Total	Total
(in millions of dollars)	1 year	years	5 years	5 years	2005	2004
Guarantees and standby letters of credit	\$ 239	\$ 135	\$ 70	\$ —	\$ 444	\$ 315
Commitments to extend credit	7,129	518	1,341	36	9,024	12,727
Commitments to purchase assets	7	—	—	—	7	481
TOTAL	\$ 7,375	\$ 653	\$ 1,411	\$ 36	\$ 9,475	\$ 13,523

FOREIGN EXCHANGE RISK MANAGEMENT

Caisse centrale has assets and liabilities denominated in a number of foreign currencies. Foreign exchange risk arises when the actual or forecasted assets in a foreign currency are either greater or lesser than the liabilities in that currency. Caisse centrale has established specific foreign exchange risk management policies.

A new policy on the VAR limit for foreign exchange was implemented in 2005.

OFF-BALANCE SHEET CREDIT INSTRUMENTS AND DERIVATIVES

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

All off-balance sheet credit instruments and derivatives are subject to Caisse centrale's usual credit standards, financial controls, risk ceilings and monitoring procedures. Caisse centrale constantly improves its risk management systems and assessment models for these products. In the opinion of Management, these transactions do not represent an unusual risk and no material losses are anticipated as a result of these transactions. Notes 2 and 16 to the consolidated financial statements provide further details on these instruments and their accounting.

OFF-BALANCE SHEET CREDIT INSTRUMENTS

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

CONTRACTUAL COMMITMENTS AND GUARANTEES

In the normal course of its business, Caisse centrale, like other major Canadian financial institutions, pledges part of its liquid assets in order to participate in the clearing and payments systems. It also enters into long-term leases or service contracts entailing minimum future payments. Table XIV presents the contractual commitments by maturity over the next few years. Further details are also provided in note 16 to the consolidated financial statements.

Table XVI CONTRACTUAL COMMITMENT MATURITIES

As at December 31

(in thousands of dollars)

2006	2007	2008	2009	2010	2011 and next	Total
\$ 1,593	\$ 382	\$ 316	\$ 278	\$ 260	\$ 73	\$ 2,902

Table XV **OFF-BALANCE CREDIT INSTRUMENTS AND DERIVATIVES****Notional amounts**

As at December 31

(in millions of dollars)

	2005			2004		
	Members and other entities included in the scope of consolidation of Desjardins Group	Other	Total	Members and other entities included in the scope of consolidation of Desjardins Group	Other	Total
CREDIT INSTRUMENTS						
Guarantees and standby letters of credit	\$ 111	\$ 333	\$ 444	\$ 61	\$ 254	\$ 315
Commitments to extend credit						
Over one year	84	1,675	1,759	58	1,574	1,632
One year or less and conditional	3,206	4,059	7,265	7,213	3,882	11,095
Commitments to purchase assets	—	7	7	—	481	481
	3,401	6,074	9,475	7,332	6,191	13,523
DERIVATIVES						
Interest rate contracts	31,074	54,899	85,973	29,462	45,187	74,649
Foreign exchange contracts	970	7,476	8,446	1,031	11,322	12,353
Other contracts	2,104	1,995	4,099	2,198	2,681	4,879
	34,148	64,370	98,518	32,691	59,190	91,881
TOTAL	\$ 37,549	\$ 70,444	\$ 107,993	\$ 40,023	\$ 65,381	\$ 105,404

DERIVATIVES

Derivative financial instruments are financial contracts which derive their value from the underlying price, interest or exchange rate or index. Derivatives include many financial contracts such as futures, interest rate, currency and credit swaps, forward rate agreements, forward exchange contracts and options. Derivatives are a key risk management tool, both for Caisse centrale and for its clients. A description of derivatives and their use by Caisse centrale is provided in note 12 to the consolidated financial statements.

Derivatives, like balance sheet financial instruments, are subject to market and credit risk. As outlined in the "Risk Management" section, Caisse centrale evaluates the risk associated with derivatives in much the same way as the risks associated with other financial instruments. However, unlike balance sheet financial instruments, where credit exposure is generally represented by the nominal or principal value, the credit exposure associated with derivatives is generally a small fraction of the notional amount of the instrument and is represented by the positive market value of the derivative. The various derivatives allow for the transfer, modification or reduction of foreign exchange and interest rate risks stemming from variations thereof. The vast majority of currency and interest rate swaps, forward exchange contracts and options are transacted with banks, members or other entities included in the scope of consolidation of Desjardins Group.

As illustrated in Table XV, outstanding derivative and credit instruments increased by 2.5% or \$2.6 billion as at year-end. The most pronounced increase was in interest rate contracts, the value of which increased by 15% to \$86.0 billion from a year earlier, especially in transactions with other counterparties, reflecting the business development efforts of the new derivatives team.

Chart IV shows the distribution of derivative notional amounts by counterparty type. Measured by notional amounts, 54% of counterparties were banks. Members and other entities included in the scope of consolidation of Desjardins Group accounted for 35%. It should be remembered that Caisse centrale acts as an intermediary to meet the Desjardins network's needs in terms of derivative instruments. Additional information on the transactions carried out with Desjardins Group is found in note 17 to the consolidated financial statements. Transactions with private sector entities accounted for only 9% of the portfolio.

Chart IV
DERIVATIVE NOTIONAL AMOUNTS – By counterparty

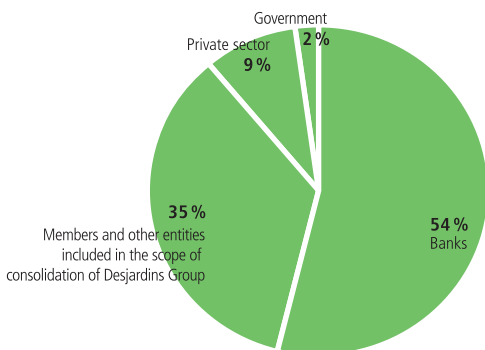
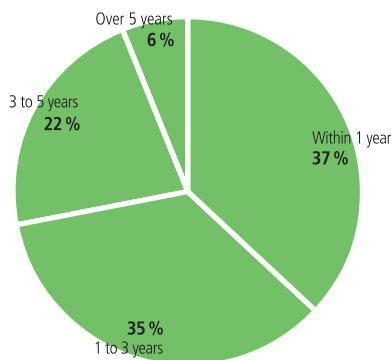


Chart V shows the maturity profile of the derivative portfolio. As a general rule, the market risk associated with short-term financial instruments is lower than with long-term ones. As measured by notional amounts, 72% of these derivatives have remaining terms of less than three years and more than half of these will mature within one year. Also important to mention is that close to 86% of the forward exchange contracts have a remaining term of less than three months.

Chart V
DERIVATIVE NOTIONAL AMOUNTS – By maturity



OPERATIONAL RISK MANAGEMENT

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 the potential risk that Caisse centrale may incur losses arising from fraud, damage to tangible assets, acts in violation of legislation, lawsuits, system failures, problems in transaction processing or process management as well as disruptions due to external factors.

Operational risk is inherent to all of Caisse centrale's business activities and can never be completely eliminated. However, Caisse centrale endeavours to minimize operational risk through its internal control systems which provide for segregation of duties, a disciplined approach to decision-making and delegation of authority, the development of appropriate policies, methods and infrastructures, and duly confirmed recording of transaction-related information. Internal controls also involve risk monitoring, financial reporting and insurance coverage measures. In addition, Caisse centrale possesses back-up capabilities and engages in business resumption planning to ensure ongoing service delivery under adverse conditions. Effective management of operational risk depends as well on the commitment, competence and ability of Caisse centrale's personnel. The internal controls and systems in place are examined from time to time by Desjardins Group internal auditors.

Striving to implement sound and prudent operational risk management tools and methods, Caisse centrale has pursued its work within Desjardins Group's joint project, including the organization of an operational risk incident database and preparation of an ongoing operational risk and controls self-assessment program.

REGULATORY COMPLIANCE

A new sector in charge of specifically ensuring regulatory compliance has been created. The work undertaken by this sector aims to ensure compliance with regulatory requirements concerning financial reporting. A Disclosure Committee was set up to validate the evaluation program for controls over financial reporting. Moreover, Caisse centrale is involved in the development of the Desjardins Group framework program for regulatory compliance management.

Through its committees and the completion of specific projects, Caisse centrale ensures that its technology environment evolves in a controlled and secured manner. Consequently, strategic planning with respect to the implementation of these projects, disaster recovery, system sturdiness, security, management of human resources expertise, and proper control of its operations are considerations to which Caisse centrale devotes considerable effort in order to counter the specific related operational risks.

CAPITAL MANAGEMENT

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

REGULATORY CAPITAL

The capital adequacy of Caisse centrale is regulated by the standards of the Fédération des caisses Desjardins du Québec, which were approved by the Autorité des marchés financiers. These standards are based on the regulatory requirements of the Basel Committee on Banking Supervision of the Bank for International Settlements (BIS), which oversees the capital adequacy of financial institutions operating on international markets. In this way, Caisse centrale can determine where it stands relative to other financial institutions also involved on international markets given its presence on such markets.

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

Consequently, as at December 31, 2005, capital, as defined by the standards of the Fédération des caisses Desjardins du Québec, totalled \$849 million, up \$13 million over fiscal 2004.

RISK-WEIGHTED ASSETS, OFF-BALANCE SHEET CREDIT INSTRUMENTS AND DERIVATIVES

The standards of the Fédération des caisses Desjardins du Québec require that "risk-weighted balances" be calculated for assets, off-balance sheet credit instruments and derivatives, and that aggregate values be weighted using a common definition of capital.

Off-balance sheet credit instruments and derivatives are initially converted to "credit risk equivalents," as shown in Table XVI. For credit instruments such as guarantees, standby letters of credit and commitments to extend credit, the "credit risk equivalent" is determined by multiplying the principal or nominal amount by appropriate "credit conversion factors," which can range from 0% to 100% depending on the nature of the instrument and the original term to maturity. The "credit risk equivalent" for foreign exchange, interest rate and currency contracts takes into account the replacement cost of contracts with a positive value and the potential credit exposure on the contracts, calculated on their residual term to maturity.

The "credit risk equivalent" for off-balance sheet credit instruments and derivatives, together with on-balance sheet assets, are then multiplied by appropriate "risk weights" to determine risk-weighted balances. The risk weights depend on the relative credit risk of the counterparty and vary from 0% for claims on or guaranteed by the Canadian or provincial governments to 100% for claims on or guaranteed by the private sector.

As shown in Table XVI, Caisse centrale's risk-weighted assets, off-balance sheet credit instruments and derivatives totalled \$6.1 billion as at December 31, 2005, up from \$5.4 billion in the previous year.

CAPITAL RATIO

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

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

- a) its total capital must be greater than or equal to 5.5% of its total assets;
- b) its total capital must be greater than or equal to 8.5% of its risk-weighted assets, of which at least one half is Tier I capital.

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

The capital stock issued and outstanding of Caisse centrale is composed of 666,203 Class A capital shares and 600 qualifying shares outstanding.

As at December 31, 2005, the capital/asset ratio was 5.51% compared to 5.67% in 2004. Tier I capital and total capital ratios determined in accordance with BIS rules stood at 11.3% and 13.9%, respectively, compared to 12.7% and 15.5%, respectively, a year earlier.

In order to ensure the development of its activities, Caisse centrale's Board of Directors approved a \$121 million capital injection by members in 2006. The caisses will need to approve this capital contribution at their annual general meeting during the first quarter.

It should be noted, however, that both the Tier I capital ratio and total capital ratios of Caisse centrale determined in accordance with BIS rules exceed the 7% and 10% benchmark for which the Office of the Superintendent of Financial Institutions Canada has determined to be characteristic of a financial institution with a sound capital structure.

OUTLOOK

As previously indicated, a capital contribution of \$121 million will be made in fiscal 2006.

Table XVI **RISK-WEIGHTED ASSETS, OFF-BALANCE CREDIT INSTRUMENTS AND DERIVATIVES**

As at December 31

ASSETS (in thousands of dollars)	Balance sheet amount	Risk-weight	Risk-weighted balance	
			2005	2004 ¹
Cash and deposits with Bank of Canada	\$ 150,859	0%	\$ 4,094	\$ —
Securities issued or guaranteed by Canada, provinces, municipal, school or public corporations in Canada	1,387,882	0-20%	6,432	6,728
Securities issued or guaranteed by US public administrations	21,511	20%	4,302	4,134
Securities issued by banks	1,446,359	20%	289,272	125,151
Securities issued by members and other entities included in the scope of consolidation of Desjardins Group	—	100%	—	25,438
Other securities	493,146	100%	493,146	456,475
Loans issued or guaranteed by Canada, provinces, municipalities, school boards and public agencies	1,476,809	0-20%	295,147	287,980
Loans to members and other entities included in the scope of consolidation of Desjardins Group	6,600,315	20-100%	1,538,658	1,467,716
Other loans	2,208,998	0-100%	2,097,302	1,701,702
Other assets	1,971,574	0-100%	313,361	362,615
	\$ 15,757,453		\$ 5,041,714	\$ 4,437,939

¹ Reclassified to conform to current year's presentation.**OFF-BALANCE CREDIT INSTRUMENTS AND DERIVATIVES**

(in thousands of dollars)	Notional amount	Credit conversion factor	Credit risk equivalent	Risk-weight	Risk-weighted balance	
					2005	2004
OFF-BALANCE CREDIT INSTRUMENTS						
Guarantees and standby letters of credit	\$ 444,330	0-100%	\$ 444,330	20-100%	\$ 246,400	\$ 172,001
Commitments to extend credit (Original term to maturity)						
Over one year	1,759,089	50%	879,544	0-100%	690,574	612,148
One year or less and conditional	7,265,081	0%	—	0%	—	—
Commitments to purchase assets	7,127	100%	7,127	0%	—	—
DERIVATIVES						
Interest rate contracts	85,973,045	(¹)	685,636	20-50%	137,473	172,539
Foreign exchange contracts	8,445,880	(¹)	343,278	20-50%	83,826	141,448
Other contracts	4,098,767	(¹)	587,443	20-50%	189,147	157,933
	\$ 107,993,319		\$ 2,947,359		\$ 1,347,420	\$ 1,256,069
Less impact of master netting agreements					(288,937)	(283,900)
					\$ 1,058,483	\$ 972,169
TOTAL RISK-WEIGHTED ASSETS, OFF-BALANCE CREDIT INSTRUMENTS AND DERIVATIVES					\$ 6,100,197	\$ 5,410,108

⁽¹⁾ Derivatives are converted to their "credit risk equivalent" by adding the total replacement cost (at market value) of all outstanding contracts with a positive value and an amount for potential credit exposure based on the total contract amounts broken out by remaining term to maturity, as follows:

Remaining term to maturity	Foreign exchange contracts	Interest rate contracts	Other contracts
Within 1 year	1.0%	0%	6%
Over 1 year to 5 years	5.0%	0.5%	8%
Over 5 years	7.5%	1.5%	10%

FIVE-YEAR CONSOLIDATED BALANCE SHEETS

As at December 31

(in thousands of dollars)

	2005	2004	2003	2002	2001
ASSETS					
Cash and deposits with Bank of Canada	\$ 150,859	\$ 124,307	\$ 112,509	\$ 67,202	\$ 191,142
Securities	3,348,898	2,843,203	3,618,539	3,868,115	3,131,843
Loans					
Securities purchased under resale agreements	—	95,625	14,919	6,222	2,477
Day, call and short-term loans to investment dealers and brokers	205,000	446,000	218,000	158,739	37,500
Members					
Fédération	5,572,070	5,443,248	3,719,748	2,054,660	1,916,180
Other	73,049	43,863	—	—	—
Other entities included in the scope of consolidation of Desjardins Group	955,196	960,788	1,032,009	291,023	222,606
Public and parapublic sectors	1,476,809	1,454,697	1,522,989	917,921	1,187,642
Loans purchased from Desjardins Group	4,891	132	134,319	205,967	327,965
Private sector	2,071,230	1,803,444	1,570,584	1,531,872	1,864,691
Allowance for credit losses	(72,123)	(61,074)	(90,390)	(78,922)	(58,518)
	10,286,122	10,186,723	8,122,178	5,087,482	5,500,543
Assets related to derivatives	923,021	1,248,070	1,080,085	1,235,952	1,074,104
Customers' liability under acceptances	848,000	148,900	450,300	349,300	280,600
Other	200,553	219,143	134,723	190,910	178,683
TOTAL ASSETS	\$ 15,757,453	\$ 14,770,346	\$ 13,518,334	\$ 10,798,961	\$ 10,356,915
LIABILITIES AND MEMBERS' EQUITY					
Deposits					
Payable on demand	\$ 896,726	\$ 1,055,131	\$ 787,512	\$ 698,940	\$ 782,253
Payable on a fixed date	11,052,217	10,187,223	9,334,350	7,089,162	6,722,971
	11,948,943	11,242,354	10,121,862	7,788,102	7,505,224
Liabilities related to derivatives	1,516,445	1,846,528	1,486,991	1,611,350	1,519,495
Acceptances	848,000	148,900	450,300	349,300	280,600
Other	650,935	721,645	648,219	392,155	358,896
Subordinated debenture	105,035	123,868	123,911	125,806	160,452
Members' equity					
Capital stock	666,206	666,206	666,206	511,403	511,403
Retained earnings	1,044	—	—	—	—
General reserve	20,845	20,845	20,845	20,845	20,845
	688,095	687,051	687,051	532,248	532,248
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 15,757,453	\$ 14,770,346	\$ 13,518,334	\$ 10,798,961	\$ 10,356,915

FIVE-YEAR CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31

(in thousands of dollars)

	2005	2004 ¹	2003 ¹	2002 ¹	2001
INTEREST INCOME					
Loans	\$ 359,216	\$ 264,359	\$ 208,749	\$ 187,318	\$ 323,007
Securities	104,786	118,165	136,194	159,849	182,778
	464,002	382,524	344,943	347,167	505,785
INTEREST EXPENSE	361,638	277,573	250,289	254,725	406,127
NET INTEREST INCOME	102,364	104,951	94,654	92,442	99,658
Other income	59,261	47,743	36,394	31,127	16,726
GROSS INCOME	161,625	152,694	131,048	123,569	116,384
Provision for credit losses	15,150	15,194	16,425	21,146	12,605
	146,475	137,500	114,623	102,423	103,779
NON-INTEREST EXPENSES					
Salaries and benefits	28,151	26,391	22,354	17,267	17,669
Premises, equipment and furniture, including depreciation	15,779	12,850	11,831	10,571	9,072
Other	15,923	15,453	13,321	12,229	10,397
	59,853	54,694	47,506	40,067	37,138
NET INCOME BEFORE OTHER PAYMENTS TO THE DESJARDINS NETWORK AND INCOME TAXES	86,622	82,806	67,117	62,356	66,641
Other payments to the Desjardins network	24,392	23,907	17,998	16,238	14,337
NET INCOME BEFORE INCOME TAXES	62,230	58,899	49,119	46,118	52,304
Income taxes	13,712	14,797	9,313	10,790	11,843
NET INCOME	\$ 48,518	\$ 44,102	\$ 39,806	\$ 35,328	\$ 40,461

¹ Reclassified to conform to current year's presentation.

QUARTERLY FINANCIAL INFORMATION

(in thousands of dollars)	2005				2004			
	Q4	Q3	Q2 ¹	Q1 ¹	Q4 ¹	Q3 ¹	Q2 ¹	Q1 ¹
(Quarter-end)								
BALANCE SHEET								
ASSETS								
Cash and deposits with								
Bank of Canada	\$ 150,859	\$ 205,450	\$ 68,880	\$ 114,377	\$ 124,307	\$ 83,577	\$ 151,355	\$ 190,696
Securities	3,348,898	2,456,078	2,387,453	2,613,438	2,843,203	2,222,156	2,697,698	2,882,091
Loans	10,286,122	9,250,426	9,259,610	10,041,937	10,186,723	9,026,285	7,718,095	8,678,923
Assets related to derivatives	923,021	1,269,380	1,357,991	1,047,480	1,248,070	977,602	933,705	1,289,328
Customers' liability under acceptances	848,000	550,700	511,000	275,100	148,900	440,900	594,300	410,100
Other assets	200,553	172,694	211,588	193,779	219,143	197,750	188,983	208,624
	\$ 15,757,453	\$ 13,904,728	\$ 13,796,522	\$ 14,286,111	\$ 14,770,346	\$ 12,948,270	\$ 12,284,136	\$ 13,659,762
LIABILITIES AND MEMBERS' EQUITY								
Deposits	\$ 11,948,943	\$ 9,925,943	\$ 9,523,462	\$ 11,171,720	\$ 11,242,354	\$ 9,879,754	\$ 9,255,931	\$ 10,317,426
Liabilities related to derivatives	1,516,445	2,074,765	2,153,282	1,609,988	1,846,528	1,425,357	1,341,847	1,796,600
Acceptances	848,000	550,700	511,000	275,100	148,900	440,900	594,300	410,100
Obligations related to securities sold short	78,643	14,312	—	9,773	95,625	13,668	13,767	4,251
Commitment under the repurchase agreements	244,658	263,405	512,629	137,722	275,704	58,462	—	—
Other	327,634	281,460	296,316	275,426	350,316	323,983	267,545	321,732
Subordinated debenture	105,035	106,523	112,782	119,331	123,868	119,095	123,695	122,602
Members' equity	688,095	687,620	687,051	687,051	687,051	687,051	687,051	687,051
	\$ 15,757,453	\$ 13,904,728	\$ 13,796,522	\$ 14,286,111	\$ 14,770,346	\$ 12,948,270	\$ 12,284,136	\$ 13,659,762
(Quarter)								
STATEMENTS OF INCOME								
Net interest income	\$ 23,223	\$ 26,071	\$ 27,685	\$ 25,385	\$ 28,030	\$ 24,794	\$ 26,582	\$ 25,545
Other income	18,022	14,217	14,020	13,002	10,174	15,429	9,327	12,813
Provision for credit losses	(3,758)	(3,706)	(3,835)	(3,851)	(3,085)	(4,051)	(4,030)	(4,028)
Non-interest expenses	(16,276)	(15,243)	(14,667)	(13,667)	(16,263)	(12,861)	(12,838)	(12,732)
Net income before other payments to the Desjardins network and income taxes	21,211	21,339	23,203	20,869	18,856	23,311	19,041	21,598
Other payments to the Desjardins network	(5,931)	(5,865)	(6,257)	(6,339)	(6,247)	(6,143)	(6,329)	(5,188)
Net income before income taxes	15,280	15,474	16,946	14,530	12,609	17,168	12,712	16,410
Income taxes	(2,093)	(3,850)	(4,105)	(3,664)	(3,267)	(4,236)	(3,234)	(4,060)
NET INCOME	\$ 13,187	\$ 11,624	\$ 12,841	\$ 10,866	\$ 9,342	\$ 12,932	\$ 9,478	\$ 12,350

¹ Reclassified to conform to current year's presentation.

AUDIT COMMISSION'S ANNUAL REPORT

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

To this end, the Commission examines the annual and quarterly financial statements, related press releases, the annual Management's Discussion and Analysis of Financial Condition, the Annual Information Form and the prospectus. Furthermore, it reviews various reports, including reports on regulatory ratios, capitalization and the quarterly valuation of the off-balance sheet derivatives portfolio.

The Commission ensures that Management has developed and implemented an effective internal control system for financial reporting, asset protection, fraud detection and regulatory compliance.

It further ensures that Management has set up management systems for the main risks that could affect the financial results of the entity.

The external auditor reports directly to the Audit Commission. In order to discharge its responsibilities in this area, the Commission ensures and maintains the independence of the external auditor by authorizing all non audit-related services, by recommending its appointment or continuance, by fixing and recommending its remuneration and by conducting an annual review of its performance. In addition, it supervises the work of the external auditors, examines their proposal, their mandate, their annual audit plan, their reports, their letter to Management and Management's comments to this letter. Desjardins Group adopted a policy on the rules for awarding contracts for related services regarding (a) services that can or cannot be rendered by the external auditor, (b) the governance procedure to be followed before awarding mandates, and (c) the responsibilities of the main persons involved. Consequently, it receives a quarterly report on the contracts awarded to external auditors by Caisse centrale and Desjardins Group.

With regard to relations with the Autorité des marchés financiers, the Commission reviews the inspection report issued by the agency, as well as the quarterly financial reports submitted to it.

The Commission ensures that the independence of the internal audit function of Desjardins Group is safeguarded. It examines the annual internal audit plan for Caisse centrale, as well as the responsibilities, performance, objectivity and staffing of this team. It reviews the summary reports on the internal audits performed and, where necessary, ensures their follow-up. For such purpose, it meets with the Internal Auditor of Desjardins Group to discuss any important matters submitted to Management.

The Commission meets privately with the external auditors, Management, the Internal Auditor of Desjardins Group and representatives from the Autorité des marchés financiers. Every quarter, it submits a report to the Board of Directors and makes recommendations, if necessary.

Finally, in accordance with sound corporate governance practices, the Commission annually assesses the effectiveness and efficiency with which it has performed the tasks set out in its charter.

The Commission is composed of five independent directors. With the exception of a member who acts as an instructor at training workshops for Desjardins staff and officers, none of the directors receives remuneration from Desjardins Group, directly or indirectly, other than for the services they provide as members of the Board of Directors of Desjardins Group and its committees.

All the members of the Commission are sufficiently financially literate to read and interpret the financial statements of a financial institution, according to the criteria set out in the Commission's charter.

The Commission met five times during fiscal 2005. As at December 31, the members of the Commission were Andrée Lafortune, FCA, Jean-Guy Bureau, Marcel Lauzon, Pierre Leblanc, FCA, and Benoît Turcotte.



ANDRÉE LAFORTUNE, FCA
Chair of the Audit Commission

Montreal, Quebec
February 17, 2006

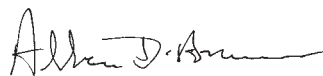
MANAGEMENT'S REPORT

Management is responsible for preparing the consolidated financial statements and related information appearing in the Annual Report and for ensuring their reliability and accuracy. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. When required to make estimates, management did so to the best of its knowledge.

The accounting system of Caisse centrale Desjardins ("Caisse centrale") and related internal controls and procedures are designed to ensure the reliability of financial information and, to a reasonable degree, safeguard assets against loss or unauthorized use. These procedures include standards in hiring and training employees, an organizational structure with clearly defined lines of responsibility, written and updated policies and procedures, planning and follow-up of projects, budget controls by cost centre and divisional performance accountability. The internal control systems are supplemented by regular independent reviews of Caisse centrale's major business segments. In addition, in the course of his duties, the Internal Auditor of Desjardins Group may confer at any time with the Board of Directors' Audit Commission. Composed entirely of directors who are neither officers nor employees of Caisse centrale, this Commission ensures that management has fulfilled its responsibilities with respect to financial reporting and the application of internal controls. During the year ended December 31, 2005, the Audit Commission met five times. In addition, the Board of Ethics, elected by the general meeting, ensures compliance with rules of professional conduct regarding, among other matters, conflicts of interest and transactions with related parties. This Board met five times.

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

The independent auditors appointed at the general meeting of members, PricewaterhouseCoopers LLP, have the responsibility of auditing the consolidated financial statements in accordance with Canadian generally accepted auditing standards and of expressing their opinion thereon. Their report follows. They may, at any time, confer with the Audit Commission on all matters concerning the nature and execution of their mandate, particularly with respect to the accuracy of financial information provided by Caisse centrale and the reliability of its internal control systems.



ALBAN D'AMOURS
Chairman of the Board and
Chief Executive Officer



JEAN-GUY LANGELIER
President and Chief Operating Officer

Montreal, Quebec
February 10, 2006

AUDITORS' REPORT

To the Members of Caisse centrale Desjardins,

We have audited the consolidated balance sheets of Caisse centrale Desjardins as at December 31, 2005 and 2004 and the statements of income, members' equity and cash flows for the years then ended. These financial statements are the responsibility of Caisse centrale Desjardins management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Caisse centrale Desjardins as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Montreal, Quebec
February 10, 2006

CONSOLIDATED BALANCE SHEETS

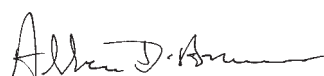
As at December 31

(in thousands of dollars)

	2005	2004
ASSETS		
CASH AND DEPOSITS WITH BANK OF CANADA	\$ 150,859	\$ 124,307
SECURITIES (notes 3 and 16)		
Investment account	2,687,402	2,194,596
Trading account	661,496	648,607
	3,348,898	2,843,203
LOANS (note 4)	10,286,122	10,186,723
OTHER		
Assets related to derivatives (note 13)	923,021	1,248,070
Customers' liability under acceptances	848,000	148,900
Other assets (note 6)	200,553	219,143
	1,971,574	1,616,113
	\$ 15,757,453	\$ 14,770,346
LIABILITIES AND MEMBERS' EQUITY		
DEPOSITS (note 7)		
Payable on demand	\$ 896,726	\$ 1,055,131
Payable on a fixed date	11,052,217	10,187,223
	11,948,943	11,242,354
OTHER		
Liabilities related to derivatives (note 13)	1,516,445	1,846,528
Acceptances	848,000	148,900
Obligations related to securities sold short	78,643	95,625
Commitments under repurchase agreements	244,658	275,704
Other liabilities (note 8)	327,634	350,316
	3,015,380	2,717,073
SUBORDINATED DEBENTURE (note 9)	105,035	123,868
MEMBERS' EQUITY	688,095	687,051
	\$ 15,757,453	\$ 14,770,346

The accompanying notes are an integral part of the consolidated financial statements.

On behalf of the Board,



ALBAN D'AMOURS
Chairman of the Board and Chief Executive Officer



PIERRE TARDIF
Vice-Chair of the Board

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31

(in thousands of dollars)

	2005	2004
INTEREST INCOME		
Loans	\$ 359,216	\$ 264,359
Securities	104,786	118,165
	464,002	382,524
INTEREST EXPENSE		
Deposits	355,352	270,799
Subordinated debenture	6,286	6,774
	361,638	277,573
NET INTEREST INCOME	102,364	104,951
OTHER INCOME		
Service charges on chequing and deposit accounts	13,724	12,326
Foreign exchange revenue	23,242	21,403
Trading activities	(639)	(2,312)
Investment activities	8,196	4,958
Fees on Desjardins Acceptances	8,120	6,289
Credit fees	3,019	2,477
Other	3,599	2,602
	59,261	47,743
GROSS INCOME	161,625	152,694
Provision for credit losses (note 4)	15,150	15,194
	146,475	137,500
NON-INTEREST EXPENSES		
Salaries and benefits	28,151	26,391
Premises, equipment and furniture, including amortization	15,779	12,850
Other	15,923	15,453
	59,853	54,694
NET INCOME BEFORE OTHER PAYMENTS TO THE DESJARDINS NETWORK AND INCOME TAXES	86,622	82,806
Other payments to the Desjardins network	24,392	23,907
NET INCOME BEFORE INCOME TAXES	62,230	58,899
Income taxes (note 11)	13,712	14,797
NET INCOME	\$ 48,518	\$ 44,102

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY

For the years ended December 31

(in thousands of dollars)

	2005	2004
CAPITAL STOCK (note 10)		
Balance at beginning and end of year	\$ 666,206	\$ 666,206
RETAINED EARNINGS		
Balance at beginning of year	\$ —	\$ —
Net income	48,518	44,102
Remuneration of capital stock	(60,848)	(56,534)
Recovery of income taxes related to the remuneration of capital stock (note 11)	13,374	12,432
Balance at end of year	\$ 1,044	\$ —
GENERAL RESERVE		
Balance at beginning and end of year	\$ 20,845	\$ 20,845
TOTAL MEMBERS' EQUITY	\$ 688,095	\$ 687,051

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31

(in thousands of dollars)	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 48,518	\$ 44,102
Adjustments to determine cash flows provided by operating activities:		
Amortization of capital and intangible assets	2,519	2,656
Provision for credit losses	15,150	15,194
Gain on sale of investment account securities	(3,823)	(6,483)
Increase in future income taxes	(3,796)	(1,869)
Net increase in trading account securities	(12,889)	(239,362)
Decrease (increase) in accrued interest receivable	2,436	(32,257)
Increase in accrued interest payable	3,027	17,515
Decrease in current income taxes	(766)	(728)
Decrease (increase) in unrealized gains and amounts receivable on derivatives	326,512	(167,985)
(Decrease) increase in unrealized losses and amounts payable on derivatives	(330,083)	359,537
Other items, net	(8,590)	14,434
	38,215	4,754
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	706,589	1,120,492
Net (decrease) increase in obligations related to securities sold short	(16,982)	80,706
Net decrease in commitments under repurchase agreements	(31,046)	(133,541)
Remuneration of capital stock paid	(66,813)	(9)
	591,748	1,067,648
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (increase) decrease in investment account securities	(488,983)	1,021,181
Net increase in loans	(333,850)	(1,999,033)
Net decrease (increase) in securities purchased under resale agreements	95,625	(80,706)
Net additions to capital and intangible assets	(11,709)	(10,466)
Proceeds from securitization of mortgages	121,355	—
	(617,562)	(1,069,024)
NET INCREASE IN CASH AND CASH EQUIVALENTS	12,401	3,378
Cash and cash equivalents at beginning of the year	95,060	91,682
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	\$ 107,461	\$ 95,060
REPRESENTED BY:		
Cash and deposits with Bank of Canada	\$ 150,859	\$ 124,307
Cheques and other items in transit	(43,398)	(29,247)
	\$ 107,461	\$ 95,060
ADDITIONAL INFORMATION		
Interest paid during the year	\$ 358,611	\$ 260,058
Income taxes paid during the year	4,899	4,962

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005 and 2004

(All tabular figures are in thousands of dollars, unless otherwise indicated)

1. INCORPORATION AND MANDATE

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Caisse centrale are prepared in accordance with section 163 of An Act respecting financial services cooperatives which requires that, unless otherwise specified by the Autorité des marchés financiers, consolidated financial statements be prepared under Canadian generally accepted accounting principles (GAAP). There is no significant difference between Canadian GAAP and the accounting rules prescribed by the Autorité des marchés financiers. The preparation of consolidated financial statements in conformity with these principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the notes thereto. Consequently, actual results may differ from those estimates.

The significant accounting policies are summarized below.

CONSOLIDATION

The consolidated financial statements include the assets and liabilities and results of operations of Caisse centrale and those of its wholly-owned American subsidiaries, Desjardins Bank N.A. and Desjardins Commercial Lending U.S.A. Corp., after elimination of intercompany transactions and balances.

SECURITIES

Securities include investment account and trading account securities.

Investment account securities Investment account securities are purchased with the primary intent of holding them until maturity or until market conditions are more favourable for other types of securities. Equity securities are stated at cost and debt securities at amortized cost. Premiums and discounts are amortized over the terms of the related securities on a straight-line basis.

Realized gains and losses on investment account securities, which are calculated using average cost, as well as write-downs to reflect a decline in value that is other than temporary are recorded in consolidated income under "Investment activities" in "Other income." Dividend and interest income, including amortization of premiums and discounts on investment account securities, is recorded in consolidated income under "Interest income."

Trading account securities Trading account securities, which are purchased for resale over a short period of time, are stated at their fair value, which is determined based on quoted market prices. When the price of a security is not available, the fair value is estimated based on the quoted market price of similar securities.

Realized and unrealized gains and losses on trading account securities are recorded in consolidated income under "Trading activities" in "Other income." Dividend and interest income is recorded in consolidated income under "Interest income."

LOANS

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

Acting as an intermediary for Desjardins Group entities, Caisse centrale buys and resells mortgage, farm and other loans. These loans are recorded at fair value as "Loans purchased from Desjardins Group."

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

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

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

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

ALLOWANCE FOR CREDIT LOSSES

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

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

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

SECURITIZATION OF MORTGAGES

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

Caisse centrale records the assets received and the liabilities assumed, which are described below, in the following manner:

- Caisse centrale retains the right to an excess interest spread until maturity of the loans, representing the difference between interest receivable on the loans and the yield payable to the holders of NHA-MBSs. This spread is presented at its fair value on the consolidated balance sheets under "Other assets." As mortgage payments are received, the yield earned is recorded under "Trading activities" in "Other income."
- A servicing liability is recognized at its fair value on the consolidated balance sheets under "Other liabilities" since Caisse centrale assumes responsibility for servicing the loans transferred; the liability is amortized over the term of the loans transferred and recorded under "Trading activities" in "Other income."

Caisse centrale has set up a swap with Canada Housing Trust under which Canada Housing Trust pays on a monthly basis to Caisse centrale all interest income received on NHA-MBSs, and Caisse centrale pays on a quarterly basis to Canada Housing Trust an interest amount based on a market rate.

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

ACCEPTANCES AND CUSTOMERS' LIABILITY UNDER ACCEPTANCES

Caisse centrale's potential liability under acceptances is reported as a liability on the consolidated balance sheets. The recourse of Caisse centrale against the customer in the case of a call on commitments of this nature is reported as an offsetting asset of the same amount. Fees paid to Caisse centrale are recognized in consolidated income under "Fees on Desjardins Acceptances" in "Other income."

OBLIGATIONS RELATED TO SECURITIES SOLD SHORT

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

ASSETS UNDER ADMINISTRATION

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

DERIVATIVES

Caisse centrale uses derivatives for asset/liability management or trading purposes. The derivatives most frequently used are forward exchange contracts, cross-currency interest rate swaps, credit swaps, forward rate agreements and foreign currency, interest rate and stock index options. All derivatives are recognized at fair value on the consolidated balance sheets. The estimated fair value of all derivatives is determined using pricing models which incorporate current market prices and the contractual prices of the underlying instruments, the time value of money, yield curves and volatility factors. On the consolidated balance sheets, derivatives having a positive fair value are presented as assets, whereas those that have a negative fair value are presented as liabilities, under the captions "Assets related to derivatives" and "Liabilities related to derivatives," respectively, in "Other."

Derivatives held for asset/liability management purposes Derivatives held for asset/liability management purposes are used to manage the interest rate and foreign exchange risk exposure of consolidated balance sheet assets and liabilities, firm commitments and forecasted transactions. Certain derivatives qualify for hedge accounting.

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

Unrealized gains or losses are deferred under "Other assets" or "Other liabilities" in "Other" and recognized in consolidated income in the same period as the gains, losses, revenues or expenses associated with the hedged item.

A derivative ceases to be designated as a hedge in the following circumstances: the hedged item is sold or matures, the hedge ceases to be effective or Caisse centrale discontinues its designation of the hedging relationship. When a hedging relationship is discontinued, the difference between the fair value and the recognized value of the derivative is deferred under "Other assets" or "Other liabilities" on the consolidated balance sheet and recognized in income over the expected remaining term of the hedging relationship being discontinued. When a hedged item is sold or matures before the corresponding derivative matures, any realized or unrealized gain or loss on the derivative is recognized immediately in income under "Investment activities" in "Other income."

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

Derivatives held for trading purposes Derivatives held for trading purposes are mainly used in intermediation activities to meet the needs of the Desjardins network or its customers. The corresponding realized and unrealized gains and losses are recognized in consolidated income under "Trading activities" in "Other income."

SECURITIES PURCHASED UNDER RESALE AGREEMENTS AND SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

Caisse centrale enters into short-term purchases and sales of securities with simultaneous agreements to sell and buy them back at a specified price and on a specified date. These agreements are accounted for as collateralized lending and borrowing transactions and are recorded on the consolidated balance sheets at the selling or repurchase price specified under the agreement. The difference between the specified selling price and the purchase price is recorded using the accrual method under "Interest income." Conversely, the difference between the selling price and the specified repurchase price is recorded under "Interest expense."

FOREIGN CURRENCY TRANSLATION

Monetary items denominated in foreign currencies are translated at rates prevailing on the balance sheet date; income and expenses are translated at the average rates prevailing during the year. Foreign exchange gains or losses arising from the translation or the settlement of a monetary item denominated in a foreign currency are recorded in income. Foreign exchange trading positions, including spot and forward contracts, are valued at prevailing market rates and the resulting gains and losses are included in "Other income."

CAPITAL ASSETS

Capital assets are recorded at cost, less consolidated amortization and are amortized over their estimated useful lives in accordance with the following methods and annual rates:

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

INTANGIBLE ASSETS WITH FINITE USEFUL LIFE

Computer software is recorded at cost, less consolidated amortization, is amortized over its estimated useful life on a straight-line basis at a rate of 20% and is written down when its net carrying value cannot be recovered in the long term. Any excess of the carrying value over the recoverable value is charged to income.

EMPLOYEE FUTURE BENEFITS

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

INCOME TAXES

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

The recovery of income taxes appearing in the consolidated statements of members' equity under "Retained earnings" is related to the remuneration of capital stock, which is deductible for income tax purposes.

ACCOUNTING CHANGES

2005

Variable Interest Entities On January 1, 2005, Caisse centrale adopted Accounting Guideline 15, "Consolidation of Variable Interest Entities," (AcG-15) of the Canadian Institute of Chartered Accountants (CICA). AcG-15 is harmonized with the new FASB Interpretation FIN46R "Consolidation of Variable Interest Entities," and provides guidance on the application of the principles provided in Section 1590, "Subsidiaries." A variable interest entity (VIE) is an entity whose equity is insufficient to permit it to finance its activities without additional subordinated financial support provided by a third party, or an entity whose equity holders do not have, as a group, the ability to make decisions, the obligation to absorb expected losses or the right to receive residual returns, if any. AcG-15 provides for the consolidation of a VIE by its primary beneficiary, namely the enterprise that absorbs a majority of the expected losses and/or has the possibility of receiving the majority of residual returns.

At the close of the year ended December 31, 2005, Caisse centrale was not the primary beneficiary of any VIE nor did it have a significant interest in any VIE. The implementation of AcG-15 did not have any impact on the financial information of Caisse centrale as at December 31, 2005.

2004

Hedging Relationships On January 1, 2004, Caisse centrale adopted Accounting Guideline 13, "Hedging Relationships," (AcG-13) issued by the CICA and Emerging Issues Committee Abstract 128, "Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments" (EIC 128). This accounting guideline addresses identification, designation, documentation and effectiveness of hedging relationships and deals with the circumstances leading to discontinuance of hedge accounting. Pursuant to EIC-128, any derivative instrument that does not qualify for hedge accounting should be recognized as an asset or a liability on the balance sheet and measured at fair value, with changes in fair value recognized in income.

Caisse centrale has revised its existing hedging relationships and has discontinued the use of hedge accounting for those hedging relationship that did not meet all required conditions. Pursuant to the transitional provisions of AcG-13, the difference between the fair value and the carrying value of derivative financial instruments from cancelled hedging relationships has been deferred and is amortized over the life of such derivatives.

As part of the adoption of the accounting guideline on January 1, 2004, Caisse centrale revised its accounting policies to recognize all derivative financial instruments on the balance sheet at fair value, while previously only those used for trading purposes were accounted for in such manner.

Generally Accepted Accounting Principles On January 1, 2004, Caisse centrale adopted, on a prospective basis, the requirements of Section 1100, "Generally Accepted Accounting Principles," issued by the CICA. This section establishes standards for financial reporting in accordance with GAAP and provides guidance on sources to consult when selecting alternative accounting policies and determining appropriate disclosures, when a matter is not dealt with specifically in the primary sources of GAAP. This standard eliminates the application of certain practices that could be used in specific industries.

Further to the adoption of this section, net amounts receivable from financial institutions arising from the clearing and settlement system are now presented in assets while net amounts payable to financial institutions are included in liabilities. Certain other items in transit were reclassified as well.

COMPARATIVE FIGURES

Certain 2004 financial information has been reclassified to conform with the presentation adopted in 2005.

FUTURE ACCOUNTING CHANGES

Implicit Variable Interests In October 2005, the Emerging Issues Committee issued Abstract no. 157, "Implicit Variable Interests Under AcG-15" (EIC-157). This abstract specifies that implicit variable interests are implied financial interests in an entity which vary in accordance with changes in the fair value of the entity's net assets, exclusive of variable interests. An implicit variable interest is similar to an explicit variable interest except that it involves absorbing or receiving the variability indirectly from the entity. The determination of whether an implicit variable interest exists is a matter of judgment that depends on the relevant facts and circumstances. EIC-157 will be effective for Caisse centrale in the first quarter of 2006. Its adoption is not expected to have a material impact on its financial statements.

Financial Instruments In January 2005, the CICA issued new accounting standards entitled "Financial Instruments - Recognition and Measurement" (Section 3855), "Hedges" (Section 3865) and "Comprehensive Income" (Section 1530) which will apply to Caisse centrale effective January 1, 2007. The main guidelines for the recognition and measurement of financial instruments and for the accounting of hedging transactions are described below. The impact of these accounting standards on the consolidated financial statements of Caisse centrale cannot yet be determined as it is dependent on outstanding positions and their fair value at the time of transition as well as on Caisse centrale's hedging strategies.

Financial Instruments - Recognition and Measurement Financial assets will have to be classified in one of the following four categories: held for trading, available for sale, held to maturity, and loans and receivables. Financial liabilities will be classified as held for trading or other. Financial assets and financial liabilities held for trading as well as financial assets available for sale will be recorded on the balance sheet at fair value. Changes in the fair value of instruments held for trading will be recognized in consolidated net income for the period, while changes in instruments available for sale will be recognized in consolidated other comprehensive income until realized, unless they become impaired and the decline in their fair value is other than temporary. Financial assets held to maturity, loans and receivables, and financial liabilities not held for trading will be recognized at their amortized cost.

Hedges Derivative instruments will have to be recorded on the balance sheet at fair value. Those that will not be designated as being part of a hedging relationship will be classified as held for trading. Those that will be recorded in a hedging relationship will be designated as part of a fair value hedge or a cash flow hedge. In a fair value hedge, gains and losses resulting from the revaluation of the fair value of the derivative and the designated risk of the hedged item will be recognized in consolidated net income, regardless of the category of the hedged item. In a cash flow hedge, gains or losses resulting from changes in the fair value of the effective portion of the derivative will be recorded in consolidated other comprehensive income until the hedged item is recognized in net income. The ineffective portion will be recognized immediately in consolidated net income.

Comprehensive Income The new financial statement "Statement of Comprehensive Income" will be added to the consolidated financial statements of Caisse centrale. In particular, it will include unrealized gains and losses on financial assets available for sale and the change in the effective portion of the cash flow hedge transaction.

3. SECURITIES

	2005						2004
	Maturity						Total
	Less than 1 year	1 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Over 10 years	Total	
INVESTMENT ACCOUNT SECURITIES ISSUED OR GUARANTEED BY							
Canada	\$ 25,094	\$ 32,127	\$ 60,793	\$ —	\$ —	\$ 118,014	\$ 146,238
Yield	5.08%	4.31%	3.73%			4.18%	4.02%
Provinces and municipalities in Canada	129,482	359,575	234,334	220,834	—	944,225	1,292,923
Yield	4.29%	4.13%	3.78%	5.05%		4.28%	4.60%
U.S. public administrations	2	12,276	—	—	9,233	21,511	20,673
Yield	7.41%	4.49%			4.94%	4.69%	3.63%
OTHER SECURITIES							
Debt securities of Canadian issuers							
Banks and financial institutions	1,352,788	81,140	—	—	—	1,433,928	609,334
Entities included in the scope of consolidation of Desjardins Group	—	—	—	—	—	—	25,438
Financial asset-backed debt securities	121,819	12,196	—	12,246	—	146,261	74,422
Other	—	10,002	—	874	156	11,032	9,150
Yield	3.44%	3.46%		5.06%		3.45%	2.93%
Foreign banks	12,431	—	—	—	—	12,431	16,418
Yield	3.51%					3.51%	1.04%
TOTAL INVESTMENT ACCOUNT SECURITIES	\$ 1,641,616	\$ 507,316	\$ 295,127	\$ 233,954	\$ 9,389	\$ 2,687,402	\$ 2,194,596
TRADING ACCOUNT SECURITIES ISSUED OR GUARANTEED BY							
Canada	\$ —	\$ 64,569	\$ 223,252	\$ 37,566	\$ 256	\$ 325,643	\$ 275,704
OTHER SECURITIES							
Equity securities	—	—	—	—	335,853	335,853	372,903
TOTAL TRADING ACCOUNT SECURITIES	\$ —	\$ 64,569	\$ 223,252	\$ 37,566	\$ 336,109	\$ 661,496	\$ 648,607
TOTAL SECURITIES	\$ 1,641,616	\$ 571,885	\$ 518,379	\$ 271,520	\$ 345,498	\$ 3,348,898	\$ 2,843,203

Yields are calculated on year-end carrying values, adjusted for amortization of premiums and discounts.

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

Total securities includes amounts denominated in foreign currencies of C\$497,607,427 (2004: C\$286,754,872), of which C\$400,108,492 is denominated in U.S. dollars (2004: C\$184,627,062).

The following table shows unrealized gains and losses on securities.

	2005				2004			
	Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated market value	Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated market value
INVESTMENT ACCOUNT SECURITIES ISSUED OR GUARANTEED BY								
Canada	\$ 118,014	\$ 434	\$ (85)	\$ 118,363	\$ 146,238	\$ 2,208	\$ —	\$ 148,446
Provinces and municipalities in Canada	944,225	25,305	(130)	969,400	1,292,923	45,001	(36)	1,337,888
U.S. public administrations	21,511	128	(41)	21,598	20,673	132	(26)	20,779
OTHER SECURITIES								
Debt securities of Canadian issuers								
Banks and financial institutions	1,433,928	42	(985)	1,432,985	609,334	48	—	609,382
Entities included in the scope of consolidation of Desjardins Group	—	—	—	—	25,438	396	—	25,834
Financial asset-backed debt securities	146,261	39	(47)	146,253	74,422	7	(6)	74,423
Other	11,032	52	—	11,084	9,150	706	—	9,856
Foreign banks	12,431	—	—	12,431	16,418	—	—	16,418
TOTAL INVESTMENT ACCOUNT SECURITIES	\$ 2,687,402	\$ 26,000	\$ (1,288)	\$ 2,712,114	\$ 2,194,596	\$ 48,498	\$ (68)	\$ 2,243,026
TRADING ACCOUNT SECURITIES ISSUED OR GUARANTEED BY								
Canada	\$ 325,643	\$ —	\$ —	\$ 325,643	\$ 275,704	\$ —	\$ —	\$ 275,704
OTHER SECURITIES								
Equity securities	335,853	—	—	335,853	372,903	—	—	372,903
TOTAL TRADING ACCOUNT SECURITIES	\$ 661,496	\$ —	\$ —	\$ 661,496	\$ 648,607	\$ —	\$ —	\$ 648,607
TOTAL SECURITIES	\$ 3,348,898	\$ 26,000	\$ (1,288)	\$ 3,373,610	\$ 2,843,203	\$ 48,498	\$ (68)	\$ 2,891,633

The estimated market value of securities is based on the quoted market price, which may not necessarily be realized on sale. Where a quoted price is not readily available, the estimated fair value is determined using market prices of similar securities.

Interest rate sensitivity is the main cause of change in the estimated market values of the investment account securities. The carrying values of these securities are not adjusted to reflect one-time increases or decreases in the estimated market values due to interest rate changes, as Caisse centrale's initial intention is to hold these securities to maturity or until market conditions are more favourable for other types of securities.

4. LOANS

	2005	2004
Securities purchased under resale agreements	\$ —	\$ 95,625
Day, call and short-term loans to investment dealers and brokers	205,000	446,000
Public and parapublic institutions	1,476,809	1,454,697
Members		
Fédération	5,572,070	5,443,248
Other	73,049	43,863
Other entities included in the scope of consolidation of Desjardins Group	955,196	960,788
Loans purchased from Desjardins Group	4,891	132
Private sector	2,071,230	1,803,444
	\$ 10,358,245	\$ 10,247,797
Allowance for credit losses	(72,123)	(61,074)
TOTAL	\$ 10,286,122	\$ 10,186,723
Gross impaired loans	\$ 10,277	\$ 19,850
Specific provisions	(3,750)	(7,879)
IMPAIRED LOANS NET OF SPECIFIC PROVISIONS	\$ 6,527	\$ 11,971

Total loans before the allowance for credit losses includes loans for an amount of C\$749,199,009 (2004: C\$857,150,039) denominated in U.S. dollars.

The allowance for credit losses relates entirely to loans and commitments classified in the "Private sector" category.

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

	2005	2004
ALLOWANCE FOR CREDIT LOSSES		
Balance at beginning of year	\$ 61,074	\$ 90,390
Provision for credit losses	15,180	15,194
Write-offs	(3,600)	(44,559)
Restructurings	(500)	—
Recoveries	—	89
Changes in foreign exchange rates	(31)	(40)
BALANCE AT END OF YEAR	\$ 72,123	\$ 61,074
CONSISTING OF		
Specific provisions ¹	\$ 3,750	\$ 7,879
General provision for credit losses	68,373	53,195
TOTAL	\$ 72,123	\$ 61,074

¹ As at December 31, 2005 and 2004, the specific provisions included an amount of \$0.3 million related to off-balance sheet commitments.

5. SECURITIZATION OF MORTGAGES

In 2005, under the NHA Mortgage-Backed Securities Program, Caisse centrale securitized residential mortgages guaranteed by Canada Housing and Mortgage Corporation through the creation of NHA-MBSs. The securitized amount of \$124.5 million includes \$2.4 million of unsold mortgage-backed securities, which appear on the consolidated balance sheets under "Securities." The mortgages sold have terms of four or five years and bear interest at the one year interest rate renewable in subsequent years on the anniversary date.

The key assumptions used to calculate the initial value of retained interests were as follows:

- Excess interest spread 0.82%
- Discount rate 4.38%
- Prepayment rate 1%

Weighted average term (45 months)

No credit losses are expected as the mortgages transferred are guaranteed.

As at December 31, 2005, Caisse centrale reported an amount of \$3.7 million on its consolidated balance sheet representing retained interests, and an amount of \$2.2 million, representing the servicing liabilities.

An analysis of the sensitivity of the fair value of retained interests to immediate 10% and 20% adverse changes in key assumptions has not resulted in any significant impact. The result of this analysis should be used with caution, since changes in fair value attributable to changes in assumptions generally cannot be extrapolated because their relationship is not linear. Changes in one factor may contribute to changes in another, which could amplify or reduce certain sensitivities.

Total outstanding securitized loans amounted to \$123.3 million as at December 31, 2005.

6. OTHER ASSETS

	2005	2004
Interest receivable	\$ 74,166	\$ 76,602
Future tax assets (note 11)	22,330	18,534
Capital assets, net of accumulated amortization of \$9,952 (2004: \$8,129)	4,001	4,597
Intangible assets with finite useful life, net of accumulated amortization of \$3,138 (2004: \$2,833)	23,071	13,285
Other	76,985	106,125
TOTAL	\$ 200,553	\$ 219,143

7. DEPOSITS

	2005			2004
	Payable on demand	Payable on a fixed date	Total	Total
Canada	\$ 1,507	\$ 420,578	\$ 422,085	\$ 199,250
Provinces	97,112	493,659	590,771	177,474
Banks and financial institutions	8,700	848,536	857,236	798,729
Members				
Fédération	125,230	751,821	877,051	1,071,453
Other	39,888	24,165	64,053	197,856
Other entities included in the scope of consolidation of Desjardins Group	237,390	585,558	822,948	571,522
Other	386,899	7,927,900	8,314,799	8,226,070
Total	\$ 896,726	\$ 11,052,217	\$ 11,948,943	\$ 11,242,354

Total deposits include deposits in foreign currencies in the amount of C\$4,668,358,000 (2004: C\$4,687,942,000), of which C\$2,702,458,000 (2004: C\$2,336,744,000) is denominated in U.S. dollars and C\$1,783,336,000 (2004: C\$2,085,561,000) is denominated in euros.

8. OTHER LIABILITIES

	2005	2004
Interest payable	\$ 69,886	\$ 66,859
Remuneration of capital stock payable	117,382	123,347
Cheques and other items in transit	43,398	29,247
Income taxes payable	1,283	2,049
Other	95,685	128,814
TOTAL	\$ 327,634	\$ 350,316

9. SUBORDINATED DEBENTURE

The debenture is subordinated to the claims of depositors and certain other creditors.

Maturity	Interest rate	Terms	2005	2004
March 18, 2013	5.5 %	Nominal value of €76,224,509; 5.5% interest payable annually in euros until March 18, 2008; thereafter, interest payable quarterly at the rate of Euribor plus 1.40%.	\$ 105,035	\$ 123,868

Caisse centrale may, with the prior approval of the Autorité des marchés financiers, redeem the subordinated debenture on March 18, 2008 or at any time in the event of an applicable tax amendment. Further, Caisse centrale entered into hedging transactions to eliminate foreign exchange exposure.

10. CAPITAL STOCK

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

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

	2005		2004	
	Number	Amount	Number	Amount
Capital shares at beginning and end of year	666,203	\$ 666,203	666,203	\$ 666,203

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

Class B capital shares As at December 31, 2005 and 2004, no Class B capital shares had been issued or were outstanding.

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

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

	2005		2004	
	Number	Amount	Number	Amount
Qualifying shares at beginning and end of year	600	\$ 3	600	\$ 3

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

11. INCOME TAXES

The income taxes as shown in the financial statements are detailed as follows:

	2005	2004
CONSOLIDATED STATEMENTS OF INCOME		
Current income taxes	\$ 17,507	\$ 16,666
Future income taxes	(3,795)	(1,869)
	\$ 13,712	\$ 14,797
CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY		
Recovery of income taxes related to the remuneration of capital stock	\$ 13,374	\$ 12,432
	\$ 338	\$ 2,365

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

	2005	2004
FUTURE TAX ASSETS		
Allowance for credit losses	\$ 16,107	\$ 12,404
Deferred income	1,474	1,368
Loan fees	715	850
Capital and intangible assets	1,469	977
Losses carried forward	2,612	2,593
Other	576	506
	\$ 22,953	\$ 18,698
FUTURE TAX LIABILITIES		
Issue expenses	\$ —	\$ (152)
Other	(623)	(12)
	\$ (623)	\$ (164)
FUTURE TAX ASSETS (NET)	\$ 22,330	\$ 18,534

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

	2005		2004	
Income taxes applicable to credit unions	\$ 13,678	21.98%	\$ 12,946	21.98%
Increase from:				
• Large corporations tax	1,337	2.15	1,541	2.62
• Other	567	0.91	310	0.52
Future taxes resulting from changes to income tax rates	(1,870)	(3.01)	—	—
Income taxes, as reported in the consolidated statements of income, and effective tax rates	\$ 13,712	22.03%	\$ 14,797	25.12%

12. DERIVATIVES

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

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

Interest rate contracts include interest rate swaps, forward rate agreements and futures contracts. Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional principal amount for a predetermined period based on agreed-upon fixed and floating rates. Principal amounts are not exchanged. Forward rate agreements are forward transactions on interest rates, based on a notional principal amount, which call for a cash settlement at a future date for the difference between the contractual rate of interest and the market rate. Futures contracts represent a future commitment to purchase or deliver commodities or financial instruments on a future date at a specified price. Futures contracts are traded in predetermined amounts on regulated stock exchanges and are subject to daily cash margins.

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

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

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

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

The credit risk exposure of derivatives corresponds to the risk of credit losses that can occur if a borrower or counterparty does not fully honour its contractual obligations to Caisse centrale and if the market conditions are such that replacing the transaction would result in a loss for Caisse centrale. Credit risk is managed within the authorization limits granted to counterparties and the netting programs entered into with significant counterparties.

The following table summarizes the derivatives portfolio and related credit exposure of Caisse centrale.

- **Notional amount** - The 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 estimated fair value, all contracts which have a positive market value. The amounts do not take into consideration contracts which permit offsetting of positions or any collateral which may be obtained.
- **Future credit exposure** - The potential for future changes in value based upon a formula prescribed by the Bank for International Settlements (BIS).
- **Credit risk equivalent** - The total of replacement cost and future credit exposure excluding items prescribed by the BIS, namely the replacement cost of foreign exchange forward contracts with an original maturity of less than 14 days and derivative instruments negotiated through exchanges when they are subject to daily margin requirements.
- **Risk-weighted balance** - The credit risk equivalent weighted according to the creditworthiness of the counterparty, as prescribed by the BIS.

DERIVATIVES	2005					2004	
	Notional amount	Replacement cost	Future credit exposure	Credit risk equivalent	Right weighted balance	Replacement cost	Risk-weighted balance
ASSET/LIABILITY MANAGEMENT PURPOSES							
INTEREST RATE CONTRACTS							
Interest rate swap contracts	\$ 3,782,872	\$ 20,333	\$ 14,119	\$ 34,452	\$ 7,615	\$ 30,361	\$ 9,537
INTEREST RATE SWAP CONTRACTS	3,782,872	20,333	14,119	34,452	7,615	30,361	9,537
FOREIGN EXCHANGE CONTRACTS							
Currency swap contracts	2,544,659	75,154	120,226	195,380	49,322	246,908	93,472
TOTAL FOREIGN EXCHANGE CONTRACTS	2,544,659	75,154	120,226	195,380	49,322	246,908	93,472
TOTAL – ASSET/LIABILITY MANAGEMENT PURPOSES	\$ 6,327,531	\$ 95,487	\$ 134,345	\$ 229,832	\$ 56,937	\$ 277,269	\$ 103,009
TRADING PURPOSES							
INTEREST RATE CONTRACTS							
Interest rate swap contracts	\$ 63,216,357	\$ 319,482	\$ 301,276	\$ 620,758	\$ 122,596	\$ 571,922	\$ 161,907
Forward rate agreements	7,091,000	2,645	4,250	6,896	2,556	1,059	447
Futures contracts	7,402,974	3,959	—	—	—	216	—
Options purchased	2,073,733	22,537	993	23,530	4,706	3,243	648
Options written	2,406,109	—	—	—	—	—	—
TOTAL INTEREST RATE CONTRACTS	82,190,173	348,623	306,519	651,184	129,858	576,440	163,002
FOREIGN EXCHANGE CONTRACTS							
Forward contracts	5,079,841	52,571	52,568	105,026	23,021	123,021	43,638
Currency swap contracts	252,144	14,565	15,617	30,182	7,745	1,078	2,117
Options purchased	282,811	6,577	6,113	12,690	3,738	2,947	2,221
Options written	286,425	—	—	—	—	—	—
TOTAL FOREIGN EXCHANGE CONTRACTS	5,901,221	73,713	74,298	147,898	34,504	127,046	47,976
OTHER CONTRACTS							
Credit swaps	512,153	1,021	46,084	47,105	9,421	287	15,938
Stock index options - purchased	1,793,307	404,177	136,161	540,338	179,726	267,028	141,995
Stock index options - written	1,793,307	—	—	—	—	—	—
TOTAL OTHER CONTRACTS	4,098,767	405,198	182,245	587,443	189,147	267,315	157,933
TOTAL – TRADING PURPOSES	\$ 92,190,161	\$ 827,534	\$ 563,062	\$ 1,386,525	\$ 353,509	\$ 970,801	\$ 368,911
TOTAL DERIVATIVES BEFORE NETTING AGREEMENTS	\$ 98,517,692	\$ 923,021	\$ 697,407	\$ 1,616,357	\$ 410,446	\$ 1,248,070	\$ 471,920
Less impact of master netting agreements ¹		751,177			288,937	853,627	283,900
TOTAL DERIVATIVES		\$ 171,844			\$ 121,509	\$ 394,443	\$ 188,020

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

The following table presents the term to maturity of the notional amounts of the derivatives.

	2005					2004
	Maturity					Notional amount
	1 year and less	Over 1 to 3 years	Over 3 to 5 years	Over 5 years	Notional amount	
INTEREST RATE CONTRACTS						
Interest rate swap contracts	\$ 13,933,341	\$ 28,248,044	\$ 19,579,612	\$ 5,238,232	\$ 66,999,229	\$ 56,479,381
Forward rate agreements	6,766,000	325,000	—	—	7,091,000	5,961,000
Futures contracts	5,709,249	1,693,725	—	—	7,402,974	9,997,880
Options purchased	1,875,000	35,000	163,733	—	2,073,733	1,035,000
Options written	2,205,000	35,000	166,109	—	2,406,109	1,175,000
TOTAL INTEREST RATE CONTRACTS	30,488,590	30,336,769	19,909,454	5,238,232	85,973,045	74,648,261
FOREIGN EXCHANGE CONTRACTS						
Forward contracts	4,972,680	107,161	—	—	5,079,841	7,879,138
Currency swap contracts	206,743	1,559,996	901,737	128,327	2,796,803	4,207,054
Options purchased	200,693	82,118	—	—	282,811	136,239
Options written	204,308	82,117	—	—	286,425	130,229
TOTAL FOREIGN EXCHANGE CONTRACTS	5,584,424	1,831,392	901,737	128,327	8,445,880	12,352,660
OTHER CONTRACTS						
Credit swaps	79,977	73,318	23,318	335,540	512,153	754,195
Stock index options - purchased	376,057	862,650	543,750	10,850	1,793,307	2,062,717
Stock index options - written	376,057	862,650	543,750	10,850	1,793,307	2,062,717
TOTAL OTHER CONTRACTS	832,091	1,798,618	1,110,818	357,240	4,098,767	4,879,629
TOTAL DERIVATIVES	\$ 36,905,105	\$ 33,966,779	\$ 21,922,009	\$ 5,723,799	\$ 98,517,692	\$ 91,880,550

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values are intended to approximate amounts at which these financial instruments could be exchanged in a current transaction between willing parties; however, many of the financial instruments lack an available trading market. Therefore, fair values are based on estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates which reflect varying degrees of risk. In addition, the estimated fair values disclosed do not reflect the value of assets and liabilities that are not considered financial instruments, such as "Capital assets and intangible assets with finite useful life." In addition, the values of other non-financial intangible assets and liabilities have been excluded. Given the use of subjective judgment in applying a large number of acceptable valuation and estimation techniques to calculate fair values, the fair value estimates cannot necessarily be compared to those of other financial institutions. The estimated fair values reflect market conditions at a specific date and, as such, may not be representative of future fair values. They should also not be interpreted as being realizable in an immediate settlement of the instruments. Detailed information on the estimated fair value of on-balance sheet financial instruments and of the derivatives which are excluded from the table of on-balance sheet financial instruments is presented on the following page.

ON-BALANCE SHEET FINANCIAL INSTRUMENTS (EXCLUDING DERIVATIVES)

	2005			2004		
	Fair value	Carrying value	Difference	Fair value	Carrying value	Difference
ASSETS						
Cash and deposits with Bank of Canada	\$ 150,859	\$ 150,859	\$ —	\$ 124,307	\$ 124,307	\$ —
Securities	3,373,610	3,348,898	24,712	2,891,633	2,843,203	48,430
Loans	10,300,693	10,286,122	14,571	10,225,878	10,186,723	39,155
Customers' liability under acceptances	848,000	848,000	—	148,900	148,900	—
Other	74,166	74,166	—	76,602	76,602	—
LIABILITIES						
Deposits	11,973,106	11,948,943	(24,163)	11,291,147	11,242,354	(48,793)
Acceptances	848,000	848,000	—	148,900	148,900	—
Obligations related to securities sold short	78,643	78,643	—	95,625	95,625	—
Subordinated debenture	110,114	105,035	(5,079)	134,578	123,868	(10,710)
Other	476,608	476,608	—	497,206	497,206	—

DERIVATIVES¹

	2005			2004		
	Positive value	Negative value	Net fair value	Positive value	Negative value	Net fair value
ASSET/LIABILITY MANAGEMENT PURPOSES						
INTEREST RATE CONTRACTS						
Interest rate swap contracts	\$ 20,333	\$ 41,505	\$ (21,172)	\$ 30,361	\$ 64,353	\$ (33,992)
TOTAL INTEREST RATE CONTRACTS	20,333	41,505	(21,172)	30,361	64,353	(33,992)
FOREIGN EXCHANGE CONTRACTS						
Currency swap contracts ¹	75,154	535,599	(460,445)	246,908	695,030	(448,122)
TOTAL FOREIGN EXCHANGE CONTRACTS	75,154	535,599	(460,445)	246,908	695,030	(448,122)
TOTAL – ASSET/LIABILITY MANAGEMENT PURPOSES	\$ 95,487	\$ 577,104	\$ (481,617)	\$ 277,269	\$ 759,383	\$ (482,114)
TRADING PURPOSES						
INTEREST RATE CONTRACTS						
Interest rate swap contracts	\$ 319,482	\$ 426,378	\$ (106,896)	\$ 571,922	\$ 637,197	\$ (65,275)
Forward rate agreements	2,645	2,328	317	1,059	1,991	(932)
Futures contracts	3,959	146	3,813	216	151	65
Options purchased	22,537	—	22,537	3,243	—	3,243
Options written	—	24,414	(24,414)	—	3,619	(3,619)
TOTAL INTEREST RATE CONTRACTS	348,623	453,266	(104,643)	576,440	642,958	(66,518)
FOREIGN EXCHANGE CONTRACTS						
Forward contracts	52,571	59,188	(6,617)	123,021	158,594	(35,573)
Currency swap contracts	14,565	14,381	184	1,078	884	194
Options purchased	6,578	—	6,578	2,947	—	2,947
Options written	—	7,259	(7,259)	—	2,904	(2,904)
TOTAL FOREIGN EXCHANGE CONTRACTS	73,714	80,828	(7,114)	127,046	162,382	(35,336)
OTHER CONTRACTS						
Credit swaps	1,021	1,071	(50)	287	14,777	(14,490)
Stock index options - purchased	404,176	—	404,176	267,028	—	267,028
Stock index options - written	—	404,176	(404,176)	—	267,028	(267,028)
TOTAL OTHER CONTRACTS	405,197	405,247	(50)	267,315	281,805	(14,490)
TOTAL – TRADING PURPOSES	\$ 827,534	\$ 939,341	\$ (111,807)	\$ 970,801	\$ 1,087,145	\$ (116,344)
TOTAL DERIVATIVES BEFORE NETTING AGREEMENTS	\$ 923,021	\$ 1,516,445	\$ (593,424)	\$ 1,248,070	\$ 1,846,528	\$ (598,458)
Less impact of master netting agreements ²	751,177	751,177	—	853,627	853,627	—
TOTAL DERIVATIVES	\$ 171,844	\$ 765,268	\$ (593,424)	\$ 394,443	\$ 992,901	\$ (598,458)

¹ Including deposits, held under master netting agreements, of \$35,264,589 reported in the positive values and of \$228,523,478 reported in the negative values (2004: deposits of \$22,273,000 reported in the positive values and of \$555,593,000 reported in the negative values).

² Without the intent of settling the contracts on a net basis or simultaneously.

The following table presents the derivatives recorded on the consolidated balance sheets:

	Assets		Liabilities	
	2005	2004	2005	2004
Fair value of derivatives – asset/liability management purposes	\$ 95,487	\$ 277,269	\$ 577,104	\$ 759,383
Fair value of derivatives – trading purposes	827,534	970,801	939,341	1,087,145
TOTAL	\$ 923,021	\$ 1,248,070	\$ 1,516,445	\$ 1,846,528

The following methods and assumptions were used to estimate the fair value of the on-balance sheet financial instruments:

- **Financial instruments valued at carrying value:** Due to their short-term maturity, the carrying values of certain consolidated on-balance sheet financial instruments were assumed to approximate their fair values. These financial instruments include "Cash and deposits with Bank of Canada," "Securities purchased under resale agreements," "Commitments under repurchase agreements," "Obligations related to securities sold short," "Customers' liability under acceptances," "Acceptances" and "Accrued interest."
- **Securities:** The estimated market values of securities are presented in note 3 to the consolidated financial statements. They are determined based on their quoted market price and may not be realized upon sale. When the quoted price of a security is not available, the market value is estimated using quoted market prices of similar securities.
- **Loans:** The fair values of loans are estimated using a discounted cash flow calculation that uses market interest currently charged for similar new loans as at December 31 and expected amounts at maturity. For certain floating rate loans, for which rates are revised frequently, estimated fair values are assumed to be equal to the carrying values.
- **Deposits:** The fair values of deposits at floating rates or with no stated maturity are assumed to be equal to their carrying values. The estimated fair values of fixed rate deposits are determined by discounting the contractual cash flows, using market interest rates currently offered for deposits of similar remaining maturities.
- **Subordinated debenture:** The fair value of the debenture is based on current rates offered to Caisse centrale for debt of the same remaining maturity.

The following methods and assumptions were used to estimate the fair value of off-balance sheet credit instruments and derivatives:

- **Off-balance sheet credit instruments:** The commitments to extend credit are primarily at floating rates and therefore do not expose Caisse centrale to interest rate risk.
- **Derivatives:** The fair values of exchange-traded derivatives are based on quoted market prices or dealer quotes. Fair values of non-exchange-traded or over-the-counter derivatives are generally calculated as a net present value, net of contractual cash flows, using prevailing market rates for instruments with similar characteristics and maturities.

14. INTEREST RATE SENSITIVITY

The following table shows Caisse centrale's position with regard to interest rate sensitivity as at December 31, 2005. This is the position at that particular date and could have subsequently changed, taking into account forecasted interest rates and customers' preferences for products and maturities.

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

(in millions of dollars)	Floating rate	0 to 3 months	Over 3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Non-interest sensitive	Total
ASSETS								
Cash and deposits with Bank of Canada	\$ —	\$ 128	\$ —	\$ —	\$ —	\$ —	\$ 23	\$ 151
Effective interest rate ¹		3.25%						
Securities								
- Investment account	498	1,504	102	21	414	148	—	2,687
Effective interest rate ¹		3.45%	4.52%	4.44%	4.40%	6.05%		
- Trading account	—	—	—	—	295	31	336	662
Effective interest rate ¹					3.77%	4.83%		
Loans	1,168	6,418	138	1,208	1,321	95	(62)	10,286
Effective interest rate ¹		4.88%	4.91%	4.22%	5.25%	6.27%		
Other	—	122	23	—	(54)	1	1,879	1,971
TOTAL ASSETS	\$ 1,666	\$ 8,172	\$ 263	\$ 1,229	\$ 1,976	\$ 275	\$ 2,176	\$ 15,757
LIABILITIES AND MEMBERS' EQUITY								
Deposits	\$ 3,650	\$ 6,595	\$ 347	\$ 209	\$ 1,145	\$ 3	\$ —	\$ 11,949
Effective interest rate ¹		3.59%	3.67%	4.30%	4.74%	4.50%		
Obligations related to securities sold short	—	—	—	—	79	—	—	79
Effective interest rate ¹					3.93%			
Subordinated debenture	—	—	—	—	105	—	—	105
Effective interest rate ¹					5.50%			
Other	—	1,113	(224)	(8)	(317)	1	2,371	2,936
Members' equity	—	—	—	—	—	—	688	688
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 3,650	\$ 7,708	\$ 123	\$ 201	\$ 1,012	\$ 4	\$ 3,059	\$ 15,757
Balance sheet gap	\$ (1,984)	\$ 464	\$ 140	\$ 1,028	\$ 964	\$ 271	\$ (883)	\$ —
Derivatives ²	—	1,021	(791)	238	(313)	(155)	—	—
Total interest rate sensitivity gap	\$ (1,984)	\$ 1,485	\$ (651)	\$ 1,266	\$ 651	\$ 116	\$ (883)	\$ —
CUMULATIVE INTEREST RATE SENSITIVITY GAP 2005	\$ (1,984)	\$ (499)	\$ (1,150)	\$ 116	\$ 767	\$ 883	\$ —	\$ —
2004								
Balance sheet gap	(2,838)	2,348	200	135	785	287	(917)	—
Derivatives ²	—	3,356	(4,202)	(386)	1,417	(185)	—	—
Total interest rate sensitivity gap	\$ (2,838)	\$ 5,704	\$ (4,002)	\$ (251)	\$ 2,202	\$ 102	\$ (917)	\$ —
CUMULATIVE INTEREST RATE SENSITIVITY GAP 2004	\$ (2,838)	\$ 2,866	\$ (1,136)	\$ (1,387)	\$ 815	\$ 917	\$ —	\$ —

¹ The effective interest rates shown express the historical rates of the fixed rate instruments stated at unamortized cost and the current market rates of the instruments stated at fair value.

² Derivatives represent the net notional amounts of derivative financial instruments such as forward rate agreements and interest rate swaps, which are used to manage interest rate risk.

15. CONCENTRATIONS OF CREDIT RISK

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

Balance sheet assets Of total loans as at December 31, 2005 and 2004, 98.0% and 98.3% respectively were made to borrowers from Canada, with the largest concentration in Quebec (2005: 85.8%; 2004: 87.7%), and 7.1% to borrowers from Ontario (2004: 6.8%).

Derivatives The following table shows the breakdown of notional amounts of derivatives by geographic area, on the basis of the country of domicile of the counterparties as at December 31:

	2005	%	2004	%
Canada	\$ 74,214,431	75	\$ 70,082,814	76
International	24,303,261	25	21,797,736	24
TOTAL	\$ 98,517,692	100	\$ 91,880,550	100

The following table shows the breakdown of notional amounts of derivatives by the counterparties' industry segments as at December 31:

	2005						2004
	Interest rate contracts	%	Foreign exchange contracts	%	Other contracts	%	Total
Banks	\$ 46,152,452	53	\$ 5,500,535	66	\$ 1,227,022	30	\$ 52,880,009
Members	26,397,703	31	618,389	7	2,078,236	50	29,094,328
Fédération	655,300	1	—	—	21,874	1	677,174
Other							
Other entities included in the scope of consolidation of Desjardins Group	4,020,500	5	351,471	4	3,834	—	4,375,805
Government	2,008,965	2	433,788	5	—	—	2,442,753
Private sector	6,738,125	8	1,541,697	18	767,801	19	9,047,623
TOTAL	\$ 85,973,045	100	\$ 8,445,880	100	\$ 4,098,767	100	\$ 98,517,692
							\$ 91,880,550

16. COMMITMENTS AND GUARANTEES

a) Off-balance sheet credit instruments In the normal course of business, Caisse centrale offers its customers various instruments to meet their needs for liquidity. All financial instruments are subject to regular credit standards, financial controls and other usual monitoring procedures that are normally applied.

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

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

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

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

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

	2005		2004	
	Contractual amount	Risk-weighted balance	Contractual amount	Risk-weighted balance
Guarantees and standby letters of credit	\$ 444,330	\$ 246,400	\$ 314,877	\$ 172,001
Commitments to extend credit (original term to maturity) over one year	1,759,089	690,574	1,631,747	612,148
one year or less and conditionals	7,265,081	—	11,095,069	—
Commitments to purchase assets	7,127	—	480,878	—
TOTAL	\$ 9,475,627	\$ 936,974	\$ 13,522,571	\$ 784,149

b) Contractual commitments As at December 31, 2005, future minimum commitments under long-term leases and service contracts were as follows:

2006	2007	2008	2009	2010	2011 and thereafter	Total
\$ 1,593	\$ 382	\$ 316	\$ 278	\$ 260	\$ 73	\$ 2,902

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

Caisse centrale has issued the following guarantees to third parties:

Guarantees and standby letters of credit Guarantees and standby letters of credit (including Publi-privilege securities) represent an irrevocable commitment by Caisse centrale to make payments in the event that a customer cannot meet its obligations to third parties.

These instruments are generally collateralized in accordance with the same policy as the one which Caisse centrale applies with respect to loans. The term of these products does not exceed.

The allowance for credit losses covers all credit risks, including those related to guarantees and standby letters of credit.

Other indemnification agreements In the normal course of its operations, Caisse centrale enters into a number of agreements containing indemnification provisions such as those normally related to purchase agreements, service delivery agreements and lease agreements. Under these agreements, Caisse centrale may be liable for indemnifying the counterparty pursuant to amendments to statutes and regulations (including tax rules) or as a result of litigation. The term of the agreements varies from one contract to the next. Caisse centrale is not in a position to make a reasonable estimate of the maximum amount that it could be required to pay counterparties. Historically, payments made under these agreements have been negligible. No amounts have been recognized on the consolidated balance sheets with respect to these agreements.

Derivative products Caisse centrale trades in credit swaps under which the counterparty is compensated for losses it incurs on a designated property (usually a loan or a bond) should a default or a predetermined triggering event occur. The maximum amount of the guarantee is equal to the notional amount of the swaps and totalled \$147,467,000 as at December 31, 2005.

Other guarantees Caisse centrale irrevocably guarantees, jointly and severally, the obligations of Desjardins Credit Union Inc. (DCU) until April 1, 2006 pursuant to an agreement between the Government of Ontario and DCU regarding the acquisition by the latter of certain assets of the Province of Ontario Savings Office. The agreement contains several conditions, including minimum standards regarding personnel and branch operations. Caisse centrale cannot reasonably estimate the maximum amount it may have to pay under this agreement. No amounts have been recognized on the consolidated balance sheets with respect to this agreement.

MAXIMUM POTENTIAL AMOUNT OF FUTURE PAYMENTS AS GUARANTEES

(in thousands of dollars)

	2005	2004
Guarantees and standby letters of credit	\$ 296,863	\$ 219,877
Credit swaps	147,467	95,000
TOTAL	\$ 444,330	\$ 314,877

d) Pledged assets The assets pledged as security by Caisse centrale in the normal course of operations are presented in the table below:

	2005	2004
ASSETS PLEDGED TO THE FOLLOWING COUNTERPARTIES:		
Bank of Canada	\$ 140,000	\$ 137,000
Foreign central banks	15,461	—
Clearing systems, payment systems and depositories	108,200	106,200
	\$ 263,661	\$ 243,200
ASSETS PLEDGED FOR THE FOLLOWING TRANSACTIONS:		
Derivatives transactions	20,800	17,250
TOTAL	\$ 284,461	\$ 260,450

e) Tactical rate management term savings In connection with the various sales campaigns for tactical rate management term savings carried out by the Desjardins caisses, the Fédération has deposited with Caisse centrale a portion of the amounts raised during each of the campaigns. In order to earn a return on the amounts under management, Caisse centrale invests in fixed income financial instruments (including Government of Canada bonds, derivative financial instrument contracts and other investment vehicles). The face value of these investments of Caisse centrale exceeds the amounts deposited by the Fédération. Caisse centrale deposits an amount equal to the positive returns it earns on these investments in the Fédération's account and recovers from the latter negative returns. However, the cumulative balance of a campaign account cannot become negative as a result of recoveries by Caisse centrale. As at December 31, 2005, the face value of the Caisse centrale investments was \$961,751,500 (2004: \$837,290,000) and the balance of the amounts deposited by the Fédération amounted to \$50,268,000 (2004: \$39,969,000).

17. OTHER TRANSACTIONS WITH DESJARDINS GROUP

These transactions with members and other entities included in the scope of consolidation of Desjardins Group represent those not disclosed elsewhere in the consolidated financial statements. Pursuant to its Constituent Legislation, the Fédération and its member caisses are members of Caisse centrale. Consequently, transactions with the Fédération for the benefit of its member caisses are concluded under more favourable conditions for the member caisses than those granted to unrelated third parties. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Transactions concluded for the Fédération's own financing needs and with other entities included in the scope of consolidation of Desjardins Group are carried out under similar conditions to those negotiated with unrelated third parties. These transactions are in the normal course of business of Caisse centrale and are measured at the exchange amount, which approximates fair market value and is the amount of consideration established and agreed to by the related parties.

	2005			2004		
	Members		Other entities included in the scope of consolidation of Desjardins Group	Members		Other entities included in the scope of consolidation of Desjardins Group
	Fédération	Other		Fédération	Other	
ASSETS						
Day, call and short-term loans to investment dealers and brokers	\$ —	\$ —	\$ 205,000	\$ —	\$ —	\$ 446,000
Assets related to derivatives	74,441	40,299	9,127	62,154	20,821	23
Customers' liability under acceptances	751,500	—	—	126,200	—	—
Other assets	19,515	6,128	5,597	26,904	2,779	3,438
LIABILITIES						
Liabilities related to derivatives	599,614	46,039	2,120	694,872	73,106	8,065
Acceptances	—	—	848,000	—	—	148,900
Other liabilities	119,919	9,660	5,161	126,988	9,470	1,613
INCOME						
Interest income	154,804	1,620	44,974	111,796	771	38,777
Interest expense	19,999	2,697	26,367	41,435	7,014	11,693
Other income	63,516	57,553	9,905	(392,426)	(36,627)	813
Non-interest expenses	15,892	17	2,646	11,415	18	2,532

18.EMPLOYEE FUTURE BENEFITS

Caisse centrale enrolls all its employees 25 years of age or older in the Desjardins Group multiemployer pension plan. An actuarial valuation of the plan is performed at least once every three years. The most recent actuarial valuation, dated January 1, 2004, showed a stated surplus of \$44.5 million for funding purposes and a deficiency of \$33.3 million for solvency purposes. To eliminate this deficiency, Desjardins Group employers must collectively make special annual payments of \$7.6 million, of which Caisse centrale's share is \$99,000, from January 1, 2004 to December 31, 2008 or until an actuarial valuation shows that the Plan does not have a solvency deficiency.

The amount expensed as employer contributions with respect to the pension plan was \$2,053,000 in 2005 (2004: \$1,754,000).

Caisse centrale also provides life insurance coverage and health and dental care benefits to its eligible retired employees through the Desjardins Group multiemployer group insurance plan. This group plan is not funded. Employer contributions with respect to group insurance offered to retired employees charged to consolidated income totalled \$59,000 in 2005 (2004: \$86,000).

19.SEGMENTED INFORMATION

Caisse centrale conducts its activities in three segments. Each segment offers different services, uses separate strategies and is managed by a senior vice-president.

The accounting policies used by the segments are the same as those described in the significant accounting policies. Caisse centrale measures the performance of these segments based on the gross income generated by each segment. Non-interest expenses are managed on a consolidated basis and are not allocated by segment.

The following table summarizes the consolidated financial results of Caisse centrale by business segment:

	Financing		Capital Market		Other		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
Net interest income	\$ 52,508	\$ 50,990	\$ 43,709	\$ 48,051	\$ 6,147	\$ 5,911	\$ 102,364	\$ 104,951
Other income	19,536	16,868	32,417	25,203	7,308	5,671	59,261	47,743
Gross income	\$ 72,044	\$ 67,858	\$ 76,126	\$ 73,254	\$ 13,455	\$ 11,582	\$ 161,625	\$ 152,694
Average assets ¹	\$ 6,543,157	\$ 6,051,432	\$ 7,232,588	\$ 6,586,876	\$ 192,819	\$ 246,240	\$ 13,968,564	\$ 12,884,548

¹ Assets are disclosed on an average basis, as this basis is the most relevant to a financial institution and is the measure examined by Caisse centrale's management.

Financing segment: This segment offers a range of financial products and services and grants financing in the form of lines of credit and term loans to members and other entities included in the scope of consolidation of Desjardins Group, public and parapublic entities, and private sector clients. This segment also includes cross-border financing for clients of the subsidiary Desjardins Commercial Lending U.S.A. Corp.

Capital Market segment: This segment manages Caisse centrale's assets and liabilities, securities and derivatives portfolios, and the cash of Desjardins Group.

Other: "Other" combines the international sector and the unallocated income from centralized service units. This segment also includes the operations of Desjardins Bank N.A. Total gross income and total average assets of the subsidiary totalled \$6.1 million and \$118.6 million in 2005 (2004 - \$5.9 million and \$93.5 million).

CONSTITUTION, REGULATION AND CONTROL

CONSTITUTION

Caisse centrale du Québec was created on June 22, 1979 by an Act to amend the Act respecting La Confédération des caisses populaires et d'économie Desjardins du Québec (1979 S.Q., c. 46), replaced on June 22, 1989 by an Act respecting the Mouvement des caisses Desjardins (1989 S.Q., c. 113), which was replaced on July 1, 2001 by the Act respecting the Mouvement Desjardins (2000 S.Q., c. 77). Caisse centrale du Québec may also be identified under the name "Caisse centrale." Pursuant to its Constituent Legislation, Caisse centrale continues its existence as a financial services cooperative and is therefore also governed by the Act respecting financial services cooperatives (Québec) as if it were a federation within the meaning of that Act.

Caisse centrale, through its holding company Desjardins FSB Holdings, Inc., incorporated under the laws of the State of Delaware, USA, holds the aggregate of the capital stock of Desjardins Federal Savings Bank, a savings and loan association incorporated under US federal law which has its place of business in Hallandale Beach, Florida, USA.

The capital stock of Caisse centrale is composed of an unlimited number of qualifying shares and an unlimited number of Class A capital shares and Class B capital shares subscribed for by its members. These shares can be paid in full or in instalments in accordance with the payment terms and in the cases determined by resolution of the Board of Directors of Caisse centrale.

The qualifying shares with an issue price of \$5.00 each are reimbursed only in the event of the winding-up, insolvency or dissolution of Caisse centrale and are redeemable only in the event of the withdrawal, exclusion, winding-up, insolvency or dissolution of the member. The capital shares with a par value of \$1,000 each are reimbursed only in the event of the winding-up, insolvency or dissolution of Caisse centrale and are redeemable with the authorization of the Autorité des marchés financiers.

The shares of the capital stock of Caisse centrale are held primarily by the Fédération des caisses Desjardins du Québec, which, with its member caisses, is a full member of Caisse centrale under its Constituent Legislation, and by the three federations of caisses populaires in Ontario, Manitoba and New Brunswick, which are auxiliary members of Caisse centrale.

The general meeting of Caisse centrale comprises the members of the general meeting of the Fédération des caisses Desjardins du Québec, namely the delegates of the caisses and a representative from the Fédération des caisses Desjardins du Québec. Under the provisions of the Constituent Legislation, the Board of Directors of Caisse centrale must be composed of at least three quarters of the Board members of the Fédération des caisses Desjardins du Québec (other than its president), who shall account for over one half of the Board members of Caisse centrale. As at the date of this annual report, the members of the Board of Directors of the Fédération des caisses Desjardins du Québec constitute all of the members of the Board of Directors of Caisse centrale. For the duration of his mandate, the president of the Fédération des caisses Desjardins du Québec is the Chairman of the Board and the Chief Executive Officer of Caisse centrale.

REGULATION AND CONTROL

The Autorité des marchés financiers is responsible for the annual inspection and supervision of Caisse centrale. The Act respecting financial services cooperatives governs the control exercised by the Autorité des marchés financiers with regard to the management, transactions and solvency of Caisse centrale and to conflicts of interest and self-dealings.

The Autorité des marchés financiers may make any examination and investigation he considers necessary or expedient into the internal affairs and activities of Caisse centrale, and order any inquiry into any matter within his jurisdiction.

The Autorité des marchés financiers may request from Caisse centrale statements, statistics, reports and any other information he deems appropriate to enable him to determine whether Caisse centrale complies with the Constituent Legislation and the applicable provisions of the Act respecting financial services cooperatives. The Autorité des marchés financiers may, with respect to the financial statements and when deemed expedient, prescribe accounting rules that contain specific requirements or different requirements than those under Canadian generally accepted accounting principles.

Since the Fédération des caisses Desjardins du Québec and its member caisses can elect the majority of its directors, Caisse centrale is deemed to be controlled by the Fédération des caisses Desjardins du Québec within the meaning of the Act respecting financial services cooperatives. This Act therefore confers the normative powers applicable to Caisse centrale, notably with respect to capitalization and investments, on the Fédération des caisses Desjardins du Québec.

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 Fédération des caisses Desjardins du Québec and approved by the Autorité des marchés financiers.

Caisse centrale appoints annually, as auditor, a firm of chartered accountants to conduct the audit of its accounting records and to report to the Autorité des marchés financiers as prescribed by the Constituent Legislation, the Act respecting financial services cooperatives and government regulations.

Caisse centrale establishes, in accordance with its Constituent Legislation, an Audit Commission composed of no less than three members from its Board of Directors, and a Board of Ethics consisting of no less than three members elected at the general meeting among its members. The Audit Commission reviews the financial statements of Caisse centrale and ensures that its operations are in compliance with the provisions of the applicable legislation and the orders and written instructions of the Autorité des marchés financiers. The Board of Ethics is responsible for adopting and implementing rules to protect Caisse centrale and its members with respect to self-dealings, disclosure requirements, privacy of information and conflicts of interest.

Caisse centrale is registered with the Régie de l'assurance-dépôts du Québec.

CORPORATE GOVERNANCE

Caisse centrale Desjardins has developed a corporate governance program aligned with that of the Fédération des caisses Desjardins du Québec. By using a single strategic management structure, whose purpose includes ensuring coherence and consistency of Desjardins Group's main orientations, the Fédération and Caisse centrale share the same directors.

Caisse centrale has adopted a corporate governance policy based on that of the Fédération and adapted to its specific circumstances. This policy was revised in 2005 in light of the new guidelines proposed by the Canadian Securities Administrators in Policy Statement 58-201 to Corporate Governance Guidelines.

HIGHLIGHTS

In 2005, the main improvements or initiatives in the area of corporate governance were:

- Adoption of a first fully integrated strategic and financial planning process that applies to all components of the Desjardins Group, including Caisse centrale, for 2006-2008;
- Overall review of the project to implement the integrated risk management requirements of the Basel Capital Accord;
- Distribution of an integrated risk management training program developed for the specific needs of the Board of Directors and training seminars for members of the Audit Commission, and the Board of Ethics;
- Adoption of a sustainable development policy;
- Continuation of work to ensure compliance with the requirements of the Keeping the Promise of a Strong Economy Act, 2002 (chapter 22), which in fact prompted the Board of Directors to adopt a position on the financial governance of Caisse centrale;
- Implementation of a confidential whistle-blowing procedure for actions contrary to the Code of Ethics and Professional Conduct and to the regulatory structures, and adoption of a complaint policy.

CORPORATE GOVERNANCE POLICY OF CAISSE CENTRALE

The corporate governance policy of Caisse centrale is based on the policy adopted by the Fédération and describes what it must do to respect the spirit of the industry guidelines on corporate governance, while adapting these guidelines to its cooperative nature as a Desjardins Group financial services member.

The first difference is a fundamental one because it relates to the very purpose behind the decisions of the Board of Directors of Caisse centrale with respect to corporate governance. Ultimately, the purpose of these decisions is to enable Desjardins Group to carry out its mission, which is to contribute to improving the economic and social well-being of individuals and communities. It is guided by long-term objectives and is focused on creating economic value for its owner-users, i.e., caisse members.

This value creation also aims to allow Desjardins Group to contribute to the strengthening of the Canadian cooperative financial sector by forming strategic partnerships. To attain these objectives, Desjardins Group gives itself the means to ensure sufficient and satisfactory profitability, which in turn allows it to ensure its longevity and respect its cooperative difference.

APPLICATION OF CORPORATE GOVERNANCE GUIDELINES

MANDATE OF THE BOARD OF DIRECTORS

1) Stewardship of Caisse centrale

The Board of Directors assumes full stewardship responsibility for Caisse centrale by administering its business in a sound and prudent manner. It ensures that procedures and structures are established so that it can fully play its role. Periodically, it reviews its operations from the standpoint of continued improvement and safeguards the assets of Desjardins Group and its 5.5 million members, and of its clients.

The Board exercises all the powers of Caisse centrale, except for those that it may delegate from time to time to its commissions and committees. It assumes the following responsibilities in particular:

a. Culture of Integrity The Board of Directors is responsible for ensuring compliance with cooperative values and Desjardins Group' permanent values, namely "money at the service of human development, democratic action, personal commitment, integrity and rigour, and solidarity with the community."

In this context, it is also responsible for enforcing compliance with the Desjardins Group's Code of Ethics and Professional Conduct among members of Management, employees and elected officers. A support structure for the activities of Caisse centrale's Board of Ethics enables it to raise awareness, conduct training and provide advisory services, giving a concrete expression to the efforts to ensure compliance with this Code, which also provides for the possibility of imposing penalties for violations.

The Desjardins Group's Code of Ethics and Professional Conduct, which applies to Caisse centrale, is available to the public on its site desjardins.com. All who are active within Caisse centrale are invited to demonstrate ethics based on honesty, transparency, social responsibility and altruism.

b. Strategic Planning Process The Board of Directors has implemented a continuous strategic planning process for Caisse centrale in compliance with that of Desjardins Group, which includes the preparation of a financial and capitalization plan. It is supported by the Desjardins Group Strategic Management Structure Committee, which from a single strategic management perspective, ensures that strategic plans and orientations are incorporated throughout the caisses and subsidiaries and that business development strategies are consistent and coherent, all while being mindful of the risks involved. The Board of Directors also adopts a triennial strategic and financial plan that is updated annually.

c. Identification and Management of Main Risks The Board of Directors is responsible for identifying the main risks of Caisse centrale and ensures that the required systems are in place for their integrated management. Caisse centrale has the support of the Integrated Risk Management Division, which operates in tandem with Desjardins Group. The Board of Directors of Caisse centrale set up a Risk Management Commission and coupled it with its Audit Commission, which remains responsible for risks connected with the process for financial reporting.

d. Succession Planning The Board of Directors oversees the development of the succession planning program and is supported in this task by Desjardins Group's Human Resources and Operations Division as part of a three-year human resources plan. The Human Resources Commission ensures that this plan is implemented and reports to the Board of Directors or makes recommendations to it.

e. Integrity of Management Information and Internal Control Systems The Board of Directors, seconded by its Audit Commission, ensures the implementation of effective control systems (accounting, administrative and management) to safeguard the integrity of its operations and obtain the required accountability from managers. The Board is supported in this responsibility by Desjardins Group's Internal Auditor. To satisfy the new requirements of the Keeping the Promise for a Strong Economy Act, 2002, work is in progress to improve the documentation of the controls used during the production of financial information.

The Board of Directors also ensures that the Management Committee of Caisse centrale provides the Board and its commissions and committees with information that is reliable, timely, and adapted to the particular needs of the Board members so that they may take advantage of business opportunities as they arise and also measure the risks involved. Board members are asked to assess the quality of each file that supports decisions made, as it is submitted.

Board members receive a quarterly management information report that combines the main financial and non-financial indicators that will enable them to assess Caisse centrale's situation and the status of projects. The Board ensures that appropriate policies and procedures are in place to facilitate the production and presentation of this information.

To effectively carry out its role, the Board of Directors of Caisse centrale meets regularly according to a predetermined schedule. The directors receive the agenda and any appropriate documentation far enough in advance to ensure productive discussions and facilitate the decision-making process.

They have technology tools that give them access to the documentation with respect to meetings and the monitoring of the activities of Caisse centrale.

f. Communication Policy By specifying tasks to be completed and results to be measured, the Board of Directors is adopting orientations in communication in line with its strategic planning. Caisse centrale has also adopted internal and external communication policies in order to better monitor its relations with the caisses and their members and shareholders, its employees, the subsidiaries and their clients, socio-economic and community organizations, opinion makers, the public, the media, the rating agencies and the various levels of government. In view of the requirements resulting from the regulations of the Keeping the Promise for a Strong Economy Act, 2002, Caisse centrale will have to adopt a communication policy in 2006 to monitor in particular the disclosure of financial information and material changes that can affect the Caisse centrale's financial situation.

Caisse centrale uses different channels to communicate effectively with its various stakeholders, including the Ombudsman, the complaint settlement process, the annual general meetings, the release of Caisse centrale's quarterly financial results, publications, a toll-free telephone line, the Web site and the whistle-blowing procedure for actions contrary to the Code of Ethics and Professional Conduct and to regulatory structures.

Caisse centrale also has contacts at international rating agencies in conjunction with the Desjardins Group; it also communicates with the various levels of government through the Desjardins Group's Government Relations Department.

2) Composition of the Board of Directors

The Board of Directors of Caisse centrale is composed of 22 members, a majority of whom are unrelated parties, which designation criteria are listed in Section 3. Within the context of the Caisse centrale's single management structure, they are the same directors as those of the Fédération des caisses Desjardins du Québec.

The Vice-Presidents of the Councils of Representatives of the Abitibi-Témiscamingue-Nord et Ouest du Québec and of the Bas-Saint-Laurent-Gaspésie-Îles-de-la-Madeleine regions also attend meetings of the Board of Directors in their capacity as Managing Directors.

3) Applying the Definition of Unrelated Party

There are five related Directors on the Board of Directors; namely the Chairman of the Board and Chief Executive Officer of Caisse centrale and the four Caisse General Managers serving on the Board. The first is related because he is a member of Caisse centrale's Management and the four others, because they are employed by enterprises within the Group, namely by individual caisses. In addition, the Directors have no business or personal relationships with members of the Management Committee of Caisse centrale, or interests which, in the opinion of the Board, could significantly interfere with their ability to act in the best interests of Caisse centrale and Desjardins Group, or any interests which, again in the opinion of the Board, could reasonably be perceived as such.

For guidance in these matters, the Board refers to the provisions of the Code of Ethics and Professional Conduct, which governs the actions of its Directors and the declarations of interest filed annually by the Directors.

The list of Directors with their status (related or unrelated) appears on page 97 of this Annual Report.

It should be noted that a study of the Directors' declarations of interest shows that they focus on their role and responsibilities with Desjardins Group since none of them serve on the board of any other large corporation. In general, they are directors of one or two non-profit organizations.

4) Nomination Procedure

Given the cooperative structure of Caisse centrale and the principle of delegation which prevails within it, the Board of Directors of Caisse centrale is comprised of persons elected by the delegates of the Fédération's member caisses, who at meetings in each region or at meetings of group caisses directly elect 17 of the 22 members of the Board of Directors. They assume the chairmanship of the Councils of Representatives. Thus, it is the caisse delegates who must choose from among the interested candidates, those who are most apt to assume two roles, namely, that of Director of Caisse centrale and Desjardins Group as a whole and that of regional representative. Once nominated, candidates are reminded of the responsibilities of the position of chairman of a Council of Representatives. Because they are at the same time officers of a caisse, members of their Councils of Representatives and members of the Board of Directors of Caisse centrale, Caisse centrale benefits from Directors with a profound knowledge of the activities of Desjardins Group who are nonetheless independent of Management.

This in-depth knowledge of the organization's activities is a significant advantage resulting from the cooperative structure.

It should be noted that the chairs of the Councils of Representatives are also responsible for ensuring that the orientations, as defined by the Board, are understood by the caisses and that the channels for providing support and consulting services are effective, as well as for communicating to the Board the concerns of the caisses they represent. The dynamism and the involvement of the officers of the caisses create a healthy tension that requires members of the Board of Directors to make decisions for the common good of the members and other stakeholders of Desjardins Group

The four remaining positions filled by caisse general managers are determined at an election held at a meeting of representatives of Caisse centrale, and the final position is reserved for the Chairman of the Board and Chief Executive Officer of Desjardins Group. Consequently, the Corporate Governance Commission is not involved in the selection of the directors of Caisse centrale.

The electoral process for the Caisse centrale's Directors itself therefore ensures the independence of the members of the Board of Directors vis-à-vis the Chairman of the Board and Chief Executive Officer of Caisse centrale and Desjardins Group, who has no say in their selection. Furthermore, the rules concerning the composition of the Board of Directors promote a certain stability and continuity for the corporate governance of Caisse centrale because the term of office of its members is three years and is renewable, and the tenure of a third of the members ends each year. Consequently, Directors have the time to gain a deeper understanding of files and to make a valid contribution

The composition of the Board of Directors is balanced not only by the presence of representatives from all the regions of Québec, from the group caisses and from Ontario credit unions, but also by the sum of the skills and experience that it contains (among others, accountants, lawyers, notaries, managers, professional mediator, university professor of management, contractor and caisse general managers).

5) Assessing the Effectiveness of Structures

The Board of Directors, and its commissions and committees annually assess their performance by using quantifiable objectives set by the Board at the beginning of the year. Areas for improvement and points requiring further examination, as determined by the assessment exercise, are included in an action plan recommended to the Board of Directors by the Corporate Governance Commission, which is in charge of monitoring this plan. The Board has received a progress report in mid-year. In addition, the assessment program for the various bodies making up Caisse centrale provides for an individual self-assessment procedure followed by a separate meeting with the Chairman of the Board. In 2005, the Chairman of the Board individually met with three members of the Board. The Chairman of the Board is responsible for the assessment process, while the Corporate Governance Commission ensures its supervision.

6) Orientation and Training Program for New Directors

Caisse centrale offers its Directors orientation and ongoing training, and develops training sessions tailored to their specific needs. All new Directors are provided with an integration session, including, in particular, a meeting with certain members of Management and a reference manual containing all the information they need to carry out their duties. Every Director receives a document reiterating the expectations and duties of his or her office.

As needed and upon request, meetings with specialists from Caisse centrale are also organized to help new Directors obtain a more complete picture of the organization and of its main strategic projects.

The training program for members of the Board of Directors is incorporated into the programming of the activities of the Desjardins Cooperative Institute, a training institute created for volunteer officers and managers of Desjardins Group. The Institute's mission is threefold: Desjardins Awareness, Desjardins Governance and Management, and Desjardins Innovation.

¹ The Councils of Representatives are democratically elected entities of the Fédération and Caisse centrale which are responsible for making decisions in each region or for the system of group caisses with regard to adopting the regional business plan, granting sponsorships and donations, and designating the representatives of Desjardins with outside regional agencies.

7) Size of the Board of Directors

The Board of Directors is of a size that prioritizes adequate representation of the caisses in the 17 regions in the province of Québec and in parts of Ontario, as well as of the group caisses. Moreover, the presence of four caisse general managers aims to ensure that the orientations adopted by the Board and their implementation are adapted to the operational reality of the caisses.

The efficient running of meetings and good discipline among the Directors themselves compensate for the relatively large number of Directors. Furthermore, the informal meetings held periodically by the Chairman of the Board and Chief Executive Officer with the Directors increase the effectiveness of the formal meetings.

The results of the performance review of the Board of Directors reveal the very significant relevance of these meetings. In 2005, meetings in camera without the Management of Caisse centrale, except for the Chairman of the Board and Chief Executive Officer, were scheduled after every meeting of the Board of Directors or of a commission or a committee.

8) Remuneration Policy for Directors

The Board has adopted a policy for the payment of remuneration to its Directors and the members of the Board of Ethics. The remuneration schedule is as follows:

Chairman of the Board	\$15,000 paid to the Fédération because it is assumed by the President and Chief Executive Officer of the Group
Annual retainer for the Chair of a commission	\$ 6,500
Annual retainer for a member of the Board ¹	\$ 6,670
Attendance allowance for a Board meeting ²	\$ 1,000 (maximum per day)
Attendance allowance for a commission or committee meeting	\$ 500 (per half-day)
Teleconference	\$ 200
Attendance allowance for members of the Board of Ethics	\$ 1,500 for the President \$ 750 for members

Moreover, in accordance with the Act respecting financial services cooperatives, the aggregate budget envelope for the payment of attendance allowances for members of the Board of Directors and the Board of Ethics is authorized at the General Meeting. Not only the attendance allowances, but in fact the total remuneration budget is approved at the General Meeting.

9) Composition of Commissions and Committees

The Board of Directors has created and defined the mandate of a number of commissions and committees necessary to support it in discharging its orientation, planning, control and monitoring responsibilities and streamline its activities. These commissions and committees are comprised entirely or almost entirely of unrelated parties. The mandate of these commissions and committees is reviewed annually.

10) Responsibility for Corporate Governance

The Board of Directors has entrusted the Corporate Governance Commission with the responsibility of applying and updating the corporate governance program in light of new industry trends; the commission reports its observations and makes recommendations to the Board of Directors.

11) Defining the Authority of the Management Committee

The responsibilities of the Chairman of the Board and Chief Executive Officer of Caisse centrale are set out in the corporate governance by-law of Caisse centrale. The responsibilities of the President and Chief Operating Officer are also defined in this by-law. In addition, the Board of Directors has set out in writing a very clear division of responsibilities between the Board of Directors and the Management Committee.

The annual objectives of the Chairman of the Board and Chief Executive Officer are recommended to the Board of Directors by the Committee on the Aggregate Remuneration of the President and Chief Executive Officer of Desjardins Group. The objectives of the President and Chief Operating Officer are established by the President and Chief Executive Officer as part of the incentive plan of Caisse centrale. The Board of Directors has developed guidelines for setting objectives to ensure sound management of incentive plans.

The degree to which these objectives are achieved is measured through an annual review process. With respect to the performance of the Chairman of the Board and Chief Executive Officer, under the supervision of the Committee on the Aggregate Remuneration of the President and Chief Executive Officer of Desjardins Group, each Director participates anonymously in the review process, without members of Management being present, using a model prepared in advance by this committee.

¹ As for the four general managers who are members of the Board of Directors, the policy stipulates that the Board of Directors for their caisse is responsible for deciding if they are to keep all their remuneration.

² Regardless of the number of Board, commission or committee meetings held on the same day, the maximum daily retainer is \$1,000 because every effort is made to concentrate meetings in a single day to keep costs down as much as possible.

12) The Board's Independence from the Management Committee

The Board of Directors has created various structures and procedures to safeguard its independence from Caisse centrale's Management. These include:

- a) having only one member of Management on the Board of Directors of Caisse centrale (the Chairman of the Board and Chief Executive Officer of Caisse centrale);
- b) the creation, at the General Meeting, of the position of Vice-Chair of the Board of Directors, whose incumbent presides over Board meetings when the items of business being discussed require the withdrawal of the Chairman of the Board and Chief Executive Officer. The internal management by-law provides that the Vice-Chair of the Board shall replace the Chairman of the Board if he cannot act;
- c) periodic, informal meetings of the Directors, of which the Chairman of the Board and Chief Executive Officer informs the President and Chief Operating Officer, who is not present at such meetings. Both related and unrelated Directors, however, are present at these meetings as the discussions pertain to matters that do not bear any risk of conflicts of interest for the related Directors;
- d) meetings in camera, without Management being present (except for the Chairman of the Board and Chief Executive Officer), at the end of each meeting of the Board of Directors or of the Executive Committee;
- e) having an unrelated Director chair the Audit Commission and the Credit and Investment Commission; and
- f) entrusting to the Corporate Governance Commission (of which only one member is a related party) the responsibility for:
 - 1) managing relations between the Board and the Management Committee of Caisse centrale; and
 - 2) ensuring that the Board of Directors fulfills its duties. In addition, the Chairman of the Board and Chief Executive Officer is assigned the responsibility of setting or supervising the agenda for meetings of the Board, and of its commissions and committees.
- g) ensuring that the members of the Human Resources Commission and the Committee on the Aggregate Remuneration of the President and Chief Executive Officer of Desjardins Group are seconded by an external consultant with respect to matters dealing with the aggregate remuneration of officers. Note also that Caisse centrale has a Board of Ethics whose members are elected at the General Meeting. Its members are all independent from senior management and the Board of Directors.

13) Audit Commission - Mandate and Composition

The Audit Commission, established under the Act respecting financial services cooperatives, acts as an audit committee for Caisse centrale. It is composed entirely of unrelated Directors; two of them, including the Commission Chair, have accounting expertise.

The roles and responsibilities of the Commission have been defined in such a way as to give its members a very clear understanding of their oversight duties. The Audit Commission has all the powers and information it needs to fulfill its mandate. The Commission reviews all financial information and oversees the implementation of an effective control process and the required accountability. It has direct communication channels with the persons responsible for the audit as well as with the external auditors to discuss and review certain issues, if any. The Commission may, as needed, discuss these issues with them without the managers responsible being present.

14) Hiring Outside Advisors

A Director may engage the services of an outside advisor at the expense of Caisse centrale. However, to ensure that such services are relevant, a request must be submitted to the Corporate Governance Commission.

MANDATES AND COMPOSITION OF THE COMMISSIONS, COMMITTEES AND BOARD OF ETHICS OF CAISSE CENTRALE AS AT DECEMBER 31, 2005

Note: * means an unrelated person
** means a Managing Director

EXECUTIVE COMMITTEE (COMPOSED OF 7 DIRECTORS)

This Committee has the same functions and powers as the Board of Directors, with the exception of those which the Board may reserve for itself or assign to another committee or commission. Its mandate was drawn up by the Board of Directors. In 2005, it met once.

Members:

Alban D'Amours, Chairman of the Board
Pierre Tardif, Vice-Chair⁽¹⁾ of the Board*
André Lachapelle, Secretary of the Board*
Jacques Baril*
André Gagné*
Denis Paré*

⁽¹⁾ Madeleine Lapierre served as Vice-Chair until April 2, 2005, and was succeeded by Pierre Tardif.

AUDIT COMMISSION (COMPOSED OF 5 DIRECTORS)

This commission supports the Board of Directors in its oversight and control responsibilities for Caisse centrale, and it examines in detail all elements related to financial reporting. It met five times in 2005.

Members:

Andrée Lafortune, FCA, Chair*
Jean-Guy Bureau*
Marcel Lauzon*
Pierre Leblanc, FCA*
Benoît Turcotte*⁽¹⁾

⁽¹⁾ Jacqueline Mondy served until April 2, 2005.

RISK MANAGEMENT COMMISSION (COMPOSED OF 5 DIRECTORS)

This commission assists the Board of Directors in identifying and monitoring major risk exposures of Caisse centrale. It met five times in 2005.

Members:

André Lachapelle, Chair*
Pierre Tardif, Vice-Chair of the Board*
Thomas Blais*
Raymond Gagné*
Pierre Grenon*

Andrée Lafortune sits on the Commission as an observer.

HUMAN RESOURCES COMMISSION (COMPOSED OF 5 DIRECTORS)

This commission has as its mandate the periodic review of the positioning of the aggregate remuneration system of Caisse centrale in order to enable Caisse centrale to maintain a competitive position in the market. It ensures that the remuneration practices in effect comply with the Desjardins Group's policies and guiding principles. The mandate of this commission excludes the examination of issues concerning the conditions of employment of the Chairman of the Board and Chief Executive Officer. It met five times in 2005.

Members:

Alban D'Amours, Chairman of the Board
Pierre Tardif, Vice-Chair of the Board*
André Lachapelle⁽¹⁾, Secretary of the Board*
Raymond Gagné*
Denis Paré*

⁽¹⁾ Madeleine Lapierre served until April 2, 2005.

CORPORATE GOVERNANCE COMMISSION (COMPOSED OF 5 DIRECTORS)

This commission is mandated to support the Board of Directors in applying and updating the corporate governance program. It is also responsible for monitoring the performance review program for members of the Board of Directors and its commissions and committees. The Corporate Governance Commission met four times in 2005.

Members:

Alban D'Amours, Chairman of the Board
André Gagné*
Pierre Leblanc*
Daniel Mercier*
Sylvie St-Pierre Babin**⁽¹⁾

⁽¹⁾ André Lachapelle served until April 2, 2005.

CREDIT AND INVESTMENT COMMISSION (COMPOSED OF 4 DIRECTORS)

This commission is mandated to support the Board of Directors in establishing and monitoring investment policies.

The Credit and Investment Commission met 20 times in 2005. It is responsible for determining the loans to be granted by Caisse centrale as well as its investments and borrowings and other financial commitments and, to this end, operates within the approval limits set out in the general policies adopted from time to time by the Board of Directors.

The President and Chief Operating Officer of Caisse centrale as well as its Senior Executive Vice-President and its Senior Vice-President, Integrated Risk Management, sit on the Commission as non-voting members.

Members:

Jacques Baril, Chair*⁽¹⁾
Louise Charbonneau
Daniel Lafontaine

⁽¹⁾ Madeleine Lapierre served until April 2, 2005.

BOARD OF ETHICS (COMPOSED OF 3 ELECTED OFFICERS)

In accordance with the Act, Caisse centrale has a Board of Ethics that is independent of the Board of Directors and whose members are elected officers of Desjardins Group. It held five meetings in 2005, one of which was a training session.

The role of the Board of Ethics is to adopt the rules of conduct applicable to the officers and employees of Caisse centrale, present them for approval to the Board of Directors and ensure that they are complied with, support Caisse centrale in applying the rules of conduct, issue opinions, make observations and recommendations with respect to ethical and professional conduct issues, especially in cases of misconduct, and notify the Board of Directors thereof.

Members:

Denis Rousseau, Chair*
Claude Leblond*
Jacques Sansoucy*

MANAGEMENT COMMITTEE

The Management Committee of Caisse centrale is not a committee of the Board of Directors. It is comprised of the Chairman of the Board and Chief Executive Officer of Caisse centrale; the President and Chief Operating Officer of Caisse centrale; the Senior Executive Vice-President; the Senior Vice-President, Capital Markets; the Senior Vice-President, Finance, Strategic Alliances and International; the Senior Vice-President, Integrated Risk Management; the Senior Vice-President, Financing and Banking Services.

ASSETS/LIABILITIES COMMITTEE

This subcommittee of the Management Committee is composed of the President and Chief Operating Officer of Caisse centrale, the Senior Executive Vice-President and the four Senior Vice-Presidents of Caisse centrale.

INTERNAL CREDIT COMMITTEE

This subcommittee of the Management Committee is comprised of the President and Chief Operating Officer of Caisse centrale, the Senior Executive Vice-President and the four Senior Vice-Presidents of Caisse centrale.

RISK MANAGEMENT COMMITTEE

This subcommittee of the Management Committee is made up of the President and Chief Operating Officer of Caisse centrale; the Senior Executive Vice-President; the Senior Vice-President, Capital Markets; the Senior Vice-President, Integrated Risk Management; the Senior Vice-President, Finance, Strategic Alliances and International; the Vice-President, Legal and Corporate Affairs and Assistant Secretary of the Board of Directors; and the Vice-President, Finance, Control and Compliance.

DISCLOSURE COMMITTEE

This subcommittee of the Management Committee is comprised of the President and Chief Operating Officer of Caisse centrale; the Senior Executive Vice-President; the Senior Vice-President, Finance, Strategic Alliances and International; the Senior Vice-President, Capital Markets; the Senior Vice-President, Integrated Risk Management; the Vice-President, Legal and Corporate Affairs; and the Vice-President, Finance, Control and Compliance.

BOARD OF DIRECTORS¹

Alban d'Amours

President and Chief Executive Officer Desjardins Group

Pierre Tardif²

Vice-Chair of the Board
President
Council of Representatives
Rive-Sud de Montréal

André Lachapelle²

Secretary of the Board
President
Council of Representatives
Lanaudière

Jacques Baril²

President
Council of Representatives
Est de Montréal

Thomas Blais²

President
Council of Representatives
Caisses populaires de l'Ontario

Jean-Guy Bureau²

President
Council of Representatives
Caisses de groupes

Louise Charbonneau

General Caisse Manager
Council of Representatives
Est de Montréal

Alain Dumas

General Caisse Manager
Council of Representatives
Mauricie

André Gagné²

President
Council of Representatives
Québec-Est

Raymond Gagné²

President
Council of Representatives
Bas St-Laurent, Gaspésie et
Îles-de-la-Madeleine

Pierre Grenon²

President
Council of Representatives
Richelieu-Yamaska

Daniel Lafontaine

General Caisse Manager
Council of Representatives
Centre du Québec

Andrée Lafortune²

President
Council of Representative
Ouest de Montréal

Marcel Lauzon²

President
Council of Representatives
Laval-Laurentides

Olivier Lavoie²

President
Council of Representatives
Saguenay-Lac Saint-Jean,
Charlevoix, Côte Nord

Pierre Leblanc²

President
Council of Representatives
Mauricie

Daniel Mercier²

Président
Council of Representatives
Centre du Québec

Denis Paré²

President
Council of Representatives
Estrie

Michel Roy²

President
Council of Representatives
Kamouraska-Chaudière-Appalaches

Clément Samson²

President
Council of Representatives
Québec Ouest, Rive-Sud

Richard Sarrazin³

General Caisse Manager
Council of Representatives
Québec-Ouest, Rive-Sud

Benoît Turcotte²

President
Council of Representatives
Abitibi-Témiscamingue, Nord et
Ouest-du-Québec

MANAGING DIRECTORS

Norman Grant²

Vice-President
Council of Representatives
Bas Saint-Laurent, Gaspésie et
Îles-de-la-Madeleine

Sylvie St-Pierre Babin²

Vice-President
Council of Representatives
Abitibi-Témiscamingue,
Nord et Ouest-du-Québec

OBSERVERS

Normand Collet

President
Fédération des caisses populaires
du Manitoba Inc.

Camille Thériault

President and Chief Executive Officer
Fédération des caisses populaires
acadiennes Ltd

¹ As at December 31, 2005

² Unrelated director

³ Deceased during the course of the mandate (Nov. 2005)

OFFICERS

Alban d'Amours

Chairman of the Board and
Chief Executive Officer

Jean-Guy Langelier

President and
Chief Operating Officer

André Bellefeuille

Senior Executive Vice-President

Jacques Descôteaux

Senior Vice-President
Capital Markets

Huu Trung Nguyen

Senior Vice-President
Finance, Strategic Alliances and
International

Michel Paradis

Senior Vice-President
Integrated Risk Management

Christian St-Arnaud

Senior Vice-President
Financing and Banking Services

MEMBERS

Fédération des caisses Desjardins du
Québec and their caisses

Fédération des caisses populaires de
l'Ontario Inc.

Fédération des caisses populaires
du Manitoba Inc.

Fédération des caisses populaires
acadiennes Ltd

Desjardins General Insurance Group

Desjardins Financial Security

Desjardins Trust Inc.

AUDITOR

PricewaterhouseCoopers LLP
Montreal, Quebec

OTHER INFORMATION

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Suite 2822
Montreal, Quebec, Canada
H5B 1B3
Telephone: (514) 281-7070
Facsimile: (514) 281-7083
Internet address:
<http://www.desjardins.com/ccd>

Toronto Office

365 Bay Street, Suite 300
Toronto, Ontario, Canada
M5H 2V1
Telephone: (416) 599-0381
Facsimile: (416) 599-5172

BRANCHES OUTSIDE CANADA

DESJARDINS BANK N.A.

Head Office

1001 East Hallandale Beach Blvd.
Hallandale, Florida, USA
33009-4429
Telephone: (954) 454-1001
Facsimile: (954) 457-7927

Pompano Beach Branch

2741 East Atlantic Blvd.
Pompano Beach, Florida, USA
33062
Telephone: (954) 785-7110
Facsimile: (954) 785-2115

Lauderhill Branch (In April 2006)

7329 West Oaklank Park Blvd.
Lauderhill, Florida, USA
33319
Telephone: (954) 578-7328
Facsimile: (954) 578-7325

Desjardins Commercial Lending U.S.A. Corp.

1001 East Hallandale Beach Blvd.
Hallandale, Florida, USA
33009-4429
Telephone: (954) 454-1001
Facsimile: (954) 457-7927

REGIONAL OFFICES

Estrie

1845 King Street West
Suite 110
Sherbrooke, Quebec
J1J 2E4
Telephone: 1 800 481-3220 [230]
Telephone: (819) 821-3220 [230]

Outaouais

880 de la Carrière Blvd.
Suite 100
Gatineau, Quebec
J8Y 6T5
Telephone: 1 877 441-1400 [455]
Telephone: (819) 778-1400 [455]

Quebec City

5600 des Galeries Blvd.
Suite 140
Quebec City, Quebec
G2K 2H6
Telephone: 1 866 634-1881

Saint-Lambert

2051 Victoria Street
Saint-Lambert, Quebec
J4S 1H1
Telephone: (450) 672-4116

Saguenay/Lac St-Jean

1700 Talbot Blvd.
Suite 200
Saguenay, Quebec
G7H 7Z4
Telephone: (418) 696-1712

DESJARDINS INTERNATIONAL SERVICE CENTERS

Montreal

300 Léo Pariseau Street
Suite 1810
Montreal, Quebec
H2W 2P4
Telephone: 1 800 707-2305

Quebec City

5600 des Galeries Blvd.
Suite 140
Quebec City, Quebec
G2K 2H6
Telephone: 1 866 634-5775

Trois-Rivières

2000 des Récollets Blvd.
P.O. Box 1000
Trois-Rivières, Quebec
G9A 5K3
Telephone: (819) 374-3594 [202]

Acceptance and Customers' Liability under Acceptances Short-term debt securities traded on the money market which Caisse centrale guarantees on behalf of a borrower and for which the borrower pays a stamping fee.

Asset under Administration Asset owned by certain members federations and managed by Caisse centrale. These assets are not the property of Caisse centrale and therefore are not reported in the consolidated balance sheet.

Basis Point Unit of measure equal to one one-hundredth of one percent.

Commitment to Extend Credit Credit facility available to customers either in the form of loans, acceptances and other on-balance sheet financing, or through derivatives products such as guarantees and letters of credit.

Currency and Interest Rate Swap Transaction where two parties agree to exchange, over a specified period, currencies or interest flows, generally a fixed rate and a floating rate, based on a notional amount.

Derivative A contract whose value is derived from interest rates, foreign exchange rates, or equity or commodity prices. Use of derivatives allows for the transfer, modification, or reduction of current or expected risks, including interest rate, foreign exchange and other market risks. The most common types of derivatives include foreign exchange forward contracts, foreign currency and interest rate futures, forward rate agreements, and foreign currency and interest rate options. Derivatives can be traded either on organized exchanges or through over-the-counter agreements.

Foreign Exchange Forward Contract A commitment to buy or sell a specified amount of foreign currency on or before the maturity date at a set exchange rate.

Forward Rate Agreement A type of derivative which obliges two parties to make a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional amount. Used as a hedge, a forward rate agreement protects against future movements in market interest rates.

Guarantee and Standby Letter of Credit Irrevocable commitment that payments will be made in the event a customer cannot meet its obligations to third parties.

Hedge A risk management technique used to insulate financial results from market, interest rate, or foreign currency exchange risk (exposure) arising from normal banking operations. The elimination or reduction of such exposures is accomplished by establishing offsetting positions. For example, assets denominated in foreign currencies can be offset with liabilities in the same currencies or through the use of foreign exchange hedging instruments such as futures, options, or foreign exchange contracts.

Interest Rate Sensitivity Earning assets and interest-bearing liabilities which mature or are subject to interest rate adjustments within a specified term or have an interest rate that floats in reference to a base interest rate.

Liquidities Generally, assets in cash or in securities easily convertible to cash, such as Bank of Canada deposits and securities.

Mark-to-Market Valuation at market rates, as at the balance sheet date, of securities, loans, deposits, subordinated debentures and derivatives.

Net Interest Income The difference between interest income earned on assets and the interest expense related to liabilities. The ratio of net interest income to average assets is called the "net interest margin."

Notional Amount The amount used as a reference point to calculate payments for financial instruments such as forward rate agreements or interest rate swaps. The amount is not exchanged.

Obligation Related to Securities Sold Short Transaction in which the seller sells securities it does not own. The seller borrows the securities in order to deliver them to the purchaser. At a later date, the seller buys identical securities in the market to replace the borrowed securities.

Return on Average Asset The ratio of net income to average total assets during a year.

Risk Weighting The process by which weighting factors are applied to the face value of certain assets in order to reflect a comparable risk level. Off-balance credit instruments and derivatives are also converted by adjusting the notional amounts to balance sheet (or credit) equivalents and by applying appropriate risk weighting factors. Total risk-weighted assets constitute the denominator of the various capital ratios as prescribed by the Bank for International Settlements (BIS).

Securitization Mechanism by which financial assets (ex.: mortgage loans) are converted into financial asset-backed securities. These securities are thereafter transferred into a Trust.

Stock Index Option The right (as opposed to obligation) to sell (put option) or buy (call option) on or before a maturity date a specified amount of a stock index at a set price (exercise price).

Subordinated Debenture Unsecured liability issued by Caisse centrale whose repayment, in the event of liquidation, is subordinated to the claims of depositors and certain other creditors.

Trading Account Liquidities used for arbitrage transactions on financial markets. The account is presented at market value on the balance sheet.

DESJARDINS, THE LARGEST COOPERATIVE FINANCIAL GROUP IN CANADA

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- Some 5.5 million members, over 350,000 business members, close to 40,000 dedicated employees, and over 7,000 highly committed elected officers
- 1,489 points of service in Québec and Ontario: 568 caisses and 921 service centres
- 113 points of service in Manitoba and New Brunswick: 40 affiliated caisses and 73 service centres
- 32 Desjardins Credits Union points of service in Ontario
- Approximately 20 companies offering our entire line of financial services, with many of them active in several Canadian provinces
- A state-of-the-art virtual network on automated teller machines and the Internet

WE ARE ITS REPRESENTATIVE ON CAPITAL MARKETS

- Nearly \$16 billion in assets
- About \$100 billion in derivatives
- Funding programs of \$12 billion in Canada and other parts of the globe
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- Business offices in Québec and Ontario
- One U.S. retail banking subsidiary
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- A network of banking correspondents on every continent
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NOTE TO THE READER

We use the M and B symbols to designate millions and billions, respectively. Thus, "\$8M" should be read "eight million dollars" and "\$17B" should be read "seventeen billion dollars".

VERSION FRANÇAISE

La version française de ce rapport annuel peut être obtenue sur demande. Elle est également disponible au www.desjardins.com/caissecentrale.

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These four words affirm the cooperative nature of Desjardins Group and express its mission, which is to contribute to the economic and social well-being of individuals and the sustainable development of communities.

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